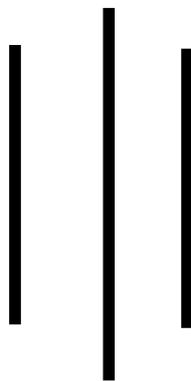


IMPACT STUDY OF RURAL SELF RELIANCE FUND CREDIT PROGRAM

Submitted To:
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Summary

A. Study Objectives and Methodology

1. This study aims at evaluating the impact of Rural Self-Reliance Fund instituted by the Nepal Rastra Bank in 1991 for poverty reduction. Financial resources contributed to the Fund by the Nepal Rastra Bank and the Government are used to provide wholesale credit to the cooperatives and the NGOs at subsidized rate of interest to on-lend to the poor.
2. The study is based on secondary as well as primary data and information. Primary data were collected from a sample of 38 cooperatives and NGOs that received credit from the Fund, and 200 clients from 13 VDCs/Municipalities of 7 districts, 1 from the mountains (Sindhupalchok), 2 from the hills (Lalitpur and Surkhet) and 4 from the terai (Morang, Nawalparasi, Kailali and Berdiya). The selection of clients was made by using random sampling technique. In the process of collecting filed data in-depth interviews with the chiefs of major micro-finance organizations and the chief of Micro-Finance Department of the NRB were conducted.

B. Access to Fund Credit

3. The outreach of RSRF credit is limited to 12228 households of 48 districts. The outreach is not, however, strictly confined to the poor and the disadvantaged households, as defined by the NRB in the directives of RSRF. Judged from the landholding criterion, 77.5 percent of the clients qualify as poor. The proportion of clients qualifying as poor is 82.3 percent in the terai, 71.2 percent in the hills and 54.6 percent in the mountains. On the other hand, use of food self-sufficiency criterion shows 86 percent clients falling in the category of poor. The food self-sufficiency criterion is met by 91.5 percent of clients in the hills, 84.6 percent in the terai and 72.7 percent in the mountains. The use of income sufficiency criterion, however, shows 58.5 percent qualifying as poor. The proportion of clients satisfying income sufficiency criterion is 72.7 percent in the mountains, 67.8 percent in the hills and 53.1 percent in the terai. Furthermore in terms of disadvantaged people, 43 percent of borrowers belong to the category of dalit and ethnics.
4. The average amount of loan is Rs 17.5 thousand in overall, and goes on decreasing at each upper ecological belt, Rs 19.4 thousand in the terai, Rs. 14.2 thousand in the hills and Rs 13.7 thousand in the mountains.
5. More than half (55 percent) have also borrowed two or more times. The proportion of clients borrowing two or more times is the highest in the hills (79.7 percent) and the lowest in the mountains (36.4 percent) with the terai falling in between (45.4 percent).

6. For a large majority of borrowers (62.5 percent) the fund credit was sufficient to undertake the proposed activity. Likewise, the proportion of clients reporting sufficiency of credit was 71.5 percent in the terai, 63.6 percent in the mountains and 42.4 percent in the hills.
7. The resource gap was being met by borrowing from the money lenders but at an exorbitant rate of interest as high as 60 percent per annum.

C. Impact on Households

Overall Impact

8. An overwhelming majority of clients (85 percent) felt an improvement in their overall socio-economic conditions after participation in RSRF program. The proportion reporting improved condition was the highest in the hills (91.5 percent) and the lowest in the mountains (45.4 percent), with the terai in between (85.4 percent).

Economic Impact

9. All the clients have used credit for starting income generating activities with some using it for other purposes as well. The main activity has been buffalo/cow raising (43 percent), followed by retail shop (26.5 percent) and vegetable farming (14 percent).
10. The borrowers appear to have undertaken a relatively wider range of activities in the terai as compared to the hills and the mountains. The mountains show very limited activities.
11. One-third of the clients (33.5 percent) have diversified their occupation by undertaking non-traditional activities after receiving the credit. Such practice was higher in the terai and the mountains than in the hills. For a large majority (86.6 percent) the main problem for not undertaking the currently pursued non-traditional activities was lack of finance constraint. This holds also true for each ecological belt.
12. The investment made by the borrowers has contributed to generate full time and part employment opportunities to 2 persons each per household.
13. The activities undertaken by the large proportion of clients (78 percent) were of shorter gestation lag of up to 6 months.
14. The activities resulted in additional monthly income varying between up to Rs 1000 to more than Rs 5000. However, for a large proportion, the additional income did not exceed Rs 1000; --- 48 percent in overall, 63.7 percent in the mountains, 55.9 percent in the hills and 43.1 percent in the terai.
15. The credit has not changed the landholding size of the clients, but it has increased the food self-sufficiency as well as income sufficiency.
16. A large majority used the additional income for meeting household consumption expenditure (92 percent) in overall, 95.4 percent in the terai, 91.5 percent in the hills and 54.5 percent in the mountains. Apart from the household consumption, the clients also used additional income for schooling of their children (82.5

percent), expansion of business (35 percent), and purchase of T.V. telephone etc. Some clients have also used additional income for the purchases of jewelry, establishment of new business, and foreign job.

