

A Preliminary Assessment of Kishoreganj Sadar Thana (KST) Project

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I. Introduction

Following the recommendation endorsed in the 1993 Dhaka summit of SAARC Heads of State or Government, the United Nations Development Programme (UNDP) initiated and sponsored a sub-regional project titled “Institutional Development at the Grassroots for Poverty Alleviation”. A demonstration pilot project was started in Kishoreganj Sadar Thana (KST) of Kishoreganj district, in October 1994. The project, now in its second phase, is expected to end in 2000, and has been renamed as “South Asia Poverty Alleviation Programme” (SAPAP). Several studies have been undertaken on the KST project, most of which have however been of rapid appraisal type. The mid-term evaluation report (UNDP 1998), drawing upon a number of studies of the early years, provides a good benchmark understanding about the project’s successes and limitations. Of late, there had been a microfinance review by Nina Nayar and others (Nina et al. 1998), and appraisals by in-house staff (Hasle 1999) and UNDP consultants (Sen and Ahmed 1999). All the studies cited above do not provide unanimity in assessing project achievements. Nor is it quite clear as to how the KST approach differs from other approaches to poverty alleviation and rural development. With a view to better understand the operation of KST and its impact on the local economy and formation of social capital, the Dhaka office of the World Bank commissioned the present study (see the terms of reference in Appendix 1).

The study was administered during August-September, 1999. Keeping in view of the particular concerns expressed in the terms of reference, the study aimed at conceptualizing the phenomenon embodied in the KST project¹ and assessing the project impacts. Attempts have also been made to assess sustainability of the project and the prospect for replicating it elsewhere in the country. Finally, the study aims at drawing lessons for future actions for poverty alleviation and rural development strategies.

The study team compiled both quantitative and qualitative data, and had repeat interviews with different tiers of project staff. Some previous studies were used as benchmark

¹ It was recognized since the inception of the KST project that “a process approach to implementation is critical for social mobilization” (UNDP 1995, p-39).

observation², and additional information were obtained from bank sources and from the VOs. More importantly, computerized data from the Project sources were analyzed in depth for the present exercise.

The present report is a revised version of an earlier incomplete draft (Zohir et al. 1999), and the readers may like to consult the latter for details on statistics. Here, we briefly describe the project in Section 2, and follow it up with a number of key issues/questions, each dealt with in *separate* sections. The details, from which the discussions in these latter sections draw from, are relegated to appendices at the end of the report.

II. Brief Description of the Project

II.1 Project Activities

Of the major activities undertaken under the Project, the following are noteworthy:

1. Organize villagers under the umbrella of Village Organizations (VO), to be led by a President and a Manager from amongst the members of the organization.
2. Encourage savings mobilization through the VOs.
3. Establish contacts between the VOs and government (and other) agencies engaged in delivery of services. One important agency, with whom contacts have been established to facilitate delivery of credit to VO members, is the Bangladesh Krishi Bank (BKB). Others include the thana-level government officials, specially those in the agriculture extension, livestock and fishery departments.
4. Initiate and administer a credit delivery system, which avails fund from a number of sources, and where the VO Managers play key role.
5. Encourage social mobilization and investment on social infrastructure (e.g., schools) through the VOs.
6. Provide training on matters related to book-keeping (which is expected to lead to better management of the savings & credit programs) and on matters related to

² Shamunnay's social mapping and data on leadership were available (see Shamunnay 1997 and 1998). Moreover, household-level data from an IFPRI-BIDS-INFS study provided good benchmark data to assess project impacts.

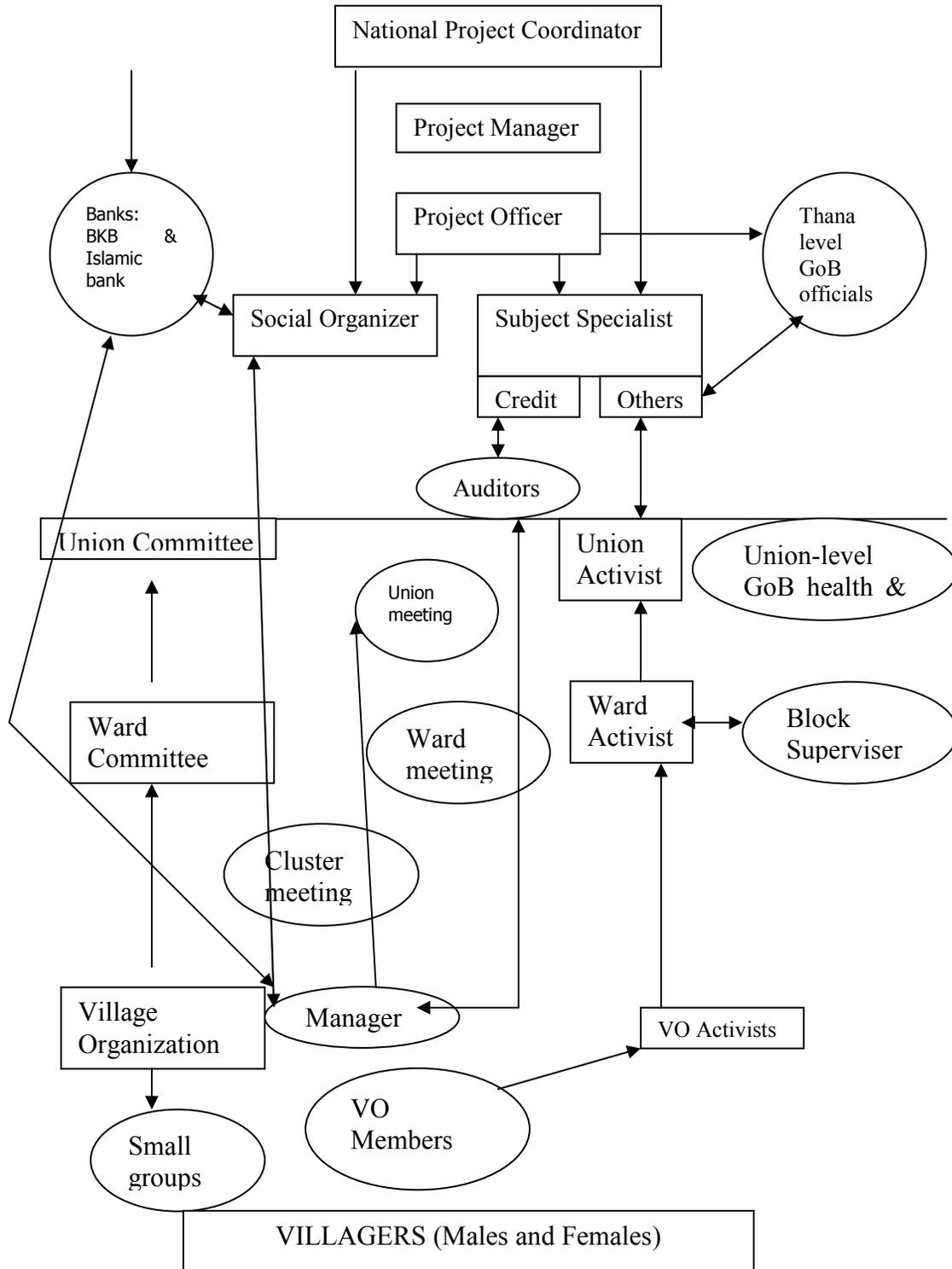
agricultural production (which is expected to ensure timely delivery of extension services at the grassroots level through a cadre of social activists).

Since the initiation in October 1994, the project activities have passed through several phases. During the first year (until October 1995), VO formation and their savings mobilizations were the key activities, and no credit was disbursed during this period. During the second year, lending to VO members from own savings commenced. Along with it, training was provided, especially to the VO managers. The credit operation picked up in a big way since mid-1996 when funds were made available from BKB and UNDP sources. Thus, 1996-97 experienced significant growth in VO formation (see Appendix 4), and the average number of VOs to be supervised by a Social Organizer (SO) exceeded 80. The ratio has remained so since mid-1997, and most of the internal institutional rearrangements may be viewed to arise from the need to better monitor and manage the credit operation in the presence of high VO/SO ratio. During this last period, project staffs have also ventured beyond individual VO; they are reported to have been taking initiative in helping the poultry farmers to market their produce, and buying dairy cattle in large number from cheap sources on behalf of the number of borrowers.

II.2 Organizational Structure

The organizational structure of the KST Project is described in Figure 1. The Social Organizers (SO) are the key activists under the payroll of the Project, and the VO managers, including the Auditors chosen from them, are the key players at the grassroots level. The current structure, as depicted in Figure 1, has evolved over time. It is important to note that the structure and the activities of the project largely center around savings mobilization and credit operation. The intended linkage with government departments is yet quite loose and social activists are expected to play important role in ensuring extension services. Since most Subject Specialists have only recently been recruited and the work of the social activists are to be coordinated by these Specialists, it had not been possible to assess their performance.

Figure 1
Organogram, the KST Model



In the case of financial services, the Bangladesh Krishi Bank is the key outside organization involved³, even though funds are made available from UNDP source as well as from VO-savings.

III. Assessment of Project Impacts

In view of the project activities undertaken over the last five years, project impacts may be traced in a number of areas. For example, social mobilization (however limited it may be) through VO formation is expected to lead to formation of social capital that may result in some tangible outcomes. Similarly, training of social activists may improve the delivery of extension services at the grassroots level and may enable rural people to have better access to government services. The most important of the activities is however its credit operation, and therefore, project impacts are more likely to be visible in the areas where the availability of credit has influence. A number of specific impact areas are discussed in *separate* sections in this report. Here, we briefly touch upon some aggregates at the thana and household levels.

A comparison of changes in a number of key thana-level statistics across Kishoreganj and its neighboring thana Pakundia is made in Appendix 2. The information summarized there suggest that Kishoreganj does not appear to have performed any better than its neighboring thana in the social sector, such as, literacy rate, adoption of family planning practices and infant mortality rates⁴. However, in all areas of agricultural production, improvement in Kishoreganj during 1994-95 to 1998-99 period is noticeable, and is significantly higher than the changes in Pakundia. During the period, Kishoreganj registered greater increase in the number of dairy and poultry/duck farms, cultivated ponds and in rice yield.

In order to assess if participation in the VOs had made any difference for the rural households in KST, a comparison is made between different categories of households in the

³ It is reported that the Project staff have been negotiating with the Islamic Bank and some of the VO accounts have been opened with branches of the latter.

⁴ It is possible that some such impacts are only expected in the medium to long term.

thana (see Appendix 2).⁵ More than half of the respondents in five KST villages reported of improvement in their food and financial situation over the two years preceding the survey. Contrast between the VO-participants and the non-participants is quite striking in the case of investments in agriculture and in acquisition of certain kind of assets. A larger percentage of the VO-participants invested in all sub-sectors of agriculture, and the same applies in the case of acquisition of durable items (e.g., ornaments, watch/clock, radio and television). A larger percentage of the VO-participants reported of mortgaging-in land, which is likely to have been facilitated by the availability of credit.

