

**IMPACT OF MICROCREDIT PROGRAMMES ON
POVERTY ALLEVIATION IN NEPAL
A CASE STUDY OF RUPANDEHI DISTRICT**

A Dissertation

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LETTER OF RECOMMENDATION

We certify that this dissertation entitled **“IMPACT OF MICROCREDIT PROGRAMMES ON POVERTY ALLEVIATION IN NEPAL: A CASE STUDY OF RUPANDEHI DISTRICT”** was prepared by Rama Bashyal under our guidance. We hereby recommend this dissertation for final examination by the Research Committee of the Faculty of Humanities and Social Sciences, Tribhuvan University, in fulfilment of the requirements for the Degree of **DOCTOR OF PHILOSOPHY in ECONOMICS**.

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Abstract

Loans from formal institutions to the disenfranchised and those without any financial security were always taken as an impossible idea. In light of this thinking, a new approach known as microcredit programme was developed thirty years ago. The term “microcredit,” which used to refer only to credit-focused programmes, has now gradually transformed to “microfinance,” a broader concept dealing with credit, savings, and insurance. And these services are provided by the formal microfinance institutions (MFIs) governed by certain acts and rules.

Widespread context of rural poverty in the country, emergence of large numbers of MFIs, and the increased volume of loan investment are rationale of the study. Since the late seventies or after the Sixth Five Year Plan, (80/81), the poverty alleviation approach was integrated into the country’s mainstream financial system, recognising microfinance as an official poverty alleviation programme. The sector gained further momentum after restoration of democracy in 1991 with the establishment of Grameen Bikas Banks (GBBs) in the five development regions. Since that period, other different forms of MFIs have been set up. The Nepalese microfinance sector currently comprises a wide variety of models e.g., cooperatives, the private and the government-owned GBBs/replications, government supported microfinance programmes, and authorised financial intermediary non-government organisations (FINGOs).

Focus on women’s empowerment in the study is justified on the ground that the greater proportion of credit disbursed by various programmes is being offered to women. And women can be empowered only when they are benefited both with quantitative as well as qualitative change in their living standard along with improvement in the gender equity aspects like benefit sharing between female and male members of the household. Furthermore, mass poverty and its impact on valuable resources (mainly forest) on the one hand and the absence of sustainable policy implementation on the other are other major concerns of the study. While addressing this important issue, the study has shown the link between microfinance and forest resource management.

Though income is one indicator of socio-economic impact, it is much problematic to measure the income from small borrowers' enterprises. Therefore, researcher has tried to assess the result using beneficiaries' expenditure pattern on food, clothing, health care, children's education, and their control over credit and income generating activities as important indicators. Women's influences on important household decisions like family planning, marriage of their daughters, family cooperation, self-confidence, and savings mobilisation are used as empowering tools. The increased benefits (change) in these aspects can fulfil the individual needs of the women reflecting their ability to benefit from programme participation. Change in household energy types and future plan by the programme participants and non-participants are other indicators used to assess indirect impact on forest resource management/conservation.

The quantitative and qualitative information presented in the study is based on a case study of Solidarity Group Lending MF model (Grameen type), i.e. Nirdhan Utthan Bank Ltd. Three programme-operated adjoining Village Development Committees (VDCs) in northern Rupndehi district (Devdaha, Kerbani, and Makarhar) were selected for field study purpose. The programme participants and non-participants (all women) were interviewed by administering a set of structured questionnaire designed so as to compare the advantages of the programme. The impact analysis was done using "with" and "without" programme situation.

The programme participants included 130 clients of NUBL of ages 20 to 45, all of whom were economically homogenous, and who had at least four years of participation in the credit programme. In the absence of baseline information, client respondents were asked to compare their pre-credit socio-economic conditions with that of the present using "before" versus "after" intervention method. The sample for non-client groups included new members of the same microfinance institution. For study purpose, non-clients were defined as new members (non-active members) of the NUBL who just submitted the loan proposals. Both client and non-client respondents were randomly selected for the interviews. Value of the indicators was also compared across the ethnic groups of people/indigenous nationalities using the same method.

With clearly defined objectives and indicators, the result derived from the study show that average size of landholding among the credit groups increased by 20 percent in all

caste/ethnic groups. Previously, 48 percent of households owned various types of land (*khet, bari*) which increased to 69 percent after programme intervention. The average size of the landholding was also found to have increased from 0.107 hectares per household to 0.336 hectares resulting in the net increase of 0.229 hectare (a 214% change) after the 4/5 year period. But this size is very small compared with the average national and district (Rupandehi) figures which are 0.789 and 0.896 hectares respectively (CBS, 2004).

The number of loan cycles or total amount of loan was found to have positive relationship with land accumulation. The clients who received more than Rs. 40,000 total loan, now own land. This implies that this amount helped the landless women to acquire land for themselves and build settlement. In the case of other household asset accumulation, the figures show that house, livestock, and household utensils increased by 13, 6 and 12 percent respectively. From the food sufficiency perspective, the programme intervention brought drastic change in household nourishment level. The overall percentage of food sufficient households increased from 48 to 93 percent making a net increase of 45 percent. By ethnicity of total households surveyed, 50 percent additional indigenous nationalities (*Janajatis*) and hard core poor (*Dalits*) in the study area became food sufficient.

Findings in response to social impacts indicate that more than 60 percent of respondents reported an increased expenditure on housing, health care, and education irrespective of caste/ethnicity the highest being on housing (752%), a trait which strangely was displayed by only 4% of the clients, most of whom were *Janajatis*. The field observation also showed that the housing expenses of this small portion of population did not include the actual construction of the houses since they were using no outside labours in the construction process; the family members themselves built the homes. In addition, observation showed that housing expenses of the high caste groups remained unchanged. In the case of the schooling of the children, 86% respondents sent their children to schools. They were found to have access to more years of schooling for both female and male children equitably. However, caste/ethnicity has hindered the equitable increase in the access to livelihood assets.

Regarding the findings in response to natural resource management, more than 20 percent

clients' households had started using alternative energy sources like bio gas, improved stove, and kerosene instead of firewood for cooking purpose after joining the credit programme. They reported that they changed their energy types mainly because of time constraints owing to their microfinance-related businesses. Another reason given was that since their children, both sons and daughters were going to school, they did not have time to collect firewood from the forest. This indicates that clients are more conscious than the control group in using relatively healthier and time saving sources of household energy. This use of alternative sources of energy helps indirectly to reduce the dependency on forests for household energy. But overall findings of the study suggest that there are differences across groups of individuals. For example, the hardcore poor did not change their use of firewood or grass/fodder at all and the high caste groups had the greatest percentage drop in the use of these resources.

The results derived from the study suggest that microfinance has improved family's well-being by increasing household's food sufficiency level, asset accumulation, and children's education. It has been credited with empowering women by increasing their self-confidence and decision-making power with influenced family status, family cooperation, household spending, and by increasing their social capital by joining some type of community-based or non-government organisations. Moreover, the access to credit not only gave woman opportunity to contribute to the family business but she could also deploy it to assist the husband's business that increases her prestige and influence within the household. But it must not be thought that all loans are used for entrepreneurial activities.

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LIST OF ACRONYMS

ACCION	Americans for Community Cooperation in Other Nations
ADB/M	Asian Development Bank/Manila
ADB/N	Agricultural Development Bank/Nepal
AIM	Amanah Ikhtiar Malaysia
APRACA	Asia-Pacific Rural Agricultural Credit Association
APDC	Asian and Pacific Development Centre
ASA	Association for Social Advancement
ASARRD	Asian Survey of Agrarian Reform and Rural development
ASCRA	Accumulating Savings and Credit Association
ASHG	Association of Self-help Group
ATM	Automatic Teller Machine
BAAC	Bank for Agriculture and Agricultural Cooperative
BASIX	Bharatiya SamRuddhi Investment Consulting Services
BB	Bangladesh Bank
BKK	Badan Credit Kecamatan
BKUB	Bangladesh Krishi Unnayan Bank
BOK	Bank of Kathmandu
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Bank
BRI	Bank Rakyat Indonesia
BS	Bikram Sambat
BSBL	Bangladesh Samabaya Bank Limited
BUD	BRI Unit DESA
BWTP	Banking with the Poor
CAB	College of Agricultural Banking
CASHPOR	Credit and Savings for the Hardcore Poor
CBs	Commercial Banks
CBO	Community-based Organisation
CBPASS	Commercial Banks Problems Analysis and Strategy Study
CBS	Central Bureau of Statistics
CCU	Central Cooperative Union
CDF	Cooperative Development Foundation
CECI	Canadian Centre for International Studies and Cooperation
CEDA	Centre for Economic Development and Administration
CEDAW	Convention on All Forms of Discrimination against Women
CENWOR	Centre for Women's Research
CFDP	Community, Forestry Development Programme
CFTS	CASHPOR Financial and Technical Services
CGAP	Consultative Groups to Assist the Poorest
CGBB	Central Grameen Bikas Bank
CGC	Credit Guarantee Corporation
CGISP	Community Ground Water Irrigation Sector Project
CHI	CASHPOR House Index
CIDA	Canadian International Development Agency
CIDR	Centre for International Development and Research
CMF	Centre for Microfinance
CPRs	Common Pool Resources
CPSRD	Centre for Policy Studies and Rural Development
CRC	Convention of the Rights of Child
CSD	Centre for Self-help Development
CSE	Chittagong Stock Exchange
CSIDB	Cottage and Small Industry Development Board
DANIDA	Danish Agency for International Development

