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Credit-based Micro-enterprise Development Programmes in Nepal

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Preface

Development experiences in most of the mountain areas of the Hindu Kush-Himalayan Region, over the past decades, have shown that the prevailing predominant mode of their economies – subsistence agriculture – is becoming increasingly unsustainable both economically and ecologically. Diversification of economic activities into products and services, for which these areas offer a comparative advantage, through enterprise-based production for the market. is considered necessary for sustaining livelihoods and alleviating the poverty of the rapidly increasing population. It is in this context that ICIMOD established a programme on 'Development of Micro-enterprises in Mountain Areas' with the objectives of identifying constraints and opportunities and developing policy, programme, and training guidelines for enterprise development in hill and mountain areas of the HKH region. As part of this programme, the Centre has commissioned a number of studies in different countries and areas of the HKH region with a view to documenting experiences of development and functioning of enterprises covering different aspects such as comparative advantages of products, processes, and factors in enterprise development, technology, credit, marketing, and development of entrepreneurial skills as well policies and programmes by government and non-government agencies for promotion of enterprises.

The present paper 'Credit-based Micro-enterprise Development Programmes in Nepal' by Shambhu P. Dhungana and Bina Thapa is one in this series of studies. It is being published with the hope that it will be found useful by those engaged in research and development, policy-making, programme formulation, and implementation for the promotion of enterprises, as well as by the present and potential entrepreneurs in their respective activities.

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This study would not have been possible without the help of several people involved in credit-based programmes, centre-level personnel, field staff, facilitators of the programmes visited, and all the women respondents approached by the team.

Abstract

This study presents a review of credit-based micro-enterprise development programmes in Nepal and discusses the important issues related to credit, micro-enterprises and development. It provides a comparative perspective on the coverage, methodologies, implementation process and sustainability aspects of seven important micro-credit programmes in Nepal, and it also attempts to identify the impact and factors of their relative performance and effectiveness, particularly their contribution to the promotion of micro-enterprises in mountain areas. The study concludes that, even though the total coverage of all the programmes together has been small given the needs of the poor and the entrepreneurs, they have nevertheless led to improvement in the access of the rural people, particularly women, to credit. With the focus being mainly on self-help and poverty reduction. However, the programmes have not been very effective in the promotion of the development of micro-enterprises. The study finally makes some suggestions and recommendations on ways to make the credit programmes more effective in promotion of micro-enterprises, particularly in mountain areas.

Acronyms/Abbreviations

ADB/M	Asian Development Bank, Manila
ADB/N	Agricultural Development Bank of Nepal
BWTP	Banking with the Poor Programme
CDO	Chief District Officer
CIDA	Canadian International Development Agency
CRRDB	Central Regional Rural Development Bank
CSD	Centre for Self-help Development
DDC	District Development Committee
EEC	European Economic Council
ERRDB	Eastern Regional Rural Development Bank
FWRRDB	Far-Western Regional Rural Development Bank
FAO	Food and Agriculture Organization
FY	Fiscal Year
GO	Group Organizer
GTZ	German Technical Cooperation
HMG/N	His Majesty's Government of Nepal
IDP	Institutional Development Programme
IFAD	International Fund for Agricultural Development
INGO	International Non-Government Organization
LDO	Local Development Officer
MCPW	Micro Credit Project for Women
MWRRDB	Mid-Western Regional Rural Development Bank
NBL	Nepal Bank Limited
NGO	Non-Government Organization
NRB	Nepal Rastra Bank
PCRW	Production Credit for Rural Women
RBB	Rastriya Banijya Bank

RRDB	Regional Rural Development Bank
SBP	Self-help Banking Programme
SFCL	Small Farmers' Cooperative Limited
SFDP	Small Farmers' Development Programme/Project
SPIC	Sub-Project Implementation Committee
SPO	Sub-Project Office
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activity
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
UNIFEM	United Nations Development Fund for Women
VDC	Village Development Committee
WDD	Women's Development Division
WDS	Women's Development Section
WRRDB	Western Regional Rural Development Bank

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Chapter 1
Introduction

Background

Ninety per cent of the total population of Nepal is rural with agriculture as the main occupation and with little or no access to alternative income-generating opportunities. Moreover, agriculture being primarily traditional, the concept of credit in rural Nepal has never been associated with commercial enterprise; it has been used, if at all, to fulfill household needs. This could be one of the reasons why, until 1956, the need for institutional credit was not thought necessary. Most credit needs would be met through informal sources. However, there were no rules/laws that guided the functioning, much less the efficiency and accountability of the informal credit system. As a result of the lack of a legal system to regulate informal credit, many exploitative practices, such as usury and so on, were practised.

Credit cooperatives were established for the first time in 1956, through an executive order; in the Rapti Valley of Chitwan District with the objective of providing credit to the resettlers in the valley (Sharma 1997). Later, a Cooperative Bank was established in 1963 which provided institutional credit only to its members. In 1966, the Land Reform Savings' Corporation (LRSC) was established to manage the compulsory savings and credit under the land reform programme. In 1968, the Cooperative Bank was converted into the Agricultural Development Bank of Nepal (ADB/N) with the aim of providing institutional credit to the general public. The LRSC also merged with the ADB/N in 1973.

There was no specific target-oriented credit programme in Nepal until the introduction of the Small Farmers' Development Programme (SFDP) in 1975. The ADB/N introduced the SFDP as a special programme based on the group collateral concept. In 1981, the government launched another programme called the Intensive Banking Programme through two participating banks, the Nepal Bank Limited and the Rastriya Banijya Bank. Both programmes were for poor men and women.

In 1982, the first women-focussed credit programme was launched in the name of Production Credit for Rural Women (PCRW). The PCRW programme was implemented under the Ministry of Local Development (MLD) by the Women's* Development Division that now covers 55 districts of Nepal. *Nirdhan*, a non-government organization, launched the first programme through the private sector in 1993. In 1991, another concept was introduced by the Rastriya Banijya Bank called Banking with the Poor in Gundu Village of Bhaktapur. His Majesty's Government of Nepal, through the active involvement of the Nepal Rastra Bank, introduced the Rural Regional Development Bank (RRDB) using the Bangladesh model in 1992/93 in two development regions. Now, the government has opened RRDBs in all five development regions of Nepal and the most operational of these RRDBs are in the *terai* region.

In 1994, the Micro Credit Project for Women (MCPW) was launched in 12 districts and in five urban areas by the Women's Development Division of the Ministry of Local Development, with financial support from the Asian Development Bank.

All of the above mentioned programmes reflect a shift in the government policy from providing credit for household needs to institutional credit for rural development. However, the Rural Credit Survey report stated that, despite launching so many credit-based development programmes, the formal sources of credit are catering only to about 20 per cent of the credit needs of the people in the country.

Objectives of the Study

This study has reviewed the innovative approaches of some of the main credit-based programmes; analysed the concepts and methodologies of their project designs; identified the processes involved and their strengths and weaknesses; and documented the lessons and best practices learned. The basic premise of this study is that the lessons learned and the best practices of these programmes will provide sound and research-based information that will be useful for evolving a broader conceptual framework in order to guide future programme implementation by all concerned in the complex process of poverty alleviation.

Specifically, the study attempts to:

- assess the existing government/donor-implemented/-assisted programmes on credit-based micro enterprise development in Nepal;

- analyse the different approaches and characteristics of the main credit programmes, namely, the SFDP, PCRW, MCPW, and RRDB, and provide a comparative analysis;

- provide a field-based assessment of the four main programmes: SFDP, PCRW, MCPW, and RRDB; and

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** The Women Development Division (its nomenclature in the MLD has been referred to in this paper as the Women's Development Division).*

identify and provide a critical analysis of the strengths and weaknesses of the main credit-based micro-enterprise development programmes.

Methodology

The present study is based on a review of past studies of the experiences related to micro-enterprise development programmes in Nepal.

Detailed information on various programmes was collected from the central and regional offices of the implementing organizations. Furthermore, information received at the central level was verified in the field and perceptions of the beneficiaries about the effects and impacts of the programmes were gathered using the case study approach through interviews (with the beneficiaries and the programme implementors), key informant surveys, checking field records, and through direct observation of programmes. Nine field sites were selected purposively for the study. While selecting these sites, the geographic distribution of the programme, accessibility to the project areas, and the nature of the programmes were taken into account. The nine study sites were taken from four different development regions and programme on each site differed from the other. Four programmes were selected from the hill areas and five from the *terai* for a geographic comparison of the programmes. The field study locations and the respective programmes covered are given below.

Development Region	Geographic Location	District	Programme
Eastern Dev. Region	*Terai*	Saptari	MCPW
	Hill	Dhankuta	MCPW
	Terai	Sunsari/Morang	RRDB
Central Dev. Region	Hill	Dhading	SFDP
	Terai/Inner *Terai*	Makwanpur	CSD
Western Dev. Region	Hill	Syangha	PCRW
	Hill	Palpa	RRDB
	Terai	Rupandehi	NIRDHAN
Mid-Western Dev. Region	Hill/Inner *Terai*	Dang	MCPW

Chapter 2
Review of Micro-enterprise Programmes

Small Farmers' Development Programme

Background

Recognising the need to address the problem of poverty and to benefit the poor masses, ADB/N introduced the Small Farmers' Development Programme (SFDP) in 1975. The concept of SFDP culminated as a result of the FAO/UNDP regional project 'called 'Asian Survey on Agrarian Reform and Rural Development' (ASARDP). A workshop organized in 1974 recommended a new approach for reaching the farmers with a non-conventional banking approach (SFDP 1996).

Objectives

The objective of SFDP is to improve the well-being of the landless labourer through the provision of credit and related support services. In particular, the programme aims to:

- develop self-reliance among the disadvantaged groups in order to facilitate their organizing and planning to carry out activities for their own development and that of the community in which they live;
- adopt the local delivery mechanism of government agencies and other institutions to the needs of the rural poor; and
- enable small farmers to develop their own institutions and formulate village-level plans and programmes as per their choice and needs and implement them accordingly.

Activities/Targets

The SFDP has many components that cover group formation, credit, social and community development, community irrigation, environmental conservation, women's development, training, institutional development, savings' mobilisation, and collaboration with NGOs.

Initially, small farmers were operationally defined as those who owned less than 2.67 hectares of cultivated land in the *terai* region and less than one hectare of land in the hill region. However, this small farmers' identification criterion was later changed. Presently, the target beneficiaries (small farmers, tenants, share croppers, fishermen, landless labourers, and the disadvantaged) are defined as those having an annual per capita income of less than Rs 2,500* and/or own less than 0.5 hectares of cultivable land per family.

Credit facilities to undertake income-generating activities are provided on a group guarantee basis with the primary aim of improving land productivity through the use of improved technologies for intensive cultivation practices. Credit is also provided for marketing farm products. The programme also undertakes social and community development activities such as adult education, population education, establishment of drinking water schemes, sanitation, health, child care and nutrition, and community irrigation.

In 1982, the Women's Development Programme (WDP) was introduced as an integral part of the SFDP. The WDP was estabhished to provide basic services to poor women in order to enable them to contribute more significantly to the development of their communities as well as to undertake various farm and off-farm income-generating activities.

A training component is also built into the SFDP for raising social awareness and development of technical and managerial skills of the target groups. Training covers subjects such as crop production, horticulture, art and craft production, cottage and small industries, irrigation management, gender issues, and adult education. Training is carried out by the Agricultural Training and Research Institute at the centre and the Regional Training Centres in the five development regions of the country.

Implementation Process

The district level Sub-Project Implementation Committee (SPIC) is the main body responsible for identifying the potential Sub-Project Office (SPO) site. The SPIC's comprised of members from various line agencies at the district level and is headed by the Chief District Officer and coordinated by the ADB/N district officer. Area surveys in recommended VDCs are carried out through the district office of ADB/N and the results are forwarded to the SFDP Division to facilitate the final selection of the project area.

After selecting the site, the Group Organizers (GOs) and key field staff of the programme carry out a detailed Benchmark Survey in the area. This survey provides detailed information on the status of each household. Information on available infrastructure and community resources is also collected in order to prepare a village

* There are Rs 67.35 to one US Dollar

profile that will identify the needs of the target groups and the types of intervention to be introduced.

A ward-wise list of potential farmers is prepared and the GOs motivate and encourage them to form a group of like-minded people. Then the GOs invite the potential farmers to the SPO office, and provide them with documents such as an 'intent' paper and application form for further processing.

Five to ten small farmers with homogeneous characteristics are organized into a group.The group leader and other functionaries are selected by the members. The group members are then given orientation on group dynamics and joint liability. They are also trained to identify their needs and to plan, implement, monitor, and evaluate their activities.

One of the fundamental characteristics of the SFDP has been the provision of group savings. The amount to be deposited is determined by the group itself. This savings' fund is used for loans to group members to meet emergency requirements.

Programme Coverage

The SFDP began in 1975, initially in Dhanusa district, it was then expanded to 53 sites, covering 118 VDCs, and 12,820 people (11,820 males and only 1,767 females) by the end of 1980 (experimental phase). This facility was then expanded to reach 95,948 people by the end of 1988 (expansion phase). By that time, at least one SPO in all 75 districts had been established. As of mid-April 1997, a total of 27,343 groups (21,373 males and 5,970 females) covering 195,061 members (151,089 males and 43,972 females) had received credit services through this programme (ADB/N 1997). Over a period of 22 years, on an average about 8,860 new beneficiaries had been added each year.

In terms of financial performance, the SFDP disbursed the cumulative loan amount of Rs 4.085 billion as of mid-April 1997. Out of this loan, Rs 2.576 billion had been repaid and the loan outstanding was Rs 1.515 billion. Apart from this, there is also a Small Farmers' (SF) group savings' fund to provide loans for emergency needs. About Rs 46 million of savings had been mobilised as of mid-1994.

Institutional Development

In order to promote self-reliance, the SFDP set up an Institutional Development Programme (IDP) in 1988. The main objectives of the programme were to develop local-level small farmers' organizations, to enhance the financial and managerial capabilities of grass roots' organizations by imparting knowledge and skills, to give legal status to those organizations in order to establish a long-term relationship between ADB/N and small farmers, and also to develop the Small Farmers' Cooperative Limited (SFCL) as an autonomous and self-reliant organization in order to empower small and poor farmers through these organizations and to create confidence among small farmers to collect savings and mobilise rural savings.

Through this programme, the SFDP has handed over the lending scheme to the grass roots' small farmers' organizations. These small farmers' organizations receive wholesale credit from the bank and retail it to small farmers (individuals or groups) and carry out social and community development activities on their own with minimum support from SFDP functionaries.

The implementation procedures of institutional development of the Small Farmers' (SF) organizations are the follwoing.

- Identifying promoters from within the SF-group members and mobilising them to motivate the creation and development of ward-level SF inter-group and VDC level SF-organizations (main committee)

- Selecting and employing Youth Workers and Women's Group Organizers from among the SF-group members, or their immediate relatives, who are educated and better informed

- Implementing social and community development programmes through the participation of SF-families with minimum support from other related agencies

- Providing credit to SF individual members or groups through VDC level SF-organizations to undertake various income-generating activities

- Registering SF organizations with the relevant government departments

- Handing over the management of the Sub-Project Office (SPO) to the respective SF organization

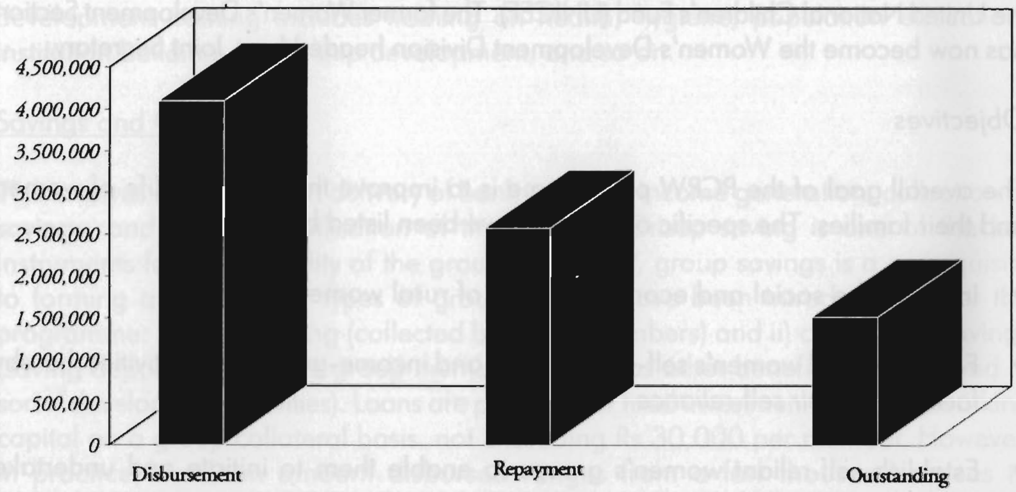
Box 1
SFDP at a Glance
(as of mid-April 1997)

Started in -	1,975
Districts covered	75
VDCs covered	649
No. of borrowers/members	195,061
No. of groups	27,343
No. of SPOs	48
Loan disbursed (in Rs)	4,085,300,000
Loan repaid (in Rs)	25,756,000,00
Loan outstanding (in Rs)	1,515,900,000
Group fund saving (in Rs)	68,130,000

In order to undertake institutional activities, a five-year based 'action research' project was implemented in a few SPOs in Dhading in 1987/88. The successful experience of Dhading district encouraged ADB/N to replicate the model in other parts of the country.

