End Project Review of RAKUB – Small Enterprise Development Credit Project (SECP)

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End Project Review

of

RAKUB – Small Enterprise Development Credit Project (SECP)

Bangladesh

NORAD

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Abbreviations

ADB	Asian Development Bank
BDS	Business Development Services
Bgd	Bangladesh
BRAC	Bangladesh Rural Advancement Committee
BSCIC	Bangladesh Small and Cottage Industries Corporation
CPO	Central Project Office
DGM	Deputy General Manager (of RAKUB)
DPD	Deputy Project Director
DPO	District Project Office
DWDO	District Women Development Officer
EDT	Entrepreneurship Development Training
FMR	Financial Management Review
FO	Field Officer
MFI	Microfinance Institution
MIS	Management Information System
MoF	Ministry of Finance (Bangladesh)
MTR	Mid-Term Review
NGO	Non-governmental Organisation
NOK	Norwegian Kroner
NPD	Norwegian Project Document
PAR	Portfolio at Risk
PD	Project Director
PCP	Project Concept Paper
PMC	Performance Monitoring Committee
PP	Project Proforma
RAKUB	Rajshahi Krishi Unnayan Bank
RLF	Revolving Loan Fund
SDT	Skill Development Training
SECP	Small Enterprise Credit Project
SEDP	Small Enterprises Development Project
SME	Small and Medium Enterprises
TAF	Technical Assistance Fund
Tk	Taka
ToR	Terms of Reference
UFO	Upazilla Field Office
USD	United States Dollar
WID	Women in Development

Table of contents

1 Summary

- SECP Small Enterprise Credit Programme (SECP) was run from January 2002 to June 2008 with support from the Norwegian government. It was implemented as a project of Rajshahi Krishi Unnayan Bank (RAKUB). Norway has granted tk 254 mn over the years, and this is the end review of the project.
- SECP will now be transferred into a public liability company to be owned 100% by RAKUB. Current indications are that GoB has taken greater interest in SECP, and the similar project SEDP, and will ***ensure continued operation***.

Achievements and Design Analysis

- A number of targets were set for SECP, ***focused on quantitative indicators***, like employment, disbursements, loans etc. Unfortunately, there was less emphasis on qualitative aspects as financial results and loan portfolio quality.
- Several ***targets for outreach were not met***. Fewer SMEs were given loans than planned and fewer upazillas were covered. One the other hand, it is likely that SECP met the target for employment generation, and did very well in having as ***many as 28% women clients.*** (Target was 20%). Results for training targets were close, but not fully in line with expectations. The recovery target of 95% was clearly not met, with actuals estimated closer to 80-85%..
- The direct reason for non-achievements of the quantitative targets was ***persistent delays in implementation,*** with staff shortages being a recurrent theme. Low recovery has a number reason, with limited focus on financial issues being central.
- A key design flaw is that SECP was ***not conceived as a private sector operation***. There was too little business and too much grants. While the social objective is the ultimate rationale for the intervention, the tool - SECP - that was employed to reach this social target requires a business approach to be effective.
- Using RAKUB as an implementer had positives and negatives. It ensured a home for SECP, as well as providing basic infrastructure. But RAKUB is a government bank influenced by politics, and is highly bureaucratized. It could not be expected that SECP would be immune to the ***inefficiencies of RAKUB.***
- A vital design error was that Norway ***paid all operational costs***, with SECP not even recording the interest they collected as income. This design feature actually ***played up to RAKUBs main weaknesses***, namely operational inefficiency and bureaucratic decision making.

Implementation and Organisation

- The ***hiring of staff*** has been a key choke point. The plan was for 115 employees at full capacity, but SECP still has only 66 employed. It took 6-12 months for a typical appointment of any officer. For the monitoring position it took 3 years. Slow execution has in general hampered SECP in several areas.

- It is not individuals, but ***the system itself that should be held responsible***. The whole structure was bureaucratic, inflexible and authoritative. There is this weird combination of formal bureaucracy where it is not needed (procedures), and lack of discipline where it is needed (credit recovery). It should still be stressed that a number of individuals have ***done great work in SECP*** and tried to support budding SMEs to the best of their abilities.
- A new company would be well advised to look for ***new impulses outside of RAKUB itself*** when a new management and organisation is to be put in place. Current top managers may have limitations in entrepreneurship development. It is for instance somewhat disconcerting that some do not believe internet could be useful for SECP.

Operation and Training

- The lending process is typical of SME credit processes. The ***pivotal person is the FO***. The quality of the contact between the FO and the client is a key determinant in getting the loan serviced. For the future, one suggestion would be to assess an incentive system for FOs.
- In general, SECP needs to work smarter, spending resources where they are of most use. Computerisation of operations could save substantial time, and would ease monitoring.
- Training appears in general to have been ***well received by clients***. There are in fact very few alternatives in the region. For the future, all courses should be charged a fee that covers direct costs, and borrowers could then themselves choose which course to attend.
- There are ***potential negatives of including training*** directly in a credit operation. It may require more resources than what is possible to charge in fees, and it can divert the focus from the core business. The strongest argument against is that a professional provider specialised in a certain subject can give more value for money than what a financial institution ever can.
- Whether training should continue, is really a question that needs to be assessed ***in light of the overall future strategy of the new company.*** Will it fit the targets, the image, and the spectre of products that the new SECP intends to provide?

Financial Issues

- SECP has been run as a typical donor project, and ***not as a business***. This has permeated most aspects of the operation. The accounts are not of the standard required to run a credit business, with an audit of similar quality. There are for instance no provisions for loan loss, and the auditors have not made any attempt at assessing the quality of the loan portfolio – the key balance sheet item.
- If the interest income is compared to costs, SECP financial statements show a loss every year except 2008-09. However, as the expenses ***do not include loan loss and depreciation***, the actual loss is substantially higher. A key problem for SECP is that they have not been able to collect all the interest income they charge. This hints at portfolio quality issues.

- A key problem is that SECP ***does not have a good monitoring system*** in place to track portfolio performance, and their real recovery rate is probably less than the 85% they claim. Repayment routines seem inordinate flexible. A loan is only counted as overdue when it is half a year past its maturity date.
- The central records and accounts of SECP do not support detailed analysis of the loan portfolio. The Team thus manually went through the records of one branch that was deemed as "average." The ***Portfolio at Risk (PAR) was as high as 30%*** and the loan loss provision should from this be about 19%. Of all the 440 loans at the branch as many as 183 (41.5%) are irregular, and of these 73 have already matured.
- If the LLP is calculated from the above PAR, it means a loan loss provision of about taka 70 million. Depreciation also needs to be deducted. Instead of the currently shown taka 420 mn in the balance sheet a new company would then start with a real capital of closer to ***taka 342 mn***.
- A key recommendation for any future operation of SECP is to dramatically ***improve collection and recovery.*** Indeed, there is little use of other recommendations if recovery does not improve.

Reflections and Suggestions

- Current "best practice" for successful approaches to SME development now emphasize ***market-based mechanisms for SME finance and business development services,*** rather than interventions that involve supply-driven Government-managed schemes. SECP does in general not adhere to current best practice.
- Even though SECP cannot be said to have fully met the overall development objective that focus on increase in non-farm income, it has had employment impact. Does that impact defend the money spent on the project? Our tentative answer is that it might not, given ***that higher efficiency would likely have given more effectiveness, and more value per taka***
- However, while the RAKUB culture mat be criticized to be old fashioned, inefficient and bureaucratic, it does have a ***persistent ability to survive and endure.*** But SECP can become much more than they already are, and the transfer into a new company is a great opportunity to change and improve. Some general suggestions include:
  - Establish a Board for SECP with ***independent participation*** from resource persons outside of RAKUB. There is need for fresh blood to think anew.
  - Decide on a strategic vision that SECP shall be ***"center of excellence"*** for SME credit. RAKUB could approach the building of SECP as an opportunity to re-brand themselves into a more efficient and effective financial institution.
  - Decide to ***shelter SECP against political influence*** of any kind – including staff appointments and targeted lending.
  - Provide the management of SECP with a mandate that is ***operationally flexible, but result oriented***. There must be a strong focus on financial results and on delivering quality services.
  - Appoint a ***managing director external to RAKUB***, and provide the person with incentives to meet the stated targets. This should be an entrepreneurial resource.

- SECP must install ***a monitoring system*** that tells them what the true status of the loan portfolio is.
- SECP should ***critically examine the portfolio***, do a forceful collection exercise and then only bring good clients and good loans into a new company. Bad loans should be written off, or transferred to RAKUB for follow up. The point is to start afresh in a new company, not having to start with a struggling portfolio.
- Operationally, there is substantial scope for developing ***new financial products*** for entrepreneurs, based on what SMEs demand, and price them accordingly.
- Summarize the vision, strategy and operational plans in ***a robust business plan.*** SECP and RAKUB would probably benefit from external assistance for this exercise.

➢ Is this possible? Only if RAKUB accepts a greater degree of autonomy for SECP. Whether the environment in general is mature for such an operation is, however, debatable. There is very limited tradition in Bangladesh of autonomous operations of this kind in state owned companies. However, for ***the SMEs of Rajshahi, it would be great if RAKUB took the chance to break that mould.***

2 Introduction and Background

Small Enterprise Credit Programme (SECP) was planned to start in January 2002, with support from Norad, and to be implemented as a project of Rajshahi Krishi Unnayan Bank (RAKUB) - a government bank specialized on agriculture. Several initial delays resulted in the first loans not being given until mid-2003, and the agreed 5 year project period was thus prolonged to June 2008. Norway then stopped funding SECP.

There were great plans for SECP. The project was to expand to 51 Upazilas of 8 Districts from Rajshahi Division, and would offer training and credit to all eligible SMEs. The model was already tested by another Norwegian project intervention, namely Small Enterprise Development Project (SEDP), that by 2000 was deemed a good example. Norway would pay all operating costs, while RAKUB and Norway would contribute about equal parts of the funds to be onlent to entrepreneurs.

Implementation went less smoothly than planned. A Mid Term Review (MTR) in 2005 strongly recommended that more focus ought to be given financial and institutional sustainability. In particular, loan recovery was in immediate need of attention, and the organization should also be strengthened in several key positions like monitoring. The MTR recommendations were duly debated and mostly accepted by the governing body of SECP, i.e. the Performance Monitoring Committee (PMC) that was headed by the Finance Division in the Ministry of Finance.

Norway decided in late 2007 that they would not support the project after June 2008. SECP thus started preparations for independence, and has as of October 2009 operated for almost 1.5 year without donor support. It is now active in about 40 of the 51 Upazilas targeted 8 years ago.

As per Norad regulations, an End Review is needed to close the Project – which is what this document is. The ToR differs somewhat from “normal” End Reviews in that it also asks for suggestions for improvements. It should be clear, however, that it is now the Bangladesh Government and RAKUB that is fully responsible for future operation. Hopefully, possibly some of the suggestions may be of some value for the current management of SECP.

The End Review Team (Team) consisted of the Team Leader Erlend Sigvaldsen, NCG, Financial Expert Iftekhar Hossain, ACNABIN Ltd, and Institutional Expert Mridul Biswas, Enterprise Development Initiative

2.1 Methodology

The methodology is indicated in the ToR, and this has been largely adhered to in the Review. The main phases of the review were:

- ***Desk research*** of available information before starting field work.

