

## REACHING THE POOREST AND ENHANCING DEPTH OF OUTREACH RIGHT POVERTY TRAGETING THROUGH FINANCIAL INCLUSION

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### ABSTRACT:

Poverty Alleviation Fund (PAF) was created by Government of Nepal in 2003 to reduce extreme Poverty in Nepal and build an equitable and sustainable society and is financed by the Government through a succession of IDA grants from the World Bank. Initially established by an ordinance in 2003, PAF is governed by an act since 2006. Thus PAF is now an autonomous and professional organization governed by a separate law.

To realize the development objective, PAF has four major programs – social mobilization, capacity building, income generating activities and infrastructure building at community level. Revolving Fund (RF) is part of the income generating activities. For income generating activities, PAF provides 90% grant to Community Organisations (COs) to launch activities, exclusively for the target groups. The groups or CO members borrow money from CO's Revolving Fund in the form of loan to launch IGAs. Poverty Alleviation Fund (PAF) has started its implementation since 2004/2005. While implementing the sub projects through community organizations is on-going to finance on Income Generation Activities and small infrastructure, COs and its members have also started to build federations, networks of COs, and co-operatives.

PAF Revolving fund is the central feature of PAF Income Generating component in continuously carrying out the income generating activities by COs' members. As a part of IG program, COs have established Revolving Fund (RF) provided by PAF. RF has been important source for the poor to easily access the loan to initiate their livelihood activities, who have no access to the formal financial institution. PAF has envisioned RF as the important milestone for financial linkages.

This article is mainly focused on for the event is “**Balancing Financial, Social and Human Values.**” In March 2017. The summit plans to come up with workable declaration through deliberation on pertinent issues confronting microfinance services in Nepal.

***Key Words: Revolving Fund, Poverty, Saving &Credit, Financial Inclusion and Social Cohesiveness***

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## **1. INTRODUCTION:**

This article is intended to share experiences and practices of access to credit through revolving fund for promoting economic empowerment. This article is intended to present in National Microfinance Summit Nepal 15<sup>th</sup> to 17<sup>th</sup> March 2017; "Balancing financial, social and human values." This will reflect main learnings of Poverty Alleviation Fund Nepal and its best practices. This paper has objective to share learnings and success of the revolving fund of the Community Organizations at the national and international forum. The paper will provide opportunities to obtain experiences from other countries and national entities who are directly working in to the micro finance institutions.

### **Objectives of Revolving Fund:**

In order to access to and mobilize RF, CO and its members will have to follow the systematic practices and process. The practices and processes involve identification, analysis and prioritization of their needs, aggregating their demands, and accessing to RF and ensuring proper management of RF. Experience, skill and learning gained in this process itself is empowering and instrumental that help advances CO and CO members to undertake the further improved and informed steps and activities (broadening the scope of livelihood portfolio for e.g.) based on the experiences and learning. Specifically, the main objectives of RF are:

- To allow tap economic opportunities and promote entrepreneurial activities amongst co members;
- To provide financial source, enabling CO members to access to credit to finance their income generating activities;
- To meet their specific credit demands with the appropriate terms and conditions set by themselves, making loan accessible and affordable and ensuring effective RF management;
- To facilitate in financial linkage of cos/ members with appropriate FIs;

## **2. REVIEW OF LITERATURE:**

A literature review was undertaken at the start of the evaluation process to equip the evaluation team with a comprehensive understanding of the project components, objectives and contextual factors. The evaluation team reviewed the Performance Management Framework for RF Management”,

- Review of Performance of CO Revolving Funds and Recommendations for Revolving Fund
- Management” prepared for the IFAD Nepal Office and
- Revolving Fund Management Manual for Income Generating Groups – 2065

In order to the proposed study 50 COs, M-CRIL/PAF Nepal adopted the mix methods approaches;

- (a) CO workshops at the regional level, and
- (b) Field visits to COs.

Each CO workshop was a day-long activity with participation from at the most 4 COs. The workshops were organised by PAF/PO officials at locations where representatives of the participating COs could reach conveniently. Therefore, multiple workshops were organised in regions where the number of COs to be covered were more than four.

