

ASIAN DEVELOPMENT BANK

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IMPACT EVALUATION STUDY

ON

ADB'S RURAL CREDIT ASSISTANCE

IN

**BANGLADESH, PEOPLE'S REPUBLIC OF CHINA, INDONESIA,
NEPAL, PHILIPPINES, SRI LANKA, AND THAILAND**

January 2001

CURRENCY EQUIVALENTS
(as of October 2000)

Country	Currency Unit	Local Currency Equiv.	\$1.00 Equiv.
Bangladesh	Taka (Tk)	0.018600	53.75
People's Republic of China	Yuan (Y)	0.120800	8.23
Indonesia	Rupiah (Rp)	0.000177	8,971.00
Nepal	Nepalese Rupee (NRe/NRs)	0.013700	73.00
Philippines	Peso (₱)	0.020700	48.31
Sri Lanka	Sri Lanka Rupee (SLRe/SLRs)	0.013000	79.47
Thailand	Baht (B)	0.023000	43.18

ABBREVIATIONS

ABC	–	Agricultural Bank of China
ADB	–	Asian Development Bank
ADBN	–	Agricultural Development Bank of Nepal
BAAC	–	Bank for Agriculture and Agricultural Cooperatives
BKB	–	Bangladesh Krishi Bank
DFI	–	development finance institution
DMC	–	developing member country
EA	–	executing agency
EIRR	–	economic internal rate of return
FIRR	–	financial internal rate of return
HYV	–	high-yielding variety
ICB	–	international competitive bidding
IES	–	impact evaluation study
LBP	–	Land Bank of the Philippines
MIS	–	management information system
NGO	–	nongovernment organization
OCR	–	ordinary capital resources
PFI	–	participating financial institution
PRC	–	People's Republic of China
RFI	–	rural financial institution
SMI	–	small and medium industry
STW	–	shallow tubewell
SOE	–	state-owned enterprise
TA	–	technical assistance
TVE	–	town and village enterprise

NOTE

In this report, "\$" refers to US dollars.

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EXECUTIVE SUMMARY

The Asian Development Bank (ADB) began its first rural credit assistance in 1970. In the early years, rural credit operations focused on achieving real sector objectives, mainly increases in production, employment, and farm incomes. Reduction in poverty as a primary objective in rural credit projects became important in the late 1980s with the advent of microcredit projects.

The objective of the impact evaluation study (IES) is to assess the impact of ADB's assistance to rural credit and derive lessons from it. The IES is based on the assessment of 39 rural credit projects and 21 technical assistance (TA) grants in seven developing member countries (DMCs). Purposive surveys in the DMCs were conducted to obtain data on the ultimate beneficiaries. Impact was assessed at the household, participating financial institution (PFI), and executing agency levels. The impact on cross-cutting concerns of ADB was also assessed.

The rural credit projects under study comprise both standalone projects and components of other projects. They include nine microcredit projects. The rationale and objectives as stipulated in these projects were generally relevant. Early rural credit projects tended to adopt a supply-led approach, on the assumption that credit demand would arise once availability was there. The project designs encouraged the achievement of physical targets. Later microcredit projects reflect a perception that standalone programs focusing exclusively on poverty reduction have a better chance of success. The rural credit projects used a wide variety of financial institutions to reach their clientele. In its selection of credit institutions for project implementation prior to 1991, ADB was guided by the potential of existing institutions and the needs of the clientele served by the projects, even at the expense of ignoring financial discipline (leading to poor subloan recovery).

The rural credit projects have contributed to nominal income improvement but improvement in real income is somewhat less certain depending on the rate of inflation in the DMCs. Income improvement is often manifested in the acquisition of assets or consumer items. The contribution of the early projects to income redistribution is indeterminate with benefits tending to gravitate toward larger farmers while providing employment for small farmers. Later microcredit projects have a more direct impact on income redistribution through more focused targeting of the poor. The impact on poverty reduction is indirect and hard to discern for the early projects and positive but limited for the later microcredit projects. The early projects contributed to improved production, productivity, and technology. Anecdotal evidence points to cases of employment generation by the projects in the People's Republic of China, Sri Lanka, and Thailand. In the other countries under discussion, the projects tend to have low impacts in employment generation because of implementation difficulties arising from changes in industrial and financial policies.

The impact of the rural credit projects on the credit delivery system has been positive in terms of the expansion and quality improvement of the loan portfolios of financial institutions as well as improved deposit mobilization of these institutions. Less impact is felt on the development of the rural financial system while the procurement policies and the design of some of these projects had an adverse impact on the financial institutions and executing agencies (EAs). In the case of Thailand, the projects exposed the EA to losses from fluctuations in foreign exchange.

The rural credit projects have contributed to capacity building of financial institutions and EAs through TAs, though not all TAs were successful. A positive impact is seen from the projects on gender development. The projects are generally neutral in so far as their impact on the environment is concerned. The exception is the unintended impact from the early projects in Bangladesh where the financing of shallow tubewells has led to excessive tapping of underground water and the emergence of harmful chemicals in the drinking water. Covenants in the rural credit projects had a positive impact on the DMCs in leading them to adopt needed policy reforms and achieving greater efficiency and efficacy in credit management.

Sustainability of the benefits of rural credit projects is marred by the closure of a number of subprojects but in many cases such closure was due to changing policies and market conditions. Sustainability of the financial institutions is less certain. Except for the Bank for Agriculture and Agricultural Cooperatives in Thailand, these institutions are sustained by external capital from government sources.

The issues for consideration include ensuring an appropriate modality for targeting the poor that is effective (but may also be costly and time consuming), encouraging the emergence of a sound rural financial system that will cater primarily to the poor, ensuring that project designs work within the market and capacities of the PFIs, having proper estimation of credit demand, and providing for risk mitigation of foreign exchange losses by PFIs.

Overall, ADB's rural credit assistance have generally positive impacts on the DMCs though there are cases of adverse impacts. The positive impacts relate to improvement in production, productivity, and technology and, ultimately, income at the farm level, and enhanced and better quality loan portfolios of the financial institutions. Less impact is felt with regard to reduction in income redistribution and poverty reduction, and development of a sound rural financial system. The adverse impacts centered on causing financial losses to the EA in Thailand as a result of foreign exchange fluctuations, the difficulties to the EAs as a result of the conditions of the rural credit loans that push these EAs beyond their mandate, and the excessive tapping of underground water. Notwithstanding all these adverse impacts, which are in the minority, ADB's assistance to rural credit has been positive.

Major lessons learned from the operation of ADB's assistance in rural credit are that (i) a more focused and participatory approach is needed for proper targeting of the poor, (ii) rural credit projects need to contribute to developing a sound rural financial system that will cater primarily to the poor, (iii) rural credit projects should be designed taking the capacity and mandate of the financial institution or EAs into consideration to avoid high administrative costs and implementation difficulties, (iv) TAs have been an appropriate and useful mechanism for capacity building, and (v) a mechanism for foreign exchange risk mitigation is needed.

The IES recommends that ADB should pursue (i) policy dialogue to adopt some of the new elements of its new microfinance strategy and to prioritize further capacity-building assistance and microcredit-type of operations; and (ii) traditional credit projects on a selective basis to bring about improvements in production, productivity, and technology that are leveraged to effect policy changes so as to create an enabling environment for the emergence of a sound rural financial system.

I. BACKGROUND

A. Introduction

1. The Asian Development Bank (ADB) has financed numerous loan and technical assistance (TA) projects in rural credit,¹ beginning with an agricultural credit loan to Nepal in 1970.² Credit assistance has been extended as both exclusively standalone credit projects or as components of projects generally in the agriculture and natural resources sector. Most of the exclusively rural credit projects fall under the agricultural support services subsector. As at 31 November 2000, ADB had approved 99 loans to this subsector, which constituted about 21 percent of the loans approved for the agriculture and natural resources sector and 6 percent of total ADB loans. ADB has also extended 333 TA grants to the agricultural support services subsector, totaling about \$160 million, or 10 percent of the total of TA grants. Of the 98 loans to the agricultural support services subsector, 31 have been postevaluated as of the end of 1999, of which 17 were exclusively credit projects. The majority of the exclusively credit projects (numbering 10 or 59 percent) were rated as successful with 5 (or 29 percent) rated as partly successful and 2 (or 12 percent) as unsuccessful. One TA project performance audit report on rural credit (rated as successful) and one impact evaluation study (IES) on agricultural credit (but confined to one country) were also prepared.³ No impact evaluation study has been undertaken by ADB so far on a regional basis. There is a need to provide feedback on ADB's past experience in rural credit assistance particularly in the light of the recently announced microfinance development strategy to ensure permanent access to rural credit and other financial services for the poor. The importance of such assistance in achieving ADB's overarching goal of poverty reduction makes it imperative that a study covering broader experience and scope be undertaken to provide an assessment of the impact of such assistance and lessons learned that are applicable to a wider area of ADB's operations in rural credit.

B. General Objectives and Strategies of Rural Credit Operations

2. ADB's rural credit operations in the formative years (i.e., 1970 to the late 1980s) was focused on expanding real sector objectives, namely, increases in production, employment, and farm incomes within the context of achieving economic growth. These objectives provided the basis and the rationale for the introduction and operation of rural credit projects in many developing member countries (DMCs). The major activities supported by the projects typically comprised the provision of credit to

¹ The term rural credit here is taken to include, but not exclusively confined to, credit for agricultural purposes. It also includes credit given to subborrowers for trading purposes or cottage industries, as in the case of some microcredit loans. Neither rural credit nor agricultural credit is categorized as a subsector in ADB's loan classification records. For this reason, no data are readily available on total loans and TA to rural credit as a subgroup.

² Loan 59-NEP(SF): *Agriculture Credit Project*, for \$2.4 million, approved on 23 December 1970.

³ Technical Assistance Performance Audit Report (TE-15) on TA 1961-VIE: *Development of Small-Scale Rural Credit Project*, circulated on September 1996 and Impact Evaluation Study (IE-7): *Bank Operations in the Agricultural Credit Subsector in Nepal*, circulated in September 1988.

- (i) food crop farmers, and farmer cooperatives for the acquisition of farm equipment such as tractors, power tillers, threshers, sprayers, and transport equipment;
- (ii) the private sector, parastatals, and cooperatives for the establishment of storage and processing facilities for agricultural produce and fish;
- (iii) fisherfolk for the acquisition of fishing vessels, marine engines, fishing nets; and
- (iv) the livestock sector for the acquisition of milch and draft animals and related activities including the collection and transport of milk to consumer centers.

3. Along with the credit projects, TAs were also extended, either standalone or as attachments to the projects, primarily to increase capacity or strengthen the institutions involved in rural credit operations.

4. A well-defined poverty focus was not evident in the rural credit operations of ADB during the early period. Reaching the poor appears to have been more or less synonymous with reaching small farmers. Project documents of this period touched on the issue of poverty and sometimes discussed at length the need to reorient rural credit strategies to provide a more equitable distribution of the benefits of economic development. However, there was very little evidence of any practical efforts being made to address this issue in a systematic way through projects financed. It is only in the 1990s, after the recommendations of the External Panel Report,⁴ that poverty reduction as an objective of rural credit operations in its own right emerged. Poverty reduction became increasingly more important and focused as an overarching objective with microcredit projects assuming greater significance over traditional rural credit projects that focused on growth and attainment of real sector objectives.

5. Nevertheless, the microcredit projects in the early 1990s were generally poorly targeted with little attention paid to financial viability. The focus was on credit delivery. In recent years, such credit assistance has gone beyond credit services to promote voluntary savings on a limited scale, emphasize market-oriented interest rates, and pay more attention to financial viability. There is a distinct bias toward gender development. Greater participation of the private sector in credit assistance is also encouraged. The change in policy and strategy culminated in the preparation of the current microfinance development strategy which focuses on creating a conducive policy environment, developing financial infrastructure, building viable institutions, supporting pro-poor innovations, and supporting social intermediation.⁵

6. The focus on real sector objectives during the early years suggests several criteria by which to judge the impact of rural credit projects. Impact is to be measured in qualitative and quantitative terms against the extent of changes made to these criteria, whether intended or unintended. The criteria should include the projects' success in: increasing production, farm incomes, and employment; disseminating and adopting new technology by farmers; and reaching small farmers and the disadvantaged in the community, a proxy for addressing the poverty and income redistribution issues. The preoccupation with real sector objectives in rural credit projects apparently led to less attention being paid to the development of rural financial institutions (RFIs). It was in the 1990s that more attention was shifted to the development of financial institutions. Additional criteria, therefore, for assessing impact would include the effect on the institutions and the rural financial systems in the DMCs along with the effects on cross-cutting concerns of gender development and environmental management, which became important only in recent years.

⁴ *The Asian Development Bank in the 1990s*. Panel Report, January 1989.

⁵ ADB. *Finance for the Poor: Microfinance Development Strategy*. May 2000.

C. Objectives, Approach, and Methodology of Study

7. The primary objective of this Study is to assess the impact of ADB assistance to the rural credit subsector through investment loans and TA projects and derive lessons from it. The IES is based on assessment of 39 ADB-funded rural credit projects and 21 essentially capacity-building advisory TAs associated with rural credit, in seven DMCs, namely, Bangladesh, People's Republic of China (PRC), Indonesia, Nepal, Philippines, Sri Lanka, and Thailand (Appendix 1). These DMCs have at least three rural credit projects (either exclusively or as a component) assisted by ADB and were chosen to give a balanced coverage of the subject matter. Their selection provides continuity to the recently completed sector synthesis of evaluation findings in rural credit projects, where the same countries were included.⁶ The IES uses both primary and secondary information. Impact is to be assessed not only with regard to the ultimate beneficiaries, who are normally farm households, but also with regard to the financial institutions and the executing agencies (EAs) according to the criteria indicated in para. 6.

8. Purposive socioeconomic surveys using questionnaires were conducted with the help of domestic consultants in each of the seven DMCs to obtain data on the impact on the ultimate beneficiaries. Relevant documentation reviewed for the IES included reports and recommendations of the President, project completion reports, project performance audit reports, and back-to-office reports of loan administration and review missions. Extensive discussions with DMC officials, EAs, and participating credit institutions during the course of various review and impact evaluation missions and ADB staff associated with the selected projects were held.

9. The IES has its limitations, particularly in regard to the socioeconomic surveys, where owing to the time gap involved between the completion of the early projects and the implementation of the IES, the beneficiaries could no longer be located. In the case of Indonesia, the implementing banks were closed or absorbed by a new bank resulting in the loss of not only project data but also staff who had been involved in the implementation of the projects. Invariably, the socioeconomic surveys have to focus on the beneficiaries of the more recently completed or even ongoing rural credit projects that have been under implementation for some time. Details of the scope and limitations of the IES are given in Appendix 2. On the positive side, the focus on the more recent projects produced results that are more currently relevant. The nature of activities funded by rural credit is such that they often require short gestation period (particularly in the case of microcredit projects) and impact can be assessed after a relatively short duration. Attempts were made to confine the socioeconomic surveys to respondents of the projects funded by ADB by selecting the geographical areas where only ADB projects are implemented or where ADB projects are predominant, as in the case of some provinces in the Philippines and Indonesia (as far as possible).

II. GENERAL FEATURES OF THE PROJECTS INCLUDED IN THE STUDY

⁶ ADB, Operations Evaluation Office (OEO). *Sector Synthesis of Evaluation Findings in Rural and Agricultural Credit*. December 1999. The synthesis is a compilation of findings of the various project completion and project performance audit reports. The findings relate more to implementation performance and output assessment of specific projects while the IES is concerned more with the impact of the projects as a group, especially over the longer term.