As of June 1997, some 48 potential SPOs had been identified where small farmers' organizations had advanced sufficiently to warrant the implementation of institutional

Chart 1: Status of SFDP Loans



development in the near future. There are 3,798 groups under these 48 SPOs. Comparative figures of male and female groups show that there are 1,156 female groups and 2,642 male groups comprised of 8,098 female members and 18,550 male members.

Sources of Funds

Partners Supporting the establishment, expansion, and consolidation of the SFDP include a number of international aid agencies. Donor support to the programme began as early as 1975 when FAO/ASARRD contributed US$ 30,000 as a guarantee-cum-risk fund to begin the experimental phase. Since 1981, the International Fund for Agricultural Development (IFAD) and the Asian Development Bank have been supporting ADB/N in providing credit support services to small farmers. The UNICEF, GTZ, EEC, Ford Foundation, USAID, UNFPA, ODA, KHARDEP, CIDA, CARE/Nepal, and many other INGOs have also supported the programme in implementating social and community development activities.

Production Credit for Rural Women

Background

A series of studies on the 'Status of Women in Nepal' indicated that poor rural women had limited access to the services introduced by the government and donor agencies for rural development and a comprehensive programme was recommended that would respond to all the needs of poor women. The Sixth National Development Plan of Nepal also focussed on this and reinforced the recommendation. This resulted in the emergence of the Production Credit for Rural Women (PCRW) programme in 1982.

Initially, the programme was set up in five districts and implemented by the then Ministry of *Panchayat* and Local Development (Ministry of Local Development) with support from the United National Children's Fund (UNICEF). The former Women's Development Section has now become the Women's Development Division headed by a Joint Secretary.

Objectives

The overall goal of the PCRW programme is to improve the quality of life of women and their families. The specific objectives have been listed below.

- Improve the social and economic status of rural women
- Facilitate rural women's self-employment and income-generating activities thereby facilitating their self-reliance
- Establish self-reliant women's groups to enable them to initiate and undertake productive activities
- Integrate women into the regular service system for credit, technology, and technical services
- Strengthen the organizational capabilities of rural women to enable them to develop their institutions/associations and manage group development
- Develop the capabilities of the Women's Development Officers (WDO) to ensure that women's needs and interests are duly reflected in the development policies of the country
- Advocate gender issues to the plan formulation committees of DDCs, VDCs, and line agencies and sensitise them about the Convention on the Elimination of Discrimination Against Women (CEDAW) and on the Convention on the Rights of the Child (CRC)

Activities and Targets

The activities implemented within the PCRW programme can generally be classified into four categories. These are given below.

<u>Training</u>

A series of training programmes are held based on the needs of the beneficiaries. Broadly, training provided under the PCRW can be classified into three categories, namely, basic training, income generating or skill development training, and community development training. The objectives of the basic training are to develop mutual trust amongst group members, to foster group cohesiveness, and to enable them to mobilise savings and credit schemes. Similarly, in skill training, which is designed based on women's needs, the aim is to support income-generating activities. Community development training includes training on health, hygiene, population education, institution building, leadership development, and so on.

Savings and Credit

This involves orientation on delivery of bank credit for income generation, collection of savings, and further mobilisation of the scheme. Group saving is one of the key instruments for sustainability of the groups. In PCRW, group savings is a prerequisite to forming a group. Two types of group savings have been introduced under the programme: i) group saving (collected by group members) and ii) community savings (saving deposited by credit group members as well as other beneficiaries involved in social development activities). Loans are provided for fixed investment and/or as working capital on a group collateral basis, not exceeding Rs 30,000 per member. However, in practice, the loan amount disbursed ranges from a few thousand rupees to Rs15,000. Group savings are also used to provide loans for emergency purposes upon the agreement of the group members.

Community Development Activities

These are basically designed to raise literacy, reduce time spent on household chores, save labour, and provide technology for development efforts. Female literacy, child care, health and sanitation, population education, family welfare activities, forest plantation and protection, improved water mills, nurseries, environmental education, and construction of low cost toilets are some of the main components of community development.

Institutional Development

Activities such as identification of target groups, group organization and formulation, strengthening linkages, local resource mobilisation, and organizational development of groups are undertaken. Women's groups can be organized into inter-groups and a federation or institution can be developed at different levels.

Target groups of rural women belonging to low income families are formed, low-income families are defined as having an annual per capita income of less than or equal to Rs 2,511. Alternatively, another criterion is to be defined in terms of food sufficiency status. Four categories are identified as those having food sufficiency for less than nine months, those that are just sufficient, those that can spare a little to sell, and those having fairly sufficient quantities. Women in categories one and two are prioritised for inclusion in this programme.

Implementation Process

Implementation of the programme involves different steps that re taken through a number of line agencies and the local government.

At the district level, the PCRW is implemented by Women's Development Officers (WDOs), Supervisors, Chief Women Workers, and Women Workers. Credit is channelled through the Nepal Rastra Bank (Central Bank) using three participating banks (PBs), namely: the Rastriya Banijya Bank, the Nepal Bank Limited, and the Agricultural Development Bank of Nepal.

The activities of the PCRW commence with the identification and introduction of the programme in the VDCs with close coordination and representation from line agencies, PBs, and the selected DDC's approval. Once the site selection procedure is completed, WDS women workers carry out a household survey (complete enumeration).

The community is then briefed about the programme and the potential beneficiaries are given orientation to generate awareness/motivation. Similarly, local government members, community leaders, and line agencies are given orientation. Orientation is given at the site before organizing the beneficiaries identified into groups. The women beneficiaries identified meet on their own, discuss, and form themselves into a group comprised of from four to 20 women. They are provided with basic training on group dynamics, group cohesiveness, savings and credit management, and about the concept of women in development (WID). Finally, the groups that are interested in participating in the programme submit bank loan proposals along with the minutes of their meetings and completed household forms. Loans not exceeding Rs 30,000 per person are appraised by the WDS for recommendation to the bank concerned (i.e., NBL, RBB, and ADB/N). The Bank processes the application, followed by joint field observation, and approves the loan within seven days of receiving the application. Once the loan is received, the women have a period of two weeks to begin executing the project. The Loan repayment schedule is made according to the nature of the project and a grace period is given for loan repayment. The loan repayment period ranges from one to a five years.

Programme Coverage

The PCRW programme began with five sites and now there 139 sites spread throughout 55 districts of the country. The PCRW has been operating through 78 unit offices, 55 district offices (WDS), and one central office (WDD). As of mid-April 1997, the total number of women's groups stood at 11,745 with 55,959 women members. During this period, a total of Rs 29.58 million was disbursed to 41,696 borrowers. The programme work force had also increased to 786. However, 564 staff (72%) out of the total staff of 786 are still temporary (WDD 1997).

Most rural women take loans for livestock (66.5% of the total disbursed), services (14.8%), and agriculture (14.4%). The cottage industry loans' aggregate amount was only 4.3 per cent of the total.

The ultimate aim of the PCRW is to develop credit groups into viable women's community organizations. Such an institutional process has already begun. By mid-July 1996, a total of 122 federated groups had been formed at the VDC level. Of the 122 federations, 20 were already registered as cooperatives and the rest were in the process of registration.

Sources of Fund

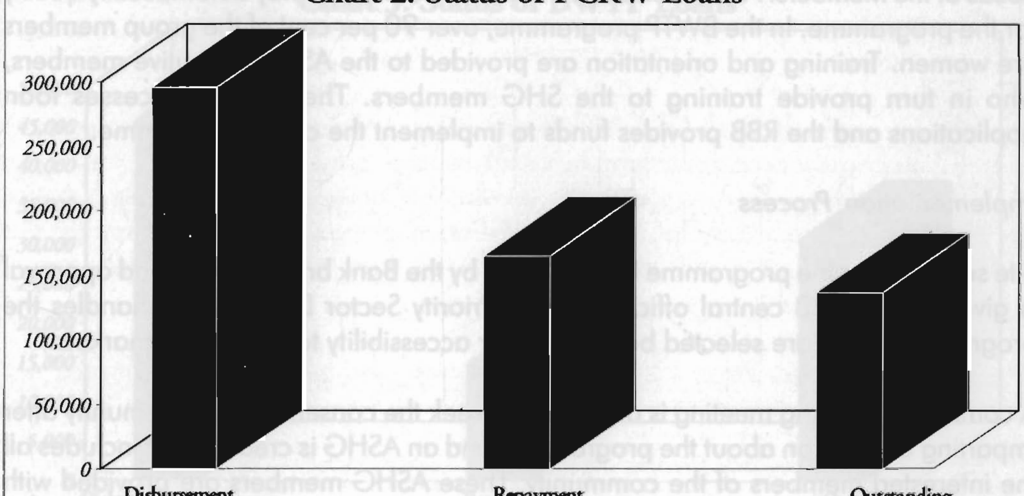
From the outset, the PCRW has received support from the donor community in the form of financial and technical assistance. Some donors support specific activities, while others concentrate their support in specific districts only.

Initially, the programme was introduced in five districts with implementational support from UNICEF. The programme expanded to 33 districts as of 1986/87. The International Fund for Agricultural Development (IFAD) and the Finnish International Development Authority (FINNIDA) provided additional funds to include 16 more districts during 1988 and 1989. Further expansion was carried out to cover additional districts during 1993 and 1994 with support from UNICEF and IFAD (WDD 1997). In addition to these, other agencies which have been involved in providing financial support to the programme are GTZ, UNFPA, World Bank, UNIFEM, and USAID.

Box 2
PCRW at a Glance
(as of April 1997)

Started in	1982
Districts covered	55
VDCs covered	
No. of active members	55,959
No. of active borrowers	41,696
No. of groups	11,745
No. of federations	122
No. of branch offices	55
Loan disbursed (in Rs)	295,850,000
Loan repaid (in Rs)	165,448,000
Loan outstanding (in Rs)	137,485,000
Loan overdue (in Rs)	17,507,000
Savings (in Rs)	18,486,000
No. of participating Banks	
Nepal Bank Limited	75
Rastra Banijiya Bank	76
Agricultural Development Bank	18

Chart 2: Status of PCRW Loans



Banking with the Poor

Background

The Banking with the Poor Scheme (BWTP) was launched on the initiative of the Foundation for Development Cooperation (FDC), Australia with RBB as the executing Bank. In the beginning, it was implemented in Gundu Village Development Committee of Bhaktapur district in 1991 as a poverty reduction programme to establish grass roots' level organizations of the poor as Self-Help Organizations (SHOs). Through these SHOs, services and financial resources were channelled on a sustainable basis to improve the living conditions of the poor.

Objectives

- To develop autonomous and financially viable organizations that can channel services and resources to poor households
- To improve the conditions of the poor to become economically independent
- To provide credit to the poor on a sound commercial basis

Activities/Targets

Under this programme, the Association of Self-Help Groups (ASHG) was formed as an NGO; this is similar to a Self-Help Organization (SHO). It seeks to provide guidance and support services against certain fees. The bank provides credit to SHOs at the market interest rate and SHOs handle the savings and credit programmes and explore various sources of income in order to become financially viable. The bank, NGO, and SHGs work together as a team and the costs and income are shared equally. The group also mobilises savings from its members to be used for the non-productive needs of the members. All women are considered 'poor', and they automatically qualify for the programme. In the BWTP programme, over 90 per cent of the group members are women. Training and orientation are provided to the ASGH executive members, who in turn provide training to the SHG members. The ASGH processes loan applications and the RBB provides funds to implement the credit programme.

Implementation Process

Site selection for the programme is carried out by the Bank branch office and approval is given by the RBB central office, i.e., the Priority Sector Division that handles the programme. Sites are selected based on their accessibility to roads and markets.

A community briefing meeting is organized to seek the consent of the community after imparting orientation about the programme, and an ASHG is created that includes all the interested members of the community. These ASHG members are provided with five to seven days' training before they form the SHG. Once the SHG is formed by the ASHG, it is given specific orientation about the programme and the loan application is completed and recommended by the ASHG to the Bank. The RBB provides the wholesale credit to the ASHG, which in turn disburses it to the SHG. Repayment is also collected in a similar order. Loans are provided on a group guarantee basis, as in many other programmes. Although the BWTP has been providing loans, as well as awareness and leadership development programmes, so far very few activities have been observed in entrepreneurship development or in business development aspects.

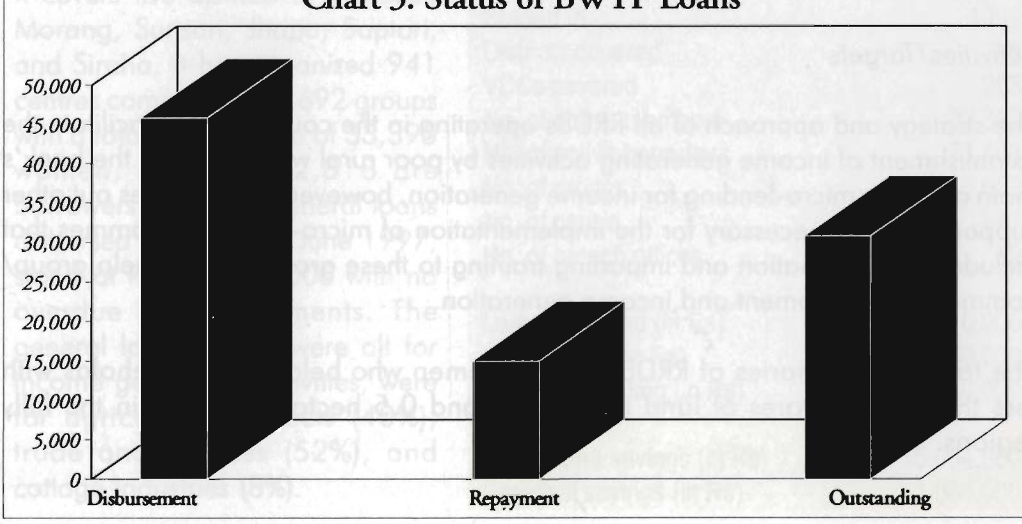
Box 3
BWTP at a Glance
(as of mid-July 1997)

Started in	1991
Districts covered	18
VDCs covered	68
No. of borrowers	5,474
No. of groups	1,044
Loan disbursed (in Rs.)	45,792,800
Loan repaid (in Rs.)	30,187,000

Programme Coverage

During the last seven years, the BWTP programme has spread in 68 VDCs of 18 districts. As of mid-July 1997, there were 75 Association of Self-Help Groups (ASHGs) formed with over 1,044 SHGs. The programme had already disbursed loans of about Rs 45.8 million to 5,474 members (706 males and 4,768 females) of which loans amounting to Rs 30.8 million have been repaid. The repayment rate is over 95 per cent. Most of their loans are used for family businesses related to agriculture, livestock, and tea shops. The BWTP focusses more on providing the rural people with greater access to credit for their needs, rather than entrepreneurship development.

Chart 3: Status of BWTP Loans



Sources of Funding

This programme generates funds through internal resources as well as through donor support. Internal sources of funding include membership fees, application form fees, interest from long-term savings, interest from short-term credit, two per cent margins refunded by the bank, service charges, rebates, and extra activities such as lotteries, sale of literature, and so on. External support includes the support of donor agencies in mobilisation and training. The Rastriya Banijya Bank provides the loans.

Regional Rural Development Banks

Background

Regional Rural Development Banks (RRDB) were created by HMG/NRB together with a consortium of banks at the end of 1992 in order to increase the access of the rural poor to financial services. In the beginning, there were two RRD Banks, one in the Far Western Region and the other in the Eastern Region. As of 1997, there were five RRDBs. The latest one is the Central Regional Rural Development Bank (CRRDB), established in 1996; the other two banks in the Mid-Western and the Western Regions were established in 1995. These banks, modelled on the *Grameen* Bank of Bangladesh, were established to provide institutional outreach to those sections of the society that remained outside the targetted credit programmes such as the Intensive Banking Programme (IBP) and the SFDP.

Objectives

The basic objective of the RRDBs is to provide easy access to funds to the deprived sections of society, especially to women from poor rural households to enable them to undertake income-generating activities, thereby reducing the level of poverty.

Activities/Targets

The strategy and approach of all RRDBs operating in the country are to facilitate the establishment of income generating activities by poor rural women. Thus, the bank's main activity is micro-lending for income generation, however, it also carries out other support activities necessary for the implementation of micro-credit programmes that include group formation and imparting training to these groups on self-help group/community development and income generation.

The target beneficiaries of RRDBs are all women who belong to households with less than 0.6 hectares of land in the *terai* and 0.5 hectares of land in the hilly regions.