17. Access to fund credit has substantially reduced the dependence of the clients on other sources for fund. The amount borrowed from money lenders accounted for only 17.9 percent of total credit in overall, with the terai showing relatively low dependence (23 percent), as compared to the hills (10.5 percent) and the mountains (8.8 percent)
18. Borrowings from other sources were for meeting needs different large majority in the mountains (66.7 percent) and less than one third in the terai (30.8 percent) reported repayment of loan installment as the need, while in terai education of children was reported by about one-fourth (24 percent).

Social Impact

19. Regarding the social impact, 86.5 percent of clients reported improvement in sons' schooling after participation in credit program. By ecological belt 88.5 percent in the terai, 88.1 percent in the hills and 54.5 percent in the mountains reported such improvement. The proportion reporting improvement in daughters' education was almost half than those reporting improvement of sons' schooling
20. A very large proportion of clients reported an increase in their awareness and knowledge of health and hygiene, such as safe drinking water (70 percent), use of toilet (53.5 percent), diseases (87.5 percent), maternal and child health (79 percent) and vaccination (88 percent).
21. The ecological belts also follow this pattern of large proportion of clients reporting increase in awareness and knowledge of various health and hygiene related matters except low proportion reporting improvement in knowledge in health and hygiene in the mountains (18.2 percent).
22. A very high proportion of clients reported an increase on the consumption of nutrient food, such as meat (80 percent), milk (86.5 percent) and fruits (64.0 percent). A similar pattern holds for the ecological belt except no improvement in fruit consumption in the mountain.

Empowerment of women

23. The proportion of women taking membership of other social organizations has increased from 18.9 percent to 56.8 percent, with the terai showing a high increase (from 21.1 percent to 70.4 percent) followed by the hills (from 15.4 percent to 23.1 percent), while the mountains did not show any change.
24. Joint decision making both by male and female members on schooling of children marginally increased in the terai, but remained the same in the mountains and the hills. Regarding treatment of family members in case of illness joint decision making has increased in the terai and the hills but no

change has been witnessed in the mountains. On matters relating to sale of goat and cattle, joint decision making has marginally increased.

25. The proportion of women reporting their compulsion to handover the income earned by them to the husband and in-laws has decreased from 32.6 percent to 26.3 percent. The proportion of women who kept income earned by them but required permission for expenditure has decreased in the mountains and the hills but increased in the terai. The proportion of women enjoying freedom to spend the income earned by them increased appreciably in the mountains and the hills, but moderately in the terai.
26. The proportion of women reporting an increase in their self-confidence in terms of ability to put their own interest in the family discussions and put their concern in the group meetings has increased in overall as well as in each ecological belt. Women have become more interested in knowing about social issues and problems in each ecological belt.

D. Impact on Lending Organizations

Management of Fund Credit

27. Of the total 38 organizations, 33 borrowed the RSRF loan only once and the remaining 5 organizations borrowed twice.
28. Average amount of borrowing was Rs 428.0 thousand in overall, Rs 820.2 thousand in the mountains, Rs 335.6 thousand in the hills and Rs 437.2 thousand in the terai.
29. The repayment of the loan was 69.6 percent in overall, 85.8 percent in the hills, 65.5 percent in the terai and 60.4 percent in the mountains.
30. Both organizations in the mountains, 13 out of 25 organizations in the terai and, one out of 11 organizations in the hills had outstanding loan. The proportion of outstanding to the total amount loan was 30.4 in overall, 39.6 percent in the mountains, 34.5 percent in the terai and 14.2 percent in the hills. One of the two organizations in the mountains had overdue loan, amounting 8.8 percent of the total loan amount in the mountains, i.e., 0.9 percent of the loan amount is overall.
31. The organizations have extended a large proportion (40.8 percent) of the RSRF credit to livestock raising followed by petty trades, particularly retail shop (27.9 percent), crop farming (9.8 percent), small and cottage crafts (9.0 percent), purchase of cart and draught animals (4.6 percent), poultry, fish farming and , bee keeping (3.5 percent), skill based business (1.7 percent and other (2.7 percent).
32. Some of the organizations extended the RSRF credit to the clients even without following any group guarantee mechanism, i.e., without forming groups of the borrowers for loan management.
33. Group meetings were held every month for depositing the monthly savings. In most of the cases, the monthly savings were disbursed as credit to their members in the same meeting. The manager/accountant of the cooperatives used to play the role of facilitators in the monthly group meetings.

