PREPARED FOR
CARE Nepal
FAR WESTERN CLUSTER OFFICE
DOTI, NEPAL

FINAL EVALUATION OF VILLAGE SAVINGS AND LOAN PROJECT (PPS)

(FINAL REPORT)

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1. INTRODUCTION

1.1 Background

The Post Project Support (PPS) project, which was also called Enhancing Civil Society Organization's Capacity for Rights Based Livelihoods Program was originally designed for five years. In 2005, CARE made funding commitment only for three years with possibility of two years extension. In order to address the gaps/issues identified by the project team, partners and consultant's recommendations on the assessment of savings and credit groups recently, the project was extended and the project interventions were implemented from July 2008 focusing on the adjusted village savings and loan model and institutional support to their associations. The FAHU Foundation has funded to implement the VSL model in Doti and Syangja districts for two years (August 2008 - October 2010). To build strong synergy and complementarities between the PPS initiatives and the FAHU foundation support, the PPS interventions have been focused primarily to Bajhang and Bajura in VSL model and complement with FAHU funded activities in Syangja and Doti districts. Some of the major activities which were not included in the FAHU funded project, such as livelihoods improvement initiatives (revolving fund); pro-poor resource center, business development training and advocacy initiatives are implemented in Syanjga and Doti through CARE Danmark support. Planned activities were designed according to the modified VSLA model and recommendation made on Savings for Empowerment by Erik Alhoj and Devendra Aryal, GES Investment service DK on 2007.

Within this background, CARE International in Nepal is implementing a Village Saving and Loan (VS&L) project as Post Project Support (PPS) activities for the period of two years from July 2008 – December 2010 in the Bajhang, Bajura, Doti and Syangja districts of Nepal. This project is being implemented in partnership with local NGOs namely District Credit Union (DCU) Bajhang, PEACEWIN Bajura, Aapasi Sahayog Kendra (ASK) Syangja and Samaj Dewa Doti (SSD). The VS&L project seek to create 250 Savings and Credit Groups (VS&Ls) and to include the most vulnerable (dalits and women) in these groups. Pilots have been conducted in order to find the best suitable concept of saving and credit locally and for the country. There has also been a special focus on facilitation of the groups and to test the 30-key-issue model developed in a study commissioned by CARE Nepal in early 2008[1].

The VS&L project seek to improve the livelihoods of poor rural population groups in selected areas of Bajhang, Bajura, Syangja and Doti districts with following two specific objectives:

- 250 VS&L established and functioning according the principles of CARE's VS&L model. Of these, at least 90% of the VS&L in Syangja, and 80% of the VS&L in Bajura, Bajhang and Doti district should continue to exist and be functioning at the close of the project.
- CARE's approach to VS&L in Nepal has been adjusted to fit local Nepalese contexts and has been documented. Documentation of the CARE Nepal approach to VS&L has been produced and made accessible to an external audience.

The project has combined concrete support, training and capacity building activities with the development of method and documentation materials for the purpose of scaling up a best practice approach to VS&L both within CARE and among other development actors. One of the key objectives of the project is to enable CARE Nepal to systematically improve and further develop the VS&L model in the Nepalese context.

[1]Details can be found in the study report on "Savings for Empowerment" by Devendra K. Aryal and Erik Alhøj, GES Investment Services 2008.

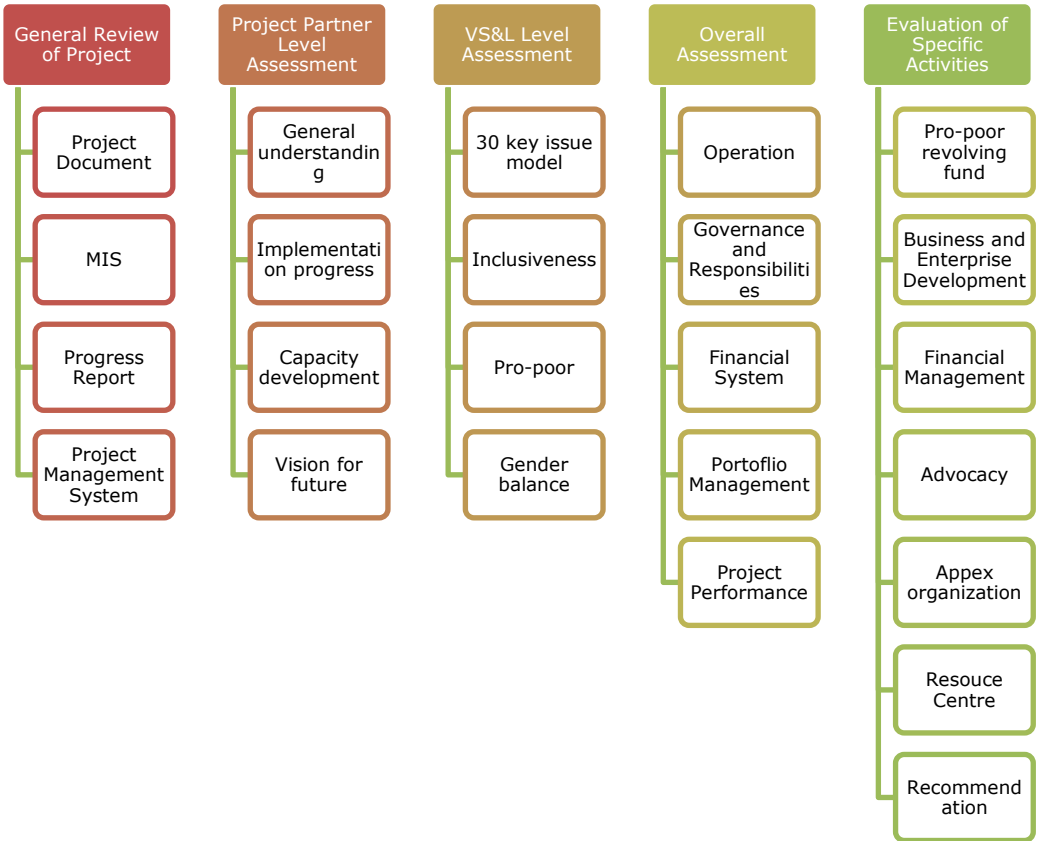
1.2 Objectives

This assignment seeks to evaluate and document the effort's by CARE and partners to implement the adjusted VS&L model under PPS project in Bajhang, Bajura, Doti and Syangja districts of Nepal, thereby contributing directly to the project objectives by documenting CARE's implementation of the adjusted VS&L model and making the lessons learned available to a wider external audience. The specific objectives of this assignment are the following.