A. Nature and Characteristics of the Projects

10. The 39 rural credit projects include closed projects implemented as far back as 1970 and projects that are still ongoing (Appendix 1). Thirteen of the credit projects supporting agricultural production are exclusive, self-standing projects. These projects focused on encouraging on-farm investments in irrigation, farm mechanization, and agroprocessing, with a few aimed at increasing the use of fertilizer and chemicals,⁷ and providing support for new technology in the use of renewable sources of energy. Microcredit projects are another category of exclusive credit projects of which nine are included in the study. There are also five development finance institution (DFI) credit line types covering agribusiness and the small and medium industry (SMI) subsectors while all others are sector-wide programs covering fisheries and livestock, with credit forming only a part of the project among several components.

11. Types of investments under the projects are generally pre-identified and loan packages predetermined. But it is left to the borrower to decide whether to make use of the facilities offered. With the exception of credit lines to the Agricultural Bank of China (ABC), the sample includes projects in which the funds have gone exclusively to the private sector. As for PRC projects, a significant part of the loan funds has been used by a type of parastatals, which are non-state-owned enterprises (SOEs) but are definitely not privately owned (e.g., town and village enterprises [TVEs]). They are non-SOEs because they are not owned by the central government and enjoy a certain degree of freedom, in regard to setting prices that SOEs controlled by the central government do not enjoy.⁸

B. Project Rationale and Objectives

12. The rationale and objectives of the projects under study were generally relevant in the context of country situations. The early projects sought to address economic growth in the agriculture sector through speeding up the adoption of high-yielding variety (HYV) technology. Poverty reduction was not specifically addressed in these projects, although targeting small farmers and interest subsidies were features incorporated presumably to address this issue indirectly. It was to become a primary focus only with the emergence of microcredit projects, many of which started in the late 1980s and early 1990s. These were a special group of projects, seeking to promote income-generating activities mainly in the nonfarm sector for the purpose of creating employment opportunities for a large and growing class of rural poor without access to land or other capital assets.

C. Project Design

13. Except for the DFI type of lending, all the early projects were targeted credit projects in terms of crops, activities, and geographical areas—essentially a supply-led approach to credit programs. It was often assumed that there was credit demand for a project's goods and services and that the availability of credit would stimulate demand to surface. When an attempt was made to estimate demand, the approach commonly used for a particular activity was to

⁷ First to Fourth Agricultural Credit projects in Nepal, and first and Second Agricultural Credit projects in Bangladesh.

⁸ See *Rural Industry in Accelerating China's Rural Transformation* (Chapter 10) by Albert Nyberg and Scott Rozelle for a discussion on types of TVE ownership and control in rural industry.

determine the amount of key inputs that were required to achieve a given agricultural output target. Standard norms were then applied to estimate the cash outlay to be borrowed to obtain the required input. The project designs encouraged the achievement of physical targets in terms of number of shallow tubewells (STWs) sunk, number of power tillers or pump sets distributed, or quantities of fertilizer and chemicals sold under a credit scheme. Achievement of physical targets was the measure of success of a project. The project designs did not give adequate emphasis to laying the framework of policies necessary for building sustainable RFIs. TAs were provided to strengthen the implementing financial institutions but such interventions could not remove policies and practices that distorted rural financial markets and made growth of sustainable institutions difficult. The attention paid to microcredit projects in the 1990s reflects an increasing trend toward disconnecting programs with a poverty focus from those designed to improve agricultural production. The rationale is that standalone programs focusing exclusively on poverty reduction have a better chance of success in improving the lot of the constituency they seek to assist.

D. Credit Delivery System

14. The projects used a wide variety of financial institutions, banks, and other institutions to reach their clientele. Financial institutions were mostly used while in a few microcredit projects, line agencies were also used with the assistance of trustee banks to handle the channeling of credit to the village-based nongovernment organizations (NGOs) and cooperatives. In the selection of credit institutions for project implementation, ADB has not shown particular preference either for single institution or for apex arrangements. In DMCs with specialized credit institutions, namely, Bangladesh, PRC, Nepal, Philippines, and Thailand, ADB has naturally turned to them for implementation of credit projects. In other countries like Indonesia and Sri Lanka, in the absence of specialized institutions for agricultural credit, it had to lean solely on the commercial banking system to play a similar role. Usually the specialized institutions were used exclusively in projects. Occasionally, as in the case of the Small and Medium Industries projects in Sri Lanka, a specialized institution, National Development Bank of Sri Lanka, was used as an apex institution with the commercial banking system playing the role of participating credit institutions. Generally in projects with apex arrangements, the central bank of the country or a government line agency plays the role of EA.

E. Subloan Characteristics

15. With the exception of microcredit loans, all other credit lines offered medium- and long-term subloans for on-farm investments, agribusiness, SMI, fisheries, and livestock. Limitations of collateral, inadequacies in legal systems, and ineffective policies for the enforcement of contracts often made agricultural lending truly cash flow-based lending as opposed to secured lending with collateral. In the early projects, most interest rates were administered rates, fixed low with a concessional element for the benefit of farmers, and did not provide sufficient margin to the lending institutions to make their participation in credit projects profitable. The foreign exchange risk was borne by the DMC governments. Only in a few projects funded by ordinary capital resources (OCR) in Indonesia and Thailand and in all projects in the PRC that the foreign exchange risk was borne by the lending institutions. Further details on the features of the projects are given in Appendix 3.

III. IMPACT OF ADB'S OPERATIONS AT HOUSEHOLD LEVEL

A. Improvement and Redistribution of Income

16. The rural credit projects contributed to nominal income improvement in most cases, though in varying magnitudes, based on the results of the socioeconomic surveys carried out over the period, June to August 2000, in the seven selected countries (Appendix 2).⁹ In Indonesia, nominal income of farmers under the Rural Income Generation Project improved by about 103 percent over the period 1997 to 2000. In Bangladesh, the average nominal farm income of the three projects surveyed reportedly improved by over 200 percent after the clients participated in the rural credit projects over an average period of two to three years. But in Thailand, average household income of clients under the Small Farmer Credit Project improved by only about 65 percent over an average of three years. In the Philippines, incomes of about 90 percent of the clients of the four projects under study doubled on average after they joined the projects over a period of four years while 10 percent reported decreased or no change in incomes. The average household income of clients under the Rural Enterprise Credit Project in Thailand, in fact, declined by about 6.5 percent over a period of two years, caused in major part by the impact of the Asian financial crisis on small enterprises. The products of these enterprises could not be sold due to lack of demand while off-farm employment for other members of the household had shrunk.

17. Improvement in real incomes is somewhat less certain, depending on the extent of inflation in the DMCs. Southeast Asia was particularly affected by the crisis. Thus, in Indonesia, while the farm incomes of the clients under the ongoing Microcredit Project reportedly improved by about 29 percent over the period 1997-2000, the effects of inflation (6 percent in 1997, 58 percent in 1998, and 20 percent in 1999) negated the improvement in real terms. On the other hand, real income improvement is apparent in Bangladesh and Nepal where inflation rates were not significantly affected by the crisis.

18. Income improvement is manifested often in the acquisition of assets or in the purchase of consumer items during or after clients' participation in the projects. In the Philippines, about 20 percent of the clients spent their increase in income on residential lots, agricultural land, or houses. About 20 percent purchased business machinery, vehicles, or farm animals while about 70 percent bought household appliances and furniture (indicating multiple expenditure on the part of many clients). In Thailand, about 20 percent of the clients bought more land from their increased income and 30 percent spent their extra income on house construction, children's education, and household consumables.

19. The contribution of the rural credit projects (particularly those of the early period) to income redistribution is uncertain. On the one hand, benefits of rural credit projects in the agriculture sector, particularly in Bangladesh and Nepal, tend to accumulate in the hands of relatively well-to-do large farmers who can afford the necessary collateral for loans, apart from the fact that they are influential and more educated so as to be able to take fuller advantage of the credit facilities. On the other hand, the employment generated by the activities under the

⁹ Though the socioeconomic surveys cover a wide range of projects ranging from the early projects in Nepal to the more recent projects in the Philippines (Appendix 2), greater credence should be given to the more recent projects due to problems of recall. The anecdotal examples following are therefore projects of more recent origin.

rural credit projects as well as the economic activities themselves (particularly those financed under microcredit projects) tend to benefit the less financially endowed farmers. Although specific measures were not taken in the early rural credit projects to target small farmers, the expectation at the time of project design in most cases was that a certain minimum volume of investment would flow to small farmers, ensuring an equitable distribution of benefits among the rural community. The impact of the later projects (particularly the microcredit projects) tended to improve income redistribution with income increases gravitating toward the poor as in the case of the Rural Income Generation Project in Indonesia where poor handcraft-producing farm households were the beneficiaries.

20. The socioeconomic surveys for both Bangladesh and Nepal do not provide information on farm size of respondents, which would have given some indication on the issue of concentration of loans among the larger farmers. However, survey findings for Nepal provide some information on the level of literacy of farmers who have accessed loans. This may serve as a proxy variable for judging income level. In a country where the overall literacy rate is around 38 percent, the fact that 94 percent of farmers accessing loans under projects were literate is of some significance, indicating that they were drawn from the fairly well-to-do in the community. Their higher level of literacy enabled them to take advantage of the credit facilities subject to their being able to provide the necessary collateral. Also, the nature of the subprojects financed and the selection procedure of financing institutions for loans would have influenced the concentration of loans among the relatively large farmers in the community. Project goods like STWs were attractive only to farmers with large landholdings who could also satisfy the collateral requirements of banks. The presumption is therefore strong that project benefits under agricultural projects flowed into the hands of relatively large farmers in the rural sector. Tractor loans tend to have a negative impact on tenant farmers. The use of tractors made it possible for large farmers to cultivate their sizable, often fragmented, holdings and dispense with tenants or permanent labor.¹⁰

21. The group of projects in the agribusiness sector, particularly the Small and Medium Industries projects in Sri Lanka, the credit lines to ABC and to the Fujian provincial government in the PRC, and the Rural Enterprise Credit Project in Thailand have had a positive impact on income distribution through their employment effects. The kelp processing plant in Lianjiang, Fujian Province, PRC, for example, provided employment for about 600 young female workers drawn from the surrounding fishing community who would otherwise have been unemployed, and contributed to the family income of those employed.

B. Poverty Reduction

22. Poverty reduction was not an area of focus for the early rural credit projects as economic growth was the main concern of ADB's assistance to DMCs. Any poverty reduction attempt in the early rural credit projects was made indirectly by ensuring that these projects included small farmers as well as areas with high incidence of poverty in the course of achieving real sector objectives. The inclusion of the northeast provinces of Thailand in the Agricultural Credit Project is an example. The poor were expected to benefit from these projects through improvement in incomes and greater employment opportunities. But the projects were not designed to have a major impact on poverty. With the introduction of microcredit projects, the poor—including landless farmers—were able to participate in trading and other off-farm activities with few assets

¹⁰ ADB. Impact Evaluation Study (IE-7): *Bank Operations in the Agricultural Credit Subsector in Nepal*. 1988.

to offer as collateral for loans. The extent of poverty reduction on individual clients is therefore measured by the improvement in incomes and the acquisition of assets (paras. 16 and 18 above).

23. The impact on poverty incidence in any particular area is, however, difficult to determine depending on, among others, the outreach of rural credit projects. Such outreach differs according to the project and DMC. In Thailand, while group guarantee is an alternative, the bulk of subloans extended under the Small Farmer Credit and Rural Enterprise Credit projects is still based on physical assets (particularly land) used as collateral, thus limiting the outreach to poor clients. Further, preference is given to old clients by way of incentives through reduction in interest charged. In Indonesia, the Microcredit Project is focusing on new subborrowers, which is likely to increase the outreach of the Project. However, collateral is still required even though very creative items of collateral (e.g., television sets) are accepted. In the Philippines, the use of NGOs in the NGO Microcredit Project offered a wider outreach to the poor.

24. However, while microcredit projects are targeted at reaching the poor, the loan size often limits the impact of such projects primarily because of the limited absorptive capacity of the poor who also tend to be risk averse. The subloans in Thailand are used mainly as working capital and are suitable only for subprojects with a low asset base, such as petty trading. Handicraft activities funded under the Rural Income Generation Project in Indonesia are very profitable but are limited by the small loan size. In both Indonesia and Thailand, interviews with some borrowers indicated that they would want to convert their existing loans to other schemes to take advantage of larger loans but ran into problems of collateral required.

C. Production, Productivity, and Technology

25. Rural credit projects contribute to increased production in the agriculture sector, though often not in the quantum expected at the project design stage or else not sustained. The extent of production increase is dependent on the nature of the project. In Indonesia, for instance, the farm production increase after joining the project as reported by the clients of the Microcredit Project was only about 5 percent as few clients use the loans for farming or animal husbandry activity. The small loans were mainly used for working capital for agribusiness activities that include production of ginger powder, snack foods, and soybean cake. On the other hand, the projects in Bangladesh and Nepal that financed STWs contributed substantially to a production increase in cereals through an increase in cropping intensity and higher yields. On the average, the cropping intensities under the Third and Fourth Agricultural Credit projects in Nepal improved from 160 percent to 260 percent with full development implying a production increase of about 60 percent under normal circumstances. Rice production among the clients of the credit projects in Thailand increased by about 34 percent.

26. Production more often fell short of expectations at the time of project design. Some of the common reasons are small holdings, fragmentation of land holdings, lack of cooperation among neighboring farmers in constructing distribution channels, and limited mobility of the STW pump sets due to transportation difficulties that limit the irrigated area for crop production. Production has not improved to the extent envisaged at appraisal, largely because of an inadequate supply and poor availability of fertilizer and chemicals. Lack of knowledge among farmers about the rate of fertilizer application restricted their use in optimum quantities. Productivity improvement in regard to crop production has therefore been modest. The yield for HYV paddy at the time of completion of the Third Agricultural Credit Project in Nepal was

2.8 tons per hectare (in 1983) while that for local paddy was 2.0 tons. The socioeconomic survey in Nepal estimated the yields for HYV and local paddy to be 3.1 tons and 2.2 tons, an increase of about 10 percent. Rather than in crop production, improvement in productivity for most countries appears in the form of creation of capital assets on farms, including tractors and other farm machinery, tubewells and other irrigation works, soil conservation work, equipment for tapping renewable sources of energy, silos, sheds and stores, as well as the introduction of new crops. The socioeconomic survey in Nepal reveals that a significant volume of capital accumulation took place in the form of land and buildings in the borrowing households, which together accounted for 81 percent of the value of physical assets per household. The experience of Thailand is somewhat different with capital deepening taking place not only in farming activities but also in nonfarm rural activities because of the emphasis placed on investment in such activities. The Brackishwater Shrimp Culture Development Project and Rural Enterprise Credit Project are two examples of this drive to expand nonfarm activity in rural areas.

27. In Bangladesh and Nepal, STWs, farm power equipment, water turbines, and related technology introduced under ADB's rural credit projects spread quickly through the rural sector. Widespread farmer acceptance of the new technology was a clear indication that the subprojects promised economic benefits that were not only attractive but also commensurate with the investment made. The Sri Lanka Rural Credit Project exerted a powerful influence over farm mechanization programs in the country, providing the impetus for increasing the volume of investment in farm power. A major objective of ADB's agricultural credit portfolio was to promote the adoption by farmers of HYV technology. The successful adoption of such technology is, however, dependent on the use of adequate inputs, particularly fertilizers. In most countries, ADB supported term lending for acquisition of capital equipment in the form of tubewell installations, farm power in the form of two- and four-wheel drive tractors with trailers and bulls, and processing equipment. ADB generally did not support short-term credit to promote the use of fertilizer and chemicals, which were left to the countries concerned to handle under domestic credit programs. But there were exceptions. In the case of Bangladesh and Nepal, ADB provided financing to a limited extent for the import and distribution of fertilizer and agrochemicals.

