

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

**by Hans Ramm**

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# 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

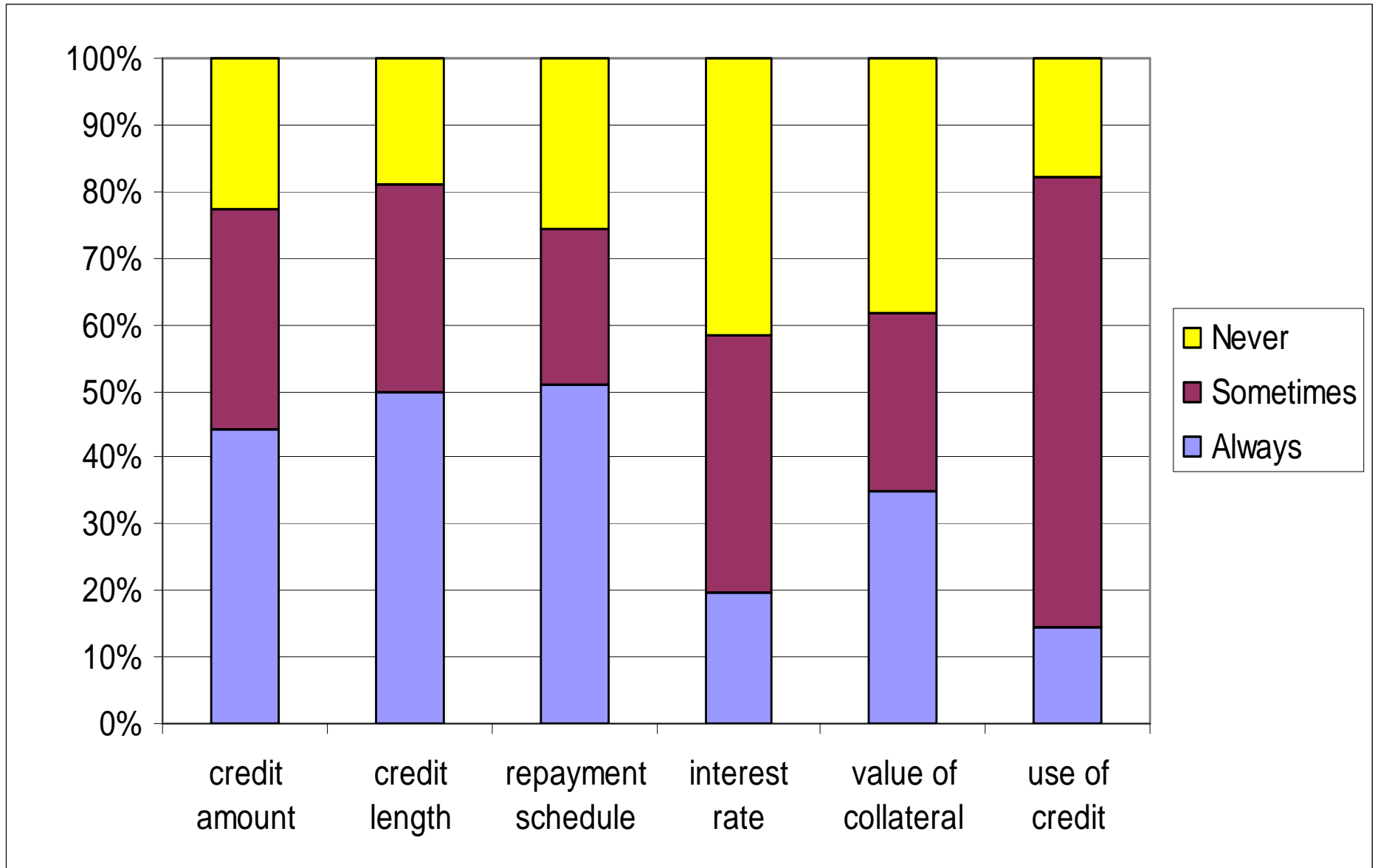
## Quantitative + qualitative data:

- ✓ **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

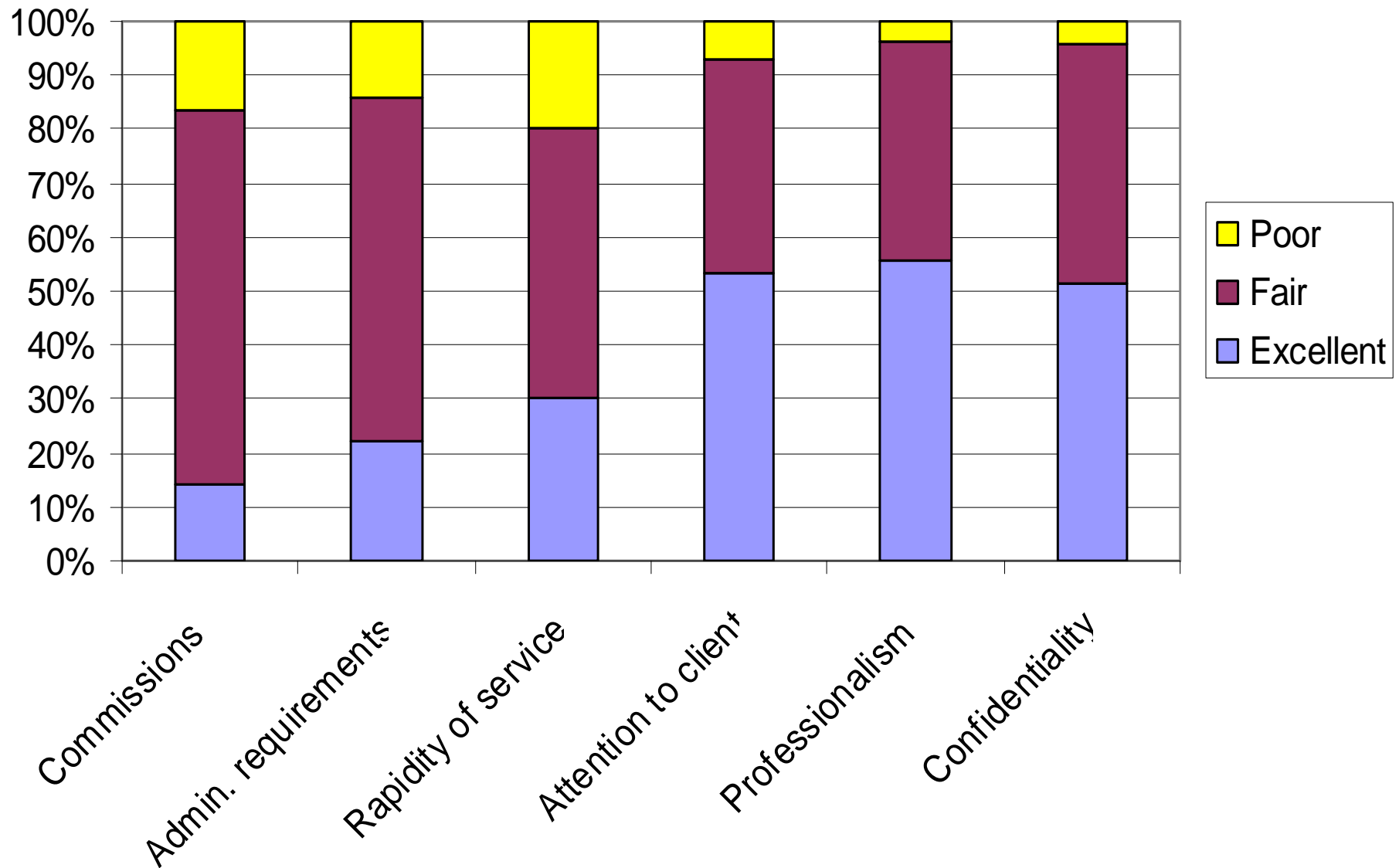
# Outcome: KAFC's rural portfolio

- 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