- ***Field work in Dhaka,*** interviewing direct stakeholders and other resource institution on SME finance.
- ***Field work in Rajshahi,*** visiting SECP, RAKUB and its clients in the Rajshahi Division.
- ***Report drafting,*** after finishing the field work.

This report follows the structure as advised in the ToR. The Team assumes that readers are familiar with the basic design concepts and implementation modalities, and we have thus not included in-depth descriptions of these in the report. A good companion to this report is the MTR that goes in greater detail on both the history and the operation of SECP.

The review started in October 2009. A first draft was delivered by the 20th of November 2009, while the report was finalised the 10th of December 2009. We wish to thank all of those that have been involved in the study for their assistance, friendly and unrelenting enthusiasm, and for contributing to great discussions. We apologise for any misunderstandings and mistakes we may have made, and bear of course full responsibility for any such flaws.

3 Status of SECP and Attainment of Targets

SECP continued to operate as normal after Norway ended its support at 30th June 2008. During the year 2008/2009, SECP spread operation into new upazilas and saw a marked increase in outstanding loans from Tk 244 mn in June 2008 to Tk 363 mn in June 2009.

Existing Revolving Loan funds have been sufficient to cover for loan disbursements, and no new infusion of money has been necessary. The operation yielded a small cash surplus for the financial year 2008/2009. (This profit does not take loan loss provision and depreciation into account however.) The years of Norwegian support had built a solid capital base for SECP, and the interest paid on the loans is now at a level where they could potentially cover most operational costs.

The key issue – and one that is not reflected in the expenditure statements – is the quality of the portfolio. The suspicion is that SECP has a number of bad loans that are not properly shown in the accounts. Provisions for loan loss are missing, and available reporting does not discuss the state of the loan portfolio in any detail. We will return to this issue below in chapter 6.1.

3.1 Status of SECP in October 2009

A key event with great significance for SECP does actually not concern SECP directly. In September 2009 the Cabinet approved the transfer of the elder sister project of SECP, namely SEDP, into a separate public liability company to be owned by Agrani Bank. This has paved the way for a similar transition of SECP along the same principles as used for SEDP, only that the owner will be RAKUB.

Articles of Association and Memorandum are finished and approved by the RAKUB Board, and the case is now lying with the Ministry of Finance according to RAKUB management. Apparently, when the Ministry of Finance gives the green light, it would be a matter of 3-4 months to get the practical formalities done, and the company registered. With the fresh Cabinet decision at their back, Ministry of Finance is thought likely to be able to approve this transition in the near future.

However, if the history of the project is anything to go by, it will not happen that quickly. Indeed, one particular feature of SECP has been repeated delays, at all levels of the decision making chain. It took more than 1.5 years to get the project started in the first place, expansion into new upazilas have been deferred time and again, and implementation of many PMC decisions has been very slow. Several of the recommendations from the MTR in 2005 that were accepted by the PMC in the same year has as of date (October 2009) not yet been implemented.

Staff shortages have hampered the project from the beginning, with the example of the monitoring analyst being illustrative. Only 3 years after the MTR and the PMC agreed that such a position was urgently needed, was the position finally filled. This is certainly one of the reasons for why recording and monitoring is of lesser quality than desired.

Against that background of delays and indecision, it is a positive feature of SECP that they have done as well as they have. SECP is an established operator in the market, they are close to meeting a number of the initial targets, money is disbursed and collected every day, and they did not collapse when the donor ended support. Further, the impression is now of an owner – RAKUB - that has finally taken an interest in the Programme, and is willing to run it on its own account. That is not to say that SECP does not face several challenges, but there is a core operation in place that has a fair chance.

There is yet a lot of work outstanding before a new RAKUB SME company can be said to operate in full. The easy part is the company registration, while the more complex issues concern future business strategy and the reestablishment of loan discipline. As a "free" company, SECP now enjoys the possibility of deciding for itself the details of operation. This establishment phase of the new company is also their main window of opportunity to adjust the business for new challenges. The longer into the new life of SECP just continues "as is", the more difficult it will be to instigate change.

The Norwegian Contribution

Norway agreed to support SECP through two "windows". One was full coverage of all operational costs – called the TA fund. The second was part funding of the revolving loan fund – the RLF Fund. Norway's contribution varied from 46 to 50% of the annual need as budgeted by SECP. This funding methodology resulted in substantial sums lying unused in bank accounts during part of the project, as the budgeting by SECP was consistently over-optimistic. In June 2007, almost Tk 110 mn was lying idle in the bank account.

The key reason was postponement of the expansion programme – due to shortage of staff – which meant that disbursement was less than planned. The recent bursts of new loans have reduced the bank account to Tk 22 mn in June 2009.

Technically, interest collected from loans disbursed were deposited into a separate account and never used for covering operational costs. For SECP, income was the contribution from the donor, not interest collected on its main business. This comes very close to the textbook definition of "perverse incentives". By June 2008, SECP had charged Tk 31.5 mn in cumulative interest, but only collected Tk 19.9 mn. We will return to the wisdom of covering 100% of operational costs later.

Norway contributed all in all Tk 253 mn over 6 years.

Table 1: Norwegian Support

	TA Fund	RLF Fund	Total tk
2002 - 2003	17.751	11.648	29.399
2003 - 2004	0	0	0
2004 - 2005	13.991	32.648	46.639
2005 - 2006	19.533	48.543	68.076
2006 - 2007	21.287	42.575	63.862
2007 - 2008	0	45.977	45.977
Total	*72.562*	*181.391*	***253.953***

For most businesses, an initial capital infusion of Tk 253 mn should constitute a solid foundation from which to develop a sustainable lending operation for SMEs.

3.2 Outputs and Targets

The ToR asks us to *"….compare the achievements of the project with the planned outputs in the project document, the Agreements and also the Mid Term review from 2005*."

As pointed out in the MTR, a weakness in the initial planning documents is the overwhelming focus on quantitative indicators, like number of loans, employment, disbursements etc. There is relatively less on the qualitative processes necessary to attain these cumulative targets. Organisational and financial sustainability were not sufficiently expressed through objectives or indicators. Loan recovery was to be 96%, but no definition of "recovery" was included, which was unfortunate as there are a multitude of interpretations. The MTR thus gave several recommendations for adjusting the targets, some of which were reflected in the Revised Development Project Proforma (RDPP). Other targets stated for SECP include several indicators from the original Project Document from 2001 relating to the situation at the end of the project, like a functioning SECP being established within RAKUB.

The current status on each of these indicators is commented in brief below. As the Norwegian support ended on the 30th of June 2008, it is the status at that date that is primarily used for comparison to targets. Because the project has continued for another years based on the same resources, the status as at the end of June 2009 are included as a reference.

Outreach

A key goal in the Project Proforma (PP) is loan disbursements. The PP targets reaching 22700 SMEs, but the MTR noted that this seemed to imply the exclusion of repeat loans, i.e. enterprises would only get one loan. As most SMEs need credit for longer than one loan cycle, the MTR suggested decreasing the objective for total number of SMEs to be financed to 12500.

This would give room for repeat loans, and for establishing longer term relationships with the clients. (Total disbursements would be the same, but fewer SMEs would become clients). This was accepted by the Project Management Committee[1], and the initial targets for both training and employment were revised downwards to take account of the new focus.

Interestingly, later reporting from SECP indicates that they interpreted this objective as the total number of loans given, and not as the intended "total number of SMEs". The PMC never tried to correct the picture, and SECP has actually not traced number of SMEs supported. The best inference may be from the numbers of entrepreneurs that have gone through orientation training – that is compulsory when you get a loan. Up until June 2008, 9,466 had gone through this training, while the figure in June 2009 is 11,619. The correct target of number of SMEs has thus not been reached. SECP has relied on disbursement in their reporting:

Table 2: Disbursement

	Actual 2002 - 2008			Target*	Actual 2008-09			Cum. total
	Men	Women	Total		Men	Women	Total	
Loan Disbursed (no. loans)	9,371	3,732	13,103	12,500	4,356	1,311	5,667	18,770
Loan Disbursed (Amount mn)	387.2	138.8	526.0	506.6	250.7	64.3	315.0	841.0

* Note the discussion in the text of what the correct target is

While SECP appears to have met the target by June 2008, this is only correct to the extent that the target was the cumulative number of loan disbursements. It would in fact be better to compare the 13,102 with the original target of 22,700, as that is closer to the "total disbursement" expected. By the end of 2009, SECP was not far from that number with 18,770 loans disbursed. SECP did manage to reach the target for disbursement in taka – and this objective was not changed during the MTR.

We believe this better reflects the performance of the SECP, as there have been serious delays all through the project. Staff shortages and bureaucratic decision making delayed

[1] The "Board" of SECP, consisting of GoB officials and representatives from the Norwegian Embassy.

expansion for several years, and it is only now that new upazilla offices have been brought into operation, with notable effects on the disbursement figures.

SECP was to operate in 51 upazillas at the end of the project. They were in summer 2009 active in 40. When seen together with the training and disbursement numbers, in sum, the conclusion is that SECP has not met the outreach targets.

Employment Generation

Creation of employment opportunities is a key goal of the project, and the NPD (Norwegian Project Document) uses the word "non-farm employment". It can be argued whether beef fattening and poultry are non-farm activities, but it would have been very difficult for SECP to reach for instance women without accepting such activities.

SECP reports employment generation based on input from their field officers. These record employment in the SME the day of giving the loan, and then updates it when the entrepreneur comes back to get a new loan. This gives the following numbers:

Table 3: Employment Generation (as reported by SECP)

	Before Loan			After Loan			Increase		
	Male	Female	Total	Male	Female	Total	Male	Female	*Total*
As per June 2008	17688	7946	25634	38988	19415	58403	21300	11469	*32769*
As per June 2009	33256	14927	48183	54550	28254	82804	21294	13327	*34621*

The latest target for SECP for the project period was ***37500 new jobs***, and the results in the above table are apparently less than that. However, the table underestimates the employment impact. While initial employment is recorded in the "before loan" column for all loans, not all loans are included in the "after loan column". Loans that are *yet to be repaid* are not included, and this problem is illustrated in the "male column", as there appeared to be less extra jobs for men in 2009 than in 2008. This cannot be correct in light of the expansion of disbursement. There may also be other inaccuracies in the records as there are few quality assurance measures in place.

Current SECP routines cannot support a more accurate calculation. However, it is likely that SECP have contributed towards creating a substantial number of new jobs, possibly in excess of the target of 37,500.

Female Entrepreneurship

SECP has managed to include a sizable number of women entrepreneurs, and deserves credit for its efforts in this regard. Of all loans given (see above table), about 28% have gone to women. This is significantly better than the target of 20%.

Typically for Bangladesh, women tend to borrow for animal husbandry activities, like cattle and poultry. These activities are normally the domain of microfinance institutions, but in the case of SECP, the loans are larger, and more animals are involved. The table below shows the activities that female entrepreneurs have said they want the loan for:

Table 4: Women Loans per Activity, Cumulative 2002 - 2008

	No	Amount mn Tk	%	Avr. Amount (tk)
Dairy	663	22.74	18%	34,296
Beef Fattening	726	27.29	19%	37,587
Fishery	33	1.67	1%	50,727
Poultry	484	19.99	13%	41,310
Food Processing	46	1.94	1%	42,130
Ornamental Cloth & Garments	556	20.11	15%	36,164
Handicrafts	262	9.45	7%	36,057
Agro processing	53	1.65	1%	31,094
Eng. Workshop & Manuf.	31	0.97	1%	31,258
Service	76	2.64	2%	34,684
Trading	376	13.76	10%	36,590
Nursery	91	3.49	2%	38,341
Others	335	13.08	9%	39,057
Total	***3732***	***138.77***	***100%***	***37,184***

As is also typical, some of these loans are probably not used by the woman taking the loan. For instance, the 31 loans given for engineering workshop are most likely used by male relatives. It is from the records not possible to say how widespread that practice is in the SECP portfolio. Nonetheless, the impression is that SECP has generally done a good job in reaching women.