D. Employment and Creation of New Economic Activities

28. Evaluation documents provide very little information on the employment effects of credit projects. Whereas the traditional agricultural credit projects had as their central objective the introduction of HYV technology, and consequently, improvements in yields and cropping intensities, the credit projects designed for the SMI sector and for the promotion of rural enterprises had as their central objective the promotion of employment in off-farm activity. The absorption of surplus farm labor coming off the land in productive activity was among the key underlying considerations of this group of projects. ADB assisted several countries with projects designed to address this issue of employment creation. Typical projects from the group included in the IES are the first and Second Small and Medium Industries projects in Sri Lanka, the Rural Enterprise Credit Project in Thailand, the first and Second Agricultural Bank of China projects in PRC, and the Rural and Agro-Based Industries Credit Project in Bangladesh.

29. ADB has attempted to address the issue of employment by introducing projects designed to promote the establishment, expansion, and modernization of rural enterprises. These projects, with the exception of projects in the PRC, the Small and Medium Industries

loans in Sri Lanka, and the Rural Enterprise Credit Project in Thailand, generally had low impacts. The Rural and Agro-Based Industries Credit Project in Bangladesh, the Livestock Development Project and Aquaculture Development Project in Sri Lanka, and the Brackishwater Shrimp Culture Development Project in Thailand are among the projects with low impacts because of implementation difficulties. The Bangladesh project was affected by the then new industrial policy and the consequent reduction in government-mandated interest rates. In Sri Lanka, the greater reliance on the private sector with the entry of a multinational food product company derailed the Livestock Development Project while the reversal of the inland fisheries policy affected the implementation of the Aquaculture Development Project. The project in Thailand was cancelled about one year later after loan effectiveness because of adverse foreign exchange rates and interest rate developments affecting the Bank for Agriculture and Agricultural Cooperatives (BAAC). These projects could not realize their full potential with regard to employment creation because, in particular, developments in industrial policy and the financial markets that made the projects' implementation unattractive to financial institutions.

30. Nevertheless, anecdotal evidence points to some limited creation of employment opportunities such as those provided by certain rural enterprises under the Fujian Soil Conservation and Rural Development Project. A kelp processing plant, for instance, provided employment for about 600 female workers who would otherwise have been unemployed. The projects can be seen to lead to the creation of some new economic activities for clients. The Small Farmer Credit and Rural Enterprise Credit projects in Thailand have had a positive impact on employment and changes in the occupation of clients. About 20 percent of those interviewed during the socioeconomic survey reported changing their main occupations from farming activities to more remunerative activities, including operating rural gas stations. About 5 percent of the farmers surveyed stopped growing paddy to devote more time to trading activities.

E. Returns on Investment

31. Positive economic returns on investment above the opportunity cost of capital imply a contribution to the national economy and therefore a positive impact, however limited. Similarly, positive financial returns above the cost of capital represent a positive financial impact accruing to the project. Typically, rates of return on ADB's rural credit projects are assessed in terms of the subprojects or economic activities financed under the credit project rather than on the whole project. The configuration of the subprojects would not be known at the time of project design. The indicative economic internal rates of return (EIRRs) of the subprojects at postevaluation varied from 5.7 percent in the case of the Aquaculture Development Project in Sri Lanka to 69.8 percent in the case of the Agricultural Credit Project in Thailand (Appendix 4). Adopting ADB's normal cut-off rate of 10 percent, it would appear that the majority of the subprojects are viable. The socioeconomic surveys do not yield adequate information for the estimation of the EIRRs for all countries. But available data tend to confirm the economic viability of the subprojects as in the case of the Sixth Agricultural Credit Project in Nepal where the EIRR varied between 26 and 143 percent, depending on the subproject. The financial internal rates of return (FIRRs) follow a similar pattern, with a much lower figure of 1.8 percent for the Aquaculture Development Project in Sri Lanka to as high as 56 percent for the Brackishwater Shrimp Culture Project in Thailand at postevaluation. The socioeconomic survey results indicate that the FIRR varied between 22 and 121 percent.

32. However, economic and financial viability does not guarantee that the rural credit projects will be sustained. Other factors that could affect project sustainability include technical

constraints (disease), policy and political changes, and changes in economic circumstances. (The issue of sustainability is discussed later).

IV. IMPACT OF ADB'S OPERATIONS ON RURAL FINANCIAL SYSTEMS

A. Expansion of Loan Portfolio of Financial Institutions

33. The rural credit projects placed a large volume of resources and much-needed foreign exchange at the command of the financial institutions involved in the projects. Such resources enabled these institutions to expand their portfolios rapidly. This was especially true in the case of those institutions heavily dependent on foreign funding in the early years of ADB's operations. ADB was the major source of funds, for instance, in the case of the Agricultural Development Bank of Nepal (ADBN) and Bangladesh Krishi Bank (BKB)¹¹ and a substantial, though not major, source for BAAC. The resources enabled these institutions to perform their functions of financing agricultural and rural investments. Some institutions, though, had adequate internal resources either through their own efforts in resource mobilization from the public (as in the case of BAAC in later years) or through budgetary transfers from the government (as in the case of ABC) to implement their credit functions. ADB's assistance under such circumstances does not appear critical and, in fact, has led to considerations of prepayment of ADB loans (currently, by ABC and BAAC).

B. Loan Recovery

34. The impact on loan recovery is difficult to assess. Participating financial institutions (PFIs) seldom provide information on loan recovery broken down by project. These institutions also have assistance from other aid agencies and the overall loan recovery performance of the PFIs reflects the average performance of all assistance available. Of the 39 projects under study, only 13 projects yield project-specific information based on documentation available within ADB. The loan recovery performance is given in Appendix 5. The poor loan recovery performance is especially significant for rural credit projects in Bangladesh and Nepal. ADBN and BKB continue to show poor performance in loan recovery and an erosion of their capital base.

35. Loan recovery is often affected by financial indiscipline, issues of rescheduling, and loan waivers undertaken by many PFIs. Notably in the agricultural credit projects in Bangladesh and Nepal where financial institutions have often been required to undertake government-directed extensive rescheduling of loans, such indiscipline has a negative impact on the credit culture. In the early years, ADB was often faced with a *fait accompli* when DMC governments took unilateral decisions to reschedule or waive loan repayments. This changed when ADB cancelled

¹¹ In 1988, ADB accounted for about 82 percent of the external loans to BKB. Apart from BKB, local bank reports in the seven countries did not provide breakdowns by source of funds. Discussions with ADBN indicated that ADB was the principal source of external funds with the International Fund for Agricultural Development providing a much smaller volume of funds in the early years.

the Agricultural and Rural Credit Project¹² when the Government declared a general debt amnesty for all agricultural loans below Tk5,000. The cancellation also marked the beginning of a trend in ADB, when loan funds were provided to leverage changes in financial, institutional, and operational policies of RFIs.

36. The eligibility criteria for PFIs in ADB's rural credit projects included portfolio quality as reflected by collection ratios, provisioning of loan losses and earnings. Had ADB applied the criterion of collection ratio strictly to decide on eligibility of PFIs, the Fourth, Fifth, and Sixth Agricultural Credit projects with ADBN in Nepal, and the first and Second Agriculture Credit projects in Bangladesh, could not have been undertaken. The collection performance of these two institutions was poor at the time. ADB's decision to fund the projects was guided more by practical considerations that include the availability of a network of branches. In other countries, ADB eligibility criteria seemed to be strictly applied. In the Second Small and Medium Industries Project in Sri Lanka, for instance, a condition for participation by a financial institution was the maintenance of a 70 percent collection ratio.

C. Qualitative Improvement of Loan Portfolio of Institutions

37. Though ADB's contribution was small relative to total resources employed in some credit institutions, it was able to bring about a significant qualitative change in the portfolio of these institutions by the design and focus of its projects. For example, ADB provided resources in foreign exchange for investments that required term finance. From narrow specialization in short-term finance, these institutions expanded their portfolios into a wide variety of term-financing needs in the agriculture sector, covering farm power, irrigation, agroprocessing, fisheries, livestock, and transport. Term lending for capital investment was completely absent in many DMCs during this period. The Rural Credit Project introduced Sri Lankan banks to credit products involving agricultural machinery for the first time. Agricultural machinery loans are now a part of the general array of products which Sri Lankan banks offer, indicating that the banks have overcome their initial reluctance. ADB's interventions enabled the banks to introduce modern technology in agriculture that otherwise might have taken a long time to happen in the absence of foreign exchange resources provided under credit lines.

D. Deposit Mobilization

38. A number of specialized institutions like ADBN, BAAC, and BKB were recipients of cheap government resources through refinancing and rediscount windows established in central banks and from diversion of resources from the commercial banking sector through obligatory deposit schemes. The provision of funds from aid agencies including ADB, it was argued, would tend to further weaken the efforts of RFIs to engage in deposit mobilization. However, the banking systems in the DMCs of the region were awash with liquidity during the early period for lack of credit demand arising from scarcity of foreign exchange for capital investment.¹³ In a

¹² Loan 1071-BAN: *Agricultural and Rural Credit*, for \$60.0 million, approved on 18 December 1990. The Project is not included in this study since it was not made effective.

¹³ The banking systems in Bangladesh, Nepal, and Sri Lanka had credit deposit ratios ranging between 0.65 and 0.75 during the 1960s and 1970s. Similarly, liquid assets to deposit ratios were in the region of 40-50 percent for the same period. The credit deposit ratio moved closer to 1.00 after liberalization of exchange controls in these countries. A rapid growth in deposits was also visible, coinciding with liberalization.

situation of excess liquidity in the system, with little scope for lending for investment, institutions had little incentive to engage in deposit mobilization. Both deposit and lending rates were also controlled under tight interest rate regimes, leaving little room for expansion of lending, as was the case with Bangladesh and Nepal, further eroding the incentive for expanding deposit mobilization. By providing foreign exchange and stimulating capital investment in the agriculture sector, ADB's intervention persuaded RFIs to increase their efforts at deposit mobilization. Many institutions that functioned as exclusive credit channeling windows expanded into institutions handling a full range of financial services. There is evidence that, with rapid increases in portfolio and outreach, ADBN, BAAC, and BKB intensified their efforts at deposit mobilization in the early 1980s.¹⁴

E. Development of Rural Financial Systems

39. ADB's rural credit operations tend to go along with policies already shaping the agricultural credit operations of DMCs which were emerging from a subsistence-oriented system into one producing for the market. Credit was construed as just another input in the production process with targets, subsidies on inputs, and cheap rates of interest as major features, aimed at achieving high growth rates in agriculture. Such features were not conducive to the development of a sustainable rural financial system that could service the credit needs and provide all other financial services in the rural sector. ADB's credit projects helped put these ideas into practice on a larger scale, without their being subjected to the constraining influence of resource limitations that many DMCs otherwise might have experienced, compelling them to rethink their strategies. The projects are seen, therefore, as an extension of the directed credit programs already in existence in the DMCs. Participation of private banks in the system was inhibited by the distortions as such in the financial sector, including the lack of an adequate regulatory framework and policies relating to the recovery of bad loans.

F. Procurement Policies

40. Some difficulties and delays were created by ADB's procurement policies, which lessened the impact of the rural credit projects due to implementation difficulties. This problem was seen in its most acute form in the projects implemented in the 1970s and early 1980s when ADB followed very rigid procedures, requiring international competitive bidding (ICB) for procurement in credit projects and at the same time denying end-user preference. An example was the Agricultural Credit Project in Thailand which has a component on equipment loans (water pumps, tractors, power tillers, etc.). Farmers preferred used local water pumps, etc., which could not be acquired under ICB procedures but were insisted on under the project. BAAC had to request part cancellation of the loan, as there were not enough takers for the loan

¹⁴ BAAC made very impressive progress in deposit mobilization. At the end of March 1999, deposits amounted to B165 billion (\$4.5 billion) according to BAAC's audited report of FY1999. At present, the majority of its branches can meet more than 50 percent of total advances with deposits mobilized in their areas, they resort to head office for the balance. Urban branches have been successful in mobilizing an increasing share of deposits in the banking system, thus reversing the flow of resources from urban to rural sectors. See *The BAAC Success Story: A Specialized Agriculture Bank Under Government Ownership*, by Orlando V. Sacay and Meliza H. Agabin, January 1995, Financial Sector Development Department, World Bank.

to purchase equipment. However, ADB has since not insisted on ICB for DFI loans and left procurement mostly in the hands of the EAs as long as it was out in the interests of economy and efficiency. ICB procedures are applicable only when the procurement amount is unusually large. In many credit projects, time consumed in procurement activity was sometimes as much as 50-60 percent of the originally allotted project period. In the Fourth Agricultural Credit Project in Nepal, procurement-related issues, constituting about 20 percent of project expenditure, took up nearly 80 percent of the originally scheduled project implementation period. Generally, projects moved slowly at the beginning and gathered momentum only after completion of procurement of project goods, pointing to capacity problems and initial unfamiliarity of ADB procedures on the part of the EAs.

41. ADB's procurement procedures put additional responsibilities on the EAs, some of which tended to transform credit institutions into business establishments engaged in the import and distribution of agricultural machinery. Some institutions, mostly specialized institutions like ADBN and BKB, performed these responsibilities with diligence, establishing new divisions or units for the purpose, while others, mostly commercial banks, declined to carry out these responsibilities, even at the risk of forcing cancellation of components in projects. In the Sri Lanka Rural Credit Project, the People's Bank and Bank of Ceylon declined to bear the responsibility for importing agricultural machinery as provided in the loan agreement. Procurement responsibility was finally assumed by the Central Bank of Sri Lanka, which then also took on the role of EA for this credit component in which, in the original terms of the Loan Agreement, it had only a coordinating role. In the Fisheries Credit Project in Bangladesh, BKB was obligated under the terms of the Loan Agreement to engage a boat-building expert to design and construct boats to be sold under the credit scheme. Such requirements in project design really amounted to calling on financial institutions to go beyond their allotted sphere. The underlying reasons could be to ensure that all the relevant activities funded under the loan would be integrated and scale economies could be realized. However, this is not necessarily efficient and ADB has not since imposed such conditions. Noncompliance of such covenants would not necessarily jeopardize the sustainability of such projects as some other, more efficient, sources can be tapped to supply the necessary equipment.

G. Project Design

42. Project designs have generally been appropriate and contributed to the positive impact of rural credit projects. In the early years, project designs often had a specific subsector focus in terms of subloan eligibility. Hence, early projects often had components on agricultural equipment lending or financing of fishing boats. Later projects, especially microcredit projects, have tended to have a less specific component and are being more oriented toward the purpose of the subloans, such as income generation. Any activity that will increase income can be financed within the subloan limit set, be it agricultural or nonagricultural activity. Nevertheless, some cases of limited or adverse impact arising from project design exist. In the Sri Lanka Rural Credit Project, implementation of the four-wheel drive tractor component became a problem because of lack of demand, given the relatively limited size of farm holdings, the fragmentation of farm land, soil structure that discouraged the use of heavy equipment, and an undeveloped custom hire market. In Indonesia, the implementation of the Fisheries Industries Credit projects with their focus on shrimp culture was seriously affected because of the collapse of the industry through disease brought about by the intensive culture approach (based on technology from Taipei, China) in place of the less intensive medium-scale model (in which Indonesia has a comparative advantage). Intensive siting of shrimp farms among the mangrove swamps with

their discharge of effluents in the surrounding waterways not only contributed to environmental pollution but also helped nurture a virus that ultimately attacked the shrimps.

