

**Case Study:
'End-project' Evaluation of
(Second) Rural Finance Project
in the Kyrgyz Republic**

by Hans Ramm

**Savings & Credit Forum
8 December 2006**

Facts about Kyrgyzstan



Log-frame of RFP II

Efficiency

INPUTS:

- ✓ Credit lines for KAFC + IneximBank
- ✓ TA for KAFC
- ✓ TA for 'non-financ' service providers

RFP II

OUTPUTS

(RFP II results)

Effectiveness

OUTPUTS:

- ✓ rural/agr. loans
- ✓ rural group loans (social collateral)
- ✓ average loan size
- ✓ portfolio quality
- ✓ business support

Clients

OUTCOME

(RFP II objectives)

Relevance

OUTCOME:

- ✓ establish rural financial system
- ✓ expand farmers credit access
- ✓ support viable on- + off-farm businesses

Farmers + Rural Enterprises

IMPACT

- ✓ socioeconomic level
- ✓ business practice
- ✓ clients' satisfaction

Focus of project 'end' evaluation

- **How effective was RFP II?**
 - ✓ Individual + group loans and access
 - ✓ Access to 'non-financial' services
- **Did RFP II meet objectives?** contributions to:
 - ✓ building sustainable rural financial system
 - ✓ supporting viable on- + off-farm activities
 - ✓ expanding loan access to smallholders
- **What is RFP II impact on KAFC clients?**
 - ✓ increased socio-economic level
 - ✓ improved agricultural & business practice
- **What is the clients' satisfaction?**
- **How sustainable KAFC+nf service providers?**

Research methodology

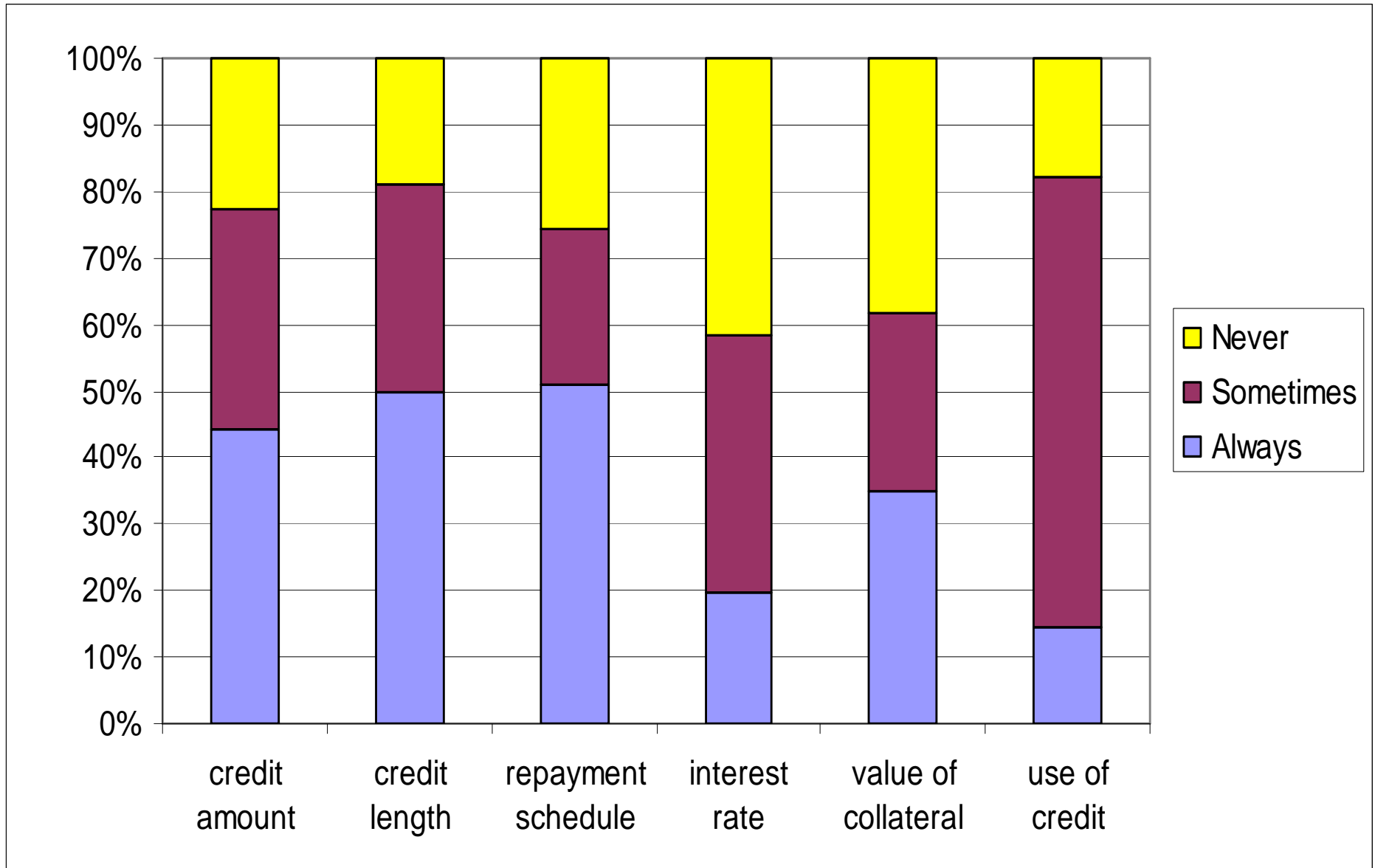
Quantitative + qualitative data:

