

Rural Self -Reliance Fund (RSRF):

An Innovative Approach in Micro-finance

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A. Background:

The establishment of Rural Self-Reliance Fund (RSRF) was an innovative step towards developing the micro-finance industry. The Fund was setup by HMG of Nepal in Feb. 1991 through Cabinet decision. HMG/N had initially allocated Rs.10 million as a corpus amount to the Fund, which later increased to Rs.20 million to be disbursed for the income-generating activities to uplift the economic condition of the poorest of the poor and deprived sector people who lacks the access to formal financial institutions. RSRF, since then, has been actively engaged in the upliftment of the poorer and weaker section of the remote and rural areas by providing wholesale micro-credit to Savings and Credit Co-operatives (SACCOPs) and Non-governmental Organization (NGOs) operating in the rural areas. The Fund is the first wholesale institution in micro-finance sector and also an innovative approach to help promote the rural-based co-operatives and NGOs that are supposed to uplift the socio-economic condition of the poorest of the poor. The Fund was created in such a situation where not a single formal micro-finance institution was in existence. Poor people were lacked behind by the access of commercial banks and Agricultural Development Bank of Nepal (ADB/N). Service provided by these two institutions was not sufficient enough to serve the rural people. The decades old Priority Sector Credit Program of the commercial banks also could not reach out to the weaker people through small credit. Quite a number of co-operatives and NGOs, wishing to serve the local people were also deprived of the resources for lending to their members. Thus, a great need was felt in improving the credit-delivery mechanism of cooperatives and NGOs such that the poorer, weaker and deprived sector people of the remote villages would benefit at large. RSRF, since its inception, has been playing a pro-active role in the promotion and development of the resources of the SACCOPs and NGOs through the wholesale funding program. This has been reflected into its performances of the past 13 years.

B. Organizational setup and Operation of RSRF:

As per the decision of HMG/N the operation of the Fund is carried out by the Board of Directors constituted under the chairmanship of the Deputy Governor of Nepal Rastra Bank. The Board presently consists of:

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| 1. Deputy Governor, Nepal Rastra Bank | - | Chairman |
| 2. Joint-Secretary, Ministry of Finance, HMG/N | - | Member |
| 3. Joint-Secretary, Ministry of local Development | - | “ |
| 4. Mr. Bhim Bdr. Adhikary (Founder-Member) | - | “ |
| 5. Executive Director, Micro Finance Dept., NRB | - | Member-Secretary |

The secretariat of the Fund is located at MFD, NRB that has given full responsibility to perform and manage the operation of the fund. A separate wing has been set-up in MFD for the day-to-day operation of the Fund where 2 officers & 4 senior Assistants are assigned to carry out the Fund's activities. Similarly, various activities like pre-feasibility study and inspection of loan utilization are being carried-out by the staffs of NRB's district offices located outside Kathmandu valley. With this mechanism the

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loan-application of the partner organization can be processed promptly. The Board is solely responsible for any activities of the Fund including the decision on the loan proposal. However, the Board has delegated its authority to the committee and subcommittee constituted for this purpose.

Likewise, a long-term credit committee, known as technical committee, has also been constituted in the credit manual of RSRF. This committee can sanction loan up to Rs.5 million.

The sanctioned loan amount is distributed through the bank's accounts only. Disbursement and repayment of the loan is also made through the offices of NRB situated out-side Kathmandu valley. NRB, in the transaction, does not charge any fees and commissions.

C. Objectives of RSRF:

With the recent amendment in objectives and areas of operation of the Fund, RSRF has laid down the following 3 objectives:

1. To mobilize seed capital received from HMG/N and NRB and other donor agencies for involving rural poor and deprived group in income generating credit activities through co-operatives, NGOs and other specific financial institutions.
2. To provide longer term credit to ADB/N for Tea and Cardamom plantation and processing, Cold Storage and Wholesale credit to MFDBs for on-lending to micro-finance activities to the rural-deprived sector people.
3. To perform other functions for supplementary socio-economic development of the deprived sector people.

D. Resources of RSRF:

RSRF, at present has two major resources:

4. Corpus fund (Rs.20 million) received from HMG/N in the year 1991 and 1992. This amount is utilized for the credit requirement of SACCOPs, and NGOs.
5. Seed capital received from NRB, which has deposited Rs.100 million in the year 2001/2002 out of its profit and also adopted a policy of depositing 5 percent amount to the Fund out of its profit annually. Such amount will mainly be utilized for full filling the second objective of the Fund, stated above.

Besides this, RSRF may also accept donor's fund that is directed towards uplifting the economic status of the rural deprived sector people. For example, CGISP loaned by ADB/Manila and supported by CIDA. The credit component of the project CGISP is presently carrying out by RSRF. Similarly, HMG/N has also committed to allocate sufficient amount to cater the longer-term credit need of the ADB/N and savings and credit co-operatives and NGOs, which are operating in the far and remote places.

E. Target Group of RSRF:

RSRF has targeted the following groups and individuals for its wholesale lending to SACCOPs and NGOs.

1. Individual having less than a hector of land.
2. Individual with no regular income that can not feed himself and his family throughout the year.

3. Dalit, backward caste and scheduled caste.
4. Deprived sector women.
5. Member of the self-reliant group of deprived sector.

F. RSRF Loan Types, Size and Limit of Loan:

RSRF provides three types of loan to its partner organization as under:

1. Wholesale loan to SACCOPs and NGOs for providing micro-credit to their members.
2. Longer-term loan to ADB/N for providing capital resources to Tea and cardamom, cultivation and processing, cold storage etc.
3. Wholesale medium term loan to MFDBs for on lending to deprived sector. Such MFDB should be based on rural areas and perform micro-credit activities only.