DAP	District Administrative Plan
DCSI	Department of Cottage and Small Industries
DCU	District Cooperative Union
DDC	District Development Committee
DEPROSC/N	Development Project Service Centre/Nepal
DFID	Department for International Development
DHSP	District Health Strengthening Project
DOF	Department of Forest
DSE	Dhaka Stock Exchange
DWCRA	Department of Women and Children in Rural Areas
EAS	Employment Assurance Scheme
EBL	Everest Bank Limited
EDI	Economic Development Institute
FAO	Food and Agriculture Organisation
FDC	Foundation Development Cooperation
FDI	Foreign Direct Investment
FFH	Freedom from Hunger
FINCOOPS	Financial Cooperatives
FINIDA	Finnish International Development Agency
FINCA	Foundation for International Community Assistant
FINGO	Financial Intermediary Non-government Organisation
FNCCI	Federation of Nepal Chamber of Commerce and Industries
FNCSI	Federation of Nepal Chamber of Commerce and Industries
FSR	Financial Sector Reform
FWWB	Friends of Women's World Banking
FWGBB	Far-western Grameen Bikas Bank
GAD	Gender and Development
GBA	Grameen Bank Approach
GBB	Grameen Bikas Bank
GBFS	GB Financial System
GBR	GB Replicator
GGS	Grameen Generalised System
GTB	Grameen Trust of Bangladesh
GTZ	Gesellschaft für Technische Zusammenarbeit (German Development Assistance)
HBL	Himalaya Bank Limited
HDC	Human Development Centre
HDI	Human Development Index
HEI	Human Empowerment Index
HIV/AIDS	Human Immune Deficiency Virus/Acquired Immune Deficiency Syndrome
HMG/N	His Majesty's Government of Nepal
IAC	Institutional Agricultural Credit
IBP	Intensive Banking Programme
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDP	Institutional Development Process
IFAD	International Fund for Agricultural Development
IFI	International Finance Institution
IGVGD	Income Generation for Vulnerable Group Development
INGO	International Non-government Organisation
ILO	International Labour Organisation
IRC	Institutional Rural Credit
IRR	Internal Rate of Return
IT	Intermediate Technology
IRDP	Integrated Rural Development Project
JAICA	Japan International Cooperation Agency
JBS	Janasakti Banking Society

JODAS	Journal of Development and Administrative Studies
JTF	Janasaviya Trust Fund
KBL	Kumari Bank Limited
LBL	Lumbini Bank Limited
LGP	Local Governance Programme
LPWF	Luliang Prefecture Women's Federation
LTFB	Local Trust Fund Board
LXBL	Laxmi Bank Limited
MBL	Machhapuchhre Bank Limited
MCPW	Microcredit Project for Women
M-CRIL	Microcredit Rating and Guarantees International Limited
MDG	Millennium Development Goal
MEDEP	Micro Enterprise Development Programme
MF	Microfinance
MFD	MF Department
MFDB	MF Development Bank
MFI	MF Institution
MFO	MF Organisation
MIS	Management Information System
MOAC	Ministry of Agriculture and Cooperatives
MOF	Ministry of Finance
MOICS	Ministry of Industry, Commerce and Supply
MPCS	Multipurpose Primary Cooperative Society
MSC	Microcredit Summit Campaign
MSE	Micro and Small Enterprise
MSED	Micro and Small Enterprise Department
MWCSW	Ministry of Women, Children and Social Welfare
MWGBB	Mid-western Grameen Bikas Bank
MYRADA	Mysore Resettlement and Development Agency
NABIL	Nepal Arab Bank Limited
NABARD	National Bank for Agriculture and Rural Development
NBL	Nepal Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NCB	National Commercial Bank
NCCBL	Nepal Credit and Commerce Bank Limited
NCF	National Cooperative Federation
NEFSCUN	Nepal Federation of Savings and Credit Cooperative
NEPSE	Nepal Stock Exchange
NESAC	Nepal South Asia Centre
NGO	Non-government Organisation
NIBL	Nepal Investment Bank Limited
NICBL	Nepal Industrial and Commerce Bank Limited
NIDC	Nepal Industrial Development Corporation
NLSS	Nepal Living Standard Survey
NORAD	Norwegian Agency for International Development
NPA	Non-performing Asset
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRCR	Nepal Rural Credit Review
NRM	Natural Resource Management
NRMSO	Natural Resource Management Strategic Objective
NRS	Nepalese Rupees
NSMP	Nepal Safe Motherhood Project
NTFP	Non-timber Forest Product
NUBL	Nirdhan Utthan Bank Limited
NYSCO	National Youth Services Council

ODA	Overseas Development Administration
PAF	Poverty Alleviation Fund
PAG	Policy Advisory Group
PAPWTP	Poverty Alleviation Project in Western Terai
PCARDB	Primary Cooperatives and Agricultural and Rural Development Bank
PCFC	People's Credit and Finance Corporation
PCG	Production Credit Group
PCRW	Production Credit for Rural Women
PCU	Primary Cooperative Union
PDDP	Participatory District Development Programme
PFP	Poverty Focused Programme
PKSF	Pally Karma Sahayak Foundation
PMUK	Padakhep Manabik Unnayan
PRADAN	Professional Assistance for Development Action
PRC	People's Republic of China
PRSP	Poverty Reduction Strategy Paper
RADP	Rural Area Development Projects
RBB	Rastriya Banijya Bank
RD-12	Rural Development Project - 12
RDB	Rural Development Bank
RDWHHP	Rural Drinking Water and Health/Hygiene Programme
RECAST	Research Centre for Applied Science and Technology
RIP	Rural Infrastructure Project
RMDC	Rural Microfinance Development Centre
ROSCA	Rotating Saving and Credit Association
RRDB	Regional Rural Development Bank
RSRF	Rural Self-reliance Fund
RUFIN	Rural Finance in Nepal
RWDS	Rural Women Development Society
SACP	Special Agricultural Credit Programme
SADP	Small Area Development Programme
SBB	Swabalamban Bikas Bank
SBL	Siddhartha Bank Limited
SBP	Self help Banking Programme
SCARDB	State cooperative Agricultural and Rural Development Bank
SCBL	Standard Chartered Bank Limited
SCC	Savings and Credit Cooperative
SCO	Savings and Credit Organisation
SDC	Swiss Agency for Development
SDR	Special Drawing Rights
SEEDS	Sarvodaya Economic Enterprises Development Services
SEEUY	Self-Employed to the Unemployed Youth
SEF	Small Enterprise Foundation
SEWA	Self-Employed Women's Association
SFCL	Small Farmer Cooperative Limited
SFDP	Small Farmer Development Project
SFINGO	Social Financial Intermediary Non-government Organisation
SHG	Self-help Group
SIDA	Swedish International Development Authority
SPO	Sub-Project Office
SRM	Sustainable Resource Management
SWC	Social Welfare Council
TFI	Traditional Financial Institution
TLDP	Third Livestock Development Project
TRPAP	Tourism for Rural Poverty Alleviation Programme
UCB	Urban Cooperative Bank

UCCS	Urban Credit Cooperative Societies
UNO	United Nations Organisation
UNCDF	UN Capital Development Fund
UNDP	UN Development Project
UNFPA	UN Fund for Population Activities
UNICEF	UN Children Fund
UNIFEM	UN Fund for Women
USAID	United States Agency for International Development
USCCN	USC Canada Nepal
VDC	Village Development Committee
WDD	Women Development Division
WDF	Women's Development Federation
WECS	Water and Energy Commission Secretariat
WFP	World Food Programme
WGBB	Western Grameen Bikas Bank
WOCCU	World Council of Credit Union
WTO	World Trade Organisation
WWB	Women's World Banking

CHAPTER 1

INTRODUCTION

1.1 Background

Although microfinance system was in practice for hundreds of years throughout the world, it developed in African and Asian countries, particularly, after the 1970s using certain methodologies. The focus of microfinance institutions (MFIs) is to expand micro loans to support economic activities of the poor and disenfranchised encompassing a range of financial services such as loans, savings, and insurance to help these people. In addition, several MFIs have focused on women's empowerment as their explicit goal. The basic theory of empowerment is that putting capital in women's hands can generate income and contribute financially to their households and communities, when they can socially be mobilised in community-based or non-government organisations (CBOs/NGOs). Thus, they can be empowered both economically and socially, and this empowerment is expected to generate increased self-esteem, respect, and other forms of empowerment for women beneficiaries (Cheston, 2002).

The purpose of this study is to examine the effectiveness of microfinance as a tool in reducing poverty through improvement of economic and social conditions in clients' lives. It has also attempted to assess the impact on women's empowerment in gender equity and the decision-making roles of the immediate clients. To attain the objectives set in the study, some social and economic indicators from which poverty can be measured have been used. Asset accumulation, food sufficiency, and expenditure on consumption (food and non-food items) are the economic indicators; clients' expenditure pattern on children's education, health care, housing, and fuel are the social indicators used for study purpose. Similarly, benefit sharing among women and men, girls and boys, and also among different ethnic groups, access to savings,¹ and decision-making role in some important household matters are the indicators used for impact assessment on the equity aspects. In addition, the household energy types and future plan by clients and non-clients

¹ Savings, one of the important parts of MF, can reduce different types of vulnerability situation in clients' life (section 4.5).

in the community are indicators used to analyse the relationship between forest resource management and poverty alleviation.

The impact assessment study on natural resource management is justified on the ground that the micro enterprises or income-generating activities have link with forest resources. And most of the microfinance activities based on natural resources have become more sustainable than others because forest is the main source of raw material for production. Indeed, entrepreneurs need resources to operate small enterprises, and hence they could realise the importance and benefits of the forest as a source for resources rather than as a source for livelihood. The poor people involved in MF programme can manage and conserve the forest resources in two ways -- through involving in self-employment activities and through using forest for non-timber products as resources to run small enterprises. Thus commercial utilisation of natural resources has positive impact in generating employment and increasing living standard of the rural poor thereby reducing the level of poverty in the community.

The keywords used in the study are “microcredit,” “microfinance,” and “microfinance institutions.” By definition, the term microcredit (MC) refers only to credit and the credit-focused programmes. Microfinance (MF) on the other hand, has a broader meaning referring to small-scale financial services in general including credit, savings, and insurance. Similarly, the MF institutions (MFIs) refer to all formal institutions providing micro financial services to low-income clients on group liability basis.