- Assess the effectiveness and performance of the project against implementation plans and targets.
- Assess the efficiency of the project in terms of conversion of the project resources and/or inputs into results.
- Assess the perspectives for sustainability of the VS&L groups and effectiveness of capacity building and partnerships support under this project.
- Generate lessons learned in order to enable CARE Nepal to systematically improve and further develop the VS&L model in the Nepalese context.
- Provide recommendations on sustainability of the groups and other similar interventions.

1.3 Scope

The evaluation covered the PPS-supported interventions in Bajhang, Bajura, Doti and Syangja encompassing activities such as livelihood improvement grants business development, entrepreneurship development and financial management trainings to group members, advocacy initiatives, support to apex organizations and the establishment of a resource center. Scope of this assignment is depicted in following chart.



1.4 Methodology

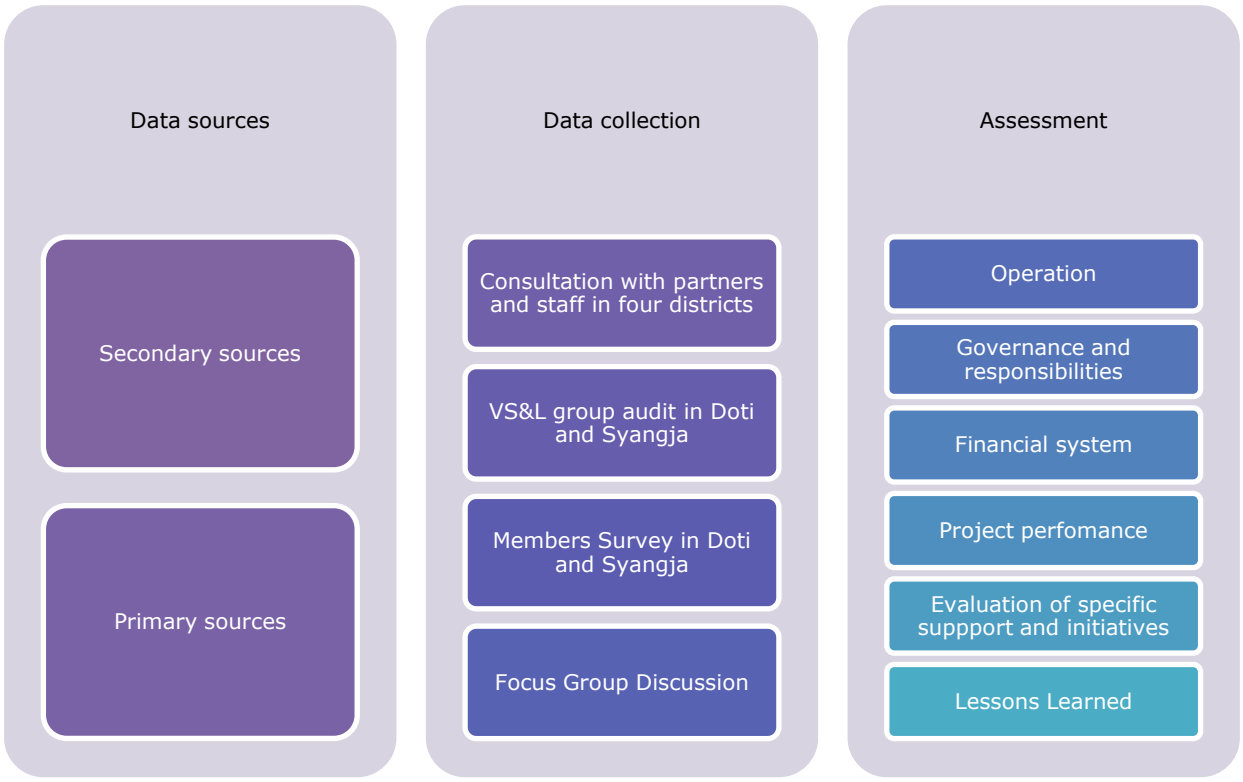
This evaluation drew on a mix of qualitative and quantitative information. The data required for conducting this assignment were obtained both from secondary and primary sources. First hand information about the project was generated through the key person interviews and focus group discussions with following:

- VS&L members (women, men, dalits, youth, elderly)
- Division Cooperatives Office, DDC and district line agencies etc.;
- Partner staffs: Project Coordinators, community social mobilisers and LRPs
- CARE staff (Central Office, Doti Cluster Office and field level staffs).
- Direct observations

Secondary information was obtained from:

- Management Information System (MIS Excel sheets)[2]
- Health diagnosis[3]
- Baseline survey[4]
- Short case studies;
- Project records and monitoring data; project documents and partner organizations' documents;

Figure 1: Methodology of the Evaluation



[2] Information on MIS was analyzed thoroughly and issues were pursued during interviews and group visits.
[3] Health diagnosis done by the project partners were analyzed to assess the sustainability perspectives and the performance of the groups
[4] While a repetition of the baseline exercise is out of the scope of this evaluation, finding of the baseline study was used for design and for making comparisons wherever possible.

Data required from this assignment was obtained through the following

Review of relevant documents: Relevant documents will be reviewed that will lead to support further investigations to accomplish the objectives of the study. The study of documents include project document, progress reports, among others. The following documents will be reviewed.

- Savings for empowerment; An assessment of six CARE related savings and credit groups in Nepal and recommendations for improvements For CARE Nepal and CARE Denmark (Financed by FAHU Foundation)-Devendra K. Aryal and Erik Alhøj, GES Investment Services DK (Describing the 30-key-issues-model).
- Grant Agreement between the FAHU foundation and CARE DK and CARE Nepal
- CARE-Nepal, 2008, Detailed Implementation Plan of Village Savings and Loan Association in Nepal (Doti and Syangja).
- CARE-Nepal, 2008, Proposal to extend Post Project Support in CARE Nepal focusing savings and credit program
- Village Savings and Loan Associations (VS&L), Programme Guide Field Operations Manual, Version 3.1-1st November 2007 © VS&L Associates
- CARE-Nepal 2009, Baseline report on Village Savings and Loan Project
- CARE-Nepal, 2008 and 2009 progress reports of PPS and FAHU.
- Management Information System compiled by project team including health diagnosis
- DFID's Financial Sector Deepening Uganda Project, Savings and Loan Associations pilot Project-West Nile, Project Review report
- CARE-Nepal, 2009, CARE-Nepal's Microfinance strategy to work with savings and credit groups.

