



Unlocking Public and Private
Finance for the Poor

Rural Self Reliance Fund Training Need Assessment Report

CAPACITY BUILDING OF COOPERATIVES RECEIVING WHOLESAL LOAN FROM RURAL SELF RELIANCE FUND



This study had assessed the capacity building need of the cooperatives receiving wholesale loans from RSRF. The study have mapped the client details of each RSRF member cooperatives in UNNATI-A2F project districts, conducted the training needs assessment of the RSRF member cooperatives to understand the capacity development requirements for effective mobilization of wholesale loan with improved information management, risk management, planning, governance and reporting system, and explored and accessed the potential institution to conduct such trainings to the selected cooperatives and develop terms of reference for procuring the services from them. The information required for this study was obtained both from secondary and primary sources. The secondary information was received through a review of RSRF statistics in NRB and that of primary information was gathered through an in-depth assessment of the four purposively selected partner RSRF cooperatives in Terhathum, Dhankuta, and Ilam and Panchthar districts by Dr. Nara Hari Dhakal and Ms. Meekha Tuladhar, Expert Value Chain Finance from UNNATI Access to Finance. The summary of major findings, conclusions and recommendations of the study follows hereunder.

The findings of this study reveal that there is a significant role of the RSRF partner cooperatives to promote A2F for the poor and disadvantaged groups in remote areas. There are instances where these cooperatives has been very effective to provide A2F to families excluded by mainstream financial service providers such as MFI, FI-NGOs, commercial banks, development banks and finance companies. Access to wholesale loan from RSRF, SFDB, FMDB and RMDC to these cooperatives has enabled them expand their services to un-served and/or under-served poor and disadvantaged group. These cooperatives are efficient, characterized by high productivity, have commitment for growth and scale-up, and have potential for continuity and sustainability of their services.

These cooperatives are characterized by poor governance and institutional linkages, traditional operational management system, limited products and traditional service delivery, working based on poor and inaccurate management information system, and operational risk management, errors on accounting, and lack of proper financial management system, traditional system of human resource management, inadequate client protection system in place, insufficient performance management system and practices, and absence of competitive strategies. These are the few key areas that require immediate reform and capacity development. On the other hand, these cooperatives are exposed to different opportunities comprising of expanding outreach, product diversification, access to wholesale loans and expand the services, collaborating with other promoters of financial service providers and innovations and development, while they need to face the threat emancipating from changing policy, acts, and rules, bad reputation and perceptions towards cooperatives, and too many in number and completion within cooperatives sector and across financial service providers.

There are several capacity gaps in the partner RSRF cooperatives to operate professionally, and expand the outreach of financial services to the poor and disadvantaged groups. These capacity gaps revolves around client preparation, enhancing competitiveness, institutional stability, financial viability, continuity of the business linkages with wholesale microfinance service providers, strengthening the MIS and automation, portfolio management and portfolio tracking, provision of complementary services to the shareholders, upgrading accounting and financial management, and overall cooperative management covering aspects such as governance, institutional linkages, operational management, products and services, MIS, operational risk management, human resource management, accounting and financial management, improving the financial capability of the clients, adoption of client protection principles, and social performance management.

Based on review of performance and capacity of cooperatives, this study recommends providing support to the cooperatives in the weak areas as identified through capacity building/training, mentorship, and study/research. Business and cooperative management represent the weak areas in these cooperatives. Provision of at least one year of mentorship support is recommended for these cooperatives, in addition to conducting research/studies on performance management system, product (savings, credit, remittance, and insurance) design and development, member survey, and feasibility of developing cooperatives as a business development service provider. Finally, as an immediate measure, there is a need to build the capacity of these cooperatives by conducting training on (i) Cooperative Promotion and Management, (ii) Business Planning and Analysis, (iii) Agenda Setting, Board Meeting Process and Decision Making, (iv) Leadership Development, (v) Financial Management for Board of Directors, (vi) Enterprise and Marketing Management, (vii) New Product Development, (viii) Use of Software on Decision Making, (ix) Financial Management or Staff, and (x) Enterprise Development (Start and Improve Your Business) for beneficiaries. Such support will enable to extend the

financial services to their shareholder while expanding breadth and variety of outreach on continued and sustainable basis.

Cooperatives are the weakest financial service providers in Nepalese financial system. Unlike BFIs, they are not adequately regulated, and lack uniformity on governance, operational system, products/services, operational risk management, management information system, human resource management, accounting/financial management, and adoption of client protection principles. Some cooperatives are weak on one aspect, while other on other dimensions of cooperatives management. There are some cooperatives requiring on-the-job technical backstopping/trouble shooting support on cooperatives management. There are some cooperative related issues specific to typical cooperatives requiring small studies.

In view of this, capacity development need of these cooperatives varies and can be grouped into three: (i) capacity gaps common to all the cooperatives (governance, accounting and financial management), (ii) capacity gaps specific to few cooperatives (products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles), (iii) on-the-job training/trouble shooting support.

In view of above realities, 10 days long comprehensive cooperative strengthening training was recommended in this study. Considering the time and resource constraints, this training is recommended to organize into two phases. In the first phase, a 5 days training on “Cooperative Governance, Accounting, and Financial Management” could be organized to all the RSRF partner cooperatives, and other training covering products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles could be organized in the second phase to the selected RSRF partner cooperatives.

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ACRONYMS AND ABBREVIATION

A2F	: Access to Finance
BFI	: Banks and Financial Institutions
BOD	: Board of Directors
CB	: Commercial Banks
CED	: Centre for Empowerment and Development, Nepal
CMF	: Central for Microfinance
DB	: Development Banks
DOC	: Department of Cooperative
EDR	: Eastern Development Region
FC	: Finance Company
FGD	: Focus Group Discussion
FI	: Financial Intermediary
FSS	: Financial Self Sufficiency
GNI	: Gross National Income
GON	: Government of Nepal
HRM	: Human Resource Management
KII	: Key Informant Interview
M	: Mixed
MFI	: Microfinance Institutions
MIS	: Management Information System
MOCPA	: Ministry of Cooperatives and Poverty Reduction
MSME	: Micro, Small, and Medium Enterprise
N	: NO
NEFSCUN	: National Federation for Savings and Credit Union Nepal
NGO	: Non Government Organization
NPC	: National Planning Commission
NRB	: Nepal Rastra Bank
OSS	: Operating Self Sufficiency
ROA	: Return of Asset
ROE	: Return on Equity
RSRF	: Rural Self Reliance Fund
SACCOS	: Savings and Credit Cooperatives Societies
SCC	: Savings and Credit Cooperatives
SWOT	: Strength, Weakness, Opportunities, and Threats
ToR	: Terms of Reference
UNCDF	: United Nations Capital Development Fund
VDC	: Village Development Committee
Y	: Yes

1. INTRODUCTION

1.1 Background

United Nations Capital Development Fund (UNCDF) is the UN agency mandated to focus primarily on the world's Least Developed Countries (LDCs). It creates new opportunities for poor people and their communities by increasing A2F and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict and crisis. It provides seed capital – grants and loans – and technical support to help financial service providers reach more poor households, and small business through inclusive finance approach, and local governments finance the capital investments that would improve poor peoples' lives.

UNCDF has signed an agreement with Nepal Rastra Bank, under the broader UNNATI Inclusive Growth Program agreement signed between the Government of Denmark and the Government of Nepal, where NRB is implementing Access to Finance (A2F) component of UNNATI Growth Programme in the seven hilly districts of Mechi and Koshi corridor – Taplejung, Panchthar, Ilam, Dhankuta, Terhathum, Bhojpur, and Sankhuwasabha with the assistance of UNCDF. This programme has been designed basically to enhance and improve agricultural sector financing in Nepal. The objective of UNNATI is “promotion of sustainable inclusive growth that reduces poverty and raises living standards”. Within the context of UNNATI, the purpose of A2F Project is to support financial service providers to more effectively serve the agricultural value chain actors with appropriate financial products thereby enabling smallholder farmers and MSMEs to invest into their value chain activities leading to the sustained improvement in competitiveness of selected value chains. The A2F project interventions might have national impact with a specific focus given to the Eastern Development Region (EDR) of Nepal.

1.2 Rationale

Although number of Banks and Financial Institutions (BFIs) has been increased over the years in Nepal, financial access still remains lower especially in rural areas. FinScope Survey 2015, conducted by A2F project and UNCDF reveals that informal access still prevails as the leading source of loans (21%). Given that the financial system is a key for the development of the country's economy, the Government of Nepal has been emphasizing the sound development of banks and financial system under its development plans. With an aim to increase the financial frontiers toward the small business and low-income households living in rural and remote areas of Nepal, financial sector policies such as deprived sector directives, financial sector development strategy, financial intermediation act, Rural Self Reliance Fund, Youth and Small Entrepreneur Self Employment Fund, Capital Market Development Plan, etc. has been formulated and adopted.

Besides, Government has considered sector as one of the three pillars for national development. As per the estimates of Department of Cooperatives, there are a total of 32,663 cooperatives operating across the country,. Savings and Credit Cooperatives (SACCOs) alone number 13,460, and when multipurpose cooperatives are taken into account, the total number of financial cooperatives roses to 17,491. Cooperatives have a significant presence in rural areas, providing direct employment to 54,143 people, while further employment through direct means such as micro-entrepreneurship remains unaccounted. Their accomplishments to date in the area of socio-economic development of members indicate that cooperatives can continue to grow as key players in the development of Nepal. Different studies revealed the fact that the community-based cooperative model is a cost-effective, and sustainable approach in areas with no access or limited access to formal financial services. However, cooperatives have limited capacities and technical expertise, which has hindered their capacity to cater to the needs of their members. For the smooth and effective operations of these cooperatives, they need to be provided external supports and hands-on skills for the proper operations. In more technical sense, funding is a serious issue for most of the financial cooperatives.

Rural Self Reliance Fund (RSRF) is one of the policy interventions of Government of Nepal that was established in 1990 with an aim to address above-mentioned gaps. Socio-economic upliftment of the deprived and economically weaker people by the means of income-generating and job-creating activities by providing financial assistance through the cooperatives, Non-Government Organizations (NGOs) and microfinance institutions (MFIs), is the prime objective of RSRF. The fund provides concessional wholesale lending to the rural cooperatives, and conducts programs and activities to aid them in building self-capacity to disburse loans

facilities to eligible groups. As per the latest progress report, the Fund has served more than a thousand institutions operating in 68 districts benefiting nearly 50 thousand households with the concessional loans of about Rs. 1.73 billion.

In order to meet the requirement of RSRF to be qualified and eligible for borrowing, cooperatives must exceed two years of financial operations, and should operate in profitable level. They also require fulfilling some of the other requirements to be eligible for getting the RSRF loans.

As there is some commonality in objectives (reduction of poverty through offering of financial access/means to small farmers in the rural areas for income generating activities) of A2F and RSRF, a partnership agreement between the two areas was made based on the decisions of 6th Project Executive Board (PEB) meeting of 31 July 2015. Under which conditions, UNNATI-A2F role is to provide capacity building support to RSRF affiliated cooperatives, which in turn help to achieve target set for the project, while, RSRF could also support cooperatives with focus to EDR. According to this, second Quarter Work Plan (QWP) 2017 of the project has incorporated the activity under output 2.2.2.5 for the conduction of this assignment.

UNNATI A2F is outsourcing this assignment to a consultant, and this Expression of Interest (EOI) has been prepared based on the term of reference (TOR) prepared by the project.

1.3 Objectives

The overall objective of this assignment is to conduct the capacity building of cooperatives, which receive wholesale loan from RSRF. The specific objectives of this assignment are the following.

- Map the client details of each RSRF member cooperatives in UNNATI-A2F project districts,
- Conduct the training needs assessment of the RSRF member cooperatives to understand the capacity development requirements for effective mobilization of wholesale loan with improved information management, risk management, planning, governance and reporting system.
- Explore and access the potential institution to conduct such trainings to the selected cooperatives and develop terms of reference for procuring the services from them.

1.4 Scope

The scope of work of this assignment was the following.

- Participate in the inception meeting with UNCDF, NRB, and A2F team to agree on the roll-out of the consultancy, including the format of draft plans and clarification on the expectations from the ToT,
- Hold meetings with UNCDF, NRB, A2F team, RSRF affiliated cooperatives, Nepal Cooperative Bank, Department of Cooperatives, National Federation of Savings and Credit Cooperatives Union Nepal (NEFSCUN), associations, meso-level organizations, training institutions, financial institutions, savings and credit cooperatives as recommended by the project to gauge the type and content of training expected by these;
- Review RSRF guidelines and policies,
- Field visit in EDR and interact with RSRF partner cooperatives as recommended by RSRF, to understand their existing capacity, system, and procedures to mobilize the wholesale loan, and find out the gaps with focus on their governance system, account keeping, and information management, reporting, planning, and risk management, transparency mechanism followed, etc.

1.5 Report Organization

This report has been organized into five sections. After this introductory sector, section two provides a review of the RSRF program. Section three provides brief outline on approach and methodology adopted in this study, while section four presents the results and discussions of this assignment. The report ends with summary, conclusions and recommendations in section five.

2. REVIEW OF RURAL SELF RELIANCE FUND PROGRAMME

RSRF was established in 1990 by the NRB to provide funds to assist NGOs/SCCs in their microfinance activities. RSRF lends to NGOs/SCCs who in turn on-lend to clients. Under this program, NGOs/SCCs play the role of financial intermediaries.

2.1. Overview

The objective of the Fund is to provide financial assistance to the deprived sector (rural poor who own up to 0.5 ha. of land) to undertake income-generating activities using their own labor, skill and other local resources for being self-employed. Funds for the RSRF are provided through a budgetary allocation of Government of Nepal. NRs. 10 million was allocated in FY 1991/92, and another NRs. 10 million was added in the following fiscal year. The RSRF credit has now been widely spread throughout the country. The microfinance promotion and supervision department hosts the secretariat of the RSRF.

RSRF is one of the five wholesale lenders for financial intermediary NGOs and financial cooperatives in Nepal. A World Bank sponsored rating of RSRF conducted in 2006 concluded that RSRF financing to the smaller financial service providers (FSPs) is important for the sector's growth, especially in remote areas. However, the rating identified a number of weaknesses in the fund, including weak governance and management and poor financial performance. These weaknesses are caused mainly by the fact that RSRF is not professionally managed and does not have an independent board. As a result, RSRF is often used as a development policy tool, by lending at an interest rate that does not allow for cost recovery, and has a poor track record in loan repayment/recovery. In addition, only half of RSRF funds were disbursed to date, due to understaffing and long loan processing time. Recognizing that the independence of RSRF is a pre-requisite for its proper functioning, since long, discussion had undergone to draft an act that would spin RSRF off the central bank.

2.2. Objective of the Fund

The objectives of the fund include the following.

- Mobilize the fund available as grant of seed money from GON, NRB, and other bilateral and multi-lateral agencies to poor and disadvantaged groups in rural areas for promoting credit based income and employment oriented activities.
- Provide wholesale loan to promote A2F to (i) business such as tea, cardamom, cold store, etc. long term investment through Agricultural Development Bank Limited, and (ii) poor and disadvantaged groups through institutions licensed as class "D" financial institution under Banks and Financial Institution Act.
- Undertake other required activities that helps to uplift the economic status of the poor and disadvantaged groups.
- Assist the partner cooperatives and financial intermediary NGO to attain operating and financial self-sufficiency.

2.3. Operational Arrangements

The overall all operation of RSRF is governed by the Board of Directors (BOD) chaired by the deputy governor of NRB. Other members of the RSRF board include joint secretaries of Ministry of Finance, Ministry of Federal Affairs and Local Development, and Ministry of Cooperatives and Poverty Alleviation. Executive Director of the Micro-finance Promotion and Supervision Department of the NRB; works as a member secretary of the RSRF board. Microfinance Promotion and Supervision Department acts as a secreterate of the fund.

Duties and responsibilities of the RSRF board of directors are the following.

- Prepare the plan of action for the mobilization of the capital available in the fund.
- Undertake the policy decision related to loan disbursement, recovery, write-off, and management of capital used under the fund.
- Approve the credit proposal.
- Prepare and implement the guidelines and manuals on loan disbursement, loan recovery and write-off as required for achieving the objectives of the fund.
- Form the committee and sub-committee as required for the proper operation and management of the fund.
- Manage the required number of the human resources for the day-to-day operation of the fund.

- Ensure that receipt, vouchers, ledgers, accounts and finance related to the operation and management of the fund are properly maintained and timely audited.
- Organize studies, training, workshop, follow-up, supervision, and monitoring of different programs implemented under the loans disbursed from the fund.
- Take the required policy decisions for the operation of the fund.

There is a sub-committee coordinated by the Executive Director of the Microfinance Promotion and Supervision Department. Other members of the sub-committee are: representatives from Ministry of Finance, Director of microfinance promotion and supervision department assignment by the coordinator, and Deputy Director of microfinance promotion and supervision department as a member secretary. Working under the overall direction of the Board of Directors, the sub-committee are responsible for the following.

- Take the required action for the proper mobilization of the capital available in the fund.
- Prepare and submit proposal for policy decisions to be undertaken for disbursement, recovery and management of the loan to be provided out of the fund.
- Approve the loan proposal within the ceilings of the authority delegated, and forward the loan proposal for approval to the board.
- Prepare the directives and manuals required for achieving the objectives of the fund and submit it to the board with recommendation for approval.
- Commission the studies on emerging operation and policy matters related to the operation of the fund, and submit decisions in the board.