43. A longer-lasting impact is that in several projects, particularly those handled by specialized institutions, certain design features were introduced by ADB that raised administrative costs to the EA and pushed them into areas they were least equipped to handle. The two institutions that suffered most because of additional responsibilities were ADBN and BKB, both of which were already saddled with high administrative costs. Two glaring examples are worth mentioning. In the case of ADBN, ADB required it to play an expanded role in the cooperative sector¹⁵ while in the case of BKB, ADB expected it to assume responsibility for boat design and construction: clearly, these were two areas in which they were not qualified.

H. Exposure to Foreign Exchange Risk and Varying Interest Rates

44. Rural credit project loans funded from ADB's OCR had often been extended to PFIs in the DMCs under the exchange risk pooling system that provided little safeguard to the institutions against rapid a decline in the value of the domestic currency. The appreciation of the yen and the dollar in the 1980s against the Baht resulted in BAAC incurring a foreign exchange loss of B457.63 million (\$17.58 million at the then exchange rate of B26 per dollar) when it cancelled and prepaid the Agricultural Credit loan. A major impact from this experience is that now BAAC has passed the foreign exchange risk to its clients whose loan obligations now include adjustments for foreign exchange rate fluctuations. The Asian financial crisis would have exacerbated the foreign exchange risk for BAAC except that it had already passed it on to its clients. The impact of the crisis on BAAC is still adverse as, though it is insulated from the exchange risk, the loan repayments rate from its clients has dropped to about 70 percent compared with 80-90 percent prior to the crisis. In the PRC, the need to insulate against foreign exchange risks results in subproject loans being denominated in foreign currency. Most of the subloans under the first and Second Agricultural Bank of China projects and the Fujian Soil Conservation and Rural Development Project have been used to fund subprojects that produce largely for the domestic market, thereby exposing them to risks from currency changes.

45. The rural credit projects not only expose the PFIs to foreign exchange risks but also to higher costs of maintaining the loans when they could not find enough clients as a result of interest rate differentials between that demanded by ADB and that prevailing in the market. BAAC declined to use the credit component in the Brackishwater Shrimp Culture Development Project. The market interest rates are much lower than those mandated under the Project as a result of government reflationary policy in the aftermath of the Asian financial crisis. Similarly, the Rural and Agro-Based Industries Credit Project in Bangladesh faced this difficulty when the interest rate on subloans under this Project became uncompetitive in relation to market rates, which had declined because of a change in government policies. Both ABC and BAAC are considering the feasibility of prepaying ADB loans, especially since they can secure adequate domestic currency deposits at cheaper rates.

¹⁵ ADBN was expected to assign one junior technical assistant to each cooperative and in addition assign the required number of marketing and cooperative officers to the cooperatives and branches covered by the project. In fulfilling this obligation, ADBN provided a total of 229 staff (in 1978/79) working full time in the supervision of cooperatives and generated administrative costs beyond what ADBN could afford.

V. OTHER IMPACTS

A. Capacity Building

46. The rural credit projects contributed to capacity building in the course of their implementation, such as through the training given to staff of project management offices typically in procurement policies, administrative procedures, and management information systems (MISs). This is done either through seminars organized by ADB using its internal resources or through the use of consultants engaged under a TA. Such in-service or on-the-job training is evident in the Fujian Soil Conservation and Rural Development Project and contributed to improved implementation of loan projects. Nevertheless, capacity building of the EAs and the financial institutions has been pursued primarily through the use of TAs either attached to the rural credit projects or standalone. These TAs covered a wide scope that included administration and management, agricultural development and credit, lending procedures and operations, loan processing, appraisal and economic studies, financial management and accounting, cooperatives, and cold storage and warehousing.

47. An important impact of ADB's TAs was enhanced capacity of the EAs, mostly DFIs, and improved knowledge and skills of their respective officers and staff. Improved institutional capacities reported were largely in terms of organizational management, finance, accounting, MIS, and credit risk management. In Nepal, the project-attached TAs on Second Agricultural Credit¹⁶ and Institutional Building of ADBN¹⁷ were able to, respectively, improve ADBN's financial management and accounting system and enhance its operating capability. In the PRC, the TA attached to the first Agricultural Bank of China Project¹⁸ strengthened the institutional capacity of ABC's provincial offices covered by the Project and substantially improved ABC's lending activities as well as its accounting and financial MIS. Subsequently, another TA contributed to the strengthening of lending operations, project financing, and international finance capabilities of the Industrial and Commercial Bank of China.¹⁹ A third TA resulted in the State Development Bank of China adopting a methodology on analyzing and evaluating credit assets that could be integrated with international practice.²⁰ In Bangladesh, BKB implemented major reforms to strengthen its organization and management based on the recommendations of the attached TA to the Agricultural Credit Project. These reforms enabled BKB to experience fast growth in lending and expansion in its branch network subsequently.

48. The training and fellowships granted under the TAs significantly enhanced the knowledge and skills of beneficiaries and/or staff of EAs/DFIs, resulting in their promotion or being given regular or permanent positions. After the return of 10 BKB officers who were awarded fellowships under a TA,²¹ six were promoted to positions of higher responsibility compatible with the training they underwent. Likewise, the TA attached to the first Agricultural

¹⁶ TA106-NEP: *Second Agricultural Credit*, for \$140,000, approved on 2 April 1974.

¹⁷ TA 870-NEP: *Institutional Building of Agricultural Development Bank of Nepal*, for \$380,000, approved on 7 April 1987.

¹⁸ TA 1425-PRC: *Institutional Strengthening of Agricultural Bank of China*, for \$480,000, approved on 29 November 1990.

¹⁹ TA 1571-PRC: *Institutional Strengthening of the Industrial and Commercial Bank of China*, for \$800,000, approved on 1 October 1991.

²⁰ TA 2664-PRC: *Institutional Strengthening of the State Development Bank of China*, for \$500,000, approved on 16 October 1996.

²¹ TA 361-BAN: *Second Agricultural Credit*, for \$290,000, approved on 29 July 1980.

Bank of China Project reportedly upgraded skills of the staff of ABC in the areas of investment analysis, project preparation and appraisals, market analysis, choice of technologies, and environmental aspects. The TA granted to the Land Bank of the Philippines (LBP) aimed not only to enhance the capabilities of cooperatives but also to develop a community-based core group of technical specialists that would provide long-term institutional strengthening to cooperatives.²² These technical specialists were in such great demand that 10 institutions offered to hire the 64 specialists that were trained under the TA. This brings into question the problem of the sustainability of the capacity building. For as long as these other hiring institutions are in the same sector, the capacity is retained even though not in LBP. More important is whether there are adequate capacity in LBP to continue training with the completion of the TA.

49. TAs provided by ADB were also intended for other key players, particularly RFIs, which participated as credit conduits or financial intermediaries. These RFIs benefited from the TAs in terms of better performance and improved management capability as was the case with the TAs attached to the rural credit projects in the Philippines, which tapped cooperatives and other people's organizations, NGOs, and rural banks as credit retailers. The TA on Institutional Strengthening of NGOs assisted in the institutional strengthening of accredited RFIs to be effective in credit delivery and in poverty alleviation.²³ NGOs or RFIs that received support from this TA performed better than those that could not get assistance, because their management capability improved.

50. Not all TAs were successful in terms of achieving the intended impact of assistance provided. An example is the case of the TA 1470 given to the Department of Women's Affairs of Bangladesh for the social preparation and training of beneficiaries and project staff and in support of the Rural Women Employment Creation Project. Even at the time the Project was completed, Department of Women's Affairs was still undecided on its role in microfinance and had not developed institutional concepts, guidelines, or sustained capacity.²⁴ On a comparative basis with the countries under the IES, Bangladesh, Indonesia, Nepal, and Sri Lanka continued to demonstrate weaknesses in institutional development attributed to, among others, lack of competent staff, weak accountability for problem loans, and political intervention in their operations.²⁵ Individual assessment of a sample of 21 TAs is given in Appendix 6.

B. Gender Development

51. Gender development was not an explicit concern in the early rural credit projects. Hence, an impact on gender development is not discernible in the early years. Later projects, particularly the microcredit projects, have gender development either as primary objectives or as secondary objectives. Generally, the rural credit projects have had a positive impact on gender development, according to the socioeconomic surveys in the IES. In Thailand, the Small Farmer Credit and the Rural Enterprise Credit projects impacted positively on women through supplemental income and employment effects with about 44 percent of the women beneficiaries playing a strong role in managing business activities either directly (21 percent) or in a consulting capacity with their menfolk (23 percent). In Indonesia, about 75 percent of the Rural

²² TA 1810-PHI: *Institutional Strengthening of Cooperatives*, for \$600,000, approved on 22 December 1992.

²³ TA 1093, for \$490,000, approved on 22 December 1988.

²⁴ TA 1470-BAN: *Social Preparation and Training of Beneficiaries and Project Staff*, for \$1,430,000, approved on 13 December 1990, funded by the Government of Norway and administered by ADB.

²⁵ ADB, OEO. *Sector Synthesis of Evaluation Findings in Rural and Agricultural Credit*. December 1999, p. 8.

Income Generation and about 60 percent of the Microcredit project loans went to women. Financial services and training to poor rural women were also provided under the Rural Women Employment Creation Project in Bangladesh. Employment generation for women is a common feature in a number of the rural enterprises funded under the rural credit projects in the PRC (para. 30).

C. Environment

52. The rural credit projects are generally neutral in their impact on the environment. A large majority of projects involved disbursement of small loans to farmers, fisherfolk, and artisans whose operations were essentially small scale and did not involve the use of any type of technology that could be damaging to the environment. The exception may be the case of projects in the PRC where the clients were TVEs and the subprojects were relatively large. The impact of the Fujian Soil Conservation and Rural Development Project, however, is positive as degraded land was turned into productive farms (orchards, bamboo farms, etc.) by farmers to whom credit was extended, albeit at subsidized interest rates. As a result of the selection criteria for subprojects required by ADB, ABC requires strict adherence to environmental standards by its clients, namely, the TVEs. A maize processing enterprise in Tangshan Province, financed under the Second Agricultural Bank of China Project, has had to stop operations for nearly a year as it had to undertake the necessary steps to conform to government environmental requirements regarding the disposal of its effluents.

53. Nevertheless, there is an unintended adverse impact from the early rural credit projects in Bangladesh financing STWs. Evidence is now emerging that STW programs pursued in Bangladesh in the last three decades under ADB's assistance as well as assistance from other aid agencies have contributed to excessive tapping of underground water. In some localities in Bangladesh, there is a concentration of chemicals harmful to human beings in the drinking water that is considered to be a direct result of excessive tapping of underground water. The incidence of excessive levels of arsenic in water has now become a major health hazard in the country. The problem of excessive tapping of underground water was anticipated during appraisal. Financial institutions were required to strictly control the sinking of wells in a given area. But these subprojects had a great demonstration effect on farmers who established a large number of wells with their own resources.

D. Covenants

54. Covenants imposed under the rural credit projects were generally well conceived and appropriate for the achievement of project objectives, though there were some exceptions.²⁶ Compliance by most borrowing institutions with the substantive covenants was mostly satisfactory, sometimes almost to a fault when such compliance was obviously detrimental to

²⁶ These include primarily the covenants of the earlier projects requiring ADBN to recruit engineers, overseers, and technicians for the construction of cooperative warehouses and cold stores (Second Agricultural Credit), ADBN to limit fertilizer issues to the first year after STW construction and pump set installation (Third Agricultural Credit), and BKB to strengthen the Fisheries Credit Division with engineers to undertake design and construction of boats (Fisheries Credit). These were mostly project-specific covenants, which were seen to be essential at the time of project implementation for the proper execution of projects but were not really within the capacity or mandate of the PFIs.

the interests of the PFIs (para. 43). There were, however, some instances where compliance was either partial, delayed, or entirely lacking. In the large majority of cases, mitigating circumstances were acceptable to ADB for instances of failure to comply with covenants. Less pressing covenants on reporting requirements and on monitoring and evaluation tend to meet with difficulties of compliance because of limited capacity of the EAs or lack of interest or commitment in monitoring and evaluation activities.

55. Covenants reflect to a large extent the evolution of ADB's lending policies. Apart from administrative covenants relating to procurement, establishment of project management offices and project coordinating committees, separate accounting of project funds and such other operational requirements, the other covenants tend to reflect evolving ADB policy on poverty, gender issues, environmental management, and financial sector policies. Covenants of projects that came into operation in the latter half of the 1980s and the early 1990s tend to address these issues whereas in earlier projects the covenants were mostly project related. Covenants have, therefore, begun to be much wider in scope and coverage, designed to pursue the accomplishment of certain policy reforms that ADB deems necessary, such as the abolition of interest rate subsidies, improvement of loan repayments from clients, and targeting of poverty groups. The impact of such covenants has generally been positive in not only providing the impetus for institutional strengthening and capacity building but also toward the achievement of greater efficiency and efficacy in credit delivery and management.

E. Sustainability

56. Sustainability is to be seen essentially in terms of the continued retention and generation of the benefits from the credit projects that are dependent to a great extent on the continued existence of the financial institutions. The sustainability of impact from the rural credit projects is mixed. The rural credit projects have succeeded in introducing a range of subprojects, involving new technology acceptable to the farming community in the form of STWs, farm power, and processing facilities in the agriculture sector, multiday fishing boats in the fisheries sector, and water turbines and biogas in the energy sector. But many of these subprojects are now defunct as in the case of the shrimp farms under the Fisheries Industries Credit projects or the use of water pumps under the East Java Agricultural Credit Project, all in Indonesia. In the PRC, many of the 45 TVEs under the first Agricultural Bank of China Project have failed due to bad management or to changes in the economic environment. Under the Second Agricultural Bank of China Project, about 15 of the 54 TVEs are incurring losses, bringing into doubt the sustainability of these enterprises and the initial benefits they engendered. However, depending on the circumstances, it is not necessary for the subprojects to survive indefinitely into the future for a rural credit project to pass the test of sustainability. The closure of the subprojects (after the subloans have been repaid) in response to changing market conditions or policies is, for example, to be expected if they are no longer financially viable. The advent of modern irrigation schemes in East Java, Indonesia would naturally make the use of water pumps redundant and financially unsustainable. In the SMI sector in Sri Lanka, many enterprises have closed in response to the lowering of tariffs and other policy changes. Yet the SMI sector continues to flourish with the demand for resources exceeding what can be met purely by domestic resources.

57. A distinction has to be made between sustaining the objectives of a particular rural credit project and the operations of a subproject within the project. The East Java Agricultural Credit Project was intended to support increased agricultural production and this was obviously more

efficiently realized with modern irrigation technology than with hand pumps that outlived their usefulness. But the Project carried on with its other activities of supporting the rural cooperatives in rice purchase and other activities. In Sri Lanka, increased employment and income improvement continued to be realized even if some enterprises failed as they were replaced by others. The case of the first Agricultural Bank of China Project is different as the failed TVEs were not replaced and to that extent, any initial benefits gained (e.g., increased employment) were not sustained.