Consultation workshop: A two day consultation workshop was organized in Doti to gather relevant information on project implementation. The workshop was participated by the project staff in Bajhang, Bajura and Doti district. Various aspects related to project implementation was discussed in the workshop.

Focus group discussions: conducted with VS&L, bank and financial institutions working in the district and other relevant stakeholders.

Performance Review: Review the periodic progress report on VS&L and even the cooperatives promoted by CARE Nepal during the project period.

Organizational assessment: Organizational assessment of VS&L group was done within the framework of 30-key-issues-model included in the study on "Savings for Empowerment" done by Devendra K. Aryal and Erik Alhøj, GES Investment Services DK covering aspects such as project initiation, organization, financials, control and reporting and progression[5].

Individual interviews: was conducted with the VS&L members especially their office bearers and members in selected sites.

Key informant interviews: interview was conducted with CARE staff, VS&L chairperson and others who are working in the issue.

In consultation with CARE Nepal staff in Country Office and Cluster Office in Doti, the evaluation was done in Doti and Syangja district where the project is implemented. MIS of

[5]Refer Annex A for the "30-Key-Issues-Overview for the VS&L Model".

the Project indicates that of the total 150 (60 in Doti and 90 in Syangja) VS&L group promoted under this project. Thirty six (16 from Doti and 20 from Syangja) VS&L group were selected for in-depth studies within the framework of 30-Key-Issues-Overview for the VS&L Model. The VS&L group was selected based on the result of the VS&L health diagnosis conducted by the partner NGOs of the project in both district. The sample was selected to ensure that (i) well functioning, (ii) not well functioning and (iii) average VS&L groups are included to ensure fairly representative sample.

During field studies organizational and institutional dynamics of these VS&L was analyzed in order to assess their stability and viability. Further, individual interview with some VS&L group members were conducted to gather information on outcomes of various project interventions towards their livelihood improvement.

Information was collected using a mix of data collection tools encompassing both quantitative and qualitative so as to enable a comparison of information collected and find out qualitative justification of quantitative findings. In order to enable proper collection of information required for this study, one checklist and one questionnaire was developed and this checklist/questionnaire was used for gathering required information.

The information collected from different sources was compiled, consolidated and analyzed. Analysis was done under both quantitative and qualitative assessment framework. The information gathered from different sources was used to assess relevance, efficiency, effectiveness, impact, sustainability, capacity development and partnership and lessons learned from the 30-key-issue model. On the basis of the analysis findings, recommendations on strengthening the perspectives for sustainability of the groups and other similar interventions have been provided.

1.5 Report Organization

This report has been organized into five sections. After this introductory section, section two documents the progresses and performance of the VS&L project. Section three assesses the status of the VS&L groups and that of section four evaluates the project under standard evaluation framework. The report ends with conclusions and recommendations in section five.

2. RESULTS AND DISCUSSIONS

2.1 Project Interventions

The VS&L project encompasses following seven components.

- Develop strategy of CARE Nepal to work with saving and credit groups,
- Orientation on VS&L Project and Strategy,
- Strengthening the capacity of the existing VS&L Groups,
- Mainstreaming PVSE/ Pro-poor focus into existing S&C / cooperatives groups,
- Creating innovative fund for business development service focusing PVSE,
- Cross learning/ Networking/ Market & Expert linkages/ advocacy /Social Audit,
- Monitoring & Evaluation and Documentation, and
- Management and Coordination

Table 1 summarizes various activities implemented under each of above components.

Table 1: Project Components and Activities

S.N.	Project Components	Activities
1	Develop strategy of CARE Nepal to work with saving and credit groups	• VS&L Strategy development • Sharing among district level stakeholders • UCP Analysis • Orientation on VS&L Project and Strategy
2	Strengthening capacity of existing VS&L Groups	• Detail capacity assessment of existing SC groups • Training on management of MFIs • Staff training on social mobilization, governance, saving and credit operation, business and entrepreneurship development, etc. • Field level training on social mobilization and governance, saving and credit operation, financial Management, business and entrepreneur development and leadership development.
3	Mainstreaming PVSE/ Pro-poor focus into existing S&C / cooperatives groups,	• LIP Support to Pro-poor Member of VS&L • Reinforce corporate and social responsibilities of existing S&C Groups • Sensitization camp on saving and credit schemes • Support to create social fund
4	Creating innovative fund for business development service focusing PVSE	• Subsector analysis, • Staff training on LIP preparation • Support to poor on LIP • LIP monitoring • Piloting selected LIP initiatives • Pro-poor Revolving Fund through VS&Ls
5	Cross learning/ Networking/ Market & Expert linkages/ advocacy /Social Audit	• Support to advocacy initiatives, • Support office/resource materials for VS&L, • Interactive reflective, sharing & learning meeting at different level, • Support to credit union and apex organization • Social audit • Participation in Microfinance summit
6	Monitoring, Evaluation and Documentation	• Review reflection and sharing workshop at district level, • Startup planning, review and sharing meeting at district and VDC level, • Review, reflection, sharing and Planning at project level, • Support to prepare rules, regulations, guidelines, constitution or operational plan of VS&Ls, • Joint Monitoring by NGO executive / board members/DLAs/CARE, • Program VS&Ls monitoring by Executive Committee, • LRP development and mobilization, • Interaction among VS&Ls within VDCs, • VS&L-Health Diagnosis, • Monitoring of VS&Ls in 30 key issues model by LRPs and review, • Monitoring and Interaction with stakeholders and political parties on VS&L model at VDC level, • Interaction with stakeholders and political parties on VS&L Group model at VDC and District level, • Document best practices and project completion report,
7	Management and Coordination	• Support the cost of field staff Salary and DSA for field staff • Support for office operation and management

Source: VS&L Project

Close scrutiny of various interventions of the project reveal the different features of social banking and have social orientation. These interventions are rather supplementary to support development and strengthening of the VS&L groups.