2.4. Process and Provision for Loan Flow

The wholesale financial services provided by the Fund can be divided into two: (i) working capital and/or short-term loan to poor and disadvantaged groups through financial intermediary NGOs and financial cooperatives, and (ii) long term loan for enterprises with loan pay back period and maturity.

2.4.1 Access to Finance for Retail Lending to Financial Intermediary NGOs and Cooperatives

Objective of the loan:

The loan are provided to the poor and disadvantaged groups with the objectives to:

- Provide loan to improve the income level of economically disadvantaged groups develop self-reliance feeling while engaging in productive and labor intensive productive activities,
- Mobilize the savings in rural areas and support to mobilize such savings to promote income and productive activities, and
- Protect and promote the self-reliance effort in rural areas.

Target groups:

Partner financial intermediary and financial cooperatives should extend the wholesale loan received from fund for providing access to retail lending to poor and disadvantaged groups. Criteria to be used to identify the target groups are the following.

- Person or households with lack of regular income of his/her own and/or other members of the households, and food sufficiency less than a year¹,
- Person or households with household production insufficient to feed or meet the food requirement for the whole year,
- Person or household without due loan received from income generation program implemented by government agencies, or other bank and financial institutions.
- Person with government identity card that identified poor and disadvantaged groups.

Purpose of Loan:

Access to loan from the fund should ensure optimal use local resources, raw materials, and skills, and should contribute to increase income and employment to the target groups. In general, loan should be used for following purpose.

¹ But, person or households with regular income of his/her own and/or other members of the household but earning less than income lower than the minimum wage can also be considered as a target group.

- Crop and horticulture
- Livestock and poultry
- Micro and small rural and cottage enterprise (microenterprise)
- Self-employment and income generating activities, such as rickshaw, horse cart, hair cutting, tailoring, etc.
- Small retail shop, medical store, agro-vet, and improved agricultural inputs sale,
- Renewable energy
- Micro-irrigation
- Fisheries, and
- Other

Minimum Qualification of financial intermediary NGOs and financial Cooperatives:

Financial intermediary NGOs and financial cooperatives must fulfill the prescribed process in order to access the wholesale loans from RSRF. In general NGOs/Cooperatives submitting application for borrowing from RSRF must have following qualification, and follow the terms and conditions.

- **Registration:** Cooperative should be registered under Cooperative Act 1991, and NGOs under Institution Registration Act 1978, and NGO must have received licensed to work as financial intermediary from NRB.
- **By laws/Constitutions:** By laws and constitutions of the cooperatives and NGOs must have provision to accept/collect savings, extend loan for implementing the income generating activities, and can access wholesale loan from other agencies.
- **Experiences:** NGOs/Cooperatives must have engaged on savings collection, and mobilize savings on lending purpose for at least last two years.
- **Portfolio Quality:** Recovery rate should be at least (i) 92% for the first loan, and (iii) 95% for the second and third loan.
- **Savings mobilization:** At least 85% of the shareholders or group members must be engaged in regular savings collection and mobilization.
- **Accounting and audit:** NGOs/Cooperatives should have maintained book keeping and accounting in double entry accounting system as prescribed by and standard of Government of Nepal, Cooperatives Department, and financial transaction should have been audited by external auditors.
- **Rejected case:** In case loan proposal has been rejected/dis-approved, new proposal can be submitted after one year only.
- **Share Capital:** Share capital (paid up capital) of the cooperatives should be at least 50% of the amount mentioned in the total share capital mentioned in the by-laws.
- **Provisioning:** 100% percent provision or reserve created for loan portfolio, which is already due.
- **Net Profit and Accumulated losses:** Must have been operated under positive net profit and not having any accumulated losses.
- **Total share capital:** at least Rs. 100,000.
- **Deposit account:** Not having deposited savings in other primary cooperatives except concerned Union where cooperative is a member and National Cooperative Bank.
- **Board of Directors or Account Committee Members:** More than one member from one family not being Board of Directors or Account Committee.
- **Blacklisted People:** Person blacklisted by the banks and financial institutions should not be in the board of directors and account committee of the cooperative.
- **Working area:** In case of cooperatives, working areas should not be more than one district.
- **Clients:** Savings/Deport mobilization and loan operation should be confined among the members / shareholders.
- **Commitment:** Must be willing to accept the terms and conditions of the RSRF.

FI-NGOs and financial cooperatives successfully completing three loan cycles requires complying following terms and process to be entitled to request a maximum of Rs. 3,500,000.

- **Total membership:** Total membership is increasing every year.
- **Target group:** Cooperatives requesting loan support for the members comprised of disadvantaged groups with women, Dalit and Janajatis
- **Audit and profit:** Financial transactions are audited every year, with no accumulated losses.
- **Regular savings:** Regular savers of the cooperatives are at least 25% or more.

- **Loan repayment and administrative subsidy:** Cooperatives have repaid the previous loans and have received administrative subsidy.
- **Repayment rate:** Repayment rate is over 95% or overdue loan is less than 5%.
- **Awareness and social programme:** Cooperative has been engaged to implement awareness raising program in the area, including implementation of different social program.

Priorities of the Loan Available from RSRF:

RSRF prioritized to cooperatives/NGOs working in rural areas based on following criteria.

- Area within poverty mapping conducted by National Planning Commission or Area/District within poverty priorities as prescribed by the government.
- NGOs/Cooperatives targeting to poor and disadvantaged groups excluded by the banks and financial institutions
- Cooperatives and NGOs having office and working in rural areas

But Cooperatives promoted by physically challenged people need not be based in rural areas to be eligible for borrowing from rural areas².

Provision for Loan Disbursement and Recovery Policy

RSRF follow the following process for disbursement and recovery of the loan to cooperatives / NGOs.

- Institutions should submit the application in prescribed format with supporting documents. Loan application should include the duly filled loan application form of the potential individual shareholders/members and list of the shareholders/members interested to borrow.
- Shareholders/members demanding for loan should be regular savers in the institutions, and should not have the overdue loan.
- Upon receive of the loan application, RSRF should undertake on-the-spot pre-investment feasibility study and loan appraisal decision should be based on the feasibility study findings.
- Institution should not adopt discriminatory policy while setting interest rate on loan and savings, and interest rate margin between savings interest and loan interest should not be too high.
- Potential institutions can obtain loan from RSRF as under.

Table 1: Loan Cycle and Loan Ceiling from Rural Self-Reliance Fund

S.N.	Loan cycle	Loan ceiling
1	First	<ul style="list-style-type: none"> • 20 times of the primary capital or Rs. 2.5 million which ever is lower
2	Second	<ul style="list-style-type: none"> • Repayment of low borrowed under first cycle, • Review of the institutional efficiency and evaluation of loan utilization status of the loan on first cycle, • 15 times of the primary capital or Rs. 3.5 million which ever is lower
3	Third	<ul style="list-style-type: none"> • Repayment of low borrowed under second cycle, • Review of the institutional efficiency and evaluation of loan utilization status of the loan on second cycle, • 15 times of the primary capital or Rs. 3.5 million, which ever is lower.

- Primary capital refers to the following.

Table 2: Definition of Primary Capital for Rural Self-Reliance Fund

For cooperatives	For FI-NGOs
<ul style="list-style-type: none"> • Share capital • Reserves • Retained earning 	<ul style="list-style-type: none"> • Capital account/capital • Operating surplus / amount yet to spend

- Net fund mobilization capacity of the institution is computed deducting savings and external borrowing from primary capital and borrowing capacity of the institution from RSRF are computed. Institution must also manage fund required as it contribution.

² Rural areas refer to areas outside of Kathmandu valley, metropolitan and sub-metropolitan areas.

- In case of institution repaying loans on time of the 1st and 2nd cycle, institution itself must complete pre-disbursement inspection and include the report on client level impact assessment.
- Maximum loan size should not exceed NRs. 90,000/-.
- If any shareholders/members fully utilizing the loan received under 2nd cycle thereby improving the livelihood and interested to establish and operate group based micro-enterprise can be eligible to borrow upto Rs. 150,000 per project to manage the group based micro-enterprises.
- Loan approval on these loan projects should be based on following cost sharing arrangement.
 - RSRF fund: maximum 80%.
 - Cooperatives/NGOs own fund: Minimum 20%.
- RSRF disburse the approved loan as under.
 - (a) One installment if loan approved from the fund is upto Rs. 2.0 million, and in two equal installments in case approved loan is more than Rs. 2.0 million.
 - (b) Subsequent loan installment is based on loan utilization check of the previous installment by institution concerned. If required fund itself can commission loan utilization check.
- Borrowing institution must follow the following process while disbursing the loan approved from the fund.
 - (a) Sign the loan deed by the person with delegation of authority to do so.
 - (b) One of the members from the institution should sign as witness.
 - (c) Disbursed loan amount is transformed in the bank account of the institution, either from Fund's secretariat or branch offices of the NRB or through commercial banks (in case there is no NRB branches nearby).
 - (d) In order to obtain the approved loan, institutions must submit document on (i) decision of the board of directors of the institution regarding borrowing, and name of the person authorized for signing loan deed and borrowing, (ii) a letter from the institution introducing the authorized person, (iii) copy of the citizenship certificate of board of directors (case of changed one) and authorized person, and (iv) statement of amount of loan request and its utilization.

Provision for Loan Recovery

- Loan term could be maximum three years including grace period. Loan should be repaid in six equal installments every six months.
- There is grace period of six months in the first installment of loan, and interest are not be charged during this period.
- There are no grace periods after 2nd installments onwards.
- First installment of the loan must be recovered in 12th month of signing loan deed, and loan disbursed under 2nd, 3rd and 4th installment must be repaid at the end of the 18th, 24th and 30th months.
- Executive committee of the institution is accountable and responsible for the full repayment of the loan borrowed from RSRF.
- In case the loan is default, RSRF can recover the default loan as government due from the member of the executive committee / managing committee.

Process for Local Repayment in the Fund

- Submit original voucher of amount deposited in the account of RSRF located at NRB Banking Office Thapatheli,
- Amount deposited in the account of RSRF located at NRB Banking Office Thapatheli from NRB branch offices. The branch office should immediately inform the Fund about the amount deposited in the account, and no fee should be charged on such deposits and money transfer.
- Payment through bank draft issued at district office of the commercial banks. Such draft should be immediately be transformed in the RSRF secretariate.
- Commercial bank should transfer the amount to be deposited in about account of the fund.

Liabilities of the Cooperatives and FI-NGOs

- Loans received from the fund should be used disbursed to the poor and disadvantaged groups for operation of the self-employment oriented, and service industries.
- Institution must encourage the target group on regular savings mobilization, and disburse the collected savings on promoting income and self-employed oriented income generating activities.

- All the economic transaction should be done through nearest commercial bank or other financial institutions.
- Institution should undertake regular loan utilization check to ensure proper use of the local disbursed for income generation.
- Institution must enhance the capacity of the shareholders/members through appropriate skill and management training.
- Institution must undertake audit of its transaction from the approved registered auditors.
- Loan should be disbursed to the members for whom loan has been approved. In case the name of the borrower is to be changed, institution must get approval from RSRF for replacement.
- Disbursement for the project loans (cattle, buffalo, goat, etc.) should be done, based on project cycle, in one installment.
- Loan should be disbursed using project or group guarantee as a collateral.
- Progress report should be submitted in half-yearly basis, and should be submitted one month after completion of the half-yearly reporting period.
- Institutions must create the loan loss reserve as a portfolio management tool to be eligible for borrowing from RSRF.
- Institution must repay the loan to RSRF according to loan repayment schedule. RSRF can put the default loan in the black list.

Inspection and Follow-up:

- On-the-spot pre-disbursement feasibility study: After received of completed loan application from FI-NGOs and cooperatives
- Loan utilization inspection and follow-up: After loan disbursement from the fund to FI-NGOs and cooperatives. It has been the duty of the concerned institutions to provide all the information required at the time of inspection and follow-up.

2.4.2 Access to Finance for Loan Term and Wholesale Loan

Long-term Loan:

Following institutions are entitled for receiving wholesale loan.

- Agricultural Development Bank Ltd.
- Institution licensed as Class "D" financial institutions.

Areas under Loan Term Loans:

Capital in the Fund is used to promote following areas.

- Business related to Tea, coffee, and cardamom
- Cold storage
- Whole loan in microfinance sector to uplift status of poor and disadvantaged groups,
- Other areas directed by the board from time to time

Loan Disbursement Policy:

- a) Fund provides 80% of the project cost as a long-term loan to promote identified sectors. Such a loan can be provided to the participating banks and financial institutions as line of credit and reimbursement of the capital fund disbursed.
- b) In order to receive amount in advance, BFI should submit the loan application with business plan in the RSRF secretariat. The secretariate reviews the application and disburse loan if the proposal is justifiable. Upon disbursement of the local out of the advance amount, the institution must submit the loan deed prepared for this purpose as collateral for the amount taken as advance from RSRF.
- c) For the re-imbusement, concerned BFI should pledge the separate deed for separate purpose. Each loan deed should include information such as name of the clients, purpose of loan, amount disbursed, loan due date, etc. and submitted to the fund. RSRF reconcile information provided and loan deeds, and return the loan deed to the concerned bank.
- d) In order to provide wholesale loan to the MFIs for on lending to poor and disadvantaged groups, wholesale loan upto NRs. 15,000,000/- is disbursed. Such a loan is provided as a revolving line of credit.
- e) Meeting of the Board of Directors of concerned BFIs must decided regarding borrowing long term loans from the fund.

- f) Upon receipt of the application from concerned BFI for long term-loan, fund identifies the actual need for the wholesale loan, and assesses its justification. Once assessment of the wholesale loan need, the fund informs the concerned BFI in advance, and disburse the loan as per the approved loan schedule.
- g) In case BFI fail to disburse the loan committed for a particular year, BFI need to pay the 0.25 of the unutilized fund as a commitment charge.

Loan term:

Loan term of the long-term loan provided from RSRF including grace period are to a maximum as presented in following table.

Table 3: Loan Term for the Long-term Loan

S.N.	Type of lending activities	Loan term (year)
1	Tea farming	15
2	Tea processing and factory establishment	8
3	Commercial tea nursery	3
4	Tea processing and marketing	2
5	Cardamom farming	10
6	Cold store	7
7	Wholesale loan	3

In case of donor agencies funded project, loan term is decided as per the project requirements.

Grace Period:

The grade period for the loan term loan provided under the RSRF are the following.

Table 4: Grace Period for Long-term Loan from Rural Self-Reliance Fund

S.N.	Type of lending activities	Grace period (year)
1	Tea farming	
	Hills	7.0
	Terai	5.0
2	Tea processing and factory establishment	1.0
	Commercial tea nursery	
3	Hills	1.5
	Terai	1.0
4	Tea processing and marketing	0.5
5	Cardamom farming	3.0
6	Cold store	2.0
7	Others	As decided by board time to time

2.5. Loan Limit (Line of Credit) for Cooperatives

2.5.1 Loan Limit (Line of Credit)

RSRF can provide loan limit (line of credit) of Rs. 5.0 million to cooperatives that have (i) received loan from the fund for three times, (ii) repaid all the loans on time with efficiency and impact, and (iii) in remote and rural areas, in order to continue A2F to the poor and disadvantaged groups. Such cooperatives must have following qualification and must need to conditions.

- At least 90% of the share holders of the cooperatives are savings regularly,
- Have been able to maintain 100% on time repayment rate on the loan disbursed,
- Able to receive administrative cost subsidy in each loan borrowed from the Fund.
- At least 92% of the loan disbursed to its members/shareholders are non-due,
- Cooperatives is running on profit (not on loss)
- Institution has conducted different training to develop the capacity of its members/shareholders,
- Institution has conducted different social and awareness raising program such as adult literacy, kitting and tailoring, family planning, skill training, health, social evils minimization, environmental education, etc.)
- Board of directors borrowing from cooperatives should not have repaid the loan on-time,

- Board of directors/management committee meeting has decided to borrow loan from the fund,
- Priority is given to those cooperatives that have a program on micro and small enterprise, and alternative energy.
- Institution must have done audit of their transaction on annual basis,
- Institution should have repaid the loan borrowed from other sources.

2.5.2 Terms of Loan Recovery

Terms of loan recovery are as under.

- **Loan term:** 3 years
- **Loan installments:** Total 6, half-yearly installments
- **Interest rate:** Should not be more than the interest rate announced by NRB for particular year.
- **Repayment:** To be repaid every six month according to the repayment schedule provided by RSRF, both principles and interest.
- **Panel interest rate:** In case loan is not utilized in activities agreed with the fund, and/or loan is not repaid according to the repayment schedule, panel interest of 2% is charged.
- **Progress report:** Progress report should be send every 6 month to the Fund
- **Loan deed:** Copy of the loan deed of the loan disbursed by the institution to their members / shareholders should be submitted to the RSRF.

2.6. Small Tea Processing Plants – Orthodox Tea

2.6.1 Loans to Tea Cooperatives

Loans from RSRF can be used to establish and expand the small orthodox tea processing plants. Tea production cooperative can access the loan for this purpose, and such cooperative must have following qualification and fulfill the terms.