Training

The targets for training were closely related to targets for outreach, and were also reduced during the MTR to correspond to the new outreach target of 12,500 SMEs. In short, SECP has not met those targets for any of the three types of training they provide, neither in June 2008 nor in June 2009.

Table 5: Training Results

	Actual 2002 - 2008			*Target*	*Actual 2008 - 2009*			*Cumulative Total*
	Men	*Women*	*Total*		*Men*	*Women*	*Total*	
Orientation Course	6,976	2,490	9,466	***13,000***	1,887	266	2,153	11,619
Entrepreneur Dev.	5,835	2,112	7,947	***12,500***	1,806	299	2,105	10,052
Skills Development	246	102	348	***1,250***	0	0	0	348

Skills development is a more expensive form of training, and the MTR recommended that SECP should restrict those courses to only clients that were truly interested and that were willing to share some of the costs.

Recovery and Financial sustainability

The MTR concluded that these factors had received much less attention than what they deserved. Particular concerns were expressed over recovery, with the MTR calculating cumulative recovery – which is not a very good indicator of portfolio quality – as low as 77%. Thus, the MTR recommended two new official targets, to increase the emphasis on establishing a sustainable operation:

1. Recovery rates (both on a cumulative and on-time basis) should be at least 95%.[2]
2. SECP should cover its operational costs including loan loss provisions fully 100% at the end of the 5th year of operation with its income

While the first was partly included in the RDPP, the second was not. (The RDPP only mentioned the cumulative recovery, and not the on-time definition.) The problem with cumulative recovery where you add all that is lent out and compare that to all you have gotten back, is that the total numbers "swallow" the current numbers.

Say that you have a cumulative recovery of 95% out of cumulative disbursements of 1000 – you have disbursed about a 100 each year for 10 years. That will mean that there are 50 in overdue. However, when you then compare that to the current outstanding (assumed equal to annual disbursement) of 100, you suddenly recognise that half of your portfolio is in trouble. ***The cumulative recovery is thus a dangerous indicator*** to use when assessing portfolio quality.

On time repayment is better as it tells you exactly what you have gotten in a period as compared to what you expected. In the case above, your on- time recovery would have been close 50%, thus giving you the true picture.

SECP makes an effort to calculate this by reporting periodic recovery, i.e. in 2008/2009 they compare what they were expected to have repaid to what they actually got during the year. The result is 85%. However, if we understood it right SECP included not only the payments scheduled for 2008/2009, they also include all the late payments and arrears they from former years, and this obscures the true portfolio status. Most likely, SECP may have a lower annual on-time recovery rate than 85%. In conclusion, it is clear that ***RAKUB has not met the target of 95%***, however the recovery is calculated.

On financial sustainability, this was never included as a target in the RDPP even though the MTR recommended it should. As per June 2008, the financial statements show a loss of Tk 6.2 mn, while the June 2009 accounts show a profit of Tk 1.9 mn. Neither of these numbers includes depreciation or provision for loan loss, and the MTR target has consequently not been met.

Institutional status

The Norwegian Project Document has included as indictor for achievement of the project purpose that "*RAKUB-SECP is established and functioning as a separate Small Enterprise Development Department within RAKUB*"

This cannot be said to have been achieved, almost 1.5 years after support ended. However, plans for establishing SECP as a subsidiary public company of RAKUB has progressed to the extent that such a formation is likely within early 2010.

[2] The definition of on time recovery is the percentage recovered for a period out of what was supposed to be paid during the same period

4 Institutional Aspects

The MTR did a thorough analysis of the most pertinent institutional issues at stake (section 2.2). Most of the comments and recommendations from that document still hold. The relationship with RAKUB, the management and decision making structure, and the problems arising from running an entrepreneurial project in the midst of a deep seated bureaucracy are all analyzed. Only key issues are commented in brief below.

4.1 Project Design and Organisation

The project was designed with several challenging objectives like poverty reduction, increase of non-farm income, creation of indirect non-farm employment, creation and development of entrepreneurship (class as well) including women entrepreneurship, establish capable and efficient project management and contribute positively to the national economy. In this, the project is related to a particular brand of donor financed projects that intends to solve a large number of problems with one single effort. It is thus understood as a government funded "intervention", and not as a private sector operation. Focus is on social objectives. The "donor" stamp was placed on top of SECP from the start, with most of the connotations that this word has for the implementing institution in terms of efficiency and dependence relations.

This is ***the key design flaw*** of SECP. While social objectives are certainly warranted, the tool –SECP - that was employed to reach these social targets requires a business approach to be effective. Long term financial sustainability is a must for a credit operation to be counted as successful in delivering services to the poor. A small entrepreneur needs a trustworthy financial partner for many years, not only for a one-time handout.

4.1.1 Strengths of the Project Design

The concept of SECP was quite unique in its nature, i.e. this type of credit project for entrepreneurship development was new to the north Bengal region. There were microfinance providers, but no specific SME credit mechanism. Rajshahi Division is among the poorest in the country, and this willingness to ***try such a scheme in this region*** is perhaps the main strength of the SECP design.

Other important design features include:

- It offers ***training*** to the beneficiaries on business management and skill development which is totally absent in other financiers in the region. There is an international discussion whether this is appropriate for a credit provider to do, but on the balance it made sense in the setting of Rajshahi, given that entrepreneurs had few other alternatives.

- Utilising ***RAKUB's infrastructure*** and clientele base were sound design features that could potentially reduce operational costs and get the project started faster. In addition, RAKUB contributed with about 50% of the funds to be onlent and thus increased available funds.

- ***Anchoring it with RAKUB*** would ensure that SECP had a long term home, and that a local organisation would run it after the donor withdrew. Notwithstanding the ups and downs of this relationship, it is now a fact that RAKUB has taken full responsibility for future operation.

Some of these features – like the tying to RAKUB – also have "shadow" interpretations of reverse value, as will be discussed below.

4.1.2 Weaknesses of Project Design

The main weakness has already been discussed, namely that this was understood and acted upon as a donor financed "social" project and not as a private sector project. A number of the other design problems can be traced to this fundamental – in our opinion – flaw.

- ***Financial objectives and sustainability*** was not properly emphasised in the design.

- RAKUB was – and is **-** a government agricultural bank, and as such, acutely politically tuned. The government banking sector is known to do political lending, which is one of the prime reasons for low recovery figures. Further, RAKUB does not appear as the most dynamic of banks, and is highly bureaucratized. It could not be expected that SECP would be immune to the ***inefficiencies of RAKUB***. The bureaucratic culture of RAKUB does not go well together with a desire for entrepreneurial operation.

- ***The management and decision making set-up*** was inflexible. The PMC seems to have been involved in the smallest of details, and few operational decisions were taken without consulting the PMC, or the Ministry of Finance. There was little room for independent initiative, particularly when this structure was combined with the bureaucratic culture of RAKUB managers.

- ***The financing mode*** where Norway paid all operational costs based on only a presented budget was a fundamentally flawed concept. Indeed, SECP did not even record the interest they collected as income – it went straight into a separate bank account for "future use". It did not matter for Norwegian funding whether SECP collected 100, 50 or even 10 percent of the interest. Efficiency on neither the income nor the cost side could be expected to be prioritised in these circumstances.

- On particular operational fallacy of the design was the ***missing emphasis on monitoring*** and information. It is almost impossible to run a good financial operation without up-to date monitoring systems. If you do not know what is happening with

> your clients, you have no chance of responding to threats or opportunities. This is clearly demonstrated by the quality of the current portfolio.

An issue for reflection is the ***challenges of supporting and creating entrepreneurship.*** It is a highly demanding task, and experience indicates that you need an entrepreneur to deal with entrepreneurs. You need flexibility, innovativeness, and ability to listen to client needs. These are not the characteristics that come first to mind when describing RAKUB.

To be fair, a number of individuals and managers have ***done great work in SECP*** and tried to support budding SMEs to the best of their abilities. The problem is that they work within a bureaucratic system that does not allow them the framework to work as well as they could have done. There is this weird combination of formal bureaucracy where it is not needed (procedures), and lack of discipline where it is needed (credit recovery). Could this have been better foreseen at the design stage of the programme?

It is easy with the benefit of hindsight to criticise the choice of RAKUB as the implementing institution. It was probably not that clear cut 10 years ago, and the Norwegian appropriation document does comment on the risk. The designers had a difficult choice to make when they wanted a SME programme for Rajshahi, as there were very few alternatives to RAKUB in the late 1990s.

However, even if we accept that the RAKUB risk was worth taking, the design should have included better safety guards against the danger of bureaucratisation and stressed the financial aspects much, much harder. The actual design with Norway paying all operational costs etc actually ***played up to RAKUB main weaknesses***, namely operational inefficiency and bureaucratic decision making. This was unfortunately not properly understood by the donor, as the tradition in this respect is to leave it to the recipient to decide operational modalities. This way of approaching projects did not do SECP any favours in this case.

4.2 Implementation Process

The timing of SECP went off track already from the start. The main responsible actors have already been identified, namely the bureaucracies of RAKUB and to some degree the Ministry of Finance. The cumbersome management processes severely delayed implementation.

The ***hiring of staff*** has been a key choke point. SECP has operated with low staff levels during the whole period. The plan was for 115 employees at full capacity, but SECP still has only 66 employed. It took 6-12 months for a normal appointment of any officer. For the monitoring position it took 3 years.

A typical recruitment process consists of approval of RAKUB to advertise the position, then advertisement, scrutiny and short listing of candidates. Then shortlisted candidates are to be approved by RAKUB, interviews are to be held with the candidates, and a person selected. These selected candidates must then be approved by the ministry, before SECP can issue appointment letters. There are numerous possibilities for delays along this process. (Most other decisions of some consequence had to work through the same decision making chain.)

The persistent shortage of staff threw all expansion plans off target, and delayed implementation at all levels. This continues to plague SECP. The position for Deputy Project Director (DPD) in Rajshahi is still vacant, 8 months after the then DPD was promoted to Project Director. (Even though the position was publicly advertised, we learned that the recommended shortlist of 5 included only people from RAKUB. There were no outsiders.)

The tendency for ***drawn out implementation*** are also readily apparent from the treatment of the recommendation in the MTR. Most of these were discussed and accepted at the PMC level soon after the MTR was ready. Some were implemented within a couple of months, others took a very long time, and others again were subsequently ignored.

The MTR incorporated for instance a special analysis on Financial Management that for reasons of space were included in full as an Annex. Of the 13 important recommendations given there, only 4 or possibly 5 have been implemented. The others have simply been overlooked; among them the recommendation that loan loss provision and depreciation should be included in the accounts.

It is unfair to pinpoint one particular culprit in the decision making chain to blame for the implementation difficulties. It is rather the system itself that should be held responsible. The whole structure was bureaucratic, inflexible and authoritarian.