2.2 Operation of the VS&L Groups

2.2.1. Operational Process

Operations of VS&L are very simple which is based on mutual trust and confidence of group members. As a democratic body, all members have equal opportunity to speak and express their opinions. Any decisions taken in VS&L groups are made unanimously after through discussion among them. Financial transaction including the purpose of loans provided is need based, prioritization among different purposes and members' collective decisions. The interest rate or service charge charged varies widely among different VS&L groups. Even though in some VS&L interest rate charged is higher than formal credit systems, borrowers are willing to pay higher interest rate as this is still far less than the interest rate charged by local money lenders. At the same time, members can access services in time and benefit of the higher interest rate goes to VS&L group itself. The terms and lending norms, such as cost, repayment, interest rates, etc., are often different from lending procedure followed by formal credit institutions. VS&L group members have received financial services at a varying degree through internal capital generated by them.

2.2.2. Area and Membership

In the targeted programme, one member of the households below the poverty line has participated in VS&L group. Most VS&L groups have provided special emphasis to include families that are landless, poor and disadvantaged. There are also cases where some VS&L groups have included all the households in the settlement into their group. Though the VS&L are promoted exclusively for savings mobilization and enhancing access to financial services for promoting income generating activities, there are some VS&L groups that are implementing the component/s of integrated rural development initiatives such as governance, rural infrastructure development, cash crop promotion, natural resource management and participatory development.

The project has supported organization and development of 250 (60 in Bajhang, 40 in Bajura, 60 in Doti and 90 in Syangja) VS&L groups in the project districts. Number of members in the VS&L groups ranges between 15 and 155 with an average of 34 members. Drop-out of existing members and joining of new members are common phenomenon in the VS&L and number of members entered in VS&L group over the last one year range between 0 and 75 with an average of 1 member joining per VS&L group. In general, they are the left-out members from the same community. Each VS&L group has four executive committee members comprising of chairperson, secretary, treasurer and controller and these executives are democratically elected to manage their day to day operation.

2.2.3. Equity and Access

The VS&L groups are either woman only or mixed. Alternatively they are Dalit only, Janajati only, other (Brahmin and Chhetri) only and mixed (Dalits, Janajaties and others) VS&L groups. There are cases where mixed VS&L groups have invited Dalits and Janajaties to join there groups and there are people in Dalit communities expressing their reluctance to join in mixed VS&L groups nearby. In cognizance to this, dalits only groups are promoted in those communities with predominance of the dalits households. Despite that, there were still some members of the community that has been excluded to be the member of the VS&L groups.

Table 2: Equity and Access in the VS&L Groups

District	VS&L Group Type (No)	Ethnicity of VS&L Group (No)				
		Dalit	Janajati	Mixed	Other	Total
Bajhang	Mixed	11	-	11	14	36
	Women	4	-	7	13	24
	Sub-total	15	-	18	27	60
Bajura	Mixed	3	-	12	15	30
	Women	0	-	5	5	10
	Sub-total	3	-	17	20	40
Doti	Mixed	6	-	26	4	36
	Women	10	-	9	5	24
	Sub-total	16	-	35	9	60
Syangja	Mixed	7	1	32	24	64
	Women	1	0	20	5	26
	Sub-total	8	1	52	29	90
Total	Mixed	27	1	81	57	166
	Women	15	0	41	28	84
	Total	42	1	122	85	250

Source: Field Survey October – November 2010/ MIS report

Of the 250 VS&L groups, 84 were women only groups and remaining 166 were mixed groups. Further, of these VS&L groups, 42 were Dalit only, 1 was Janajati only, 85 were other (Brahmin and Chhetri) only and 122 were mixed VS&L groups.

Table 3: Equity and Access in the VS&L Group Members

VS&L Group Type	Ethnicity of VS&L Group	Total Members					
		Women	Dalit	Janajaties	Others	Total	% of Total
Mixed	Dalit	507	866	0	0	866	10
	Janajati	31	0	44	0	44	1
	Mixed	2,072	915	248	1,598	2,761	33
	Other	1,206	0	0	1,938	1,938	23
	Total	3,816	1,781	292	3,536	5,609	67
	Percent	45	21	3	42	67	
Women	Dalit	411	411	0	0	411	5
	Mixed	1,350	443	155	752	1,350	16
	Other	1,053	0	0	1,053	1,053	13
	Total	2,814	854	155	1,805	2,814	33
	Percent	33	10	2	21	33	
Total	Dalit	918	1,277	0	0	1,277	15
	Janajati	31	0	44	0	44	1
	Mixed	3,422	1,358	403	2,350	4,111	49
	Other	2,259	0	0	2,991	2,991	36
	Total	6,630	2,635	447	5,341	8,423	100
	Percent	79	31	5	63	100	

Source: Field Survey October – November 2010/MIS report in case of Bajhang and Bajura

There are a total 8,423 members in the 250 VS&L groups. Of the total members, 79% are women, 31% Dalits, 5% Janajaties and 63% others (Brahmin and Chhetri) indicating the success of the project on reaching women but unable to serve the dalits and janajaties significantly.

Each VS&L has four member executive committee comprising positions such as Chairperson, Secretary, Treasurer and Controller. Most VS&Ls have elected relatively matured person with leadership quality as chairperson while they have provided special attempt to include more educated women as secretary, treasurer and controller. While chairperson chairs meeting and counts amount deposited as loan and interest payments and savings by members, secretary maintains minutes and treasurer make entry in the books of accounts and savings and loan ledgers, and make an entry in pass-book of members and controller oversees entire group operation and management process and assist to speed-up group operation process.

2.2.4.Savings Mobilization

Savings mobilization is one of the important activities undertaken by VS&L from their members. VS&L groups are motivated to increase participation of people their members in the savings mobilization activities. In most VS&L groups there is only one savings product (monthly regular savings) in these VS&L groups but there are 13 VS&L groups with voluntary savings product. Further, each VS&L groups have created social fund which can be treated as one, but very unique savings product with a component of addressing vulnerability issue among poor and disadvantaged groups.