Participatory self-assessment of the well-being of VO members suggests that the project had significant effect in reducing poverty. The estimated rate of decline in poverty is found to be 3 percent per year, which may be compared with the national average of 0.3 percent (see Appendix 3)⁶.

IV. Inclusiveness of the VOs: a critical assessment

Unlike the conventional MFIs and the numerous NGOs working at the grassroots levels, the KST model targets the whole village population. One primary assumption underlying such action is the belief that the population is relatively more homogeneous in terms of social cohesion than that normally perceived. The project officials believe that more specialized programs to address the poor may also be pursued through the VOs. Given the failure of the community-based approach of the 1960s and the unsatisfactory experiment of BRAC with village organization in the more recent past, one is skeptical about the prospect of reaching the poor through community-based organizations, such as the VOs. It is widely perceived that such organizations quickly turn into “clubs of the rich and for the rich”. While some aspects of these issues will be addressed in the section on credit (see section VII), we present evidence to verify the perception on exclusiveness/inclusiveness.

⁵ Four categories were identified in terms of members’ participation; households with members in VOs only, with members in VOs and other MFIs simultaneously, members in other MFIs, and none participating.

⁶ Of course, they are not strictly comparable because of differences in measurement techniques.

Contrary to widely upheld perception, previous studies as well as the current one find wider participation of rural households in the VOs. Sen and Ahmed found, based on a sample survey, 68 percent of the VO members to own less than 50 decimals land and 23 percent of the members to be in chronic food deficit. Amongst a *separate* sample of rural households⁷, the present study finds 73 percent of the functionally landless (i.e., owning less than 50 decimals land), around 65 percent of the marginal landowners (50-249 decimals) and 80 percent of the land-rich households (owning 250 decimals or more) to participate in the VOs. Our estimate suggests that about 30 percent of the households are still outside the domain of the VOs. However, there is no evidence to suggest, at least in terms of membership in VOs, that these organizations systematically leave out the poor. On the contrary, our village census⁸ results indicate that relative participation by the poor had increased over 1997 to 1999 period (Appendix 3). The observed inclusiveness of the VOs may be explained in a number of ways. We discuss them below.

It is important to note that the VOs in the KST are essentially *para*-based organizations, and there are often three or more VOs in a village.⁹ There is ample sociological evidence to suggest that there are kinship ties among households located within a *para*, even though they may not be at the same economic and financial level. The relative strength of vertical linkages vis-à-vis horizontal linkages had once been an important subject of discourse among rural sociologists, and there is no *a priori* reason to believe that one always supersedes the other. Under the circumstance, it is quite plausible that some forms of activities are better pursued through social institutions with vertical linkages. Thus, KST-VOs, primarily functioning as conduits of credit delivery (see Section VII), and organized by *paras*, are likely to be more inclusive than one would expect from village-level community-based approaches.

⁷ The sample was drawn under an IFPRI-BIDS-INFS study during 1996-97, and the same set of households in five KST villages was resurveyed under the present exercise.

⁸ With a view to measure changes over time, we administered villages census in two sample villages which were previously studied by Shamunnay (Shamunnay 1998)

⁹ Paras, if literally translated to English, would mean neighborhood. These are clusters of households that form a part of a village. There are currently about 1000 VOs (covering at least 500 paras) in Kishoreganj Sadar Thana, while there are only 202 villages.

Given that banking is the primary activity undertaken by the VOs, one may suspect that loan disbursement may not be as evenly distributed as VO membership is. Our probing into loan disbursement by members for a selected number of VOs does not lend support to such suspicion either (see Appendix 6). Average amount of loan received by a poor member is found to be less than that received by a rich member, which is however quite expected since this may only reflect their relative repayment potentials. The observed unbiased access to credit by the VO members, irrespective of their socioeconomic origin, is possibly due to abundant availability of credit. It is therefore appropriate to raise the counterfactual question: will the VOs turn into “rich people’s club” if there is shortfall in credit supply?

It was not possible to collect information on member-specific loan disbursement during the early years when supply of credit was still quite tight. However, there is indirect evidence to suggest that the aforementioned apprehension cannot be ruled out. Under the current practice, loans from various sources appear to be similar since the recorded annual interest rates are identical (15%). However, the effective interest rates paid by a borrower varies in accordance with the frequency of repayments (Zohir et al. 1999). It is observed that loans for rickshaws/vans and to petty trading, which are more likely to be availed by the poor, are to be paid on weekly basis. On the contrary, loans of larger size, normally going to agriculturalists (in both crop and non-crop sectors), are to be paid either on quarterly, bi-annually, or, on an annual basis. We have also observed that loans on account of biogas plants, where the disbursement far exceeds the project cost and which involves a government subsidy, have mostly been availed by the VO managers. These anecdotal evidences suggest that the poor may have to queue for a longer period if there is a shortfall in the supply of credit¹⁰.

Finally, it is important to note that inclusion/exclusion by an organization will depend on the objective that acts as the driving force for that organization. Even the MFIs are known to have failed to include the very hardcore poor and exclude the non-target group members (see BIDS 1998). One may explain such practice by asserting that many of these MFIs primarily

¹⁰ Shamunay (1998) found that the poor had relatively greater access to credit when the supply of credit was tight; and the bias towards rich increased over time. No definite conclusion on relation between credit supply and the bias in delivery may be from Shamunay’s observation.

aim at establishing smooth credit operation. As is argued elsewhere, the same principle is pursued in the KST-VOs. Several VO managers were asked as to whom they would include as members and who would be excluded. All responses identified two important categories; “troublemakers” and “irresponsible” individuals will not be included. Individuals, who are likely to split the groups and introduce undue agendas to hinder the functioning of the group, are identified as troublemakers. Persons with known habits of gambling and those who fail to exhibit responsibility to their families, are the “irresponsible” ones. Note that these characteristics are observed among people from all socio-economic tiers. Thus, one may conclude that those who are excluded from the VO, are simply not good clients for the banks.¹¹ By the same principle one may argue that in the event of credit shortfall, a VO manager, motivated by long-term returns, will choose clients with better repayment potential. There is no *a priori* reason to believe that the poor will be systematically left out in such event¹².

V. Social Mobilization through VO Formation

Social mobilization is stated to be one important objective of the KST project, and this is to be realized through the VO. The concept of social mobilization often means different things to different people; especially, whether it is a goal in itself, or, a means to achieve something. We adhere to the latter meaning, and thus, discussion in other sections throw partial lights on KST’s achievements and failures in the area of social mobilization. This section only discusses the more general aspects.

In the context of the KST, it is important to distinguish between social mobilization for better banking and that for achieving other social and economic objectives. It is to be noted that credit was not in the priority list during the first year of the project. Thus, early initiative centered around formulating plans (by the VO members) to develop their villages. Like many

¹¹ There are instances where some individuals played important role in dismantling previously formed VO on the grounds that the project failed to deliver credit. Some of these members have their own savings groups, and have not been included in the VO which were formed later.

¹² While rich may have better financial potential, the historical evidence in Bangladesh also suggests that default rate is also very high amongst them. The manager is well acquainted with financial norms and behaviour of his/her client.

other early experiments, it did not work, and soon, credit had to be delivered to the VO-members. The KST experiment reestablishes the conjecture that social mobilization of the rural people in Bangladesh is not possible unless and until it is associated with providing them access to some form of resources (see Appendix 4).

There are however two different kinds of mobilization that are observed in the Kishoreganj thana. The first one facilitates better functioning of the savings and credit operation, and the other is a fall-out of the benefits from the association with the former. The experience with microfinance in Bangladesh shows that a minimum level of social mobilization is a prerequisite. In the context of the KST project, which targets the whole of rural population, the scale of operation involved is quite large. The previous section had noted that about 70 percent of the households in the thana have already been involved. A *separate* section on credit discusses the nature of mobilization involved. Few brief comments are worth noting here. During our field visits, we have seen savings drive organized by the VOs in the form of evening cultural program, which is quite similar to the activities of Swanirvar Bangladesh that were undertaken during the latter's peak period. The weekly meetings of the VOs are however irregular and they primarily facilitate financial transactions pertaining to loan disbursement and repayment. The meetings rarely act as platforms for generating social agendas and drawing up action plans for social development.

The network, spearheaded by the VO manager at the grassroots level, and coordinated through the cluster and ward meetings, however, work as a fast conduit for information flow. Thus, the network has the potential to be used for prompt social action, which has occasionally been done. For example, there are reports on emergency medical assistance provided, and on some instances of social action, such as, mobilizing people against gambling in rural fair. In the area of economic activities, such a network has enabled a number of VOs to take up joint activity in Beel fishing (see Appendix 5). Another area of fruitful social mobilization effort is the construction of school with counterpart financing by

the VO members¹³. But household and thana-level statistics suggest that the achievements in the case of raising public awareness on immunization, mass education, and dowry are negligible.

VI. Human Resources Development and Access to Government Services

As of 30th June 1999, the project had covered a total of 24,753 trainees through various training programs and workshops/conferences. Almost a third of it included participation in workshop/conference, and more than one-fifth were trained on accounting. While a major focus of the KST training program is to ensure better bookkeeping for its savings and credit program, the emphasis on training a group of social activists (to play the role of extension agents) has been no less important. Of the total number of participants, 15.4 percent attended trainings on livestock and poultry, while another 13.7 percent attended training on horticulture and nursery. It is to be noted that the number of persons benefiting from these trainings is far below the total number of participants reported. Our preliminary query suggests that a VO manager had received, on an average, 10 to 15 trainings from the project¹⁴, while a President may have received 2 to 3 trainings. Subject-specific trainings were also provided to the social activists. There are limited instances of associating training with loan disbursement; and these were mostly in areas of poultry, dairy and fish farming. Most other VO members did not however benefit directly from the KST training program. While no attempt was made in the present study to assess the individual- and group- level returns to these trainings, the study team is convinced that a large group of rural youth in the Kishoreganj thana is now well acquainted with the financial operations involved in maintaining a credit program and is skilled in record-keeping.

A central purpose of the KST experiment is to establish sustainable links between the rural people and the various government departments at the local level so that the people may have better access to government services. Institution build-up in the form of VOs and capacity

¹³ A total of 15 schools (with 1,580 students) are currently in operation. These are established and run with project grant, matched by contribution from the VOs (in the form of Land). The present study could not probe into their functioning in details.