4.3 Future Organization

SECP at present operates with the departments of administration, training, loan disbursement and recovery, monitoring, internal audit, accounts, marketing and technical assistance department, women entrepreneurship development, information technology, procurement and corporate. It seems a somewhat overwhelming structure.

In a new company, it is suggested that it might operate following a more matrix related structure with less departmentalisation and layers. It might operate through *corporate, human resources* (combing existing administration and procurement departments), *business development services* (combing existing training, women entrepreneurship development, marketing and technical assistance departments), *loan disbursement and recovery, monitoring* (combing existing monitoring, information technology and internal audit departments) and *accounts* departments. A suggested organization structure for the company is appended in Annex C.

Lack of proper monitoring system deserves to be mentioned again as a serious drawback. It took three years to fill the position, and the person now hired has limited specialization on project monitoring as well as technical background to design and develop systems. The MTR recommendation to hire an external specialist to design a system was not heeded by SECP. Strong monitoring processes are required for a financial project like this to be successful.

The new company would be well advised to look for ***new impulses outside of RAKUB itself***. Today all senior executives of SECP are “Rakubians”. Even the internal auditors that the MTR recommended hired from outside, are from RAKUB.

Current top managers appear to be good bureaucrats, but may have limitations in entrepreneurship development. It is somewhat disconcerting that some of the managers do not believe that internet could be useful for SECP. (Today all communication with SECP happens by phone, fax or by post). Most also appeared unaware of the MTR recommendations, and the insistence therein on financial soundness.

If a new company intends to be a lead provider of financial services to SMEs, different attitudes and aptitudes are required among top managers.

5 Operational Aspects

The MTR had a detailed analysis of the operations, and the conclusions given there are mostly still valid. SECP has changed little since 2005.

5.1 SECP Operational Procedures

The basic loan process is as follows:

1. Initial contact between SECP and prospective borrowers happens mostly by word-of-mouth, or by the Field Officer (FO) visiting the SMEs and inviting applications
2. The FO does a preliminary screening and selects borrowers to go through training
3. The SECP training unit provides orientation training and entrepreneurship development training to the borrower.
4. After training is completed, the borrower submits the loan application to upazila project office (UPO) – mostly the same FO;
5. The Field Officer appraises the loan application; if he/she finds the case profitable it is recommended to DPO;
6. The DPO office scrutinizes the case and finally sanctions the loan, with loans above tk 200,000 going to the Project Director for approval;
7. The branch office of RAKUB pays out the funds to the borrower
8. The borrower pays back to the SECP account in the RAKUB branch,
9. The FO and the UPO are responsible for recovery and monitoring.

This is a rather typical credit process for such types of SME loans. The main change since 2005 is that the MTR recommendation about delegating loan sanctioning from RAKUB managers to SECP, has been implemented. This has reduced the interface between RAKUB and SECP, and appears to have been well received by both clients and SECP staff. It gives SECP greater autonomy.

The ***pivotal person in all this is the FO***. A responsible and hard working FO can be the difference between success and chaos, as the contact between the FO and the client is a key determinant in getting the loan serviced. This also implies that it can potentially be the weakest link in the chain. In the worst case – that we have no indication of - the two may even collude in siphoning money off.

There was little time to observe FOs in their work, but those we saw gave a distinctly solid impression and would be a good resource for a new company. However, the repayment figures also tell us that there are severe problems in recovery, and the FOs are at the frontline in this process. Of course, staff performs according to the signals sent them from management, which has the ultimate responsibility.

For the future, one suggestion would be to assess an incentive system for FOs to recover loans and to in general be responsible loan officers that works in accordance with the overall goals of the company. Such incentives often work better than more stringent supervision – even if that appears also to be in demand in SECP.

The process may also be done leaner, as not all borrowers may for instance require the same level of supervision and follow up. ***SECP needs to work smarter***, spending resources where they are of most use. Possible new loan products may require less rigid application processes.

Computerisation of operations could save substantial time, and would ease monitoring tremendously. However, as long as RAKUB itself has not computerised its branches, it may be difficult for SECP in the short run. However, an energetic management would immediately start to assess options – for instance with portable computers.

Regarding SECP processes of any kind, ***our main suggestion*** would be to start with the targets and goals of the operation. This should then determine the processes – not the other way round.

5.2 Training Assessment

Training was thought to be an indispensable companion to the loans in the original design. There is a large body of research that indicates ***real synergies between providing both capital and knowledge*** to small entrepreneurs in developing countries. To manage the money, they need to know how to manage their businesses. The experiences from the SEDP in Dhaka also seemed to support this hypothesis.

The question has rather been whether the bank should do it themselves, or if it should not be outsourced to special providers. Without going in detail on this debate, it did make sense for SECP to embrace training initially as there ***were very few alternatives in the Rajshahi distric***t. It made even more sense after SECP implemented the recommendations from the MTR about charging training fees from the clients. But is still an arguable activity, and opinions on its value differs – also within SECP.

SECP has not followed another MTR recommendation, namely to strengthen cooperation with other training providers. In the future, to broaden the services to clients, SECP should be able to inform borrowers where and when training with relevant skills is to be held. If a sufficient number of people are interested, SECP may organise the sessions with external lectures. This has already been done to a small extent through what SECP calls “skill development courses”.

All in all, SECP has conducted 509 orientation courses (11,619 people), 277 entrepreneurship development training (EDT) sessions (10,052) and 16 skill development courses (348). The project has earned Tk. 3.49 million as training fees during last four years after introduction of fees for training. Orientation course is for 1 day, entrepreneurship development and skill development training are for 4 days respectively. Details on training are provided in Annex D.

The course that seems to be most popular among borrowers is the EDT. This includes contents like characteristics and qualities of a good entrepreneur; seven sins (disqualification of entrepreneur); self memorized expression; smart analysis (personal goal setting); project idea generation and project screening; SWOT analysis; business planning; environment pollution and health; marketing strategy; analysis of 4 Ps; account keeping; gender equality: women empowerment and participation in economic development; qualities of a salesman; organization, management and production process; investment plan and management (direct and indirect expenses): cost benefit analysis of business; industrial law: child labour, working environment and SECP loan procedures.

In fact, it may be a little too comprehensive, and the course contents could be reduced. Not all clients need all of the above and one idea could be to run two types of courses. One extended for 4 days as before, but then also a shorter 2 day course focussing on basics like account keeping and business planning. Both courses should be charged a fee that covers direct costs and borrowers could themselves choose.

The response from among the clients interviewed this time was ***largely positive***. One even claimed – on an open question – that this was the main reason why he joined SECP. He did not get that training anywhere else. The MTR did an in-depth interview of 40 SMEs, and they reported high satisfaction with the training.

We detected substantial scepticism within SECP management towards training. This was seen as a donor funded activity that was outside of normal banking activities. Even if the current fees cover most of the direct cost, it does not cover salaries of employed training staff. Now that SECP needs to run on its own income, training has been more or less suspended.

There are ***potential negatives of including training*** directly in a credit operation. It does often require more resources than what is possible to charge in fees, it can divert the focus of the organisation from the core business banking, and it can lead to client dissatisfaction if the training is not of sufficient quality. Indeed, the strongest argument against including training is that a professional provider specialised in a certain subject can give more value for money than what a financial institution ever can.

The problem in Rajshahi, as far as we have been able to detect, is that there are very few others that give this basic type of entrepreneurship training. As long as entrepreneurs find enough value in the courses to be willing to pay a fee that covers most of SECP's costs, the practice can thus be defended. It can be one particular service that makes SECP different from other SME banks.

However, this is really ***a question that needs to be assessed in light of the overall future strategy of the new company.*** Will it fit the targets, the image and the spectre of products that the new SECP intends to provide? Can quality training be provided cost efficiently? Will it enhance client satisfaction? What are the realistic alternatives for improving borrower skills? The experiences that SECP has had with the training so far strongly suggests that it deserves serious consideration also in a future operation.

6 Financial Aspects

The MTR expressed deep concern about the financial aspects of SECP operation. Not only did SECP record large losses at that time, but the organisation apparently p***aid little attention to financial sustainability*** as an objective in itself. Neither the PD nor the PMC appeared to give any particular concern to the necessity of covering costs with own income.[3] This is not surprising as Norway paid all SECP expenses according to a pre-set budget, without any targets set for financial achievements.

After the MTR, financial sustainability momentarily made it back onto the agenda, but the annual Income and Expenditure sheet was unfortunately seldom subject for debate. Indeed, Norway consistently paid out more to SECP to cover expenditure than what the expenditure actually was. For instance, in 2006/2007 Norway gave Tk 21.3 mn in grants for "technical assistance", while the actual expenditure that year was about Tk 13 mn.[4]

As already noted, the key finding is that SECP has been run as a typical donor project, and not as a business. This has permeated most aspects of the operation. The accounts themselves have not been of the standard required to run a credit business, with an audit of similar quality. The auditors have not made any attempt at assessing the quality of the loan portfolio – the key balance sheet item. Further, all have been done on a cash basis.

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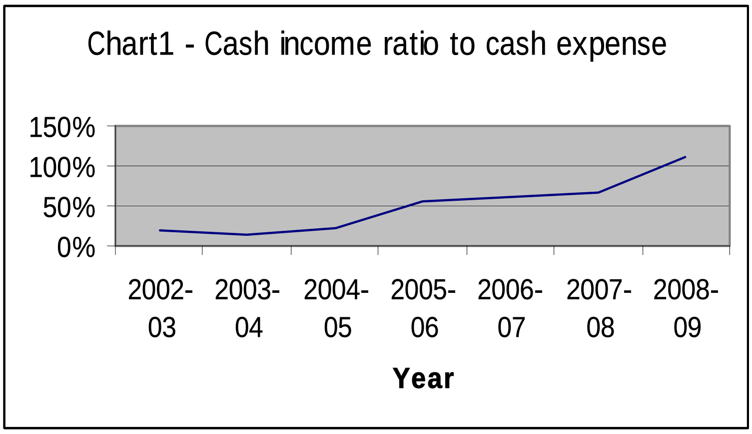
[3] There is almost no reference to financial results in any of the Minutes from the PMC meetings

[4] That was the last time Norway provided funds for TA, as SECP had enough funds (from earlier granted money) to pay for the last year 2007/2008.

This means that only interest that is paid is accounted for. Interest that has fallen due in any year – but not paid – does not figure anywhere.

If the Technical Assistance (TA) grant is excluded from income, SECP financial statements show a loss every year except 2008-09 as shown in Chart 1. However, as the expenses ***do not include loan loss and depreciation***, the actual loss is higher than the reported amount. Year-wise Income-Expenditure Statement is given in Annex E.