Table 4: Savings Mobilization in VS&L Groups by Gender

VS&L Group Type	Ethnicity of VS&L Group	Savings Mobilization (Rs.)		Average Savings Balance (Rs.)		
		Total	Women	Total	Women	VS&L
Mixed	Dalit	984,569	569219	1137	1123	36,466
	Janajati	37,540	24800	853	800	37,540
	Mixed	5,057,638	3599416	1832	1737	62,440
	Other	2,720,439	1747625	1404	1449	47,727
	Total	8,800,186	5941060	1569	1557	53,013
	Percent	77	52			
Women	Dalit	173,661	173661	423	423	11,577
	Mixed	1,799,002	1799002	1333	1333	43,878
	Other	706,506	706506	671	671	25,232
	Total	2,679,169	2679169	952	952	31,895
	Percent	23	23			
Total	Dalit	1,158,230	742880	907	809	27,577
	Janajati	37,540	24800	853	800	37,540
	Mixed	6,856,640	5398418	1668	1578	56,202
	Other	3,426,945	2454131	1146	1086	40,317
	Total	11479,355	8620229	1363	1300	45,917
	Percent	100	75			

Source: Field Survey October – November 2010

All the members of the VS&L group have participated in savings scheme and their monthly savings contribution ranges between Rs. 10 and Rs. 100 with an average of monthly savings of Rs. 33. Average monthly savings is lowest among Dalit only VS&L groups (Rs. 20) and highest on Janajati only VS&L group (Rs. 50). Average monthly savings rate is high among mixed groups (Rs.37) compared to other (Brahmin and Chhetri) only groups.

Average total savings balance of the VS&L members was Rs. 1,363 and average savings of women VS&L members was Rs. 1,300. Further, average savings was higher among women in mixed VS&L groups (Rs. 1,557) compared to women only VS&L groups (Rs. 952). Average savings among VS&L group members was lowest in Dalit only groups and highest

in mixed groups. It has been found there has been competition among VS&L group members on amount of monthly savings contribution in the mixed group compared to VS&L groups that are homogenous with respect to ethnicity.

Average savings balance among the VS&L groups was Rs. 45,917 (Rs. 31,895 among women only groups and Rs. 53,013 among mixed groups).

2.2.5.Loanable Fund

Loanable fund for the VS&L groups consist of members savings, retained earnings, external debts and social fund. Average loanable fund of these VS&L groups was Rs. 92,071 (Rs. 105,875 for mixed groups and Rs. 64,793 for women only groups).

Table 5: Loanable Fund in VS&L Groups

VS&L Group Type	Ethnicity of VS&L Group	Savings	Retained earning	External grants	External debt	Social Fund	Total	Average per VS&L Group
Mixed	Dalit	984,569	348,074	1,293,573	30,000	120,526	2,776,742	102,842
	Janajati	37,540	2,407	0	0	6,067	46,014	46,014
	Mixed	5,057,638	489,686	2,322,015	157,000	275,154	8,301,493	102,488
	Other	2,720,439	166,478	3,052,945	260,000	251,094	6,450,956	113,175
	Total	8,800,186	1,006,645	6,668,533	447,000	652,841	17,575,205	105,875
Women	Dalit	173,661	34,041	301,362	0	38,845	547,909	36,527
	Mixed	1,799,002	259,284	1,151,746	27,110	270,480	3,507,622	85,552
	Other	706,506	110,258	479,400	0	90,922	1,387,086	49,539
	Total	2,679,169	403,583	1,932,508	27,110	400,247	5,442,617	64,793
Total	Dalit	1,158,230	382,115	1,594,935	30,000	159,371	3,324,651	79,158
	Janajati	37,540	2,407	0	0	6,067	46,014	46,014
	Mixed	6,856,640	748,970	3,473,761	184,110	545,634	11,809,115	96,796
	Other	3,426,945	276,736	3,532,345	260,000	342,016	7,838,042	92,212
	Total	11,479,355	1,410,228	8,601,041	474,110	1,053,088	23,017,822	92,071

Source: Field Survey October – November 2010

The loanable fund is lower in Dalit only and Janajati only groups compared to other (Brahmin and Chhetri only) groups and mixed groups.

VS&L groups must mobilize the loanable funds for providing loans to their members on the terms and conditions agreed by the VS&L members in their monthly meeting and annual general assembly. Through savings is one of the reliable and sustainable sources of loanable fund for VS&L groups, there groups are using the external grants provided by CARE and other donor agencies like PAF as a loanable fund to intensify and institutionalize their microfinance operation.

2.2.6.Lending Operation

Lending operation in VS&L starts with internal lending of loanable funds including the savings collected from members. They pool the savings from members and use the savings thus pooled among members for meeting their emergency needs for capital and financing for income generating activities. VS&L groups have used the loanable funds for providing loans to their members.

Of the total VS&L group members, there has been access to loan services to 40.6% and 29.9% of total members and women members in the VS&L groups respectively. Further, average outstanding loan size was Rs. 5,925 and Rs. 5,692 respectively among total members and women members in the VS&L groups respectively. This indicates that while

the breadth of outreach is low among women VS&L members, the depth of outreach more deep among lower among women members than total VS&L group members.

Table 6: Outstanding Loan Balance, Active Loan Clients and Average Loan Size

VS&L Group Type	Ethnicity of VS&L Group	Outstanding Loan Balance (Rs)		Active Loan Clients (No)		Average Loan Size (Rs)	
		Total	Women	Total	Women	Total	Women
Mixed	Dalit	2,453,682	1,448,276	444	245	5,526	5,911
	Janajati	39,400	25,000	6	4	6,567	6,250
	Mixed	7,582,635	5,084,287	1,246	872	6,086	5,831
	Other	5,470,225	3,085,191	817	495	6,696	6,233
	Total	15,545,942	9,642,754	2,513	1,616	6,186	5,967
Women	Dalit	467,480	467,480	131	131	3,569	3,569
	Mixed	3,090,074	3,090,074	482	482	6,411	6,411
	Other	1,142,832	1,142,832	291	291	3,927	3,927
	Total	4,700,386	4,700,386	904	904	5,200	5,200
Total	Dalit	2,921,162	1,915,756	575	376	5,080	5,095
	Janajati	39,400	25,000	6	4	6,567	6,250
	Mixed	10,672,709	8,174,361	1,728	1,354	6,176	6,037
	Other	6,613,057	4,228,023	1,108	786	5,968	5,379
	Total	20,246,328	14,343,140	3,417	2,520	5,925	5,692

Source: Field Survey October – November 2010

2.3 Governance and Responsibilities

VS&L groups are voluntary, small group structures for mutual aid and the accomplishment of a special purpose. They are usually formed by peers who have come together for mutual assistance in satisfying a common need, overcoming a common handicap or life-disrupting problem and bringing about desired social and/or personal change. The initiators of such groups emphasize face-to-face social interactions and assumption of personal responsibility by members. They often provide material assistance, as well as emotional support; they are frequently "cause" oriented, and promulgate an ideology or values through which members may attain an enhanced sense of personal identity. Hence, voluntary, small group structures, mutual assistance and accomplishment of special purposes, formed by peers, satisfying a common need, overcoming a handicap or life-disrupting problem, bringing about social and/or personal change, emphasis on face-to-face interactions, assumption of personal responsibility by members, provide material assistance along with emotional support and frequently "cause" oriented and driven by an ideology are basis feature determining the governance and responsibility of VS&L groups. Most of VS&L groups are operating based on simple operating rules and regulations agreed, decided and recorded in their meeting and general assembly. Their operation is guided by their constitution. The VS&L groups operate on voluntary basis and in general managed by their executives.

