

NOTAT

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BGD 031 - COMMENTS TO GRAMEEN BANK PHASE III COMPLETION MISSION REPORT

Reference is made to your memo of 9 Dec 93.

1. We have gone through the Grameen Bank Phase III Project Completion Mission Draft Report, and feel in general that the report gives a good review of the phase III achievements, shortfalls and differences, compared to the projections at the appraisal stage.

2. We agree with the Mission's proposal that the expected small surplus of funds in the SVCF, R&D and M&E categories at end Dec 1993 is reallocated to Institutional Development, and finally unutilised funds at end June 94 to be used for G&C loans.

3. GB has opened up for a growth in lending during 1992 and 1993 which is so high, that most banking experience will dictate to put on the alarm lights, the risk being losing control.

Between the beginning of 1989 and 30 Sep 1993 loans outstanding increased from Tk. 1,012 (USD 25 m) to Tk. 7,017 (USD 175 m).

By end Sep 1993 GB had disbursed for housing loans Tk. 2,460 (USD 61.5 m) compared to Tk. 338 (USD 8.45 m) at the beginning of Nov 1989. The Bank has no consolidated record of the unrepaid and overdue housing loans. The same is the situation for the newly introduced seasonal loans. HO is unable to monitor the unrepaid loans and overdues.

A growth rate of this size was not planned during Phase

III, and has been made possible through extensive borrowing from Bank of Bangladesh and commercial banks. New lending schemes have been introduced, which also were not planned or discussed in advance with the donors. A statement in the draft report raises concern in this respect: "self-confidence may again be substituting for careful planning, testing, and execution of the new seasonal and multiple loan programmes". This combined with absence of proper monitoring system and lack of commitment to budgeting and budget control, provide fertile ground for speculations by outsiders that something might be going wrong.

The confidence that GB has built up in the donor community, and elsewhere, through building solidly up their schemes "stone on stone", and through good control systems, could easily be eroded if the impression of relaxation of basic principles is allowed to fasten. GB management should take this challenge seriously soon.

4. One issue of particular great concern in this respect, which could be interpreted as a typical result of too rapid growth, is the absence of data at HO on repayments of housing loans and seasonal loans. The Mission is stating that with the considerable contribution of these loans to the rapid growth of the outstanding loans, this absence of data suggests a growth rate that is out of control. "After more than five years there is still no housing loan delinquency report (although one is now scheduled for introduction in January 1994). In the absence of reliable data the mature mind must assume that invisible portfolio problems are multiplying daily."

During our visit to GB in July/Aug 93 we got data from GB from a special survey undertaken by HO for housing loans as at end March 93. A total of 72,795 loans had been looked at, and for 9,303 of these loans there had been no repayments made over the last three months. For an additional 7,335 loans half of the amount that should have been paid was still outstanding, and finally for another 3,015 loans, one quarter of due amounts was unpaid. A total of 27% of the number of loans researched was affected with considerable defaults, which is far below GB standard for G&C loans.

After such findings one would have expected that GB's management should be the ones most interested in establishing a proper monitoring system. When this has been given surprisingly low priority by GB management, it should now be considered to put it as a condition for further funding in phase IV, that systems for continuous monitoring of all loans are in place, and have proved to provide the data needed for loan portfolio monitoring.

It is, however, not surprising that housing loans, which in most cases are not creating any additional income for

the members, will be less punctually repaid than loans for productive purposes. The surprising part of it is rather that GB management try to give the impression that this is not so for GB housing loans, without establishing a proper monitoring that could have provided documentation.

5. Another area where donors' experience and GB managements practice seem to be in disaccord, is the differing views on budgeting, budget control and reporting.

The 15 conditions set by donor consortium during phase III with which GB was either partly in compliance or not in compliance related largely to project reporting, budgeting and monitoring, and consultations with the donors concerning the use of the SAF.

Semi-annual and annual reports provided little analysis or explanations of the trends in the Bank's operations and performance. A comparison with targets and previous periods was also sometimes lacking. GB does not seem to use the budget as a management tool to guide the Bank's managers when lending. (1992 and 1/2 1993: 383 and 206% exceeding of budget figures respectively). The absence of any ratio analysis makes it impossible to monitor effectively the performance of over 1,000 branches and is a serious weakness in GB's HO monitoring system.

Total project expenditure by the end of June 1993 was 192% of the expected phase III expenditure and 162% of the MTR targets. GB has had to borrow extensively on the money market to finance the shortfall in funds for on-lending. None of the Semi-Annual or Annual Progress Reports contained any explanations for divergences from planned targets.

We tend to agree with the Mission's conclusion that the absence of any apparent outside control, independent influence or regulation must be a cause for concern. All successful systems require an appropriate set of checks and balances. How this should be organised in phase IV has to be discussed with GB management. The magnitude of the operations and the donor assistance, combined with the steady increasing international interest in the concept, could indicate the need for some kind of "international panel of experts" to observe and have a continuous dialogue with GB management and the donors in phase IV, for instance through quarterly meetings, based on information prepared by a secretariat.

6. Another major concern is the lack of information about the extent to which parts of new loans directly or indirectly are used to repay parts of old loans. The mere fact that interest is only supposed to be repaid after the full principal has been repaid (for G&C loans) opens up for a situation in which all interest can be paid through