- Shareholders of the cooperatives must save regularly, and over 70% of the members should be the regular savers.
- All the savings collected from the members must have been mobilized as loan among their shareholders.
- On time repayment rate should be more than 80%.
- Transaction should be audited every year from external registered auditors, and should not have operating losses.
- Board of directors/working committee must decide for the borrowing.
- Loan ceiling is as outlined above.
- Should have good track report and repaid the loan borrowed from other agencies.

2.6.2 Terms of Loan Recovery

The loan term and loan recovery terms and conditions are as under.

- Loan term:** 4 years (including one year grace period)
- Loan installments:** Total 6, half-yearly installments
- Repayment:** To be repaid every six month according to the repayment schedule provided by RSRF, both principles and interest.
- Panel interest rate:** In case loan is not utilized in activities agreed with the fund, and/or loan is not repaid according to the repayment schedule, panel interest of 2% is charged.
- Progress report:** Progress report should be send every 6 month to the Fund
- Loan deed:** Copy of the loan deed of the loan disbursed by the institution to their members / shareholders should be submitted to the RSRF.

2.7. Interest Rate on Loan

2.7.1 Interest Rate

Provision for charging the interest rate on the loan disbursed out of the capital borrowed from RSRF should be as under.

- a) RSRF on-lending interest rate: 8%
- b) FI-NGO/Cooperatives on-lending interest rate: maximum 14%
- c) On-lending interest rate of NRB to FI-NGO/Cooperatives in case of long-term finance: Re-finance interest rate announced by NRB
- d) FI-NGO/Cooperatives on-lending interest rate on long-term loan: maximum 4% margin

While calculating interest rate, 30 days in case of month and 360 days in case of year is considered. Days for interest to be charged should be counted from the date loan deed are prepared and account of RSRF is credited.

2.7.2 Administrative Expenses Subsidy

FI-NGO/Cooperatives borrowing from RSRF to promote A2F to the poor and disadvantaged groups, ensuring full utilization of the loan borrowed fund, and repaying the principle and interest on-time to RSRF is entitled for administrative expense subsidy of 75% of the total interest paid to the RSRF.

2.7.3 Penalty Interest

Penalty interest is charged to FI-NGO/Cooperatives borrowing from RSRF to promote A2F to the poor and disadvantaged groups if the loan not utilized as planned or loan is not repaid on time as per the loan repayment schedule.

- (a) In case loan is mis-used, additional 2 percent panel interest rate is charged from the date loan is disbursed.
- (b) In case loan is not repaid as per the loan repayment schedule, and loan became overdue, additional 2 percent panel interest rate is charged on the overdue loan from the overdue date.
- (c) In case loan is mis-used, action is taken on recovery of the loan immediately.

2.8. Other Provisions

Guarantee: Board of Directors of the FI-NGOs/Cooperatives should be willing, committed, and provide guarantee to repay the loan disbursed to the poor and disadvantaged groups from the capital borrowed as a wholesale loan from the RSRF.

Auditing: the auditors appointed by the NRB for undertaking its external auditor does Audit of the transaction of the RSRF.

2.9. Outreach of Services

Started with the seed capital of Rs. 10.0 million in 1991, as of March 2017, the size of the RSRF has reached Rs. 793.4 million with receipt of Rs.540 million from the GON and Rs. 253.4 million from NRB. The Fund has been disbursing credits from the seed capital to its partner organizations on the basis of their capacity and primary capital.

As of mid-March 2017, the Fund has disbursed credit amounting Rs. 2,225.6 million to 1,158 organizations including NGOs, cooperatives and Agriculture Development Bank, Ltd. Of this total credit, a sum of Rs. 1060.6 million was recovered, while Rs. 619.7 million is the outstanding loan balance. Fund's loan recovery rate against its credit flow to cooperatives and NGOs stood at 94.8%. Partner NGOs and cooperatives are delivering services to the poor and disadvantaged groups in 70 districts, and a total of 57,925 poor and disadvantaged groups had accessed credit from RSRF.

Table 5: Status of Rural Self-Reliance Fund

S.N	Description	Unit	Mid- July, 2014	Mid- July, 2015	Mid- July, 2016	Mid- March, 2017
1	District coverage	No.	68	68	70	70
2	Partner NGOs/Cooperatives	No.	940	1024	1104	1158
3	Loan clients	No.	46081	49245	55304	57925
4	Loan disbursement	Rs. ten millions	152.33	170.06	200.1	222.6
5	Loan recovery	Rs. ten millions	91.3	116.5	144.4	160.6

6	Outstanding loan balance	Rs. ten millions	61.04	53.56	55.6	61.0
7	Overdue rate	%	3.67	5.38	4.7	5.2
8	Loan Recovery	%	96.33	94.62	95.3	94.8

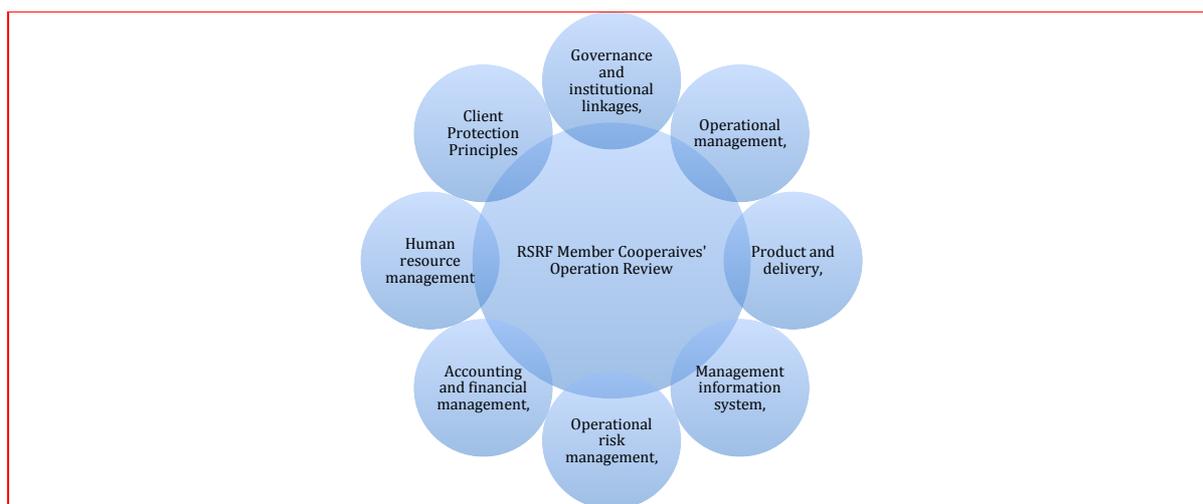
Source: Nepal Rastra Bank, Published in Economic Survey 2017.

3. APPROACH AND METHODOLOGY

3.1. Approach

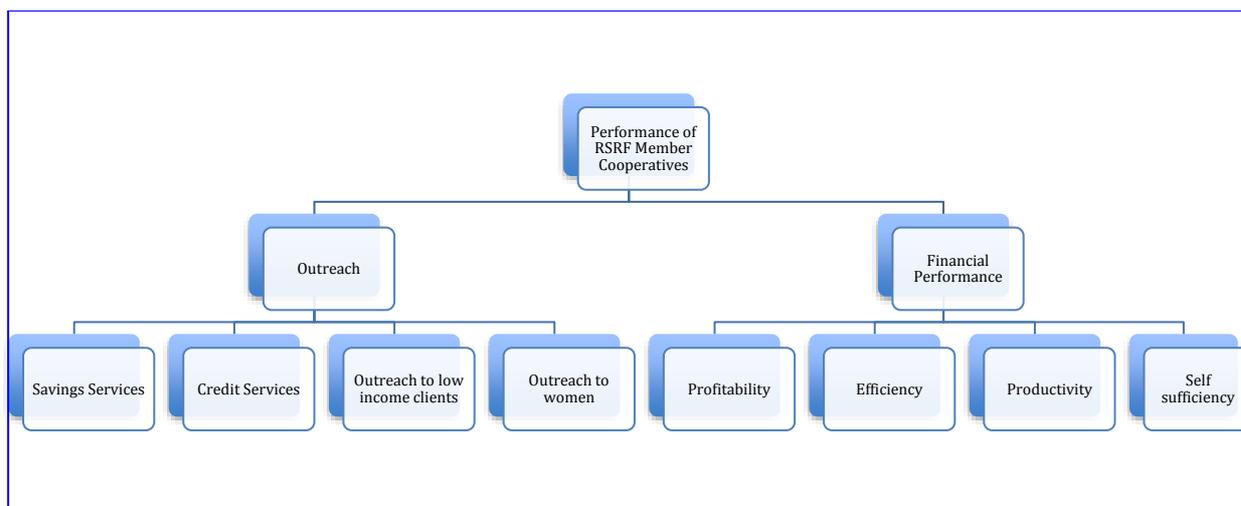
The data required for this assessment are obtained both from primary and secondary sources. Secondary information are obtained through a review of RSRF statistics, guidelines and policies, and the primary data are collected through an extensive and intensive survey in EDR and interaction with of 4 RSRF member cooperatives as recommended by RSRF and assessment of their existing capacity, system, and procedures to mobilize the wholesale loan, and find out the gaps with focus on their governance system, account keeping, and information management, reporting, planning, and risk management, transparency mechanism followed, etc. and consultation with UNCDF, NRB, A2F team, RSRF affiliated cooperatives, Nepal Cooperative Bank, Department of Cooperatives, National Federation of Savings and Credit Cooperatives Union Nepal (NEFSCUN), associations, meso-level organizations, training institutions, financial institutions, savings and credit cooperatives as recommended by the UNNATI A2F project to gauge the type and content of training expected by these.

The mapping of the clients' detail of each RFRF member cooperatives to the UNNATI-A2F Project districts was done using especially designed template for this purpose using the statistics available in RSRF. Financial institution assessment tool was used to evaluate their institutional maturity, and operation review of the selected RSRF member cooperatives. This assessment covered several key areas such as governance and institutional linkages, operational management, product and delivery, management information system, operational risk management, accounting and financial management, human resource management, and client protection principles.



Key indicators under each of these areas are identified.

Further, performance of the RSRF member cooperatives were assessed through a review and analysis of their outreach report, financial statements, and portfolio report and assessment of their outreach indicators, profitability, efficiency, productivity, and self-efficiency indicators as depicted in following picture.



Indicators for performance assessment are developed and used for their proper assessment.

Based on RSRF member cooperatives' operational review and performance assessment, training need is assessed.

3.2. Methodology

This study adopted participatory evaluation method, which involves ensuring the participation of all the stakeholders in the evaluation process. The stakeholders of the project are participants or beneficiaries, executives and management of the project partners, and staff of the HFH involved in project management. It encompasses elements of designing the project as well as evaluating it.

3.2.1 Data Sources

Data required for this evaluation study were obtained both from secondary and primary sources. Secondary sources of information included review of literature such as project document, partners' progress report of seven districts, and consolidated project progress report. Primary data were collected through field studies using participatory tools such as (i) key informant interviews (KII), and Focus Group Discussion (FGD), and beneficiaries' opinion survey.

3.2.2 Data Collection Process

Various participatory tools were employed for data collection involving individual perception survey, focus group discussion (FGD), key informant interview (KII), and observations.

Individual Perception Survey: The project has supported to construct 60 model houses, trained and supported 45 people to develop bamboo nursery, 414 people have received mason training, and 20 communities on bamboo plantation. Most of these people were interviewed to get their perception and expectation from the project. Of these households, a total of 19 model house owner, 25 bamboo nursery manager, 29 hectare of bamboo plantation sites supervisors, and 30 mason's developed by the project were interviewed during the field study.

Focus Group Discussion: Study team conducted FGD for data collection. FGD was conducted with the board and management of the eight partner NGOs of the project, and three FGD were undertake with masons trained under the project. FGD were also done with groups involved in bamboo nursery operation, and bamboo plantation.

Key Informant Interview: KII was undertaken with different people involved directly or indirectly on project implementation including school teachers; officials of the local government, staff of the District Forest Office,

and District Soil Conservation Office. Similarly KII was also done with professionals from governments, private sectors and non-government communities having expertise on bamboo and its end uses.

Direct Observation: It was integral part of the field study methodology adopted in this study. The study team employed field observations and systematically took field notes. The study team made direct observation of model houses constructed under the project, bamboo nursery, bamboo plantation sites, and confidence of the mason's trained under the project to get involved on house construction process.

The field survey was conducted in the 3rd week of July 2017, and all the above-mentioned data collection tools were used during field survey for collecting the required data. The data collection tool used for this study was qualitative in nature, and the data collected through these tools were used to supplement the information on project results and achievements collected from the secondary sources.

3.2.3 Unit of Analysis and Cooperative Selection

Partner cooperatives of the RSRF were taken as the unit of analysis. Considering the time and resource constraint for undertaking this assignment, one partner cooperative was randomly selected from four project districts namely Ilam, Panchthar, Terhathum and Dhankuta. The names and addresses of the partner cooperatives selected for the study were the following.

- Ekata savings and credit cooperative, Suryodaya Municipality-8, Kanyam.
- Kalika agricultural cooperative, Phidim Municipality-5, Ranitar.
- Laghu Udham Savings and Credit Cooperative, Basantapur-5, Basantapur Bazar
- Dhankuta Savings and Credit Cooperative, Dhankuta-7, Dhankuta Bazar

Operational systems of these cooperatives were analyzed and their operational and financial performance was assessed during the field studies, and findings were presented in this report.

3.2.4 Data Collection Tools

A comprehensive checklist was developed for collecting the information required for this study. The checklist covered the queries related to the project activities, outputs, outcome and impact, as well as project related qualitative and quantitative indicators.

3.2.5 Quality Assurance

CED Nepal provides special focus to ensure collection of reliable and accurate data. This was achieved through cross checking and verification of data collected from the field. The team ensured quality checks while data collection for their completeness, and facilitate data cleaning process. The cross checking and verification process used in this study was instrumental for assuring the quality of the information collected during the assessment of project.

3.2.6 Data Analysis

All the data collected from primary and secondary sources were compiled and analyzed to generate the meaningful information and used for preparing the evaluation report, and assessing the relevance, effectiveness, efficiency, sustainability, and initial impact of the project interventions on meeting the needs and expectations of target beneficiaries of the project. Considering the nature and type of the data collected, description and qualitative information has been generated using the data collected, and used in presenting in the report.

4. RESULTS AND DISCUSSIONS

4.1. Review of the Operation System of the Partner Cooperatives

4.1.1 Governance and Institutional Linkages

In general annual Fiscal Policy and Cooperative Act 2048 govern operations of the cooperatives. In addition, they are governed by their own by-laws and various policies. Shareholders of the cooperatives are accountable to their general assembly. General assembly appoints the Board of Directors to make policy related decisions in the cooperatives. There are at least three sub-committees namely loan, account and audit, to support the board of director in performing their duties and responsibilities. There are sub committees in all the four cooperatives but these sub-committees are not performing their duties and responsibilities as envisaged by cooperative act and by laws of these cooperatives. From the perspective of cooperative principle and values, and policy compliance, sub-committee of the cooperatives have high importance and severe implications for ensuring trust and ownership of members, maintaining 'rule by law', and ensuring risk of non-compliance with the cooperative Act and other standards issued by cooperative department. Most of the Board of Directors of these cooperatives lacks knowledge and skill required for board operation. They also lack sense of responsibility and system required for effective performance of the board.

Table 6: Overview of the Cooperatives

Particulars	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta
Shareholder	No.	220	410	528	1,000
Female	No.	105	164	339	555
Female	%	48	40	64	56
Total Staff	No.	4	4	3	7
Saving	Rs.	6,777,469	4,819,423	4,712,270	30,690,677
Loan Outstanding	Rs.	9,523,154	8,428,049	7,817,131	42,764,989
Share Capital	Rs.	2,784,000	1,205,050	1,706,200	10,306,600

Source: Survey of Cooperatives

Board must play an important role in envisioning future of cooperative. The success of the co-operative enterprise, or its failure, depends on the capacity and commitments of the board of directors to provide leadership on cooperative operation. They oversee the operation, engage in policy formulation, and motivate and promote for members' loyalty and ownership, and are the link point to establish business and functional relationship with other stakeholders. Their role to ensure accountability and transparency, devise specific systems, processes, or activities and formulate and review proper strategy and plan. It is therefore critical that the board must do its job effectively and efficiently. But the state of cooperative governance³ is low in all the four cooperatives surveyed in this study. It does not mean that the board of directors of the four cooperative lack capacity to ensure proper governance and institutional linkages, but they are not aware on different dimensions of good governance and institutional linkages in the cooperatives.

All the four cooperatives have business plan that guides them to start set of activities that guide them to frame system and process require on achieving operational and financial self-sufficiency. They had started small at local level with modest paid-up capital. They have gradually expended their operation over time, operating either at VDC or 3-5 ward of the municipality as the working areas. Despite having business these cooperatives are working on ad-hoc basis and have limited scale of operation. Inadequate compliance of the requirements of the cooperative act 2048, cooperatives rules 2049 and their own by-laws has been quite serious in these cooperatives, jeopardizing their sustained expansion of outreach, institutional stability and financial self-sufficiency.

The adage "if you do not know where you want to go, every path leads you there" is characterized in the case of all the cooperatives under study. They have business plan prepared with the help of external agencies,

³ Refers to existence of a set of processes, system, and policies to affect the cooperative direction and control.

without active participation of the board of directors, staff, and sub-committee members, the document has yet been used as a point of reference as a guiding document for operational decision making, and meeting outreach, and operational and financial performance targets for their expansion and growth.