2.4 Financial System

2.4.1. Book Keeping and Accounting System

CARE Nepal has provided the pro-forma ledgers to enable VS&L groups to record their decisions, savings mobilization and loan operation. These VS&L group have meeting register, attendance register, savings ledger and loan ledger, financial transaction register and financial control summary register. All the VS&L have distributed pass-book to their members. The social mobilisers supported by the project through partner NGOs and Local Resource Person (LRP) working at the local level assist the VS&L groups for book keeping and accounting.

2.4.2.Income and Expenses

In general VS&L on-lend the loanable fund (i.e. savings, interest income, other income, etc.) at interest rate ranging between 12% and 24% per annum. The interest thus earned is the operating income of VS&L. There is other income that VS&L earns through their transaction through levying fines and penalties. Operating expenses of VS&L is quite low as CARE Nepal provides most of the stationeries and other supplies required for VS&L group operation. The income earned by VS&L group has been used for meeting some stationary cost and buying lucks for their box. All the works related to group management and book keeping/accounting are done free of cost by VS&L executives. Thus, so far almost all VS&L surveyed were operating quite efficiently. Balance (i.e. net operating income) has been used to distribute bonus to their members. So far bonus is distributed equally among VS&L members irrespective of their loan size and amount savings balance of the VS&L members has been used as a basis for bonus distribution.

Table 7: Income and Expenses of the VS&L Groups

S.N.	Particulars	Unit	Average income and expenses (Rs.)				
			Dalit	Janajati	Others	Mixed	Total
1	Interest income	Rs.	8,042	3,707	6,490	6,322	6,658
2	Other income	Rs.	1,903	-	1,184	456	944
3	Expenses	Rs.	850	1,300	4,420	640	1,963
4	Net Income	Rs.	9,096	2,407	3,253	6,138	5,639

Source: Field Survey October – November 2010

Interest income and other income is high among Dalit only groups, this is followed by mixed groups and other groups. It is lowest among Janajati only groups. Each VS&L have net operating income. In general concerned VS&L groups distribute net operating income as bonus among their members. Distribution of bonus once a year has been quite effective to build feeling of ownership among VS&L members.

2.4.3.Assets and Liabilities

Savings and loan ledger and fund flow statement ledgers maintained by VS&L group provide them an easy way to prepare balance sheet of their transaction. But this is an area that needs to be carefully reviewed.

The balance sheet included in main ledger provides separation between assets and liabilities but not the income statement as well as equity. While doing analysis of the balance sheet of the VS&L their ledgers, an effort has been made to first separate components of the income statement as discussed in previous section and differentiates between assets, liabilities, and equity.

Assets of the VS&L include cash balance, bank balance, outstanding loan balance, and others. Average total asset of these VS&L groups was Rs. 92,070 and it was highest among the mixed groups. CARE has supported the VS&L groups in kind in the form of box, calculator etc. to VS&L, these supports are yet to be monetized/valuated and included as fixed asset in balance sheet of these VS&L groups.

Liabilities of the VS&L include savings balance and external debt. Average total liability of these VS&L groups was Rs. 47,814. The average total liability was highest in the mixed group, followed by other only group and Janajati only group. It was lowest in the Dalit only groups.

Table 8: Balance Sheet of the VS&L Groups

S.N.	Particulars	Unit	Average by VS&L Group Type (Rs.)				
			Dalit	Janajati	Others	Mixed	Total
A	**Assets**	Rs.	79,156	46,014	92,210	96,795	92,070
1	Cash balance	Rs.	4,723	6,614	5,635	5,384	5,363
2	Bank balance	Rs.	3,449	-	5,915	2,083	3,607
3	Outstanding loan balance	Rs.	69,551	39,400	77,801	87,481	80,985
4	Other	Rs.	1,433	-	2,859	1,847	2,114
B	**Liabilities**	Rs.	28,291	37,540	43,376	57,711	47,814
1	Savings Balance	Rs.	27,577	37,540	40,317	56,202	45,917
2	External debt	Rs.	714	-	3,059	1,509	1,896
C	**Equity**	Rs.	50,865	8,474	48,834	39,084	44,256
1	Capital grant	Rs.	37,975	-	41,557	28,473	34,404
2	Social fund	Rs.	3,795	6,067	4,024	4,472	4,212
3	Retained earning	Rs.	9,096	2,407	3,253	6,138	5,639
D	**Liabilities and Equity**	Rs.	79,156	46,014	92,210	96,795	92,070

Source: Field Survey October – November 2010

Likewise, equity (net worth) of the VS&L includes capital grant, social fund and retained earnings. Average total equity of these VS&L groups was Rs. 44,256. The average total equity was highest in the Dalit only groups followed by other (Brahmin and Chhetri) only groups and mixed group. It was lowest in the Janajati only group.

2.5 Project Performance

Overall performance of the VS&L project has been assessed in four different dimensions: outreach, efficiency, effectiveness and portfolio quality as under.

2.5.1. Outreach

Outreach of the project is assessed based on indicators such as average VS&L size, outreach to women, average savings balance and average outstanding loan size.

Average membership in the VS&L groups is 34, highest (44) in Janajati only and lowest (30) in Dalit only group. Average size of the VS&L group is higher than the standard size of 10-20 members envisaged in the original VS&L model. It has been observed that larger groups are difficult to manage. In Syangja, there are VS&L group with 155 and 119 members which are in no-way manageable. Since poor management and longer time required for conducting VS&L group brings frustrations among the VS&L group, partner NGOs must be oriented to fine-tune VS&L group to bring them at the reasonable size.