Although the word “microcredit” is used in the title, the study refers to “microfinance” in a broader definition of the topic. The microcredit programmes like Intensive Banking Programme or Production Credit for Rural Women that started in Nepal two decades ago could not be financially viable because of excessive government interferences in their management and wrong working principle. Programmes have now gradually transformed into microfinance from microcredit and government-mandated to self-regulated cooperative models as a changing paradigm. They have changed their working policies, widening their working areas such as, savings provision, skill development services, entrepreneurial development, insurance, health, education, and other activities like money transfer services.

1.2 Statement of the Problem

Since the last two and half decades, voluminous research works on poverty and poverty alleviation strategies have been undertaken. But a comprehensive research about impact on poverty alleviation through women's empowerment from both quantitative as well as qualitative aspects have not yet been done except small scale studies concentrating only on the part of wealth status. The major study areas are (a) impact of microfinance on poverty alleviation in improving economic and social status of the clients, (b) impact on women's empowerment, (c) impact on natural resource management, (d) outreach of microfinance programmes, (e) issues identification at different levels and policy reforms for effective implementation of the programme addressing the issues, and (e) appropriate model for the remote hill and mountain regions to elevate the deeply rooted poverty in the country. However, the problems towards which the study is concentrated are:

Firstly, a large number of sophisticated microfinance programmes are operating while experiencing a great deal of both successes and failures. Moreover, there is a substantial overlapping of government and non-government programmes making them difficult to classify into specific models. However, the present study has offered a definite classification of these varieties of models highlighting formal and informal microfinance activities in Nepal.

Secondly, research issue is identified from the supply side of the programmes as the number of clients and volume of loan investment have enormously increased within these periods. The Grameen replications including five Grameen Bikas Banks (GBBs) in government sector and two microfinance development banks (MFDBs), i.e. Swabalamban Bikas Bank (SBB) and Nirdhan Utthan Bank Ltd. (NUBL) (together have served 234416 families till the end of 2001/2002 (RMDC, 2001). The five GBBs only have significant outreach covering 152000 borrowers with a total investment of more than Rs. 8870.0 million by mid-July 2003 (Appendix C). Thus, the number of clients and volume of transactions have expanded impressively. But the question arises whether the large numbers of poor people residing in hills and mountains have access to microfinance services or not, who are benefited more -- the poorest of the poor, or the poor with resources (middle poor/marginal poor), or which ethnic group has more access to credit services. To find the answers to these questions, a thorough research is required in

assessing impact of this large investment on economic and social status of the immediate clients, who have reached a certain point of maturity in the programme participation.

Thirdly, research issue is also identified from the demand side of the programme, where clients (women) are the market for the products and services and who solely take up the burden of microfinance participation and the responsibility of loan repayment, i.e. more responsibility than their spouses. Hulme and Mosley (1997) revealed the situation that 81 percent of women borrowers had no overdue repayments as compared to 74 percent for men (Hosseini's study [1988], cited in Wright, 2000). Therefore, it is a matter of great concern to assess the economic and social impacts of MF on women's empowerment.

Moreover, people in the society (women and men or girls and boys) are not equally capable and skilful. Therefore, an access, opportunity, and control over resources should be provided to these people according to their capability, which is related to "equity" concept. Control over loan, loan related activities, and expenditure of earnings are three sorts of benefits that must be equitably shared among female and male members in the family. Questions arise whether the benefits are equitably sharing among women and men or girl and boy children of clients' families after programme participation.

Fourthly, environmental degradation caused by growing population on the one hand, and absence of sustainable policy implementation to regulate natural resource (mainly forest) exploitation on the other, has become an alarming issue in recent years. High population growth rate (2.24 percent) has made the poverty situation more severe, and such poverty again has negative impact on forest resources. Out of the total traditional energy sources (traditional 86.2 percent and commercial 13.8 percent) fuel wood consumption is 76.6 percent, which signifies the high-level natural resource depletion in the country (Ministry of Finance [MOF], 2002). This study has assessed the unintended implications of savings and credit programme on forest resource management. However, past research work in Nepal has not yet been undertaken on this particular issue. But in Guinea or in Thailand, these types of studies are conducted in large extent. Therefore, a macro-level study is required to examine the impact of MF on overall poverty alleviation. Meanwhile, micro-level research is also needed to ascertain the impacts.

1.3 Rationale of the Study

The rationale behind this study lies on the ground that women will not be empowered unless and until they are benefited both quantitatively (increase in income, employment, and expenditure) and qualitatively with the promotion in gender equity aspects (control over loan and income earned from income generating activities) as well. If the loan undertaken by women has only served to support the household economically but not given them control over resources, it may not be fulfilling individual women's specific needs. If this is the situation, then the client is not empowered through credit intervention.

Despite the rapid growth of MFIs in Nepal, most of them remain in the dark about their impacts on sustainable developments, particularly on environmental resources. In this context, the present study will fulfil the research gap of analysing both direct and indirect changes in a community's financial, social, human, and natural (land) capital. It also understands the changes in key research areas such as, clients' livelihood status along with the implications of microfinance programme on resource management.

Information derived from the study can become useful inputs for implementation of poverty-oriented programmes in the country. The findings at various levels could be relevant for microfinance sectors, the line ministries, and many other concerned agencies, or for the financial sector institutions such as, central bank for structural adjustment programme. In addition, various concerned matters like concept, causes, and appropriate policy measures for poverty alleviation will be brought into light in the context of global and country experiences, which will be much more helpful for the policy makers and interested intellectuals in the field of microfinance. Finally, the study is expected to give a valuable input making an improvement in the product, design, and delivery of the programme with necessary recommendations. The measures suggested could play a vital role in meeting the poverty alleviation goals stipulated in the Tenth Plan in which the Millennium Development Goals of poverty eradication are articulated. Furthermore, the conclusions derived from the perspective of the study can be more useful for evaluation, and re-design of the programme.

1.4 Objectives of the Study

The overall objective of this study is to evaluate the socio-economic impact and implications of microfinance on poverty alleviation through empowering women, and also to evaluate the impact on natural resource management. However, the specific objectives are:

1. To analyse the existing models available in Nepal and their outreach, i.e. total operation and ecological coverage of the programmes;
2. To assess the impact of microfinance on economic and social aspects in client's life;
3. To assess women's empowerment through improvement in gender equity and decision-making role of women;
4. To investigate the impact of microfinance on forest resource management and;
5. To develop required policy measures with appropriate model to make microfinance sector a wider outreach business identifying the key issues at its various levels.

1.5 Assumptions and Limitations

Assumptions of the Study

This study is based on the assumption that microfinance can reduce both income and human poverty over a period of time. Moreover, MFIs are targeting women with the aim of empowering them, as approximately 60 percent MFIs' clients throughout the world are women (UNCDF [2001], cited in Cheston et al., 2003). So if women are empowered, they can balance their household management better, improving decision-making power on economic and other important household affairs and improving their self-confidence and knowledge about the better quality life. However, the study is based on the underlined assumptions.

1. The resource poor women involved in savings and credit programmes will be benefited with the increased monetary as well as non-monetary resources;
2. With these resources they will get access to equity sharing through improvements in gender equity aspect;

3. These changes will have positive impact on poverty reduction of the households;
4. Women, involved in savings and credit programmes, could be aware of natural systems,² and could also be involved in the management of natural resources -- mainly the government forests -- in their own areas. It is also an accepted fact that poverty is one of the main reasons for environmental degradation.

Limitations of the Study

Efforts have been made to obtain reliable and accurate data from the respondents during field survey. Some challenges were faced while conducting the survey. Fieldwork was accomplished under difficult situation prevailing in the country, i.e. frequent Nepal *bandh* (strikes), district *bandh*, *chakka jam* that inhibited traveling from one place to another during the survey period. The area surveyed is far from district-headquarter and the VDCs like Kerabani experienced some difficulties with insurgents, mainly Maoist-related tensions. However, the cooperative nature of the staff, Branch Manager and the respondents of the NUBL was highly appreciated for the successful accomplishment of the task. Nevertheless, some limitations were recognised because the topic that has been chosen is problematic and may require vast study and a broader research work than it could be possibly managed. The study has some limitations as underlined.

1. Because of time and other resource limitations, the study was conducted only in three VDCs in northern Rupandehi district. Among various models of microlending programmes adopted in the country, the credit-based Grameen Solidarity model has been chosen with a limited sample size.
2. For clients' survey, the questionnaire was administered for the clients of Nirdhan as NUBL but not Nirdhan as an NGO.
3. Though the NUBL provides both collateral as well as collateral-free loan for their clients, the study is concentrated only on active clients involved in collateral free loan based on group-liability, and the clients are selected from rural areas.

² Natural system is concerned with the interaction among soil, water, forests and environment. It is a system created by nature but not by human being and these resources are used for human well-being (DOF, 2004).

4. Reliability and accuracy of data depends heavily on client's ability to recall the relevant information because they may not keep the records of their income/expenditure level before and after.
6. The findings of this study are based on survey in a small area. So it would be better if it were to be verified by a national level survey in future. It should also be noted that this study does not claim to generalise its findings to all MFIs in Nepal nor to all members.

1.6 Organisation of the Study

The study is organised into ten chapters. Chapter 1 deals in preliminary focus upon the topic, statement of the problem, or the need for investigation in the area, rationale of the study, objectives of the study, assumptions and limitations, and organisation of the dissertation.

Chapter 2 presents an extensive review of related literature regarding formal and informal financial systems in general and the financial development of Nepal in particular. Several books and studies regarding poverty alleviation strategies and related literature for MF evolution in South Asia from where the group lending modality originated, Summit +5, and the Millennium Development Goals (MDGs) were also reviewed.

Chapter 3 is a methodological part of the study, which deals in presenting the methods of data collection both from primary and secondary sources. Field survey is the main source for primary data collection.

Chapter 4 deals with genesis and theoretical foundation of microfinance, upon which the whole study is concentrated. Microfinance networking and various models developed so far for poverty alleviation have been discussed.

Chapter 5 highlights the financial liberalisation policies of the 1980s and the 1990s, and the expansion of banking activities in the country. Formal and informal MF activities along with the different models that exist are analysed with their operating principle, viability situation, fund sources, and their outreach in Nepal's context.