Implementation Process

RRDB's implementation approach for group organizations is the same for all the branches, i.e., five members make up a group, eight groups make upa centre, two to 50 centres form a branch, five branches on an average comprise an area. Loans are granted on the principle of 2+2+1, i.e., among the five members, two receive credit in the first time round, then the other two receive credit, and then it's the turn of the fifth member, the president. The first time loan amount is Rs 5,000; after the full payment of the first loan one can get a second loan of up to Rs 10,000.

The field staff give orientation to the community and help to organize the group. Each group has five members. The group members receive orientation/training and a group recognition test is carried out. During the training, they are familiarised with the 16 commandments of the *Grameen* banking philosophy and their duties, rights, and obligations (see under *Nirdhan*). Those who do not know how to read and write are taught to write their names. In case some members do not clear the group recognition test, training is extended for a few more days. Once they pass the test, he loan is processed. Once the loan is approved, disbursement is made by the field staff.

The loan repayment is arranged on a weekly basis by the field staff at the location where the group members meet regularly.

Programme Coverage

<u>Eastern RRDB</u>

After five years of operations, the bank has at present 39 branches with seven area offices and covering a total of 203 VDCs in five districts. It covers five districts in the east: Morang, Sunsari, Jhapa, Saptari, and Siraha. It has organized 941 centres composed of 6,692 groups with a total membership of 33,395 women, of which 32,818 are borrowers. The total general loans disbursed as of the 15 June 1997, stood at Rs 594,710,000 with no overdue loan repayments. The general loans, which were all for income generation activities, were for agricultural projects (40%), trade and services (52%), and cottage industries (8%).

Box 4

ERRDB at a Glance

(As of June 1997)

Started in -	1992
Districts covered	5
VDCs covered	203
No. of active members	33,395
No. of active borrowers	33,163
No. of groups	6,692
No. of centre	941
No. of branch offices	39
Loan disbursed (in Rs)	594,710,000
Loan repaid (in Rs)	438,460,000
Loan outstanding (in Rs)	156,250,000
Group fund savings (in Rs)	35,004,000
Personal savings (in Rs)	1,068,000

Box 5
CRRDB at a Glance
(as of mid-June 1997)

Started in -	1996
Districts covered	4
VDCs covered	17
No. of active members	85
No. of active borrowers	69
No. of groups	17
No. of centre	5
No. of branch office	1
Loans disbursed (in Rs)	332,000
Loans repaid (in Rs)	73,000
Loans outstanding (in Rs)	259,000
Group fund savings (in Rs)	19,000
Personal savings (in Rs)	4,000

Central RRDB

The Central RRDB was established on June 1996. It has one branch covering a total of 17 VDCs in four districts: Dhanusa, Mahottari, Sarlahi, and Rautahat. It has organized five centres composed of 17 groups with a total membership of 85 women, of which 69 are borrowers. The total of general loans disbursed as of 15 June 1997 stood at NRs 332,000, of which an amount of Rs 73,000 has been repaid; the outstanding balance is Rs 259,000.

Western RRDB

The Western RRDB was established in 1995, it has 17 branches with one area office and covers a total of 67 VDCs in seven districts. The districts covered are Rupandehi, Nawalparasi, Kapilbastu, Palpa, Tanahu, Syangjya, and Kaski. It has organized 193 centres composed of 907 groups with a total membership of 4,535 women, of which 3,919 are borrowers. The total of general loans disbursed as of 15 June 1997 stood at NRs 28.23 million, of which Rs 14.75 was repaid leaving an outstanding balance is Rs.13.49 million.

Box 6
WRRDB at a Glance
(as of mid-June 1997)

Started in	1995
Districts covered	7
VDCs covered	67
No. of active members	4,535
No. of active borrowers	3,919
No. of groups	907
No. of centres	193
No. of branch offices	17
Loans disbursed (in Rs)	28,238,000
Loans repaid (in Rs)	14,750,000
Loans outstanding (in Rs)	13,488,000
Group fund savings (in Rs)	1,686,000
Personal savings (in Rs)	680,000

Mid-Western Rural Regional Development Bank

Established in 1995, it has 17 branches covering a total of 55 VDCs in four districts. The districts in operation are Banke, Bardia, Dang, and Surkhet. It has organized 226 centres composed of 915 groups with a total membership of 4,575 women, of which 3,639 are borrowers. Total general loans disbursed as of 15 June 1997 stood at Rs

23.81 million. The general loans, which were all for income generation activities were for agricultural projects (Rs 11.9 million), trade and services (Rs 11.6 million), and micro-enterprises (Rs 145,000).

Box 7
MWRRDB at a Glance

Started in -	1995
Districts covered	4
VDCs covered	55
No. of active members	4,575
No. of active borrowers	3,639
No. of groups	915
No. of centres	226
No. of branch offices	17
Loans disbursed (in Rs)	23,817,000
Loans repaid (in Rs)	11,474,000
Loans outstanding (in Rs)	12,343,000
Group fund savings (in Rs)	1,477,000
Personal savings (in Rs)	535,000

Far Western RRDB

This is one of the first banks established along with the one in the eastern region. It has 21 branches with three area offices covering a total of 69 VDCs in four districts: Kailali, Kanchanpur, Doti, and Dadeldhura. It has organized 445 centres composed of 2,324 groups with a total membership of 11,514 women, of which 10,569 are borrowers. Total general loans disbursed as of 15 June 1997 stood at Rs 85,247,000 with Rs 139,816,000 repayment, and Rs 45,431,000 as outstanding.

Box 8
FWRRDB at a Glance

Started in -	1992
Districts covered	4
VDCs covered	69
No. of active members	11,514
No. of active borrowers	10,569
No. of groups	2,324
No. of centres	445
No. of branch office	21
Loans disbursed (in Rs)	185,247,000
Loans repaid (in Rs)	139,816,000
Loans outstanding (in Rs)	45,431,000
Group fund savings (in Rs)	13,376,000
Personal savings	1,665,000

These banks are also expanding their operations into the hill communities. The Far Western RD Bank has gone to Dadeldhura whereas the Western Rural Development Bank (WRDB) has extended services to Palpa, Syangja, and Kaski districts. All of these districts fall in the hill region, and the impacts of these programmes in these areas are still to be seen. However, according to the General Manager of the Western RDB, after successful operations in Palpa, a hilly area, operations in other hilly areas are being encouraged. The oldest and the largest RRDB in the Eastern Region is still in appraising the logistics of going into the hilly region.

Sources of Fund

The HMG/NRB provides 75 per cent of the paid-up capital of Rs 60 million each, the balance being subscribed by other banks and financial institutions (Sharma 1997).

The ERRDB fund is generated from the share capital, which in the beginning was Rs 60 million and which to date has doubled to Rs 120 million to be used as authorized capital – Rs 30 million before and now Rs 60 million is the issued capital and the paid up capital is Rs 60 million to date. Other funds are provided by the Nepal Rastra Bank (11% interest), Nepal Bank Limited (6% interest), and the Grindlays and Everest Banks (8% interest).

Micro Credit Project for Women

Background

Inspired by the experiences gained from the Production Credit for Rural Women (PCRW), the government, with the assistance of a consortium of donor institutions led by the Asian Development Bank, launched the Micro Credit Project for Women (MCPW) in December 1993 (WDD 1996). The basic features which distinguish this project from the other rural credit programmes are that it involved NGOs for the first time in the public sector credit programme of Nepal and provides services to urban women in addition to rural women.

Objectives

The overall goal of the project is to improve the socioeconomic status of women in Nepal, to promote their participation and integration into national development, and to contribute towards poverty alleviation. Specifically, it aims to :

- increase credit access to 13,800 women during the project period;
- provide training to 20,000 women and assist them with other support;
- enable NGOs to expand their activities and improve the quality of their service delivery to poor women; and
- increase income and provide employment opportunities to poor women in selected urban and rural areas.

Activities/ Targets

Group Formation and Training of Women Beneficiaries

Through the Women's Development Division (WDD) of the Ministry of Local Development, women beneficiaries are mobilised and organized into strong self-help groups in order to be able to access resources from outside, manage community development projects, and undertake viable income-generating activities on a group and individual basis.

Institutional Support to Non-Government Organizations

The main aim is to give support to improve the institutional capacities of the NGOs so that they can organize and/or strengthen self-help groups effectively; act as resource institutions for the development and training of their NGOs; and act as self-help groups for savings' and credit management, enterprise promotion, and institution building; act as credit agents and/or financial intermediaries; provide consultancies to project beneficiaries for installing, maintaining, and expanding business enterprises; and expand their community development services and improve the quality of their service delivery.

Provision of Credit to Women

With a US$ 5,000,000 loan from the Asian Development Bank, two sets of credit delivery and recovery mechanisms are being implemented: (i) through the Nepal Rastra Bank (NRB) re-lending part of the ADB loan proceeds to public commercial banks (Rastriya Banijya Bank and Nepal Bank Ltd.) to on-lend directly to women beneficiaries; and (ii)) through NRB re-lending a portion of the ADB loan proceeds to NGOs to lend to women beneficiaries. Credit is provided for fixed investment and/or working capital as individual or group loans. Three types of loans are available: for agricultural production up to Rs 30,000 with members of the self-help groups acting as co-worker, collateral in this case is not required; cottage and micro-enterprise loans for income generating activities with a ceiling of Rs 40,000; and small business loans of from Rs 50,000 to Rs 250,000.

Implementation Procedures

The MCPW is being implemented by the WDD of the Ministry of Local Development. The site selection process is the same as in the PCRW programme. Information received from the complete household survey determines the target beneficiaries. Target beneficiaries are provided with information about the project as motivational inputs. Once the women are motivated, they form into groups ranging from four to 20 members. On an average there are six to eight members in a group.

Group members are provided with four types of training: basic training, skills' training, motivators' training and institutional development training. These training sessions are given according to their level of achievement. However, all the group members receive basic training.

All loan requests generated at the group level are recommended by the WDS to the participating banks (NBL and RRB). A participating bank approves the loan request and provides loans to women beneficiaries for areas of work specifically identified. The grace period is determined according to the nature of the project undertaken. The loanee has to start the project within 15 days of receiving the loan. The repayment schedule and the amount of repayment installment are determined by the bank in consultation with the borrower. The maximum loan amount is Rs 30,000 for the agricultural sector, Rs 40,000 for micro-enterprises, and Rs 50,0Q0 to Rs 250,000 for small businesses.

The same procedures are applied in the case of NGOs to provide services to needy women. There are 55 NGOs operating under the MCPW programme.

Box 9
MCPW at a Glance
(as of April 1997)

Started in -	End of 1994
Districts covered	12
VDCs/Municipalities	98 VDCs and 10 Municipalities
No. of active members	13,742
No. of active borrowers	7,545
No. of groups	2,177
Loans disbursed (in Rs)	88,838,000
Loans repaid (in Rs)	15,019,000
Loans outstanding (in Rs)	35,046,000
Loans overdue (in Rs)	317,000
Savings (in Rs)	5,966,000
No. of NGOs selected	70
No. of NGOs involved	55

Programme Coverage

Loan beneficiaries are from 12 districts and five urban areas and their repayment rate is reportedly 100 per cent. Most of these women have taken loans for the first time to undertake various income generation activities, micro-enterprises, and small business development.

In total, there are 98 VDCs and 10 municipalities covered by the MCPW programme. Of these, WDS is providing services directly to 50 VDCs in 12 districts and NGOs are working in 48 VDCs and 10 municipalities.

There are 2,177 groups of which WDS has formed 1,203 and the NGOs have formed 974 groups, with 13,742 group members (through WDS– 6,982 and through NGOs– 6760). A total of Rs 57,975,700 was disbursed to 5,964 women beneficiaries for various income-generating activities as of mid-June 1997.

Sources of Fund

The funds for the loan component are received as soft loans from the Asian Development Bank, whereas technical assistance is provided by the ADB with funding from the Norwegian Government and Special Funds from Japan.

Nirdhan

Background

The 1990s saw the entry of the private sector in the delivery of micro credit services to the disadvantaged. *Nirdhan*, a poverty alleviation, action research non-government organization, is a group that became actively involved in acting as a financial intermediary to administer loan funds to the disadvantaged, especially to women and the rural poor. *Nirdhan* was registered with HMG/Nepal in March 1991 and obtained a licence for '*Limited Banking Operations*' from the Nepal Rastra Bank. It has been affiliated to the *Social Welfare Council*. Presently, the management is in the process of registering it as a *Nirdhan* Bank (Pokharel and Joshee 1997). *Nirdhan* operates according to the principles of the *Grameen* Bank, Bangladesh.

Objectives

- To raise the standards of living of the people living below poverty line through credit as a medium of intervention
- To develop an effective credit delivery mechanism for people living below the poverty line
- To create financial discipline among the target beneficiaries through regular savings as well as proper use and repayment of loans
- To identify and develop an effective mechanism for providing training and technology support, supply of inputs, and marketing to facilitate income-generating activities among people living below the poverty line
- To undertake social and community development activities that help improve the levels of economic activity of the poor sections of the population

Activities/Targets

As an operational strategy, *Nirdhan* follows the financial system of the *Grameen* Trust and *Grameen* Bank of Bangladesh. The target groups are exclusively poor women from households owning less than 0.6 hectares of unirrigated or 0.3 hectares of irrigated land and/or those poor women with household incomes falling below Rs 17,000 per family of five members. Its target group has been redefined with the aim of reaching the poorest of poor rural women. Currently, target groups are defined as those having less than 0.5 hectares of land.

Group formation, savings and credit, and training are the main features of the programme. There are four types of savings' fund in the programme. These are outlined below.

Group Savings Fund

This fund consists of five per cent of any credit borrowed from *Nirdhan,* including credit from the group fund, Rs one per meeting, Rs 7 during training, and penalties and interest on group funds. Group savings can be borrowed to meet social activities expenditure and consumption costs, as well as for income generation purposes. All the members have the right to borrow the fund, but a member who leaves the group will only be able to receive the weekly savings that she has contributed.

Emergency Fund

Members deposit an amount equivalent to 2.5 per cent of the total interest in the emergency fund. This is provided to members as partial insurance coverage in case of calamities. A member does not have to return the emergency fund.

Livestock Insurance Fund

This scheme is new. Under this premium, 2.5 per cent of the purchase price of livestock is deposited in a livestock insurance fund. The premium will cover insurance for a year. Fifty per cent of the total purchase price is refunded if the insured livestock die. *Nirdhan* accepts the loss if the premium collected is insufficient to settle the insurance claim.

Personal Voluntary Fund

Borrowers can deposit even as little as one rupee and can withdraw money voluntarily when needed.

Programme Coverage

Nirdhan disbursed its first loan on 14 March 1993 in Siktan Village of Rupendehi district. At present, the programme operates in four *terai* districts: Rupendehi, Kapilbastu, Chitwan, and Nawalparasi. As of July 1996, *Nirdhan* had eight branches, 323 centres, and 1,213 groups with 5,836 active members. Groups consist of five members each and a federation of two to eight groups makes a centre (See RRDB). It has 37 permanent staff and 18 trainees at present. Among them 17 are women. The trainees become permanent staff after completing six months of on-the-job training.

Regarding the disbursement of loans, a total of Rs 52.9 million was disbursed to 4,481 borrowers. Rs 36.85 million was recovered, leaving an outstanding amount of 16.11 million. The cumulative Group Savings Fund stood at Rs 3.2 million

Implementation Process

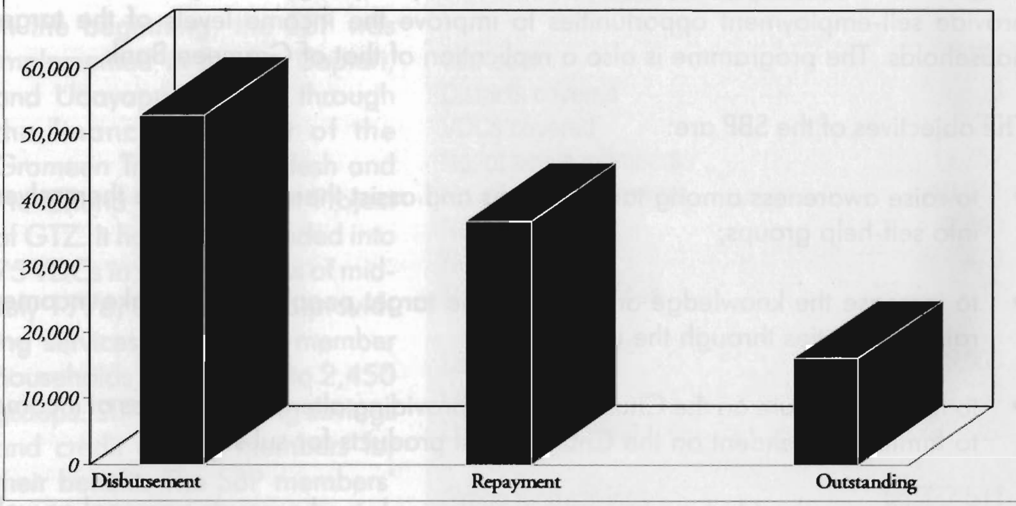
The policy-making body is the Board of Directors which is composed of eight members who are representatives of the private sector and bankers. Currently, there are seven branch offices and each branch office is headed by a Branch Manager and staffed with field assistants.