¹⁴ Those engaged in the capacity of auditors as well, received more training than a regular VO manager.

build-up through training are viewed to support such linkages. While this linkage is well-established in the area of banking, the achievements are quite negligible in the more important domain of government services, such as, livestock and poultry, agricultural extension and fishery. The project officials attempted to establish the linkage in a number of ways. During the initial stage, respective officials of Kishoreganj thana were requested to act as instructors in subject-specific training programs. These were soon abandoned, except for limited participation through personal linkages. A more formal route, tried out in the project, is through involving various government extension agents in various committees; block supervisor in ward committees and MCH-FP worker in union committees. Such formal committees play no functional role in the project and we learnt during our field visit that many of these committees did not have a meeting for a long time.¹⁵

Another possibility of linking rural people with government services would be through establishing the social activists as the conduits. One would expect that these social activists, trained in their respective field, would take up issues with the relevant government departments, through the ward-union-thana hierarchy. This has not however worked out, and all queries end up in the project office, and the government officials (on lien) working for the project occasionally make use of their personal contacts to sort things out. Upon failing to motivate the government officials at the thana level, the project has now recruited subject specialists. Such move supports the conjecture that the project has failed to establish direct linkage between rural people in KST and the various government departments expected to provide service to these people.¹⁶

The effort to make the government work at the local level had always been an important agenda in the Comilla experiment, as well as in initiatives of the Swanirvar Bangladesh. However, this has worked only so far the senior project officials had direct or indirect control over other government agencies to get things done.¹⁷ Since such controls are hardly sustained

¹⁵ The more functional are the “cluster meetings” and “ward meetings”, which are not attended by the government extension persons and which primarily address issues pertaining to the savings & credit program.

¹⁶ There are twenty-two such departments at the thana level.

¹⁷ One bank official confessed that they were afraid of being removed or transferred since their higher officials in Dhaka may be persuaded by the project personnel and UNDP to do so. One high level project official also admitted that they could get things done only because they were government officials.

in Bangladesh politics, the forced outcomes are only temporary. The alternative route through arousing people's agitation, as pursued by some of the NGOs (e.g., the erstwhile GSS), could not be sustained. One obvious challenge for any strategy on rural development is therefore, how to make the local level government departments function well¹⁸? In the absence of clear accountability within the civil administration, any initiative from outside the government ought to take into account of the incentives necessary for activating the government officials. A project, with officials paid much above the average and the control resources, is possibly a non-starter in any effort to activate those who live on limited government salary. One way out could be to identify certain project components, which are designed to include the relevant government officials from an early stage. It is important to induce a sense of ownership, which needs to be sustained over the project life through ensuring some degree of control as well. The KST project did not address the problem, and has possibly distanced many of the thana level government officials.

Following the progress made in the field of institution development under the KST project, one may suggest that well-functioning union committees, federated at the thana level, may ensure better delivery of services from the thana level government departments. While VOs may be functioning well as conduits to rural banking, and may have limited role to play in the social sphere, there is no evidence to suggest that a federated body of these VOs will be politically representative. Nor is there any sign that such a body will be keen on pushing forward the cause of the general rural populace. On the contrary, we were reported of violent exchanges between rival groups in attempts to forcibly take over a union committee, apparently for establishing control over the resource, allocated in the project budget for construction purpose.¹⁹

VII. Efficacy of the KST Credit Program

Savings mobilization and delivery of credit has been the central element of the project activities, and we argue below why we think it to be so. Furthermore, the essential features of

¹⁸ It is equivalent to ensuring people's access to government services.

¹⁹ The project budget has provision for construction of a union office building in each of the 11 unions. The budgeted allocation is about Tk 12.5 lakh for each union.

the KST credit program are contrasted with those of a conventional MFI in Bangladesh. The final part of this section looks into the efficacy of the KST credit program.

Within a year of project life, social mobilization through VO formation stagnated, and the credit program had to be introduced to sustain the operations (see Appendix 4). Since then, the credit program has emerged as the central focus of the project. Virtually, all project activities are centering on credit. All types of managerial and administrative reforms undertaken so far, such as formation of different committees at different levels²⁰ and changes in monitoring structure, are influenced by the urge to meet the emerging needs of a growing credit program. The most vibrant social mobilization, the cultural evening, as mentioned elsewhere in the report, is also intended to improve the functioning of the credit program. The credit program is at the core of unity amongst members, as well as of their dissatisfaction with the program. Furthermore, in all cases of VO-dropouts, the main cause had been dispute over credit. Finally, as noted in a previous section, the training program is also largely aimed at creating cadres with knowledge on credit related accounting and bookkeeping. All these suggest that credit remains the central focus of the KST project.

Given the overwhelming acceptance of microfinance activities by the NGOs in this country, it is not appropriate to associate any value judgment with the current practices and trends in the KST project that are biased towards the credit program. The KST experience may rather be considered an additional observation to support the view that it is difficult to mobilize rural people without providing them with access to credit. There are however some important aspects in which the KST credit program differs from the practices of other MFIs in Bangladesh. These are highlighted below.

Unlike many other MFIs, the KST credit program does not have a target group, which constitutes an observable segment of the rural society. This saves them from any additional

²⁰ The class of VO managers and auditors, who are the most active field agents in the KST project, are preoccupied with savings, disbursement and repayment activities, and their monitoring. It is also worth noting that cluster meetings and ward meetings (and not the committees), which facilitate decisions in loan disbursement and monitoring of repayment, are the more regular activities at the field level.

effort to monitor targeting.²¹ At the same time, declared inclusion of the rural rich widens the market for credit, which is crucial for enhancing the financial viability of a grass root organization (here, VOs) delivering such credit. Third, the structure of incentives provided to different agents involved in the KST approach differs significantly from those in other MFIs. In case of a conventional MFI, the beneficiaries (i.e., group members) are distinctly *separate* from the MFI staffs who deliver credit and monitor repayment. The service charges normally accrue to the respective MFI fund, out of which salaries are paid to the staff. In contrast, the KST-VO managers get a significant share of the service charges, which is often enough to make a decent living for a rural youth.²²

A fourth departure of the KST credit program is in the mix of fund available for loan disbursement. Most MFIs have their own seed capital and they also draw from members' savings. Some of the MFIs also borrow fund from such institutions as the PKSF and lend to their beneficiaries. The KST credit program, in contrast, has three distinct sources of fund; own savings, existing commercial and specialized banks²³, and supplementary funds provided by the UNDP (see Appendix 7). Since rural rich (VO members) are free to contribute to own savings, the latter had phenomenal increase in size²⁴. Interest payments received from lending out of own savings accrue to the members, and the UNDP funds provided are also VO-specific so that amongst VO members there is a sense of owning such fund.

A final difference lies in the way the groups are organized and made to function. The MFIs targeting the poor, organize groups whose sizes range from 5 to 30; and sometimes, several

²¹ Recent studies show that targeting is rarely achieved by the MFIs in Bangladesh (see BIDS 1998).

²² See Appendix 7 for a detail discussion on the incentives involved in the KST approach. It may also be noted that the Swanirvar Bangladesh (SB), which has great deal of similarities with the KST project, had a credit program that was less coherent than the KST credit program. SB had Credit Assistants (Rin Shahojogies- RS) who mediated between the group members and the bank, very similar to the role of VO managers. However, the groups included members from target group households and were small in size (five). Moreover, the RS were employed by the SB, normally from the same thana, and a part of their payment was tagged to the amount of credit disbursed/recovered. One reason of SB failure was the inadequate incentive to these RS, many of whom embezzled with funds paid by the members (Zohir 1991).

²³ While Bangladesh Krishi Bank has been the major partner so far, initiatives have been taken during the recent past to open VO accounts with and borrow from the Islamic bank.

²⁴ Some of the conventional MFIs have schemes on term deposit whereby they mobilize fund from the rural rich (non-beneficiaries). The KST approach internalizes such activities.

small groups are federated into one large Samity. In the case of the KST project, the minimum size of a VO is around 35, and the size often is as high as 100. Since the VO managers bear the primary responsibility for ensuring repayment, with which their incentives are tagged, they have found it convenient to regroup the members into smaller sub-groups, with individuals acting as leaders of these sub-groups.²⁵

The performance of KST credit program, as evaluated on the basis of coverage, equity and recovery, is not significantly different from those of other MFIs. By taking advantage of different sources of funds, the credit program has already covered the whole project area and the total disbursement has exceeded Tk. 258 million (as of 30th June 1999). Share of total credit disbursed to female members is as high as 43 percent. Since the females constitute around 46 percent of total VO members, disbursement figures suggest of gender equity in credit coverage. Although distribution of loans does not show any systematic bias to any socioeconomic group, the wage-workers and rickshaw-pullers have meager access to credit, compared to other occupational groups. Almost half the loan amount is disbursed to “small business”, which is not clearly identified. Of the rest, most disbursements are in the agricultural sectors.²⁶ Recent recovery rates under the KST credit program are at par with other MFIs, however, there is a declining trend in the recovery²⁷. It also needs mentioning that recovery rate, calculated on the basis of weekly dues, is very unsatisfactory, and has already declined to as low as 66%.²⁸ (see Appendix 7). It is important to note that lending under the KST project is not strictly supervised, and there are apprehensions that excessive credit disbursement may introduce debt cycles in future.

The efficacy and financial sustainability of the KST credit program are difficult issues to address. It is important to recognize that the KST project promises to deliver a number of

²⁵ One of the VO managers reported to us that he is planning to make explicit arrangement to share his remuneration with the leaders of the sub-groups since it will enable him to coordinate large group, and thereby, large volume of credit transaction.

²⁶ The household survey administered under the present study shows that actual use differs from stated purpose in 45 percent of the cases. In most such cases, use of loan for consumption purpose dominates.

²⁷ The recovery rate was 91.47 percent in 1998, which declined to 88.86 percent in 1999).

²⁸ Our estimation shows that further deterioration in recovery rate, based on weekly dues, will fail to ensure any financial incentive for BKB to administer VO based activities; consequently, the whole credit program will be at stake.

output, and it is not possible to isolate a part of the delivery cost and associate it with the credit program. Moreover, a number of alternative sources of fund are availed, each having a different revenue implication. Noting these difficulties, we make few brief comments on the efficacy of the KST credit program. We have argued in this section (as well as in Section VIII to follow) that the incentives are built-in, even though there are potential trends to undermine the initial success. On an average, over the last three years, a net amount of Tk. 80 million has been disbursed through the VOs, which may be contrasted with the annual development budget of only Tk. 3.3 million for Kishoreganj Sadar thana. Based on simplified assumptions, it may be shown that annual revenue received from the credit operation is as high as Tk. 10.8 million. This is distributed as follows: Tk. 3.6 million to project/group fund; Tk. 2.52 million to BKB; Tk. 3.71 million to managers and president of VOs; and the rest of Tk. 0.97 million to general VO members.²⁹ On the cost side, three alternative scenarios may be identified. In an extreme case, one may assume that a consortium of the VOs (with no additional cost on office bearers) manages the UNDP and the VO savings funds and needs no additional support to obtain loans from the BKB. The cost of operation is surely zero. This does not however seem to be a viable option; and a minimum monitoring is essential. Such monitoring may involve the appointment of auditors, cost of the paper works involved, and all these coordinated by a trimmed down project office (which may as well be a secretariat at the thana level). The total cost of maintaining such an administration, including occasional external auditing/evaluation will be well within the range of Tk. 3 million per year, less than that accrued from service charges under UNDP/group fund.³⁰ If the current project is assumed to continue, the annual average operation cost over the last two years had been around Tk. 10 million. The estimated figures are all indicative; and do not capture all the streams of benefits from the project; and therefore, should be interpreted with caution.