Chapter 6 attempts to measure the quantitative and qualitative impacts of microfinance on

clients' economic and social lives based on the data collected from field survey. It provides the possibilities of poverty alleviation through microfinance showing its relationship with poverty and improvement in economic and social aspects in clients' lives.

Chapter 7 attempts to measure women's empowerment through qualitative changes in credit recipient groups. The chapter also deals with the concept and approaches regarding women development/empowerment, gender-related issues (social marginalisation that is affecting the lives of many rural people in Nepal), and national level policy of the government for women's development.

Chapter 8 discusses the implications of microfinance on natural resource management highlighting women's roles in the use of forests for different purposes, i.e. livelihood purpose or the use of forests for non-timber products. The chapter also analyses how women involved in credit programmes are indirectly intended in forest management with a future plan of using alternative sources of energy rather than depleting it for livelihood purposes.

Chapter 9 deals in identifying the key issues in the microfinance sector based on the observations derived from the overall study. The chapter also develops the required policy reform measures for efficient operation of microfinance moving towards the right direction suggesting appropriate model for varied socio-cultural and geographical situation.

Chapter 10, on the basis of the detailed analysis and findings, presents a brief statement of the study, general conclusions, and explicit policy recommendations addressing the issues identified at various levels. Some essential appendices about details of the data are included. As this chapter is also the reference section, it has carefully documented the sources that are used in the text as references.

The dissertation has followed the author-date system both in-text and in-reference citation. The APA, a coined form of "American Psychological Association," is the recognised standard system for scholarly writing, and the author-date system is the guided rule for citing information under this system.

CHAPTER 2

REVIEW OF THE LITERATURE

2.1 Background

Microfinance, one of the integral parts of formal financial system, has been reviewed extensively in the context of South Asian countries (Bangladesh, India, and Nepal). The Microcredit Summit (2002) held in New York City had pledged to achieve the Millennium Development Goals, i.e. cutting absolute poverty by half by the year 2015 and sustainable finance for the very poor. Viewing its relevancy in achieving poverty alleviation goal, some directions and new challenges guided by the Summit Report 2002 have also been reviewed. The areas that are taken into account for the review of the literature fall into six categories.

1. Overview of formal financial system
2. Overview of informal financial system
3. Overview of financial development in Nepal
4. Strategies developed for poverty alleviation
5. Microfinance evolution in South Asia and
6. Microfinance and Millennium Development Goals

A considerable time period has been given to the review of the literature on these areas for building up the strong theoretical background of the topic, which forms the basis for gaining an insight into the concept and the issues related to poverty. Various literature that are supportive and worth being reviewed are studied and given in the references, which are quoted as a source in the text.

2.2 Meaning and Characteristics of Finance

Woelfel (1994) defined the word finance as "to raise money necessary to organise, reorganise, or extend an enterprise, whether by the sale of stocks, bonds, or notes or otherwise" (Woelfel, 1994, p. 440). These days, mainly three types of financial systems are operating in an economy -- formal finance (commercial banks), informal finance, and formal microfinance

(MF). In traditional financial systems, lending institutions (lenders) must have confidence or knowledge of three elements, i.e. borrowers, use of funds (enterprises/businesses), and collateral. Borrowers can be creditworthy only when lenders have confidence on all these elements, whereas in an informal finance borrowers can be creditworthy when the lenders have confidence only on borrowers' relation with them. But in formal MF, lenders or microfinance institutions (MFIs) must have confidence on two elements, i.e. borrowers and the use of the funds or business schemes but not on the collateral. Therefore, the MFIs must have knowledge on these matters to realise the impact of finance supplied by these institutions in real terms.

Pischke's famous study *Finance at the Frontier* (1991) explains what finance is and to what extent it operates in an economy. This study intends to show the impact of finance (credit) on individuals, and also aims to give knowledge about the target group's effective access to financial system of a country. Finance has special characteristics, which differentiate financial markets (banking transactions and share markets) from non-financial markets in an economy. In this section, some major characteristics of finance pointed out by the thinkers like Pischke Von, are presented.

Informal Financial System Creates more Confidence

Financial system -- particularly the informal one -- can create confidence between the lenders and borrowers. In many developing countries, this is the reason that many Rotating Savings and Credit Associations (ROSCAs), which are also known as informal financial system around the world, are working successfully. In this financial system, risk is overcome by the trust, promise, and confidence created by lenders making their relationship more visible.

Finance is Fungible

Due to this characteristic of finance, there is more probability of misusing the fund. A person often borrows money for one stated purpose, but the loan would be spent in another activity. And it may not improve the condition of actual poor in the society. Thus, *fungible* means use of finance often not tightly associated with the purpose for which it is obtained. Fungibles refer to inter-changeability of things that are identical or uniform. This feature of finance highlights the role of confidence in financial relationships between the borrowers and the

lenders.

Credit Earns No Return for Borrowers

Finance, supplied in the form of credit, generally provides purchasing power to the borrower as he uses it to obtain assets expecting to yield some return. This is the simple development model. But its application sometimes is unaffected. Pischke revealed the fact that credit is a debt, and it is a liability of borrower in the form of interest and transaction costs. There will be a long gap in the intermediate steps between credit access and income generation. Therefore, he suggests that if loans are poorly structured and the relationship between borrowers and lenders are not carefully designed, they lead to failures creating large volume of bad debt losses, and this imbalance can also destroy the confidence in the credit market.

Finance Attracts Attention

The valuation process of finance is so powerful and so closely related to economic well-being that it becomes subject of public debt. Because of the visible nature of finance, formal finance is relatively more attractive for governments and political participants. Owing to these features of finance, the volume of bad loans is increasing in the state-owned banks in many developing countries (Pischke, 1991).

2.3 Overview of Formal Financial System

A country's economic development depends upon the developed financial system, which characteristically falls into three parts, as central bank, commercial banks, and other financial institutions. The central bank controls the activities of commercial banks and financial institutions, whereas others are known as "financial intermediaries" because "they mediate between people, who want to save and the people, who want to secure money to spend on capital goods" (Sayers, 1967, pp. 16, 17). Sayers also stated that a financial system raises the level of savings through the development of money and capital markets in an economy. Traditional financial system relates mainly to commercial bank, which is the main financial agent in accepting deposits of various types from the public. Besides banking institutions, a financial system comprises non-bank intermediaries such as, savings banks, postal banks, the building

societies, hire purchase financial companies, insurance companies, and pension funds.

Basu (1974) studied commercial banking system closely in former British colonies and in newly independent developing countries of Asia and Africa, which were concentrated mainly on trade and in primary and extractive industries. He found some changes in banking system after the emergence of International Bank for Reconstruction and Development (IBRD) mission in world economy. They indeed supported in building an indigenous banking system, and facilitated the creation of development finance institutions for the rapid economic development. Basu also reached the conclusion that "...traditional banks are basically for business groups or for richer classes of the society. Banks provide them term-loans for trade and industries against sufficient collateral" (Basu, 1974, pp. 251, 252).

These days, banking has come of age with ever changing technology. Different types of advanced banking systems have become popular e.g., universal banking, anytime banking, anywhere banking, internet banking, mobile banking, single window banking, and twenty-four days banking. By using mobile banking services the customers can get required information about their account balances and transactions. Bank provides varieties of loans such as, home loan, marriage loan, education loan, project loan, travel loan, medical loan, car loan, or bike loan. An individual can withdraw money or get loans instantly swiping a card into Automatic Teller Machine (ATM). These banking facilities are both timesaving for customers and costs saving for the banks. But all these banking activities fall under the traditional financial system that needs sufficient collateral for processing the loan.

2.4 Overview of Informal Financial System

Financial markets in developing countries are usually divided into formal and informal sectors, and the latter are not operating under the regulation of central bank. Rotating savings and credit associations (ROSCAs [*Dhikuties* in Nepal's case]), or accumulating savings and credit association (ASCRA), friends and relatives, moneylenders are prominent examples of informal institutions. Out of these two types of credit sources, especially women have credit linkages with the informal ones, who exploit them while meeting their urgent credit needs for consumption, debt payment, and for small investment. Because of the limited capacity of women's businesses

to absorb capital, wider social discriminations, and mainly because of special characteristics of formal banking system, women do not involve in the mainstream lending programme making themselves further poor and less empowered.

Furthermore, though the informal institutions charge high rate of interest, many of them have proved that they are much less usurious than assumed. Because opportunity cost³ and risk premium rather than monopoly profit would be the main determinants of interest rates on their loans (Adams, 1992). Viewing the diversity of services provided by these sources, Hospes (1994) expressed his view that "the concept of informal finance has been considered as the best of all biases, that is, as much better than words like unorganised or non-institutional but still carrying these misleading connotations" (Hospes, 1994, p. 2). The author also entitled them as tailor made financial services to poor people. Some viewers have opined them as quasi-financial services.

Ledgerwood (1997) explored various sources of informal finance operating in Nepal since long ago. Major types of these sources existing in rural, semi-rural, and urban areas can be grouped into two categories as individual lenders and group lenders. The first category of sources comprises property owners, merchants, farmer lenders, gold smiths, pawnbrokers, and friends and relatives. The second one comprises, gift programme, *dhikuti*, *dharmabhakari*, *guthi*, NGOs (non-authorised), and self-help programme.

Dhikuties, the groups formed with a purpose of savings and credit activities, were popular in Western part of the country -- Pokhara, Mustang, and Palpa where most of the Thakali women were involved (CECI [1996], cited in Ledgerwood/Depros, 1997). It has been popular in western terai of Nepal and also in Kathmandu. Rotations are generally determined by bidding processes and the bidders with highest interest rate could receive the loan. Savings amount required in this programme ranges from Rs. 100 to Rs.1000 and 20 to 30 people make a group. *Guthis* are also a kind of group lenders, which are cultural heritage associations common in Kathmandu valley among the *Newar* communities. *Dharmabhakari* (literally meaning welfare storage) are group grain associations. Each member, i.e. small or medium farmers of the association, provides an equal contribution of grains for association with purpose of supplying it

³ Opportunity costs (the borrowers' cost), in the context of microfinance, include that a borrower spends time on applying and filling out the paperwork for a loan (FAO, 1992, p. 123).

in the form of loan to needy group members. This system is not popular in these days as it is difficult to manage storage in the villages. These are some of the examples of ROSCAs in Nepal.