Other implementation procedures are similar to those of the RRDBs, except that the target groups under *Nirdhan* are those who have less than or equal to 0.5 hectares of land. The general steps in implementation of the *Grameen* Bank model programme can be summarised as follow.

Box 10
***Nirdhan* at Glance**

Started in -	1993
District covered	4
VDCs covered	77
No. of active members	227
No. of active borrowers	4,481
No. of groups	1,213
No. of centres	15
No. of branch office	8
Group fund savings (in Rs)	3,293,919
Personal savings (in Rs)	1,026,594
Others (in Rs)	310,854

Chart 4: Status of *Nirdhan* Loans



- Identification of target areas
- Identification of target groups
- Organization of pre-group training
- Formation of centres
- Organization of weekly meetings

  - Collect loan demand
  - Collect weekly savings
  - Extend loans
  - Collect weekly loan installments
  - Review progress
  - Discuss problems and needs

Sources of Funding

Through a loan-grant facility from the *Grameen* bank and a conditional grant from the Asia Pacific Development Centre, Malaysia, *Nirdhan* started its micro credit programme with loan disbursements in March 1993. Thereafter, *Nirdhan* had access to funds from various sources such as the *Grameen* Trust, Commercial Banks such as the Indo Suez, Nabil Bank, Himalayan Bank, Nepal Bangladesh Bank, and Nepal Bank Limited, some INGOs.

Centre for Self-help Development

Background

The Centre for Self-help Development (CSD) is a non-government organization established in 1991. Community self-help development and micro-credit are its two main areas of operation. CSD's Self-help Banking Programme (SBP), a micro financing programme for the deprived section of rural society only began in September 1991 to provide self-employment opportunities to improve the income levels of the target households. The programme is also a replication of that of *Grameen* Bank.

The objectives of the SBP are:

- to raise awareness among target groups and assist them to organzie themselves into self-help groups;
- to increase the knowledge and skills of the target people to undertake income-raising activities through the use of credit;
- to reduce pressure on the Churia forest by providing alternative sources of income to families dependent on the Churia forest products for subsistence;
- to instill a savings' habit among the target people and promote personal as well as group savings as a mechanism of internal resource generation; and
- to raise the literacy level of women and improve the health and sanitation conditions of the target families by imparting orientation on primary health care and nutrition.

Activities/Targets

The main thrust of the programme is small credit delivery to the absolutely deprived; viz., the landless, marginal farmers, share croppers, and agricultural labourers who come from disadvantaged groups such as the *Mushar*(s), *Sunar*(s), *Teli*(s), etc. Women are the exclusive target members of the programme. Members are organized into savings' and credit groups to mobilise local savings, to access loans, and to become involved in institution building and community development activities.

The target households of the districts are identified through the PRA technique. The potential target beneficiaries are provided with pre-group orientation to enable them to become involved in self-help development programmes. The target groups are organized into small groups or centres around which all other activities, such as savings and credit mobilisation, training, informal education, and skill development training, are implemented.

Similar to *Nirdhan*, CSD has introduced livestock insurance schemes into its micro-financing programme, but there are some variations on the premium system. A 10 per cent premium on the cost of the animal has to be paid by the borrower to SBP for livestock insurance, five per cent of which is borne by the organizer. In the case of death of the animal, members are paid 80 per cent of the insured value of the animal as compensation.

Programme Coverage

In the beginning, the SBP was implemented in Siraha, Saptari, and Udayapur districts through the financial support of the *Grameen* Trust, Bangladesh and the Churia Development Project of GTZ. It has been extended into 75 VDCs in six districts. As of mid-July 1996, SBP has been providing services to 11,757 member households organized into 2,450 groups. SBP is promoting savings and credit among members for their benefit. The SBP members' group savings' balance stood at Rs 5,632,511. The cumulative loan disbursed as of July 1997 was Rs 63.36 million. Similarly cumulative loan repayment was Rs 40,154,738.

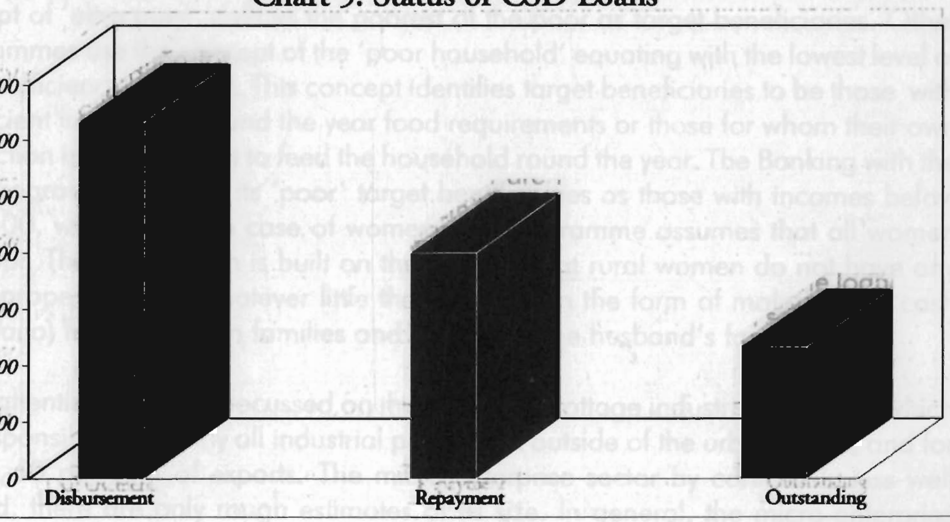
Box 11
CSD-SBP at a Glance

Started in	1993
Districts covered	6
VDCs covered	75
No. of active members	11,757
No. of active borrowers	10,041
No. of groups	2,450
No. of centres	470
No. of branch offices	17
Loans disbursed	633,645,000
Loans repaid	40,154,738
Loans outstanding	23,209,762
Group fund savings	56,322,511
Personal savings	3,012,780

Sources of Funding

The Centre for Self-Help Development (CSD) has been involved in the implementation of programmes and projects with support from international donor organizations such as CECI, DANIDA, IDRC, *Grameen* Trust, GTZ, Plan International, UNICEF, and USAID.

Chart 5: Status of CSD Loans



Savings and Credit (S & C) Mobilisation Credit Programmes

During the past five years, several thousand community-based savings' and credit organizations (SCOs) have emerged in Nepal, largely in response to the promotional efforts of local and international NGOs. These SCOs differ in terms of size, level of operations, and financial status. These SCOs are community-based organizations, as they are owned and managed by local people. Their governance is characterized by a participatory decision-making style. These SCOs are also largely a response to a felt economic need within many communities for improved access to financial services, as well as an offshoot of the organized groups brought about by the massive basic literacy programmes across the country and other community-based programmes.

The primary source of capital for these SCOs is member's savings, although a few have access to external funds for on-lending. The rate of savings varies widely between SCOs, but most are characterized by compulsory monthly contributions. The sizes of loans vary according to the capital available, with stated loan recovery rates close to one hundred per cent.

A 1996 CECI study on the status and future prospects of these SCOs revealed that a majority of these SCOs did not have a clear vision or plan for the future. The study noted that the limited savings' capacity of the current membership is a constraint to future growth of the SCOs. As a result, the leadership of the SCOs tends to identify absence of improved access to external funds as the main constraint to continued growth.

Chapter 3

Comparative Analysis of Various Programmes

Conceptual Framework

All credit-based programmes implemented in Nepal have similar conceptual frameworks. They are built on the premise that economically poor people do not have taccess to conventional types of institutional credit which require physical property as collateral and long procedural formalities. For this reason, all such credit programmes are based on group trust as a form of 'collateral'. Further, it is assumed that access to institutional credit is instrumental in ending the dearth of capital for investment. Hence, most of these programmes focus on lending, though they are providing training and social mobilisation as support activities. Conceptually, it is also assumed that credit will generate income as all credit is given for productive purposes only. Loans for non-productive purposes are provided through group savings, which in most cases are managed by the groups themselves, except the RRDB, *Nirdhan*, and CSD programmes that follow the rural banking concept of the Bangladesh experience.

Different organizations use different terms for developing and designing projects to assest their originality. ADB/N defined 'small farmers' as those are having 0.5 hectares of land, and with annual per capita incomes of less than Rs 2,500. Further, the concept of 'ultra poor' defines the poorest of the poor as target beneficiaries. Other programmes use the concept of the 'poor household' equating with the lowest level of 'food sufficiency' concept. This concept identifies target beneficiaries to be those with insufficient income for round the year food requirements or those for whom their own production is not sufficient to feed the household round the year. The Banking with the Poor Programme defines its 'poor' target beneficiaries as those with incomes below Rs 2,500, whereas in the case of women, the programme assumes that all women are poor. This assumption is built on the premise that rural women do not have any legal property except whatever little they received in the form of material and cash gifts (*daijo*) from their own families and gifts from the husband's family (*pewa*).

Much attention has been focussed on the small and cottage industries of Nepal which are responsible for nearly all industrial production outside of the urban areas, and for almost 60 per cent of exports. The micro-enterprise sector by contrast is less well defined; there are only rough estimates of its size. In general, the micro-enterprise and cottage and small industries' sectors can be similarly characterised as owner-managed, with limited division of labour and using primarily family labour, and by informal relations with clients, including suppliers. Although the number of employees (less than 10) does not clearly distinguish the micro-enterprise sector from the small and cottage industries' sector, the amount of fixed assets is an indicator. Thus all these differences exist in the 'micro-enterprise' concept among different programmes. For example, the Small Business Promotion Project loosely defines micro-enterprises as those requiring at least Rs 50,000 or more capital investment. In the case of HMG/N, micro-enterprises are defined as those with fixed assets of less than Rs 100,000 (about US$2,000). The MCPW project indirectly equates micro-enterprise with those that require investments of within Rs 40,000, whereas small businesses are those requiring from Rs 50,000 to Rs 250,000.

There are basically two situations in which growth in the informal or micro-enterprise sector occurs. In the first, new businesses are created based on demand for services not otherwise provided (demand-pull scenario). In the second, businesses are created as a result of excess labour supply (supply-push scenario). The former is most likely to create an environment in which micro-enterprises will be more profitable. Such businesses require high capital and skill levels and grow in relation to the prevailing economic conditions. In the latter scenario, people seek alternative sources of income regardless of demand for products. Such businesses are characterised by low entry costs, low profit margins, and growth rates unrelated to current economic conditions. This report suggests that medium and small enterprises are one-person survivalist enterprises created under the second hypothesis, as a function of labour supply. Many of these enterprises emerge without any consideration of viability and have very low productivity and profitability rates. A great majority of these enterprise operators have little or no idea about what constitutes a profit. Because of the low wage levels, most do not include their wage component in the pricing structure and thus only refer to gross profit levels. In addition, many women suffer from low levels of confidence and lack essential family support.

The government strategy to overcome the daerth of monetary resources for the poor is to increase agricultural productivity so that it can create a direct impact on their resources and expand off-farm employment (NPC 1993). Further, the government has increasingly realised the crucial role of women in the economy of rural communities, even though their efforts are often not rewarded sufficiently. Therefore, the poverty alleviation efforts are targetting women more specifically, providing resources to reduce their burdens and empowering them. One of the aims of sectoral policies is to increase income-generating activities in the country by replacing traditional patterns of household economic activities.

Either the 'demand-pull' or 'supply-push' scenario is in force; some of the common characteristics of these various programmes can be summed up as follow.

- All the programmes follow a stereotype procedure of selecting income generating activities such as livestock (cattle/buffaloes for milk production, goats for meat, agriculture for food grains and vegetables, and limited varieties of cash crops). A majority of the beneficiaries observed have invested in livestock. About one-fifth of them have invested in agriculture, and another one-fifth have invested in the trading/business sector. These are traditional activities mostly being carried out using traditionally known skills. For example, most of the cattle/buffaloes (for milk) and goats (for meat) are of local breeds that have comparatively low productivity compared to exotic varieties. In most cases, the credit provided by the programme is not enough to be able to buy the other breeds of cattle/ buffaloes. Laxmi Rizal, a beneficiary from Dhankuta bought a buffalo for Rs 12,000. She said she could not even think of buying a better breed of buffalo as her approved loan (Rs 10,000) was not even enough to purchase the local breed.

- Nearly all the enterprises are family owned/managed, providing self-employment to most family members. The scale of operations is also normally very small, absorbing one or two people on a part-time basis within the household. Ironically however, in many cases women do most of the work as the demand for labour increases.

- The value-added is very small because most of these activities are unskilled/semi-skilled labour intensive operations. In such a situation, the quantity of products and not the quality is the determining factor for pricing.

- Profit margins are extremely low. Despite the low profit margins, activities are carried out to absorb the labour force in the business. Whatever profit is made purely for capital investment. The productivity share that goes into labour is minimum or in many cases none at all.

This situation is supposed to change after some time in the aspects described in the following passages.

Increase in the Scale of Operations

All the projects are providing bigger loans for the second time and onwards, considering the increase in their capacity to absorb loan fund. With the increase in the loan size, borrowers will also likely increase their scales of operation.

Labour Force Demand from Outside the Household

Increase in the scale of operations will create more demand for labour inputs that cannot be fulfilled from within the household. Hence, the demand for labour from outside the household will begin, thereby increasing employment opportunities.

Increase Management Capacity

With experience, the managerial capacity of the borrower will also develop sufficiently to manage large-scale businesses and fund management. This will build up confidence and push to undertake more and more off-farm activities or/and agro-processing activities, a shift required for 'true micro-enterprise' expansion.

Some changes have been observed, in the first case, in which the amount of credit is increasing with some positive variation in the scale of operations. But such business activities are mostly family managed, providing self-employment for family members. Though there is a slow shift towards off-farm activities, most still remain in the areas of livestock and agriculture.

Organizational Aspects

In terms of organization and management of these programmes, two systems have been observed distinctly: a) government-influenced management; b) autonomous organizational management.

Programmes, such as those of RRDB, PCRW, MCPW, SFDP, IBP, are fully controlled and managed by government-owned institutions. The heads of such organizations are appointed by the government and they follow government directions in carrying out work. Such a system involves many players in the decision-making process, players who are not necessarily technically equipped to contribute to sound decision-making. 'Unseen hands' often influence the decisions of these organizations, despite being operationally independent in terms of area selection, personnel recruitment, and, in some cases, the selection of beneficiaries. Lately, these programmes have been slowly shifting their operational modalities in selecting sites and beneficiaries based on technical rationale, rather than solely political influences. The impact is seen in the repayment rate too. It appears that as the external influence reduces, the repayment rates increase.

One of the PCRW field officers explained that most of their defaulters were those who got credit through influence and political connections. No longer are loans given simply on personal recommendations. She added that only those genuinely identified as poor receive support and loans. Another SFDP senior official reiterates this, lamenting that their programme expanded in many areas just for political reasons and not for technical factors. This is the main reason why repayment is low (about 58%).

One field assistant from the RRDB said that loans are given based on established criteria and no one instructs otherwise.

The second type of management is that implemented by NGOs such as the BWTP, *Nirdhan*, and CSD. These programmes are managed by their respective organizations based on a sound technical footing, and there is very little external influence. This could be one of the main reasons why their repayment rates are better than in other programmes. The repayment rates for the BWTP are over 95 per cent, while for *Nirdhan*, CSD and RRDB, they are almost 100 per cent. On the other hand, the repayment rate for the SFDP is about 58 per cent, for IBP about 47 per cent, and for PCRW is about 85 - 90 per cent.

Another constraining factor is the frequent turnover and transfer of officials characterising most of the first type of organization, whereas the second type does not suffer much from this problem. Lately, the first type of organization has also improved in the ability to handle political influence and increasingly decisions are based on technical merit. However, strong motivation and recognition among personnel are still lacking in both types of management.

Many of the organizations desire to be sustainable without outside support. However, it needs substantial homework and action to achieve this. Private sector initiatives have somehow been better in this aspect than donor-driven, government-sponsored programmes. One such NGO, *Nirdhan,* was meeting only 3.5 per cent of its operating costs from the interest it earned through the loan in the first year, and this doubled to seven per cent in 1995. Currently income and expenditure statements show that expenses covered by income were about 30 per cent – including cost of capital. This trend is quite encouraging in terms of financial viability. Further, *Nirdhan* is also planning to float shares to establish a bank with support from some of the commercial banks.

Organizational management of the PCRW and MCPW is under the WDD/MLD where almost all the programme staff are temporary in nature. This has greatly influenced the level of commitment and degree of motivation among staff. Political influence in staff recruitment in government-managed programmes is another factor contributing to poor management and performance.