In the cooperative structure where members are also owners, investors and users, board of directors has to communicate, inform, and make aware of about the policy provisions and changes in policies, key operational performance of cooperatives, to ensure that they have a greater voice in the process. In all the four cooperatives, shareholders are relatively less known about cooperative principles and values, not aware and knowledgeable of different management dynamics.

Table 7: Governance and Institutional Linkages in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Does the cooperative have goals clearly articulated?	Y/N/M	M	M	M	M	Cooperatives have clearly articulated goals but these goals are never reviewed and used on operational decision-making.	Prepare business plan engaging all the stakeholders, review the goals at least every six month, and revised as required.
Does the cooperative have board / subcommittee in place to oversee the operation of cooperative?	Y/N/M	Y	Y	Y	Y	All the cooperatives have board and sub-committee in place and are overseeing the operation of cooperatives.	Re-orient board and sub-committees on their roles and responsibilities, and provide on-the-job orientation support on review of important action, and decision making process.
Is the board and sub-committee well constituted?	Y/N/M	Y	Y	Y	Y	Board and sub-committee are democratically constructed.	Enhance the capacity of board and sub-committee about their duties and responsibilities.
Does the cooperative make appropriate balance between authority delegation and control?	Y/N/M	M	M	M	M	There is balance between authority delegation and control in all four cooperatives. But there are significant capacity gaps.	Re-orient the roles and responsibility of the board of directors and management.
Does the board provide leadership required for effective operation of the cooperative?	Y/N/M	Y	Y	Y	Y	Board members of all the four cooperatives have capacity to provide leadership required for effective operation of the cooperatives.	Re-orient the board of director and committee on leadership technique, and project review system including KPIs.
Do the management and board have legal, marketing; fund raising,	Y/N/M	M	M	M	M	Board, management and committee of these cooperatives lack adequate legal, marketing, fund raising, and	Training to board, committee and management on legal, marketing, fund raising, and

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
and community development skills?						community development skill.	community development skill.
Are the boards members well informed about cooperative sector and committed to cooperative's vision?	Y/N/M	M	M	M	M	Board, management and committee are not well informed about cooperative sector and are not committed to cooperative's vision.	Support cooperatives to establish linkages and networking with relevant stakeholders and agencies at local, district, regional, and national level.
Are the board members active in various committees of the cooperatives?	Y/N/M	Y	Y	Y	Y	Board members participate in various committees of the cooperatives, but their participation is yet to be effective.	Re-orient the members of the board and sub-committee on the provision of their by-laws including duties, roles and responsibilities.
Do the cooperatives board and management possess documented experience and strong leadership to manage the cooperative?	Y/N/M	M	M	M	M	Board, management and committee do not possess experience and strong leadership to manage the cooperative	Leadership development training, and on-the-job coaching on cooperative management.
Does the cooperative have planning process in place?	Y/N/M	N	N	N	N	Cooperatives do not have planning process in place.	Training on cooperatives planning process.
Does the cooperative hold AGM and meeting?	Y/N/M	Y	Y	Y	Y	Holding AGM is a regular activities of the cooperative surveyed.	Improvement of quality of AGM including progress reporting and presentation of financial statement.
Does the cooperative produce reports for internal consumption and external stakeholders	Y/N/M	N	N	N	N	Cooperatives surveyed do not produce reports for internal analysis, education and decision-making.	Re-orient board members and management on regular monthly meeting process, and process to strengthen it.
Whether cooperative has established a strong relationship with	Y/N/M	N	N	N	N	Only they have established relationship with RSRF, and few BFI like SFDB	Support cooperatives to establish business and functional linkages with banks, financial institutions,

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
supporting institution i.e. banks, financial institutions, regulators, service providers?							regulators, and service providers.
How is the relation between Board and Management?	Y/N/M	Y	Y	Y	Y	In all the four cooperatives, relationship between board and management was excellent and functional. But there are some overlaps.	Re-orient the board and management that (i) role of the board of director is primarily policy making, approving plan, monitoring, supervision, and control, and (ii) role of the management to implement the decisions of the board of directors and committee.
Does the cooperative relate business plan as a tool to monitor and control the operation?	Y/N/M	N	N	N	N	Cooperatives rarely review the business plan, and it is not used as a monitoring tool	Develop the capacity of BOD and management to review the business plan of the cooperatives regularly, and use it as a day-to-day management tool.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

The following table provides glimpse of the governance status. All the four cooperatives are weak in almost all of the governance indicators. It is clear indication that status of governance is far below to manage the volume of transactions they are managing.

As per the cooperative by-laws, there are three sub-committees: (i) loan sub-committee, (ii) account sub-committee, and (iii) audit sub-committee to be formed under the cooperatives. As the name signifies, their roles are as under.

- Loan sub-committee : • Prepare loan planning, collect loan demand, review loan applications submitted by shareholders, loan processing, appraisal, monitoring, follow-up, loan recovery, and loan utilization assessment.
- Account sub-committee : • Review and analyze the bookkeeping and accounting system, review expenses and income, ensure that financial statements are prepared on time; prepare annual financial budget and implement the control system.
- Audit sub-committee : • Undertake internal audit of performance of the cooperative on savings mobilization, loan operation and management, with the responsibility to prevent, detect, and control fraud, mis-appropriation, etc. and ensure that cooperative has complied with all the legal and regulatory requirement according to cooperative act, rules, directives, and by-laws.

All three sub-committee are very active and are properly working in all the four cooperatives surveyed under this study. In all the cooperatives, sub-committees are not effective, mainly due to lack of awareness and confidence on overall process and their roles, and responsibilities. There is a need to re-orient these sub-committees on their roles and responsibilities, and provide on-the-job orientation support on review of important action, perform their duties and integrate their findings on decision making process.

4.1.2 Products, Services and Delivery

All four cooperatives offer savings and credit products. Since clients are also shareholders of the cooperatives, these cooperatives have strong client service culture.

Individual lending methodologies is the basic service delivery methodology adopted by these cooperatives. And individual lending process minimizes chances of fraud with careful efforts on prevention, detection and control of frauds. Poor monitoring, supervision and enforcement mechanism has complicated or delayed detection of fraud and initial control measures. They minimize fraud through client owner feature and mobilize different committee under the BOD.

The success of the co-operative relies on many factors, most important and crucial one is the level of member commitment and trust. There was no instance of significant withdrawal of savings and refunding of share by members in any of these cooperative, implies that these cooperatives are able to meet the demand and expectations of the clients.

Currently these cooperatives are offering the offering savings and loan products. Typical savings products offered by these cooperatives are compulsory, group savings, fixed types of deposits (compulsory saving), which enables them to make loan investment without risk of liquidity. Saving deposit is featured with varying interest rate that ranges between 8-12% irrespective of types of deposits.

There is no clear basis for setting the interest rate both savings and lending. Best practice principles indicates that interest rate should be fixed using cost accounting technique and considering (i) cost of fund, (ii) administrative cost, (iii) risk cost (provision for losses), (iv) imputed cost of capital, and (v) capitalization rate (profit margin). Both the cooperatives lack knowledge and skill required for interest rate determination both on savings and loans. Prevailing interest rate in all the cooperatives surveyed has been influenced by the interest charged by other cooperatives nearby rather than due recognition on cost structure and cost consideration.

Table 8: Product, Services and Members in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Are the products and services are developed over the year?	Y/N/M	N	N	N	N	All the four cooperative surveyed do not develop the new products based on potentiality of the area.	Training on area potentiality survey, loan need assessment and loan product design to board, loan committee and management.
What is the satisfaction level of members with service?	Y/N/M	Y	Y	Y	Y	There is lack of mechanism to assess the satisfaction level of members with services, but drop out is low.	Support on financial literacy, delivery of the services based on felt need and demand of shareholders, and new product development.
Is there a strong "member service" culture evident?	Y/N/M	N	M	N	N	Services are not delivered doorstep. Members have to visit the cooperative office for receiving services	Training on client protection, client management, being demand responsive, and shareholder's demand analysis.
Whether or not member and	Y/N/M	N	N	N	N	Member and market research	Technical support on market singling

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
market research is conducted on a regular basis?						is not conducted on regular basis.	analysis and design of new products based on emerging opportunities.
Does the product design suit business needs of borrowers?	Y/N/M	N	N	N	N	Product design of all the four cooperatives does not suit the business needs of the borrowers.	Technical support on market singling, analysis, and design of new products based on emerging opportunities.
Does cooperative ensure effective promotion and communication to members about product and its features?	Y/N/M	N	N	N	N	Board, sub-committee, and management lack capacity to ensure effective promotion and communication to members about product and its features.	Technical support to develop communication strategy and system to members about new product and its features.
Does the cooperative have provision for incentive (financial and non financial) to the members for loyalty?	Y/N/M	N	N	N	N	All the four cooperatives surveyed lack provision for incentives to the members for loyalty.	Technical support to devise incentive (financial and non-financial) to the members for loyalty especially those efficient on loan utilization, and on-time loan repayment.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

All the cooperatives surveyed have loan products suitable to provide lending services to shareholders. The basis features of the loan products of both the cooperatives are as under.

- Purpose of loan: agriculture, livestock, tea, grocery store,
- Interest rate: 18% calculated at declining balance (4-6% margin)
- Minimum loan size: Rs. 5,000/-
- Maximum loan size: Rs. 1,500,000/-
- Loan term: Maximum 1-3 year⁴

Identical interest rate on saving irrespective of saving type; likewise same interest rate on loan irrespective of types of loan product represent that product design is not done systematically. There is no systematic approach while desinging the products or review of the products. On the one hand, identical interest rate is fixed for different types of product without differentiating between consumption and productive loan, on the other hand there is different interest rate on loan for the same loan product. Lacking of systematic approach in determining loan terms and conditions, and the different terms for the same loan product for different members have implications for cooperative and members. Without detailed product analysis, it may lead to lower uptake, losses, and result into confusion, dissatisfaction feeling biased.

As product and services are single source of revenue to maintain, thrive and sustain the cooperative enterprise through its offerings of services to member customers, products, that do not satisfy the needs and preferences

⁴ Loan terms financed through revolving fund is different, and it goes up to three year.

of members does not generate return which is essential for sustainability. Product is link between cooperative enterprise and members through which both meet their respective requirement and expectation. Failing to meet the members' expectation leads to the discontinued engagement with members. It is only use of the service and participation by member users, which make co-operative become vibrant, leads to growth and sustainability.

4.1.3 Operational management

All four cooperatives have clearly defined operational areas and they have used earlier administrative units as their working areas. They don't have member/shareholder targeting mechanism in place. Except Kalika, that has satellite office, other three cooperatives work from their head office. The member loan officer relationship is not strong in financial cooperatives. Unlike most microfinance institutions, they lack culture of zero tolerance on delinquency and default despite being cognizant to the fact that delinquency problem emerges, but this is something that could be managed. Innovation in new product development is virtually lacking among these cooperatives and they have not made any investment, and innovation on new product development. They follow strategy of adopting new product already tested by other cooperatives.

4.1.4 Management Information System

All the four cooperatives have simple information system to ensure two-way data flow from shareholders to their office, but the system is not properly designed and prone to errors. Accounting is very basic in nature, and annual financial statements are prepared several months after the end of the accounting period. Report for use by staff are very few in numbers, and tend to focus more on meeting regulatory requirements rather than corporate felt need. Portfolio system is very traditional. In fact board, staff, and sub-committee members of all the cooperatives surveyed lacks capacity to read, analyze, interpret, and use findings of financial statements on operational decision-making, and propose policy perspectives. The capacity of the board, staff, and sub-committee need to be developed on reading, interpreting, and using the financing of the financial statements properly and use them for operational decision-making.

These cooperatives have used accounting software since last 2 years, which generates basic financial reports and detail reports about loan status and portfolio quality. Software's features and facilities match with the requirement of these cooperatives at the current level of operation. However, limited knowledge about the features of the software has limited the use of the software's available facilities and features. In fact, these cooperatives have not received training on using the software including data migration and they are operating the software by "learning by doing". Currently, manager of these cooperatives uses software single handedly. The current support system is limited only through telephone enquiry with software vendor when there is something for trouble shooting. Current support system through telephone is costly and not practical. In addition, requirement of the software to do half yearly account closing has become more costly and inconvenient, as cooperatives do not have Internet connectivity.

Table 9: Management Information System in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Is the degree of automation in line with size and complexity of organization?	Y/N/M	Y	Y	Y	Y	Exist in all four cooperatives.	Customization of the existing MIS software.
If there is automation, is the risk diversified?	Y/N/M	Y	Y	Y	Y	Risks are diversified. Accurate information generated.	Capacity development for using MIS for decision making.

Is the hardware and software well supported locally?	Y/N/M	N	N	N	N	Hardware and software are well supported locally.	Develop functional linkages with credible vendor for after sales services either in Birtamod, Dhankuta, Biratnagar, and Kathmandu.
Is the development tools well known locally?	Y/N/M	N	N	N	N	The tool is not well known locally.	Disseminate the development tools locally and regionally.
What is the level of staff satisfaction with the existing MIS?	Y/N/M	M	M	M	M	All the staff lack capacity to use the software properly, and only remote support received	Intensive training on software use and provision of dedicated technical support every six months.
Does the cooperative posses strong information systems manager, reliable and service oriented?	Y/N/M	Y	Y	Y		Cooperative's manager act as information system manager.	Develop the capacity of the cooperative manager and other staff to use the software.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

4.1.5 Operational Risk Management

All the cooperatives are vulnerable to risks. They cannot eliminate their exposure to risks, through an effective risk management process; they can significantly reduce their vulnerability. In general risk can be minimized through adequate procedure built into their operations, and around the process such as proper credit appraisal, smooth fund flow, mitigate credit risks, and provide critical point for monitoring that act as preventive measures for frauds, and mis-use of fund. But this is lacking in all the four cooperatives, and they need to strengthen existing internal audit system, and empower the internal audit sub-committee to undertake prevention, detection and control of the fraud system that exist or likely to exist in both these cooperatives.

These cooperatives do not calculate portfolio at risk due to lack of proper portfolio tracking system. Owing to limited knowledge on MIS, they are unable to produce management report on portfolio quality that is timely, accurate and relevant. With some compromise on quality, these cooperatives do not generate key financial reports such as actual payments against expected payments, member status report, bad debt report, aging of arrears, and performance indicators report. The table below depicts risk management status. There is no risk management system or process in any of the areas.

Table 10: Risk Management System in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Does the cooperative calculate	Y/N/M	N	N	N	N	Cooperatives surveyed lack capacities to calculate the	Introduce the system of aging of the loan portfolio, and calculate

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
portfolio at risk rates?						portfolio at risk rate.	portfolio at risk rate based on aging report.
Whether or not management information reports are timely, accurate, and relevant?	Y/N/M	N	N	N	N	Cooperatives surveyed do not produce and/or use management information reports for decision making	Customize the MIS software to produce accurate and relevant financial statement and reports on time, and regular intervals.
Does the cooperative produce the following key report and use them for operational decision-making?	Y/N/M	N	N	N	N	Cooperatives surveyed lack capacity to produce following report.	Customize the MIS software to generate following at least every month and present it on board meeting on regular basis.
Member status report	Y/N/M	N	N	N	N	Lack of capacity.	<ul style="list-style-type: none"> Members' status report
Bad debts reports	Y/N/M	N	N	N	N	Lack of capacity.	<ul style="list-style-type: none"> Bad debt report
Aging of arrears - for field staff and cooperative	Y/N/M	N	N	N	N	Lack of capacity.	<ul style="list-style-type: none"> Aging of arrears
Aging of portfolio of cooperative	Y/N/M	N	N	N	N	Lack of capacity.	<ul style="list-style-type: none"> Aging of portfolio
Performance indicators reports- BOD	Y/N/M	N	N	N	N	Lack of capacity.	<ul style="list-style-type: none"> Key performance indicators

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

4.1.6 Accounting and Financial Management

These cooperatives are required to comply with accounting policies and financial management system required by the policy, legal and regulatory system that governs them. They are supposed to use reports such as income statement, balance sheet, cash flow statement, and portfolio report on annual basis, and the registered auditors audit these statements. Even the financial reports they have prepared, they have merged the reports with other functional areas and these functions are not separated from operational management. Mechanisms that enable good financial analysis are not in place in these cooperatives. They hardly undertake financial analysis.

Financial statement is the essential and primary source of information to facilitate analysis. But financial statement of all the cooperatives surveyed consolidates the whole operation without clear segregation for different operations they carries out. Each stream of operation is equally important once cooperative is engaged with resources and cost starts to incur on that particular operation. Financial statement carries the financials of saving and credit operation.

Statutorily, the financial information from auditor's reports is considered to be valid and reliable. However, Auditor's report (Balance sheet -FY 2071/72-Pokhari) is not accurate, as capital/ liabilities and asset side do not

tally. Balance sheet depicts the status of organizations assets and liabilities at a point of time, carrying forward the wrong status to the future also means that organization lack reliable and accurate financial information in the future unless the correction is made.