Bajracharya (1994) wrote about the rates of interest charged by these informal sources that ranges between 30 to 38 percent. Sometimes, it exceeds to one hundred percent depending on loan urgency (Bajracharya, 1994). Some example of ROSCAs in other countries are as *Junta and stovel* in Latin America; *Cheetu bishi, Nidhi* in India; *Ekub, ESUSU, SUSU* in African countries; *Dianggis* or *Miangis* in Cameroon *Mujin* in Japan; *Kato, Osusu* and *Paluwagen* in the Philippines are some popular ROSCAs (CMF, (n. d.); Fiona, Dic, Roberts, and Meyer, D. (1992); Walker, and Meyer, R. (1992).

Informal financial systems have become more popular and more prudential among the poor community. This system generally characterises with simple and easy loan procedure. Further, it provides credit largely for all purposes, i.e. consumption and social purposes rather than the productive loan. Informal lenders have knowledge and confidence about the borrower's ability to pay back the loan and have knowledge about the use of loaned money. The most important characteristics of informal financial system are flexibility, stability, and sustainability that accrue no bad debt or loan loss amount.

2.5 Overview of Financial Development in Nepal

World Development Report (1989) illustrated the evolution of financial system in the developing countries and remarked that financial development was more advanced in Asia, particularly in India. Foreign commercial banks, though largely confined their operations to foreign trade, also helped to finance internal trade. India had well-developed indigenous banking system along with commercial banks, cooperative credit societies, informal bankers, ROSCAs, and moneylenders. This banking structure was based on extensive network of personal relations between the borrowers and the lenders. Over several centuries, it had developed the use of commercial bills known as *hundi* for financing local and non-local trade and other small-scale activities (World Bank, 1989).

In Nepal's context, Shrestha (1966) in the light of historical evidence quoted an example of Shankhadhar, a merchant, who practised banking activities in 879 or 880 AD. *Tanka Dhari*

(money dealer) worked as a banker during the rule of King Jayasthiti Malla. Tejarath Adda,⁴ a government financial institution, is another example of organised banking practice in Nepal. It supplied credit to people at five percent rate of interest against security of gold (Shrestha, 1966).

Bajracharya (1994); Joshi (1997) reviewed the development trends of modern financial system and trends in lending by the Nepalese commercial banks (CBs) with the provisions given by different Acts in Nepal. Modern financial system in Nepal goes back to middle of the thirties when Nepal Bank Ltd. (NBL), the first pioneering commercial bank, was established under the Nepal Bank Act 1937 with 49 percent government share. It functioned as a single commercial bank till the second, fully state-owned commercial bank was established in 1966. The central bank of the country was established in 1956 under the special Act -- Nepal Rastra Bank Act 1955 to serve mainly two purposes at the outset, i.e. to handle government's banking needs and putting the Nepalese currency into circulation. The 1937 Act was replaced by the new Commercial Bank Act 1964 (2020 B.S.) confining them to only short-term lending businesses, and this Act was also replaced by National Commercial Bank Act 1965 to establish and manage Rastriya Banijya Bank (RBB). Again in 1974, a new Commercial Bank Act 1974 came into effect withdrawing both the 1964 and 1965 Acts emphasising commercial banks largely to invest in industrial sector of the country. But this Act of 1974 was amended many times the latest being in 1992 (Bajracharya, 1994; Joshi, 1997).

In course of institutional development, three joint venture CBs were established after a long gap of 18 years e.g., Nepal Arab Bank Ltd. (1984), Nepal Indosuez Bank Ltd. (1985), and Grindlays Bank Ltd. (1986). The last one is now operating in the name of Standard Chartered Bank Nepal Ltd. by the Nepalese promoters. Nepal Industrial Development Corporation (NIDC) 1959 and the Agricultural Development Bank (ADB/N) 1968 were established as a state-owned development banks.

Thus, it is observed a very slow institutional development in the Nepalese financial system. The first commercial bank, the Nepal Bank Ltd. (NBL) functioned alone for more than a quarter century (28 years) till the second commercial bank was established. After two decades, the foreign joint venture CBs were set up. Similarly, the growth of other financial institutions also

⁴ Tejarath Adda established in 1880 had been only credit institution, but it did not pay essential role of financial intermediation (NRB, 2002b, p. 46).

developed very slowly in Nepal e.g., NIDC 1959, Employer's Provident Fund 1962, ADB/N 1968, National Insurance Corporation 1974, and Securities Marketing Centre 1977.

2.6 Strategies Developed for Poverty Alleviation

On the preceding pages, a review of the theory of finance in general and practices of formal and informal financial system of Nepal in particular is undertaken. This section is deployed largely in studying different strategies developed for poverty alleviation in different periods both in international and in the Nepalese context. Different policies reviewed could provide the guidance to planners in achieving poverty alleviation target in many low-income countries of the world. Alleviation of poverty is the theme of socio-economic development developed particularly after the decade of seventies. Some literatures regarding women's empowerment or disempowerment have also been reviewed in this section, where the information and the perspectives contributed by many investigators in the past are provided.

Hamilton (1968) wrote about the existence of poverty even in the highly industrialised economy such as, in the American industrial economy. He also made clear about the term "poor" and "poverty" relating to different economic theories, like Adam Smith's wealth definition, or Karl Marx's Surplus Value Theory. Marx criticised the 19th century capitalism on the ground that though the labour-saving machine (capital) used in the capitalistic system increased profit, it made the condition of labourer very miserable widening the gap between the rich and the poor in the economy. He believed that poverty is created from structural causes as suggested by Marshal e.g., social prejudices particularly related to colour, sex, and race. These elements reduce education and job opportunities for the people ultimately affecting on aggregate demand in the economy. This again creates a gap in the levels of standard of living even in the industrial countries like United States (Hamilton, 1968).

Yunus (1993) revealed the trends of development strategy in the Asian countries. After the World War II, particularly between 1950 and midway through 1960, development strategy was concentrated on urbanised industrialisations. It aimed at improving people's lives by measuring production as measured by Gross National Products. The Western organisations focused on large investments in infrastructure like roads, power plants, and communications for the reconstruction

of Post War Europe. Development of power and power industries gave better living for the people making life happy and easier with better job and better education. This growth model could be effective in improving growth rate in the industrialised countries. But this model could not be effective in alleviating mass poverty and unemployment in the Third World countries where high population growth rate existed. In the late 1960s, this growth model was criticised on the ground that it was concentrated in urban area accruing wealth to urban elites and leaving millions of villagers into deep poverty (Bernstein, 1996; Yunus, 1993).

At the end of the 1960s, this strategy was challenged by growth-with-equity model, giving emphasis on socio-economic development. Under this strategy, the theme of poverty alleviation emerged with the concept of Integrated Rural Development Project (IRDP). Robert McNamara, the then World Bank's President declared, as "the growth is not equitably reaching the poor and the poor are not significantly to growth" (Shrestha and Bajracharya, 1988, p. 47). With the development of this growth-with-equity model, the concept of rural development was emerged. Nepal also adopted the policy of IRDP as a priority programme in its national development plans with the aim of making significant impact on the hill and mountain economy. The programme focused mainly on livestock development, improvement in irrigation and promotion of improved seeds, fertilizers, and extension services, and many other sub-projects in eight⁵ projects covering agriculture, roads, health posts, schools, drinking water supply, and income-generating projects. Actually, the IRDP was a synonym with the "regional rural development" programme combining multi-purpose development services for the well-being of rural population (Shrestha et al., 1998).

But "observation showed that IRDP implemented in Nepal for 15 years, could not reach at the intended rural poor" (Poudel, 1999, p. 1). Many reasons were found for IRDP's failure to achieve the expected results e.g., lack of appropriate selection of borrowers, excessive government intervention in determination of purpose and loan size, inadequate assistance to the borrowers, and mainly it was perceived as a political programme. The IRDP concept also failed to reach the poor in other Asian countries. It was found that people below poverty level remained unaffected in these countries with the development programmes run under the IRDP scheme.

⁵ The 8 IRDPs were: 1. Mahakali IRDP 2. Rapti IRDP 3. Raswa-Nuwakot IRDP 4. Sagarmatha IRDP 5. Koshi IRDP 6. Karnali IRDP 7. Integrated Hill Development Project 8. Dhading District Development Project (Shrestha et al., 1988, pp. 52, 53).

“By and large, its benefit could reach to the rural non-poor in almost all the countries than the poor crowding out the later” (Yunus, 1993, p. 4).

Within the period of 1960-1970, several other programmes, like rural area development projects (RADP), small area development programme (SADP), and district administrative plan (DAP) were formulated during the Fourth Plan (1970-75) period. But the poor people could not be benefited from these supply-sided programmes. In 1979 a report was presented by the World Bank with a remark about country's poverty situation stating “...Nepal's last chance to do something having to become completely dependant upon the goodwill of aid donors.” Since that time, the country's economic development is depended on donor's aid assistance. Accordingly, after the Sixth Plan period (1980-85), the development strategy changed and emphasis was given on people's participation approach for rural development (Shrestha et al., 1988, pp. 50-52).

Mosher (1976) observed different stages of rural development in the South and South East Asia during pre -1955 and the post -1955 periods. In the first stage, small-scale projects were undertaken by private people e.g., Rabindra Nath Tagor's Rural Development Programme at Sri Niketan, Bengal that gave much emphasis on self-help and mutual help. In the second stage, larger government-financed projects as National Community Development Programmes were undertaken during the early 1950s. Concept of rural development was also re-defined by Mosher giving emphasis on technologies, organisations and values of a society such as, health, effective means to adjust conflicts and injustices in the society, and effective use of all potential farmland (Mosher, 1976). Thus, Mosher's strategy of rural development supports positively poverty alleviation of a country giving equal opportunities for rural people regarding health and education.