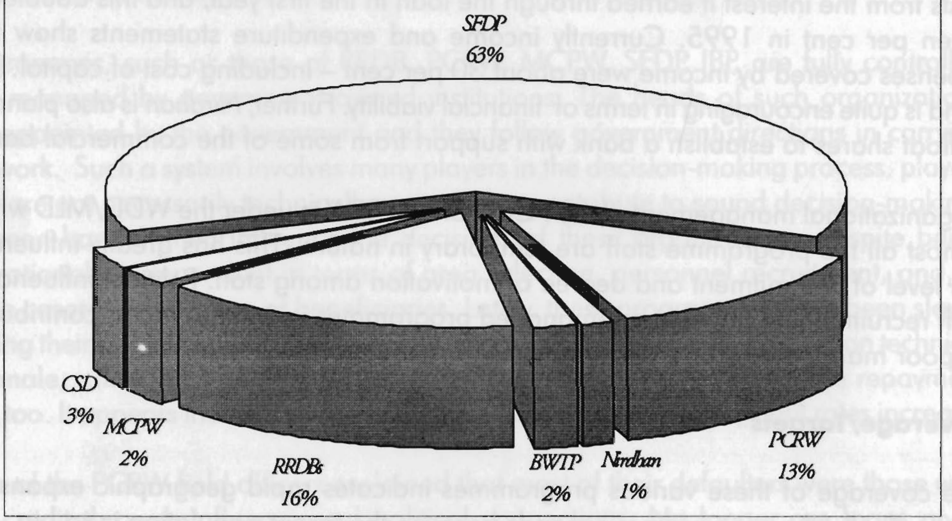
Coverage/Targets

The coverage of these various programmes indicates rapid geographic expansion. Theoretically, the programme expands because the target population is so big and demand for the programme is high. However, there are no concrete reasons to justify the expansion of coverage based on their 'demand-pull' situation. All the programmes under review have expanded quickly and horizontally, covering more and more areas and increasing the number of beneficiaries. This is reflected in the beneficiaries covered per district. For example, the SFDP cumulative per district coverage over the last 22 years is 2,600 beneficiaries, whereas this figure is only 758 per district for the PCRW. Considering the year of operations of these programmes, the average yearly addition of beneficiaries per district comes to a little over a hundred for SFDP and even less than a 100 for the PCRW. This shows that beneficiaries' coverage are spread thinly over wide areas. The implications of such situation are seen in the increased financial burden for programmes in terms of meeting staff expenses and in the loss in quality of programmes.

In many cases, programmes have overlapped. Conflicts have occurred in some places due to such overlaps. For example, the RRDB took over some of the MCPW women's group members in Saptari and Siraha, despite coordination at the central level. The pressure to expand at the field level is so intense that field workers ignore this factor at times. Duplicate loans may cause repayment problems in the later stages, though in the initial stages a second loan from other programmes might have been used to repay the first loan as was observed in some cases during field work for this study. One woman who happened to shift to another programme came back to the same programme sometimes. Apparently, she left the first programme having been told that the other programme was giving better facilities and more money, which she found was not the case. Therefore, she decided to return to the previous programme.

So far, the SFDP is one of the largest programmes in terms of coverage and number of members, with the PCRW trailing as second, as shown in the graph below.

Chart 6 : Distribution of Members by Programmes

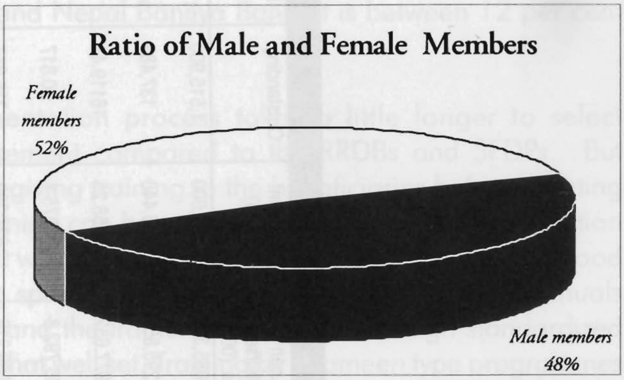


Considering that there are 1.65 million unemployed and underemployed people in the country (ILO-SAAT 1996), these programmes together serve only about 315,000 people. The rapid expansion of most of these programmes does not necessarily serve all the needy in any specific area. This horizontal expansion approach has a problems in terms of meeting the national objective of poverty alleviation.

- Overhead costs of the programmes remain high and, hence, sustainability remains questionable.
- Programmes are thinly spread, hence the vicious cycle of poverty remains intact and unbroken.

- Mass support and involvement tend to be insufficient as programmes are scattered over a wide area

Using existing data, the average number of beneficiaries covered by these programmes by district reflects the above analysis. Only a little more than 315,000 needy beneficiaries are served by all these programmes. Despite being one of the oldest and largest programmes in the country, the SFDP is adding a little over 8,000 beneficiaries annually, which means that only a 100 or so people are being reached per district each year. This figure is quite small in comparision to the implementing organization's network and capacity. The PCRW serves less than 100 persons on an average per district annually, while MCPW has over 175 persons per district annually. The annual coverage of beneficiaries per district is higher in the case of RRDBs, with over 400 and *Nirdhan* and CSD with over 200. With the vertical expansion approach, increase in the number of beneficiaries and more effective service delivery could have been possible at relatively less cost.



Coverage has increased sharply for the RRDB due to strictly, set targets for group formation by which field staff must recruit an average of 20 members per month.

Implementation Procedures

The similarities in all these programmes in implementation procedures are: the group concept, group collateral and responsibility for repayment, group savings and mobilisation, and a bottom-up approach for strengthening the capacity of the groups. However, differences exist in site selection procedures, the group formation approach, and loan recommendations and loan sizes.

The process of identifying target beneficiaries varies slightly among these programmes, despite the fact that the target groups are the same for all, i.e., the poor and the deprived sections of the community.

The RRDB selects sites that are mostly along the road and near market areas, where as the PCRW and MCPW select sites based on the priority poverty area approach. The SFDP and BWTP select sites based on district recommendations. Before beginning the programme, the SFDP, RRDB, and BWTP carry out a general community assessment. The PCRW and the MCPW carry out a complete enumeration survey to identify beneficiaries in the areas of focus before starting the programme. The experience of *Nirdhan* in identifying beneficiaries is slightly different, despite it being a *Grameen* model organization. Until a few months ago, they were applying RRA techniques for

Table 1: **Status of Selected Micro Credit Programmes**

Programme	Coverage		Beneficiaries		Groups	Loan Disbursed In Rs. (000)	Repayment (Rs.000)	Outstanding	Repayment Rate (in %)	Group Saving (In 000)	Personal Savings (In 000)
	Districts	VDCs	Members	Borrower Members							
SFDP (As of Mid-April 1997)	75	649	195,061	195,061	27,343**	4,085,300	2,575,600	1,515,900	58	68,130	-
PCRW (As of Mid-April 1997)	55	426	55,959	41,696	11,745	295,850	165,448	137,485	85-90	18,486	-
Nirdhan (As of Mid-July 1997)	4	77	5,836	4,481	1,213	52,977.652	36,858.25	16119.43	100	3293.9	1,669
BWTP (As of Mid-July 1997)	18	68	5,474	5,474*	1,044	45,792.8	14,975.8	30,817	Over 95	51,562	-
RRDBs (As of Mid-June 1997)	24	411	54104	51014	10,855	863,216	627,299	235,917	100	5,966	-
MCPW (As of Mid-April 1997)	12	98/10	13,742	7,545	2,177	88,838	15,019	35,046	100	5632.51	3,012.78
CSD (As of Mid-July 1997)	6	75	11,757	10,041	2,450	63,364.5	40,154.738	23,209.76	100	3242	318

* *4768 Female and 706 male*

** *Including handed over groups*

Source: *Compiled from Organizations/Programmes* selecting beneficiaries but now the survey approach is being implemented. One *Nirdhan* senior staff feel that this approach have been adopted because of the realisation that the poorest of the poor do not come forward themselves to participate in the programme. Therefore, to reach the actual poor, extra motivation is needed.

The RRDB, SFDP, BWTP, and *Nirdhan*/CSD provide loans directly, functioning as banks, whereas the PCRW and MCPW use the NBL, RBB and ADB/N (the latter only by PCRW) as participating banks to disburse credit to poor women. Interest rates also vary between and within the programmes depending upon the types of banks operating in the particular area. In the case of PCRW, if the loan is taken from the ADB/N, the rate of interest is from 16 - 17 per cent depending upon the purpose of the loan; if it comes from Nepal Bank Limited and Nepal Banijya Bank, it is between 12 per cent and 12 - 14 per cent respectively.

The PCRW and MCPW implementation process takes a little longer to select beneficiaries and in loan disbursement compared to the RRDBs and SFDPs. But invariably all the programmes are giving training to the beneficiaries before enlisting them in the programmes. The training can be considered partly as an indoctrination process. In reviewing the training it was found that the MCPW had developed a good package of 20 hours' the training spread over five days (four hours daily). Manuals for trainers are also standardised and the trainers are trained. Though standardized in other programmes, they are not that well set. Training by *Grameen* type programmes can be considered best in terms of the indoctrination process. Their sixteen promises (see Box 12) and other slogans used to motivate poor women seem effective, at least in the initial stages.

About opportunities for catering to other groups outside the focus of the programmes, the Acting General Manager of ERRDB said that their training packages were made in such a way that those who are not legitimate, potential target beneficiaries would eventually drop out during the orientation process because the staff talk a lot about the poor and their strategy for progress. Therefore, if a member joins just to receive a loan and does not fall into the econmically poor category, she will have difficulty in mixing with other women and is not likely to complete the training.

Fund Management

Fund management for disbursing loans is an important aspect of a credit programme. The SFDP fund is received through loans from IFAD, ADB, and from the government. The PCRW also receives funds from IFAD and from various donors, including the government, for their other social mobilisation costs. The MCPW receives funds from ADB and the government. The credit fund for beneficiaries is provided through the ADB loan (80%), the participating bank (10%), and 10 per cent is put up by borrowers for the project implemented. The RBB is completely financing the BWTP programme. The RRDB fund is provided through share capital from the central bank, commercial banks, and the government. A programme generally expands according to the

Box 12
Sixteen Decisions

- The four principles of *Grameen* Bank-discipline, unity, courage, and hardwork-we shall follow and advance in all walks of our life.
- We shall bring prosperity to our lives.
- We shall not live in dilapidated houses. We shall repair our dilapidated houses and work towards constructing new houses as soon as possible.
- We shall grow vegetables all year round. We shall eat plenty of them and sell the surplus.
- During the planting seasons, we shall plant as many seedlings as possible.
- We shall plan to keep our families small. We shall minimise our expenditure. We shall look after our health.
- We shall educate our children and ensure that we can earn enough to pay for their education.
- We shall always keep our children and environment clean.
- We shall build and use pit latrines.
- We shall drink tubewell water. If it is not available, we shall boil water or use alum.
- We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
- For higher incomes, we shall collectively undertake bigger investments.
- We shall always be ready to help each other. If anyone is in difficulty, we will all help.
- If we come to know of any breach of discipline in any centre, we shall go there and help restore discipline.
- We shall introduce physical exercises in all our centres. We shall take part in all social activities.
- We shall keep patient in every activity and will not leave the group.

Table 2: **Sources of Funds**

	Lending	Social Mobilisation	Admin. Support
SFDP	ADB	GTZ, UNICEF	ADB/N
PCRW	IFAD	UNICEF, UNFPA, WB	HMG/N
Nirdhan	Priority loan grants	Own	APDC, Own Grammen trust Own*,IRISH
BWTP	RBB	RBB	Own
RRDB	Share+PL	Own	Own
MCPW	ADB	ADB,UNICEF,HMG	Own
CSD	Grameen Trust	DANIDA,	Own, Ch-FDP/GTZ

* USAID through IRIS has provided support before and now USAID through SCF(US) is planning to provide further support in the near future
APDC= Asian Pacific Development Centre
Own -refers to internally generated funds such as interest.

availability of funds. However, this was not the case with the PCRW as it was observed that fund utilisation was relatively slow in this programme. But lately, the rotate of fund utilisation has increased greatly. Some private sector programmes are not able to expand quickly due to the lack of funds, and they have begun taking loans from commercial banks. Their interest rates range from six to 11 per cent, whereas the on-lending interest rate is 20 per cent.

Non-availability of funds is one of the common constraints of privately-initiated programmes, unlike government-initiated programmes. For example, *Nirdhan* always faces problems in acquiring loan funds for and has repeatedly sought the needed funds from commercial sources. The provision for compulsory priority sector investment to be carried out by the commercial bank is a favourable rule which has made it easy for *Nirdhan* to negotiate with the Himalayan Bank to receive wholesale credit at a six per cent interest rate and re-lending at 20 per cent. As the demand for credit increased, *Nirdhan* negotiated with other commercial banks to receive similar priority sector wholesale credit. However, they are no longer successful in continuously receiving wholesale credit at six per cent interest. So far, they have negotiated funds at six, eight, and 11 per cent with different banks.

ERRDB, which is one of the fastest growing banks, has also faced some crises in funding and has negotiated wholesale credit with commercial banks as well as with the Central Bank. The negotiated interest rate ranges from six per cent to 11 per cent. The ERRDB has negotiated with the NRB for Rs 11 million at 11 per cent rate (limit approved) but has not used it yet. The commercial banks who have provided wholesale credit for such programmes are Nabil Bank, Indo-Suez Bank, Himalayan Bank, Nepal Bank Limited, Nepal Bangladesh Bank, Grindlays Bank, and Everest Bank.

Flow of Credit and Follow-up

The standard procedures for flow of credit to beneficiaries also vary among programmes. The PCRW and MCPW have, by and large, similar procedures, and these include six to eight weeks for loan processing. Most of this procedural time is spent mobilising the individual women into groups and preparing them for income-generating activities through micro-credit. The processes employed by the RRDB, CSD, and *Nirdhan* are much faster because of standardised procedures for selecting beneficiaries and for providing support directly from the 'mobiliser' than in the case of the PCRW and MCPW, for which cooperation of participating banks (PBs) is necessary. The process is shortened even further to maintain uniformity in the size of the group as well as in amounts of credit.

With the involvement of participating banks (PBs), the follow-up activity carried out by the PCRW and MCPW becomes rigid unlike that of the RRDB, BWTP, CSD, and *Nirdhan*. Rigidity in follow-up refers to proper use of loans by the beneficiaries. The banks often take up issues of proper use with the WDD/WDS, the partner NGOs; whereas those who do not need to involve other partners in implementation were found rather relaxed in monitoring of proper utilisation of funds by beneficiaries. On the contrary, timely repayment of loans was emphasised. In the case of SFDP flow of credit is relatively fast, but in many cases political influence distorted the focus. However, lately some corrections have been made, though most borrowers still feel otherwise. About 40 per cent of the borrowers interviewed for this study said that they had approached someone for help to get the loan. However, with the introduction of the institutional mobilisation process, there will be fewer cases of loans approved on the basis of personal influence In the case of loan repayments, the SFDP encourages the use of fresh loans to pay the previous one. This practice is not commonly used by other programmes.

The practice of group collateral is also changing in some cases. For example, SFDP generally keeps land ownership certificates as security (collateral). Some of the PBs in the PCRW and MCPW programmes are also keeping citizenship certificates as (bank) security. According to one bank manager, this is only by way of psychological pressure on the loanee to ensure timely repayment. Upon request (as per need), he said, they always return the citizenship document. There is no uniformity in this practice and not all bank branches adopt it. In fact, one NBL bank manager even said that it is illegal to keep citizenship certificates as bank security against a loan. Among the beneficiaries interviewed for this study, about 10 per cent questioned this practice, while others thought that it was normal and they abided by it without any question. Partner NGOs are raising this issue in the MCPW programme where it is being practised by some managers.

MCPW's loan size can range up to Rs 30,000 per member for the agricultural sector, Rs 40,000 for micro-enterprises, and from Rs 50,000 to Rs 250,000 for small businesses (on an individual basis). In the PCRW, the maximum loan size is up to Rs 30,000, but in most of cases it has not exceeded Rs 15,000. The RRDB approach is little different. They provide Rs 5,000 for the first loan cycle and this is doubled for the second cycle, and then increased further in the third cycle. This is done to build up the trust and credit worthiness of clients. However, in practice, the maximum loan flow of the RRDB has not gone beyond Rs 20,000. In the case of *Nirdhan* and CSD, until the time of this study, the loan size could be as small as a few hundred rupees and as large as Rs 15,000. Field staff felt that the loan size was supposed to double in the next cycle, but it had not been possible to do so after the second cycle due to shortage of funds and other reasons. The PCRW's average loan size is under Rs 8,000, whereas the MCPW's is a little over Rs.11,000. The RRDB's is from Rs 6,000 - 7,000. The cummulative average loans and repayment rates for various programmes are given in Table 3.