²⁹ We assume 90 percent recovery on time and returns to the rest 10 percent of disbursed amount is equivalent to the cost of recovering that amount. We also assume that shares of UNDP, BKB and own savings in the total disbursement are respectively, 50, 35 and 15 percents. We ignore returns over and above the annual 15 percent interest rate that may accrue due to repayments made more than once a year.

³⁰ A full-time auditor in each ward at a rate of Tk. 1,500 per month is assumed; a supervisor per union at a monthly salary of Tk. 10,000 per month; and a coordinator with a salary of Tk. 30,000 per month is assumed. The rest of the expenses is on account of travel, per diem and stationary.

VIII. Self management of the VOs

The issue of self-reliance had been an issue of debate in the recent studies on the KST project (see Rahman 1998, and Sen and Ahmed 1999). We take a more pragmatic approach, and ask the question whether the VOs can sustain on their own in the event that the project office closes.

It is important to recognize that credit is the central element defining a VO's entity, and that the VO managers are the most important agents ensuring such entity. Under the circumstance, self-management may not be perceived to be one of democratic participation by all VO members. It is rather appropriate to reformulate the question as: whether the VO managers will have the incentive and ability to sustain VO-based activities in the absence of the project office. There are two areas of activities, broadly categorized as credit and non-credit, with regards to which the question is discussed below.

If VO activities are perceived to be one of banking only, the managers will be keen on sustaining the VOs and ensure a regular return from the service charges from repaid loans.³¹ There is also the additional advantage from cash-handling, which provides them with social prestige as well as potential source of additional earning through informal lending. Furthermore, the VO managers are well-positioned to get better deals when they are the borrowers.³² With uncertain urban employment, increased risk and wage declines associated with overseas employment (specially, in the Middle East and South-East Asia), the current position offers a VO manager a more remunerative financial deal. It is therefore quite expected that these managers will make every effort to sustain the VO-credit activities. Whether they will be able to do so depends partly on their own ability and partly on the responses of the other partners involved.

In the area of non-credit services (which includes some economic benefits as well), currently received by the beneficiaries, current outcomes are mixed and the issue of sustenance is

³¹ See Appendix xx for estimates on such returns.

³² In a meeting with a group of VO managers, there was a common consensus that their price (as grooms) in the marriage market had also increased due to their position as managers.

difficult to address. We are of the opinion that a VO's entity is linked with its performance as an institution to facilitate rural banking, and the manager has the incentive to sustain the structure due to the incentives involved. All members of a VO may, however, be not keen on other fronts, such as, accessing government services, etc. It is however possible that segments of VO members will have common interest in various other fields. Some such examples are in the area of joint economic ventures. If such ventures involve a large proportion of the members, as in the case of Beel fishing, externalities can be drawn and VOs have important roles to play as coordinating bodies. It is not clear if activities with small number of partners will perform within the jurisdiction of the VOs, or, whether they will contest the very existence of the VOs at some point in future.

IX. Lessons and Prospect for Replication

The KST project is quite unique and deserves greater attention than it has so far received. It differs from the existing practice of targeting the poor by the NGOs/MFIs. While it resembles some of the earlier experiments on community-based initiatives, we have argued that the differences with them are also quite significant. We briefly outline some of the lessons to be learnt from the KST project with in the areas of rural development and poverty alleviation.

1. There is a great deal of unmet demand for credit in the rural areas, which the targeted approaches of the MFIs are unable to fulfill. It is worth noting that members of non-target group households are given loans by many of the MFIs. The essential difference therefore may not be in the concept of targeting and non-targeting. Rather, the difference may lie in the way banking is done, and in the incentive structure of various agents involved. The KST experience suggests that the limited community-based approach does provide an alternative way of doing rural banking.
2. The KST approach through VO formation enables the development of a group of local leaders (from rural youth), whose social and financial position gets strengthened with project life. The potential of this emerging group of "kulaks" remains to be fully harnessed.

3. The VOs and their federated bodies at higher levels provide a network that may reap benefits in other economic and social spheres. Some such spheres include, joint investment, collaboration in the area of marketing, undertaking low-cost research on areas of important social and economic concerns (e.g., in arsenic prevalence), etc.
4. Regular monitoring and motivating the leaders through training and consultation are important for the sustenance of the program. Current structure appears to be too costly. It is quite possible that initiatives to develop a self-managed monitoring scheme under the umbrella of (say) a ward/union level VO federation will give more cost-effective outcomes in the future.
5. Sustenance of the program depends on maintaining the incentives to the current managers, which runs contrary to any move towards greater democratization of the VOs. A less radical move may be through formally recognizing the incentives to be provided to the leaders of the sub-groups, and widening the net of auditors outside the set of managers. It is also important to harmonize the structure of incentives across various sources of fund.
6. One major difference in outcomes between a conventional MFI/NGO and the KST approach is in the distribution of service charges. In the former case, part of the service charges gets accumulated at the NGO/MFI level, which are known to use that for subsidizing social programs and take up corporate level income generating projects. In case of the KST approach, a significant amount accrues to the managers as income flows, and their use pattern is yet to be known. In order to ensure that greater collaboration between VOs and enhance investments in the rural areas, a part of the managers' remuneration may be retained in a common fund with specific conditionality on its use.
7. The rural poor are addressed only residually in the KST project. Given the abundance of credit supply, the poor have not been left out. Potentially, a more important way that the poor may benefit is through additional investment in the rural agriculture and non-agricultural sectors. The KST approach holds relatively greater potential in the latter.

The KST experiment is yet to unfold all its potentials and deficiencies. We are yet to see if an institution, such as the VO, initially facilitating rural banking, can transcend to perform equally well in the area of social capital formation. Some such initiatives in the areas of schools and artificial insemination centers have been subsidized by project fund. This report

raises an additional externality that may potentially be reaped if new partnership emerges through joint investments. While the remaining years of KST project need to be continually monitored, the limited success in banking, make the KST approach a deserving candidate for replication. Since any attempt to do so will come in conflict with the existing MFIs in an area, it is desirable that the willing MFIs adopt an improvised version to experiment with in some selected area. The implications of such a move is enormous, especially because of the unwillingness to admit that credit operation is the main activity undertaken by many of the MFIs. More importantly, it will involve reduction in the staffing pattern, and sharing of service charges with local managers. Presently, this may be a difficult proposal to sell. Yet, any further expansion of the KST project into some other thana may prove or disprove the point being raised.

An alternative route for replication may be through continuation of the current experiment within the Kishoreganj Sadar thana boundary (to probe into the potentials further), and disseminate the concept through regular field visits and training of potential people from other thanas. This may be achieved through incorporation of an outreach component in the current project activities. Current attempts to encourage the Union Parishad chairmen during their training may be pursued within the proposed framework.

Finally, a third approach may be to depute a few of the Social Organizers in another thana to initiate the process of VO formation. This will enable one to verify if such an activity can be performed without the support of high-level government officials. However, any reduction in the current strength in the project needs to be preceded by strengthening the local bodies (federation of VOs), which will replace the needs for external monitoring and motivation.

Appendix 1

Terms of Reference for the Study on

“A preliminary impact assessment of the of the Kishoreganj Sadar Thana (KST) Project”

Objectives of the Study: The study will examine whether the KST model provides an efficient alternative mechanism for comprehensive rural development. Specifically, the study will focus on the following:

- Does this model provide better results in terms of delivery of services, such as extension, rural finance, technical training, etc. and the public good compared to traditional public program, NGOs and private sector;
- What has been the project’s impact on creation of employment and wealth in the local economy;
- How different and efficient is the credit delivery mechanism compared to existing MFIs;
- Have the VOs developed their capacity for self-management;
- What is the relationship of the project unit with the line agencies of the government departments, local government bodies, private sector, NGOs;
- What has been the degree of participation of the villagers in the decision-making process of the economic and social activities of the VOs;
- Is the claim that the VOs are inclusive institutions correct?

Appendix 2

Aggregate Statistics on Project Impacts

Table A.2.1 Contrasting Changes in Kishoregonj and Pakundia, 1994-95 to 1998-99

Item	Kishoregonj		Pakundia	
	1994-95	1998-99	1994-95	1998-99
No. of Primary School	128	142	163	166
Literacy rate (%)	26.6	28.3	27	27.9
Family Planning Adoption (%)	69.9	65	62.6	68.8
Infant Mortality Per Thousand	69	64.9	90	85.5
No. of Dairy Farm	32	39	5	3
No. of Goat Farm	4	11	11	5
No. of Poultry Farm	105	146	10	6
No. of Duck Farm	70	143	11	5
No. of Ponds	690	7045	4125	4185
% of Total Ponds Cultivated	25	50	60	80
Rice Yield (mt/ha)	1.86	2.21	2.41	2.33

Table A2.2 Household Level Changes During Last Two Years, Selected Villages in Kishoreganj Sadar Thana

Situation Improved	Percentage of Sample Household in each group			
	VO Member	Member of (Dual) VO and Other MFIs	Member of Other MFIs	Not Member of any MFIs or VO
Financial	63	89	50	80
Food	47	50	17	50
Law and Order	42	44	50	60
Amount of Savings and Investment, and No. of Commercial Transport Increased and Agricultural machinery				
Savings	100	83	50	40
Investment in				
Fishery	47	67	17	40
Poultry	5	0	0	0
Dairy Farm	0	0	0	0
Agricultural Machinery	11	11	0	0
Commercial Transport	11	0	17	0

Table A2.3 Percentage of Household with Net Accumulation of Assets During Last Two Years

Types of Assets	Percentage of Sample Household			
	VO Member	Member of (Dual) VO and Other MFIs	Member of Other MFIs	Not Member of any MFIs or VO
Land	21	22	16	20
House	21	33	17	20
Bullocks	5	5	16	30
Ornaments	37	17	0	30
Trees	-5*	-28	0	-10
Bicycle	-5	17	0	10
Watch/Clock	32	11	17	-10
Radio	16	6	0	10
Television	16	6	0	0
Mortgage-in	32	17	0	20
Mortgage-out	16	0	17	20

Appendix 3

Change in Well-being of the VO Members through Participatory Self Assessment: An Illustration Based on Two Sample VOs

Participatory poverty assessment (PPA) is based on a limited pool of data covering only two VOs as a case of illustration. The benchmark data used for this monitoring were generated through earlier monitoring carried out twice by Unnayan Shamunnay in 1996 and 1997. The data set for 1999 have been generated in connection with this investigation to measure the changes taking place since 1997.