Meier (1995) emphasised on the policies to raise standard of living for some 30 percent of the people in less developed countries living in a condition of absolute poverty. Robert McNamara defined absolute poverty, as “condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victim's basic human necessities” (Meier, 1995, p. 3). Thus, McNamara focused world's attention on basic human needs. The World Bank then identified approximately the lowest 40 percent of population in developing countries as being in absolute poverty; about 900 million with an average per capita income of less than US\$ 100 a

year (Meier, 1995). While analysing human resources and economic development, the author emphasised for gender aspect. Even if the poor women work hard as agricultural wage labourers, they have no provision of land rights and have no access to related resources like credit, or technology in almost all developing countries. He also added that they work in a small farm because of landlessness problem as seen in Bangladesh and elsewhere.

The author therefore, suggested that anti-poverty strategies must be designed to address the social, legal, and economic constraints that women are facing around the world. This could raise women's productivity and income and accrue benefits for their well-being. But he seemed positive about micro enterprises interventions rather than microcredit. The enterprise-based programmes are reaching successfully to women, as these programmes are designed to improve entrepreneurial skill first, rather than the family income. This concept considered "women's role not only as agricultural labourers but also accounted as resource managers" (Meier, 1995, p. 299).

Abeywardena (1993) reviewed the major credit schemes implemented in the country. The state-sponsored institutions such as, Women's Bureau, National Youth Services Council (NYSCO), and large non-governmental organisations (NGOs) like, Sarvodaya Economic Enterprises Development Services (SEEDS) in Sri Lanka proved that credit has important role in acquisition and mobilisation of productive resources. Availability of credit also determines the credit worthiness of potential borrowers, who are considered as high-risk groups in traditional financing system (Patel's study [1990], cited in Abeywardena, 1993).

After the mid-seventies, MF a new approach for poverty alleviation was developed integrating it in country's mainstream financial system. Small Farmer Development Programme [SFDP], (1975) was the first Poverty-focused MF programme initiated directly attacking the problems of poverty among marginal or small farmers. Low socio-economic status, lack of employment opportunity in the rural areas, unused locally available resources, lack of accessibility of credit, and other support services are the major problems of these people. The SFDP was continued in South Asian countries as a government-initiated MF programme mainly for the improvement of socio-economic status of the resource poor small farmers through credit and non-credit (support services) activities. Nepal was also influenced with global activities that

brought revolution in social development along with other activities. But the SFDP programme also could not reach to the poorest groups because by definition, this model was not developed for the resource less/landless, or for the poorest of the poor section of the society.

According to Muhammad Yunus, the reason for programme failure is the wrong definition of the poor. He does not agree with the view that only “small” or “marginal” farmers are poor as they exclude a large group of poor and vulnerable section of the society, i.e. women and children. In reality, the poor may or may not include small or marginal farmers. Because in many developing countries including Nepal, not only small or marginal farmers are the poor but most of the poor are landless families.

This is the reason that Yunus, on the basis of his own country experiences, preferred income-asset criteria instead of occupation, or location in defining the word “poor” with a disagreement for the concept of small or marginal farmer. He propounded a new strategy suitable for his definition of the poor, i.e. Grameen Bank strategy to alleviate poverty of the large excluded groups of people.

It is generally an accepted fact that women are disproportionately represented among the world’s poorest people. Cheston (2002) therefore suggested that poverty can be reduced through empowering women and MF can have tremendous impact on the empowerment process through linking their individual situation and abilities and the status of women as a group. United Nations Fund for Women [UNIFEM], (2000) wrote “...gaining the ability to generate choices and exercise bargaining power,” “...developing a sense of self-worth, a belief in one’s ability to secure desired changes, and the right to control one’s life” are important elements of women’s empowerment...empowerment is about change, choice, and power; and cash-in-hands can have these empowering impacts. Empowerment is a process of change, by which individuals and groups gain the power and ability to make choices and affects their lives (UNIFEM [2000], cited in Cheston et al., 2002, p. 175).

However, there are two opposing views regarding the potential contribution of microfinance to women’s empowerment or disempowerment. The viewers like Goetz and Sen Gupta (1996) and Johnson and Rogaly (1997) questioned about the degree of benefit and argued that microfinance has disempowering effect, and may increase tensions in the family. It has

negative impacts on empowerment as the expanded business may increase women's workloads (Goetz and Gupta, 1996).

But in Bangladesh, Kabeer Naila found that "majority of women, who experienced an increased workload, were happy to make that choice and felt that the benefits outweighed the costs of participation" (Kabeer, 1998, p. 31). A study of four programmes conducted by Goetz and Sen Gupta in Bangladesh (1994) found the result that an average of 39 percent of women had little or no control over their loans. This means as Helen Todd pointed out "Sixty-one percent of women have partial or full control, which is a striking improvement over the kind of powerlessness with which these women begin" (Wright, 2000, p. 25). Some have viewed women's empowerment as a "Western concept." But the researcher like Cheston answered that not only in MF but also in the broader field of international development the empowerment or disempowerment of women and other groups in each society is closely linked to the culture of that society. This approach of women's empowerment advocates for cultural and social change for the improvement because "...gender inequalities and discrimination against women contribute directly to the perpetuation of poverty in many nations" (Cheston et al., 2002, p. 181).

2.7 Overview of Microfinance in South Asia

Background

This section reviewed the concerning literature about poverty situation and different approaches developed for poverty alleviation in two countries of South Asia, viz. Bangladesh and India. Microfinance (MF) in these countries is accepted as a key intervention in helping families move out of poverty through the development of NGO-based financial intermediaries. The present study included Bangladesh, India, and Nepal among the South Asian nations, for a comparative study of microfinance interventions in these countries. The discussion of microfinance in the Nepalese context is provided in section 5.3. The key socio-economic indicators of these countries are illustrated in Appendix B. The data unveiled the fact that poverty in these countries is mainly associated with deprivation of health, education, food, and also discrimination between men and women, or boys and girls, or differences in development activities in urban and rural areas.

Asian Development Bank (2001) analysed the poverty situation in Asian continent. Poverty is concentrated primarily in those countries, where they have majority of agricultural rural labour forces such as, Bangladesh, India, Nepal, and Pakistan. Output and employment in these economies are relatively dominated largely by agriculture thereby making GDP growth rate more vulnerable depending on weather conditions. This is the reason that GDP growth rate in South Asia declined from 5.8 percent in 2000 to 4.2 percent in 2002 mainly due to uncertain weather condition. Over the period of 1995-2000, the region has population growth rate of 1.76 percent having 40.1 percent population share of the world's population, which is the highest among other Southeast Asian nations or group of the newly industrialised countries.⁶ It is even higher than that of the People's Republic of China (PRC). Annual per capita income in the region is US\$ 418 (1999), whereas it is \$744 in PRC, \$1,050 in Southeast Asia (newly industrialised economy) and \$10,987 in the industrialised economics⁷. As regards for social indicators, South Asia has infant mortality rate of 71 per 1000 live births in 2001 and maternal mortality rate during 1990-1999 is 368 per 1,00,000 live births with average life expectancy (female) of 64 years in 1999. The gross primary enrolment is 83 and 100 percent for female and male respectively during mid to late 1990 (ADB/M, 2001).

Therefore, MF mechanisms have been adopted and spread throughout South Asian countries excessively using group-lending schemes under group liability basis. World Bank (2002) reviewed MF movement throughout the region. More than 98 institutions, founded in the region before 1992, have achieved certain degree of outreach into poor community. Statistics, based on a sample of 30 institutions, discern that total number of outstanding loans for the region amounted to 20 percent of worldwide figure. More than 93 percent of microfinance institutions (MFIs) are operating in this region, which is higher than in any region sampled (World Bank, 2002). Varieties of institutions as commercial banks, NGOs, credit unions, and cooperative societies are involved in providing MF services using different delivery mechanisms.

Foundation for Development Cooperation (1994) and several other individual researchers studied about the important roles played by NGOs and self-help groups in providing financial services for the micro entrepreneurs in Asia and South Asia region such as, Grameen Bank (GB),

⁶ Hong Kong China, Korea, Singapore, Taipei, and the Peoples Republic of China are newly industrialised countries.

⁷ Industrialised Southeast Asian countries are Malaysia, Indonesia, Philippines, and Thailand (see ADB Key Indicators 2001, pp. 4, 16).

Banks Poor 1990, and the Production Credit Groups (PCGs) initiated by Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. Similarly, Self-employed Women's Association (SEWA) in India, Nirdhan NGO (currently the NUBL), and Self-help Banking Programme in Nepal are some popular NGO-based financial intermediaries. The role and values of non-governmental financing intermediaries began to increase highly since the last two decades because large numbers and varieties of such organisations are mushrooming in the region. It is estimated that more than 300,000 NGOs are running in India (FDC, 1994; Getubig, 1993; Gaur, 1994; Pant, 2000).

NGOs and Microfinance

Mainly two types of NGOs are popular in this region -- welfare NGO and development NGO. The development type NGOs are also known as multipurpose⁸ organisations that give less stress on credit and these types of NGOs are very few in number and less popular as well. Mysore Resettlement and Development Agency (MYRADA) in India, Integrated Rural Development Project (IRDP) in India and Nepal, and Swanirvar Bangladesh are few examples of multipurpose or development NGOs established to eradicate poverty. These NGOs are greatly supported by bank credit and government subsidies.

On the other hand, GB in Bangladesh, Self-employed Women's Association (SEWA) in India, Project Linking Bank Poor (PLBP) in Thailand, Nirdhan and Self-help Banking Programme in Nepal, and Sarvodaya Economic Enterprise Development Service (SEEDS) in Sri Lanka are the minimalist type of NGOs (FDC, 1994). These financial intermediaries NGOs (FINGOs) proved to be successful organisations in evolution and expansion of MF through linkage programmes between formal and informal financial sectors in South Asia Region. The NGO, like Padakhep Manabik Unnayan (PMUK) is doing innovative tasks in assisting street children through MF programme. It organises children between the ages of 11 and 18 years into groups of 15 to 20 and they discuss personal hygiene, health awareness, and AIDS in weekly meeting (Hatch et al., 2002).