Credit Mobilisation

Different programmes also vary their credit delivery and the rules used in credit management. The *Grameen* Bank models implement a fixed loan concept throughout their programmes. Groups have a fixed size of five persons and the loan amounts are fixed at Rs 5,000 per person for first-time loans. This amount is doubled in the second cycle. However, they are not able to increase the amount in the third and the subsequent

Table 3: Cumulative Average Loans and Repayment Rates		
	Cumulative Average	Repayment Rates
SFDP	20,943	58
PCRW	7,095	85 - 90
Nirdhan	11,823	100
BWTP	8,365	95
RRDB	6,921	100
MCPW	11,774	100
CSD	6,310	100

loan cycles. The MCPW and PCRW are using flexible group sizes, ranging from four to 20 members; they are also flexible in loan amounts. The MCPW credit amount is a maximum of Rs 30,000 and 40,000 for agriculture and micro-enterprises respectively. The PCRW has Rs 30,000 asa maximum ceiling. But the present average loan size has not gone beyond Rs 8,000 for the PCRW and for the MCPW it is just a little over Rs 11,000 only. Both these programmes increase the loan size for the second and the subsequent loan cycle, but such increases are based on the nature of the project as judged by the WDOs and the PBs.

The MCPW and the BWTP are the only two credit programmes that are using NGOs or community organizations as channels for local delivery and recovery. The other programmes are using their own staff to implement the programmes. The MCPW has two channels of loan delivery: one through the WDD (which has its own staff) and another through the NGOs. The SFDP has also started using community organizations on a trial basis as channels for credit delivery and recovery, and this is in line with the policy of institutionalisation of credit management through beneficiaries. The interest rates charged by these programmes also vary between organizations. For example, th RRDB's interest rate is 20 per cent per annum; *Nirdhan*'s 24 per cent; CSD's 20 per cent; MCPW's and PCRW's 12 per cent in case of the NBL and 15 per cent in the case of RBB. Further, if the loan size is over Rs 15,000, NBL also charges an interest rate of 14 per cent per annum.

The subsidy provided by the government for priority sector credit further reduces the actual interest rate for the beneficiaries. The subsidy for loans of up to Rs 5,000 is 80 per cent and, for loans of Rs 5,001 to Rs 15,000, 33 per cent. This subsidy has been in effect for the past few years but has not produced a provide positive impact in the credit delivery and recovery mechanism. In some cases, it has restricted the development of micro-enterprises as many borrowers prefer to keep their loan sizes small so as to receive bigger interest subsidy. In this respect, the Chief of the Development Finance Division of Nepal Rastra Bank (Central Bank of Nepal) said that this system of interest subsidy will cease in the near future.

On the use of credit, the trend is more or less the same in all the programmes: most of the loans are used for the livestock sector: cattle- and buffalo-raising for milk production and goat raising for meat production. The second largest sector for which loans are taken utilised is trading and services such as buying and selling of local products and running tea/snacks' shops and small grocery shops. Micro-enterprise according to the government definition (investment of fixed capital of about US$ 2,000) is hardly seen anywhere. MCPW's small loans in urban areas are also mostly used in small businesses and in the trading sectors. The MCPW gives small business loans ranging from Rs 50,000 to Rs 250,000. The small business loans constitute a very small part of the total loans (300 disbursed in 13,500)

Sustainability and Institutionalisation of Groups

Most programme implementors broadly define sustainability and institutionalisation of groups to mean that, beyond project duration and funding, activities could still continue without external support through the participation of beneficiaries. Another concept of sustainability means sustaining the institutional base of the credit programme without external funding support.

Aspects of Sustainability.

Since all the credit programmes reviewed are using a group approach to provide credit services, they have realised that institutionalisation of groups is essential for the sustainability of programme activities. The SFDP and PCRW took the initiative facilitating institutional development of beneficiary groups a few years ago. The initial response in some SFDP pilot areas has been quite encouraging. From the fiscal year 1996-97, PCRW has also intensified its efforts in institutional development for women's groups. A manual for institutional training was developed and printed. The MCPW is also facilitating institutionalisation of groups in Chitwan and Saptari. *Nirdhan*, at one time attempted to form a beneficiaries' cooperative, but it has not been successful, hence this process has been suspended for some time.

A number of 'federated-groups' is being formed under PCRW with the aim of slowly handing over various activities in social mobilisation and credit delivery and recovery to the groups. Though this is being done in line with the institutionalisation of groups, in practice it has not been applied at all levels. The start-up itself lacks the fundamentals of institutionalisation such as group members' cohesiveness, uniformity in the system, beneficiaries' capacity to manage the organization, and so on. Some of the beneficiaries interviewed for this study do not even know the purpose of belonging to inter-groups and thoe who know the purpose are expecting a lot of financial support from external sources. Some of the inter-groups visited seemed to be quite prematurely established, where as other some were quite mature and well-informed about the objectives, functions, and rules of the federation or cooperative.

The MCPW is trying to build grass roots' women's organizations using strict entry criteria. For example, membership in the beneficiaries' member organization is open only to those who have taken loans from the programme and have proved to be good and prompt repayers. Other criteria are at least 12 months' group savings, six months since the group loan was taken, regular repayment saving, and a positive attitude. When the RRDB started, it promised that the 2.5 per cent compulsory savings from the loan amount would be eventually converted into share holdings of the bank; this has not materialised. One member of field staff said that the older groups are worried about their deposits and were even requesting refunds. According to the staff member, staff working in the field have difficulties convincing these beneficiaries that deposits are safe. A senior officer at the Central Office of the ERRDB in Biratnagar realised the problem and said that they were a little behind in making decisions to this effect. The officer further added that, although the bank was ready to provide shares to beneficiaries, policy approval from the board was needed, and this sometimes took considerable time as a lot of preparation on modalities had to be completed.

RRDB's group size is different to that of other programmes. The RRDB has a uniform group size of five, unlike in other programmes in which there are four and more. The group size is five in RRDB, the area coverage for joint meetings of five groups comprising 25 members is also a good concept because they develop their aspirations, take loans, and repay loans. This gives the groups an opportunity to meet more people and share experiences and plans. However, very little planning was observed during the field work.

For the older groups, cohesiveness among the members is not uniform. Some are extremely scattered, making it impossible to revive the groups and implement institutionalisation. Such problems are found mainly in the SFDP and PCRW. This could be because of a heavy emphasis on credit, rather than on other aspects of the programme. The poor follow-up and support activities for these groups seemed to have spurred the problem.

Regarding the sustainability of the institution providing credit, effective fund management is essential. However, it is observed that, in most cases, the service delivery cost, fund cost, and the bad debt loss are far more than the earning of lending programme on interest and loan recovery. For example, the bad debt loss for the IBP accounts for 14.93 per cent, and for SFDP it is 9.9 per cent as of 1995/96, based on the cumulative loan disbursement. In the case of PCRW, the bad debt loss is 8.54 per cent (Sharma and Nepal 1997). The bad debt loss for RRDBs, the MPCW, *Nirdhan*,

Table 4: Programme Fund Costs, Delivery Costs and Bad Debt Losses

Programmes	Fund Cost	Delivery Cost	Bad Debt Loss	Total Cost
IBP	8.65	1	14.93	24.58
SFDP	10	11	9.9	30.9
PCRW	4	42	8.54	54.54
RRDBs**	8	10	0	18
Nirdhan	6 – 11	16	0	24*
SBP/CSD	6 – 9	11	0	18*
MCPW	6	N.A.	0	N.A.

* calculated using average fund cost at a level of eight per cent
** the calculation is based on the operation of the ERRDB.
N.A.= Not Available

and SBP/CSD is almost zero. The fund cost for SFDP is 10 per cent, whereas the service delivery cost is 11 per cent. The World Bank (1993) has estimated the fund cost for IBP to be 8.65 per cent and the service delivery cost to be one per cent. In the case of PCRW, the fund cost is four per cent and the service delivery cost is 42 per cent, and this includes the cost incurred on both social and economic activities. The fund costs of *Nirdhan* and SBP/CSD range from six to 11 per cent, whereas the delivery costs are 16 and 11 per cent respectively. Analysis of the above data shows that most of the credit programmes are charging interest rates of from 12 to 24 per cent, and these rates are generally supposed to be managing the cost incurred in implementing the programmes.

From the point of view of sustainablity, *Nirdhan* has recently increased its lending rate to 24 per cent. RRDBs and the SBP/CSD is charging a 20 per cent interest rate and their total cost is still within this range. However, all other programmes have negative recovery of funds. These data indicate that, except for RRDBs, *Nirdhan*, and CSD, other programmes are not sustainable without external support.

Very little effort has been made to develop micro-enterprises under these programmes. This might have happened due to the lack of conceptual clarity in developing enterprises. Further, the financial needs of potential micro-enterpreneurs are not adequately met and there is no mechanism to link them with formal financial institutions. The credit limits of these programmes are minimal and approved loan amounts are even smaller; not sufficient to set up an enterprise.

Chapter 4
Impact Assessment

Assessment of the impact of the credit-based programmes on beneficiaries was carried out at this site of the programmes selected.

Greater Access to Institutional Credit

There is no doubt that access to institutional credit has improved for poor people, particularly rural women, as a result of these programmes. A majority of these credit programmes are concentrated in the *terai*. Similarly placed poor people in the hilly regions have benefitted relatively less from these programmes.

One ERRDB official said that most of their activities are in commercial and also densely populated areas. In the hill region, population density is less than in the *terai* and business opportunities are also relatively few. From the programmatic point of view, overhead costs in the hill region are high and sustainability is difficult for the bank. Therefore, banks are primarily concentrated in the *terai* region.

During 1969/70, 18.1 per cent of the borrowing households were using institutional sources of credit which went up to 24 per cent in 1976/77. The 1991/92 data showed a drop to 20.3 per cent owing to some programme failures. The flow of institutional rural credit expanded after 1992, with the introduction of RRDBs. However, institutional credit is more accessible for urban and semi-urban people than for rural people, and those in accessible locations were able to benefit more from these credit programmes than those living further from the roads. The main reason is the limited opportunity in rural areas to generate money from the loans taken. Since most of the programme members have to repay their loans in weekly installments, poor women in rural areas are hesitant to take the risk of not having the cash to repay every week.

In addition to the differences between the *terai* and hills, there are also inter-regional differences in the flow of credit The flow of funds in the eastern and central regions of Nepal is more than in the western, mid-western, and far-western regions of Nepal (where people are poor geographical terrain is nigged, there are more unemployment problems than in the east, and few development interventions). Other factors for such differences could be because of the limited supply network, low efficiency of staff, low motivation, procedural hassles, poor business prospects, limited opportunities for investment, and so on.

One distinct impact is seen in the increased level of consciousness among the people in the context of taking advantage if institutional credit. The volume of credit and the number of borrowers have increased during the last decade with the addition of a number of new programmes such as the RRDBs, *Nirdhan*, the SBP/CSD, MCPW, and BWTP. Jointly, these programmes have disbursed over Rs 1.41 billion in credit to the poor women beneficiaries. This has also influenced the informal sector to reduce interest rate and has discouraged the malpractices of borrowing from moneylenders at high interest rates. Of 85 beneficiaries asked about their sources of credit before and after the introduction of these programmes, 65 were previously using moneylenders for their credit needs with interest rates varying from 48 - 72 per cent per annum; now only seven are using moneylenders and paying interest rates ranging from 30 - 48 per cent.

Creation of Employment

A majority of target beneficiaries being women, they are taking loans for home-based income-generating activities. Basically these activities are providing them with self-employment, mostly in the livestock and trade sectors.

These programmes were able to generate greater employment opportunities on two levels: i) at programme implementation level; ii) and at the beneficiaries' level at which women are self-employed in home-based income-generating activities. There are over 2,000 staff directly involved in implementing these micro-credit programmes. A majority of these are undergraduates.

At the beneficiaries' level, as of July 1997, there were over 315,000 poor, small farmers (men and women) who had taken loans from these programmes and who were involved in income-generating activities. In a country in which agricultural productivity is dwindling, alternative employment opportunities are very important for the family. These activities also play a crucial role in the development of Nepal. *Nirdhan*'s evaluation report (Pokharel and Joshee 1997) revealed that, on an average, employment is generated at the rate of 1.3 adults and 0.1 children on a full-time basis and, additionally, 0.9 adults and 0.7 children on a part-time basis through the activities carried out by using the loan.

Increased Enterprise Development

With the exception of the MCPW, efforts to promote micro-enterprise activity are limited. For instance, the SFDP is giving loans mostly for farming and livestock activities, whereas the RRDBs and other *Grameen* type programmes are providing credit mostly for trading activities. The MCPW has a provision for financing micro-enterpirse and small businesses by increasing crdit amounts. During the last three years, MCPW's investment in micro-enterprises was 25.87 per cent, in cottage industries, 2.47 per cent, and small businesses, 1.82 per cent; of the remaining, the bulk investment was in livestock and agriculture (69.84%). There is slow shift towards seeking off-farm activities by the MCPW but for the PCRW the livestock and agricultural sectors predominate (over 85% shares).

Members living near the market area are carrying out income-generating activities successfully. For example: Sita Devi Chaudhari, a member of the ERRDB, who had nothing before joining the programme, has established a new tailoring shop in the market with the first loan from the ERRDB. Thereafter, with subsequent loans, she expanded her business by adding sewing machines. Now, she is providing employment to four other women in her shop.

The greatest need of existing rural enterprises is market access for their products. Many members lack marketing knowhow. They know that they have to generate profit from the activities they are carrying out, but they lack the skills. Lack of guidance in terms of product design, marketing, and quality control is evident in most of the programmes. For example, over 65 per cent of beneficiaries observed reported that they do not know what enterprise to take up for which one would be beneficial other than what they were already doing. The other 25 per cent said they had very little knowledge about marketing aspects, hence, they are hesitant to diversify their existing businesses.

These credit programmes have given support in order to develop and expand two industries in the country, namely, the dairy industry and trading. With expansion in credit to the livestock sector, the dairy industry has benefitted substantially. Milk production has brought about many secondary impacts by generating a number of small and medium-level dairy enterprises. One milk powder processing plant has already been set-up and is now operational in Biratnagar. A similar establishment has been built in Chitwan district. Three medium-scale private sector dairies are bringing about more competition in terms of pricing in buying milk from farmers. More milk chilling centres have opened and there are more milk collection networks in rural areas. Increase in supply and decrease in demand would have been the worst scenario. However, the demand for milk and milk products is increasing concomitantly with the supply. These micro-credit programmes could be considered to be one of the factors in bringing about a positive impact on the dairy industry in Nepal. The chilling centre in Kanchanpur VDC of Saptari District can be taken as a case in point in which larger quantities of milk are collected from the members of these credit programmes. One of the officers at the Biratnagar dairy plant said that their milk is supplied by small farmers scattered throughout the accesible areas of the eastern region. He reiterated that milk production during the last ten years had increased substantially. This might have been directly influenced by the fact that over 1.5 billion rupees have been invested in the livestock sector through these programmes alone.

The other sector in which impact is seen is in small-scale trading and grocery retailing. Almost all those involved in buying and selling, e.g., running restaurants, tea shops, grocery shops, and cold stores, are doing well. Micro-credit programmes, in this sense deserve a special mention for encouraging the rural people of Nepal to enter into the trading sector.

Income Generation

In most of the districts, group members have started to mobilise group savings' funds to meet the immediate credit needs that could not be met through bank credit. Women receive loana of Rs 5,000 are making profits ranging from Rs 500 to Rs 1,500 depending upon the nature of their activities. Members living on the periphery of markets or district centres are generally investing in trade and services which give quick return and are less risky too. This has facilitated easy repayment of loans on a weekly basis. However, this is not the case with all members. Group members who are living away from markets are constrained by the lack of appropriate profitable business ventures.

Apart from exceptional cases in which reinvestment on income-generating activities, many women members were found to have spent their income on their children's education and household expenses. A woman member of *Nirdhan*, who lives in Basgadhi of Rupendehi district and owns a vegetable shop that set up with a loan of Rs 3,000, expressed her gratitude to *Nirdhan* for enabling her to earn more and enabling her to send her youngest son to the nearby 'boarding' school.

Field observation and case study findings show that these programmes in total are able to produce at least 20 per cent of value-added on an average loan. However, in some cases, a loan has over 200 per cent incremental value from investment. The livestock sector (for milk production) was one of the sectors with high returns on investment, followed by the service/business sector. In some cases, vegetable farming is also very profitable, but it has not been able to create secondary impact as, for example, in the dairy sector.

The impact evaluation study report (Pokharel and Joshee1997) of *Nirdhan* revealed that trading loans yielded the most profit. They yielded an extra 95 *paise* to each rupee invested in every six-month period. The next rewarding activity was a vocational activity, i.e., vegetable farming, goats/pigs, mixed activities, shops, and buffalo raising.

Social Mobilisation

Social activities undertaken by these credit programmes are more or less similar in nature. Social activities under the SFDP include adult education, irrigation, community hall construction, pit latrine construction, distribution of composite packets of vegetable seeds, school improvement, construction of underground greenhouses, distribution of smokeless stoves, and tubewell installation.

In the PCRW programme, community development activities are incorporated in the programme basically to raise the literacy status, reduce work time, and so on. Community development activities are very important for developing confidence and managerial skills of women. Female literacy, early child development, drinking water and sanitation, community health, population education and family welfare, women's community forestry, and forage development activities are some of the main components under community development.