Reliability, timeliness, clarity and accuracy are the essential features of financial statements, which in one way or the other way, either of cooperative suffers from this deficiency. Lacking of these factors does not help identify the problems and analyze for the future way out, and accordingly take corrective action for improvement. Moreover, Increasing mistrust between members and cooperative is natural when financial management is not practiced to trace the liability to members, and constrained to effectively and satisfactorily respond to the queries of the members. For members, saving essentially represents the practice of forgoing consumption at present for future use to absorb shock, and use in assets- building endeavor. For the cooperatives, it is the significant source of financing.

Table 11: Financial Management System in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Does the cooperative produce and undertake audit of the financial statement regularly?	Y/N/M	Y	Y	Y	Y	Auditing is done every year.	Undertake auditing from qualified auditor.
Whether or not income statements and key ratios are available for managers and BOD and disseminated to the concerned?	Y/N/M	N	N	N	N	All the cooperatives surveyed do not produce key financial ratios and share to BOD.	Training on preparing key ratios from audited financial statement, and training to committee and staff to read, interpret and analyze those ratios.
Does the cooperative possess 3-5 year financial forecasting model in place?	Y/N/M	N	N	N	N	Cooperatives surveyed lack 3-5 year financial forecasting models.	Training on financial forecast, and technical support to prepare and use financial forecasting model.
Is the annual budgeting process in place and used to control expenses?	Y/N/M	N	N	N	N	Annual budgeting process is not common among the cooperatives surveyed.	Introduce annual budgeting system and build the capacity of audit sub-committee to review annual budget process.
Does the cooperative possess capacity for cash flows management, avoid the liquidity problems, and minimize the idle cash?	Y/N/M	N	N	N	N	Cooperatives surveyed lack capacity for basic financial management.	Training and technical support on financial management including cash flow management, liquidity management, and management of idle cash.
Does the cooperative closely monitor and tightly manage delinquency and default?	Y/N/M	N	N	N	N	Cooperatives surveyed have knowledge on delinquent and default	Training and technical support on delinquency management

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
						loans but do not monitor them closely.	
Are there provision and write-off policies in place, and properly implemented?	Y/N/M	N	N	N	N	There is loan loss provision in all the four cooperatives, but write-off policy in yet to be instituted.	Technical support to formulate policy on provision, and write-off and its implementation.
Does the cooperative have sufficient sources of loan capital in place to fund expected growth?	Y/N/M	N	N	N	N	Cooperatives surveyed have crisis of loan capital.	Technical support on loan capital management
Is the average cost of capital minimum?	Y/N/M	Y	Y	Y	Y	Average cost of fund is reasonable.	Technical support on cost of fund management
Is the relationship, with banks and financial institutions, approached as a business relationship?	Y/N/M	N	N	N	N	Cooperatives surveyed have very limited external linkages.	Support cooperatives to establish business and functional linkages with local, district, regional and national level stakeholders.
Is the cooperative moving away from subsidized source of funding and developing a good reputation with commercial funders over-time?	Y/N/M	Y	Y	Y	Y	Except Laghu Udham, all other cooperatives are moving away from subsidized sources of funding and developing a good reputation with commercial funders over time.	Technical support on fund management and valuing the cost of fund. Capacity development to establish linkages with wholesale financial service providers
Is the equity based of the cooperative sufficient?	Y/N/M	Y	Y	Y	Y	Equity based of all the cooperatives is sufficient.	Training on cooperative education, promotion and management.
Does the cooperative regularly monitor the key ratios of operational efficiency, productivity, and self-sufficiency?	Y/N/M	N	N	N	N	Cooperatives surveyed do not calculate the key ratios.	On the job technical support to board and committee to regularly monitor the key ratios.
Whether or not KPIs ratios are used to	Y/N/M	N	N	N	N	Cooperatives surveyed lack	On the job technical support to board and

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
guide decision making of the board and senior management?						knowledge on KPI.	committee to make decisions based on KPIs.
Are the key ratios steadily improving and has the possibility of achieving full financial self-sufficiency?	Y/N/M	Y	Y	Y	Y	KPI are improving over time	On the job-technical support to prepare/revise business plan, prepare targeted level of KPIs, and introduce the system to compare actual KPIs with targeted KPIs.
Is the break-even analysis available and does this guide decision-making?	Y/N/M	N	N	N	N	Breakeven analysis is a new concept in all the cooperatives surveyed.	Training and technical support on break-even analysis.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

4.1.7 Organizational Structure, and Human Resources

Being very small scale of operation, the organizational structure, and human resource management is very new and nascent in the cooperatives surveyed, except Dhankuta cooperative. All the cooperatives surveyed have similarity in governing structure and management structure. In all the cooperatives surveyed, there is no detailed job description, and to ensure staff accountability is rather informal practice. There in no separate committee to look after human resource related issues.

Table 12: Human Resource System in Cooperatives

Key Dimensions	Unit	Eka ta	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Are the human resources in the cooperatives recruited on competitive basis?	Y/N/M	Y	Y	Y	Y	Human resources are recruited on competitive basis.	Support to prepare the human resource policy.
Whether job description exist or not?	Y/N/M	N	N	N	N	Staff work on ad-hoc basis.	Support to develop job description.
Is the job description clearly written and emphasize expected outputs rather than activities?	Y/N/M	N	N	N	N	Written job description does not exist.	Technical support to develop performance based job description.
Whether job description ensures no overlaps or underlaps in accountabilities between departments and individuals?	Y/N/M	N	N	N	N	Written job description does not exist.	Review and mapping of the job description of the staff.

Key Dimensions	Unit	Eka ta	Kalik a	Laghu- Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Is the staff trained? What is the training provided? Is the length and cost of training minimized?	Y/N/ M	Y	Y	Y	Y	Different staff training is conducted and has theoretical knowledge, but lack confidence to apply it in practice.	Training needs assessment, and training delivery to develop capacity.
Whether or not cooperative possess compensation policies that attracts right caliber of staff?	Y/N/ M	N	N	N	N	Concept of compensatio n policy is very new among board, committee and staff.	Support on devise of the compensation policies for staff.
Does the staff express a high level of satisfaction with their works?	Y/N/ M	M	M	M	M	System to assess job satisfaction of staff does not exist.	Introduce performance based appraisal system.
Is there strong internal communications and transparency?	Y/N/ M	N	N	N	N	Internal communicati on and transparency do not exist.	Develop the strong and functional internal communications and transparency system.
Is there a team sprit evident in all activities?	Y/N/ M	M	M	M	M	Staffs are not aware on importance of team sprit.	Support to organize team-building events and institute functional team sprit culture.
Are the performance appraisal systems, promotion policies, and other policies perceived as fair by staff?	Y/N/ M	M	M	M	M	There is no performance appraisal system in place.	Support to institute participatory review of performance appraisal systems, promotion policies, and other human resource related policies.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

4.1.8 Performance Measurement System and Practices

Effective performance is important input to achieve the result, thereby to sustain and grow. Without effective performance, objectives cannot be achieved. Without system or tools to performance appraisal, performance management is not possible. This is one of the main critical areas in which all the cooperatives surveyed require improvement. In fact, this is major area that enables to resolve existing problems in these cooperatives. Performance measurement system is indispensable tool or process to ensure accountability. Neither they have regular practice, that hints the adoption of performance measurement, nor do they have system to enable them

to locate the problems, to help understand and analyze the problems, and take decisions based upon facts to improve the situation, to check whether improvement has been made as intended.

Table 13: Productivity and Efficiency in Cooperatives

Key Dimensions	Unit	Ekata	Kalika	Laghu-Udham	Dhankuta	Explanation of Current Status	Suggested Solution Measure
Is there portfolio diversification?	Y/N/M	N	N	N	N	Portfolio is concentrated on crops, livestock, and petty trade.	Support new product development based on emerging business opportunities, and portfolio diversification.
Are there financial discipline, self-governance, and assimilation?	Y/N/M	N	N	N	N	Staff, board and committee lack understating of this concept.	Training on financial discipline, self-governance, and assimilation.
Does the cooperative measure efficiency ratios such as administrative expense ratio, number of loans per loan officer, and ratio of loan officer to total staff?	Y/N/M	N	N	N	N	Staff, board and committee lack skill and confidence to calculate these ratios.	Technical support to generate efficiency ratio on regular basis and use them on operational decision making.
Is their financial incentive in place to increase loan officer productivity?	Y/N/M	N	N	N	N	Staff, board and committee lack understating of the concept.	Technical support to devise and implement financial incentive system to staff.
Does the cooperative measures resource productivity?	Y/N/M	N	N	N	N	Staff, board and committee lack understating of the concept.	Technical support to calculate resource productivity and use on operational decision-making.

Source: Cooperative Assessment, July 2017

Note: Y = Yes, N = No, M = Mixed

4.1.9 Client Protection Principles

Cooperatives surveyed have gradually recognized the importance of the client protection principles applied elsewhere. Ministry of Cooperatives and Poverty Reduction and Department of Cooperatives had integrated the basic features of these principles in various circulars and directives in order to support the development of

prudent cooperative financial sector. Despite ignorance of the client protection principle per se, client protection principles, except prevention of over-indebtedness, transparency and responsible pricing, are not the serious issue in these cooperatives.

Appropriate product design and delivery:

Market led approach to new product design and delivery is not common in all the cooperatives surveyed. Their financial products and services are quite generic that can meet the very basic financial need and demand of their clients. These cooperatives need to take adequate care to design products and delivery channels in such a way that they do not cause their client/shareholders harm. They need to design the products and delivery channels taking into account the client characteristics.

Prevention of over-indebtedness:

Except very rare case, over-indebtedness is not serious issues among these cooperatives. Management of the cooperatives surveyed lack capacity to assess the credit absorptive capacity of their shareholders, and the issue of over-indebtedness is quite irrelevant to these cooperatives.

Transparency:

All the cooperatives surveyed lack assessment process to support client to prepare for borrowing. They are not trained and educated on their policy and procedure clearly nor they have focused more on client preparation and education. Cooperatives need to communicate clear, sufficient, and timely information in a manner and language clients/shareholders can understand so that clients can make informed decisions. The cooperatives should highlight the need for transparent information on pricing terms, and conditions of their products.

Responsible pricing:

Concept of responsible pricing is quite new in the cooperatives surveyed. They need to set the pricing terms and conditions in a way that is affordable to clients while allowing them to be sustainable. They need to strive to provide positive real returns on deposits.

Fair and respectful treatment of clients

FGD conducted in several settlements of cooperatives working areas revealed that all the cooperatives surveyed treat their clients fairly and respectfully. They do not discriminate. Corruption during loan processing, and aggressive or abusive treatment during loan collection, was not reported by the clients / shareholders. Nevertheless, because of the likelihood of the events, all the cooperatives surveyed need to ensure that adequate safeguard to detect and correct corruption, and aggressive or abusive treatment by their staff, particularly during the loan marketing, and debt collection process.

Privacy of client data:

Because of the absolute manual nature of the operation of all the cooperatives surveyed, cooperatives hardly share the data they have among others and privacy of client data is maintained. All the cooperatives surveyed need to be fully acknowledge that privacy of individual client data need to be respected in accordance with the prevailing laws and regulations, and such data should only be used for the purposes specified at the time the information is collected or permitted by law, unless otherwise agreed with the clients.

Mechanisms for complaint resolution:

Access to financial services from all the cooperatives surveyed to their shareholders is strictly supply led, and clients have very limited options to choose the type of products and services they really need. The cooperatives surveyed lack mechanisms for receiving complain and problem resolution. The cooperatives should have in place timely and responsive mechanisms for complaints and problem resolution for their clients, and use these mechanisms both to resolve individual problems and to improve their products and services.

4.2 Financial Performance of the Cooperatives

The financial performance of the four cooperatives surveyed was analyzed using their audited financial statement and outreach report⁵. The results of this assessment are discussed hereunder.

⁵ Audited financial statements were not available for four cooperatives (3 in Kapilvastu, and one in Udayapur district).

4.2.1 Sample Characteristics

As discussed already, four cooperatives were surveyed during the field studies, and their financial statement for the FY 2071/72, and FY 2072/73 were received. The performance of these cooperatives was analyzed using those audited financial statements.

Of the four cooperatives, three were savings and credit cooperatives, and one was agricultural cooperative. Numbers of shareholders in these cooperatives ranges between 220 and 1,100. Average size of these cooperative is 565 shareholders. Except Kalika, all these cooperatives operate through head office, and Kalika has a contact office in their working areas.

Table 14: Basic Characteristics of Cooperatives Surveyed

S.N.	Municipality	Name of the cooperatives	Type	Shareholders	Current status
1	Suryodaya	Ekata	Savings and credit	220	Active
2	Phidim	Kalika	Agriculture	410	Active
3	Basantapur	Laghu-Udham	Savings and Credit	528	Active
4	Dhankuta	Dhankuta	Savings and Credit	1,100	Active
	Total			2,258	

Source: Cooperative Assessment, October 2016

These cooperatives have field staff. Number of staff ranges between 1 and 7 with an average of 3 staff per cooperatives. Loan officers to total staff ratio is 62%. It ranges between 50% and 100%. Number of depositors in these cooperatives ranges between 160 and 1,100, and the average number of depositors is 511 members, as of July 2016. Similarly, the number of borrowers in these cooperatives ranges between 92 and 324 and average number of borrowers is 200 members. The active borrowers to depositors' ratio ranges between 29 percent and 58 percent and the average is 39 percent. Though these cooperatives had the working areas of serving five adjoining VDCs and/or wards of the municipalities, they are operating in limited breadth and working in one VDC, or few wards in the municipal areas.

Table 15: Basic Characteristics of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
1	Total staff	No	3	2	1	7
2	Average loan officers	No	2	1	1	5
3	Loan officers to total staff ratio	Ratio	0.67	0.5	1.0	71
4	Average active borrowers	No	92	155	226	324
5	Average depositors	No	160	375	407	1,100
6	Active borrowers to depositors ratio	%	57.5	41.3	55.5	29.5

Source: Cooperative Assessment, July 2017

There are some striking features across these cooperatives. First, there is one cooperative operating with very limited number of staff, while other cooperatives are fairly staffed. There is loan officer in all the cooperatives. This implies that (i) staff is involved on administration, support, savings and credit management and other field level cooperative activities, (ii) these cooperatives are still young, and they have yet to develop the client service culture, and (iii) they have small scale of operation. Second, They have relatively low borrowers to depositors' ratio indicating that significant proportion of client lack access to credit facility, due to their limited capacity and lack of loanable fund for loan disbursement. Third, most of the shareholders have joined cooperatives for deposit mobilization and less than 39 percent borrow from these cooperatives, with a range of 30% and 58%. Forth, supporting to the conventional nation, these cooperatives extend their services mainly from head office, and do not provide the doorstep services to their shareholders.

4.2.2 Outreach Analysis

Outreach and depth of outreach of financial services provided by these cooperatives were analyzed in terms of outreach of deposit services, credit services, low-income clients and women.

Deposit Services

Outreach of deposit services are analyzed in terms of average deposit balance per depositor and average deposit account balance. These cooperatives have diversified their savings services, as a result, average deposit balance per depositor, and average deposit account balance was same/equal, which ranges between Rs. 6,543/- and Rs. 26,988/-. Average deposit balance was Rs. 18,963/-. This implies that savings mobilization has been gradually gaining momentum among the cooperatives surveyed. Because of the savings first nature of operation of these cooperatives, the average deposit balance was is relatively higher in some of the cooperatives covered under this study. Board of directors of some of these cooperatives need to provide increase focus on savings mobilizations.

Credit Services

Outreach of credit services is analyzed using two indicators namely average initial loan balance per borrower and average outstanding loan balance. Average loan balance per borrower is almost identical. This ranges between Rs. 5,000/- and NRs. 20,000/- and the initial loan balance per borrower is NRs. 5,000/-. Similarly, average outstanding loan balance of these cooperatives range between NRs. 25,461/- and NRs. 113,985. The overall average outstanding loan balance is NRs. 60,867/- Average loan balance per borrower is relatively larger if it is correlated with number of shareholders yet to receive credit services. This is mainly attributable to the wholesale loan available from RSRF, and its proper mobilization among the shareholders.

Table 16: Outreach of Services of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
	Deposit service					
1	Average deposit balance per depositor	NRs.	26,988	8,208	6,543	26,284
2	Average deposit account balance	NRs.	26,988	8,208	6,543	26,284
	Lending service					
3	Average initial loan balance per borrower	NRs.	5,000	5,000	5,000	5,000
4	Average outstanding loan balance	NRs.	56,169	25,461	26,896	113,985
	Outreach to low income clients					
5	Average deposit balance per depositor to GNI per capita	%	33.7	10.3	8.2	32.9
6	Average deposit account balance to GNI per capita	%	33.7	10.3	8.2	32.9
7	Average initial loan balance per borrower to GNI per capita	%	6.3	6.3	6.3	6.3
8	Average outstanding balance to GNI per capita	%	70.2	31.8	33.6	142.5
	Outreach to women					
9	Women borrowers	%	38	44	74	56
10	Women depositors	%	39	46	74	50

Source: Cooperative Assessment, July 2017

Outreach to Low Income Clients

Outreach of the cooperative services to low income clients has been analyzed in terms of average (i) deposit balance per depositor to GNI per-capita, (ii) deposit account balance to GNI per capita, (iii) loan balance per borrower to GNI per-capita, and (iv) outstanding balance to GNI per capita.