The representatives of COs participating in the workshop were requested to bring along all their record books for review by PAF-N/M-CRIL analysts. The information from the COs were collected based on the template developed by PAF-N/M-CRIL to obtain impressions on the aspects of the review. This included the development of verifiable indicators for each aspect to ensure an appropriate impression of the performance of the COs. In addition to workshops, at least one CO in each region was covered by field visits.

### 3. ANALYSIS AND DISCUSSIONS:

#### Framework to reach to the poor Targeting Mechanism

<u>Targeting Sequence</u>	<u>Key Actor</u>	<u>Tools/Methods</u>
Districts ↓	PAF Management	District Level Indicators (CBS/NPC)
VDCs ↓	PAF Management Portfolio Manager	VDC Prioritization DDC-Level Stakeholders' Consultation
Wards ↓	Partner Organization (PO)	VDC-Level Interaction
Settlements ↓	Partner Organization (PO) Community	Settlement-Level Sensitization Settlement Social Mapping Social Assessment/Wellbeing Ranking
Community ↓	Community Community Org. (CO)	Identification of Target Households Formation of COs Registration of COs
Target Beneficiaries (CO)	Community Org. Community Action Planning	Project Development/ Link with DDC Plan

#### Poverty level:

PAF's mandate is to work with poor households to address issues of rural poverty and social exclusion. Participatory social assessment and community well-being rankings were used to identify the poor as primary beneficiaries at the settlement level. Among the members in the sample COs, 68% are classified as hardcore poor (food sufficiency less than 3 months), 24%

under medium poor category (food sufficiency more than 3 months but less than 6 months), 8% under the poor category (food sufficiency more than 6 months but less than a year) and none of them are in the marginal non-poor category. The Central region has a high proportion of hardcore poor (79%) while the Western region has the lowest (43%). However, there is not much difference in the poverty profile of CO members across age of association and gender.

#### **Caste Composition:**

To understand the caste homogeneity of COs, all the sample COs were categorized into four categories. The term homogeneity applies to 'same/ similar' caste, economic status and business activities.

- (i) Dalit (low caste Hindus)
- (ii) Janajati (indigenous people not part of the Hindu caste system)
- (iii) Minorities/Muslim and
- (iv) Others (includes Chatri, Brahmin, Newar, Takali, Bahun, etc).

Overall a typical sample CO is made up of member households that are 32% Dalit, 45% Janajati, 16% Muslim and 8% other ethnicity. It is clear that PAF is focusing on socially excluded groups such as Dalit and Janajati (together constituting around 77% of the membership). There are 5 COs with 100% Dalit and 11 COs with 100% Janajati in the sample. The majority of Cos are homogenous in nature with a mix of caste groups as members.

#### **Distance from CO to Bank:**

As per the PF guidelines all COs were required to open bank accounts to which the revolving fund and other grants could be transferred. The far distances of the COs from their bank branches indicate their remoteness and also the chances of being excluded from formal financial services.

The distance of the sample COs from their bank branches ranged from 3 to 80 Km, with an average of 25 Km. Two-thirds of the COs have branches more than 10 Km away from their location. A majority of sample COs in the Mid-Western and Far Western regions are located in the hills and mountains.

Hence, the average distance is higher in the Mid-Western (34 km) and Far Western (43km) regions. Some of the COs do not have road access due to which the SMs have to walk to conduct CO meetings. The COs located in the mountains in Doti district from the Far-West conduct bi-monthly meetings due to access issues.

#### **4. FINDINGS:**

During this study and major findings of the PAF financial inclusions are as follows;

##### **Contribution to Poverty Alleviation - *Poverty falls to 33.1 percent in six districts:***

There are indications that PAF is contributing to poverty reduction in Nepal. For example, the incidence of poverty has come down by 17.40 percentage points in the last seven years in six

districts where the Poverty Alleviation Fund (PAF) is operating its programmes. Poverty rate, on average, stood at 50.7 % of the population in Doti, Dailekh, Jumla, Rolpa, Rautahat and Humla districts in 2007. That rate fell to 33.1 per cent in 2014, according to the report, entitled 'Socio-economic Changes in PAF Intervention Households in Nepal' which was prepared by the Centre for Economic Development and Administration (CEDA) of Tribhuvan University (TU) based on survey conducted in 2,800 households.