Figure 1 Income and Expenditure

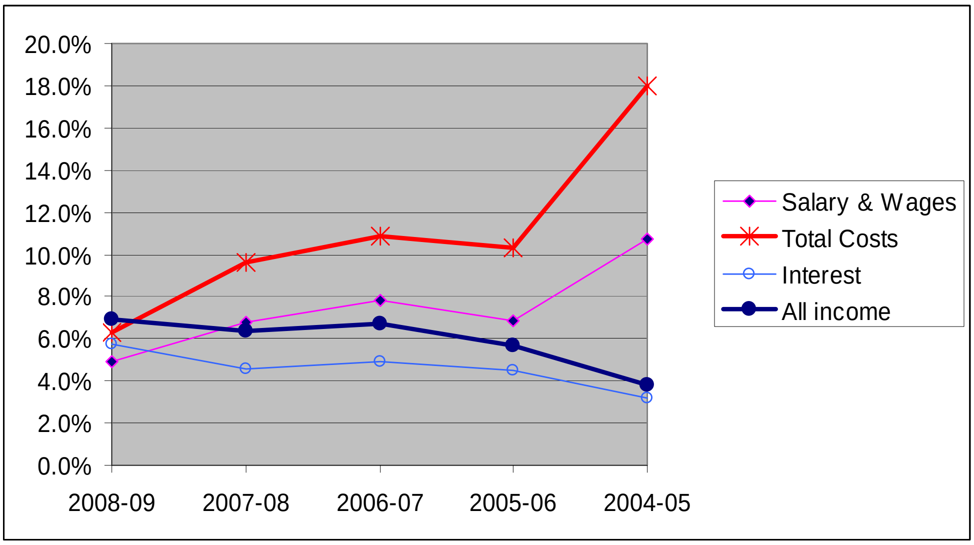


The coverage increased substantially in 2008/09. That was the year when Norway stopped funding and SECP finally had to manage themselves.

The table below calculates cost and income as a percentage of outstanding. The thick red line shows that total costs has declined per average taka outstanding. Salaries are the key cost component. As stated above, these figures ***do not*** include loan loss provision and depreciation, and are thus way too low. But based on the SECP accounts, in 2008/09, costs were equal to about 6.3% of the average loan outstanding. This means that a 7.5% interest rate should be able to cover these costs (RAKUB takes half the interest income, so SECP is effectively left with about 7.5%). However, as SECP is not able to collect all interest that is owed them, interest income (thin blue line) was equivalent to 5.8% of the outstanding in 2008/2009.[5] The situation was even worse in earlier years. The additional income comes from training fees and bank interest, and total income is represented by the thick blue line.

[5] In banking, comparing the theoretical interest income (7.5%), with the actual yield (in this case 5.8%), is used to assess the efficiency of income collection.

Figure 2 Cost and Income as percent of outstanding loan (average)



The key message from the figure is that SECP needs to improve its income collection, namely getting interest paid. Unfortunately, this analysis indicates ***a potentially major problem for SECP***, namely that a large number of loans may not be performing - they have gone bad.

6.1 Recovery and Portfolio Quality

The 2008-09 Draft Annual Progress Report (APR) states the Cumulative Credit Recovery rate to be 90% and the 2008-09 rate to be 85%. The 85% recovery rate means that from a disbursement of Taka 100 only Taka 85 is recovered generating Taka 12.75 interest income. As there is a capital erosion of Taka 15 (Taka 100 minus 85), the Taka 12.75 interest income will leave a capital loss of Taka 2.25. As cumulative recovery rate is a deficient measure to use to assess current portfolio status (see chapter 3.2 above), the situation is actually worse.

The APR states that in the project plan the credit recovery rate was supposed to be not less than 95%. The report also tries to justify the low recovery rate by blaming the external environment. That Bangladesh has a difficult “socio-economic atmosphere” is obvious, but other SME finance providers manage better – BRAC Bank cites 91% on-time recovery. In discussion with SECP management, this was implicitly admitted, as one example was given where a woman had loans both with SECP and BRAC – and while BRAC was repaid on the dot, she had large overdue to the SECP.

The repayment discipline has not been good, and SECP seems to have been very flexible with regard to when loans should be repaid. This is reflected in how SECP counts overdue loans. A loan is only counted as such when it is half a year past its maturity date. So for instance a one year loan with monthly repayments that is never serviced, will only be counted as overdue 1.5 years after the first instalment was supposed to fall due. At that time it is often too late to recover any money at all.

If the recovery rate cannot be raised***, it will be just a matter of time before the capital is fully eroded.*** Hopefully, SECP management has now grasped the importance of upholding portfolio quality.

Portfolio Status

Unfortunately, the central records and accounts of SECP do not support any type of detailed analysis of the loan portfolio. The position of the monitoring analyst was only filled in June 2008, and SECP never followed the MTR recommendation to hire a specialised company to design a proper monitoring system. Thus, SECP does not calculate the Portfolio at Risk (PAR)[6], the most widely accepted measure of portfolio quality among financial institutions servicing micro, small and medium enterprises.

The situation was the same in 2005, and to get an understanding of the quality the MTR manually analysed borrower data of April 2005 available at CPO of one of the branches with average performance (Tanore) and observed that the portfolio at risk (PAR) was 23% of the outstanding amount. The MTR team then calculated loan loss provision (LLP) requirement based on the age of the PAR and arrived at 13% of the loans outstanding.

We used the same MTR methodology this time on the loan data at June 2009 of the nearest branch (Paba), considered also to be an average branch, and ***observed PAR of 30%*** and LLP requirement of 19% (see table 6 below). This in fact indicates a worsening of the portfolio quality. Of all the 440 loans at the branch as many as 183 (41.5%) are irregular, and of these 73 have already matured. This is a very serious situation, and may indicate that a large part of the capital that has been invested in SECP is already lost.

The ToR asks us to *"suggest how the project can operate as a financially sustainable institution under the proposed status of a subsidiary to RAKUB.*" This is easy to answer: **A key recommendation for any future operation of SECP is to dramatically improve collection, recovery and loan portfolio monitoring**. Indeed, there is little use of other recommendations if recovery does not improve. It is a prerequisite of any successful future operation. Otherwise, this will just be another politically targeted credit operation that will need continued inflow of government money to stay afloat.

The occasion of establishing a new company should be used to start the operation afresh, and establish distance to the existing practice. It should decidedly not be "business as usual". To get as much money back as possible from existing defaulters, it should be made absolutely clear that only good clients will be allowed new loans from the new company. SECP may assess using incentives like reduced interest rate if loans are repaid within a certain date. The key however, is that everybody should understand that strict loan discipline will be enforced from now on.

[6] PAR is the outstanding principle amount of all loans that have one or more instalments of principal past due by a certain number of days. Normally, most MFIs use the PAR 30, meaning that all loans where any repayment is more than 30 days overdue are counted as "at risk".

Table 6: Portfolio Analysis, Paba Branch June 2009

	Number of loans	PAR (Taka)		Provision % per MTR	Loan Loss Provision-Taka
Current loans					
Good Loans: No unpaid instalments	257		25,248,177	1%	252,482
Instalments unpaid:					
Up to 2 months	8	542,038		5%	27,102
2 to 3 months	3	151,153		10%	15,115
3 to 4 months	5	232,439		30%	69,732
Over 4 months	94	5,536,456		50%	2,768,228
Overdue Loans	*110*		*6,462,086*		
Matured Loans					
Overdue Loans	73		4,274,737	90%	3,847,263
TOTAL Loans	**440**		**35,985,000**		**6,979,922**
Total Overdue Loans	183		10,736,823		
PAR/ Outstanding ratio			30%		
Loan Loss Provision/ Outstanding ratio					19%

Income and cost sharing with RAKUB

During the Project/Programme period SECP has been getting about 50% of the interest income with the remaining going to RAKUB. With the conversion of the SECP to a subsidiary company, RAKUB will become a shareholder and the Review Team was told by both SECP and RAKUB that the income sharing will end. Consequently, the interest income shown in the SECP financial statements up to June 2009 will double in future.

As SECP field offices operate out of RAKUB branches, there may be an issue about cost sharing in future. RAKUB management stated that as the proposed company will be fully owned by RAKUB, there is no intention to charge the new company for the services given by RAKUB. Effectively this will mean a hidden subsidy by RAKUB to the proposed company, and that the expenses of the proposed company will be understated and will not reflect a fair view of its costs.

RAKUB should charge SECP for the sharing of RAKUB resources, to fully state the actual costs of the proposed company. One mechanism could be a small percentage of the realised income to be paid to RAKUB branches. This may also create an incentive in RAKUB branch management to be more involved in the proposed company.

6.2 Status of Funds Available

The 30 June 2009 Balance Sheet prepared by SECP shows a Fund balance of Taka 420 million including 'Excess of Income over Expenditure' up to that date of Taka 48 million as detailed below:

Table 7: SECP Fund Balance June 2009

	Taka
Revolving Loan Fund (RLF)	
SECP	188,645,285
RAKUB	183,502,269
	372,147,554
Excess of Income over Expenditure	48,117,827
	420,265,381

The 2005 MTR had stated that if the financial statements of SECP are to show a 'true and fair' view then

- loan loss provision and depreciation of fixed assets need to be accounted for,
- donor grant for Fixed Assets need to be excluded from income and shown as a Fund, and
- interest income be shown under 'Interest Income Fund' as all expenses were being funded by grants and the interest income was deposited untouched in bank.

Using the above MTR recommendation, the Balance Sheet at 30 June 2009 was adjusted resulting in a deficit of Taka 76 million ***and Net Fund balance of Taka 342 million as shown below*** (details in Annex F)

Table 8: Adjusted Balance Sheet, June 2009

	SECP	Adjusted
Revolving Loan Fund (RLF)	372,147,554	372,147,554
SECP	188,645,285	188,645,285
RAKUB	183,502,269	183,502,269
Fixed Asset Fund		14,738,155
Interest Income Fund		31,552,464
Received up to 30 June 2009		37,977,464
Less: Transferred to TA Fund in 2008/9		(6,425,000)
Excess/ (Deficit) of Income over Expenditure	48,117,827	(76,491,250)
Total Fund - Taka	***420,265,381***	***341,946,923***

The key adjustment item is a loan loss provision of about taka 70 million. This is based on the PAR calculation shown above, and is in our view a realistic assessment of bad loans. So instead of the currently shown taka 420 mn, ***a new company will likely start with a real capital of closer to taka 342 mn***.

The proposed company is expected to start with a capital of Taka 500 million with RAKUB/GOB giving the required additional fund. Given the recent political enthusiasm, for SEDP – and as an extension also for SECP – there is every indication that the Government will provide the extra funds necessary. In our discussion with the Managing Director of RAKUB we were told that he does not think the new company will be financially viable without a fund balance of Taka 800 million, and soft term loans could be provided by RAKUB or arranged from Bangladesh Bank at more favourable terms. However, to reiterate ourselves, SECP must introduce proper loan discipline if this capital is to be of any long term benefit of Bangladesh's many small entrepreneurs.

7 Reflections and Suggestions

The SECP experience invites a number of reflections. One impression is clearly contradictionary, namely that in spite of a number design flaws and inefficiencies, SECP will survive and possibly even thrive in the near future. We will try to summarize some of these conflicting impressions in the following.

7.1 SECP and SME Finance in Bangladesh

SME's have been the target for development efforts for many years. The key rationale is the important position that SMEs have in the economy of Bangladesh. They account for 75% of all employment in the private sector, and about 25% of the GDP.[7] The sector's constraints have been subject for analysis of an equal number of years, and the some of the main culprits are believed to be:

- Limited access to finance, as SMEs are too small and risky for banks, and too large and risky for microfinance providers.
- Limited management and entrepreneurship capacities among owners and staff
- Limited connection to markets, particularly for enterprises outside of main cities
- Inadequate technical knowledge, and conservatism regarding new technology
- Inadequate infrastructure (roads, energy, serviced land)

[7] "*Project Document: Small and Medium Sized Enterprises Development Project*", ADB, August 2009.