Average deposit balance per depositor to GNI per-capita was very low (range between 8.2% and 33.7%) with an average of 23.7 percent and that of average deposit account balance to GNI per capita was also almost same (range between 8.2% and 33.7%) and that of average was 23.7%. This implies that these cooperatives have the ability to mobilize small deposits from small holders. Likewise, initial loan balance per borrower to GNI per-capita was 6.3%, and that of outstanding loan balance to GNI per capita ranged between 31.8% and 142.5% and the average was 76.1%. This indicates that some of the cooperatives covered under this study are serving to

relatively well-off clients. There are other cooperatives that are serving to the relatively poor and those having low savings propensity, and very low loan absorptive capacity as well.

Outreach to Women

These cooperatives in general target both to women and men. Outreach to women of these cooperatives is estimated at 55% in cases of borrowers (range between 38% and 74%), and 54% in case of depositors (range between 39% and 74%). With relatively high average deposit balance, loan balance, outstanding loan balance, these cooperatives have targeted their services to those women with relatively high savings propensity, and relatively higher credit absorptive capacity. Considering the outreach to women, there is a need to devise the package of services to increase the savings propensity and credit absorptive capacity of the shareholders of these cooperatives through package of non-financial services.

4.2.3 Sustainability Analysis

Different dimensions of sustainability of these cooperatives were analyzed with respect to profitability, efficiency, productivity and self-sufficiency.

Profitability

In general, profitability ratios measure cooperative's net income in relation to their assets and liabilities in the balance sheet. It enables the investors and managers to determine whether they are earning an adequate return on investment. Analysis of rate of return, income and expenses were done in order to understand the status of profitability of these cooperatives.

Rate of Return Analysis

ROA⁶ and ROE⁷ of these cooperatives were computed to understand the status of rate of return analysis. Average ROA was 0.8% (range between 0.1% and 4.6%) and that of average ROE was 3.1% (range between 0.5% and 14.6%). This is not very attractive rate of return of these cooperatives.

Yield Analysis

Yield analysis was done using three ratios namely financial revenue to asset ratio, yield on gross portfolio (nominal) and yield on gross portfolio (real). Financial revenue to asset ratio was 12.2% (8.6% and 21.2%). This indicates cooperative's ability to use available assets on productive purposes.

Table 17: Profitability Status of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
	Return Analysis					
1	Return on Assets	%	1.3	4.6	1.1	0.1
2	Return on Equity	%	4.4	14.6	5.3	0.5
	Yield Analysis					
3	Financial revenue to asset ratio	%	8.6	21.2	12.8	11.4
4	Yield on gross portfolio	%	9.8	25.7	14.0	14.3
5	Yield on gross portfolio (real)	%	0.8	16.7	5.0	5.3

⁶ ROA measures average revenue received for every unit of currency mobilized by cooperatives in microfinance operation and other related activities. ROA is an important indicator to analyze when cooperatives changes its policies on pricing, loan term, structures of loans, purchase fixed assets, etc. and it provides an indication of whether or not cooperatives has potential to generate a commercially acceptable rate of return, which would enable it to access commercial financing and potentially become a formal financial institution if this is not already the case.

⁷ ROE provides management and investors with rate of return earned on invested equity and differ from ROA in that it measures return on funds that are owned by cooperatives rather than total assets. ROE of leading Cooperatives is very encouraging and interesting. Higher ROE in leading Cooperatives indicates that investment in cooperative sector is yet an activity with high rate of return.

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
	Expenses Analysis					
6	Financial expenses to asset ratio	%	2.4	5.0	3.4	6.9
7	Provision of loan loss to asset ratio	%	-	0.8	1.8	-
8	Operating expenses to assets ratio	%	6.6	11.0	6.8	5.5
9	Operating expenses to loan portfolio ratio	%	7.5	13.3	7.5	6.9
10	Total expenses to asset ratio	%	9.0	16.7	12.1	12.4
11	Imputed cost of capital ratio	%	1.4	1.6	1.1	1.4

Source: Cooperative Assessment, July 2017

Yield on gross portfolio (nominal) was 14.9% (range between 9.8% and 25.7%) and that of yield in gross portfolio (real) was 5.9% (range between 0.8% and 16.7%). This indicates that cooperatives are fairly efficient on mobilizing loan portfolio on productive purposes and generating yield. Narrow gap between financial revenue to asset ratio and yield on gross portfolio (nominal) signifies the efficiency of the cooperatives to mobilize their assets on productive purposes and generate income with low volume of the non-performing assets.

Expenses Analysis

Six ratios namely financial expenses to assets ratio, provision for loan impairment to assets ratio, operating expenses to assets ratio, operating expenses to loan portfolio ratio, total expenses to assets and imputed cost of capital ratio were computed for expenses analysis.

Financial expense to asset ratio is 5.8% (range 2.4% and 6.9%), which is also considered to be the cost of fund, implying the tendency of these cooperatives on not properly paying the interest on savings deposited by their shareholders. Only two out of four of these cooperatives make provision for loan impairment, and remaining two do not make any such provision. Not making loan loss provision implies that these cooperatives do not make legally defined level of provision on the transaction that they have made, nor they make adequate account of the non-operating asset on their portfolio. This is the area where these cooperatives need to be oriented and educated. Operating expenses to asset ratio is 6.3% (range 5.5% and 11%) and that of operating expenses to loan portfolio ratio was 7.7% (range 6.9% and 13.3%). This is fairly high and there exist great variation on this ratio across the cooperatives under study. Likewise, total expense to assets ratio is 12.4% (range 9% and 16.7%), which is quite high and implies that these cooperatives spend 12% of the value of the asset to mobilize them. In contrast, imputed cost of capital is fairly low and estimated to revolve around 1.4% (range 1.1% and 1.6%) of the total asset.

In general, findings of the profitability analysis provide following indications. First, because of high equity base and community based operation, rate of return is relatively low in these cooperatives. Second, yield analysis indicates that these cooperatives have fairly attractive yield, despite that they are operating in a small spread, and providing modest return on savings. Third, expenses analysis indicates that these cooperatives are not very efficient. Finally, despite small-scale operation these cooperatives have profitable operation and have limited scope for outreach expansion. There is a greater need to educate these cooperatives BOD and management on efficient technique of their management.

Efficiency

Efficiency refers to cost per unit of output and efficiency ratios provide indication on cost of providing financial services by cooperatives to generate revenue. Efficiency ratios provide information on rate at which cooperatives generate revenue to cover their expenses and enable them to determine whether they are maximizing the use of their resource.

Table 18: Efficiency Status of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta

1	Active loan clients to depositors ratio	%	81	61	59	29
2	Administrative expenses ratio	%	6.6	11.0	6.8	5.5
3	Personal expenses to asset ratio	%	1.7	1.0	4.8	1.4
4	Personal expenses to loan portfolio ratio	%	1.9	1.2	5.2	1.8

Source: Cooperative Assessment, October 2016

Active loan client to depositor ratio is 45% (range 29% and 81%) and that of administrative expenses to asset ratio is 6.3% (range 5.5% and 11%), which is very high. Likewise, personal expenses to assets ratio is 1.8% (range 0% and 2.3%), and that of personal expenses to loan portfolio are 2.5 percent (range 0% and 8%). This indicates that these cooperatives are more efficient.

Productivity

Productivity status of these cooperatives was assessed computing ratios cost per borrower, cost per loan, borrowers per staff members, depositors per staff members, and borrowers per loan officer. Because of the very small-scale operation, very few of these cooperatives have provision for the separate loan officer to extend dedicated services to their shareholders.

Table 19: Productivity Status of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
1	Cost per borrower	NRs.	5,769	5,158	3,538	17,772
2	Cost per loan	NRs.	5,769	5,158	3,538	17,772
3	Borrower per staff members	Number	65	76	84	46
4	Depositors per staff members	Number	80	125	142	157
5	Borrowers per loan officer	Number	130	228	251	162
6	Loan officer to total staff ratio	%	50	33	33	29

Source: Cooperative Assessment, July 2017

Average cost per borrower and cost per loan is same and estimated at NRs. 9,188 (range NRs. 3,538, and NRs. 17,772). This is relatively higher. Likewise, borrowers per staff members are 62 and that of depositors per staff members is 137. Further, borrowers per loan officer are 187 (range 130 and 251), and loan officer to total staff ratio is 33% (range 29% and 50%). Findings of productivity analysis indicate that these cooperatives minimize their transactions costs including administrative expenses to attain viability. Despite having almost similar human resource recruitment, orientation and training policy, there exists significant difference on administrative efficiency across these cooperatives.

Self-sufficiency

As discussed in research design section, two levels of self-sufficiency of these cooperatives, namely, operating self-sufficiency (OSS), and financial self-sufficiency (FSS) were analyzed to assess the extent at which these cooperatives are able to cover the cost of their service delivery out of their financial income.

Table 20: Self-Sufficiency Status of Cooperatives Surveyed

S.N.	Particulars	Unit	Status of the Cooperatives			
			Ekata	Kalika	Laghu-Udham	Dhankuta
1	Operating self-sufficiency	%	114	127	109	101
2	Financial self-sufficiency	%	98	116	100	91

Source: Cooperative Assessment, October 2016

OSS of these cooperatives is 107% (range 101% and 127%). All the cooperatives covered in this study are operationally self-sufficient and imply that they have earned operating income sufficient to cover their direct costs as well as (adjusted) cost of capital. FSS of these cooperatives is 96% (range 91% and 116%). Two cooperatives (Ekata and Dhankuta) were not financially self-sufficient, while remaining two Kalika and Laghu Udham was financially self-sufficient.

4.3 Strength, Weaknesses, Opportunities and Threat Analysis of these Cooperatives

Presentation of the findings of operational review, and performance assessment reveals that these cooperatives have strengths, weaknesses, opportunities and threats (SWOT). SWOT analysis findings of these cooperatives are provided in following table.

Table 21: SWOT Analysis of the Cooperatives Surveyed

Strengths	Weaknesses
<ul style="list-style-type: none"> • Access to services to remote areas, • Access to wholesale loans – RSRF and SFDB • Commitment growth and scale-up • Potential for sustainability • Efficiency and productivity 	<ul style="list-style-type: none"> • Poor governance and institutional linkages • Traditional operational management system • Limited products and traditional service delivery • Poor and inaccurate management information system, • Poor operational risk management • Errors on accounting, and lack of proper financial management system • Traditional system of human resource management • Inadequate proper client protection system in place • Insufficient performance management system and practices • Absence of competitive strategies
Opportunities	Threats
<ul style="list-style-type: none"> • Expand outreach • Product diversification • Access to wholesale loans and expand the services • Many collaborators • Innovations and development 	<ul style="list-style-type: none"> • Changing policy, acts, and rules • Bad reputation and perceptions towards cooperatives • Too many in number and completion within cooperatives sector and across financial service providers

4.4 Capacity Gaps

Findings of the SWOT analysis findings presented in above table reveal that there are several capacity gaps for these cooperatives to operate professionally, and expand the outreach of financial services to the poor and disadvantaged groups. A discussion of the capacity gaps follows hereunder.

- **Client Preparation:** Cooperatives have not prepared the clients fully and there are numbers of the demand side gaps. These cooperatives have not yet adopted the financial literacy as a capacity development tools to their clients. These cooperatives need to integrate and internalize the financial literacy packages in the operation, management and service delivery system for their continuity, sustainability, and sustained expansion of the services.
- **Enhance competitiveness:** The cooperatives surveyed lack competitiveness on service delivery. They need to be prepared to compete with the financial services extended by the MFIs and FI-NGOs. Their capacity needs to be enhanced to compete with MFIs and FI-NGOs. This requires cooperatives to be professional on their overall management.
- **Institutional stability:** All the cooperatives surveyed have attained some level of institutional stability. Immediate reform is required on strengthening their MIS, operational risk management system, portfolio management system and financial management/analysis system. Of the two important determinants of institutional stability for these cooperatives, (i) accounting system is prudent, proper and fairly standard,

but (ii) portfolio quality and portfolio management system is often questionable.

- **Financial viability:** Return on asset, and return on equity is not very attractive in these cooperatives. Though these cooperatives have attained OSS, most are yet to attain FSS. There is danger that both OSS and FSS could be lowered from the current level if portfolio is properly audited and adequate provision for the overdue loan is made. Hence, financial viability of the cooperatives covered by this study is doubtful. Most of the efficiency indicators are higher and productivity indicators are lower. These cooperatives have yet to improve their efficiency, productivity and portfolio quality indicators.
- **Continuity of the business linkages with Wholesale Microfinance Service Providers:** The cooperatives included in this study have assumed business linkages they have established with BFIs to be a one-time transaction, and they don't have plan to request for the services on the second and third cycles, even though the first cycle is about to matured and loan is potentially repaid. Considering the increased demand of the members for the financial services, these cooperatives need to request for the higher repeat loans from wholesale microfinance service providers including RSRF. They need to explore accessing wholesale loans from all the wholesale financial services providers and expand their business transaction. Even with the RSRF, these cooperatives must go for repeat second, third and line of credit cycle.
- **Strengthen the management information system and automation:** MIS of these cooperatives, and other similar cooperatives are very weak. Manual system of MIS has a lot of limitation and prone to error. There is a need to strengthen the MIS of these cooperatives, and system should be gradually transformed towards full automation.
- **Portfolio management and portfolio tracking:** Portfolio management is the weakest aspects of the cooperatives covered under this study and other cooperatives nearby are not exception. They virtually lack the portfolio tracking system. They need to strengthen portfolio management and portfolio tracking for continuity and sustainability of their operation.
- **Complementary services:** People living below the poverty line can be progressed out of the poverty through strengthening economic part of their lives, increasing market access, and sales of dairy products, productive use of remittance received by the households, higher term and size of the loans, seeds, irrigation, improvement in business skills, and introduction of time and cost reducing technology. This need to be supplemented through increased awareness of members / clients of crop, livestock, health, and property or business insurance which can protect them from any financial risk in future. This is more important to the vulnerable poor who are likely to be back to poverty in case of any external shocks, or natural disaster. Cooperatives must also go for providing complementary services to their clients.
- **Accounting and financial management:** The accounting system of the cooperatives surveyed and cooperatives nearby are fairly standard, follow double entry system of accounting, and fully comply with the system of four ledger system as prescribed by the cooperatives act. Auditing is also done. But financial analysis and financial management based on financial analysis findings is quite new among the cooperatives surveyed and most of the cooperatives nearby. Considering that the future of the cooperatives depends on proper accounting and financial management system, this should receive almost priority in the packages of external support for strengthening the capacity of these cooperatives.
- **Cooperative management:** Close scrutiny of operational review system of the sample cooperatives reveals that they are characterized by the poor governance and institutional linkages, traditional operational management system, limited products and traditional service delivery, poor and inaccurate management information system, poor operational risk management, errors on accounting, and lack of proper financial management system, traditional system of human resource management, inadequate proper client protection system in place, insufficient performance management system and practices and absence of competitive strategies. These weakness need to be corrected in order to enable the cooperatives to continue and sustain their operation. Hence, strengthening cooperative management system should be one the priority areas for the future growth of A2F through cooperatives led financial system in Nepal.

4.5 Potential Service Providers

Department of cooperatives, National Federation of Savings and Credit Cooperatives Union Nepal, Central for Microfinance, Centre for Empowerment and Development, Nepal are the potential service providers to strengthen the capacity of the cooperatives receiving wholesale loans from RSRF. A brief discussion of these service providers follows hereunder.

Department of cooperatives:

The Department of Cooperative is the National Cooperative Organization responsible for registration; regulation and promotion of cooperative enterprises in all over the country. It was established in 1953 AD under the then Ministry of Planning, Development and Agriculture. The interim Constitution of Nepal, 2063 considered Cooperative sector as one of the three pillars for national development. It is one of the departments under the Ministry of Agriculture and Cooperatives. Constitution of Nepal 2072 continued the path followed by the interim constitution. Thus Cooperative Department as the constituent organ of the government has 40 offices altogether including the department. It is the major executive wings of the Government. The in-charge of the cooperative department is Registrar as equivalent to a joint secretary of the government. The Registrar of the Department of Cooperatives delegates the registration authority to the officials assigned in the Division Cooperative offices. Under this Department there is one Central Cooperative Training Centre, 5 Cooperative Training and Division Office and 33 Division Cooperative Office in all over the country. The Central Cooperative Training Centre was established in 1962 AD. The five Cooperative Training and division Office and thirty three Division Cooperative Office were set up after the dissolution and merging of district cooperative office extended over 68 district in the country.

There are altogether 594 personnel under the Department of Cooperatives. Several types of cooperatives societies operated in the country are Saving and Credit, Multipurpose, Dairy, Agriculture, Fruits and Vegetables, Bee Keeping, Tea, Coffee, Consumers, Energy, Communication etc. including production, financial and service. Nepal has initiated its cooperative movement after 1950 AD. Policy and programs launched by the government have emphasized the importance of Cooperative modality to maintain peace in the society by means of self-employment and to expedite the development works. It is believed that some 3 million people are already affiliated so far in more than 20000 cooperatives and more than 50000 people are employed directly in Cooperative business. For details refer: <http://www.deoc.gov.np/index.php>.

There is some technical problem for the project like UNATI to collaborate with Cooperative Department for strengthening the capacity of the cooperatives. If the department has to receive funding from external sources, this need to be channelized through red book and regular government channels.