Besides awareness-raising activities, the SBP programme under the CSD emphasises the value of natural resource conservation to its members. It has been actively promoting forest as well as fodder tree plantations through its members. So far, as of the end of 1996, members have planted 34,065 forest trees. A study carried out on firewood collection by SBP members revealed that there has been a more than 50 per cent decline in the collection of firewood from the Churia hill forest. In addition, the health and hygiene component of the SBP emphasises food and nutrition, personal health, and mother and child care. Installation of smokeless stoves, vegetable gardening, and installation of safe drinking water facilities are some of the activities undertaken to achieve this end. Very little emphasis, however, has been given to skill training.

The programmes have increased the productive capacity of women with their direct involvement in these credit programmes. The programmes to date have involved over 166,000 women in various income-generating activities. Many of them still take support from their spouses in carrying out these activities directly or indirectly, but a majority of them have increased their decision-making abilities in the context of the credit programmes.

Out of 85 beneficiaries observed, more than 60 per cent have undergone literacy classes and at least learned to sign their names. According to the *Nirdhan* evaluation report (Pokharel and Joshee 1997), skills in signing have increased from 27.6 per cent to 99 per cent of the members of the programme. Over 80 per cent have been exposed to health and sanitation awareness programmes. They are now more vocal on the issues of women's rights and have begun to solve small problems through the collective action of the group.

Geographic Location and Effectiveness

Geographically, Nepal is divided into three regions: the lowland area called the *terai*, the mid-hills (the hill region), and the high altitude mountainous areas (called the mountain region). By region, the various programmes under review are spread as follow.

Though the number of districts covered by these programmes in hill areas is high, analysis of the number of beneficiaries and loan disbursement figures give a different scenario. For example, one of the fastest growing programmes, RRDBs, has covered 33.3 per cent of the hill region districts, whereas when it comes to the actual coverage

Table 5: Programme Districts by Geographic Regions				
	Terai	Hill	Mountain	Total
SFDP	16	39	20	75
PCRW	13	24	18	55
RRDBs	17	7		24
MCPW*	4	11	-	15
BWTP	8	10	-	18
Nirdhan	4	-	-	4
CSD	4	3	1	8

* Including the urban sites of Nepalgunj, Dumre and Kathmandu

of VDCs, it is only covering 6.4 per cent compared to their total coverage. This figure decrease when it comes to the beneficiaries' coverage to 3.9 per cent and the loan amount disbursement further goes down to 1.6 per cent to its total figure in the hill region.

The RRDB and two other similar programmes, *Nirdhan* and SBP/CSD, are mostly concentrated in the *terai*. One senior ERRDB staff member says that this model is relatively effective in the *terai* region where markets are accessible and products are easily disposable. To bring this programme in the hill/mountain region means higher overhead costs due to scattered settlements in hill/mountain regions. Contrary to this notion the CSD says that the repayment rate of its first hill region is 100 per cent (CSD newsletter 5 Jan 1997). WRRDB's chief executive also said that they are greatly encouraged to expand their hill region operations because of a very satisfactory performance of their programme in Palpa district. Now they have expanded their credit programmes in Tanahu, Kaski, and Syangja districts. However, the most aggressive and the first RRDB in the eastern region still has reservations about venturing into this programme in the hill/mountain regions. Their concern is that the markets and marketable products' development in the hilly area are few. Therefore, quick investment and returns may not be possible. This argument is based on the cost of managing of the credit programme, which becomes relatively higher in hill and mountain areas compared to the plains. According to them, without any subsidy from the government, it will be difficult to manage the programme without incurring loss.

With regard to this issue, the field staff working in Palpa (hill area) under the MWRRDB felt that micro credit programmes would be more successful if implemented with some modifications in implementation procedures. More importantly, such modifications are suggested for loan repayment schedules, changes in centre's specifications (presently 2-8 groups form a centre), and flexibility in the size of the loan.

The views of the beneficiaries in this respect were also analysed for critical review. In terms of services received, there is no difference of opinion in both areas between (hill and *terai*) beneficiaries: they feel that it is a good programme. However, about 10 per cent of the beneficiaries raised some issues on the management of the programme in both regions. The issues raised were more on the system of the RRDBs of five per cent savings deducted from their loan money. The most common query is to state the purpose. A majority of the women also question when they will get the money back. The ERRDB in the beginning told them that this money will be converted into bank shares, so that they would also be owners of the bank. One member of the field staff said that this explanation had been given to them for a long time, but that there is no sign of action from the management side. When and how this conversion into shares will be implemented is not yet known. According to this particular staff member, they have difficulty in convincing group members and their families. The management is still committed to the idea of converting savings into shares. But they also said that the policy still needs approval from the board, hoping that, in the near future, this will be approved and implemented. Until it is approved, the dissatisfaction of older members will spread slowly among other new members.

There was not much difference in the nature of investments between the hill and the *terai*. Small roadside shops (tea shops/eateries or grocery shops), trading, and livestock raising for milk or meat purposes are the activities mostly taken up. In some cases in the hilly regions, women have invested in vegetable gardening; and in the *terai*, they are engaged in producing and selling puffed rice or beaten rice. In terms of the size of loans and procedural matters, no changes or variations were found.

Most of the off-farm investments in the hilly region have taken place along the roadside where public transport services have created added business opportunities. In the *terai* also, most of the investments of the RRDB are near urban and semi-urban market centres.

Contrary to the RRDB, the PCRW and the MCPW are clustering programmes around the village or community concept. This difference could be due to a variation in basic orientation of these programmes. PCRW and MCPW give emphasis to production of goods whereas RRDB puts more emphasis on quick returns, which is mostly possible only through marketing products, not merely in manufacturing the product. The weekly payment is possible if trading or business activities are taken up, merely producing goods such as milk, vegetables, poultry, or goats for meat, that have a short shelf life, does not lead to quick return. This variation in concept has affected the nature of income-generating activities that women carry out. In the RRDBs, trade and services are the main areas in which the largest loans are utilised, and in the PCRW and MCPW livestock are the predominant sector.

Chapter 5
Summary and Conclusions

Summary of Findings

Historical Development, Expansion and Coverage

The ADB/N started the Small Farmers' Development Programme in 1975, initially in Dhanusa district in the central development region. To date, the SFDP covers 649 VDCs in 75 districts. In 1982, the Women's Development Programme was also started as an integral part of the SFDP to give help to deprived women. While it was the first to be set up, and on a collateral-free group guarantee basis, the SFDP's rapid expansion is seen tohave been too rapid and over influenced by political decisions. For this reason, its expansion was more spatial and a corresponding focus on other areas seemed wanting, e.g., the proper identification and preparation of beneficiaries for various programme activities. Unlike SFDP, PCRW, which followed the SFDP in 1982, put more emphasis on identification and preparation of beneficiaries. The programme, however, heavily concentrates on community development activities, thus comparatively less beneficiaries are covered for income-generating activities, but many for community development and training.

PCRW, which started in five sites in 1982, has expanded to cover 139 sites in 55 districts to date. This expansion was largely prompted by the results and strong recommendation of a series of studies on the 'Status of Women in Nepal', indicating the need for a comprehensive programme for poor women. Further, the Sixth National Development Plan of Nepal also reinforced this recommendation.

Starting with two institutions in 1992, the RRDB has now expanded its coverage and institutional base from two to five, representing one each in five development regions. The successful operation of the ERRDB, considered the seniormost and a leading role model organization, has led to the establishment of three other RRDBs in the central, western, and mid-western regions. There are now five RRDBs covering 24 districts which include 411 VDCs; 93.6 per cent from the *terai* and 6.4 per cent from the hilly regions of Nepal. The RRDB's organizational structure, starting from groups, centre, to branch, has a strong monitoring mechanism with regular weekly meetings in a centre. The Banking with the Poor (BWTP) scheme was launched on the initiation of the Foundation for Development Cooperation of Australia with the Rastriya Banijya Bank as the executing bank. The programme started in 1991 from Gundu VDC of Bhaktapur district and has now expanded to cover 68 VDCs of 18 districts as of July 1997.

The Micro-credit Project for Women (MCPW) was launched in 1994 in 12 districts and five towns of Nepal with support from the Asian Development Bank, and it was implemented by the Women's Development Division of the Ministry of Local Development of His Majesty's Government of Nepal. To date, it is covering 98 VDCs and 10 municipalities, using both the WDD and the NGOs for service delivery mechanism.

Nirdhan, a private sector initiative was organized in 1990 and registered with HMG of Nepal in March 1991. *Nirdhan* operates on the *Grameen* Bank model from Bangladesh and started providing credit services from March 1993 in Rupandehi district. To date, it has expanded to cover four *terai* districts: Rupandehi, Kapilbastu, Chitwan, and Nawalparasi. The Centre for Self-Help Development (CSD), another private sector initiative, started in 1991, has a Special Banking Programme component also based on the Bangladesh *Grameen* Bank model. At present, its area coverage has spread to 75 VDCs in six districts.

Main Objectives and Differences in Focus

All the programmes reviewed for this study aim to support the poor sector of rural communities for their economic upliftment by strengthening their income-generating capacities.

The SFDP aims to improve the wellbeing of small farmers through the provision of credit and related support services. The project covers group formation, credit, social and community development, community irrigation, environmental conservation, women's development, training, institutional development, and savings' mobilisation. The SFDP is a credit programme for the overall poor, with largely men and very few females. The PCRW and MCPW are, as the project names suggest, only for female beneficiaries, so are the RRDB, SBP of CSD, and *Nirdhan*. The BWTP caters mostly to women, though a few men also participate in the programme.

In practice, the SFDP deviates from other programmes in terms of group guarantees by taking additional tangible collateral over and above group guarantees. The RRDBs have one basic objective – that is to make institutional credit accessible to poor women; it does not specifically look into how this credits is being used. The other programmes, the PCRW and MCPW in particular, focus more on the income-generating aspect

Though both PCRW and MCPW are being implemented by the WDD of MLD, they differ somewhat in focus and operational modality. Unlike PCRW, MCPW has urban programmes that cater to the urban poor and women entrepreneurs. For programme implementation, the MCPW has included NGOs as partners, apart from the WDD itself. This new approach has been used for the first time, as far as partnership implementation with HMG/Nepal is concerned. Its credit component is also executed by commercial banks. This system allows for double checking in credit disbursement and use.

Contents of Programmes, Types and Sizes of Credit/Other Inputs and Aspects

Most of the programmes are rural-based, and almost automatically the sector they cover and influence is in the field of agriculture for which the main investments are in farming and livestock. The latter programmes, viz, RRDB and MCPW, have attempted to diversify, though still limited in scale, the coverage to other non-farming business sectors such as running tea stalls and grocery shops and buy-and-sell trading. A majority of loans are for livestock, agriculture, and trading/business in this order.

Credit size has also increased since the earlier programmes – from Rs 5,000 to over Rs 10,000. PCRW's average loan amounts are under Rs 8,000, whereas MCPW's are a little over Rs 11,000 and RRDB's within Rs 6-7,000 range. Both PCRW and MCPW are increasing the loan amounts for the second and the subsequent loan cycles, but such increases are based on the nature of the project as assessed by the WDD and PBs. The RRDB's increase their loan amounts to 10,000 for the second term and to Rs. 15,000 for the third cycle without taking into consideration the type of project to be undertaken, as long as the previous credit is repaid regularly.

MCPW varies from other programmes in maximum credit available: up to Rs 40,000 for micro-enterprises and from Rs 50,000 to Rs 250,000 for small business investments. PCRW has a maximum of Rs 30,000 in loan amount. The RRDB, on the other hand, has a flat system of disbursing loans of Rs 5,000 for the first time and doubling the amount in the second cycle, further increasing the amount for the third time and so on. However, this approach is used only by programmes introduced through *Nirdhan* and CSD.

The risk minimisation mechanism of all these programmes is only in livestock (cattle, buffaloes, pigs, and goats) provided through the Credit Guarantee Corporation (CGC). However, there are several problems faced at the field level regarding the successful implementation of this risk minimisation scheme, which guarantees loans of up to 80 per cent. Some group members were unable to maximise the benefits from income generation activities in the livestock sector, this was largely because of the lack of reliable veterinary services, improved breeds, and insurance system. The insurance scheme provides security for credit, not necessarily security for the animal that is insured. CGC's insurance policy ends once the loan is repaid, even if the maturity date of the policy is for a longer period. The SBP of CSD provides insurance package on their own, covering 80 per cent of the risk.

Institutional Arrangements and Procedures

PCRW is being implemented by the Ministry of Local Development in coordination with commercial banks, ADB/N, UNICEF, and other line agencies. MCPW is likewise an undertaking through the MLD's Women's Development Division which is responsible for programme planning, monitoring, coordination, and implementation. For both of these programmes, the credit component is executed through commercial banks. MCPW's credit component is being executed by the Nepal Rastra Bank using two commercial banks as implementing organs: the Nepal Bank Limited and the Rastriya Banijya Bank. PCRW's, on the other hand, is being implemented by the three commercial banks (NBL, RRB, and Nabil) and the government's ADB/N.

MCPW is using a two-way channel to reach the poor women through NGOs and through using its own staff BWTP also uses NGOs or community organizations as channels for local delivery and recovery; while others use their own staff to implement programmes. The BWTP promotes the community organizations to implement its programmes. SFDP also started using community organizations as channels for credit delivery and recovery, in line with the policy of institutionalisation of credit management through beneficiaries.

Programme implementation involves various steps: from site selection, identification of target groups, motivation, group formation, and training on loan disbursement and repayment. Though these processes are all invariably adopted by these programmes, the extent of use and depth of preparation vary. The RRDBs can complete the process in two to three weeks' time, while PCRW and MCPW require two to four months to complete these processes.

One good feature of the RRDB, *Nirdhan*, and CSD programmes is the weekly group meeting, in comparison to the monthly group meeting prescribed under the PCRW and MCPW. The weekly group meetings organized by the RRDB provide more consistent opportunities for members to become united, to be further motivated, and to meet to repay their loans. On the other hand, most of the PCRW and MCPW meetings are used to discuss their problems and prospects and to provide a venue for collecting savings.

Results – Disbursement and Recovery

SFDP has disbursed a cumulative loan amount of Rs 4.085 billion as of mid-April 1997. Of this, Rs 2.56 billion have been repaid, with the remaining Rs 1.515 billion outstanding. The small farmers' group savings fund is also being loaned out for emergency needs. As of mid-1994, about Rs 46 million in savings' funds have been mobilised. The recovery rate of the SFDP is about 58 per cent, which is lowest among all the programmes, despite the double cushion in its collateral approach.

PCRW has disbursed loans of Rs.296 million, of which Rs165 million have been repaid as of April 1997. The recovery rate of this programme is around 85 – 90 per cent. Under MCPW, Rs.89 million has been disbursed with a recovery rate of almost 100 per cent. The RRDBs cumulative loan disbursement is Rs 863 million with a loan recovery rate of almost 100 per cent. The NGO sector programme of *Nirdhan* and CSD has disbursed loans of Rs 53 and 63 million respectively with a loan recovery rate of almost 100 per cent. The BWTP programme has disbursed loans of about Rs 46 million with a recovery rate of over 95 per cent.

SFDP has provided credit services to over 195,000 men and women, the RRDBs to over 54,000 women, PCRW to over 41,500 women, MCPW to over 7,500 women, *Nirdhan* to over 4,000 women, CSD to over 10,000 women, and the BWTP to over 5,000 women and men.

Impact – Promotion of Activities

All programmes that were under review have expanded rapidly, covering more and more of the geographic area and increasing the number of beneficiaries. In a few cases, programmes do overlap since most of the credit is for the agricultural sector, especially livestock. One main impact that these programme has had is to increase the institutional credit access to over 20 per cent of the poor population of the country. With the addition of RRDBs, *Nirdhan*, CSD, and MCPW, this figure has probably gone up during the last four to five years. However, the entry of RRDBs has catered more to the *terai* than to the hilly region, and more to the eastern than to the western region of Nepal.

One clear impact of these programmes is the increased level of consciousness among the people about institutional credit. Therefore, the demand for credit in rural areas has increased in terms of the number of beneficiaries and loan amounts. This can be considered a positive sign in terms of increasing productive sector investment in rural areas.

These programmes are able to generate greater employment opportunities at two levels: at the programme implementation level (expanded programmes means that more programme staff are involved); as well as at the beneficiaries' level whereby women beneficiaries become self-employed in home-based income-generating activities. There are over 2,000 staff providing services to over 315,000 beneficiaries to date. At the enterprise creation level, two sectors benefitting more from these programmes are the livestock and the trading sectors. With most of the investments in livestock, the dairy industry has benefitted more distinctly. Another sector with a growing positive impact is the small-scale trading/businesses, to which previously people were less inclined.

Field observations and case study reports show that, in general, these programmes are able to produce at least 20 per cent of value-added on an average. Secondary impact is seen in terms of increased social consciousness and greater economic capacity to be able to continuously send their children to schools; and this includes girls. Many beneficiaries interviewed felt that the economic empowerment brought about by these programmes enabled many of them to send their children to schools, a few even to boarding schools.