58. In terms of the growth and development of financial institutions engaged for the operation of credit projects, the issue of sustainability is less certain depending on the institutions involved. The early rural credit projects emphasized real sector objectives and the sustainability of such project benefits was seen in terms of the permanency of such objectives being fulfilled. Several of the specialized rural credit institutions with which the ADB has been in partnership in rural credit projects should have become self-supporting but they have not (e.g., ADBN and BKB). They are being sustained by external capital from the governments concerned. BAAC in Thailand appears to be an exception with its ability to mobilize deposit resources. Similarly, some of the commercial banks that were engaged under apex arrangements are also in the same situation but their involvement in the rural credit projects is not usually a significant portion of their portfolio. Their problems are largely due to imprudent lending in the commercial and industry sectors, as was the case for the various banks involved in the first and Second Fisheries Industries Credit and the Agro-Industries Credit projects in Indonesia, though some defaulting enterprises funded under the credit projects added to their problems.²⁷

59. Under apex arrangements, it is usual to see credit products introduced under credit projects to be withdrawn, as soon as the project is terminated. A major reason has been that the relatively cheap source of funds from ADB became unavailable and the EA (often the central bank) stopped providing any further supervisory role to ensure that the products continued to be made available. The operating costs and risks for extending such products were often high and PFIs would have had more lucrative use for their financial resources. ADB's efforts in the area of livestock and fisheries under apex arrangements are two examples of activities that failed to find a place in the normal portfolio of banking systems in several countries assisted. In Sri Lanka, for instance, loans for bullocks and biogas were among the credit products that disappeared with the completion of ADB's rural credit projects. An exception is the Small and Medium Industries projects in Sri Lanka.

60. In regard to maintaining income improvements that will contribute towards poverty reduction, a positive impact on sustainability of the credit projects is assured only to the extent that the subprojects remain profitable and that financial resources continue to be available for use when needed in connection with the subprojects either to ensure greater viability or to enable further expansion. The many off-farm activities in Thailand, for example, appear to be sustainable as BAAC's clients have ready access to its credit facilities. Nevertheless, this need not be true for all microcredit projects in all the DMCs. Special institutional arrangements with heavy funding from ADB resources are usually put in place at the time of commencement of operations followed by a large volume of resources for social intermediation processes and training. The closure of projects affects both these aspects, which are crucial for the continued

²⁷ Bank Dagang Negara (Fisheries Industries Credit projects) and Bank Bumi Daya (Fisheries Industries Credit projects and Agro-Industries Credit Project) were taken over by Bank Mandiri in the aftermath of the Asian financial crisis. Bank Bali (Second Fisheries Industries Credit Project) was taken over by the Indonesian Bank Reconstruction Agency.

growth and development of such programs. The assumption is made that all players will achieve financial viability when it is time to close a project. Sustainability can be achieved only in a situation where permanent structures are put in place with assured sources of funding with the capacity to go beyond the project period to enable these subprojects to generate a surplus and survive on their own. The establishment of the Rural Microfinance Development Center in Nepal is a step in the right direction as it will be in a position to ensure continuity of microcredit projects in Nepal.

VI. ISSUES FOR CONSIDERATION

61. Within the context of the overarching concern for poverty reduction in ADB, rural credit assistance would have to be targeted toward the poor. This has implications in terms of the modality of rural credit projects. Traditional rural credit projects have demonstrated positive impacts on production, productivity, and income improvements. While not intended, they have also impacted on the rural financial system in a limited way. Their impact on poverty reduction is less felt as they were not intended to address the issue directly. The investments funded under such projects tend to be more suited to better-off farmers. Microcredit projects tend to have more relevance and a more direct focus on poverty reduction but also have limitations in terms of the subloan size, higher costs of implementation, and the need to have sustained opportunities for access to such funds to bring the poor out of their situation. There is an apparent contradiction between the need to achieve an important policy objective (namely poverty reduction) while expecting the activities to be implemented with commercial or market efficiency. Such a contradiction needs to be resolved. Nevertheless, given the absorptive capacity and risk aversion of the poor, microcredit projects are more appropriate as an approach to poverty reduction. The underlying issue is, which modality affords the best way for targeting the poor for assistance, while a process approach involving beneficiary participation may be more suitable even though such an approach may be costly and time consuming.

62. Rural credit projects have made some impact on the rural financial system, particularly the latest projects, which also promote rural savings and address the greater participation of the private sector in the system to provide a wider range of financial services. Taken as a whole, however, these projects have not contributed directly to the emergence of a sound and sustainable rural financial system with unsustainable financial institutions (e.g., ADBN and BKB) existing through government support and market distortions remaining. A sound and sustainable rural financial system needs to be encouraged to provide a wider opportunity and range of services to assist the poor. Nevertheless, it is important to bear in mind the needs of the poor as a matter of priority in promoting the system, which inevitably will also cater to the higher-income groups to ensure greater sustainability of the services provided under the system.

63. Past projects have demonstrated that some EAs have been made to perform activities outside their mandate and capability through covenants and design of projects with implications for higher administrative costs and implementation difficulties. In the pursuance of a sustainable rural financial system, for instance, such products as crop insurance and equity investments may be considered as requiring knowledge and skills in actuarial practices but which are not really within the capacity and scope of the PFI. Assistance in capacity building and institutional strengthening could help, but only up to a point. Providing a wide range of services within one organization seems administratively logical but is not necessarily efficient given the wide range of expertise required for such services to be implemented.

64. The demand for credit is always assumed to be present and the quantum is estimated using an engineering approach based on required inputs, their costs, and the amount required to borrow to finance these costs for a subproject, particularly in the early projects (para. 13). Consultations with the clients to establish what they really needed and what they could afford were rare. Requirements for collateral, transaction costs, and application and approval difficulties often affected the amount of credit requested. This was further aggravated by tying the credit to specific activities for which there was no demand, such as large fishing boats when fisherfolk actually preferred smaller boats. With the later projects, a more reliable approach to estimating credit demand seemed to prevail (particularly in the microcredit projects) with beneficiary consultation. Nonetheless, the fact that some borrowers indicated that the loan size was inadequate points to greater demand for credit than is normally envisaged or prudently provided.

65. Capacity building and institutional strengthening are an ongoing process, particularly in the light of reorientation of PFIs toward focusing on poverty reduction. The mindset of most PFI staff has been tuned to providing loans and ensuring that loans are secured. TAs provided by ADB have a largely positive impact on capacity building (though there are exceptions) but may need to be sustained in a systematic manner to effect a lasting capacity buildup that is often affected by staff transfer or administrative reforms, etc. With the adoption of the microfinance strategy by ADB centering on encouraging a sustainable financial system, capabilities in social mobilization, creating a favorable policy environment, and in building a viable financial institution would need to be nurtured on a sustained basis rather than as a one-off operation. Such capabilities do not seem to be significantly present in the DMCs currently.

66. With the graduation of more countries from the A group of ADB's country classification, more rural credit assistance may have to come from OCR under the pool-based variable lending rate system or the market-based single currency system with implications in terms of exposure to foreign exchange risks. In the PRC and Thailand, such risks are passed down to the client enterprises that are least capable of hedging against the risks. A mechanism (e.g., foreign exchange risk mitigation fund built in the project loan as in the case of a typical industrial DFI lending program) will have to be found to reduce such risks or else the benefits of rural credit assistance cannot be sustained.

VII. CONCLUSION

A. Overall Assessment

67. The rural credit projects have generally positive impacts on the DMCs. Project interventions promoted farm investments through the provision of term credit. Such investments made possible the availability of water through STWs, renewable sources of energy in the form of water turbines and biogas, farm power, multiday boats in the fisheries sector, and improved breeds in livestock and poultry in many DMCs. The result has been an improvement in production, productivity, and income. As for impact on income redistribution, most rural credit projects in the earlier years benefited clients with land that could be used as mortgage collateral and larger landholdings that could make effective use of the new technology and the farm investment inputs provided under credit interventions. In the PRC, some enterprises provided employment opportunities to those otherwise unemployed and outlets for rural produce from

farms. But they are limited in impact when viewed against the number of enterprises that may not be sustained and the total rural credit assistance by ADB in the DMCs. The impact on poverty reduction (be it absolute or relative) was generally not significantly felt in the case of the early projects as they were not specifically targeted at poverty reduction. With the advent of microcredit projects, the impact on the poor became more positive as such projects enabled the clients to engage in more financially rewarding activities. However, this depends on the sustainability of the benefits of microcredit projects, which are relatively recent.

68. With regard to the impact on the rural financial system, the rural credit projects contributed to much-needed foreign exchange availability, expansion and quality improvement of the loan portfolio of financial institutions, deposit mobilization of institutions, and greater financial discipline. However, their contribution to the development of a sound and sustainable rural financial system is limited when viewed against the sustainability of the PFIs particularly and provision of other services in a system. While generally contributing to some positive impact, some of ADB's procurement policies and project designs had adverse impacts on the PFIs. Where the foreign exchange risks were borne by the institutions, the rural credit projects exposed the PFIs to financial losses from fluctuations in foreign exchange rates.

69. The impact of the rural credit projects on gender development became significantly positive with the advent of the microcredit projects. That on the environment is generally positive especially when the EAs adhered to the strict selection criteria for the subprojects on the environment. The impact on institutional strengthening and capacity building of the PFIs and the EAs was made mainly through TAs and was deemed positive, though not necessarily sustainable.

B. Lessons Learned

70. **More Focused Targeting of the Poor.** Traditional rural credit projects with their focus on growth are effective in encouraging increased production and productivity but less effective in reducing poverty and disparities in income because they were not primarily designed to address poverty reduction directly. A more focused approach on poorer clients would need to be adopted to have a credible impact on poverty reduction. Such an approach would require a participatory process of the beneficiaries and other stakeholders to clearly identify the poor in terms of incidence, locality, priority, and needs.

71. **Promoting Sound and Sustainable Rural Financial Systems.** Rural credit projects need to give due emphasis to the development of a sound and sustainable rural financial system that will provide an enabling environment and a range of services to the poor on a sustained basis. Past rural credit projects have never directly addressed the issue of promoting a sustainable rural financial system that goes beyond mere provision of credit to clients who may also have other needs and who would like to have more choices of financial services from other sources than the unsustainable PFIs in the projects. The focus of any rural credit project should, nevertheless, still be the poor whose needs may be different from those with higher incomes.

72. **Working within the Mandate and Capacity of the PFIs.** Rural credit projects should take into consideration the capacity and mandate of the PFIs. They should avoid requiring PFIs to undertake activities that detract from their main functions and that raise their administrative costs. While assistance in capacity building and institutional strengthening may help improve the

implementation of activities outside the purview of the PFIs, the effect is limited given that PFI staff are used to their mandate in the PFIs.

73. **Provision of Capacity-Building Assistance.** Advisory TAs as a whole have been appropriate and useful as a mechanism for capacity building. Such TAs should nevertheless be rendered in a sustained manner over a period of time rather than as isolated instances to maximize their impact on capacity building.

74. **Mitigation of Foreign Exchange Risks.** PFIs of ADB's rural credit projects often have no mechanism for hedging against foreign exchange risks because either it is not allowed under their own regulations or else they do not have the capacity and skills to do so. In most cases, the risks are borne by the government. Where foreign exchange risks are, however, borne by the PFIs or clients, a foreign exchange risk mitigation mechanism needs to be put into place to ensure that the rural credit project is not terminated prematurely as a result of losses incurred by the PFIs or the clients. Such a mechanism can be in the form of a foreign exchange risk mitigation fund built into the project loan as exists in a number of industrial DFI lending programs assisted by ADB.

C. Recommendations

75. With the implementation of the new microfinance strategy by ADB's operations departments and within the priorities set, review missions for ongoing projects should pursue policy dialogues that can lead to the adoption of some of the elements of the strategy, such as greater mobilization of savings. For new projects, the priorities under the strategy should be clearly indicated in the country operational strategy and the country assistance plan to guide the formulation of the projects. In designing new rural credit projects (e.g., the proposed second phase of the PRC Fujian Soil Conservation and Rural Development Project), the ADB Operations Department (Agriculture and Social Sectors) should include policies designed to target the poor more directly (through stringent selection based on income and asset criteria, limitation of subloan sizes, etc.), to mobilize savings (including those from the nonagriculture sector), to bring interest rates for subloans closer to market rates, and to effect other changes (e.g., crop insurance) that will contribute toward the emergence of a sound rural financial system). In this regard, ADB should assist in further capacity building in the DMCs (through TAs and other modalities) as a matter of priority, not only because adequate DMC capacity is a necessary condition for introduction of the new approach to rural credit assistance implied in the microfinance strategy, but also because capacity building takes time and should ideally precede any ADB-funded rural credit projects for greater effectiveness.

76. Within the context of the new strategy, ADB rural credit assistance should focus more on the microcredit type of operations that will allow better targeting of the poor and greater participation of beneficiaries and other stakeholders. Nevertheless, with economic growth as a necessary—though not sufficient—condition for poverty reduction, the traditional rural credit projects, on a selective basis and integrated as components of larger projects, should continue to be implemented both to bring about an increase in production and an improvement in productivity and technology, and to leverage the necessary policy changes in DMCs that will contribute toward the emergence of sound and sustainable rural financial systems.

D. Follow-Up Actions

77. No specific follow-up actions are proposed. The guidelines for further action are indicated in the recommendations above.

APPENDIXES

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Continued

Loan No.	Country/Project	Date of Approval	PCR No.	PCR Rating	PPAR No.	PPAR Rating	Loan Amount		Project Cost		Cost	Fund Source
							Estimated (\$ million)	Actual Upon Completion (\$ million)	Estimated (\$ million)	Actual (\$ million)	Over/(Under) (%)	
SRI LANKA												
432	Rural Credit	6-Dec-79	none	NR	PE-293	PS	10.90	5.10	16.10	6.57	(59.19)	ADF
606	Livestock Development	7-Dec-82	186	NR	PE-452	PS	15.20	14.15	20.72	18.40	(11.20)	ADF
648	Aquaculture Development	3-Nov-83	204	PS	PE-443	PS	17.27	19.15	21.62	20.80	(3.79)	ADF
873	Small and Medium Industries	21-Feb-89	323	NR	nr	—	15.00	14.80	26.66	43.89	64.62	ADF
899	Perennial Crops Development	30-Aug-88	520	GS	nr	—	17.30	15.56	25.70	22.15	(13.81)	ADF
955	Smallholder Tea Development	21-Feb-89	nr	—	—	—	25.00	ongoing	57.10	—	—	ADF
1084	Second Small and Medium Industries	30-May-91	nr	—	—	—	30.00	ongoing	60.00	—	—	ADF
1128	Southern Province Rural Development	26-Nov-91	nr	—	—	—	38.00	ongoing	48.00	—	—	ADF
THAILAND												
664	Agricultural Credit	6-Dec-83	none	NR	PE-272	GS	50.00	28.07	142.00	34.19	(75.92)	OCR
787	Brackishwater Shrimp Culture Development	26-Nov-91	249	NR	PE-463	GS	11.11	2.38	24.45	22.42	(8.30)	OCR
1423	Small Farmer Credit	16-Jan-96	nr	—	—	—	50.00	ongoing	110.00	—	—	OCR
1540	Rural Enterprise Credit	18-Sep-97	nr	—	—	—	200.00	ongoing	440.00	—	—	OCR

ADF = Asian Development Fund, GS = generally successful, NR = no rating, nr = no report, PS = partly successful, PCR = project completion report, PPAR = project performance audit report, OCR = ordinary capital resources, — = not available.