National Federation of Savings and Credit Cooperatives Union Nepal:

Nepal Federation of Savings and Credit Cooperative Unions Ltd. (NEFSCUN), the member based national apex organization of Savings and Credit Cooperative Societies (SACCOS) and their District Unions (DUs) is committed to the development, promotion and strengthening of its member organizations through supporting SACCOS and DUs in their aim to contribute for the upliftment of financial, social cultural aspiration of individual members of respective community. NEFSCUN follows the credit union principles propounded by World Council of Credit Union (WOCCU) in 1984.

NEFSCUN has a vision to: Integrated and Sustainable Savings and Credit Cooperative Societies in Nepal, and mission: Ensuring the sustainable growth of integrated SACCOS network enabling them to provide quality financial services that improve lives of people.

S.N.	Key areas	Scope of work
a	Member sustainability	<ul style="list-style-type: none">• Lobbying and Advocacy Strategy• Training and Education Strategy• Monitoring and Supervision Strategy• Quality Assurance Strategy• Stabilization Fund Strategy• Technology Innovation Strategy• Network Management Strategy

S.N.	Key areas	Scope of work
		<ul style="list-style-type: none"> Decentralization of Business and Services Development of SACCOS solution strategy
B	NEFSCUN growth	<ul style="list-style-type: none"> Membership Expansion Strategy Business and Service Expansion Strategy Partnership and Net-working strategy Human Resource Development Strategy Digitization Strategy Up-scaling Quality of Services Strategy Infrastructure and Premises Development Strategy
C	Enhance financial inclusion	<ul style="list-style-type: none"> SACCOS Promotion Strategy Financial and Business Literacy Strategy Digital Financing and Branchless Financial Service Strategy Women Participation & Leadership Development Strategy
D	Increase investment for sustainable development	<ul style="list-style-type: none"> Youth in Economic Development Strategy Microfinance and Agri-finance Promotion Strategy Clean Energy Promotion and Financing Strategy Business Development Service Promotion Strategy Challenge Project Investment Strategy

NEFSCUN has the track record of enhancing the capacity of the cooperatives to promote their continuity and sustainability. For details see: <http://nefscun.org.np/about-us/>

Central for Microfinance:

The Centre for Microfinance (CMF) Nepal was established in July 2000 to strengthen the capacity of microfinance institutions and enable them to provide savings, credit and other financial services to the poor, with women as a focal point. CMF runs a wide range of programs designed to meet the emerging needs of microfinance institutions and its members. CMF engages in training, technical assistance, advisory services, research, knowledge management, policy advocacy, publication and documentation, dissemination of best practices and networking among its shareholding, strategic, and associate members in partnership with national and international development organizations to promote the microfinance sector and establish a strong market system. CMF's Articles of Association 13 (f) states that the surplus earned by the organization shall not be distributed as dividends to the shareholding members. Rather, such profits shall be deployed for the development of microfinance sector and poverty alleviation programs and CMF shall remain a not-for-profit organization.

Originally, CMF was a project implemented by Canadian Centre for International Studies and Cooperation (CECI) funded by USAID and Ford Foundation in 1998-2000. CMF is transformed from the project to an autonomous, privately owned national network organization that works to strengthen microfinance sector and its member associations, institutions and individuals with a vision of "sustainable access to microfinance services for the poor". For details refer: www.cmfnepal.org.np

Centre for Empowerment and Development, Nepal:

Considering the realities that economic empowerment is most fundamental requirements for the sustainable growth and development at local economics, CED aims at providing technical support to poor and marginalized people to realize their human potential through series of interventions geared towards their empowerment and development. It also acts as an intermediary between service providers and recipients and supports the government to achieve its commitment to achieve the Sustainable Development Goals.

Centre for Empowerment and Development (CED) is a non-profit organization established in 23 February 2007 (16-11-2063 B.S) under Nepal Government's Society Registration Act 2034 in District Administration Office, Lalitpur. It is also affiliated with Social Welfare Council. Its head office is located in Saibu-8, Lalitpur, Nepal. It has a goal to enable the poor and marginalized people using their potential for their improved livelihood by being

aware of their right and duties as a basis for sustainable development and creation of the empowered society. CED Nepal has a vision to support to creating poverty free just and equitable society through advocacy, networking, lobbying and series of empowerment and development initiatives. Its mission is to devise and implement series of pro-poor and inclusive development intervention that assist deprived and disadvantaged families living in isolated areas to access basic services and sustainable improvement of their livelihood.

Since inception in 2007, CED Nepal has been engaged on promoting and strengthening banking, finance, enterprise development and livelihood related research, studies, and other capacity development activities and support. For details refer: www.cednepal.org.np

Others:

There are other agencies that are also engaged and are working on capacity development of the banks and financial institutions. Other institutions are DEPROSC Nepal, Centre for Self-Help Development, Institute for Integrated Development, Rural Self Reliance Development Centre, etc. In general, these institutions lack capacity to strengthen the financial cooperatives in a large scale.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study had assessed the capacity building need of the cooperatives receiving wholesale loans from RSRF. The study have mapped the client details of each RSRF member cooperatives in UNNATI-A2F project districts, conducted the training needs assessment of the RSRF member cooperatives to understand the capacity development requirements for effective mobilization of wholesale loan with improved information management, risk management, planning, governance and reporting system, and explored and accessed the potential institution to conduct such trainings to the selected cooperatives and develop terms of reference for procuring the services from them. The information required for this study was obtained both from secondary and primary sources. The secondary information was received through a review of RSRF statistics in NRB and that of primary information was gathered through an in-depth assessment of the four purposively selected partner RSRF cooperatives in Terhathum, Dhankuta, and Ilam and Panchthar districts. The summary of major findings, conclusions and recommendations of the study follows hereunder.

5.1 Major Findings

Major findings of the study related to the four partner RSRF cooperatives on key element of their management are summarized following table.

Table 22: Summary of Major Findings⁸

S.N.	Elements of Findings	Ekata	Kalika	Laghu-Udham	Dhankuta
1	Compliance with cooperative act				
	• Loan extended to non-shareholders	√	x	x	x
	• Children are also the shareholders	x	√	√	√
	• Loan loss provision not made as per cooperative standards	x	√	√	x
	• Meeting of the account supervisory committee not on regular basis	x	x	x	x
2	Governance issues				
	• Lack of clarity in the bylaws on sub-committee	√	√	√	√
	• Lack of clear savings and credit policy	√	√	√	√
	• Business plan has not been used as a management tool and never reviewed and revised since preparation three years back	√	√	√	√
	• Regular board meeting	√	√	√	√
	• Meaningful discussion in board meeting	√	√	√	√
	• Leader quality of board of directors	√	√	√	√
	• Performance measurement system	x	x	x	x
3	Capacity (knowledge and experiences) of the board members and staff				
	• Accounting management	√	√	√	√
	• Analysis of the financial statement	x	x	x	x
	• Marketing management	x	x	x	x
	• Business operation	x	x	x	x
	• Product (savings, credit, remittance, insurance) design and development	x	x	x	x
	• Business planning	x	x	x	x
	• Knowledge about cooperative sector	x	x	x	x
	• Active participation in sub-committee	x	x	x	x
	• Linkages and networking with other collaborating agencies	√	√	√	√
4	Product, services, and membership				

⁸ The solution measures are provided in the recommendation section. Some of the solution measures are also provided in relevant tables in result and discussion section of the section four.

S.N.	Elements of Findings	Ekata	Kalika	Laghu-Udham	Dhankuta
	• Product development process	x	x	x	x
	• Member service culture	x	x	x	x
	• Member survey	x	x	x	x
	• Promotion and communication on new product	x	x	x	x
5	Management information system				
	• Use of software	√	√	√	√
	• Use of important reporting features	x	x	x	x
6	Risk Management System				
	• Preparation and analysis of aging and portfolio report	x	x	x	x
	• Adequacy of loan loss provisioning	x	x	x	X
7	Financial Management				
	• Quality of vouchers, receipts and loan deeds	x	x	x	x
	• Preparation and analysis of financial statement and key ratios	x	x	x	x
	• Financial planning and budgeting	x	x	x	x
	• Monitoring and management of delinquency and defaults	x	x	x	x
	• Sufficiency of equity	√	√	√	√
	• Financial discipline	x	x	x	x
8	Productivity and Efficiency				
	• Portfolio diversification	x	x	x	x
	• Measurement of efficiency ratio	x	x	x	x
9	Human Resources Management System				
	• Existence of job description	x	x	x	x
	• Remuneration policy	x	x	x	x
	• Over staffing	x	x	x	x
	• Team sprit/building	√	√	√	√
	• Performance appraisal system	x	x	x	X
10	Enterprise development				
	• Enterprise business plan prepared but yet to be applied on operation management	x	x	x	x
	• Timely loan repayment	x	x	x	x
	• Effective to be an efficient business service provider	√	√	√	√

Source: Consultants' assessment July 2017

Cooperatives are the weakest financial service providers in Nepalese financial system. Unlike BFIs, they are not adequately regulated, and lack uniformity on governance, operational system, products/services, operational risk management, management information system, human resource management, accounting/financial management, and adoption of client protection principles. Some cooperatives are weak on one aspect, while other on other dimensions of cooperatives management. There are some cooperatives requiring on-the-job technical backstopping/trouble shooting support on cooperatives management. There are some cooperative related issues specific to typical cooperatives requiring small studies.

5.2 Conclusions

The findings of this study reveal that there is a significant role of the RSRF partner cooperatives to promote A2F for the poor and disadvantaged groups in remote areas. There are instances where these cooperatives have been very effective to provide A2F to those families that are excluded by the mainstream financial service providers such as MFI, FI-NGOs, commercial banks, development banks and finance companies. Access to wholesale loan from RSRF, SFDB, FMDB and RMDC to these cooperatives has been instrumental to expand their services to under-served and/or under-served poor and disadvantaged groups. These cooperatives are efficient, characterized by

high productivity, have commitment for growth and scale-up, and have potential for continuity and sustainability of their services.

RSRF partner cooperatives are characterized by poor governance and institutional linkages, traditional operational management system, limited products and traditional service delivery, working based on poor and inaccurate management information system, and operational risk management, errors on accounting, and lack of proper financial management system, traditional system of human resource management, inadequate client protection system in place, insufficient performance management system and practices, and absence of competitive strategies. These are the few key areas that require immediate reform and capacity development of these cooperatives.

These cooperatives are exposed to different opportunities comprising of expanding outreach, product diversification, access to wholesale loans and expand the services, collaborating with other promoters of financial service providers and innovations and development, while they need to face the threat emancipating from changing policy, acts, and rules, bad reputation and perceptions towards cooperatives, and too many in number and completion within cooperatives sector and across financial service providers.

There are several capacity gaps in the partner RSRF cooperatives to operate professionally, and expand the outreach of financial services to the poor and disadvantaged groups. These capacity gaps revolves around client preparation, enhancing competitiveness, institutional stability, financial viability, continuity of the business linkages with wholesale microfinance service providers, strengthening the MIS and automation, portfolio management and portfolio tracking, provision of complementary services to the shareholders, upgrading accounting and financial management, and overall cooperative management covering aspects such as governance, institutional linkages, operational management, products and services, MIS, operational risk management, human resource management, accounting and financial management, improving the financial capability of the clients, adoption of client protection principles, and social performance management.

In the operational term, capacity development need of RSRF partner cooperatives varies and can be grouped into three as under.

- Capacity gaps common to all the cooperatives (governance, accounting and financial management),
- Capacity gaps specific to few cooperatives (products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles),
- On-the-job training/trouble shooting support.

5.3 Recommendations

On the basis of the study findings, and conclusions discussed above, the study has provided following recommendations in order to develop the capacity of the partner cooperatives of the RSRF.

Table 23: Recommendations of the Study

S.N.	Key Issues to be Addressed	Recommended Actions		
		Research/Studies	Training	Mentoring
1	Compliance with cooperative act	x	Cooperative promotion and management training	x
	<ul style="list-style-type: none"> • Loan extended to non-shareholders • Children are also the shareholders 			
	<ul style="list-style-type: none"> • Loan loss provision not made as per cooperative standards 			
	<ul style="list-style-type: none"> • Meeting of the account supervisory committee not on regular basis 			
2	Governance issues			√
	<ul style="list-style-type: none"> • Lack of clarity in the bylaws on sub-committee 		Training on cooperatives governance	
	<ul style="list-style-type: none"> • Lack of clear savings and credit policy 			

S.N.	Key Issues to be Addressed	Recommended Actions		
		Research/Studies	Training	Mentoring
	<ul style="list-style-type: none"> Business plan has not been used as a management tool and never reviewed and revised since preparation three years back 		Training on business planning and analysis	
	<ul style="list-style-type: none"> Regular board meeting 		Training on agenda setting, board meeting process and decision making	
	<ul style="list-style-type: none"> Meaningful discussion in board meeting 			
	<ul style="list-style-type: none"> Leader quality of board of directors 		Leadership training	
	<ul style="list-style-type: none"> Performance measurement system 	√	Training on cooperatives governance and performance measurement system	
3	Capacity (knowledge and experiences) of the board members and staff			√
	<ul style="list-style-type: none"> Accounting management 		Financial management training	
	<ul style="list-style-type: none"> Analysis of the financial statement 			
	<ul style="list-style-type: none"> Marketing management 		Enterprise and marketing management training	
	<ul style="list-style-type: none"> Business operation 			
	<ul style="list-style-type: none"> Product (savings, credit, remittance, insurance) design and development 	√		
	<ul style="list-style-type: none"> Business planning 		Training on cooperative business planning	
	<ul style="list-style-type: none"> Knowledge about cooperative sector Active participation in sub-committee Linkages and networking with other collaborating agencies 			
4	Product, services, and membership			√
	<ul style="list-style-type: none"> Product development process 		Training on new product development	
	<ul style="list-style-type: none"> Member service culture 			
	<ul style="list-style-type: none"> Member survey 	√		
	<ul style="list-style-type: none"> Promotion and communication on new product 			
	<ul style="list-style-type: none"> Inconsistency on features of loan products (GNI versus regular loan) 			
5	Management information system			√
	<ul style="list-style-type: none"> Use of software 			
	<ul style="list-style-type: none"> Use of important reporting features 		Training on use of software on decision making	
6	Risk Management System			√
	<ul style="list-style-type: none"> Preparation and analysis of aging and portfolio report 			
	<ul style="list-style-type: none"> Adequacy of loan loss provisioning 			
7	Financial Management			√
	<ul style="list-style-type: none"> Quality of vouchers, receipts and loan deeds 			

S.N.	Key Issues to be Addressed	Recommended Actions		
		Research/Studies	Training	Mentoring
	<ul style="list-style-type: none"> Preparation and analysis of financial statement and key ratios 		Financial management training	
	<ul style="list-style-type: none"> Financial planning and budgeting 			
	<ul style="list-style-type: none"> Monitoring and management of delinquency and defaults 			
	<ul style="list-style-type: none"> Sufficiency of equity 			
	<ul style="list-style-type: none"> Financial discipline 			
8	Productivity and Efficiency			
	<ul style="list-style-type: none"> Portfolio diversification 			√
	<ul style="list-style-type: none"> Measurement of efficiency ratio 			
9	Human Resources Management System			
	<ul style="list-style-type: none"> Existence of job description 			√
	<ul style="list-style-type: none"> Remuneration policy 			
	<ul style="list-style-type: none"> Over staffing 			
	<ul style="list-style-type: none"> Team sprit/building 			
	<ul style="list-style-type: none"> Performance appraisal system 			
10	Enterprise development			
	<ul style="list-style-type: none"> Enterprise business plan preparation, 		Enterprise development training	√
	<ul style="list-style-type: none"> Loan need assessment, and loan analysis 		Credit analysis, loan management and portfolio management training	
	<ul style="list-style-type: none"> Effective to be an efficient business service provider 	√		

Based on the findings, and conclusion outlined above, this study has recommended to conduct 10 days long comprehensive cooperative strengthening training. Considering the time and resource constraints, these training could be organized into two phases as under.

- In the first phase, a 5 days training on “Cooperative Governance, Accounting, and Financial Management” could be organized to all the RSRF partner cooperatives,
- In the second phase, other 5 days training covering aspects such as products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles could be organized to selected RSRF partner cooperatives.
- Provide on-the-job training/trouble shooting support to selected RSRF partner cooperatives as per demand.
- Commission small research/studies specific to typical cooperatives based on felt need.