Management of Organization

34. The organizations were formed, registered; and started operation during the years 2045 through 2059. Of the total 38 organizations, 23 have been operating since 2054 or before.
35. Average number of general member/share holders of the organizations is 413.5 in overall, 478.4 in the terai, 383.4 in the hills and 155.0 in the mountains. Female constituted 49.6 percent of the total members, the highest proportion in the mountains (100 percent) the lowest in the hills (30.5 percent), and the terai (52.0 percent) in between.
36. Average number of executive committee member is 11.4 in overall, with descending order--- 11.9 in the terai, 10.30 in the hills and 10.0 in the mountains. The proportion of female members in the executive committee is 40.6 percent, which varies in each ecological belt; 100.0 percent in the mountains, 41.4 percent in the terai and 23.3 percent in the hills.
37. Only 10.4 percent of the total executive members were Dalits, with the highest proportion in the hill (18.3), followed by the mountains (10.0 percent) and the terai (8.4 percent).
38. Generally the executive committee meetings are held once in a month. The meetings are attended by more than three-fourths of the members in 68.4 percent of the organizations. The attendances in the meetings are observed to be very high in the terai followed by moderately by the hills and poorly by the mountains.
39. About one-fourth of the organizations perceived their members as very active, two-thirds perceived as inactive. In terms of the activeness of the member too, the organizations in the terai are ahead of those in the hills, while the mountains are far behind.
40. A very large proportion of the organizations (39.5 percent) have 2 staff, followed by those with 'no staff' (15.8 percent), 3 staff (13.2 percent), staff (10.5 percent).
41. Of the total organizations, 84.2 percent has employed paid-staff while the remaining 15.8 percent have no such staff. The member varied from 1 to 16. the organizations of the terai appear to be well staffed, as compared to those in the hills, in terms of the number of staff and the level of their education. The organizations of the mountains are poorly deployed with respect to staff.

Financial Management

42. All the organizations reported to be practicing double entry book keeping system. The organizations in the terai had maintained the accounts in a systematic and compared to those in the hills. The mountains indicate a poor show in the account keeping.
43. The income of the organizations has ever been increasing during the years 2058/059 through 2062/063. The average income of the organizations increased from Rs 1770.7 thousand in 2062/063, with constant increase in every successive year. This holds true for the hills and the terai.

44. The expenditure made by the organizations shows an increase except in 2060/061. The same holds true for both the terai and the hills.
45. The main item of the expenditure was interest payment, which accounts for 41 to 49 percent during the five years between 2058/59 and 2062/063. The salaries of staff constituted the second major expenditure item accounting for 16 to 26 percent during the same period. The same pattern is evident in both the terai and the hills.
46. With regard to the composition of primary capital, the amount raised through share has an increasing trend but with a fluctuating rate of growth. in terms of amount, the increase was from Rs 138.1 thousand to 451.6 thousand in 2062/063, with fluctuating rate of increase over the years. A similar pattern is evident for the terai and the hills.
47. Throughout the years under review, savings deposits have remained the main financial source of the organizations, accounting for 47 to 57 percent of the total. Next to savings deposits, other sources of finance were RSRF loan, other loans, interest, share capital, and membership fees.
48. The reserve fund also shows an increasing trend except a modest fall in 2062/063. The amount standing at Rs 23.81 in 2061/062 was more than twice that of 2058/059 level. But in 2062/063, there was marginal decrease. The pictures in the terai and hills were similar to the overall picture.
49. The organizations appear to be in a profitable position except in 2062/063. The profit amount is higher in the hills than in the terai. Only a few organizations reported loss. There is no definite trend in loss over the years. Loss is confined to terai and excepting the year 2058/059.
50. The assets of the organizations showed an increase every year, but with a fluctuating trend. The value of assets has increased from Rs 299.4 thousand in 2058/059 to Rs 874.7 thousand in 2062/063 reflecting almost a three fold increase during a period of five years. Between the hills and the terai, percentage increase in assets is higher in the hills than in the terai, while the amount in terms of the value of asset is higher in the terai. With regard to the composition of the assets, the office building, accounted for 35.5 percent to 44.6 percent, constituting the largest proportion, next clients was land, followed by machine/computer and cycle/motorcycle. A similar pattern in asset composition was evident in the terai and the hills.

E. Major Issues

51. Some factors need to be taken as the major issues confronting the RSRF in achieving its objective of reducing the rural poverty. These issues are listed below:
 - Lack of planning of the RSRF program
 - Supply based approach on the part of the Fund as well as the lending organizations

- Lack of knowledge about the facility of Fund credit among the cooperatives and NGOs
- Lack of information to the households on the availability of micro credit
- Low utilization of resources available with the Fund
- Low outreach of the program, particularly in the mountains
- Coverage of the program not being strictly confined to the poor
- Hasty selection of target beneficiaries by the lending organizations
- Tendency of monopolizing the access to Fund credit by the influential members of the organizations
- Lack of regular monitoring and evaluation of operations of the lending organizations by the Fund

F. Recommendations

52. The major recommendations are as follows:

- Formulation of Plan for the Operation of RSRF
- Demand Generation through Survey of Target Districts and Households, Publicity and Promotional Activities, and Skill Training
- Easy Access to RSRF Loan
- Monitoring and Evaluation of Fund Credit
- Special Scheme for the Mountain and Remote Hill Districts