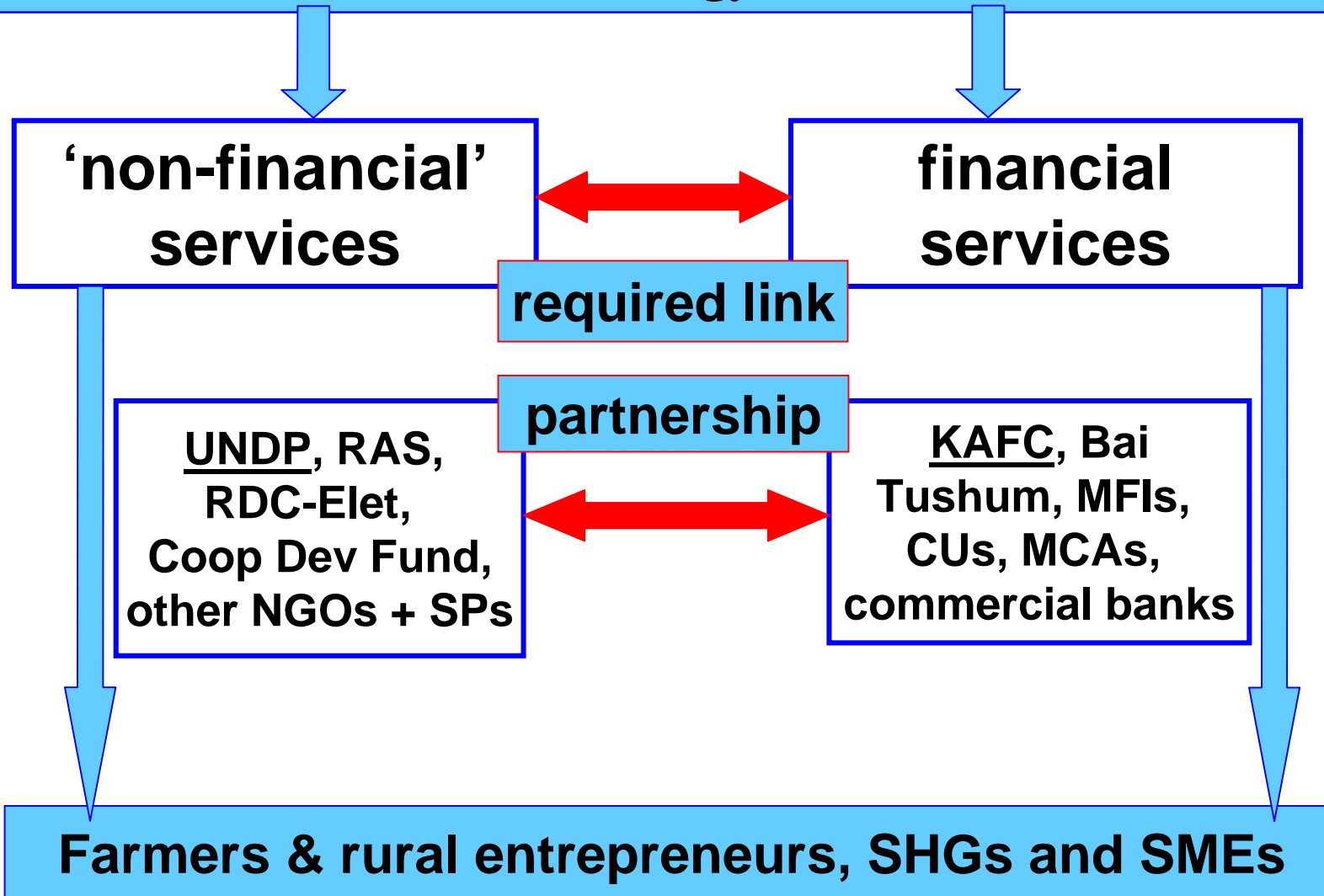
## **Main type of services:**

- **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.)**



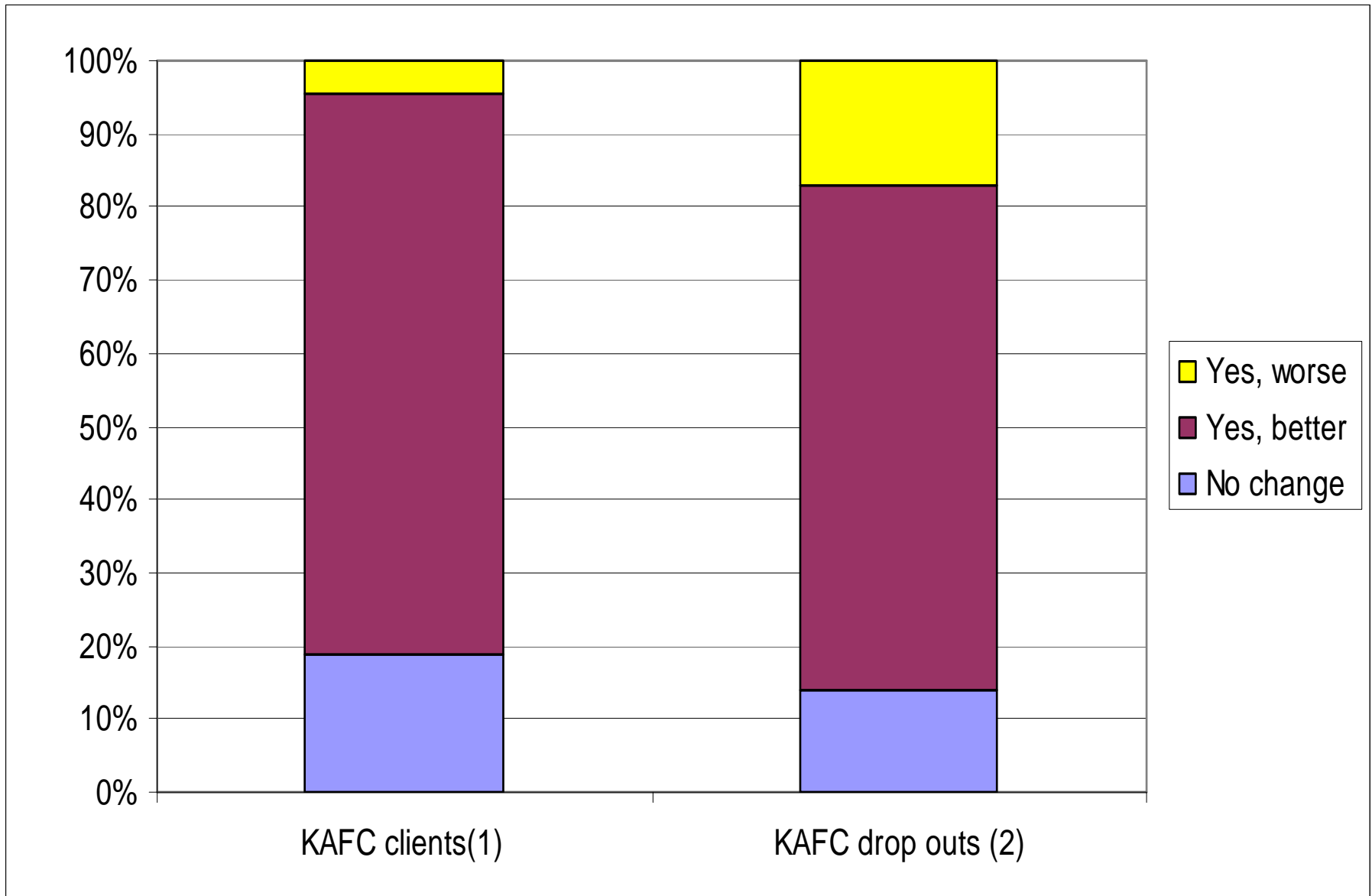
# Impact on clients: consumption patterns

- **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

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

# 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)