ANNEX 1: KEY INDICATORS FOR OPERATIONAL REVIEW OF THE COOPERATIVES

S.N.	Areas of Operational Review	Key Indicators
1	Governance and institutional linkages	<ul style="list-style-type: none"> • History, institutional type/incorporation, vision and goals, • Capital structure and composition of shareholders, • Strategic and business plan, • Board of directors, • Managing directors and senior management, • Legal and regulatory compliance, • Linkages with apex and other collaborators,
2	Operational management	<ul style="list-style-type: none"> • Operational areas, target clients and strategic alliances, • Size and structure of head office and branch offices, • Operation procedures, • Branching strategies, • Delinquency management
3	Product and delivery	<ul style="list-style-type: none"> • Products and services, • Delivery methodology, • Outreach of services, • Articulation of target market, • Client service culture, • Client and market research, • Delivery procedure and fraud
4	Management Information System	<ul style="list-style-type: none"> • Degree of automation, • Risk diversification, • Backup to hardware and software, • Information system manager and department, • Procurement system and audit process, • Timeliness, accuracy and relevance of MIS
5	Operational risk management	<ul style="list-style-type: none"> • Calculation of portfolio at risk, • Generation, analysis and use of key financial reports • Internal control system, • Internal audit system, • Prevention, detection and control mechanism
6	Accounting and financial management	<ul style="list-style-type: none"> • Accounting system, • Preparation and audit of financial statement, • Separation of financial and non-financial operation, • Audit and audit quality, • Disaggregated availability of income statement and key ratios, • Financial forecasting, • Annual budgeting process, • Management of cash flows, • Delinquency monitoring, management, provisioning, write-off, • Sufficiency and sources of loan capital, • Transition from subsidized sources to commercial sources of fund, • Capital adequacy and equity base, • Preparation and monitoring of key ratios, • Break-even and sufficiency analysis
7	Human resource management	<ul style="list-style-type: none"> • Recruitment, orientation and training, • Staff performance evaluation, • Job description for staff positions, • Compensation policies, • Incentive schemes, • Level of satisfaction of employees, • Employee turn-over and employee association,

S.N.	Areas of Operational Review	Key Indicators
		<ul style="list-style-type: none"> • Internal communication and transparency, • Appraisal system, promotion and other policies
8	Client Protection Principles	<ul style="list-style-type: none"> • Appropriateness of product design and delivery, • Prevention of over-indebtedness, • Transparency, • Responsible pricing, • Fair and respectful treatment of clients, • Privacy of client data, and • Mechanism for complain resolution
9	Alternative Delivery Mechanism	<ul style="list-style-type: none"> • Use of Information Communication Technology Based banking such as mobile banking, branch less banking,

ANNEX 2: ANALYSIS OF THE KEY PERFORMANCE INDICATORS OF THE COOPERATIVES

S.N	Particulars	Unit	Name of Cooperative		
			2070/71	2071/72	2072/73
A	Balance Sheet	Rs.000			
1	Total Assets	Rs.000			
	Cash Balance	Rs.000			
	Bank Balance	Rs.000			
	Loan Outstanding	Rs.000			
	Investment	Rs.000			
	Fixed Assets	Rs.000			
	Receivable	Rs.000			
2	Total Liabilities	Rs.000			
	Savings	Rs.000			
	Borrowings	Rs.000			
	Loan Loss Provisions	Rs.000			
	Other Payable	Rs.000			
3	Total Net worth	Rs.000			
	Share	Rs.000			
	Reserves	Rs.000			
	Donated Capital	Rs.000			
	Retained Earning	Rs.000			
4	Total Liabilities and Net worth	Rs.000			
B	Income Statement	Rs.000			
1	Operating Income	Rs.000			
	Interest Income	Rs.000			
	Charge and Commission	Rs.000			
	Other Income	Rs.000			
2	Operating Expenses	Rs.000			
	Interest Expenses	Rs.000			
	Salary Expenses	Rs.000			
	Administrative Expenses	Rs.000			
	Loan Loss Provisions	Rs.000			
	Other Expenses	Rs.000			
3	Net Operating Profit	Rs.000			
	<u>Outreach Report</u>	-			
1	Deposit balance	Rs.000			
2	Depositors	Number			
3 Women	Number			
4	Deposit accounts	Number			
5	Outstanding loan balance	Rs.000			
6	Active loan clients	Number			
7 Women	Number			

S.N	Particulars	Unit	Name of Cooperative		
			2070/71	2071/72	2072/73
8	Loan account	Number			
9	Shareholders	Number			
10 Women	Number			
11	Total staff	Number			
12	Loan officers	Number			
	<u>Financial Indicators</u>	-			
1	Return on Assets	%			
2	Return on Equity	%			
3	Financial revenue to asset ratio	%			
4	Yield on gross portfolio	%			
5	Yield on gross portfolio (real)	%			
6	Financial expenses to asset ratio	%			
7	Provision of loan loss to asset ratio	%			
8	Operating expenses to assets ratio	%			
9	Operating expenses to loan portfolio ratio	%			
10	Total expenses to asset ratio	%			
11	Imputed cost of capital ratio	%			
	<u>Efficiency Status</u>	-			
1	Active loan clients to depositors ratio	%			
2	Administrative expenses ratio	%			
3	Personal expenses to asset ratio	%			
4	Personal expenses to loan portfolio ratio	%			
	<u>Productivity Status</u>	-			
1	Cost per borrower	NRs.			
2	Cost per loan	NRs.			
3	Borrower per staff members	Number			
4	Depositors per staff members	Number			
5	Borrowers per loan officer	Number			
6	Loan officer to total staff ratio	%			
	<u>Self-sufficiency Status</u>	-			
1	Operating self-sufficiency	%			
2	Financial self-sufficiency	%			
	<u>Outreach indicators</u>	-			
	<u>Deposit service</u>	-			
1	Average deposit balance per depositor	NRs.			
2	Average deposit account balance	NRs.			
	<u>Lending service</u>	-			
3	Average initial loan balance per borrower	NRs.			
4	Average outstanding loan balance	NRs.			

S.N	Particulars	Unit	Name of Cooperative		
			2070/71	2071/72	2072/73
	<u>Outreach to low income clients</u>	-			
5	Average deposit balance per depositor to GNI per capita	%			
6	Average deposit account balance to GNI per capita	%			
7	Average initial loan balance per borrower to GNI per capita	%			
8	Average outstanding balance to GNI per capita	%			
	<u>Outreach to women</u>	-			
9	Women borrowers	%			
10	Women depositors	%			

ANNEX 3: TERMS OF REFERENCE FOR THE SERVICE PROVIDERS

CAPACITY BUILDING OF THE COOPERATIVES RECEIVING WHOLESALE LOAN FROM RURAL SELF RELIANCE FUND

Background:

United Nations Capital Development Fund (UNCDF) is the UN agency mandated to focus primarily on the world's Least Developed Countries (LDCs). It creates new opportunities for poor people and their communities by increasing A2F and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict and crisis. It provides seed capital – grants and loans – and technical support to help financial service providers reach more poor households, and small business through inclusive finance approach, and local governments finance the capital investments that would improve poor peoples' lives.

UNCDF has signed an agreement with Nepal Rastra Bank, under the broader UNNATI Inclusive Growth Program agreement signed between the Government of Denmark and the Government of Nepal, where NRB is implementing Access to Finance (A2F) component of UNNATO Growth Programme in the seven hilly districts of Mechi and Koshi corridor – Taplejung, Panchthar, Ilam, Dhankuta, Terhathum, Bhojpur, and Sankhuwasabha with the assistance of UNCDF. This programme has been designed basically to enhance and improve agricultural sector financing in Nepal. The objective of UNNATI is “promotion of sustainable inclusive growth that reduces poverty and raises living standards”. Within the context of UNNATI, the purpose of A2F Project is to support financial service providers to more effectively serve the agricultural value chain actors with appropriate financial products thereby enabling smallholder farmers and MSMEs to invest into their value chain activities leading to the sustained improvement in competitiveness of selected value chains. The A2F project interventions had national impact with a specific focus given to the Eastern Development Region (EDR) of Nepal.

Rationale:

Although number of Banks and Financial Institutions (BFIs) has been increased over the years in Nepal, financial access still remains lower especially in rural areas. FinScope Survey 2015, conducted by A2F project and UNCDF reveals that informal access still prevails as the leading source of loans (21%). Given that the financial system is a key for the development of the country's economy, the Government of Nepal has been emphasizing the sound development of banks and financial system under its development plans. With an aim to increase the financial frontiers toward the small business and low-income households living in rural and remote areas of Nepal, financial sector policies such as deprived sector directives, financial sector development strategy, financial intermediation act, Rural Self Reliance Fund, Youth and Small Entrepreneur Self Employment Fund, Capital Market Development Plan, etc. has been formulated and adopted.

Besides, Government has considered sector as one of the three pillars for national development. As per the estimates of Department of Cooperatives, there are a total of 32,663 cooperatives operating across the country,. Savings and Credit Cooperatives (SACCOs) alone number 13,460, and when multipurpose cooperatives are taken into account, the total number of financial cooperatives rises to 17,491. Cooperatives have a significant presence in rural areas, providing direct employment to 54,143 people, while further employment through direct means such as micro-entrepreneurship remains unaccounted. Their accomplishments to date in the area of socio-economic development of members indicate that cooperatives can continue to grow as key players in the development of Nepal. Different studies revealed the fact that the community-based cooperative model is a cost-effective, and sustainable approach in areas with no access or limited access to formal financial services. However, cooperatives have limited capacities and technical expertise, which has hindered their capacity to cater to the needs of their members. For the smooth and effective operations of these cooperatives, they need to be provided external supports and hands-on skills for the proper operations. In more technical sense, funding is a serious issue for most of the financial cooperatives.

Rural Self Reliance Fund (RSRF) is one of the policy interventions of Government of Nepal that was established in 1990 with an aim to address above-mentioned gaps. Socio-economic upliftment of the deprived and economically weaker people by the means of income-generating and job-creating activities by providing financial assistance through the cooperatives, Non-Government Organizations (NGOs) and microfinance institutions (MFIs), is the prime objective of RSRF. The fund provides concessional wholesale lending to the rural

cooperatives, and conducts programs and activities to aid them in building self-capacity to disburse loans facilities to eligible groups. As per the latest progress report, the Fund has served more than a thousand institutions operating in 68 districts benefiting nearly 50 thousand households with the concessional loans of about Rs. 1.73 billion.

In order to meet the requirement of RSRF to be qualified and eligible for borrowing, cooperatives must exceed two years of financial operations, and should operate in profitable level. They also require fulfilling some of the other requirements to be eligible for getting the RSRF loans.

Recently completed study on the capacity assessment of the RSRF partner cooperatives in UNNATI districts revealed the following.

- There is a significant role of RSRF partner cooperatives to promote A2F for the poor and disadvantaged groups in remote areas. There are instances where these cooperatives are effective to provide A2F to those families that are excluded by the mainstream financial service providers such as MFI, FI-NGOs, commercial banks, development banks and finance companies. Access to wholesale loan from RSRF, SFDB, FMDB and RMDC to these cooperatives was instrumental to expand their services to un-served and/or under-served poor and disadvantaged group. These cooperatives are efficient, characterized by high productivity, have commitment for growth and scale-up, and have potential for continuity and sustainability of their services.
- RSRF partner cooperatives are characterized by poor governance and institutional linkages, traditional operational management system, limited products and traditional service delivery, working based on poor and inaccurate management information system, and operational risk management, errors on accounting, and lack of proper financial management system, traditional system of human resource management, inadequate client protection system in place, insufficient performance management system and practices, and absence of competitive strategies. These are the few key areas that require immediate reform and capacity development of these cooperatives.
- These cooperatives are exposed to different opportunities comprising of expanding outreach, product diversification, access to wholesale loans and expand the services, collaborating with other promoters of financial service providers and innovations and development, while they need to face the threat emancipating from changing policy, acts, and rules, bad reputation and perceptions towards cooperatives, and too many in number and completion within cooperatives sector and across financial service providers.
- Cooperatives are the weakest financial service providers in Nepalese financial system. Unlike Banks and Financial Institutions, they are not adequately regulated, and lack uniformity on governance, operational system, products/services, operational risk management, management information system, human resource management, accounting/financial management, and adoption of client protection principles. In view of this, capacity development need of these cooperatives varies and can be grouped into three: capacity gaps common to all the cooperatives (governance, accounting and financial management), capacity gaps specific to few cooperatives (products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles). Some cooperatives are weak on one aspect, while other on other dimensions of cooperatives management. There are some cooperatives that require on-the-job technical backstopping/trouble shooting support on cooperatives management. There are some cooperative related issues specific to typical cooperatives requiring small studies.
- Considering the time and resource constraints, the study has recommended to organize these capacity development supports as under. In the first phase, a 5 days training on “Cooperative Governance, Accounting, and Financial Management” could be organized to all the RSRF partner cooperatives. Other 5 days training covering aspects such as products/services, portfolio management, operational risk management, management information system, human resources management, financial management, and adoption of client protection principles could be organized to selected RSRF partner cooperatives in the second phase. Further, provide on-the-job training/trouble shooting support to selected RSRF partner cooperatives, and commissioning small research/studies specific to typical cooperatives can be considered based on demand and felt need in due course of time.

UNNATI A2F intends to start the interventions with the first phase of 5 days training on “Cooperative Governance, Accounting, and Financial Management” to all the RSRF partner cooperatives in its working areas. It seeks to outsource this assignment to qualified, experienced and capable services providers (team of consultants and/or consulting firm), and request the qualified service providers to submit the Expression of Interest (EOI) for this assignment.

Objectives:

The overall objective of this assignment is to enhance the capacity of the partner RSRF cooperatives to work as professional financial service providers to expand the frontier of financial services to unbanked or under-banked population. The specific objectives of the proposed assignment will be the following.

- Prepare the 5 days training packages for conducting training on “Cooperative Governance, Accounting, and Financial Management” with training plan, pre- and post-test of the participation.
- Prepare the training plan critical areas of the training need such as (i) governance, (ii) accounting, and (iii) financial management.
- Prepare the training calendar to implement capacity development training over the period of the six months.
- Prepare clear, and concise training compliance report.
- Undertake post training follow-up and impact assessment.

Outreach of RSRF Services:

As of mid-March 2017, the Fund has disbursed credit amounting Rs. 2,225.6 million to 1,158 institutions including NGOs, cooperatives and Agriculture Development Bank. All these institutions need to be trained under the proposed assignment. At least two persons from each partner cooperatives will be trained and there will be about 2,316 people of the RSRF partner organizations to be trained under this assignment from 70 districts.

Table 24: Status of Rural Self-Reliance Fund

S.N	Description	Unit	Mid- July, 2014	Mid- July, 2015	Mid- July, 2016	Mid- March, 2017
1	District coverage	No.	68	68	70	70
2	Partner NGOs/Cooperatives	No.	940	1024	1104	1158
3	Loan clients	No.	46081	49245	55304	57925
4	Loan disbursement	Rs. ten millions	152.33	170.06	200.1	222.6
5	Loan recovery	Rs. ten millions	91.3	116.5	144.4	160.6
6	Outstanding loan balance	Rs. ten millions	61.04	53.56	55.6	61.0
7	Overdue rate	%	3.67	5.38	4.7	5.2
8	Loan Recovery	%	96.33	94.62	95.3	94.8

Source: Nepal Rastra Bank, Published in Economic Survey 2017.

Scope of Work:

The scope of work of this assignment will be the following.

- Participate in the inception meeting with UNCDF, NRB, and A2F team to agree on the roll-out of the capacity development program.
- Finalize the number of participants to be trained under this consultancy.
- Identify the venue of the training, and partner cooperatives to participate in the training program in the particular venue.
- Prepare the training plan in consultation with UNCDF, NRB, A2F team, RSRF affiliated cooperatives.
- Compile the training module in the form of training manual along with the work sheet to be delivered during the training sessions.
- Mobilize team of trainers (3-4 groups) and deliver the training as per the approved schedule.
- Undertake pre-training and post training test of the participants of the training program,
- Prepare the clear and concise training completion report.
- Provide the post training technical backstopping support to the partner cooperatives.

Methodology:

- Participants selection
- Training venue finalization
- Training course finalization
- Training delivery – lecture, participatory discussion, role play, group exercise, theory, pre- and post test, action plan preparation,
- Post training follow-up

Time Line:

This assignment will start from first week of September and will be completed by the end of December 2017.

Team Composition

A two-person team comprising of (i) Team Leader and (ii) Team Members will be carried out this training in one location.

Team Leader should have following qualification and experiences.

- Master's degree in economics, finance, agricultural economics, business administration, or related discipline from reputed university
- At least 10 years of relevant and professional experience including knowledge of cooperative sector development, training and capacity development for the financial cooperatives,
- Proven experiences on converting the findings of the training need assessment into conducting training and capacity development of the financial cooperatives,
- Good communication skills with excellent presentation technique, and knowledge transfer to grass roots level institutions,
- Fluency in English and Nepali (English and Nepali)

Team Member should have following qualification and experiences:

- Master's degree in economics, finance, agricultural economics, business administration, or related discipline from reputed university
- At least 3 years of relevant and professional experience including knowledge of cooperative sector development, training and capacity development for the financial cooperatives,
- Proven experiences on converting the findings of the training need assessment into conducting training and capacity development of the financial cooperatives,
- Good communication skills with excellent presentation technique, and knowledge transfer to grass roots level institutions,
- Exposure to practical dimensions of the rural cooperative management,
- Fluency in English and Nepali (English and Nepali)

Provision for Monitoring and Progress Controls

The consultant team will report to the Team Leader based in Biratnagar, Nepal and his designate.

Payment

As full compensation for the services performed under this contract, the government through UNDP shall pay the service providers as per the contract. Income tax on the remuneration and allowance paid to the consultant will be deducted at source.

The model of payment will be as follows.

- 40% amount will be paid at the finalization of participation, training venue, training course, etc.
- 30% amount after completion of training session delivery
- 30% upon completion of the assignment.

Deliverables

- List of the participants selected
- List of training venue with participants
- Training course, and session delivery plan,

- Training delivery materials (lecture note, participatory discussion topics, role play materials, group exercise materials, theoretical topics, pre- and post test form, and template for action plan preparation)
- Post training follow-up plan and
- Clear and concise training completion report