This means that the poverty rate in the six districts declined at an average of 2.49 per cent per year between 2007 and 2014, as against national average poverty reduction rate of 0.8 per cent per annum. The national poverty rate stood at 25.2 per cent of the population in 2010-11, as per the National Living Standard Survey conducted by the Central Bureau of Statistics.

When the survey was conducted, it was found that per capita consumption had largely gone up in the six districts where the programmes of PAF were operating, indicating a rise in income level. According to the report, per capita consumption in the six districts stood at NRs 14,826 per year in the year 2007-08. The amount went up to NRs 36,440 in 2013-14, marking a rise of 145.78 per cent in the seven-year period, or 20.83 per cent, on average, per year. Between 2003-04 and 2010-11, average per capita consumption in the country had gone up from Rs. 15,848 per year to Rs. 34,829 — up 119.76 per cent or 17.10 per cent per year.



**Case 1: Member gets out of debt.**

**CO Name: Tri Shakti**

**Client: Santoshi Kumari Chowdhary**

**Location: Saptari (East)**

The client initially had no source of income and was completely dependent on her husband who is a daily wage labourer. Their family used to have sufficient food only for 3-4 months. After associating with the CO which was formed in 10/12/2066, Santoshi had obtained a loan of Rs 13,200 for leasing a plot of land (~0.15 bigha) for agricultural. However, due to draught conditions, she was barely able to produce enough from the land to feed her family and pay off the loan. Due to pressure from other members repay off the loan, she took financial assistance from other CO members and also took some smaller loans (10%-15%) from local money lenders.

Despite being in debt, she took another loan of Rs 20,000 from the CO and commenced a rice trading business. The business consisted of buying rice at a wholesale rate from farmers and selling the same at local markets at a higher price. This business got her good profit which she used to pay off all her existing loans.

Thereafter she took another loan of NPR 10,000 for rice business and a solar loan of Rs 13,000. The solar lamp enables her children to study during night time. It is to be noted that currently their family is self – sufficient in terms of food throughout the year. Savings from her business over the years has allowed her to invest NPR 2 lakhs for house construction.

**Loan products and terms:**

The evaluation team analysed the terms and condition of the COs that offered multiple loan products and came to the conclusion that in most cases the loan product was the same in terms of design with the main difference being the nomenclature (like buffalo loan, vegetable loan, grocery shop loan) and some variation in terms of loan amount and tenure. The following are the key features of the loan products.

Interest rates are the same across products offered by a CO and are in the range 5-15% per annum. Interest is calculated on a reducing balance basis in all COs. Most of the COs (more than 65%) charge interest at 12% per annum but since interest rate setting is the prerogative of the members, some COs decided to charge just 5-6%.

**Case 2: Member increases her garments business****CO Name: Fulmat Mai Pran****Client: Deopati Yadav .Location: Rautahat district**