- ✓ **Household survey:** 480 sample (2.500 people):
 - ➔ 200 clients, 120 drop outs, 160 non-clients: rejected+pot.
23 communities, 4 regions: Chuy, Naryn, Osh, Batken
- ✓ 16 **focus group + individual discussions**
- ✓ **Field observation** of IC team interviewing:
 - ➔ 53 clients, 26 KAFC staff, 22 service providers
- ✓ Interviews of policy-makers in Bishkek
- ✓ Incorporation of views of national workshop
- ✓ Secondary data and literature review

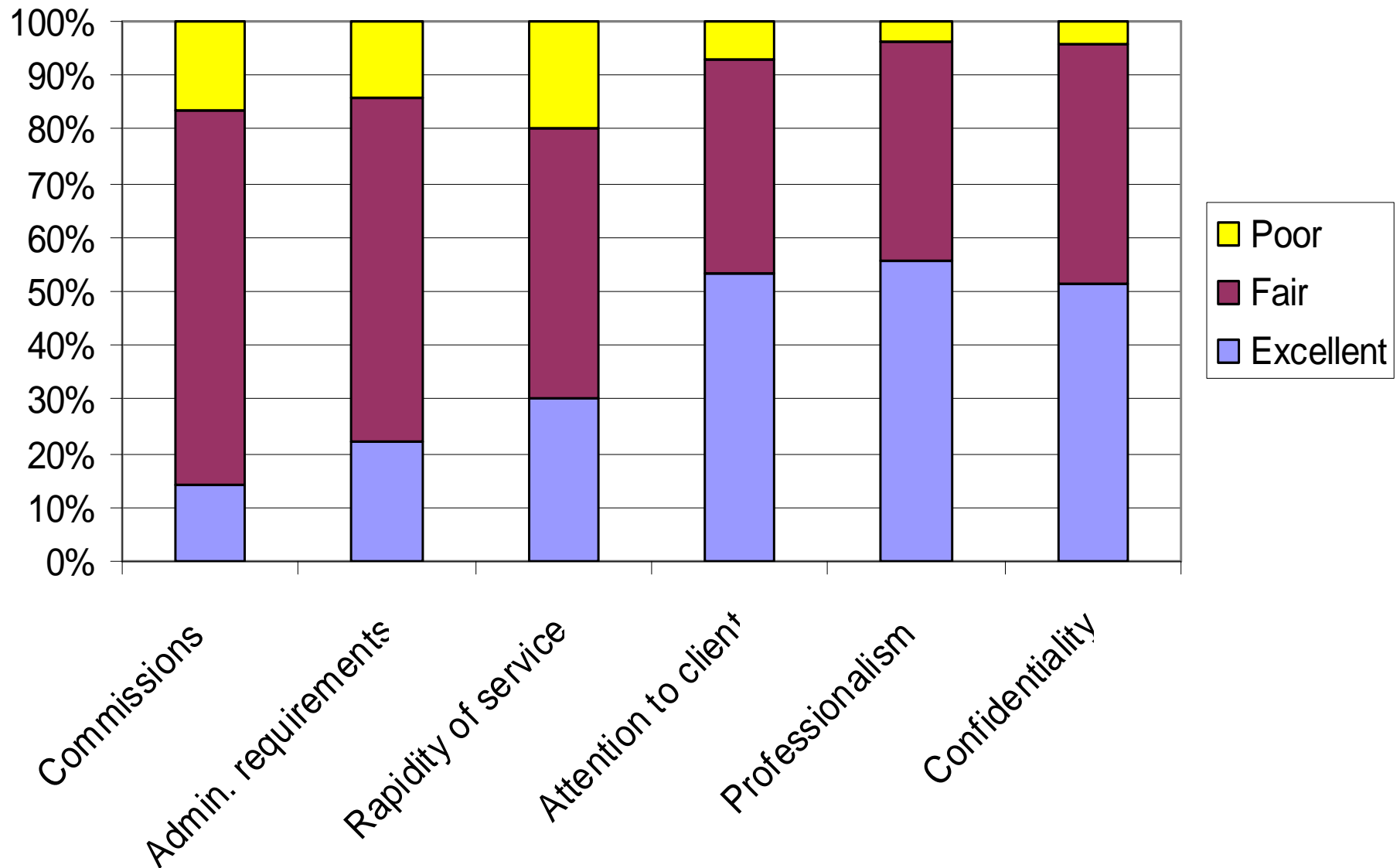
Outcome: KAFC's rural portfolio

- Good **management systems** + branch **organisation**
- Professional + committed branch **staff**
- **KGS 1,7 billion** gross loan **portfolio** at 1.7.2005
(=\$42,5 mio = **50,2%** of non-banking institutions' portfolio)
- **29'737 loans** and **34'278 borrowers** at 1.7.2005
- Sectoral breakdown (seasonal fluctuations!):
 - ✓ **74,4% livestock production**: 61% cattle; 28% sheep; 8% horse
 - ✓ 4,3% crop production
 - ✓ 2,5% agro-processing
 - ✓ 18,8% other rural business activities

KAFC clients' satisfaction on flexibility



Clients' satisfaction on service quality



Conclusions on clients' satisfaction

- 87% clients would take a new loan
- more than 50% clients value professionalism, customer care and guaranteed confidentiality as excellent

BUT:

- High clients' transaction costs:
 - 29 days between loan demand and disbursement
 - expenses for notary, village councils, State Registry, transport up to 5% of loan amount

Recommendations to KAFC

Scope for increasing operational efficiency by:

- ✓ **Sectoral lending diversification (livestock/agr. down to 60%)**
- ✓ **Simplified lending technology for micro loans**
- ✓ **More priority to group lending / outreach to slow down KAFC's upmarket move and increase female client ratio:**
 - (1) group loan pricing according to costs
 - (2) simpler group lending procedures & technology
 - (3) own self-help group formation trainers
 - (4) more attention to community relations
- ✓ **Simplified collateral registration procedures**