While finance often comes out on top, the supply has improved during the last 10 years with particularly BRAC Bank making an impact. The ADB project referred to in the footnote below has made an effort to estimate the balance between demand and supply for SME finance. It tentatively estimates ***demand at about Tk 395 billion, and supply at about Tk 89 billion***. The gap is likely to be relatively larger the farther you go from the metropolitan centers.

GoB offers refinancing to banks that lend to SMEs at low rates, and also supports a number of other initiatives to assist SMEs through for instance the SME Foundation. Of the donors, ADB has since the early 2000 provided funds to be onlent to SMEs, and has now added a new loan facility that BB will administer to financial institutions that target SMEs outside of the main urban centers. The other development partners are exclusively involved in TA grant support for SMEs. Some of this is sector related, to increase capacities and skills, others are targeted at development of BDS, and some work directly with financial institutions to improve theirs skills in dealing with SMEs. Major initiatives include KATALYST, the IFC-SEDF project, and a new EC enterprise development project.

Current thinking about "best practice" for successful approaches to SME development now emphasize improvements in the overall business environment for SMEs and ***market-based mechanisms for SME finance and business development services,*** rather than traditional intervention strategies that involve supply-driven Government-managed schemes and other forms of preferential treatment for SMEs, which has not proven effective or sustainable.[8]

When the current situation is compared to the SECP, there are a number of interesting observations:

- There is no donor that is involved in projects like the SECP. In fact, only the big multilateral banks ADB and the World Bank provides funds for onlending to SMEs. With the exception of JICA, all other efforts within SME support are done as multi-donor projects. This rests on the acknowledgement that you need ***solid expertise and comprehensive capacity*** to do "things right" in the SME market.
- The emphasis on technical assistance indicates that ***constraints are as much skills as it is availability of capital.*** The capital is there, it is just that banks do not know how to lend to SMEs and SMEs do not know how to productivly use the money.
- There is a clear ***private sector focus***, and the donor projects in TA work through private providers. The SEDF that tries to improve lending skills among banks, exclusively works with private financial institutions. Government banks are assessed as too challenging and even risky.
- One reason is a challenge that both the ADB Project Document and the IFC-SEDF point at with regard to employing financial institutions as conduits for SME credit, ***namely governance***. Direct lending practices, weak credit analysis, deficient monitoring, and unclear accountability are hazards in some financial institutions.

[8] *"Best Practice Notes on Small and Medium-Sized Enterprises Support*", ADB 2006.

- There is to our knowledge ***no donor that provides free funds*** to a commercial operator for onlending as Norway has done with SECP. The consensus is that loans – at subsidized interest rates - provide better control, and better incentives.
- ***No project*** that we are aware of in any SME related support activity subsidizes 100% of operating costs of a commercial actor as Norway has done with SECP. It is decidedly against currently perceived best practice. A programme must be able to survive financially on its own means.
- SECP was "ahead of its time" in that it was ***located in a poor district*** outside of the main urban centers. Most of the other efforts seem to have concentrated in Dhaka and Chittagong.

The SECP appears as a project of which there is no comparable current example – except of course the sister programme SEDP. It is thus impossible to fairly benchmark the project against other efforts. Key elements of the design as the financial mechanism, and the use of a government bank, have not been copied by any other donor.

The GoB has, on the other hand, apparently now expressed enthusiasm for it by embracing the sister, SEDP. If the drain on resources caused by bad recovery practices can be stemmed, it may actually constitute an interesting example for banks that intend to approach the SME market. But Bangladesh will never again get a donor to pay all operational expenses of a state bank , at the same time as furnishing the same bank with free equity for future use.

7.2 Did SECP meet the overall objective?

The overall objective of: "*To alleviate poverty in North-West Bangladesh through direct increase of non-farm income of small entrepreneurs and indirect creation of non-farm employment (in project supported small enterprises) among the population of the region*", cannot be said to have been fully met.

The after-project situation is now that an SME credit operation is running, but that it has to improve efficiency if it is to become sustainable. Besides the fact that SECP is established, the two main achievements are the ***employment generation and the number of women entrepreneurs***. The recording of both is plagued by inconsistencies and inaccuracies, but the figures do indicate that there is noteworthy impact. However, in relation to the development objective, not all of this employment is "non-farm".

SECP shall of course be careful of taking full credit for employment increases in the companies it has given loans to. Credit is only one of many inputs. It is for instance not often that the Norwegian DnB Nor bank claims honor for the performance of the company that it has given loans to. However, credit is a constraint for many SMEs, and continues to be so. An enterprise that wants to grow needs a trustworthy financial partner for the long run, and not one that implodes when funds run out. This is the key reason why ***SECP cannot be said to have met the overarching project objective as it is yet to prove it can survive in the long run***.

A final issue is the cost-benefit of the project. Does the impact defend the money spent on the project? Our tentative answer is that it might not, given ***that higher efficiency would likely have given more effectiveness, and more value per taka***. Losing possibly as much as 20% of funds granted is not a satisfactory outcome of a financial support project. While it might rightly be argued that SECP is after all functioning with many SMEs as clients, it can also be said that it would have been a complete scandal if it had not, given that Norway has granted a capital of Tk 254 million without any restrictions to a commercial operator.

7.3 Future Sustainability

While we may criticize the RAKUB culture to be old fashioned, inefficient and bureaucratic, it does have a ***persistent ability to survive and endure***. Even if operation is not done as regularly and as efficiently as desired, it is still done.

The proof of any donor pudding is found in what happens when a donor exits a project. Does the project collapse, or does it continue? Credit projects are particularly vulnerable as there are potentially substantial sums of money that can be "appropriated" both by staff and by clients – by simply not repaying the loans. Neither has happened – at least not to the degree where the fund has become dysfunctional. SECP rather improved its operation after Norway left in June 2008, and started taking an interest in collecting precisely interest. It is now a going concern, and is finally noticed both by the RAKUB top management itself and by the Government in Dhaka.

Thus, the odds are that SECP will be "sustainable" in the sense that it will be continued. It will also have enough financial resources to carry on for some years to come, even at current loss rates. It will become a limited company fully owned by RAKUB, and could potentially continue "as is".

However, the ToR asks us to assess *"… sustainability as a subsidiary of RAKUB…"*, and we strongly believe that this is a great opportunity to change and improve. SECP can become much more than they already are, if they could only convince themselves to want "to excel", and to risk experimenting with different ways of running a credit operation. Some general suggestions include:

- Establish a Board for SECP with ***independent participation*** from the private sector, or from resource persons outside of RAKUB. There is need for fresh blood to challenge existing routines. The Board should report directly to RAKUB – and not to the Ministry of Finance or any other Dhaka based government official. It is imperative to avoid the cumbersome decision making processes that has characterized SECP so far.

- Decide on a strategic vision that SECP shall be ***"center of excellence"*** for SME credit. It shall be better than other providers of similar services. The crux is then to determine indicators for achievements that are "real" – and not political. RAKUB would be well advised to approach the building of SECP as an opportunity to re-brand themselves into a more efficient and effective financial institution. SECP can be RAKUBs "Special Force".

- Decide to ***shelter SECP against political influence*** of any kind – including staff appointments and targeted lending.

- Provide the management of SECP with a mandate that is ***operationally flexible, but result oriented***. There must be a strong focus on financial results and on delivering quality services.

- Appoint a ***managing director external to RAKUB***, and provide the person with incentives to meet the stated targets. This should be an entrepreneurial resource that is not afraid of change.

- Whatever happens, could SECP please, please install ***a monitoring system*** that tells them what the true status of the loan portfolio is? This should be coupled with an improved understanding of why defaults are serious for a credit institution.

- It would probably be a good idea to ***critically examine the portfolio***, do a forceful collection exercise and then only bring good clients and good loans into a new company. Bad loans should be assessed written off, or transferred to RAKUB for follow up. The point is to start afresh in a new company, not having to start with a struggling portfolio.

- Operationally, there is substantial scope for developing ***new financial products*** for entrepreneurs, based on what SMEs demand. The trick is to price this correctly, i.e. charge an interest rate that reflects the risk. It does not have to be very sophisticated – but loans for instance with little collateral should be priced higher than those with more. All loans do not have to have the same interest rate.

- Summarize the vision, strategy and operational plans in ***a robust business plan.*** SECP and RAKUB would probably benefit from external assistance for this exercise.

Is this possible? Probably only if RAKUB dares to loosen its control and accept a greater degree of autonomy for SECP. Whether the environment in general is mature for such an operation is, however, debatable. There is a very limited tradition in Bangladesh of autonomous operations of this kind in state owned companies. The rule is rather strict enforcement of centralized authority, with innovation attracting modest value.

However, for the SMEs of Rajshahi, it would be great if RAKUB took the chance to break that mould.

Annex A Terms of Reference

1. Background

The project RAKUB – SECP was established to give effective financial and technical support for development of small/micro enterprises in the poverty stricken north-western region of Bangladesh. The project was planned to be implemented in 50 Upazilas (sub-districts) in 9 districts of Rajshahi Division over a period of 5 years. The Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh was the sponsoring Ministry for implementation of the project through Rajshahi Krishi Unnayan Bank (RAKUB). Agreement for financial support to the project between Bangladesh and Norway was signed on 12 December 2001. On the same day the Finance Division, Ministry of Finance also signed an agreement with RAKUB regarding implementation of the project with the planned kick-off schedule from 1 January 2002. Accordingly the Ministry appointed the Project Director from RAKUB and RAKUB deputed initial manpower to establish the Central Project Office (CPO) and District Project Office (DPO) for Rajshahi. The Ministry also established the Performance Monitoring Committee (PMC) chaired by the Secretary, Finance Division with representation from different Ministries and agencies. Representation from the Embassy was also ensured in PMC.

In the first meeting of the PMC held in March 2002, it was found that the necessary administrative formalities regarding approval of the project by different GoB agencies were not completed and the project could not go into operation. Start up of credit operation was therefore delayed till May 2003. To cope with this initial delay the project period was extended up to June 2007. In the first operating year the project started credit operation in 8 Upazilas and in the second year it was expanded to additional 12 Upazilas. As per the provisions in the project document, a mid term review by end of second operating year was undertaken in July – August 2005. In accordance with the recommendations of the mid-term review, the decision for expansion of the project into 50 Upazilas was finalised in the PMC meeting and the Project management was asked to go for recruitment of necessary project manpower and opening of the second DPO in Bogra. Again the project could not expand on time due to the unusual delay in recruitment and even by end of the extended project period i.e. 30 June 2008 the project could not start operating in all the 50 Upazilas. However, in the PMC meeting held in November 2007, the Embassy conveyed the message to the GoB partners that Norway would not extend any more financial support to the project beyond 30 June 2008. Accordingly the project management was asked to submit a phasing out plan according to the project document. The meeting also decided that RAKUB and the Ministry would take necessary initiative to launch a subsidiary of RAKUB to take over all the project activities as well as all the assets and liabilities by end of the project period i.e. 30 June 2008. The process could not be completed by the time and the project still has been running on ad-hoc no cost extension from its own income. The Embassy has discontinued support with effect from 1 July 2008 and waiting for a completion report for formal termination of the project.