Table A1.2: List of Rural Credit Related TAs Included in the Study

Country/ TA No.	Title	Sector	Executing Agency (EA)	Duration			Funding Cost (\$)			
				Approved/ Started	Ended	Total	ADB	Others	EA	Total
Bangladesh										
1. TA 157	Agricultural Credit	Agri-Support Services	Bangladeshi Krishi Bank (BKB)	25 Nov 1975/ May 1976	May 1980	2 years	350,000	60,500 (UNDP)	36,000	446,500
2. TA 361	Second Agricultural Credit	Agri-Support Services	BKB	29 July 1980/ 15 July 1984	7 Feb 1986	1 year & 6 months	290,000	325,000 (UNDP)		615,000
3. TA 933	Implementation of an Action Program to Rehabilitate Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS)	Development Finance Institution	BSB/BSRS	2 Dec 1987	Aug 1991	3 years & 9 months		1,725,000 (USAID)	475,000	2,200,000
4. TA 1444	Strengthening of Entrepreneurial Training Programs of the Bangladesh Small and Cottage Industries Corporation (BSCIC)	Development Finance Institution	BSCIC	18 Dec 1990	31 Dec 1993	3 years	290,000		10,000	300,000
5. TA 1470	Social Preparation and Training of Project Beneficiaries and Staff (attached to Rural Women Employment Creation Project)	Agri-Support Services	Department of Women's Affairs	13 Dec 1990	Jun 1997	7 years		1,430,000 (Government of Norway)		1,430,000
People's Republic of China										
6. TA 1425	Institutional Strengthening of Agri. Bank of China (ABC)	Agri-Support Services	ABC	29 Nov 1990	—	—	480,000			480,000
— = not available; ADB = Asian Development Bank; UNDP = United Nations Development Programme; USAID = United States Agency for International Development.										
7. TA 1571	Institutional Strengthening of the Industrial and	Development Finance Institution	ICBC	1 Oct 1991/ 16 Jan 1992	31 Dec 1998	7 years	800,000		150,000 (ICBC)	950,000

Table A1.2: List of Rural Credit Related TAs Included in the Study

Country/ TA No.	Title	Sector	Executing Agency (EA)	Duration			Funding Cost (\$)				
				Approved/ Started	Ended	Total	ADB	Others	EA	Total	
8.	TA 1914	Commercial Bank of China (ICBC) Enhancing the Project Finance Capability of China Agribusiness Development Trust and Investment Corporation (CADTIC)	Development Finance Institution	CADTIC	23 July 1993/ Nov 1993	Jan 1994	3 months	92,000		33,000 (CADTIC)	125,000
9.	TA 2664	Institutional Strengthening of State Development Bank (SDB) of China	Development Finance Institution	SDB of China	16 Oct 1996/ Feb 1997	—	—	500,000		125,000 (SDB)	625,000
Indonesia											
10.	TA 424	Sumatra Livestock Development Project	Livestock	Directorate General for Livestock Services of the Ministry of Agriculture	12 Nov 1981/ Mar 1983	Mar 1985	2 years			240,000 (Government of Switzerland)	240,000
11.	TA 945	Indonesian Banking Development Institute	Agri-Support Services	Department of Banking Institute	12 Jan 1988	Mar 1991	3 years & 1.5 months	400,000			400,000
Nepal											
12.	TA 106	Second Agricultural Credit	Agri-Support Services	Agricultural Development Bank of Nepal (ADB)	2 Apr 1974	—	1 year	140,000			140,000
13.	TA 378	Fourth Agricultural Credit	Agri-Support Services	ADB	9 Dec 1980	—	—			1,100,000 (UNDP)	1,100,000
— = not available; ADB = Asian Development Bank; UNDP = United Nations Development Programme.											
14.	TA 709	Expansion of Cotton Production and Processing in Mid-Western Tarai	Industrial Crops and Agro-Industry	Cotton Development Board	Oct 1985	—	—			1,400,000 (UNDP)	1,400,000
15.	TA 870	Institution-Building of ADB	Agri-Support Services	ADB	7 Apr 1987	—	—	380,000		250,000 (UNDP)	630,000
16.	TA 1871	Institutional	Agri-Support	ADB	21 Apr 1983	—	—			690,000	690,000

Table A1.2: List of Rural Credit Related TAs Included in the Study

Country/ TA No.	Title	Sector	Executing Agency (EA)	Duration			Funding Cost (\$)			
				Approved/ Started	Ended	Total	ADB	Others	EA	Total
	Strengthening of ADB	Services							(UNDP)	
Philippines										
17.	TA 1093	Institutional Strengthening of Nongovernment Organizations (NGO)	Agri-Support Services	Department of Trade and Industry (DTI)	22 Dec 1988	—	—		490,000 (Government of Switzerland)	490,000
18.	TA 1810	Institutional Strengthening of Cooperatives	Agri-Support Services	Land Bank of the Philippines	22 Dec 1992/ Dec 1993	Dec 1995	2 years	1,400,000		1,400,000
19.	TA 1842	NGO Development Program and Institutional Strengthening of DTI	Agri-Support Services	DTI	29 May 1992	—	—		1,800,000 (Government of Netherlands)	1,800,000
Sri Lanka										
20.	TA 317	Second Rural Credit	Agri-Support Services	Central Bank of Sri Lanka, Bank of Ceylon and People's Bank	6 Dec 1979	—	—	260,000		260,000
Thailand										
21.	TA 561	Agricultural Credit	Agri-Support Services	Bank for Agriculture and Agricultural Cooperatives	6 Dec 1983	—	—	100,000	ECU 20 m (EEC)	4,000 104,000

— = not available; ADB = Asian Development Bank; EEC = European Economic Community; UNDP = United Nations Development Programme.

SCOPE OF STUDY, COVERAGE, AND LIMITATIONS

1. The study covers a total of 40 loan projects and a sample of 21 technical assistance (TA) grants in seven developing member countries (DMCs), consisting of Bangladesh (6 projects), Peoples Republic of China (3), Indonesia (6), Nepal (8), Philippines (6), Sri Lanka (7), and Thailand (4). These include projects which began as far back as 1970 and many of which have been completed. A few are ongoing. Some projects are self-standing, exclusive rural credit projects while others are credit components within larger projects, encompassing a sectoral focus. The projects are drawn from a number of sectors and subsectors such as livestock, agriculture, microcredit, and small industry. They are mainly confined to the disbursement of credit in the rural sector. Rural credit under this study is taken to include, but not exclusively confined to, credit for agricultural purposes. It also includes credit given for trading purposes or cottage industries. The main consideration for inclusion in this category is that the disbursement takes place largely in the rural sector. Agribusiness-type loans therefore enter this category.

2. The study is based on (i) a review of Asian Development Bank (ADB) operations in rural credit, ADB's lending policy and strategies in rural credit in the selected countries, and the rationale, objectives, design, scope, implementation, performance, and achievements in selected projects as well as (ii) field level surveys undertaken in DMCs. The study reviews the relevant documents pertaining to ADB operations in rural credit, and assesses ADB's lending policy and operating strategies in rural credit. For many of the older projects in operation in the 1970s and 1980s, reliance on ADB documentation is largely the only approach available as first hand information is in most cases unavailable. Meetings with the people directly concerned with these projects were not always possible. Digging up information at various agencies that were involved in these credit projects, as participating institutions, was not feasible in view of the time constraint. In the case of Indonesia, some of the implementing agencies are no longer in existence as they have been merged to form new institutions under Indonesian Bank restructuring program in 1998 and all records pertaining to loans under ADB's projects have been lodged with the Indonesian Bank Restructuring Agency. The study, therefore, assumed that in the case of older, completed projects, the record of ADB's operations as reflected in project performance audit reports (PPARs) and project completion reports (PCRs) is sufficiently detailed and accurate to support a useful and convincing set of conclusions.

3. An important aspect of the study are the socioeconomic surveys of subborrowers under selected rural credit projects in the selected DMCs. The older projects were not covered by the proposed socioeconomic surveys in view of the methodological issues that are bound to vitiate findings coming out of such surveys. Instead, the socioeconomic surveys focused on projects that were ongoing or have been closed in the recent past as given in Table A2. Some care had to be exercised in the selection of projects for inclusion in the socioeconomic surveys so as to include those projects in which subprojects have had enough time for results to show up and impact to be felt. On this issue, PCRs and PPARs were useful as they helped determine the selection and where they did not provide adequate guidance, discussions with relevant agencies at the stage of the inception mission helped determine the selection. For the purposes of the survey, the services of seven domestic consultants were available to assist the international consultant engaged under the study.

4. In view of the time constraint, structured statistical surveys requiring a great deal of effort and resources were not attempted. The tool used in this analysis was the Rapid Social Assessment (RSA). The total number of respondents covered by the survey in each country was in the region of 300-400, spread over a number of subprojects. The sample size in each

country was based on practical considerations of cost and time constraints (to be accomplished within a month) but would be considered large enough to provide meaningful results. The actual number for each subproject type did not exceed 40-50 respondents. Attempts were made to select the areas where ADB rural credit projects dominate as far as possible. The domestic consultants could use their discretion in this. The breakdown of the samples by area is given in Table A2. Apart from the collection of data on socioeconomic characteristics of beneficiary households, the surveys focused on subproject-specific information which helped form an idea on how well project interventions have contributed to project objectives in terms of production, productivity, improvements in agriculture, employment, income generation, etc. They were also designed to elicit information on incidence of diversion of credit funds, substitution, accumulation of financial assets, wealth profile, liabilities, and relationships forged by clients with lending institutions. The survey also attempts to throw some light on the impact of ADB's operations on rural financial institutions, implementing agencies, and executing agencies.

5. Data were collected from subborrowers on the seven following aspects or data input formats: subborrower profile; subproject profile; subproject completion dates; subproject cost and means of financing; subproject production data; subproject and enterprise financial performance data; and subproject and enterprise socioeconomic data. Some of these data came from the records of financial institutions, especially those relating to cost and means of financing projects.

6. In the case of credit lines to the Agricultural Bank of China (ABC), the subborrowers were town and village enterprises (TVEs), fairly large non-state-owned enterprises. ADB assistance to ABC looked more like a credit line to development financial institutions (DFIs). A different approach had to be used in this case as household surveys as applicable to other DMCs in the sample were not valid and, therefore, the focus was on the enterprise to assess growth objectives while an indirect approach was used to shed light on the poverty reduction objective. For the latter, several significant socioeconomic indicators were chosen. The study attempts to track their behavior over time and compare them against indicators for other more developed areas.

7. The survey was not designed to attempt an analysis on "with" and "without" project situations because of methodological issues (mainly, counterfactuals) it was likely to encounter. Instead, the survey took account of any subborrower profiles collected by financial institutions at the stage of application for a subloan or from any benchmark studies conducted by financial institutions for purposes of monitoring and evaluation. Where such information was available with financial institutions, it was useful, as it obviated the need for collecting cross-sectional data. It would constitute the "without" project situation for the subborrower in the sample. Any attempt to collect benchmark information at this late stage for some of the older projects, it was recognized, would run into methodological issues. It would involve obtaining information from a group that can be considered as representative of the "without" project condition. Therefore, this approach was avoided. Where financial institutions have not systematically collected socioeconomic data for subborrowers at the stage of application for a subloan, an attempt was made to collect data from the project beneficiary in the sample on a "before" and "after" project basis—to the extent that it was feasible to recall events—to glean some information on the financial progress of beneficiary households. Here again methodological issues were anticipated that might detract from the findings, especially in relation to difficulties in attributing developments to the subprojects. Hence the results, with respect to the impact on the finances of rural households, may have to be treated as very tentative.

8. Arrangements made for the fieldwork provided for all survey work in seven DMCs to begin more or less simultaneously. The ideal arrangement would have been for work to be done initially in one country and then begin work in the others later, thus providing some scope for learning from mistakes and difficulties that arose in the course of fieldwork. In view of the time constraint, such a staggering of work, however desirable, was not feasible.

9. The input expected from the domestic consultant was a country report from which the more significant findings were used in the final report of the international consultant to draw conclusions. The fieldwork was undertaken by the domestic consultants on the basis of survey instruments, a sample of which was furnished to them by the international consultant in ADB headquarters, which in the light of their experience and requirements of the country, may be adjusted by them to suit the given local situation in the country, subject to approval by the international consultant. Data compilation was the responsibility of the domestic consultants. During review missions, every effort was made to ensure that the surveys followed the correct procedure laid out by the Operations Evaluation Office at ADB headquarters. The international consultant also had discussions with staff of relevant agencies, nongovernment organizations, beneficiaries (to the extent feasible) and governments to ensure that the surveys were properly conducted and yielded satisfactory results.

**Table A2: Sampling Distribution of Socioeconomic Survey Impact Evaluation Study
of ADB Assistance on Rural Credit in Selected DMCs**

	District/ Province for PRC	Number of Samples		District	Number of Samples
Bangladesh			Nepal		
Loan 1067-BAN: Rural Women Employment Creation	Brahmanbaria	30	Loans 59, 182, 295, 489, 831, 1112-NEP: Agricultural Credit Projects	Butwal	27
	Feni	29		Dhangadi	22
	Khulna	21		Dhankula	19
	Meherpur	40		Fikal	19
				Gajuri	10
Loan 1213-BAN: Rural Poor Cooperative	Rajshahi	27		Ghorahi	22
	Nawabganj	20		Khairaheni	29
	Pabna	23		Khajura	23
	Sirajganj	19		Lahan	27
	Kushtia	50		Parbat	13
	Jhenidah	23			
	Zessore	18	Loan 1237-NEP: Microcredit for Women	Chitwan	25
	Rangpur	24		Dang	20
Loan 773-BAN: Rural and Agro-Based Industries Credit	Dhaka	4		Dhankuta	15
				Nepalgunj/Banke	15
				Parbat	10
				Siraha	20
	Subtotal	328		Subtotal	316
People's Republic of China			Philippines		
Enterprises:			Loan 940-PHI: NGO Microcredit	Agusan del Sur	48
Loan 1055-PRC: Agricultural Bank of China	Jilin	5	Loan 1216-PHI: Small Farmers Credit	Albay-Camarines	41
	Fujian		Loan 1137-PHI: Second NGO Microcredit	Davao del Norte	37
Loan 1347-PRC: Second Agricultural Bank of China	Hebei	13	Loan 1435-PHI: Rural Microenterprise Finance	Iloilo	35
	Henan			Isabela	50
	Shanxi			Leyte	31
Loan 1386-PRC: Fujian Soil Conservation and Rural Development	Fujian	6		Nueva Ecija	41
				Subtotal	283
Farmers (all 3 projects)		30			
	Subtotal	54			

GENERAL FEATURES OF THE PROJECTS INCLUDED IN THE STUDY

A. Nature and Characteristics of the Projects

1. The 39 rural credit projects forming the basis of the study include projects implemented as far back as 1970 that are long since closed and projects that are still ongoing. Thirteen of the credit projects supporting agricultural production are exclusive, self-standing projects. They comprise the first to sixth Agricultural Credit projects in Nepal, the first and Second Agricultural Credit projects in Bangladesh, the Rural Credit Project in Sri Lanka, the first and Second Agricultural Bank of China projects in the People's Republic of China (PRC), the East Java Agricultural Credit Project in Indonesia, and the Agricultural Credit Project in Thailand (Appendix 1). These projects focused on encouraging farm investments in irrigation, farm mechanization, and agroprocessing. A few had an additional component aimed at increasing the levels of utilization of fertilizer and chemicals.¹ The projects in Nepal also provided support for a program aimed at introducing new technology in the use of renewable sources of energy. Considerable investment in Nepal was, therefore, devoted to establishing water turbines and biogas plants. Another category of projects that can be categorized as exclusive credit projects are the microcredit projects. Nine exclusive microcredit projects are included in the study² while in one case, the Southern Province Rural Development Project in Sri Lanka, a microcredit component is included among several other components focusing on economic and social infrastructure development. There are also five development finance institution (DFI)-type of credit lines covering agribusiness and small and medium industry subsectors while all others are sectorwide programs covering fisheries and livestock, with credit forming only a part of the project among several components, including infrastructure development and capacity building in the line agencies in the subsector.