Outcome: 'non-financial' services

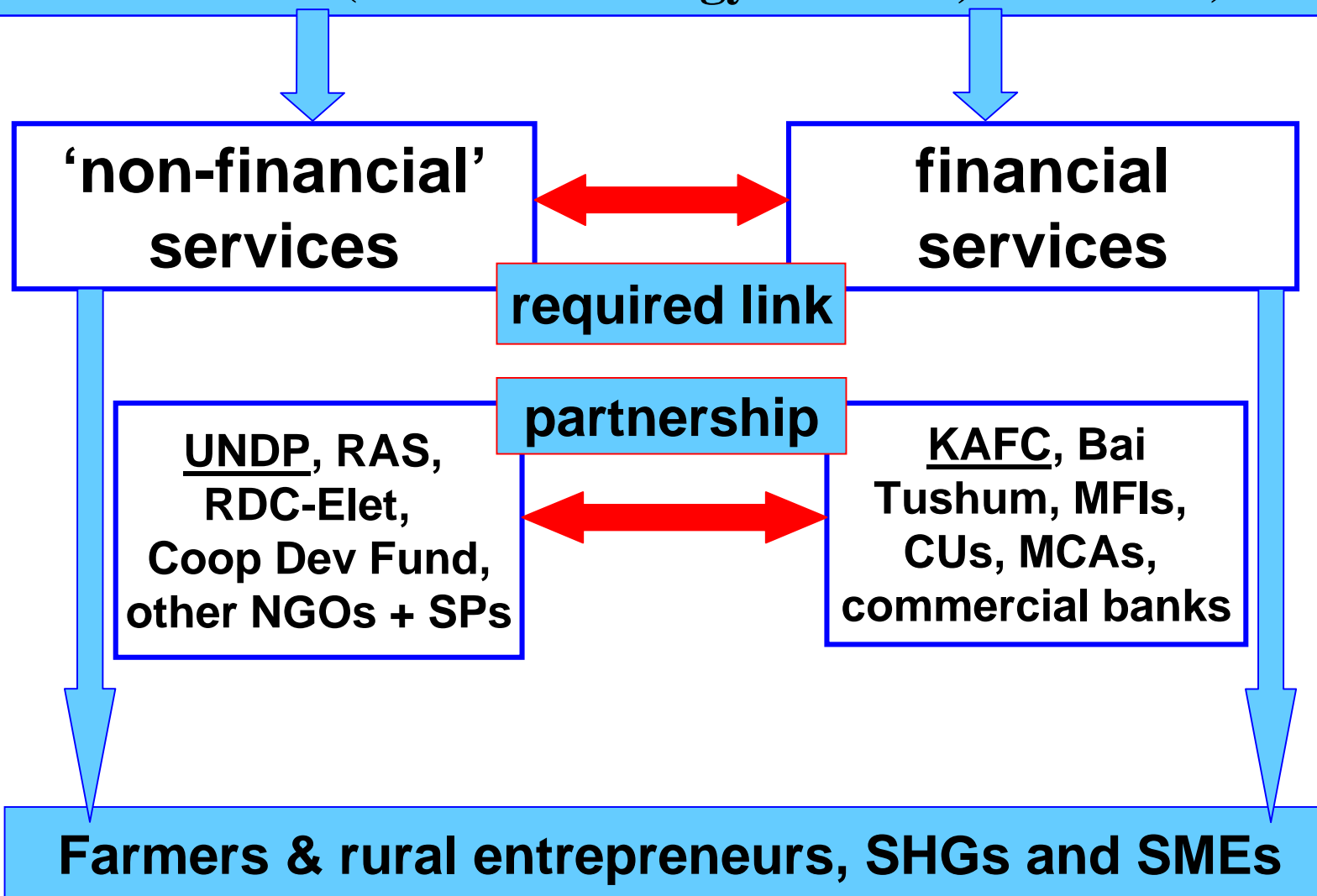
Main **type of services:**

- Agricultural and technological advisory
- Self-help groups' formation
- Business planning support

Potentials and threats:

- Export opportunities, but regulation threats (certification, quality control, pest control, etc.)
- Agro-processing challenges, but not yet exploited opportunities (organic farming, etc.)