⁸ The multipurpose type of NGOs has a wide range of activities, while the "minimalist" type of NGOs concentrate mainly on credit delivery activities for the targeted people (FDC, 1994, p. 11).

Similarly, more than 200 NGOs in different sectors, i.e. environment, education, health and gender, and 4646 NGOs in community development are affiliated with Social Welfare Council in Nepal. All types of NGOs in Nepal are established under the Society Registration Act 1978 (SWC, 1999; SWC, 2000).

A. Microfinance in Bangladesh

(a) Formal Financial Development

Formal financial networking in Bangladesh as outlined by Bangladesh Bank, comprises a central bank, four nationalised commercial banks (NCBs), five government-owned specialised banks, 27 domestic private banks, 13 foreign banks, 28 non-bank financial institutions including insurance companies, cooperative banks, and two stock exchanges to deal in capital markets as of June 2000. Two stock exchanges are Dhaka Stock Exchange (DSE) 1954 and the Chittagong Stock Exchange [CSE], (1995) (BB, 1999/2000). Along with central banking roles, the Bangladesh Bank has power to impose penalties for non-compliance and also to interfere in the management of a bank if serious financial problems arise. Lending rates are freely determined by market, and all deposit's rate are decontrolled according to new interest rate policy effected in 1990. The commercial banking system dominates country's financial sector with substantial share of assets. Four NCBs alone control more than 54 percent of deposits operating 33 percent branches (55 percent of the total) as of June 30, 2003. Out of the five specialised banks, Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank were established to meet credit need of agricultural sector. Out of 28 financial institutions, one is government owned, 15 domestic private, and 12 are joint venture banks. Total loan and lease of these institutions up to April 2003 reached to TK⁹ 29,729 million (Web Page: <http://www.home/bangladeshbank>).

(b) Poverty Alleviation Strategies

Chowdhuri and Garcia (1993) studied the country-specific constraints in financial development of two low-income countries, i.e. Bangladesh and Nepal. Both these countries are highly dependent on rural economy and both have inadequate development of financial system

⁹ Current exchange value of TK, in relation to US\$ is US\$ 1 = TK.57.90 (Yunus, 2002, p. 23).

for rural sector. The study looked at the works and efforts in rural finance in these two countries, and suggested some ingredients for reforming and strengthening their rural financial systems underlining the financing development in rural areas where the majority of the poor live. Poverty in these countries is mainly caused by slow growth and productivity in the agricultural sector that has been the mainstay of the rural economy. The study concluded that the development of rural financial markets is a multifaceted and complex task. The authors also concluded that the government, private sector, and international development agencies have focused on microfinance strategy for poverty alleviation (Chowdhuri et al., 1993). The per capita income of Bangladesh is US\$ 400 (2003) with life expectancy at birth 62 years (2002), and infant mortality rate in the same year is 73 per1000 live births (World Bank, 2005).

(c) Microfinance Strategy

Bangladesh government has implemented different target oriented poverty alleviation schemes under safety net programmes to save hard-core-poor from hunger and starvation and also to create productive employment for them. Food for work programme, vulnerable group feeding programme, destitute and women and children's fund, allowance for distressed widows and deserted wives, and the scheme like, "one house one farm" are some important target oriented poverty-focused programmes. Moreover, special credit programmes under central bank's authority have been implemented to create economic base and improve living standard of the rural poor. Special agricultural credit programmes (SACP), SFDP, and two other large autonomous programmes, i.e. Swanirvar and the Grameen Bank are most innovative credit programmes in Bangladesh.

Member-based MFIs are rapidly growing in rural financial markets of Bangladesh. Grameen Bank (GB) is one of them, and the concept of GB-lending system was founded by Yunus, who felt concerned at the pittance earned by landless women labouring whole day for other people. He reasoned that if these women could work for themselves instead of working for others, they could retain much of the surplus generated by their labours enjoyed by others.

Yunus wrote about the expansion and coverage of the Bank and stated that currently it has over 1195 branches (a branch covers 25 to 30 villages around 240 groups and 1200 borrowers) in every province of Bangladesh, borrowing groups in 43,681 villages, 3.12 million borrowers and

95 percent women clients with 11855 total staff. It advanced loans without any collateral charging a simple interest of 20 percent once at the end of the year. Up to December 2003, total amount disbursed by GB since its inception was TK. 191.44 billion (US\$ 4.18 billion) out of which, TK 175.42 billion (91 percent) is repaid. Monthly average disbursement during 2003 was TK 1.79 billion with 99 percent recovery rate. Borrowers of GB at present own 93 percent of the total equity (Yunus, 2004).

A study undertaken by World Bank (1996) also concluded that the coverage of MF in Bangladesh is very wide. Group-based lending programmes are providing more credit than the traditional financial institutions (TFIs) in rural areas. In 1994/95, the TFIs provided about US\$ 540 millions. Grameen Bank alone covered 71 percent out of this total credit amount (World Bank [1996a], cited in Khandker, 1998).

Hatch, Levine, and Penn (2002) presented the positive impact of Village Cell Phone scheme under the GB programme in Bangladesh in increasing the income level of the Grameen borrowers. Clients can use their loan to buy a mobile phone, and operate it as a business selling use of the phone on a per minute basis to others in their community. Village phone-clients in Bangladesh are earning an average net income of more than US\$ 70 a month (in a country where average annual per capita income is less than \$400). Moreover, with the cell phone, they can communicate with their distant relatives, check market price of goods, and look for other important information. By knowing the market prices of goods, they can negotiate with middleman for better price on their products and thus increase their income. With a phone call one is able to avoid the need to travel some distance places, and therefore can save the costs associated with transportation and loss of productivity (Hatch et al., 2002).

The authors also described the Association for Social Advancement (ASA) in Bangladesh, as “One of the best, the largest, and the fastest-growing MF innovations in the world, which serves more than 1.7 million clients through a network of 1087 branch offices” (Hatch et al., p. 140). It is a cost-effective MFI with a strong commitment to provide low-cost and quality-financial services to the poor. Asian Development Bank has reviewed the microfinancial trends in South Asia and has reached to conclusion that "...microfinance is in a process of change from an activity that was entirely subsidy dependent to one that can be a viable business with low

transaction costs” (ADB/M, 2000, p. 14).

Palli Karma Sahayak Foundation [PKSF], (1990) and Bangladesh Rural Development Board (BRDB) are large apex autonomous MFIs in Bangladesh that channel funds to partner NGOs from both government and non-government sources, and these NGOs in turn provide small loans to individual clients. Other active MF-NGOs are Bangladesh Rural Advancement Committee [BRAC], (1972), PROSHIKA (1976), and Association for Social Advancement [ASA], (1991), and Swanirvor Bangladesh (1975). These NGOs have disbursed a large amount of loan with savings collection from their members. Interest rate to be provided on savings ranges between 6 and 8 percent, whereas lending rate ranges between 18 and 30 percent. Wholesale MFIs charge 2 to 9 percent interest rate for NGOs and partner organisations (Alamgir, 1998 and 1999).

B. Microfinance in India

(a) Formal Financial Development

In a study of successful MFIs in India, Rao (1996) described the large networking of formal rural finance institutions. Up to March 1996, there were 91 commercial banks (with more than 30,000 branches), 196 Regional Rural Banks (more than 14,000 branches), 28 State Cooperative Banks (more than 700 branches), and 263 District Central Cooperative Banks with more than 11,000 branches. These financial networks have been operating to meet the growing demand for production and investment credit for agriculture and rural development activities. Rao also realised the need of financial sector reform in the policies relating to supervision, monitoring, and control of financial institutions (Rao, 1996).

Shete (1994) revealed the disheartening experiences of various rural development programmes implemented in the past. Community development approaches of 1950s and 1960s, food self-sufficiency through agricultural development during 1970s (including green revolution), subsidised bank credit programmes such as, SFDP, IRDP, and women-focused sub-programmes did not prove to be successful schemes. Similarly, development of women and children in rural areas (DWCRA) and other employment oriented programmes, like employment assurance scheme (EAS), and scheme for self-employed to the unemployed youth (SEEUY)

were also brought in. But all these programmes failed in achieving the target mainly due to wrong targeting procedures, lack of supervision, extremely low recovery rates, and lack of adequate incentives for commercial banks (Shete, 1994).

In spite of Central Bank's regulation mandating commercial banks for self-employment scheme, the targeted rural poor have not been able to make use of the credit as required for their micro enterprises. Various government-supported rural development programmes became less effective in increasing their income level. Yaron (1994) also agreed to the failure of state-sponsored rural finance programmes, as "becoming a costly drain on government budgets reaching only to the rich minority of rural population, many of them have been associated with heavy losses generated by poor loan collection, such as in India" (Yaron, 1994, p. 51).

(b) Poverty Alleviation Strategies

India lies under the category of low-income countries in world's ranking with annual per capita income of US\$ 530 in 2003 (World Bank, 2005). Statistics prove that poverty in India is mainly related to rural and human development matters as rural people have less access to education, sanitation, and safe drinking water. India has high gender disparity in literacy matters, as the female and male literacy rate is 67 and 81 percent respectively (Appendix B). Similarly, adult literacy rate for female and male is 43.5 and 67.1 percent respectively (UNDP, 2000). A paper prepared by Simanowitz, and Walter (2002) mentioned that thirty-five percent of the total population was living below national poverty line in India. But the authors gave comment in their end note that this figure is set very low as it is based on minimum caloric intake in 1994, whereas the World Bank estimates that in 1997 forty-four percent of the people were living on less than one dollar a day (Appendix B).

