



ISET-Nepal Improving grassroots access to finance

The *Institution for Social and Environmental Transition-Nepal* (ISET-N) was instrumental in creating a financial lending institution for the country's local groups.

SETTING THE SCENE —Poverty in Nepal is widespread. Access to health care, nutrition, and education is limited, infant mortality and illiteracy rates are high, and those in rural areas are often devoid of a means of improving their living conditions. In addition, the country is challenged by an unsustainable use of natural resources, susceptibility to disasters such as earthquakes and flooding, and trade-based poverty.

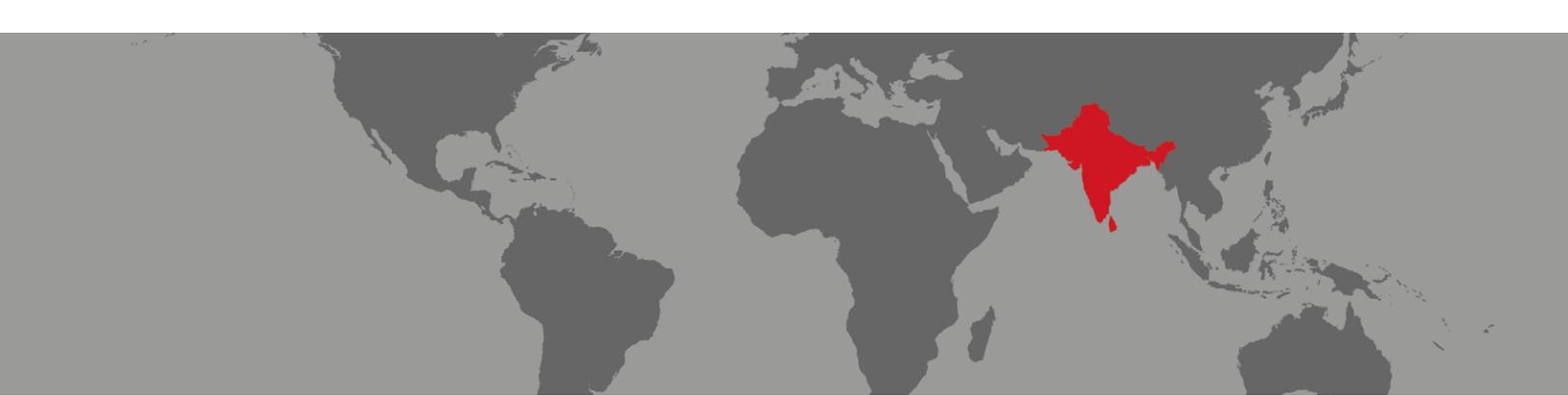
Global experience with low-income households suggests that providing access to finance through micro-finance can serve to address some of these issues. However, financial lending has long been a major challenge in Nepal, despite the country's support for a movement known as *swabalamban* (self-reliance). This approach suggests that households can break free of the poverty cycle through increased access to resources and asserts that individuals must take charge of their own wellbeing through self-empowerment and collective stewardship. The concept was operationalized in the 1990s by the country's Rural Self-Reliance Development Center (RSDC) and focused on improving access to financial services through the establishment of savings and credit cooperatives.

Yet, despite the growth in the number of microfinance service providers, access to micro-finance services

for the poorest members of the population remained limited in Nepal. With more than two decades of experience with Nepal's poorest households, the RSDC decided to address this problem by building on the success of the savings and credit cooperatives to create a financial lending institution, RSDC Microfinance Institution Limited (RSDCMIL).

WHAT ISET-N DID —The Institute for Social and Environmental Transition – Nepal (ISET-N) is a not-for-profit organization that studies and analyzes the developmental consequences of social and environmental change, particularly in the areas of climate change, water resources, migration, and urbanization. ISET-N's Executive Director served as voluntary chair of RSDC between 2009 and 2011 and, in 2010, was designated chair of the proposed financial institution. In the same year, ISET-Nepal received a Think Tank Initiative grant and engaged in the process of establishing RSDCMIL.

With RSDCMIL, ISET-N and other stakeholders set out to link the country's savings and credit cooperatives with the modern banking system in order to improve access to finance. The goal was to establish a national institution that would provide wholesale micro-finance services to organized local groups, rather than to individuals. It also aimed to be highly responsive to these



groups' needs for financial services, while addressing requests from disadvantaged groups. They therefore set out to offer lending to the country's rural groups in order to meet their credit needs, enhance local production and farm productivity, and encourage entrepreneurship. In order to bring in the capital required, they sought out a private sector bank as an investor, and effectively persuaded Lumbini Bank Ltd. to come on board.

RSDCMIL's members worked to build alliances and to nurture existing relationships with State agencies that could provide further support. In order to promote the new financial institution, they met with the governor of the country's central bank, Nepal Rastra Bank, the chief and industry secretaries of the Government of Nepal, and other officials to present the proposal. Many different stakeholders were interested in RSDCMIL: for the government it fulfilled their objective of providing financial services to the poor, the private sector saw it a vehicle for reaching the poorest of the poor at low transaction costs, and the members of savings and credit cooperatives and other civil society groups appreciated that the promoters were grassroots members. Grounded evidence backed by continuous engagement and consultation amongst diverse stakeholders helped

the government, the private sector, and civil society groups work together to collectively reach a decision to establish RSDCMIL.

THE OUTCOME —Four years after this process began, in August 2013, the Nepal Rastra Bank approved the new financial institution. A month later, on September 10th, it was formally launched. In three months of operation, RSDCMIL has already disbursed NPR 500 million to 15 groups through bulk loans. In turn, these groups have provided loans to individuals for needs such as livestock, improved seeds, and the development of small businesses.

Since the new financial institution began its operations, ISET-Nepal has continued to work with RSDC and RSDCMIL to monitor its activities. The Institute has used Think Tank Initiative funds to examine how RSDCMIL might help local producers access innovative technology, link with markets, and improve their management capacity. It aims to learn from the evidence generated and to effectively use it to engage in ongoing dialogue with policymakers. For ISET-Nepal, this initiative has emerged as a project through which it can examine how public policies can be influenced in order to achieve specific development goals.

For more information on ISET-N visit <http://isetnepal.org.np>

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