**Co-operation of non-financial SPs with KAFC
and others (common strategy of Gov't, IBRD etc.)**



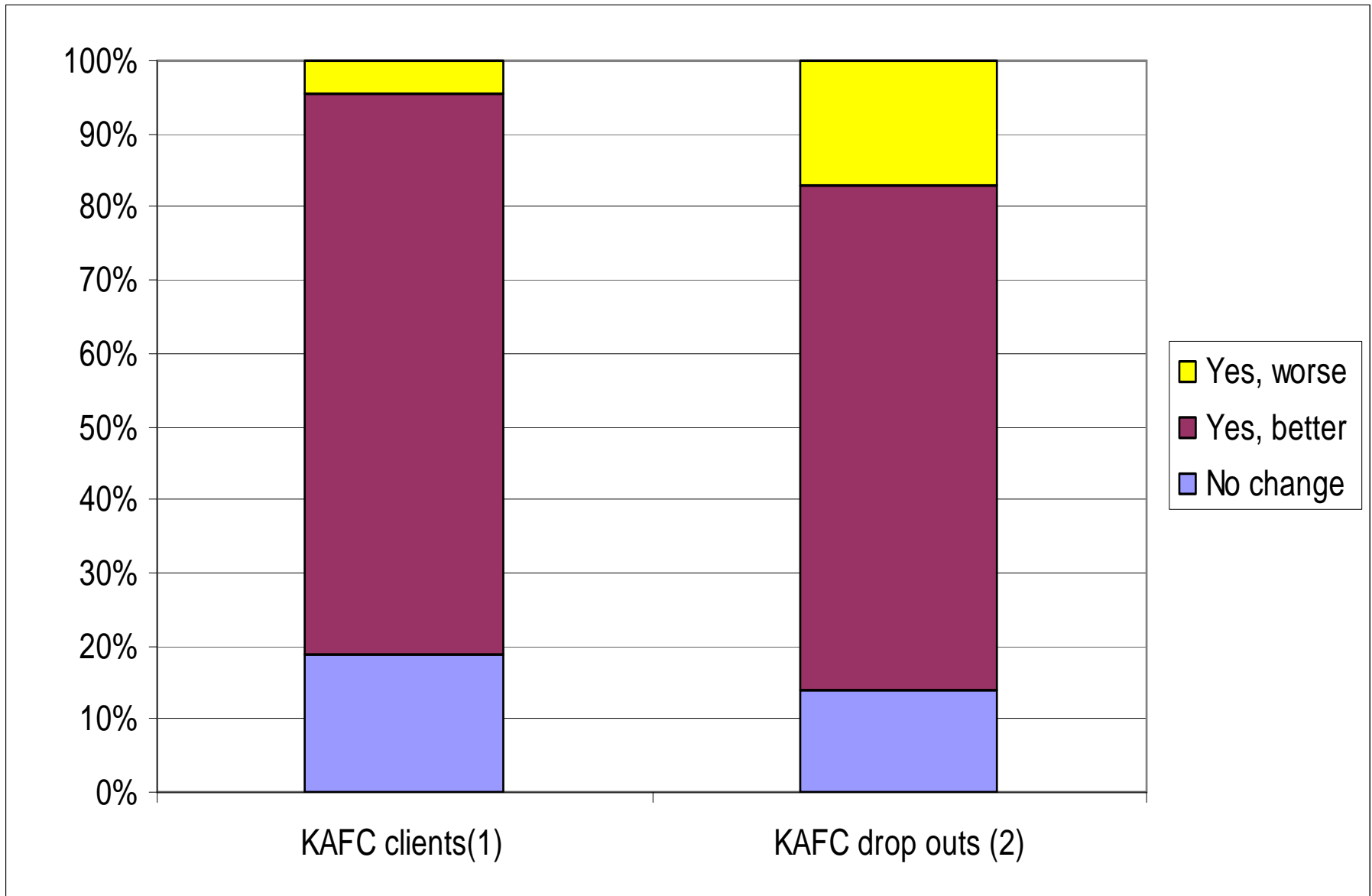
Impact on clients: consumption patterns

- **Food consumption:** moderate increase in food quantity, mostly livestock (diary products + meat) for **45% among clients** compared to **30% among non-clients**
- **Consumption of non-food essentials:** moderate increase in quantity of clothing and expenses for education and health for **40% among clients** compared to **20% among non-clients**

Tendency observed: with greater cash flow and stable incomes, clients' affordability level increased for non-food essentials

Tendency observed: increase in quantity and improvement of quality of clients' diet

Impact on perceived change of clients' economic well-being due to loan



Impact on changes in business practice through access to loan+non-financial services

Changes occurred in business practice (i.e. innovations) that resulted in productivity gains	among clients	among non-clients
Change in livestock production	56,7	29,5
Change in crop production	33,5	17,7
Change in other agricultural business	34,4	18,3
Change in non-agricultural business	33,3	21,7
Opening a new business	12,5	10.2
Introduction of new technologies	13,4	8.1

Sustainability of KAFC

- **Country-wide branch structure** with professional **staff and management systems**
- **Solid corporate culture**
- **Good client reputation** allowing for spearheading savings mobilisation in rural areas
- **Convincing strategic business plan** with ensured financial self-sufficiency (since 2004/5)
- **License:** KAFC becoming rural bank to fully capitalise on its substantial institutional & human resources
- **Ownership/governance:** 1) maintain develop. mission 2) diversified 3) professional Board members

Sustainability of non-financial service providers

- Improve the **group formation methodology** and make it **more attractive** for financial institutions to pay ‘success’ fees
- Introduction of paid services with **gradual cost-covering ratios** while improving service delivery