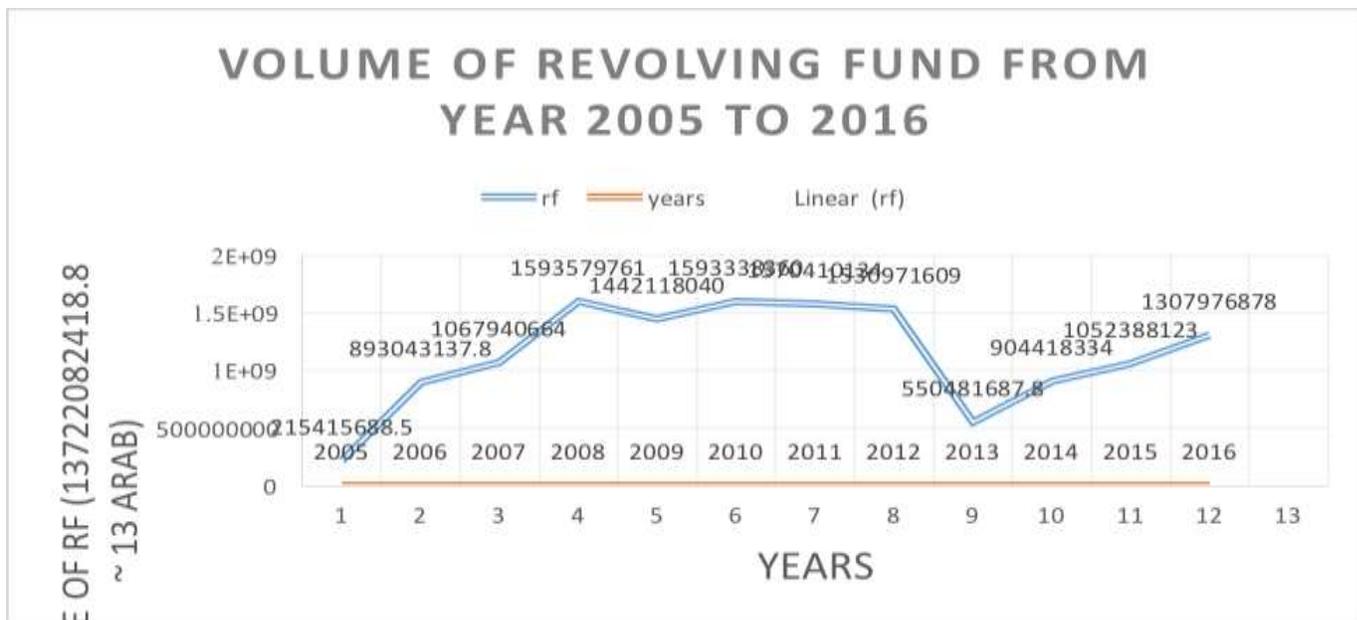
Before joining the CO, she used to engage herself in agriculture and sewing activities. She has 5 children apart from 4 other members in her family. Three of her children go to school. Thereafter she joined the CO and took a loan of NPR 36,000 to start a poultry farm in 2070. Afterwards, she took NPR 45,000 to start a garment business along with 3 more members from a different CO. She also obtained loans from other sources (NPR 2.5 lakhs). Her approximate investment in the business is NPR 3 lakhs.

Currently, the business has expanded to NPR 15 lakhs and her profit share is NPR5 lakhs. She along with other partners are engaged in buying large machines and generators. They have also hired 2 people and pay them around NPR 10,000 – NPR 15,000 as wages. Due to the exposure received through CO and capacity building training, she has gained the confidence to talk freely with other people and improve the standard of living of her household.

**Widespread outreach:** Since its inception in 2003, PAF has been promoting COs and has been able to expand its outreach to all the regions of Nepal, through its income generation and infrastructure related schemes. Out of the total 75 districts in Nepal, PAF's RF programme is functional in 55 districts across five regions with 30,000 COs were established.

Most COs (around 60%) also charge a penalty of NPR 10-100 per month for delayed repayments. Some of the more progressive COs introduced more stringent norms to discourage late repayments (like charging 50% of the instalment interest within the loan tenure and 100% of instalment interest after maturity for delayed payments. Some COs (21%) also charge a processing fee of 1-3% of the loan amount (most such COs being in the Central region). One old CO in the Eastern region was found to charge an insurance fee of 4%.

**High poverty focus:** The RF programme was designed to focus on addressing issues related to poverty and social exclusion. The study indicates that 68% of the members of sample Cos are hardcore poor (food sufficiency less than 3 months), 24% are medium poor (food sufficiency more than 3 months but less than 6 months) and 8% are poor (food sufficiency more than 6 months but less than a year); none of the members are in the marginal non-poor category.



Source: MIS Data base system PAF Nepal.

**Bank linkage of COs:** All COs have opened accounts at nearby bank branches where PAF can transfer the revolving fund. While there are issues with physical access to the bank branches therefore, actual use of the account due to their distances from CO locations, this process has provided an opportunity to the excluded population in remote regions of Nepal to gain some access to formal financial services.

