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.

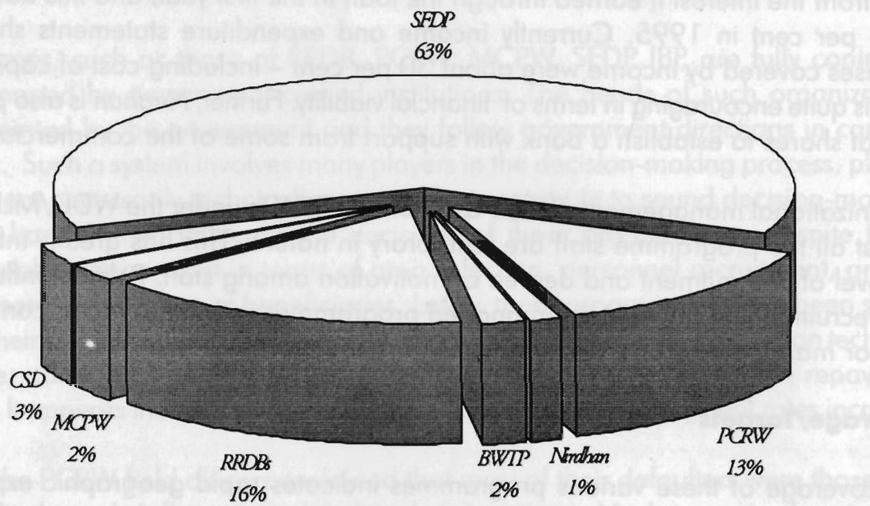
Coverage/Targets

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

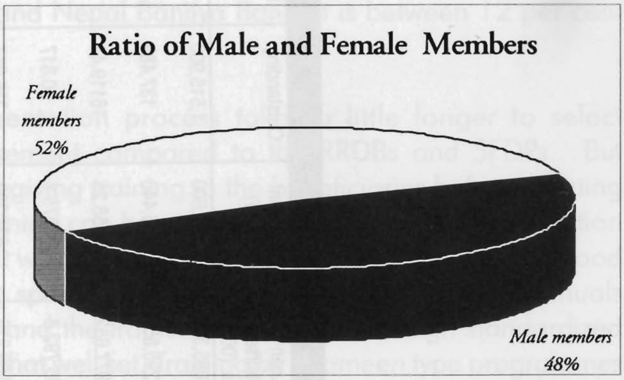


Considering that there are 1.65 million unemployed and underemployed people in the country (ILO-SAAT 1996), these programmes together serve only about 315,000 people. The rapid expansion of most of these programmes does not necessarily serve all the needy in any specific area. This horizontal expansion 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: Districts	Coverage: VDCs	Beneficiaries: Members	Beneficiaries: Borrower Members	Groups	Loan Disbursed In Rs. (000)	Repayment (Rs.000)	Outstanding	Repayment Rate (in %)	Group Saving (In 000)	Personal Savings (In 000)
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.