Tables A3.1, A3.2 and A3.3 depict the dynamics of changes in the membership composition as well as the direction of changes over the period with regard to four broad categories, namely well-off, middle, moderate poor and very poor over the period. Table 4 shows the trends of membership among these four groups during the period from 1996 to 1999. Poverty seems to have reduced over the period. The rate of poverty reduction is also found remarkably faster (3% per year) during this period. The proportion of the poor members fell from as high as 68 per cent in 1996 to 53 per cent in 1999, registering 15-percentage point change over the last three years. This shows the changes by way of the point to point comparison. It, however, shows the net cumulative effect of the interactions among the four factors, namely category-wise dropping out, new membership, and crossing over (both upward and downward) frequencies over the period.

The above findings present the status of the existing members numbering 117 and 179 in 1996 and 1999 respectively. To better assess the impact of the programme on the well-being of the members, we need to control, two types of members who either have dropped out and entered the VOs during the monitoring periods in between. Disregarding these two types of members, tables A3.2 and A3.3 highlight the changes in the socioeconomic status of the members who sustained over the monitoring periods. Thirty-nine per cent of the members crossed over (inter-category improvement) their respective categories to higher categories over 1996 and 1997 compared to 17 per cent during 1997 and 1999. Among the poor members, 50 per cent could cross over during the first monitoring (from 1996 to 1997) compared to 25 per cent during latter (from 1997 to 1999). The very poor are found to have

faired very well (55% in the first and 47% in the latter) compared to other categories in these two poverty monitoring.

We can also look at the changes from another angle. Among those who crossed over during the first monitoring, poor and non-poor members account for 83 per cent and 17 per cent respectively during the first monitoring. The corresponding figures are 71 per cent and 29 per cent during the second monitoring.

The above findings suggest that the KST model has discernible effect on the overall well-being of the VO members in reducing poverty at a relatively higher rate (3% per year) compared to the national figure (0.3% per year). Although not strictly *comparable* because of different measurement techniques, we may report here the pace of poverty reduction in other South Asian countries in a relatively recent time for rough comparison. This highest rate of poverty reduction in South Asia has been 1 per cent per year in Sri Lanka and 0.8 per cent in India (4.4% in Kerala and 4.1% in West Bengal) (Sen and Rahman, 1998: 30).

TABLE A3.1 : DISTRIBUTION OF VO MEMBERS OF TWO SAMPLE ORGANIZATIONS BY CATEGORIES

Village Organization: Brahmin Kachuri (Male) and Binnati North (Male)

(Number of members)

Category of the VO Members	1996	1997				1999			
		All Members	New Members*	Dropouts	Dropout Rate (%) (5 ÷ 2)	All Members	New Members*	Dropouts	Dropout Rate (%) (9 ÷ 3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Well-off	18 (15)	24 (22)	1 (7)	2 (8)	11	35 (20)	8 (10)	1 (10)	4
Middle	20 (17)	29 (27)	6 (40)	3 (12)	15	49 (27)	22 (27)	3 (30)	10
Moderate Poor	36 (31)	40 (37)	7 (47)	6 (25)	17	66 (37)	27 (33)	5 (50)	12
Very Poor	43 (37)	15 (14)	1 (7)	13 (54)	30	29 (16)	24 (30)	1 (10)	7
Non-Poor	38 (32)	53 (49)	7 (47)	5 (21)	13	84 (47)	30 (37)	4 (40)	7
Poor	49 (68)	55 (51)	8 (53)	19 (79)	24	65 (53)	51 (63)	6 (60)	11
TOTAL	117 (100)	108 (100)	15 (100)	24 (100)	20	179 (100)	81 (100)	10 (100)	9

Note: i. Non-poor = well-off + middle; Poor = moderate poor + very poor

ii. Figures in parentheses show percentages of column totals

* Those who joined the VO during the period between the two monitoring years

Source: PRRA exercises, 1996, 1997 and 1999

**TABLE A3.2: CHANGE IN ECONOMIC CONDITION OF THE MEMBERS BASED ON THE WELL-BEING RANKING
BY THEMSELVES – Sample 1
Village Organizations: Brahmin Kachuri (Male) and Binnati North (Male)**

(Number of members)

Category of the VO members	Over 1996 to 1997						Over 1997 to 1999					
	Improved		Deteriorated		Un- changed	Net Total Members*	Improved		Deteriorated		Un- changed	Net Total Members*
	Intra- category	Inter- category	Intra- category	Inter- category			Intra- category	Inter- category	Intra- category	Inter- category		
	12 (28)	-	1 (25)	1 (50)	2 (22)	16 (17)	16 (26)	-	2 (25)	-	4 (44)	22 (22)
	9 (21)	6 (17)	1 (25)	-	1 (11)	17 (18)	16 (26)	5 (29)	4 (50)	2 (100)	1 (11)	28 (29)
Non-Poor	12 (28)	13 (36)	2 (50)	-	2 (22)	29 (31)	23 (37)	5 (29)	2 (25)	-	3 (33)	33 (34)
Poor	10 (23)	17 (47)	-	-	4 (44)	31 (33)	7 (11)	7 (41)	-	-	1 (11)	15 (15)
	21 (49)	6 (17)	2 (50)	1 (50)	3 (33)	33 (35)	32 (52)	5 (29)	6 (75)	2 (100)	5 (55)	50 (51)
	22 (51)	30 (83)	2 (50)	-	6 (66)	60 (64)	30 (48)	12 (71)	2 (25)	-	4 (44)	48 (49)
	43 (100)	36 (100)	4 (100)	1 (100)	9 (100)	93 (100)	62 (100)	17 (100)	8 (100)	2 (100)	9 (100)	98 (100)

Note: i. Non-poor = well-off + middle; Poor = moderate poor + very poor

ii. Figures in parentheses show percentages of row totals

* Total Members in the preceding year minus dropouts in the monitoring year

Source: PRRA exercises, 1996, 1997 and 1999

TABLE A3.3: CHANGE IN ECONOMIC CONDITION OF THE MEMBERS BASED ON THE WELL-BEING RANKING BY THEMSELVES

Village Organizations: Brahmin Kachuri (Male) and Binnati North (Male)

(Number of members)

Category of the VO Members	Over 1996 to 1997						Over 1997 to 1999					
	Improved		Deteriorated		Un- change d	Net Total Membe rs*	Improved		Deteriorated		Un- change d	Net Total Membe rs*
	Intra- categor y	Inter- categor y	Intra- categor y	Inter- categor y			Intra- categor y	Inter- categor y	Intra- categor y	Inter- categor y		
Well-off	12 (75)	-	1 (6)	1 (6)	2 (13)	16 (100)	16 (73)	-	2 (9)	-	4 (18)	22 (100)
Middle	9 (53)	6 (35)	1 (6)	-	1 (6)	17 (100)	16 (57)	5 (18)	4 (14)	2 (7)	1 (4)	28 (100)
Moderate Poor	12 (41)	13 (45)	2 (7)	-	2 (7)	29 (100)	23 (70)	5 (15)	2 (6)	-	3 (9)	33 (100)
Very Poor	10 (32)	17 (55)	-	-	4 (13)	31 (100)	7 (47)	7 (47)	-	-	1 (6)	15 (100)
Non-Poor	21 (64)	6 (18)	2 (6)	1 (3)	3 (9)	33 (100)	32 (64)	5 (10)	6 (12)	2 (4)	5 (10)	50 (100)
Poor	22 (37)	30 (50)	2 (3)		6 (10)	60 (100)	30 (62)	12 (25)	2 (4)	-	4 (8)	48 (100)
TOTAL	43 (46)	36 (39)	4 (4)	1 (1)	9 (10)	93 (100)	62 (63)	17 (17)	8 (8)	2 (2)	9 (9)	98 (100)

Note: i. Non-poor = well-off + middle; Poor = moderate poor + very poor

iii. Figures in parentheses show percentages of row totals

* Total Members in the preceding year minus dropouts in the monitoring year

Source: PRRA exercises, 1996, 1997 and 1999

Appendix 4

Anatomy of VO Growth

As of June 30, 1999, there are 965 village organizations (VOs) in 202 villages, 48.29% of which are female village organizations. The initial spur of growth is observed only in one union, namely Latibabad, in which Swanirvar Bangladesh had extensive works. Some of the old cadres of Swanirvar Bangladesh came forward to assist the project team. Because of having vast experience of different credit programs and NGO activities in the recent past, the villagers perceived the project as an ultimate credit provider. Therefore, the response appears to have been quite erratic by the males, which also crowded out the females in the first year of the project. When the male villagers came to know that the VO based mobilization effort was a *no-credit package*, the project did not remain lucrative to them any more. Their retreat possibly paved the way for the females to be associated with the project's mobilization efforts. Thus, 112 female VOs, in contrast to 59 male VOs, were formed during the period of July'95 to June'96. Introduction of BKB loans and provisioning of credit out of UNDP/UNOPS fund rejuvenated male enthusiasm during the period of July'96 to June '97, which appears to be the most productive year in terms of formation of VOs (see graph A4.1).

Significant declines in average member per VO during 1995-96 period suggest that there may have been dropouts in VO membership during the period. Some of the unions experienced a net decrease in the total number of VOs during 1995 to 1996 period, representing higher number of disintegrated VOs than newly formed ones. The month wise formation of VOs shows higher variation in the pre-97 period compared to post-97 period (see graph A4.1). The explanation for that is the growing credit program has already eliminated the initial suspicion and antipathy of the villagers and created a favorable attitude among them under which the number of VO formation has virtually become a function of how much the project can absorb.

Although pessimism was expressed in the initial project document with regards to the prospect of covering the remaining villages by the end of 1996³³, all the villages were covered by at least one VO by the end of 1997. A project document suggests that 1200 VOs would be required to cover all the households³⁴, current coverage therefore may be

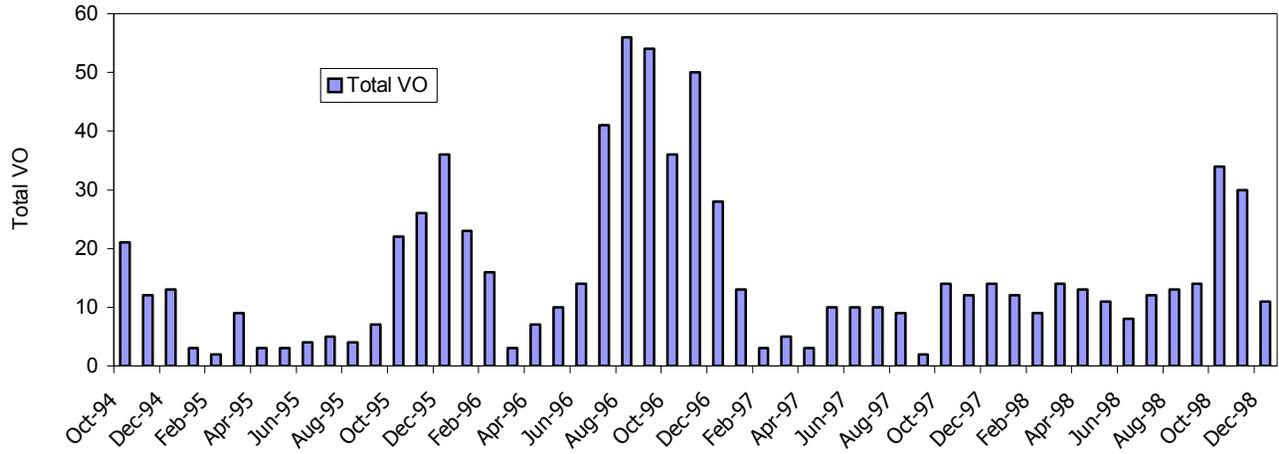
³³ Annual Report 1995, p- 47

³⁴ Mid term Evaluation Report 1998, p-2, Annex 5

estimated to be around 77 percent of the households. This is higher than an alternative estimate (based on sample survey) of 70 percent, possibly due to the presence of multiple membership in the same household.