In spite of the fact that the project activities did not run smoothly from the very beginning the performance of the project with regard to the desired results always seemed satisfactory. The project had been able to provide support (both training and credit) according to plans approved in the PMC meetings, maintained a satisfactory recovery rate of 95% on an average and also contributed in creation of considerable number of off-farm employment in the enterprises supported under the project. From the view point of long term sustainability, establishing a subsidiary company under the implementing bank also seemed to be an innovative idea. Therefore, it was decided to have an end of the project review on receipt of the completion report from the project management. Since the establishment of the subsidiary has taken more time than expected, it has been decided to initiate an end review of the project. A Project Brief is attached to the ToR to provide information about the project.

2. Purpose and context of the review

The project is at its completion stage. Norway has discontinued financial support since July 2008 but the project has not yet been completed because the procedural formalities regarding continuation of the project activities are yet to be completed.

The main purpose of this review is to assess the strengths and weaknesses in planning of the project in the context of long term sustainability of the project activities. The review findings shall provide the necessary inputs and basis for the decision makers as well as practitioners in the field of SME financing since support to SME development is now considered as one of the thrust areas for development cooperation.

3. Scope of work

The scope of work for the review will cover all the aspects relating to implementation of the project. The review will mainly constitute but not be restricted to three major aspects, namely institutional aspects of the project, operational aspects (implementation procedure), and financial management. The review will be a combination of looking both backward and forward in time, but with the main emphasis on key lesson learnt. The recommendations for future operation should be phrased as suggestions for consideration to the RAKUB management.

3.1 Institutional Aspects

- The review shall identify strengths and weaknesses of Project design, organisation, implementation procedure and decision making process followed in the project.
- The review shall compare the achievements of the project with the planned outputs in the project document, the Agreements and also the Mid Term review from 2005. The review shall also identify the reasons for deviations regarding fulfilment of obligations by different stakeholders involved with the project.
- The review shall assess the current capacity of the project with regard to organisational sustainability as a subsidiary of RAKUB in the context that the project is now going through a transition. It shall also include an assessment of the roles and responsibilities of different GoB stakeholders in view of establishing a sustainable institution to provide SME funding.

3.2 Operational Aspects

- The review shall assess the effectiveness of the steps and procedure followed in implementation of the project starting from the identification of prospective borrowers through to full recovery of the lent out capital.

- The review shall assess the content, duration, methodology and types of training provided under the project in developing and increasing the efficiency of the project staff as well as the entrepreneurs supported under the project. Based on such assessments, the review shall come up with specific recommendations for sustainable operation of the project as an independent institution.
- The review shall assess the present procedural aspects for the credit operation and will come up with realistic suggestions for establishment of a sustainable mechanism for credit operation for SME funding.

3.3 Financial Aspects

- The review shall analyse the cost of loan administration including the costs of training and extension services and relate expected income from realisation of interest to the cost structure. Based on the assessment the review shall suggest how the project can operate as a financially sustainable institution under the proposed status of a subsidiary to RAKUB.
- The review shall analyse the present status of funds available under the disposal of the project to suggest ways and means for investments.

3.4 Lessons Learnt

- The review shall summarise the key project lessons learnt during implementation.
- The review shall briefly assess the project within the current context of SME financing in Bangladesh. Given that this is one of older donor projects within this area, it would be useful to assess the overall methodology as compared to what is now considered best practice - and what lessons could be drawn from such a comparison

4. Implementation of the review

The review shall be initiated by NORAD. The Embassy will provide necessary support for execution of the review.

The methodology for the review will constitute of desk study, interview, and field survey/study. Under desk study, the consultants will review the project documents, agreements, progress reports, audit reports, minutes of annual and mid-year meetings etc. and also relevant reports and documents prepared by other agencies involved in the area of small/micro enterprise development. Under interview and field study the consultants will interview concerned officials at RAKUB headquarters and field offices, the project staff, the Ministry of Finance, Finance Division (Banking), the Embassy, and other institutions as deemed necessary. The consultants will visit the project areas and collect information from the direct beneficiaries of the project.

The review team shall ideally comprise of one Norwegian Team Leader with necessary background and knowledge about Bangladesh and SME funding and two other local consultants with background of institution development and financial management. NORAD shall appoint the Team Leader who will be responsible for identifying and appointing the other members of the team. It is expected that the review will be undertaken in autumn 2009 with the provision for preparatory works in Norway as well as in Bangladesh. The review team will have to be in Rajshahi for collection of information regarding the operation of the project. Total time requirement for the review may be 4 weeks which includes one week preparatory activities in Norway. The Team Leader shall have the responsibility to plan the framework for the review and implement accordingly. The review shall be funded from the unutilized portion of the project fund through the Embassy. In the initial budget for the project, provisions for reviews were made and from that the mid term review for the project was undertaken earlier.

5. Reporting

The review shall come out with a report based on the findings as per the scope of work. The report shall not be more than 20 A4 size pages excluding the annexes and attachments. The report shall include an executive summary and may be presented in the format (but not limited to) as follows:

– Introduction
– Background
– Methodology
– Major findings
– Conclusions
– Recommendations, etc.

Presentation of major findings

On completion of the field study, the team shall present their major findings in key words in a meeting with the Embassy in Dhaka.

Draft Report

The team leader is responsible for submission of all the reports. A draft report shall be submitted to NORAD with a copy to the Embassy within two weeks after the field works. The complete report shall be submitted in printed form as well as electronically.

Final Report

The final report shall be submitted within two weeks after receipt of comments/observations from NORAD and the Embassy. The recipient of the draft report shall provide their comments within one week of receiving the draft report.

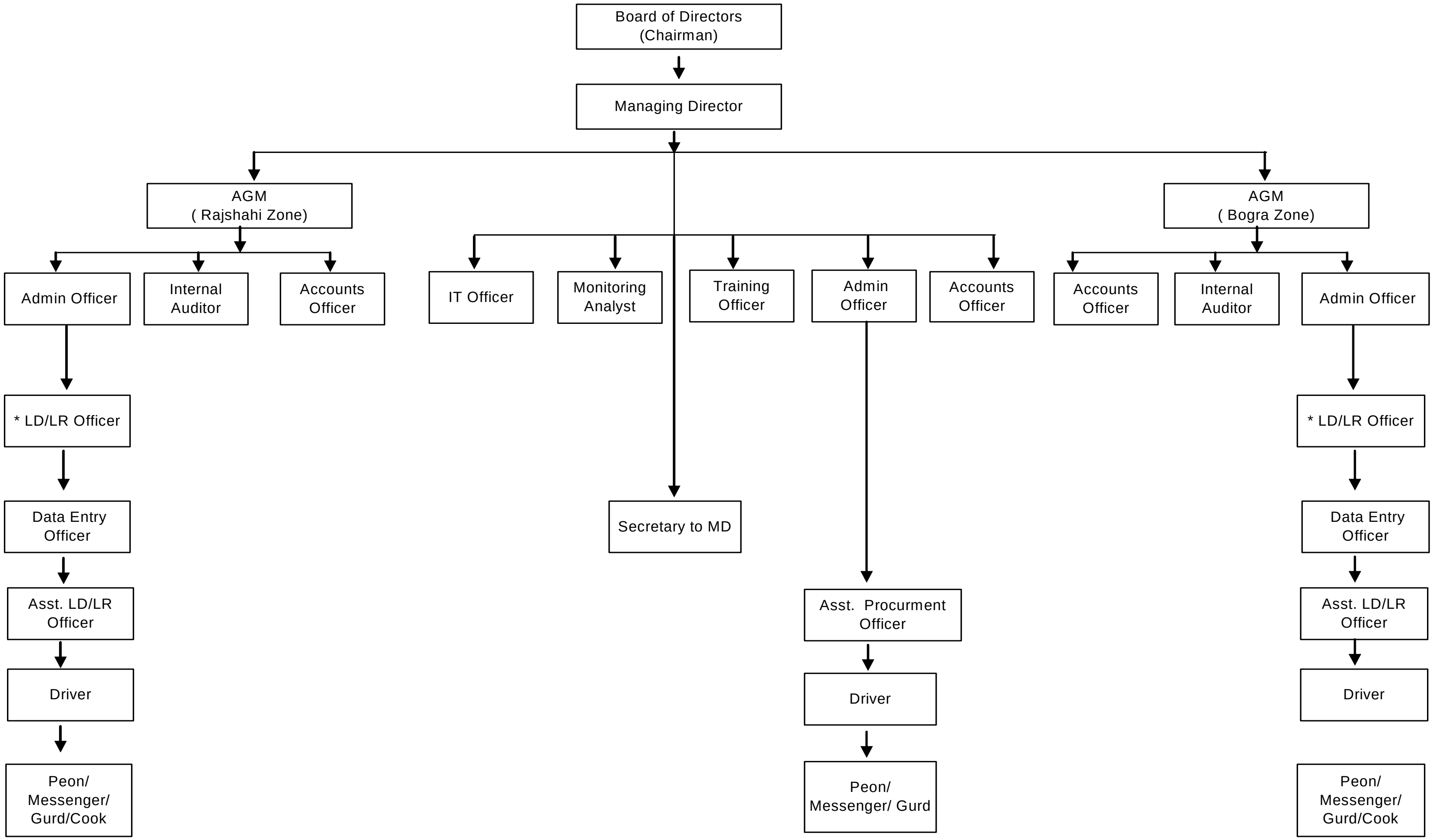
Annex B Persons met

Sl.No.	Name	Designation	Organization	Address
01	Mr. Md. Muzahidul Islam Zoarder	Monitoring Analyst & Administration Manager In-charge	Small Enterprise Development Program (SEDP) Agrani Bank	4/5 Iqbal Road, Block-A, Mohammadpur, Dhaka-1207 Ph:88028122204(O), 8159803(res), 01714006677 Email:sedp@bol-online.com, mzoarder@gmail.com
02	Mr. Khandoker Golam Mostafa	Assistant General Manager, Dept-in-charge	Rajshahi Krishi Unnayan Bank	Head Office, Rajshahi. Loans & Advances Dept-2, Ph:0721-776246(O), 0721-862059 (Res), 01714063307, email: rakubrdd@btcl.net.bd
03	Mr. N. Roger D. Handberg	Senior Operations Manager, SEDF-Access to finance, IFC Advisory Services in South Asia	IFC-International Finance Corporation	United House, 10 Gulshan Avenue, Dhaka-1212 Tel:88-028833752, 01713018646 Email:rhandberg@ifc.org
04	Mr. S M Shaheen Anwar	Deputy General Manager	Small & Medium Enterprise (SME) Foundation	Royal Tower, 4 Panthapath, Dhaka-1215 Tel:88-028142983 ext-145, 01713012847 Email: sanwar@smef.org.bd
05	Mr. A.K.M Mujibr Rahman	General Manager	Agrani Bank Ltd	Head Office Motijheel C/A, Dhaka. Ph: 88-029557212, 9563672 (O), 88-028617752(Res), email:gmadmin@agranibank.org
06	Mr. Syed Faridul Islam	Head of SME Banking	BRAC BANK Ltd	Head Office, SME Banking Division, 1 Gulshan Avenue, Gulshan-1, Dhaka-1212 Tel:88-028836501,9884292ext-2071, email:syedfaridul.islam@bracbank.com
07	Mr. Mrinal Sircar	Program Manager, SEDF, Advisory Services in South Asia	IFC-International Finance Corporation	United House, 10 Gulshan Avenue, Dhaka-1212 Tel:88-028833752-66ext-1173, 01713048768 Email:msircar@ifc.org
08	Mr. Arup Biswas	Senior Advisor	Royal Norwegian Embassy	House no.9, Road no.111, Gulshan, Dhaka-1212. Tel:88-028823880,8823065, email: aha@mfa.no
09	Ms. Ingebjørg Støffring	Ambassador	Royal Norwegian Embassy	House no.9, Road no.111, Gulshan, Dhaka-1212. Tel:88-02 8823880,8823065, email: bjsn@mfa.no