Conclusion

Emergence and Expansion of Different Programmes

The SFDP is the pioneer programme in Nepal in providing the poor with institutional access to credit. On the other hand, its main drawback is its focus on covering all the 75 districts, but at the expense of adequate and effective preparations for implementation. The SFDP is seen to be quite static and not too dynamic, since it has not made significant improvement nor changes in its original design during the last 21 years of operation. Using such an implementing structure as the ADB/N which in itself is beset with problems of political pressure, the SFDP's has lost a huge amount of loans because of the poor recovery rate, not to mention high delivery costs.

The latter programmes such as the PCRW and MCPW, have gained headway since their establishment, following the SFDP. With the PCRW and MCPW combined, their implementing agency the MLD's WDD now covers a total of 67 districts. The PCRW is considered the first women's focussed programme with social and economic activities that have had a considerable positive impact on poor women. The programme has relatively high mobilisation costs, and these need to be reduced by increasing its performance. The bad debt loss is also decreasing and could be minimised with better training for the staff, providing job security, and minimising the political influences in its operations. Building on the lessons of PCRW, MCPW is now in its third year of operation. MCPW's focus, however, is on credit and all other services are supportive of increasing women's involvement in income generating activities through credit. PCRW, on the other hand, puts more emphasis on community development activities, and credit is not a regular 'programme', but remains a 'project'. While no impact assessment has yet been made, the MCPW seems to have no major issues, apart from one, that is the sustainability of activities through the NGOs after support ceases. There are 55 NGOs presently providing credit delivery support services under the project. The MCPW will carry on up to the year 2000. Initial discussions for further expansion of the MCPW has already begun.

The two programmes under the private NGO sector, *Nirdhan* and CSD, have, over the last three years been serving about .34 per cent of the target population (using 1991 census figure a total population of 18.49 million). Managed in more professional ways than the government's RRDBs and with no adverse political influence, these private sector programmes have been maintaining high recovery rates to date. They, however, have problems of shortage of lending funds and lack conducive legal and regulatory frameworks. Under the Nepal Rastra Bank Act, *Nirdhan* and CSD are presently permitted to deliver credit.

In general, the above rural credit programmes still cover a limited proportion of the Nepalese rural population. Moreover, despite the benefits so far derived by their beneficiaries, the availability of these credit support services has not significantly met the needs of the rural people. Though these programmes under review are the first five major credit programmes in Nepal within the last two decades, to date they have only covered about seven per cent of the targetted population. There were also problems of high lending costs due to low loan recovery rates, which in turn are largely due to the poorly trained and ill motivated staff, and partly due to more fundamental, structural problems of interest rates and procedures.

Relative Importance of Credit vis-à-vis Other Conditions and Inputs

Providing credit to rural women group members has paved the way for a variety of positive changes in their lives. A large majority of group members are now able to deposit and mobilise their savings, borrow and repay the loans. In addition, they are also very conscious of the fact that they can demand and initiate action on issues and problems affecting them and their community, with most of them now able to manage some community development activities by themselves. The available literature and actual observations with women members also indicate significant improvement in the decision-making roles within and outside the households of these women group members.

With the entry of the RRBDs, the MCPW, *Nirdhan*, SBP/CSD, and BWTP, the credit flow to women has increased to such an extent that over 52 per cent of their beneficiaries to date are women. Further, over Rs 2.5 billion in credit funds have been invested in these women group members. Various programme reports noted that women have comparatively higher loan recovery rates than their male counterparts.

On the other hand, it is felt that these positive changes could have increased further had the following limitations been addressed more effectively: lack of adequate skills, low motivation and an opportunities for women, and lack of marketing services.

Multiplicity of Objectives

Most of the programmes analysed seem to be multi-pronged in approaches, with credit delivery, institution building, and community development built into the programme. Such multiple objectives are meant to be complementary instruments for more effective credit management – delivery, use, recovery, and programme sustainability. Various reports and studies have supported the fact that packages of various exposure activities under these programmes have increased the self-confidence of women members. It has also increased their absorptive capacity. Literacy programmes, for example, have helped women to be able to sign their names, keep minutes of meetings, maintain simple records of their savings' and credit status, and carry on simple numeration. Drinking water projects have eased the labour and time spent by women members and have also encouraged other productive activities such as kitchen gardens, and improved health and environmental (sanitation) conditions.

Installation of water mills, biogas, smokeless cooking stoves, availability of tools, child care centres, and fodder and forest development programmes have all made positive improvement in the lives of the women group members. However, the cumulative effect of these community development programmes seems not to have helped much in strengthening and institutionalising the credit programmes. For example, SFDP, which has strong community development programmes, is trailing far behind in its recovery rates. Similarly, PCRW is second in rank in low recovery rates despite high inputs into community development activities. The RRDBs, which put very little into community development activities, so far has the best results in loan disbursement and loan recovery rates.

The multiplicity of objectives of these programmes seems to equate to a 'welfare' concept, thus dividing the crucial attention needed to address the basic objectives of credit servicing. Therefore, in some cases the multiplicity of objectives of programmes is found to be not very supportive of the increased effectiveness of credit programmes.

Coordinating with respective line agencies for other packages of complementary activities are, however, often the bottlenecks faced by these programmes. Technical backstopping is often lacking, and coordination is inefficient.

Target Group Approach

The target groups of all the programmes reviewed are poor and underprivileged men and women. Some programmes are specifically catering to women, whereas others cater to mixed groups of men and women. All of these programmes have used a group approach to reach these target groups. Data show that programmes catering to poor women's groups have shown better result in terms of loan utilisation and recovery rates. These programmes, which focus mainly on women's groups, are the PCRW, MCPW, RRDBs, *Nirdhan*, and CSD. The SFDP and BWTP programmes target mixed groups of men and women.

Identification of target groups is carried out either in terms of income or assets. A per capita income of Rs 2,511 is most commonly taken as the accepted demarcation point to identify the poor. Similarly, those who are using asset criteria to identify target groups use the following definitions: land ownership of 0.5 hectares of cultivable land per family in the case of SFDP; and 0.6 hectares of land in the *terai* and 0.5 hectares of land in the hilly region in the case of RRDBs. The BWTP programme considers all 'women' as poor.

Geographical and Locational Dispersal of Programmes

Most of the programmes reviewed in this study cover the thickly populated *terai* region of Nepal. The poor coverage of the hills and mountains, as well as the off-the-road and distant-from-market locations can be said to be prompted by the problems of administering the programmes in these areas, as well as a safe play on the part of the organizations involved. Most of those concerned with these programmes felt that the hill and mountain regions required much more investment, perhaps with little returns, considering the lack of market facilities and other support structures to enhance production and marketing of products and services brought about by the availability of credit.

Especially in the case of government-led programmes such as the SFDP and PCRW, their problems include lack of effective supervision and monitoring from the central and regional offices; field staff not making sufficient field visits due to lack of incentives; and lack of reward and incentives for superior performance. Some pilot programmes in the hills, e.g., in Palpa, have shown good results according to their programme proponents. The extent to which this experience can be replicated successfully in other hill and mountain areas is still to be explored.

It has already been thoroughly documented that the problem in rural lending thus seems not to be the lack of resources but that of extending the outreach. The low institutional access clearly indicates some sort of deficiency in the existing institutional credit system. Sharma and Nepal (1997) outlined the reasons indicating low institutional access as follow.

- The number of formal credit institutions itself is inadequate.
- Whatever were the formal institutions involved in rural lending, they also lacked focus and orientation and suffered from deficiencies such as lack of appropriate loan policies; delivery mechanisms; and inadequate numbers of motivated, dedicated, disciplined, and well-trained personnel.
- Poor loan supervision resulting in high overdue/loan losses and poor recovery rates.
- High delivery costs
- The formal credit institutions were inefficient and non-responsive to the needs of the rural poor.
- There iis too much political interference in bank management and pressure for loan approvals.
- There is too much involvement of bank personnel in politics.

Enterprise Development

Selection of an enterprise is not only dependent on the beneficiaries but is also influenced by many other factors such as the ability and/or capacity of the programme implementers to advise them on what is best for them, to identify the necessary skills for such IGAs, and to provide skill development training, analysis of markets in relation to the demand for products and services, and so on. On the other hand, enterprise development is found to be a weak link in all the programmes reviewed, owing to a variety of reasons: orientation of the programmes (poverty alleviation, women, etc.), small scale of financing; and in addition lack of other necessary inputs and services such as technology, markets, trained, and dedicated staff to conduct skill development and enterprise development training, etc.

All the programmes in Nepal are expanding with a very low profitability margin – just enough to provide work opportunities. The result is still heavy dependence on agricultural activities and very little, in a true sense, 'enterprise creation'. Therefore, one of the keys to diversifying enterprise development is to have good manpower training for the field staff. In turn these staff will effectively support the beneficiaries to diversify their activities.

On an average, off-farm activities are undertaken by about 10 per cent of the beneficiaries – which can be considered as enterprise creation. Some changes have also been observed in the increase of loan amount with positive variation in the scale of operations. Despite such business activities being mostly family-managed, providing self-employment to family members, management experiences broaden. As the volume of loans and the businesses these loans are used for increase, so does opportunity for improving the managerial capacities of the borrowers.

Loan Recovery

The loan recovery rates of older programmes seems to be lower than those of newer programmes. For example, for SFDP, the oldest programme the repayment rate is 58 per cent, whereas the second programme, PCRW, has a rate of about 85 - 90 per cent. Compared to these older programmes, new programmes such as RRDBs, *Nirdhan,* and SBP/CSD and MCPW have almost a 100 per cent repayment rate. Further, the loan recovery rates of women-focussed programmes are seen to be better than the mixed or male focussed programmes.

Higher recovery rates appear to be equated with the degree of independence in decision-making in key aspects of the programme. Where there is more political interference as with the government-managed programmes, there is more room for inefficiency and lack of sound management decisions which reduces their loan recovery rates, among other adverse results.

Sustainability

There are two aspects to sustaining the programme: sustaining the group members for continuity and sustaining the programme, i.e., poverty alleviation through access to credit for income-generating activities.

In terms of institutionalising groups, steps taken by some of the programmes and organizations are appreciable features of the credit-based programmes. But the process should not stop just by creating organizations and cooperatives.

A most common approach used and found effective in sustaining groups is collective group savings. However, this present movement of savings and credit may not be able to sustain the group unless an additional approach in using group funds is employed. The older groups in many cases are found less active and enthusiastic, contrary to what is envisaged. The reason behind this is the lack of gradual upgrading activities to strengthen groups and no further sound institutionalisation plans in place. Some have tried forming cooperatives combining a few groups together, but the experience is not yet successful enough to replicate. Some also tried registering the groups under the Social Welfare Act (at the CDO's Office) as NGOs. But it is difficult to find one good organization that can be called successful in a true sense. The SFDP, however, can take some credit since its beneficiaries are active and are encouraged to take more responsibility. The PCRW and MCPW initiatives are yet in the early stages and are, therefore, too early to be assessed.

The capacity and capabilities in terms of sustainability of most micro-credit programmes in Nepal are yet to be developed. Most of their resources are decreasing, and their replenishment is dependent on the financial commitment of external donor institutions. Moreover, the quality of programme management and staff efficiency is yet to be developed to a satisfactory level. With the exception of the *Grameen* Bank replicators and MCPW, recycling of micro-credit funds have been ineffective due to low repayment rates. Lastly, almost all of the micro-credit costs of delivery are so high that these do not enable the banks to make profits.

On the issue of activity sustainability, unless the funds for credit are made available in a sustained manner, programme activities are not viable at the moment. Savings mobilised at the grass roots' level are mostly fulfilling the need for petty cash demands and are grossly inadequate to meet credit demands, even if the institution building plans and processes of these programmes are absolutely successful. Therefore, alternative mechanisms for sustained micro-finance schemes, which can support various programmes, are seen to be essential. This will need action at the central level.

Implications

Considering the duplication of areas of operation in many cases, these various micro-credit programmes should coordinate better in terms of selecting sites and target groups. If these programmes can strictly coordinate to take specific VDCs within the districts, avoiding duplication of work, the coverage in terms of area and the number of people to be served will increase, at the same time, reducing the cost of operations.

The selection of districts can be coordinated at the central level by the Nepal Rastra Bank, whereas the Local Development Officer (LDO) at the District Development Committee (DDC) office can coordinate at the district level while selecting the VDCs. With good records and a sound database, the Nepal Rastra Bank can also coordinate at the central level by selecting and assigning VDCs to the respective programmes.

Most credit programmes that have clear objectives and sound programme design, focussing mainly on credit delivery services, perform better and achieve greater impact among the beneficiaries served. Programmes therefore should learn from this experience and should design supportive programmes around the credit delivery component more directly, rather than diversifying too thinly around many community development activities.

While designing credit programmes, the locational variation should be given careful consideration. In the *terai* area, for example, where there are more commercial activities, the RRDB approach – including the practice of weekly repayments, can be applicable. However, in the hill and mountain areas, where ready markets remain very limited, the more flexible repayment schemes of the PCRW/MCPW may be more appropriate, but should equally increase the emphasis on market development and skill training for off-farm enterprise promotion.

The analysis of various credit-based programmes indicates that the present situation is still more of a 'supply-push' scenario. However, some changes have been observed in the increased size of loans and the slow shift in off-farm activities. Strategic support in skill training, identification of enterprises, and marketing can bring about positive changes in micro-enterprise creation.

Rather than spreading the programme thinly, which entails higher programme operational costs and often results in poor monitoring and supervision, credit-based programmes should, as much as possible, concentrate the increase in a given area first, before horizontally expanding any further. Not only will this approach help to reduce the programme's overhead costs, but it will also strengthen the institutionalisation of groups through mass support and greater involvement.

Nirdhan and CSD's active involvement as NGO financial intermediaries administering funds to lend to the disadvantaged, especially to women and the rural poor, shows the crucial role that the private sector/ NGOs and INGOs can play in the credit sector. Development of the formal sector in the financial system, especially the credit cooperatives, as well as the entry of the joint venture commercial banks have also shown that there is much room for private sector participation in the provision of financial services to the disadvantaged. To create a conducive environment, the government needs to develop a proper legal framework to systematise and encourage the private sector/NGOs/INGOs.

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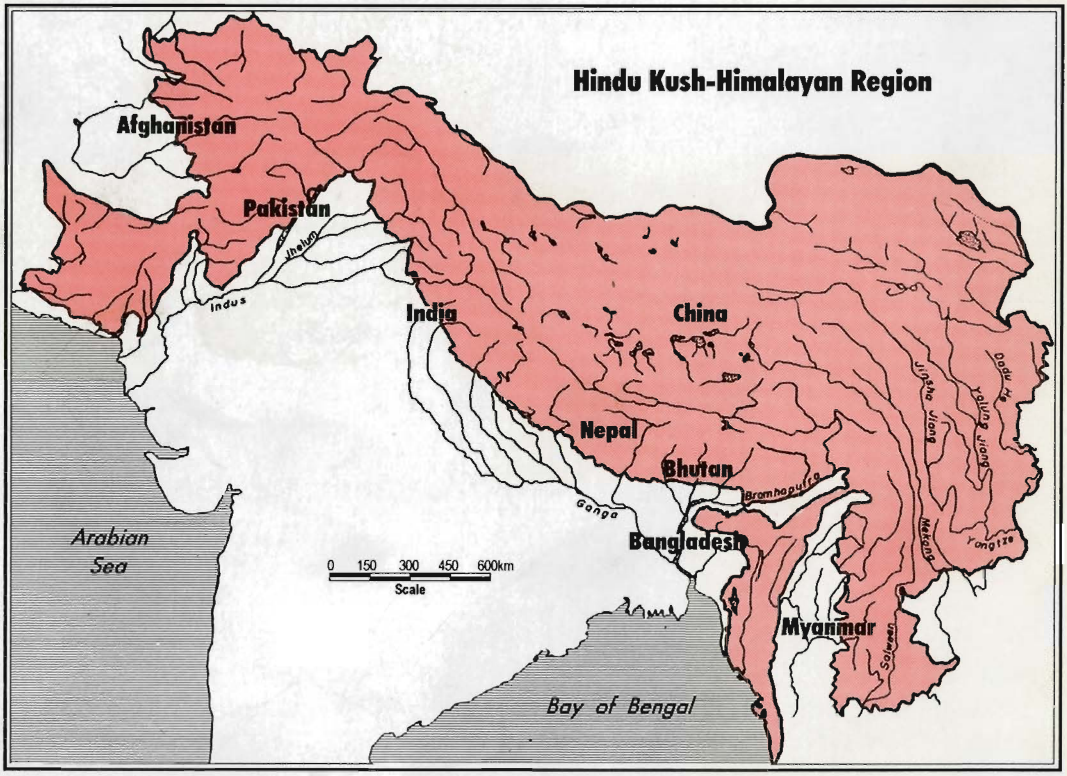
Participating Countries of the Hindu Kush-Himalayan Region

- Afghanistan
- Bangladesh
- Bhutan
- China
- India
- Myanmar
- Nepal
- Pakistan



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