- Extension of governmental + donor funding for the non-financial service providers (e.g. RAS) to continue service delivery (**quasi public service character!?**) to farmers and rural entrepreneurs

Impact on macro level

- **KAFC filled partially agricultural loan gap end 2004 :**
 - **31,3%** of all rural and microfinance **105.000 borrowers**
 - lending to **10% of farmers nationwide**
- **As rural bank, KAFC can further pioneer the building of a rural finance system (= full financial intermediation)**
- **KAFC created a rural/agricultural loan discipline making market-oriented lending and market entry feasible**
- **Competition is increasing as reflected by declining interest rates (and a declining market share of KAFC)**

Key advice: Create level playing field by improving regulatory framework (regulation according to banking activity and not according to legal form!)

Thank you for your attention !



KAFC client income sources

- **Main sources:**
 - ✓ 1 Livestock Production (cattle, sheep, horse, goats)
 - ✓ 2 Crop Production (wheat, barley, potatoes, corn)
- **Secondary sources:** Salaried Work, Wages (small trade), Pensions & Stipend (disability, student), social allowances (maternity, child, unemployment)
- **Additional sources** (mainly un-reported): Remittances (local –Bishkek and from abroad - Russia, Kazakhstan)
- **Tendency observed:**

livestock production is perceived by majority as best income-generating opportunities: high value for meat considered “less risky”.

providing for household consumption.

Typology of KAFC clients

individual borrower

- ✓ gender: **male**
gender bias in society!
- ✓ loan size received:
20'000 – 900'000 KGS
- ✓ av. loan size desired:
150'000 KGS
- ✓ loan demand: **High**
- ✓ main activity financed by loan: **Livestock**
(fattening, meat and milk)

group loan client

- ✓ gender: **female**
- ✓ loan size received:
8'000 – 15'000 KGS
- ✓ av. loan size desired:
50'000 KGS
- ✓ loan demand: **High**
- ✓ main activity financed by loan: **Livestock**
(fattening, meat and milk)