Table 9: Outreach Indicators of the Project

S.N.	Indicators	Unit	Amount by Group Type				
			Dalit	Janajati	Others	Mixed	Total
1	Average membership in VS&L group	No	30	44	35	34	34
2	Proportion of women	%	72	70	76	83	79
3	Average savings balance	Rs.	907	853	1,146	1,668	1,363
4	…..savings balance (women)	Rs.	809	800	1,086	1,578	1,300
5	Average outstanding loan balance	Rs.	5,080	6,567	5,968	6,176	5,925
6	….. Outstanding loan balance (women)	Rs.	5,089	6,250	5,262	6,035	5,654

Source: Field Survey October – November 2010

Higher participation of women (79%) in the VS&L group is one of the strong aspects of the project. Proportion of women is high (83%) in mixed groups, followed by other only (76%) groups and Dalit only (72%) groups. It is lowest in Janajati only group.

Average savings balance is Rs. 1,363 (for total) and Rs. 1,300 (for women) and it is highest among mixed group (total and women), followed by other only groups and Dalit only groups. It is lowest in Janajati only group.

Average outstanding loan balance is Rs. 5,925 (for total) and Rs. 5,654 (for women) and it is highest among mixed group (total and women), followed by Janajati only group and other only groups. It is smallest in Dalit only group. There exists evidence that VS&L groups are gradually meeting the financial need of their members.

2.5.2. Efficiency

Considering the level of development and institutionalization of the VS&L groups, their efficiency are assessed based on capital mobilization rate and resource use efficiency.

Table 10: Efficiency of the Project

S.N.	Indicators	Unit	Amount by Group Type				
			Dalit	Janajati	Others	Mixed	Total
1	Capital mobilization rate	%	88	86	84	90	88
2	Resource use rate	%	210	174	181	183	186

Source: Field Survey October – November 2010

In general VS&L groups are not very efficient on capital mobilization. In community based banking, the capital mobilization rate is expected to be over 95%, however, in the VS&L groups promoted by the project capital mobilization rate is estimated at 88%, highest in mixed groups (90%), followed by Dalit only (88%) groups and Janajati only (86%). It is lowest in the other only (84%) groups.

Resource use rate, defined as the number of time resource has been multiplied within the group, was 186%. This means that on an average VS&L groups are able to use the resource almost two times. Resource use rate is high in Dalit only (210%) groups, followed by mixed groups (183%), other only (181%) groups and Janajati only (174%) groups.

2.5.3. Effectiveness

It is too early to assess the effectiveness of the VS&L groups on enhancing access to financial service to the excluded groups. In view of this the effectiveness of the VS&L groups promoted by the project are assessed using the indicators like benefit and cost ratio and resource productivity.

Table 11: Effectiveness of the Project

S.N.	Indicators	Unit	Amount by Group Type				
			Dalit	Janajati	Others	Mixed	Total
1	Benefit Cost Ratio	%	1,171	285	174	1,060	387
2	Resource productivity	%	12.6	8.1	8.3	7.0	8.3

Source: Field Survey October – November 2010

Benefit cost ratio of VS&L group operation was 387% which is somehow mis-leading owing to the fact that most of the VS&L group operation cost are subsidized by the project. However, the VS&L groups are not effective on resource use. The resource productivity of

the VS&L groups are estimated at 8.3%. It is highest among Dalit only (12.6%) groups, followed by other only (8.3%) groups, and Janajati only (8.1%) group. The mixed groups (7%) have the lowest resource productivity.

2.5.4. Portfolio Quality

Portfolio quality is one of the critical factors determining the eventual success of the VS&L groups. However, this is an area where neither partner NGOs nor their staff is adequately sensitized. Measuring portfolio quality using indicators such as portfolio in arrears, portfolio at risk and reserve ratio is quite new among key actors of the project.

Table 12: Portfolio Quality in the VS&L Group Promoted Under the Project

S.N.	Indicators	Unit	Amount by Group Type				
			Dalit	Janajati	Others	Mixed	Total
1	Overdue rate	%	0.6	-	-	0.7	0.5
2	Repayment rate	%	100	100	100	99	100

Source: Field Survey October – November 2010

It has been reported that lending operation of the VS&L groups have almost 100% on-time repayment rate. However, during field study it has been found that there has been serious reporting error and there is gradual tendency on overdue build-up. Both the executives of the partner NGOs and their staff need to be adequately sensitized on different dimensions of portfolio quality and portfolio management among VS&L groups.

2.6 Relevance and Effectiveness of Specific Activities

2.6.1. Livelihood Improvement Support

The project has supported poorest of the poor to prepare the Livelihood Improvement Plan (LIP) and provided cash transfer support to them to implement the LIP. The major identified LIP was vegetable farming, goat rearing, bee keeping and buffalo farming. The LIP describes the current status, inputs, expected achievement and impact of poor households in social, economical, human, physical and natural assets. The roles of the stakeholders and participants were clearly defined. The evaluation team observed the recipient of LIP support started to benefit from the income generating activities such as goat farming, vegetable farming and bee keeping in Syangja and Doti districts.

Uniqueness of Support

The support has been provided as grant to VS&L groups which in turn provides loan to group members. Most of the VS&L groups have owned the fund properly and used it as the pro-poor revolving fund among their members. The poorest of the poor initiate the income generating activities as per the LIP prepared. The fund has acted as an ignition for running small scale enterprises. Small support for market analysis and promotion of enterprises has been provided to some VSLA. The PVSE groups who do not have necessary financial capital to initiate the small enterprise were the beneficiaries of this activity.

Depth of Outreach

The LIP support has been quite effective to reach the unreached in most of the cases. There are however cases in Syangja and Doti where fund has not been really reaching the poor and disadvantaged groups. In one of the VS&L, all the four executives have received the LIP while other could not. There are also similar examples in Syangja as well. There is wrong understanding among the VS&L that interest rate from this fund should be lower and loan size should be Rs. 10,000 and must be paid in one year in single installment.