10	Mr. Amalendu Mukherjee	Joint Secretary	Banking Policy, Finance Division, Ministry of Finance	Bangladesh Secretariat, Dhaka 1000 Tel:88-02-7165526
11	Mr. Arijit Choudhury	Deputy Secretary	Banking Policy, Finance Division, Ministry of Finance	Bangladesh Secretariat, Dhaka 1000 Tel: 716 8305, 0155 2100478
12	Mr. Khan Md. Nurul Amin	Senior Assistant Secretary	Banking Policy, Finance Division, Ministry of Finance	Bangladesh Secretariat, Dhaka 1000 Tel: 716 9402
13	Mr. Md. Shahjahan Ali Mondal	Program Officer	Small Enterprise Credit Program (SECP)	Bogra Sadar, Bogra
14	Mr. Mahbubul Alam	Deputy Project Director	Small Enterprise Credit Program (SECP)	Bogra Sadar, Bogra
15	Mr. Md. Atikur Rahman	Proprietor	Smith Chemicals	Rahman Nagar, Bogra
16	Mr. Sirajul Islam Sheikh	Proprietor	Russel Cartoon House	Matidali, Bogra
17	Mr. Md. Haroon	Proprietor	Raj Poultry Farm	Matidali, Bogra
18	Md. Nazrul Islam (Salam)	Proprietor	Jibika Enterprise	Namazgar more, Bogra Sadar Cell:01713411458
19	Ms. Shirin Akhter	Proprietor	Shirin Poultry	Ullata, Kahalu, Bogra
20	Ms. Shirin Ahmed	Proprietor	Shirin Beef Fattening	Ullata, Kahalu, Bogra
21	Mr. Md. Jahurul Islam	Project Director	SECP	Nureen, House # 176, Sector # 2, Road # 5, Upashahar Housing, Rajshahi, Telephone: 762119
22	Mr. Md. Mobinur Rashid	Administrative Officer	SECP	Central Project Office, Rajshahi
23	Mr. Md. Shahidul Islam	Program Officer	SECP	District Project Office, Rajshahi
24	Mr. Md. Shabiul Alam	Upazila Field Officer	SECP	Godagari, Rajshahi
25	Mr. Md. Saibul Islam	Upazila Field Officer	SECP	Baraigram, Rajshahi
26	Mr. Md. Sayed Ahmed Khan	Upazila Field Officer	SECP	Mohonpur, Rajshahi
27	Mr. Md. Syed Mamenur Rashid	Upazila Field Officer	SECP	Natore Upazila, Rajshahi
28	Mr. Md. Khondaker Ashraful Alam	Upazila Field Officer	SECP	Putia Upazial, Putia
29	Mr. Md.	Upazila Field	SECP	Bagdhipara, Natore

	Moniruzzaman	Officer		
30	Mr. Md. Moniruzzaman Khan	Upazila Field Officer	SECP	Badolgachi, Nogaon
31	Mr. Md. Golam Al Mahabub	Upazila Field Officer	SECP	Manda, Nogaon
32	Mr. Md. Ahsanul Azim	Upazila Field Officer	SECP	Paba, Rajshahi
33	Mr. Md. Mahabbat Khan Gaznabi	Upazila Field Officer	SECP	Bagmara, Rajshahi
34	Mr. Md. Rezaul Alam	Upazila Field Officer	SECP	Durgapur, Rajshahi
35	Mr. Nurul Amin	Upazila Field Officer	SECP	Tanore, Rajshahi
36	Mr. Md. Akheruzzaman	Upazila Field Officer	SECP	Chapainawabgong
37	Ms. Akhsarun Nahar	Upazila Field Officer	SECP	Mohadebpur, Nogaon
38	Ms. Momtaz Khatun	Women Development Officer	SECP	Central Project Office, Rajshahi
39	Mr. Md. Shahinur Islam	Monitoring Analyst	SECP	Central Project Office, Rajshahi
40	Mr. Shakil Ahmed	Accounts and Finance Officer	SECP	Central Project Office, Rajshahi
41	Mr. Md. A B M Russel	Logistics Officer	SECP	Central Project Office, Rajshahi
42	Mr. Md. A H M Ashiquzzaman	Marketing and Technical Support Officer	SECP	District Project Office, Rajshahi
43	Mr. Md. Rajib Hasan	Training Officer	SECP	District Project Office, Rajshahi
44	Mr. Md. Naya Rahman	Training Officer	SEP	District Project Office, Rajshahi
45	Mr. Sultan Mahmud	Data Entry Officer	SECP	District Project Office, Rajshahi
46	Mr. Md. Asaduzzaman	Executive Officer	SECP	Central Project Office, Rajshahi
47	Mr. Md. Arifuzzaman	Computer Programmer	SECP	Central Project Office, Rajshahi

Annex C Suggested Organisational Chart for a new company



Annex D SECP Training Details

Year	Target		Training Conducted (No)			Entreprenures Trained (Person)									Expenses (Taka in Lac)			Income (Taka in Lac)		
						OC			EDT			SDT								
	PCP	Revised	OC	EDT	SDT	Male	Female	Total	Male	Female	Total	Male	Female	Total	OC	EDT	SDT	OC	EDT	SDT
2002-2003			14	7	0	309	67	376	149	25	174	0	0	0	0.32	3.34			0.00	
2003-2004	704	500	36	34	0	667	178	845	687	138	825	0	0	0	0.32	5.75			0.00	
2004-2005	2096	1200	63	50	3	1529	672	2201	1397	606	2003	49	20	69	1.34	8.00			0.00	
2005-2006	3867	2200	60	32	4	860	430	1290	718	357	1075	81	43	124	0.63	5.17			1.25	
2006-2007	6524	3600	75	30	5	911	328	1239	671	278	949	60	24	84	0.70	4.40			4.39	
2007-2008	8877	5000	149	82	4	2700	815	3515	2213	708	2921	56	15	71	1.94	11.91			12.42	
2008-2009	0	0	112	42	0	1887	266	2153	1806	299	2105	0	0	0	1.30	8.18			16.80	
TOTAL	**22068**	**12500**	**509**	**277**	**16**	**8863**	**2756**	**11619**	**7641**	**2411**	**10052**	**246**	**102**	**348**	**6.55**	**46.75**	**0.00**		**34.86**	

Annex E SECP Official Income Statement & Balance Sheet

INCOME & EXPENDITURE ACCOUNT

		2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	1/1/02-30/6/02
INCOME :									
Interest from Loan		17,506,158	8,892,622	5,908,026	3,530,811	1,232,664	266,139	0	0
Bank Interest		330,583	645,927	784,696	442,435	225,159	335,687	616,730	364,434
Training Fee		1,679,500	1,242,400	439,360	124,500				
Loan Processing Fee		1,500,771	1,527,976	897,316	376,100				
Miiscellaneous		10,860	107,860	27,700	7,000				
		21,027,872	12,416,785	8,057,098	4,480,846	1,457,823	601,826	616,730	364,434
EXPENDITURE :									
Salary & Wages		14,850,879	13,231,838	9,386,854	5,390,025	4,128,320	2,301,271	2,178,483	162,918
Operation Expenses		3,221,549	3,944,110	3,113,501	2,072,174	1,822,909	1,155,354	715,425	162108
Human Resource Development		967,335	1,446,800	579,782	600,552	946,886	606,850	374,662	0
Audit evaluation		36,000	16,000	0	18,750	18,750	17,770	0	
		19,075,763	18,638,748	13,080,137	8,081,501	6,916,865	4,081,245	3,268,570	325,026
Income/Expenditure ratio		110%	67%	62%	55%	21%	15%	19%	
Excess /(Deficit) of Income Over Expenditure before Donor Grant		1,952,109	(6,221,963)	(5,023,039)	(3,600,655)	(5,459,042)	(3,479,419)	(2,651,840)	39,408
Grant Fund recived for Technical Assistance (TA)		0	0	21,287,344	19,532,847	13,991,285	0	0	17,750,792
Excess /(Deficit) of Income Over Expenditure after Donor Grant	Taka	1,952,109	(6,221,963)	16,264,305	15,932,192	8,532,243	(3,479,419)	(2,651,840)	17,790,200

Excluding Depreciation and Loan loss provision

Source: Annual audited accounts up to 30 June 2008

BALANCE SHEET

	30.06.2009	30.06.2008	30.06.2007	30.06.2006	30.06.2005	30.06.2004	30.06.2003	30.06.2002
PROPERTY & ASSETS :								
Fixed Assets at cost	14,738,155	14,735,140	11,853,038	8,530,438	7,496,448	6,336,563	2,954,440	114,240
Current Assets								
Cash in Hand	39,066	69,210	39,629	40,139	17,849	11,809	4,956	1,552
Cash at Bank	21,651,098	79,964,572	109,217,965	78,074,744	31,435,141	10,947,929	23,399,429	29,540,822
Loan to Small Entrepreneurs	363,837,063	244,074,354	144,373,512	95,945,619	61,041,147	15,733,655	2,405,000	0
Fixed Deposit with Bank	20,000,000	18,150,000	0	0				
Total Taka	420,265,381	356,993,276	265,484,144	182,590,940	99,990,585	33,029,956	28,763,825	29,656,614
FUND & LIABILITIES :								
Revolving Loan Fund Account (RLF) :	372,147,554	310,827,557	213,096,462	146,467,564	79,799,401	21,371,015	13,625,465	11,866,414
SECP	188,645,285	187,131,200	139,078,611	95,018,070	45,616,358	12,560,168	12,278,665	11,866,414
RAKUB	183,502,269	123,696,357	74,017,851	51,449,494	34,183,043	8,810,847	1,346,800	0
Excess of Income over Expenditure	48,117,827	46,165,719	52,387,681	36,123,376	20,191,184	11,658,941	15,138,360	17,790,200
Total Taka	420,265,381	356,993,276	265,484,143	182,590,940	99,990,585	33,029,956	28,763,825	29,656,614

Annex F Adjusted Balance Sheet June 2009

Balance Sheet at 30 June 2009

			Adjusted
ASSETS :			
Fixed Assets			5,548,739
Cost		14,738,155	14,738,155
Less : Accumulated Depreciation			(9,189,416)
Current Assets			
Cash in Hand		39,065	39,065
Cash at Bank		21,651,098	21,651,098
Loan to Small Entrepreneurs			294,708,021
Outstanding Principal		363,837,063	363,837,063
Less: Loan Loss provision			(69,129,042)
Fixed Deposit with Bank		20,000,000	20,000,000
	Total Taka	420,265,381	341,946,923
FUND :			
Revolving Loan Fund (RLF)		372,147,554	372,147,554
SECP		188,645,285	188,645,285
RAKUB		183,502,269	183,502,269
Fixed Asset Fund			14,738,155
Interest Income Fund			31,552,464
Received up to 30 June 2009			37,977,464
Less: Transferred to TA Fund in 2008/9			(6,425,000)
Excess/ (Deficit) of Income over Expenditure		48,117,827	(76,491,250)
	Total Taka	420,265,381	341,946,923