Because of gender aware mobilization effort, although not in the initial stage, the project has equally contributed to women. Women involvement in terms of participation, savings mobilization and access to different sources of fund to run credit program grew roughly at par with men. The annual growth rates of female VOs, members and savings are consistently higher than those of male VOs for all years except during 1996-97 (period of July 1996 to June 1997). Initially, the women's share in total loan disbursed was only about 33%. This share gradually increased over time and it is at present as high as 44%.

Graph A4.1 Month wise VO formation



Appendix 5

Beel Fishing:

A Unique Example of Collective Initiative Through Consortium of VOs

1. Identity

Name of the Project : Shapna Amar Dhola Kankati Surya
Uddyan Motsoya Prokalpa

Name of the *Beel* : Dhola *Beel*

Total Area : 350 acres

Village: Kankati

Union: Korshakarail

Number of participating VOs : 8

Number of VO members taking part in the Initiative: 125

Project launched in: 1999

2. Financial Data (1999)

Investment and other expenditure: Tk. 2,60,000
(It might rise to Tk. 3,00,000)

Expected gross income: Tk. 7,00,000 – 8,00,000

Investment per member: Tk. 1,000

Beel fishery at Kankati fairly demonstrates that social mobilization through the VO process has enormous potential to promote large-scale productive activities by utilizing local resources. Surya Uddayan Motsa Prokalpa is such an initiative in the KST area.

Dhola *Beel* is one of the large water bodies in Kishoreganj District. Spanning over 350 acres, the water body used to remain underutilized before due to a lack of organized effort, large-scale investment and effective extension services. The *beel* did never see any planned investment in the past. The planned utilization of this water body has been possible only after

the formation of VOs in the villages around the *beel*. The project official provided required support to this initiative in the form of training, supervision, financial support and round-the-season extension services.

One hundred and twenty five members of 8 neighbouring VOs were organized to undertake this project this year. Project of this scale is not normally feasible for one or few individuals because of its indivisibilities and bulkiness. Those who pioneered this initiative got inspiration from the success of another fishery project (20 acres) in the neighbouring village undertaken by another VO named Kodalatia Village Organization. The beneficiaries of Dhola *Beel* project comprise both poor and non-poor VO members. All the beneficiaries have invested at the rate of Tk. 1,000 each. The poor members also participated in the investment fund by way of taking loan from their VOs. By now, more than Tk. 2,60,000 has been invested/spent for this purpose. An amount of Tk. 30,000 was invested in constructing half-a-kilometer long embankment/enclosure for this project. Close to 1.10 million fish fries of seven species have been poured into the *Beel* this year.

It is expected that the project would earn at least Tk. 0.8 million this year if flood does not hit the area. As all the project beneficiaries have contributed in equal proportion to the investment fund, the profit will be shared equally irrespective of the ownership of land/water-body. The owners of the water body will not claim anything because their land will be immensely fertilized through this *beel* fishery which would give them double yield of crops in the next dry season. The land gets fertilized through the faces of fishes in the *beel*.

The project imparted basic training on fishery to four of the beneficiaries. The Fishery Specialist of the project regularly visits the *beel* project and provides required extension services to the farmers. The beneficiaries are taking keen interest in protecting/guarding this project. This year they are dreaming the golden days, while this *beel* had been anything but a barren water body before.

Appendix 6

Modality of Credit Disbursement

The loan disbursement process is initiated in the weekly meeting of the VO. The interested members express their desire to get loan. If inadequacy of fund necessitates any sequencing in disbursement among the members, the meeting decides among competing applicants, primarily, on the basis of the following factors;

1. the amount of savings of the applicant
2. the repayment capability of the applicant
3. the purpose of loan and the capability of the applicant to carry out the stated activity
4. whether the applicant has taken any training on the proposed activity
5. the need for capital of the applicant, evaluated on the basis of his/her socioeconomic background
6. other members' opinion about the repayment behaviour of the applicant

The same factors are also considered in deciding the amount of loan to be provided to an applicant. The application form filled out by a selected member after being signed by VO manager and approved by the SO, is sent to the project officer. Once the applications are finally approved, a note is sent from the project office along with the list of the selected members to Bangladesh Krishi Bank (where all other accounts are maintained) informing that the enlisted members can be disbursed the amount of money as mentioned against their name. The VO level selection of members for BKB loan follows the same procedure like other types of loans. However, BKB has the final authority to decide on the borrower as well as on the amount to be lent out. Normally, BKB takes about 3 months to scrutinize a loan applicant.

The final delivery of the credit to the members varies according to sources. In case of own savings and UNDP funds, the members need not to go to the bank. Manager withdraws the money on their behalf, and disburses it among them. In case of BKB loan, every borrower has to go to the bank to receive the total amount of loan sanctioned to him/her.

Most of the factors, which are taken into consideration in case of disbursing loan to a member, are subjective. There is no threshold level of savings that needs to be achieved as a prerequisite for getting loan. The issue of training is not taken seriously into account in deciding the disbursement of credit. There are growing number of evidences of mismatches between purpose of loan and training. A member, who has been trained on, say, fishery, received a loan for nursery. Lack of well-defined rules coupled with the subjectivity involved in the whole selection process paves the way for the managers to exercise their executive power. Manager, being the only VO level signatory to a loan applicant, is emerging as the key figure in the whole selection process. Some managers even perceive that it is their prerogative to decide *who will receive credit and what amount to be disbursed* since they are mostly responsible for maintaining good recovery rate. Members are considered to be *unruly* if they make financial query regarding total inflow and outflow of the organization. When we asked the managers about loan delivery process, invariably every one replied in the first person saying *“I will not give any credit to an unruly member”*. Some managers were not diplomatic enough to conceal their authoritarian attributes and kept on saying *“ I will expel an unruly member as early as possible because his presence will create distrust about my honesty among other members, which is bad for the organization.”*

The distribution of loans varies across different socioeconomic and occupational groups. It is evident that amount of land owned has a positive relation with access to credit. There is no sharp socioeconomic group bias in providing credit. In terms of occupational groups, the highest number of loans has been disbursed to small business. Note that, this occupation is more of residual type and very much unspecified. Members involved in agricultural activities are the second highest recipients of loans with a coverage rate of 64.7% coupled with the highest average loan size. Wage workers, inclusive of rickshaw puller, show not only the smallest coverage rate but also the smallest average loan size. The fact that only a small

percentage of members from these occupational groups has been able to borrow is attributable mainly to their incapability to save the threshold amount of money, which is also subject to manager's subjective evaluation.

Table A6.1: Distribution of loan among different socioeconomic and occupational groups

	Total No. of HH	% Received Loan	Average Loan size (TK.)
Brahman Kachuri (Male) Village Organization, Rashidabad			
Land Owned			
>.49	53	62.26	5995
.5-.99	34	79.41	8501
1.00-2.49	34	73.53	9553
2.5 and above	4	100	10000
All groups	125	72	7866
Poverty Status			
Well off	8	62.5	7654
Middle Class	6	50	13250
Moderate Poor	16	62.5	6524
Hardcore Poor	22	54.6	6458
All groups	52	57.69	7298
Binnati North (Male) Village Organization, Rashidabad			
Occupation			
Agriculture	34	64.7	8350
Wage worker*	17	29.41	5579
Small Business	46	67.73	8328
Others	13	53.84	6667
All groups	110	59.09	7837

* Wage workers includes Rickshaw puller

Appendix 7

Trends in Credit Disbursement and Repayments

At the initial stage, most of the credit came from the own savings of VO members, followed by BKB. Till June 1997, VO's own savings and BKB together contributed about 90% of total disbursement. Since the introduction of UNDP2 funds, the incremental share of these sources sharply declined. In 1999, more than half of the total disbursement came from the UNDP funds (see table A7.1)

Table A7.1 Share of different Sources of Credit Fund in Total Disbursement

Source	Sex	1996	1997	1998	1999
Savings	Male	34.32	32.02	24.30	6.46
	Female	16.21	26.11	20.42	4.42
	Total	50.53	58.13	44.72	10.87
BKB	Male	28.71	20.39	16.11	20.49
	Female	15.28	16.43	14.52	15.35
	Total	43.99	36.82	30.64	35.84
UNDP1*	Male	3.37	2.48	13.75	6.64
	Female	2.11	2.57	10.89	5.93
	Total	5.48	5.05	24.65	12.57
UNDP2**	Male	0.00	0.00	0.00	23.46
	Female	0.00	0.00	0.00	17.26
	Total	0.00	0.00	0.00	40.72
Total	Male	66.40	54.89	54.17	57.04
	Female	33.60	45.11	45.83	42.96

Note: Figures are for end-June of the corresponding year

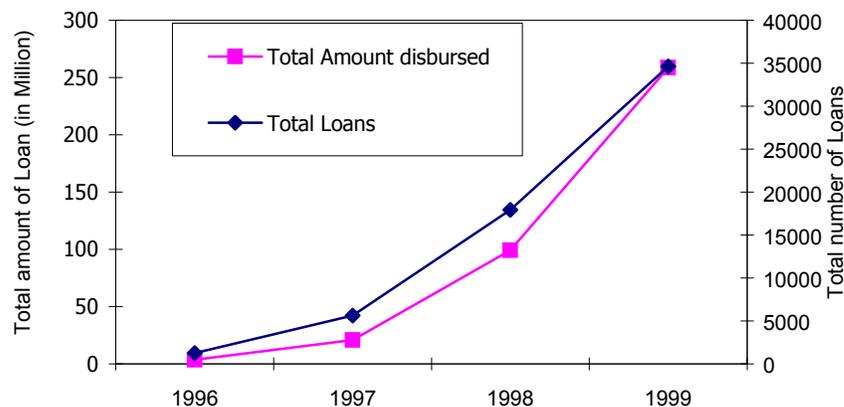
Source: Monthly Progress Reports for June 1996, 1997, 1998 and 1999

The easy accessibility of the rural women to credit becomes obvious from the high number of female borrowers and amount of fund disbursed among them. The share of total

disbursement lent out to women members ranged between 43 to 46 percent during the recent past. Since female members constitute 46.79 percent of total members, the disbursement figure suggests of gender equity in the program.