Loan Size:

Under category 1 stated above, the maximum loan size for the SACCOPs and NGOs is Rs.1 million for the first loan, Rs.1.5 million for the second loan and Rs.2.5 million for the last loan. But such loan limit should not exceed to 10 times of their regular savings and share capital for the first and second loan and 15 times for the third loan. Under category 2, no maximum limit has been fixed. But it depends upon the business plan submitted by the ADB/N for the purpose specified. Likewise under category 3, wholesale loan to MFDBs is restricted to Rs.10 million only.

Individual Credit Limit to Borrowers:

SACCOPs and NGOs may provide micro-credit to their member clients as under out of the loan sanctioned by RSRF.

First Loan:-	Rs. 30,000 maximum per borrower
Second Loan:-	Rs. 35,000 “ “
Third Loan:-	Rs. 40,000 “ “
Group/Joint Micro-enterprises Loan:-	Rs. 100,000 per scheme/Group

Funding Policy:

RSRF finances only 80 percent of the total loan sanctioned. Remaining 20 percent should be financed by the partner organization. This policy is applied for longer term and wholesale loan also.

G. Interest Rate Policy:

RSRF has kept its interest rate on wholesale credit as under: (1) 8 percent per annum for SACCOPs and NGOs, (2) Interest rate for the longer term and wholesale loan to MFDBs is kept at par with the lowest re-finance rate of NRB i.e. maximum of 4.5 percent per annum.

Calculation of interest is based on 30 days a month and 360 days a year. Interest payment to RSRF is to be made on half-yearly basis. A grace period for 6 months is also provided to all SACCOPs and NGOs for the first installment of any loan. No interest is charged during this period.

Likewise, Partner organizations of RSRF are free to fix their interest rate based on market prices.

H. Credit Approval Priority for SACCOPs and NGOs:

RSRF has adopted the following priority criteria while accepting the loan-proposal from SACCOPs and NGOs:

1. Area under poverty mapping of National Planning Commission.
2. Area where there is no bank and financial institutions.
3. Area where majority of 'Dalit' and depressed caste and tribes lives.
4. Organizations (SACCOPs and NGOs) situated in rural area.

I. Some Important Criteria to be met by the SACCOPs and NGOs to get Wholesale fund from RSRF:

- (1) Organization must be registered under the prevailing legal framework (e.g. Co-operative Act- 1992 and Society Registration Act- 1979).
- (2) Organization must have the provisions of savings mobilization and credit expansion and resource collection.
- (3) An experience of at-least one year for savings mobilization, where at least 70 percent member should have a record of regular savings.
- (4) 20 percent of the total out-standings for the first loan and 10 percent for the 2nd and 3rd loan should not exceed status of overdue loan.
- (5) Organization must adopt double entry bookkeeping system and the external auditor must audit its financial statement.
- (6) Independent in making loan decision, etc.

J. Inspection, Supervision and Monitoring by RSRF:

RSRF regularly carries out inspection, supervision and monitoring of the POs that have taken loan from the Fund. Likewise it conducts pre-feasibility inspection of the project once it received application for the wholesale credit. On the basis of such report the Fund either rejects or approves the loan.

K. Achievement of RSRF (As of Mid-Oct. 2003):

Progress made by the RSRF during the last 12 years is presented below:

* <u>Total Loan</u>	<u>Amount Ms. million</u>
Sanctioned	79.3
Disbursed	63.3
Repaid	44.8
Outstanding	18.5
* <u>Repayment Rate</u>	<u>(in Percent)</u>
SACCOPs	94.6
NGOs	88.0
* <u>Outreach</u>	<u>(In No.)</u>
District Covered	44
Total Client Organization	196
-SACCOPs	147
-NGOs	49
Beneficiary Member - Clients (family)	8,496
Population covered	48,000

L. Conclusion:

Although a number of licensed banks and financial institutions,¹ are in operation, people of the far and remote places are still lacking of the financial services. Likewise, thousands of co-operatives and NGOs are also operating in the country. However, their outreach to the below-poverty level people is found negligible. Apart from this, people living the below poverty line in the rural areas have no access to the formal financial institutions, banks in particular, because of many reasons. Thus, the presence of such noble institution like RSRF is highly deserve to exist to uplift not only the savings and credit co-operatives and NGOs operating in rural areas but also to help support the socio-economic condition of the member-clients of these institutions through micro-credit. Because of the provision of 'Administrative Grants' that RSRF provides to those SACCOPs and NGOs having cent percent repayment rate to RSRF, opportunities to grow up a newly established SACCOPs and NGOs in the rural areas are enormous. Such 'administrative grants' can be utilized by these institutions as an incentive to build up their capacities.

Despite its limited resources (Rs.20 million) the progress so far achieved by the Fund is well noteworthy. The coverage of RSRF is also highly satisfactory that out of the 75 districts of the country it has covered 46 districts (as of mid-Feb. 2004) which have reflected its supportive role towards rural micro-finance. With regard to its limited resources available central bank of Nepal (NRB) has adopted a policy of allocating 5 percent amount each year to the RSRF out of its profit which further strengthened and enlarged the activities of RSRF.

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¹ As of mid-February 2004, 17 Commercial Banks, 58 Finance Companies, 23 Development Banks, 34 Co-operatives for Limited Banking and 44 FINGOs are operating in the country