2. The projects meet one vital criterion that distinguishes a credit project from other types of projects; that is, the characteristic of individual (or corporate), voluntary decision making by the borrower on loan uses, amounts, and terms.³ Although types of investments to be undertaken under projects are generally pre-identified and loan packages predetermined, it is left to the borrower to decide whether to make use of the facilities offered or not. The sample of projects, with the exception of credit lines to the Agricultural Bank of China (ABC), includes projects in which the funds have gone exclusively to the private sector. In the case of the PRC projects, a significant part of the loan funds have been used by a type of parastatals, which are described as non-state-owned enterprises (SOEs) but they are definitely not privately owned enterprises. An example is the town and village enterprise (TVE). Some of the subprojects are owned by state, provincial, county, or local government agencies or by collectives. Others are PRC-foreign joint venture companies that fall within the category of private enterprises. They are referred to as non-SOEs because they are not owned by the central government and enjoy a certain degree of freedom, in regard to setting prices that SOEs controlled by the Central Government do not enjoy.⁴ Where the ownership is in the hands of governments, central or local, the decisions relating to investments, borrowing repayments, and other terms tend to become arbitrary, lose touch with markets, and be unrelated to prospects faced by the subproject. Repayments sometimes come out of tax revenue and not from surpluses generated by the enterprise.

¹ First to Fourth Agricultural Credit projects in Nepal, and first and Second Agricultural Credit projects in Bangladesh.

² Two each in Bangladesh, Indonesia, and Nepal and three in the Philippines.

³ Subject to an interest rate paid by the borrower, which differs from the rate charged by ADB for the project loan to the government.

⁴ See *Rural Industry in Accelerating China's Rural Transformation* (Chapter 10) by Albert Nyberg and Scott Rozelle for a discussion on types of TVE ownership and control in rural industry.

B. Project Rationale and Objectives

3. The rationale and objectives of the projects under study were generally relevant in the context of country situations. The early projects sought to address economic growth in the agriculture sector through speeding up the adoption of high-yielding variety technology on which many countries in the region had begun to place emphasis in their economic policies and programs. Poverty reduction was not specifically addressed in these projects, although targeting small farmers and interest subsidies were features incorporated presumably for the purpose of addressing this issue indirectly. Similarly, fisheries and livestock projects aimed to introduce new technologies in these industries among small operators engaged in these activities.

4. A specific poverty focus began to emerge only in microcredit projects, many of which started in the late 1980s and early 1990s. These were a special group of projects, seeking to promote income-generating activities mainly in the nonfarm sector for the purpose of creating employment opportunities for a large and growing class of rural poor without access to land or other capital assets. Since there was a heavy concentration of women in this constituency in many developing member countries (DMCs), these projects also acquired a gender bias, that of supporting women in development. In some projects the gender development is specifically identified as the primary or secondary objective,⁵ while in others majority participation by women is emphasized.⁶ The strengthening of nongovernment organizations (NGOs) is also an important objective of these microcredit programs, reflective of a trend to more effectively target the poor and increasing outreach that were not present in the early projects. The latest projects include attempts to address improvements in rural financial systems through encouragement of savings and adoption of policies designed to reduce financial market distortions.

C. Project Design

5. All the early projects except the DFI-type of lending were targeted credit projects in terms of crops, activities, and geographical areas supported with project goods and services. Activities to be supported, the quantity and volume of credit earmarked for each activity, the project areas, and the implementing institutions were identified in the report and recommendation of the President in keeping with the recommendations and policy goals of planning agencies in DMCs, essentially a supply-led approach to credit programs. It was often assumed that there was credit demand for the project's goods and services and that the availability of credit would stimulate demand to surface. When an attempt was made to estimate demand, the approach commonly used for a particular activity was to determine the amount of key inputs that were required to achieve a given agricultural output target. Standard norms were then applied to estimate the cash outlay that would need to be borrowed to obtain the required input. Examples of such a supply-led approach are given in the Agricultural and Rural Credit Project in Bangladesh⁷ and the PRC projects.⁸ The latter suffered overestimation of credit demand based on macro planning approaches, leading to wasteful investment in excess capacity in some industries.⁹

⁵ Loan 1237-NEP(SF): *Microcredit for Women*, for \$5.0 million, approved on 24 June 1993; Loan 1327-INO(SF): *Microcredit*, for \$25.7 million, approved on 25 October 1994; and Loan 1650-NEP(SF): *Rural Microfinance*, for \$20 million, approved on 8 December 1998.

⁶ Loan 940-PHI(SF): *NGO Microcredit*, for \$8.0 million, approved on 22 December 1988.

⁷ Loan 1071-BAN(SF): *Agricultural and Rural Credit*, for \$60.0 million, approved on 18 December 1990.

⁸ Loan 1055-PRC: *Agricultural Bank of China*, for \$50.0 million, approved on 29 November 1990 and Loan 1347-PRC: *Second Agricultural Bank of China*, for \$100.0 million, approved on 12 January 1995.

⁹ Based on discussions with project staff of ADB.

6. The project designs encouraged the achievement of physical targets in terms of number of shallow tubewells sunk, number of power tillers or pump sets distributed, or quantities of fertilizer and chemicals sold under a credit scheme. Achievement of physical targets was the measure of success of a project. The project designs did not give adequate emphasis to laying the framework of policies necessary for building sustainable rural financial institutions. Technical assistance were provided to strengthen the implementing financial institutions but such interventions could not remove policies and practices that distorted rural financial markets and made growth of sustainable institutions difficult. There was policy dialogue from time to time on issues concerning interest rates, waiver of loans, etc., but generally it was felt that the credit lines were not the appropriate vehicle for addressing issues concerning agricultural input and output pricing, marketing, and financial sector reforms.

7. The Asian Development Bank's (ADB) approach to microcredit reflects an increasing trend toward disconnecting programs with a poverty focus from those designed to improve agricultural production. This is in line with developments taking place in other multilateral lending agencies where poverty alleviation programs have been increasingly disconnected from agricultural production.¹⁰ The rationale is that standalone programs focusing exclusively on poverty reduction have a better chance of success in improving the lot of the constituency they seek to assist. In contrast, the projects in the PRC resemble closely the older generation of agricultural credit projects that sought to address the needs of small farmers through projects designed to achieve economic growth and related objectives.

D. Credit Delivery System

8. The projects used a wide variety of financial institutions, banks, and other institutions to reach their clientele. Financial institutions were mostly used while in a few microcredit projects, line agencies were also used with the assistance of trustee banks to handle the channeling of credit to the village-based NGOs and cooperatives. Nevertheless, ADB also assisted in making separate institutional arrangements to handle project activities. It helped establish the Rural Microfinance Development Center Ltd. in Nepal with the long-term view of developing it into an apex institution for the subsector. A similar development was observed in Sri Lanka where the Rural Development Division of the Ministry of Plan Implementation grew out of previous ad hoc arrangements to take over the responsibilities of implementation of a growing number of rural development programs.

9. In the selection of credit institutions for project implementation, ADB has not shown particular preference either for single institution or for apex arrangements; rather it has been guided by the potential of existing institutions and the needs of the clientele served by the project. In DMCs with specialized credit institutions, namely, Bangladesh, PRC, Nepal, Philippines, and Thailand, ADB has naturally turned to them for implementation of credit projects. In Bangladesh and Nepal, ADB has forged close links with the Agricultural Development Bank of Nepal and Bangladesh Krishi Bank, respectively, while in the Philippines and Thailand the Land Bank of the Philippines, and Bank for Agriculture and Agricultural Cooperatives perform a similar role. In the PRC, ADB has placed heavy reliance on ABC, a specialized institution for implementing its credit projects.¹¹ In these countries the availability of specialized institutions reduced its dependence on commercial banks to perform this role

¹⁰ World Bank, *Rural Development, From Vision to Action*, 1997, p. 32.

¹¹ Since 1994, the responsibility for policy-based lending for procurement of agricultural produce has been removed from ABC and entrusted to a new institution called the Agricultural Development Bank of China (ADBC). Under the new policy initiatives, ABC is expected to develop along the lines of a commercial bank.

whereas in Indonesia and Sri Lanka, in the absence of specialized institutions for agricultural credit, it had to lean solely on the commercial banking system to play a similar role. Usually, the specialized institutions were used exclusively in projects. Occasionally, as in the case of the Small and Medium Industries projects in Sri Lanka, a specialized institution, the National Development Bank of Sri Lanka, was used as an apex institution with the commercial banking system playing the role of participating credit institutions.

10. Generally in projects with apex arrangements, it is the central bank of the country or a government line agency that plays the role of an executing agency. Cooperatives have played a role in many projects in the farming sector while in microcredit projects both NGOs and cooperatives were actively involved. In the microcredit projects, formal financial institutions played a relatively minor part. These institutions, even acting as EAs, played the role of a trustee for project funds on behalf of the government, as in several projects in the Philippines, or that of wholesaler of funds providing bulk loans to semi-formal institutions (such as cooperatives and NGOs) as in Bangladesh, Indonesia, Nepal, and Sri Lanka. Of the 40 projects, specialized institutions executed 17 projects in Bangladesh (4), PRC (2), Nepal (6), Philippines (1), and Thailand (4). Twelve projects were executed by commercial banks and the rest were rediscount operations executed by an apex institution, usually the central bank or a line agency with the assistance of trustee bank.

E. Subloan Characteristics

11. With the exception of microcredit loans, all other credit lines offered medium- and long-term subloans for investments, agribusiness, small and medium industry, fisheries, and livestock. Limitations of collateral, inadequacies in legal systems, and ineffective policies for the enforcement of contracts especially those relating to agricultural loans often made agricultural lending truly cash flow-based lending. In the early projects, most interest rates were not market determined. They were administered rates, fixed low with a concessional element for the benefit of farmers and did not provide sufficient margin to the lending institutions to make their participation in credit projects profitable.

12. In the large majority of credit projects, the foreign exchange risk was borne by the DMC governments. Only in a few projects funded by ordinary capital resources in Indonesia and Thailand and all projects in the PRC that the foreign exchange risk borne by the lending institutions. The risks were in turn passed on to the subborrowers, either by denominating the loan in foreign currency or by charging a premium on the lending rate to cover as insurance against losses arising from a depreciation of the local currency.

Continued

Loan No.	Country/Project	E I R R				F I R R				Sustainability ^a
		AR (%)	PCR (%)	PPAR (%)	Field Survey (%)	AR (%)	PCR (%)	PPAR (%)	Field Survey (%)	
Philippines										
940	NGO Microcredit	NC	NC	NC		50-100	5-115	NC		High
1137	Second NGO Microcredit	NC	NC	b		NC	NC	b		
1216	Small Farmers Credit	22-58	NC	b		30.0-60.0	NC	b		
1435	Rural Microenterprise Finance	NC	OG	OG		16-64	OG	OG		OG
Sri Lanka										
432	Rural Credit	18.0	NC	NC		25.0	NC	NC		Moderate
606	Livestock Development	40.0	NC	6.7		16-40	NC	NC		Negligible
648	Aquaculture Development	20.0	NC	5.7		19.0	NC	1.8		Moderate
873	Small and Medium Industries	NC	NC	b		NC	NC	b		
899	Perennial Crops Development Project	18-50.0	21.4	b		12-50	21.8	b		
955	Smallholder Tea Development	14.0-50.0	c	b		13.0-30.0	c	b		
1084	Second Small and Medium Industries	NC	c	b		NC	c	b		
1128	Southern Province Rural Development	17.0-20.0	OG	OG		11-34	OG	OG		OG
Thailand										
664	Agricultural Credit	66.0	12.5-27.5	13.2-69.8		32.0	8.8-23.5	7.4-53.7		High
787	Brackishwater Shrimp Culture Development	32.0	NC	64.0		20.0	NC	56.0		Moderate
1423	Small Farmer Credit	19.19-100.0	c	b		11.85-42.5	c	b		
1540	Rural Enterprise Credit	21.0	c	b		14-45	c	b		

* = just completed, AR = appraisal report, EIRR = economic internal rate of return, FIRR = financial internal rate of return, NC = not completed, neg = negative, NGO = nongovernment organization, NR = no rating, OG = ongoing project, PCR = project completion report, PPAR = project performance audit report.

^a Assessed only for projects for which a PPAR has been prepared. Three categories are used as indications of sustainability: high, moderate, and negligible.

^b No PPAR.

^c No PCR.

COLLECTION PERFORMANCE OF PROJECTS

Loan No.	Country/Project	Related to Institutions			Project Specific		
		AR (%)	PCR (%)	PPAR (%)	AR (%)	PCR (%)	PPAR (%)
Bangladesh							
240	Agricultural Credit	15.4	57.6				
420	Fisheries Credit	42.7	—				33.0
460	Second Agricultural Credit	46.8				34.5	
773	Rural and Agro-Based Industries Credit	—	15.4-27.4				
1067	Rural Women Employment Creation	—					
1213	Rural Poor Cooperative	—					
People's Republic of China							
1055	Agricultural Bank of China	90.0				95.0	
1347	Second Agricultural Bank of China	a					
1386	Fujian Soil Conservation and Rural Development Project	b					
Indonesia							
197	East Java Agricultural Credit	25.1 ^c					
742	Fisheries Industries Credit	d				73.0	
881	Agro-Industries Credit	—				55.3	
1095	Second Fisheries Industries Credit	e				66.0	
1327	Microcredit	—					
1583	Rural Income Generation	d					
Nepal							
59	Agricultural Credit	75.2	—				
182	Second Agricultural Credit	19.5 ^c	86.2				
295	Third Agricultural Credit	19.5 ^c	83.6				
489	Fourth Agricultural Credit	—	36.0				
831	Fifth Agricultural Credit	41.5	36.9				50.5
1112	Sixth Agricultural Credit	50.0	62.6				
1237	Microcredit for Women	—	—				
1650	Rural Microfinance	—	—				
Philippines							
940	NGO Microcredit	—				90.0	
1137	Second NGO Microcredit	—				80.7-83.8 ^f	
1216	Small Farmers Credit	90.3				88-97 ^f	
1435	Rural Microenterprise Finance	—					
Sri Lanka							
432	Rural Credit	—	26.6			85.0	85.0
606	Livestock Development	—	—			—	70.0
648	Aquaculture Development	—				—	
873	Small and Medium Industries	70.8				40.8	
899	Perennial Crops Development	72-90				71.1	
955	Smallholder Tea Development	72-90					
1084	Second Small and Medium Industries	77.0			79.3		
1128	Southern Province Rural Development	—					
Thailand							
664	Agricultural Credit	20.5 ^c		65.3			
787	Brackishwater Shrimp Culture Devt.	21.2 ^c					
1423	Small Farmer Credit	7.9 ^c					
1540	Rural Enterprise Credit	10.2 ^c					

AR = appraisal report, PCR = project completion report, PPAR = project performance audit report.

^a Text of the appraisal report contains reference to collection performance expressing concern about portfolio quality.

^b There is no intervention of a financial intermediary.

^c Overdue as a percentage of total outstanding loans.

^d Information provided is data on bad debt provisioning.

^e Data on collectibility rating of overall portfolio.

^f Collection rate at level of rural finance institution.

— = data not available, AR = appraisal report; PCR = project completion report; PPAR = project performance audit report.