Implications for VS&L Group Operation

Provision of capital grant as LIP to the VS&L group and VS&L disbursing the grant as loan of Rs. 10,000 to VS&L members at interest rate lower than their normal interest rate out of their internal fund has serious implications on VS&L group operation. First, larger loan size has de-motivated the PVSE groups to borrow out of this fund. Second, owing to differential interest rate, VS&L members have impression that it is a grant and strict repayment conditions imposed by their VS&L do not applies. Third, balloon payment system has made it difficult to VS&L members to repay the loan in time, thereby resulting on overdue build up.

2.6.2. Business and Entrepreneurship Development

Project has conducted business and entrepreneurship development training to the staff of the project partners. The training was designed in cognizance to the academic qualification and professional experiences of the staff of the project partners. Hence, the training was quite practical and useful. The use of the acquired skill and knowledge from the business and entrepreneurship development training has been confined at preparing the LIP to the poorest of the poor member of the selected VS&L groups in Syangja and Doti district and there has been very much limited use of the knowledge and skill on business and entrepreneurship development in Bajhang and Bajura districts.

Progress towards business and entrepreneurship development is at the infancy stage among the VS&L group members. The typical business and enterprises promoted by the VS&L group members includes vegetable farming, goat raising, chicken farming, tailoring carpentry, iron works, tailoring, grocery stores, vegetable marketing, bee keeping, etc. Those VS&L group members managing the enterprises have received limited services from the social mobilisers on expansion and growth of the income generating activities and enterprises they have managed due to lack of confidence on providing business development services to these VS&L group members.

2.6.3. Financial Management Training

Project has conducted training on financial management to staff of the project partners. Though the content of the training was quite relevant and effective to support the VS&L groups for financial management, evaluation team did not observe the case wherein staff of the project partners has used knowledge and skill acquired during training to support VS&L groups on financial management. The VS&L groups supported by the project are characterized by low capital mobilization rate and resource use productivity due to lack of skill among VS&L management committee on money management and mobilization.

2.6.4. Advocacy Initiatives

As an advocacy initiative the project has conducted reflection and sharing workshop at district level, conducted startup planning, review and sharing meeting at district and VDC level, conducted review, reflection, sharing and planning at project level, arranged joint monitoring by NGO executive / board members/DLAs/CARE, conducted monitoring and interaction with stakeholders and political parties on VS&L model at VDC level and arranged interaction with stakeholders and political parties on VS&L Group model at VDC and District level. These initiatives were not instrumental to demonstrate all the stakeholders the differences between the VS&L groups and conventional savings and credit groups promoted by the project. This implies that these initiatives were not very effective to increase awareness among key stakeholders on VS&L methodology of micro-lending.

2.6.5. Support to Apex Organization

Credit union is the project partner in Bajhang. The project has supported for the emergence, growth and development of the credit union in Bajura, Doti and Syangja. The project has planned to support the apex institutions as well. Considering the stages of development of VS&L groups in these districts and virtually no direct relation of the VS&L group with cooperative and credit union, the evaluation team could not establish the efficiency and effectiveness of the project support to credit union and apex institution.

2.6.6. Establishment of Resource Centre

The project has supported in the establishment of the one resource centre in each districts to manage the stationeries (ledgers, passbook, etc.) required for VS&L groups and other reference materials. The resource centre supplied the stationeries required for the VS&L groups in the district. The idea of establishing the resource centre is highly relevant but efficiency and effectiveness of the resource centre is questionable. Further, the sustainability of the resource centre is quite uncertain.

2.7 VS&L Capacity and 30 Key Issues

During field study, intensive group discussion were held with the staff of the partner NGOs to classify VS&L based on their capacity to organize group meeting and manage group level book keeping and accounting system. The discussion revealed that less than 50% VS&L groups are capable of managing group meeting independently while the remaining VS&L groups require external support to conduct their meeting independently and some of them are less likely to manage their meeting independently in a foreseeable future. The VS&L groups of later categories include Dalit only and women only groups. Even the capable VS&L possess the capacity to manage meeting but not confident to maintain savings and credit pass-book, savings and loan ledger and cash flow and balance sheet ledger.

The findings on operational and financial performance of VS&L indicate that there should be renewed focus on strengthening their capacity. VS&L groups in Syangja includes members who are also the savings and credit group members of the financial institutions such as Nirdhan Uthan Bank, Grameen Bikas Bank, Cheemik Bikas Bank, NESDO and Muktinath Baikas Bank Ltd. Inclusion of such members in the VS&L group has distorted the overall VS&L group operation and management. There is a need to screen out such members and reorganize the VS&L group that consist of the poorest of the poor ad those excluded by the formal sector to be their clients.

There is thus a need to focus on up-grading the current status of these VS&L towards their empowerment and ensuring that each possess a documented and well developed operational policy, transparent decision making process, book-keeping and accounting, simple financial management and reporting system. Further, the capacity of executives of the VS&L groups should be enhanced in implementing these activities.

3. CONCLUSIONS AND RECOMMENDATIONS

Implementation of PPS support initiative through VS&L project in Bajhang, Bajura, Doti and Syangja districts is quite effective and has demonstrated reasonable success on improving the income and livelihood of the people in those districts. This is the beginning of the long process and there is a need to expand the project activities with major amendment.

In order to strengthen VS&L implementation in those districts, it has been recommended to initiate the following measures to increase efficiency and improve effectiveness of project implementation in future.

- Monitor the status of the VS&L groups to know the accurate status of these groups in relation of money management.

- Screening of VSLA members – excluding the well of and inclusion of excluded depending on their ownership of VS&L groups.

- Refine the process of VS&L groups and gradually integrate the feature of the pure VS&L model in the system promoted in the project.

- Revisit the human resource management and ensure that social mobilisers will be fully occupied and busy on promoting and strengthening VS&L groups.

- Reform the project management support to ensure that project partners have received adequate technical support on promoting and strengthening VS&L groups.
- Introduce the third party audit of the VS&L groups and explore the possibility of strengthening technical support system using professional service provides.

- Provision of capital grant as LIP or revolving fund could be continued. The fund should be provided in such a way that VS&L receiving support should (i) treat the fund as their own fund, (ii) ensure that poorest of the poor and disadvantaged groups has access to such fund, (iii) maintain uniform interest rate on fund and their internal capital, (iv) institutionalize flexible loan size suitable to poorest of the poor and disadvantaged groups and (v) institute more frequent loan repayment schedule against balloon payment system adopted by most VS&L groups.

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Annex

Annex 1: Status of VS&L Groups by Gender

Annex 2: Status of VS&L Groups by Ethnicity