**The repayment frequency across products is similar** – mostly monthly for both principal and interest but, in a few cases, the principal repayment is more relaxed at quarterly or six monthly intervals; very few have the option of bullet repayments.

The loan tenure fixed at one year by most of the COs (61%), but some have adopted a more liberal tenure of 18 (16%), 24 (16%) and 36 (7%) months. Older COs, particularly those offering higher loan sizes, allow a longer tenure for repayment in comparison with the younger COs. Younger COs offer a maximum tenure of 2 years while around 11% of the old COs have loans

**Case 3: Member increases her dairy business . CO Name: Jay Hanuman**

**Client: Dulari Devi . Location: Parsa district**

5 years back, the client had no source of income and had to completely rely on her husband who works as a labourer. After getting associated with PAF, she received loans (NPR 10,000 = 1<sup>st</sup>, NPR 20,000 = 2<sup>nd</sup>, NPR 35,000 = 3<sup>rd</sup>, NPR 50,000 = 4<sup>th</sup>) which she used to buy 2 buffaloes. She started selling milk and makes a profit of NPR 20,000 on a monthly basis. She is using the extra income to send her 4 children to school. This was not the case 5 years back.

Additional income has increased her confidence as she does not need to depend on family members for income purpose. She is the only member in the entire CO who has taken 4 loans (others have taken 3 or less than 3 loans).

**Revitalizing the livelihoods of CO members in earthquake-hit areas:** PAF has been actively

supporting the government of Nepal for rehabilitating certain areas (about 1,500 COs in 14 most affected districts) of the Central and Western regions which were greatly affected by the earthquakes in April and May 2015. Steps taken by PAF involved the recapitalisation of the RFs of the affected COs, reconstruction and rehabilitation of damaged infrastructure.

## **5. RECOMMENDATIONS AND CONCLUSIONS:**

**Regularity of savings and terms** – an issue in the older COs Savings mobilized by COs – around 10% of the average PAF RF provided over the years, should have been higher considering the initial contribution requirements Inter-lending using members’ savings – a minor activity with limited implications;

Member savings form a critical & regular source of funds for a community organisation for meeting credit needs of the members particularly for household and personal needs. The field survey indicates that around 61% of the COs use savings for inter-lending to members for emergencies (accident, hospitalization) and other non-income generation purposes such as wedding, educational expenses for children.

**Influencing policy makers;** the establishment of the federation structure and the linkage of the federations with banks would require policy support from the central bank (to enable the use of the deprived sector facility) and with other government departments to facilitate the registration and smooth functioning of the structure. PAF will need to develop a blue print for this programme and share it with the relevant institutions. With policy support, deprived sector lending from the banks can be provided either to the COs or their federations.

### **PAF’s experience and comparative advantage in financial inclusion**

PAF has a strong comparative advantage of its nation-wide outreach and network of Cos with financial record. PAF has so far provided almost 30,000 community organizations through the revolving fund, and many of them have acquired basic financial literacy. Some of them formed higher level institution such as SACCOs and engaged in higher amount of transactions with proven credibility and financial record.

Moreover, PAF has complete data of performance monitoring of revolving fund and could provide data to the financial sector who are interested in lending to the poor segment of population under the GON’s policy. PAF conducted a series of consultation meetings with Nepal Bankers Association and intends to work closely with banks and MFIs for financial inclusion.

The new policy of two percent direct lending, and crating demand is always challenging across the world. PAF Community Organizations are greatest mechanism to enhances demands and capacity. Microfinance institutions should collaborate with PAF, not only lending for together resource mobilizations. PAF Nepal is approaching with Nepal Rastra Bank to have access on deprived sector lending so that PAF Nepal eventually become licensed institution for finance inclusions. PAF would like to establish clear specialized financial institutions within the existing

organization and link up with existing financial institutions. So that poor can benefit from the deprived sector lending process and moving out of the poverty and reaching towards prosperity.

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