TECHNICAL ASSISTANCE PROVIDED AND IMPACT ON INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING

Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
Bangladesh					
TA 157	Agricultural Credit	Advice to Bangladesh Krishi Bank (BKB) on organization and management (18 mos.), agricultural economics with specialization in agricultural credit (24 mos.), agricultural engineering (24 mos.), accounting and auditing (6 mos.).			After 1977/78, BKB experienced fast growth in its lending to cope with the need to increase food production; in consequence, its branch network was expanded. Following recommendations of the technical assistance (TA), the following steps to reinforce the organization and management base were taken: (i) new positions were created; (ii) reorganization at the head office was carried out in several divisions and (iii) strengthening of branches was carried out through the appointment of qualified staff trained in the concept of carrying agricultural credit to the farmer's doorstep and offering comprehensive financial support through suitable packages under specific programs (project completion report [PCR], First Agricultural Credit Project, Loan 240-BAN, June 1983).
TA 361	Second Agricultural Credit	27 person-months consultant services in the field of organization and management including financial and statistical information systems and 26 person- months in the fields of project planning, evaluation, monitoring and credit supervision.	36 person-months of training abroad for 10 BKB staff		This advisory TA was well appreciated by BKB, and the revised manuals have been adopted appropriately. After the return of the 10 BKB officers who were awarded fellowships, six have been promoted to positions of higher responsibility compatible with the training they have undergone. Two are already at the top of the cadre. Although the other two officers are still occupying their old positions, the knowledge gained from their training is nevertheless useful in their current assignments (PCR, June 1987).
TA 933	Implementation of an Action Program to Rehabilitate Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS)	Establishment for BSB and BSRS of operational computerized programs for project appraisal, portfolio rehabilitation, enhanced loan accounting and personnel management systems; produce for BSB and BSRS 50 costed proposals each for project rehabilitation of 100 problem projects to improve their viability.	Long-term fellowships and short-term training to upgrade the managerial and project appraisal rehabilitation skills of BSB and BSRS personnel.		Based on the final report of the joint ADB-UNDP evaluation mission (August 1991), the TA was unlikely to lead to the desired objective of an "enhanced financial capacity" of the two development financial institutions (DFIs) in the near term, and qualify them for future credit lines or equity participation from the multilateral lending institutions mainly because of problems on design and implementation of the TA.

TECHNICAL ASSISTANCE PROVIDED AND IMPACT ON INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING

Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 1444	Strengthening Entrepreneurial Training Program of the Bangladesh Small and Cottage Industries Corporation (BSC)	The consultants developed a curriculum for entrepreneurial training of trainers from BSC and Small and Cottage Industries Training Institute (SCITI).	Trained trainers from BSC and SCITI (13 in entrepreneurial development and 25 in marketing). Also, one entrepreneurial training program in association with SCITI for 17 participants.		As a result of the TA, SCITI has successfully embarked on and institutionalized its own training program. During 1992-1998, SCITI organized 70 training programs for entrepreneurial development, self-employment, and marketing with an average of 25-30 participants per program. SCITI now has the capability of organizing 30-40 training programs a year in various fields. SCITI is continuously improving its entrepreneurial training curriculum based on experience gained and feedback received from the trainees. SCITI finalized a two-phase training program in simulation techniques for 12-16 SCITI staff members with Gesellschaft fur Technische Zusammenarbeit (GTZ) of Germany. The program was implemented in 1999.
TA 1470	Social Preparation and Training of Beneficiaries and Project Staff	Microcredit systems specialist for 7 person-months	17 person-months of 3 domestic experts and training		Responsibilities of the Department of Women Affairs included (i) selecting NGOs, (ii) supervising nongovernment organizations training programs, and (iii) coordinating activities at the local level. At project completion, Department of Women Affairs had not decided on its institutional role in microfinance and had not developed institutional concepts, guidelines, or sustained capacity. The frequent change of the project director (six times) and frequent staff transfers hampered project implementation.
People's Republic of China					
TA 1425	Institutional Strengthening of Agricultural Bank of China (ABC)	Three international and 3 domestic consultants provided a total of 31.5 person-months of services.	180 staff received training on project management, market analysis and financial management and accounting, including the preparation of financial statements, e.g., balance sheets, income statements, and cash-flow statements, as well as and their analyses; two staff members from ABC's head office underwent training at ADB headquarters on disbursement procedures.	Assisted ABC in modernizing their office equipment, and provided office and training materials.	The TA that accompanied the loan strengthened the institutional capacity of ABC's provincial offices covered by the Project in line with the appraisal expectations. The advisory services provided by the consultants strengthened ABC's lending activities, upgraded staff skills in the areas of investment analysis, and project preparation and appraisals. It also built up technical expertise, in particular on market analysis, choice of technologies, and environmental aspects. Substantial improvements in ABC's accounting and financial management information system were also achieved.

TECHNICAL ASSISTANCE PROVIDED AND IMPACT ON INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING

Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 1571	Institutional Strengthening of the Industrial and Commercial Bank of China (ICBC)	Advisory consultancy services to improve ICBC's business systems	Project financing and international finance training program in the PRC (140 middle-level staff); and overseas training/secondment to selected DFIs and banks in the region (2 teams).		The ADB loan and the TA contributed to the strengthening of ICBC's institutional capabilities in terms of lending operations, project financing, and international finance. Part A of the TA, however, needs to be further implemented as it is in line with ICBC's ongoing plan to computerize and modernize its audit and accounting divisions.
TA 1914	Enhancing the Project Finance Capability of China Agribusiness Development Trust and Investment Corporation (CADTIC)		<p>Seminar on Project Appraisal and Supervision in November/December 1993;</p> <p>Workshop on Project Appraisal (17-29 January 1994) – 66 1.5 hour sessions; 29 professional staff participated;</p> <p>Nine-week Internship Training Program on Development Banking for 4 CADTIC staff.</p>		The Workshop on Project Appraisal contributed immensely in strengthening the quality of project appraisal competence and creating a high level of confidence among CADTIC's professional staff. It offered an important facility for training of CADTIC professional staff in project appraisal, a critical area where ADB's sustained and continual assistance is required.

TECHNICAL ASSISTANCE PROVIDED AND IMPACT ON INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING

Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 2664	Institutional Strengthening of the State Development Bank (SDB) of China	Advisory consultant services	In-house training; overseas study tours		Leaders of SDB were satisfied with the results. SDB staff drafted "Methodology on Analyzing and Evaluating Quality of SDB's Credit Assets" and modified it, based on the consultant's comments. By end-1997, SDB conducted evaluations on the credit assets based on this "Methodology" and submitted the results of the evaluations to the Government, which received high praise since these evaluations adopted a new credit risk category which can be integrated in international practice.
Indonesia					
TA 424	Sumatra Livestock Development	24 person-months of service of a management expert with experience on livestock projects to provide (i) management advice, (ii) training to Project staff and farmers, and (iii) to help the Government coordinate the implementation of the Project and of its diverse components at the central, provincial, and local levels			Improved the performance of management in bringing about the present state of implementation. Personnel involved in project activities are now more aware of the priorities and what, how, and when things should be done. Considering the inexperience of many project personnel, quite a lot has been achieved (Project Advisor's Report, March 1985).
TA 945	Indonesian Banking Development Institute (LPPI)	LPPI used services of an international consultant for 12 months in three phases to (i) conduct a market study, (ii) assist in the establishment of a data collection center, and (iii) develop a training curriculum.			There is little evidence to corroborate any catalytic improvement in the quality of loan appraisal by LPPI staff arising from the TA (PCR, May 1993).
Nepal					
TA 106	Second Agricultural Credit	Expertise in (i) mechanical engineering services to assist in the establishment and initial operation of the Agricultural Development Bank of Nepal's (ADB's) new procurement unit - 6 months; (ii) financial and accounting services at ADBN - 12 months;			The benefits derived from the services of the three consultants have been substantial, and in accounting have permeated every level of the ADBN organization.
		(iii) agricultural marketing and cooperative management services - 12 months.			

TECHNICAL ASSISTANCE PROVIDED AND IMPACT ON INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING

Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 378	Fourth Agricultural Credit	International consultancy - to help in project implementation and ADBN institutional strengthening; survey and feasibility study, research, and development.	Fellowships and training	Provision of fabrication machinery and equipment for the biogas company	Many of the financial ills at ADBN have already been identified in the appraisal of the Fifth Agricultural Credit Project and appropriate remedial actions were recommended. Most such steps have subsequently been covenanted in the loan (no. 831) approved by ADB in April 1987 and are being closely monitored during the Fifth Project's implementation. There is a need to sustain the benefits already derived by the farmers in the project area by providing them with access to credit, if needed, to purchase replacements for worn-out engines and pumps as well as fertilizer and fuel.
TA 709	Cotton Development	About 65 person-months of international consultants in the fields of project management/ coordination, ginnery engineering, seed production, agronomy, entomology, fiber testing, and mechanical engineering; and 30 person-months of domestic consultants in the fields of financial control, detailed design, and agricultural extension.			In general, the consultancy services contributed significantly in implementing the Project and in providing on-the-job training to the staff.
TA 870	Institutional Building of ADBN	25 person-months of consulting services aimed at improving the operating and financial efficiency of ADBN.	A UNDP-financed TA grant was provided to finance short-duration training courses (mostly computer training) for 300 officers and study tours of 45 professional staff of ADBN.		The TA and the imposition of covenants under the loan had direct benefits for ADBN. The use of consultants provided the needed technical skills to improve ADBN's operating capability by identifying specific problem issues and requiring specific actions to remedy the situation.

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Country/ TA No.	Title	Assistance Provided			Impact on Institutional Strengthening and Capacity Building
		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 1871	Institutional Strengthening of ADBN	Domestic consultancy input of 94 person-months and international consultancy input of 7 person-months	Training for 13 senior operations staff of ADBN on various fields internationally; study tour for 8 staff; in-country training conducted for 124 staff at ADBN's Agricultural Training and Research Institute.		ADBN has not progressed as expected in becoming the self-sustaining and financially sound development finance institution targeted by the Project. While financial statements show moderate improvements, the application of internationally recognized accounting standards and banking principles results in much higher provisioning and write-off requirements than those currently recognized by ADBN. Operational weaknesses as shown in low loan recovery rates persist to date and the accumulation of overdue loans and likely loan losses are still steadily increasing (PCR, November 1998).
Philippines					
TA 1093	Institutional Strengthening of Nongovernmental Organizations (NGOs)	Institutional assessment of 35 accredited NGOs	Training to address common development needs	Financing the implementation of NGOs' institutional development plan	Generally, 301 participating NGOs performed satisfactorily partly because the screening process ensured the elimination of weak NGOs. Those NGOs that received support from the two TAs have performed better because their management capability improved. There is a need to extend the training program to all participating NGOs to sustain the efficiency of NGO operations as financing intermediaries (PCR for Loan 940-PHI, NGO Microcredit, 29 June 1992).
TA 1842	NGO Development Program and Institutional Strengthening of Department of Trade and Industry (DTI)		Training for DTI staff and micro-entrepreneurs: two 5-day workshops on project management using the Kepner Tregoe (KT) model; 6 days of training on project impact assessment and evaluation; and 14 days of training on a small enterprise development course.	Provision of computers and motorcycles to DTI staff	The full impact of the NGO project may not be readily known as yet. However, significant improvements among NGO beneficiaries were already noted by DTI and the PCR mission in terms of better loan record keeping, loan monitoring, higher collection rates, clearer directions, and more responsive management. The mission interviews with NGO officials consistently confirmed the latter's appreciation of the TA and institutional interventions provided by the Project, which, as they claimed, substantially improved their operations.

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		Consultancy/ Advisory	Training/ Fellowships	Others	
TA 1810	Institutional Strengthening of Cooperatives	The consultants prepared a resource manual for local technical specialists (LTSS) and the "Handy Guide for Making Your Cooperative a Success," that were simple step-by-step guides that included how to motivate, conduct financial management, and enhance entrepreneurial skills of farmer cooperatives.			<p>The TA prepared excellent manuals that could be used by the Land Bank of the Philippines (LBP) to develop farm/credit cooperatives and as a reference for existing farmer cooperatives. The TA had a notable impact on 1,348 participating cooperatives that had reached full installation of schemes, systems, and procedures. Also, trained 96 LTSS.</p> <p>Thirty-four percent of participating farmer cooperative which adopted the capital build up/savings schemes, reported an increase in the equity capital and savings deposits of members. Twenty-six percent who adopted the credit/collection system reported an increase in loan collections from members. By completion, 30 percent of the farmer cooperative under the TA had been upgraded using the LBP classification system.</p> <p>At completion, 10 institutions offered to hire 64 LTSS trained under the TA.</p>
Sri Lanka					
TA 317	Second Rural Credit	Three-part consultancy: Part A - Institutional development of the rural credit department of Central Bank of Sri Lanka; Part B - Project review and formulation of a second rural credit project; and Part C - Institutional development of the People's Bank and Bank of Ceylon.	About 40 person-months were utilized for fellowships. Five staff from Central Bank of Sri Lanka were sent abroad for a total of 12 person-months to study rural credit operations. The remaining 28 person-months were shared equally (14 person-months each) by staff from Bank of Ceylon and People's Bank.		Although the recommendations made by the two consultants were not implemented in full, in certain fields, the banks have taken steps to remedy the drawbacks spotlighted by the consultants. The audit departments in the two banks have been revitalized and the banks have taken measures to bring more branches under annual inspections, as recommended by the consultants. The inability of the Central Bank to implement other recommendations was because the two banks have embarked upon a program of computerization and overall reorganization and the management felt that the reorganization program would embody, many, if not all, of the recommendations made by the consultants.

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		Consultancy/ Advisory	Training/ Fellowships	Others	
Thailand					
TA 561	Agricultural Credit	Consultant services assisted the project coordination unit in implementing the Project, in finalizing input and credit packages for the crop loan scheme, in preparing tender documents for procurement under ADB's international competitive bidding procedures, in designing control systems and in reviewing the working of the credit-in-kind distribution system.	Training of 2,321 credit officers on short-duration courses to equip them for evaluating crop and equipment loans and for extending crop technology information to farmers.	Bank for Agriculture and Agricultural Cooperatives (BAAC) undertook installation of videos in all of its branches and made and distributed 33 video films on various aspects of agricultural technology. Radio programs were regularly broadcast and posters printed as part of the extension effort.	<p>BAAC's evaluation of the training program concluded that: (i) there was a better knowledge of fertilizer recommendations and use among credit officers measured in terms of correct responses to a test questionnaire; (ii) 50 percent of credit officers felt they had gained sufficient knowledge to provide some extension advice to farmers, though 71 percent felt they still had inadequate knowledge of agriculture; and (iii) credit officers felt that pressures of their own work prevented them from devoting large amounts of time to "extension" work and that cooperation with the Department of Agricultural Extension remained important.</p> <p>In respect of BAAC extension and extension strengthening efforts, its own evaluation on the basis of interviews with 84 farmers and 23 field officers showed that: (i) on the whole, farmers and field officers thought that videos were a good way in which to disseminate information on crop technology, but (ii) videos shown to farmers should be shorter and concentrate on making a few clear points; (iii) the existing longer videos lasting up to 30 minutes should be shown to organized groups, supported by simple printed material and the availability of a BAAC officer to answer questions; (iv) the same videos could be effectively used for BAAC staff training; (v) videos could be more effective if specific target groups could be identified and the videos made in response to target needs; (vi) financial analysis should receive more emphasis; and (vii) a schedule for video screening should be used at branches so that videos are shown at appropriate times of the year.</p> <p>After 21 years in operation, BAAC has become a mature and efficient financial institution. This was achieved through careful recruitment, well-designed personnel policies, intensive in-house and external training programs, and effective management (project performance audit report, June 1989).</p>