At the initial stage total number of loan disbursed (borrowers) grew faster than total amount of loan (see graph A7.1) which consequently did not allow any increase in size of loan. Since June 1998, the average size of loan is exhibiting an increasing trend. The growth rate of total amount disbursed has already caught-up the growth rate of total number of loans by June 1999. Between 1996-97 and 1998-99 period, the average size of loan has been increased by around 100%.

Graph A7.1 Growth of total Disbursement and Loans



Recovery Rates: Types and Trends

Payments may be made in different regular installments; and recovery rates can be defined in three different ways depending upon the inclusion of different types of due amount in the calculation. An amount that has not been paid within the scheduled time, but the total repayment period has not passed yet, is identified as *over due*. The amount that has not been paid within the total repayment period of 52 weeks is identified as *past due*. The sum of over due and past due is identified as *total due*. We can define three different recovery rates at any point of time as follows;

$$\text{Recovery rate I} = 100 \times (\text{Recovered Amount}) / (\text{Recovered amount} + \text{Total due})$$

$$\text{Recovery rate II} = 100 \times (\text{Recovered Amount}) / (\text{Recovered amount} + \text{Past due})$$

$$\text{Recovery rate III} = 100 \times (\text{Recovered amount}) / (\text{Recovered amount} + \text{Over due})$$

It is evident that recovery rate I of different types of loans for 1999 is consistently lower than the corresponding rates of all types of loan in 1998. While the recovery rate II hovers around 90% in both periods with a slight decline in the later, recovery rate I appears to move around 70% in 1998 and around 63 % in 1999.

Table A7.2 Variations in recovery rates over time across sources of fund

Sources of Fund	1998			1999		
	Male	Female	Both	Male	Female	Total
Recovery rate I						
Savings	67.38	67.71	67.53	64.54	62.07	63.36
BKB	71.06	71.33	71.19	61.81	61.33	61.59
UNDP1	72	71.8	75.94	61.59	62.82	62.14
BGD/UNDP				68.48	70.87	69.69
Total	69.29	70.29	70.41	62.29	62.37	62.36
Recovery rate II						
Savings	92.27	93.81	93	62.82	62.14	62.48
BKB	89.99	88.87	89.48	95.08	95.22	95.14
UNDP1	94.94	95.49	95.22	90.99	89.21	90.09
Total	91.08	92.17	91.47	90.44	91.81	88.86

Note: Figures are for end-February for 1998 and end-June for 1999.
Sources: Monthly Progress Reports for June 1998 and 1999.

The wide difference between recovery rates I and II is partly contributed by the cash holding of the managers. The auditing, carried out by the project office, is not only irregular but also defective, which permits the managers to hold cash in their hands. The auditing is also suffering due to lack of proper attendance from project officials. For example, an auditor is required to mention the check number against any bank deposit in a prescribed column in the audit report. In fact, this check number is the only valid and authentic evidence of bank-

deposit in the absence of bank passbook³⁵. But more than 90% of the audit reports do not have any check number against stated bank deposits. As a result the incidence of misreporting is increasing over time.

Table A7.3 Incidence of Misreporting in Audit Reports

Source	Year		
	1995	1996	1997
BKB Loan		10	32.8
VO Savings	9.4	28	39.4
UNDP1 Loan		34.6	25
All Loans	9.4	22.54	33.33

Note: During our field visit, we crosschecked the figures of deposits and withdrawals, as reported in audit reports, with bank accounts of the respective VOs. Incidence of misreporting is defined as percentage share of misreported figures in total number of transactions.

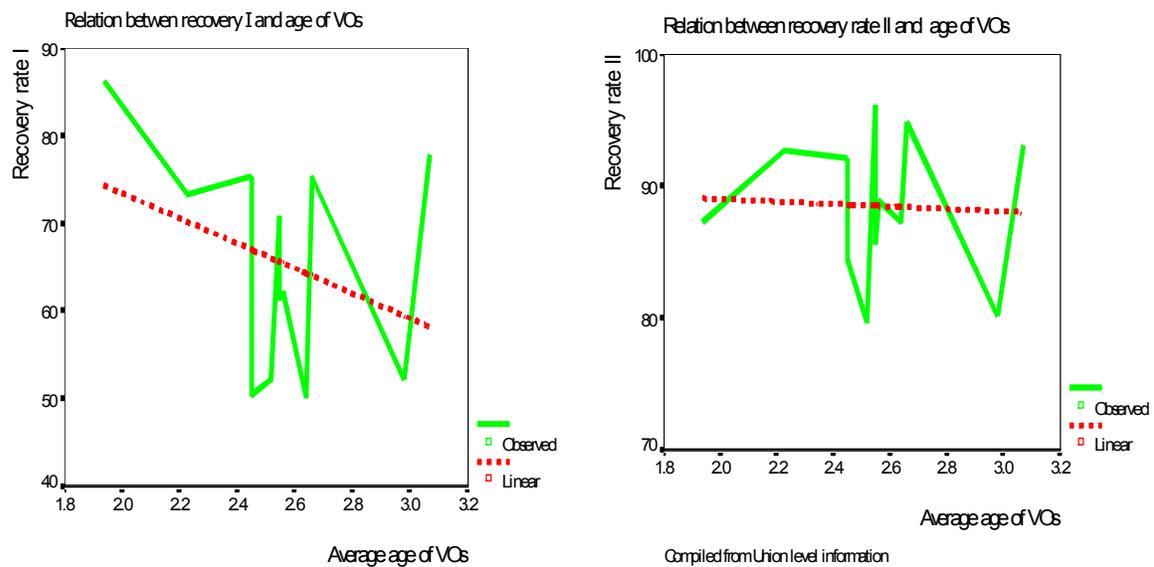
It appeared from our own audit of the VO's accounts with Bangladesh Krishi Bank that most of the managers deposit recovered money usually once a month. We have also found some instances of depositing money once in every three months, even once in every six months. In our interview with the managers, we circulated a structured questionnaire, which they filled out by themselves without any intervention from our part. Self-confessions of holding an amount as high as Tk. 20000 continuously by some managers are available in those filled questionnaires. BKB officials complain that high discrepancy between the two rates is attributable mainly to very large and frequent number of deposits in the last month or quarter of the loan period. We find the evidence in support of their complains during our audit of VO's account with BKB.

³⁵ Unfortunately, passbooks are not updated regularly in any of the VOs for last two years and the explanation provided for that is the disinclination of the bank officials to do that.

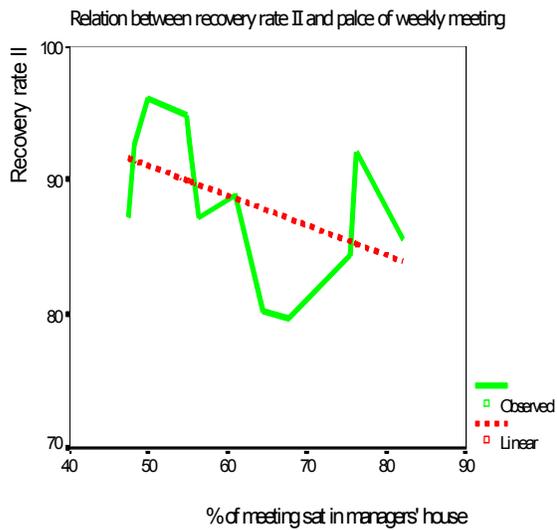
Appendix 8

Limited Determinants of Recovery Rates

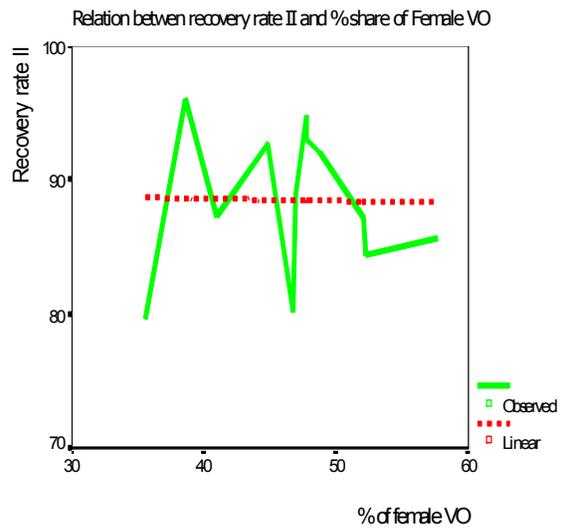
To find out how factors like personal attributes of managers or VO level characteristics affect the recovery rates, we ran some regression analysis. All information used in this analysis corresponds to Union level averages. Having accepted the usual limitations of linearization, some significant findings are in order.



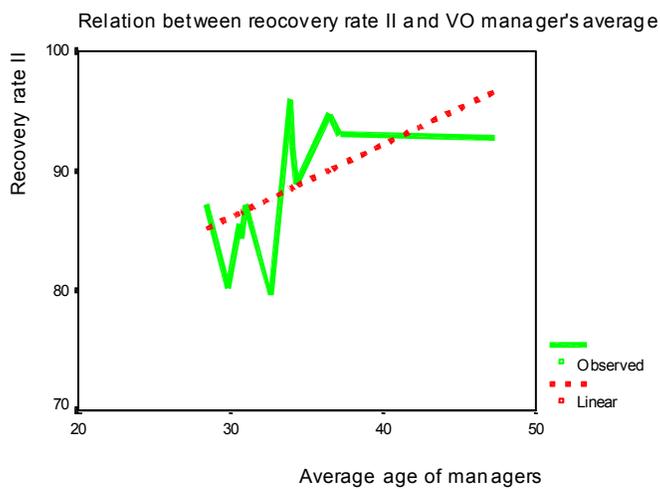
1. Recovery rate I is negatively associated with age of VOs. The relation between recovery rate II and age of a VO is negative but not so strong. It implies that with the increase in age, a VO concentrates only on the repayment of loan within the loan period, not so much on timely repayment. As a result total recovery declines without showing any corresponding increase in past due. Thus, higher the age of a VO, higher is the amount of over due loan.
2. Venue of meeting may be a good indicator of the extent of awareness and participation amongst VO members. If the weekly meeting of a VO takes place in manager's house, which is likely to be associated with passive role of general members, higher will be the probability of bad recovery performances.



