

# 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 Baniija 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.

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

## 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' mobilization, and collaboration with NGOs.