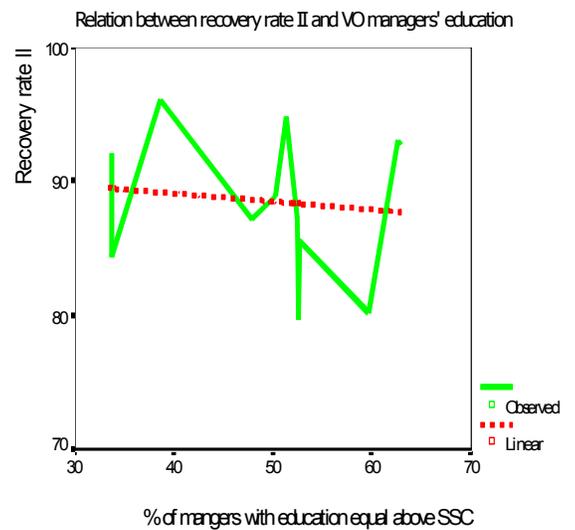
Note: Compiled from Union level information



Note: Compiled from Union level information



Note: Compiled from Union level information



Note: Compiled from the Union level information

- Sex and education of the managers per se have no influence on recovery of loans. While managers' age has positive influence on the recovery as a whole, it is the managers in age group of mid-thirties or above, who have performed well in loans recovery.

Appendix 9

Distribution of Service Charges

All types of loan, regardless of the source of fund and repayment method, charge an interest of 15% per year. But the distribution of interest receipt among different involved parties varies across type of sources (see table A5.1).

Table A5.1: Sources of Credit and Distribution of Interest Receipt (in %)

Sources	Distribution					
	Managers	President	Member	Group Fund	Risk Fund	BKB
Own savings	3.75	2.25	5.25	2.25	1.5	0
BKB	5	0	0	0	0	10
UNDP*	5	0	0	10	0	0

* 'UNDP' refers only to UNDP1 fund

An individual member's interest receipt is determined by the following formula;

$$\text{A member's receipt} = \frac{\text{TVS}}{\text{TWS}} \times \text{TMS} \times \text{MWS}$$

Where, TVS = Total VO savings, TWS = Total number of weeks that the respective VO has been collecting savings, TMS = Total savings of the respective member, and MWS = Total number of weeks that the corresponding member has contributed to VO savings.

Since the managers have share in all types of loans, their average interest receipts show a secular-increasing trend over time. President and members are entitled only to the interest of own savings and consequently their receipts vary with the movement of total disbursement from the said source. Among different types of sources, VO's own savings provide the lowest interest receipt for managers. So, he/she will be least interested to render effort to improve the recovery of credit disbursed from VO's own savings, whereas the president and member will be more interested to ensure a better recovery of the said credit.

Table A5.2 Estimated Private Benefit from Credit (Average Taka/individual/year)

Year	VO Manager	VO President	VO Member
1996	557	145	8
1997	1,261	386	24
1998	5,096	1,155	66
1999	9,559	481	24

Appendix 10

Estimates of Benefit Distribution of BKB Loan and Its Implication

The rate of interest charged against BKB's own loan is 15% per annum. Out of this 15%, VO managers get 5%. Apparently, BKB receives only the remaining 10% of the interest receipt. Since loans are often repaid in weekly installments, the effective interest rate will be higher than 15 percent – reaching 34 percent when equal installments are paid in all weeks. In the latter event, discounting for VO manager's share of 5 percent, BKB would receive 29 percent. So if installments are repaid regularly effective interest rate, as received by BKB on its own loan, will be 29%. Any irregularity in the payment of weekly installments will reduce the effective rate of interest. Therefore, BKB's receipt of effective interest rate will be highly dependent on the total over due amount. The benefit streams of managers and BKB under different recovery situation are represented in table A3.1.

Table A3.1 Benefit Structure of BKB's Credit Program

Type of Payment	Effective Rate of Interest	Manager's Share	Bank's Share	Bank's Gain
Current Pattern	19	5	14	1
65% of total monthly payable	28.24	5	23.24	10.24
Regular Installments	34.38	5	29.38	16.38

*Bank's gain is defined in terms of their receipt over and above their interest from other loans

BKB's total or net benefit can not be fully grasped only by the pecuniary gains. Being the main financial institution collaborating with the KST project, BKB is now facing huge added responsibility with its usual banking operation. One aspect of the BKB's net gain is whether its loan to VO creates any scarcity of funds to disburse loan to others or facilitate utilization of funds, which would otherwise be left idle. Similarly, another aspect is whether project activities facilitate the maximum use of the work force employed in BKB (Kishoregonj Sadar Thana branches). None of the officials of these branches seems to hold the view that BKB's own loan to VO is creating any crowding out effect on their other activities. Rather some of

them admitted that VO credit program has really boosted up the activities of some branches, which would otherwise be closed down.

Sadullachar Branch of Bangladesh Krishi Bank Survives with the help of VO Credit Program

Bangladesh Krishi Bank, Sadullachar branch, is currently run by 5 officers, which includes the branch manager, three supervisors, one junior assistant, one junior cashier and two messengers. But in 1994, before the project activities had started, the BKB authority was seriously thinking to close down this branch on the ground of financial viability. At that time annual disbursement was only Tk. 3 to 4 millions. Since the initiation of the project the activities of this branch started to gain momentum. The real growth spur came with the introduction of its own credit program among the VO members. At present, this branch is running its credit program in three unions, namely Rashidabad, Latibabad and Maizkhapon, covering 287 VOs. During the last financial year ending in June 1999, this branch disbursed a total of Tk. 2,90,12,000 among the VO members and Tk. 68,69, 000 among others.

Even after achieving this fantastic financial solvency, the branch workers including the branch manger have a sort of dissatisfaction for their growing volume of works. It was complained that despite agreeing to provide three additional work force two years ago, to keep pace with the growing workload, only one has been provided so far.

Sustainability of BKB

If over due amount grows beyond a threshold limit, BKB's receipt of effective rate may fall below 13%, which BKB charges on other loans. Under such circumstances, BKB may have no financial incentive to run its VO based credit program. Our calculation shows that current repayment pattern provides very marginal incentives for BKB to run its credit program. Therefore, the main concern of BKB is to improve the current payment pattern with substantial improvement (decrease) in total over due amount. Since managers' share in the total interest receipt is fixed at 5 percent of loan disbursed/recovered, they have no incentive to improve the current pattern of recovery performances, by reducing the total over due amount. This mismatch in the concerns of the VO mangers and BKB has to be resolved urgently, especially in the backdrop of a razor edge recovery performance, for the sustainability of the credit program.

Appendix 11

A Balance Sheet of Progress on Gender Impact of the KST Model

The gender impact of the KST model is discussed below on various aspects such as growth of social mobilization, distribution of VO services and staffing pattern of the KST project.

Village Organization and Membership

The KST model is characterized by equal emphases placed on the organization building for both men and women under *separate* organizational fold. Out of 987 VOs formed so far, 466 (47%) are for female villagers. With regard to membership, out of 45,587 VO members male-female members ratio tends to 52 : 48 in August 1999. It is important to mention that as many as 70 female VOs are being run by 70 male managers because of a dire lack of educated women among female VO members.

At the committee level, male-female representation is also found highly asymmetrical particularly at the upper end of the hierarchy of the *union* committee. Table A10.1 shows the membership distribution by gender among 11 *union* committees (the project covers 11 *unions*). The table shows that out of 187 committee members, the male-female proportion has been around 74 : 26 in August 1999.

2. Distribution of VO Services

2.1 Training

Training opportunities have been shared between male and female members in the ratio of 63 : 37 till August 1999 (Table A10.2). Despite this disproportionate distribution, training facilities are also found inequitably distributed among the female members. VO managers have been the main beneficiaries of the training opportunities. The rank and file have benefited marginally. Viewed from the type of training courses offered, out of eight types of training courses, female members lagged behind their male counterparts in seven. Only in the case of training on food processing and swing, female members outpaced the male members. Although there is a lack of awareness about some social issues of critical importance to them,

the project offered no training courses whatsoever on the awareness of these issues such as divorce, violence against women, dowry, polygamy etc.

2.2 Credit

Like Male VOs, female VOs are utilizing credit borrowed from three sources — VO savings fund, BKB and UNDP. Most of the credit is being utilized in the rearing of milch cow. Other than cow rearing, the rest of the credit is mainly utilized by the male members of their families.

3. Staffing Pattern of the KST Project

The gender aspect of the staffing pattern of KST project indicates that female staffs are playing a marginal role at the project level activities (Table A10.3). The table reveals that the female staff accounts for one fifth of the total staff. The preponderance of the male staff is more pronounced at the upper echelon of the staff hierarchy.

Observation

The KST model has offered a unique opportunity for female villagers to get organized in order to bring about desired changes in socially and economically subjugated relationship that they are handicapped in. Although there is some feeling of complacency among the female members about the pay-offs gained through the credit program, other social problems still remain in glaring proportion which affect them most. The KST project managers seem to be grossly unaware/lackadaisical about the urgency of pursuing gender-aware policies at different levels of their activities.

Illiteracy of female members is another roadblock against their progress towards assuming/creating managerial and leadership responsibilities/quality among them. The project seems to have placed least emphasis on the development of the female leadership by creating required opportunities and space for them.

Table A10.1: Membership Pattern of the 11 Union Committee

Union Committee	Male	Female	Total
President	11	0	11
Vice President	11	0	11
Secretary	11	0	11
Member Horticulture	11	0	11
Member Livestock	11	0	11
Member Fishery	11	0	11
Member Education and Culture	9	2	11
Member MCH-FP	0	11	11
Chair of each ward by virtue of position	33	0	33
Female manager/president from each ward	0	33	33
General member	30	3	33
Total	138 (74%)	49 (26%)	187 (100)

Table A10.2: Summary of Training Packages and Gender wise Participation

Type of training	Male	Female
Training on Accounts and Credit Management	2709	2652
Training on Fishery	1494	98
Training on Livestock and Poultry	2861	960
Training on Horticulture and Nursery	2002	1356
Training on Food Processing and Sewing	45	519
Conference/Workshop	5155	2601
Exposure Visits	273	57
Orientation Training	1097	874
Total	15636 (63%)	9117 (37%)

Source: Kishoreganj Thana Project Office, 1999.

Table A10.3: Staff Position of the KST Project

Designation	Male	Female	Total
Management and Supervision	15	3	18
National Program Coordinator	1	-	1
Project Manager	1	-	1
Project Officer	1	-	1
Social Organizer	7	3	10
Specialist	5	-	5
Administration	5	-	18
Administrative Officer	1	-	1
Computer Operator	1	-	1
Driver	1	-	1
Peon	2	-	2
Support	3	3	6
Computer Operator	1	-	1
Office Assistant	1	1	1
Trainer (Credit)	1	1	1
Trainer (Dewing)	1	1	1
Peon	1	-	1
Guard	1	-	1
Total	23 (79%)	6 (21%)	29 (100)

Source: Kishoreganj Thana Project Office, 1999.

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