Getubig, Remenyi, and Quinones edited study *Microfinance Capacity Assessment in India* (1997) summarised that three major approaches contributed to poverty reduction, (a) sustained economic advances since mid-1980s, (b) the economic liberalisation and financial deregularisation programme after the 1980s, and (c) the targeted programmes providing financial service access as a tool for poverty alleviation. It has been observed that poverty has declined to some extent particularly after financial liberalisation as regulation of interest rates discouraged

banks from lending to the poor. They considered the high transaction costs of lending to small borrowers. In order to promote agricultural and off-farm rural credit, NABARD (an apex bank for rural credit), and other State Cooperative Banks were established. But they were frustrated because of the interest rate ceilings, and high reserve requirements, and liquidity ratios that reduced their resources for lending to small borrowers (Getubig et al., 1997).

(c) Microfinance Strategy

A Concept Paper prepared by Tiwari and Fahad (2000) observed certain types of risks in lending to low-income groups by the formal sector financial institutions. Generally, the risks perceived are, (a) credit risk, (b) high transaction and service cost, (c) absence of land tenure for financing housing, (d) irregular flow of income due to seasonality, (e) lack of tangible proof for assessment of income, and (f) unacceptable collateral such as, crops, utensils, and ornaments. The study also found that traditionally formal financial institutions in India have been serving only the needs of commercial sectors and providing loans only for middle and upper-income groups. They did not generally serve to very low-income groups because of these perceived risks of lending to this sector. This is the reason that these low-income groups are still being served largely by informal financial system developed centuries ago. Generally, these sources are charging high rate of interest (36 to 60 percent) due to their monopoly nature in the absence of reaching formal sources of credit (Tiwari et al., 2000). After the failure of government subsidised credit programmes in India, an alternative approach for lending to rural poor was developed. Large numbers of village level primary agricultural credit societies were developed as alternative sources for credit access. Non-banking finance companies were also engaged in providing financial services at the village level.

However, government took many initiatives to strengthen the institutional rural credit system. The rural branch network of commercial banks has been expanded in order to ensure greater flow of credit to agriculture, and other preferred sectors. They are required to provide 40 percent of total credit to priority sectors, of which 18 percent would be provided in the form of direct finance to agriculture, and 25 percent to priority sector in the form of microfinance for welfare sections to reduce country's poverty situation. Although these measures have helped in increasing the access of rural households to institutional credit, majority of the rural poor have still not been covered. And such schemes suffered from high repayment defaults as well.

Therefore, to provide credit access to more than 70 to 80 percent poor people, community-based NGOs initiated savings and credit programmes, which are popularly known as NGO-linked financial intermediaries, or also known as FINGOs. Self-employed Women's Association [SEWA] (1972) and Cooperative Development Foundation (CDF) are the leading minimalist

MF-NGOs in India. NGOs like Bharatiya Sam Ruddhi, Investment Consulting Services [BASIX] (1996), Professional Assistance for Development Actions [PRADAN], (1989), Mysore Resettlement and Development Agency, Bangalore [MYRADA], (1991), and Share Microfinance Limited (SHARE) provide direct MF services to individual clients (WWB, 1997).

Simanowitz and Walter (2002) reached to the positive conclusion that Share Microfinance Limited (SHARE) as a Grameen model provides financial services to poor women in Andhra Pradesh for viable productive income-generating enterprises to help them and reduce their poverty. Average loan size of the SHARE is US\$ 85. It has a culture of strict credit discipline and close supervision emphasising the productive use of loans and visiting clients to check their loan use strictly. It focuses mainly on financial services. It has 100 percent self-sufficiency with .07 costs per unit of money lent.

The NGOs in India were inspired by Linking Banks and self-help group (SHG) programmes initiated by the Asian and Pacific Rural and Agricultural credit Association (APRACA), whose sixth General Assembly was held at Kathmandu in December 1986; and it emphasised the promotion of linkages between the banks and SHGs. Recently, the NGO-MFIs have become the major source of MF for the landless poor. Grameen replications, cooperatives, and NGOs with SHG-linkage programmes are the three NGO-MFIs in India. Because of the commercial adaptation of GB, the CASHPOR-India was started in 1997 targeting to reach 18,000 poor women and financial self-sufficiency by 2002 under the initiation of David S. Gibbons the then Executive Trustee of the Asian Network for Credit and Savings for the Hardcore Poor -- the CASHPOR.

The large numbers of cooperative societies flourished in India as an alternative approach for poverty alleviation. There are approximately 92,000 short-term primary cooperative societies and other state level and primary level long-term cooperative structures. Urban Cooperative Banks (UCB) or Urban Credit Cooperative Societies (UCCS) are operating largely in urban areas. About 32,000 credit cooperative societies exist with over 15 million members with Rs.¹⁰ 520 billion loan outstanding and Rs.12 billion deposits (Tiwari et al., 2000).

¹⁰ The exchange value of Indian Rupee in relation to US\$ is US\$1 = IRS 44.31 as per 2nd April 2004.

Hatch et al. (2002) categorised the MFIs in India into two types -- wholesale and partner organisations. The wholesale institutions provide loan to NGOs and federated SHGs. National Bank for Agricultural and Rural Development (NARARD), an innovative financial institution and Friends of Women's World Banking (FWWB established in 1983 are large wholesale MFIs to achieve the largest scale of outreach to the poorest families. It has 17,000 rural and semi-urban bank branches with 750 partner NGOs and 462,000 client managed SHGs serving 7.8 million rural borrowers (85 percent being he women) These Groups mobilise their own savings and transform it into loans to members and get earnings from interest income back into equity (Hatch et al.).

But experience of MF practice in India also is not satisfactory. Critics have noted that only few MFIs are considered creditworthy and most of them have poor management information system (MIS). Tiwari et al. (2000) also revealed the weaknesses of existing MF models. Grameen, one of the most successful models discussed around the world has some weaknesses. Though Yunus claimed that GB finances 100 percent of its outstanding loan from its own fund and the savings from its depositors, it involves too much of subsidy, and it has not oriented towards mobilising people's resources. The repayment system of 50 weekly equal instalments is not practical, because the poor do not have stable jobs and have to migrate to other places for jobs. The authors also concluded that credit alone cannot alleviate poverty and the GB is mainly the credit-based programme. Most of the MFIs in India and anywhere else are facing problems regarding skilled development, training, and drop out of trained staff.

2.8 Summit +5 and Millennium Development Goals

Microcredit Summit Campaign (MSC) Report (2002) edited by Sam Daley-Harris, reminded the history of many International Conferences and Summits held in 1990s, and the targeted international development goals compiled by these conferences. The Report complained that the United Nations Summits of the 1990s did not give sufficient focus to microfinance and its role in reducing poverty as it was relatively a new intervention for poverty reduction in Asia, Africa, and Latin America. But the UN Millennium Summit 2000 agreed on Millennium Development Goals (MDGs), which included "cutting absolute poverty in half, reducing by two thirds the child mortality rate under five, and increasing literacy rates by 2015." Among these,

"reaching the bottom 20 percent population" was considered as the hardest one, and MSC made commitment to fulfil it as the most challenging goal (Summit Report, 2002, p. 18).

Inspired by the ability and intent of many poor women of Asia and Africa and a desire of extending financial services to millions of such poor women, the first Microcredit Summit was held in Washington, DC in 1997 with participation of more than 2900 delegates from 137 countries. They launched nine-year campaign of "reaching 100 million of the world's poorest families, especially the women of these families, with credit for self-employment and other financial and business services by the year 2005" (Summit Report, 1997). Again in November 10, 2002, Summit +5 was held in the New York City, where more than 3000 delegates from 140 countries were gathered as a continuation of the Summit 1997 with some new challenges: (a) Reaching the poorest,¹¹ (b) reaching and empowering women, (c) building financially self-sufficient institutions, and (d) using a positive measurable impact on the lives of the clients and their families (Summit Report, 2002, p. 18).

The Summit Report 2002 revealed the growth trend of the programmes, number of the clients, and the number of the poorest clients since the period 1997 to 2001. Accordingly, growth from 7.6 million poorest at the end of 1997 to 26.8 million poorest at the end of 2001 and their goal is reaching 100 million poorest families by the year 2005 (Appendix N). Thus, the total 2186 MFIs (cumulative programmes from 1997-2001) from Asia, Africa, and Latin America and Caribbean reported reaching 54.9 million clients with a current loan, of whom 26.8 million were the poorest clients by the year 2001. Regional distribution of institutions also showed that Asia represented the highest percentage with 49.1 percent and Africa represented the second position (33 percent) out of the total institutions represented. Moreover, data reported by those 211 MF practitioners represented in the Summit, reported reaching 21.8 million (81 percent of the total number of the poorest clients that are women at the end of 2001). By December 2001, 12 MFIs from Nepal reported 417,302 as total active clients during the Summit of which 287,254 were the poorest ones (Appendix O).

¹¹ The Summit Campaign defined the "Poorest" as the bottom half of these living below their nations' poverty line. This definition is adopted from the original definition of Policy Advisory Group (PAG) of CGAP 1996 (Summit report, 2002, p. 3).

The Asia-Pacific Regional Summit was held in Dhaka, Bangladesh from February 16 to 19, 2004 followed by the Middle East/Africa Microcredit Summit in Amman, Jordan, and the Latin America/Caribbean Summit in Santiago, Chile in 2005. Palli Karma Sahayak Foundation (PKSF) had organised the meeting held in Dhaka. The next Global Microcredit Summit will be held on November 2006 in Halifax, Nova Scotia, Canada. For the fulfilment of Summit goals, they made two negotiations with international agencies: one negotiation was made with USAID and US-based groups to develop the cost effective poverty measurement tools to identify the poorest clients (real poor); and the other negotiation was made with World Bank and UNDP urging them to make commitment for fund support (Web page: www.microcreditsummit.org).

Millennium Development Goals

Many international conferences and summits held in the decade of 1990 had set out many targets for poverty alleviation from less developed and developing countries. The international community realised mainly in World Bank/IMF conference of 1999 that the Structural Adjustment Programme SAP (1986) and Enhanced Structural Adjustment Programme ESAP (1987) could not elevate poverty from these countries.

In 2000 United Nations adopted a Millennium Declaration and recognised the MDGs ultimately directing towards poverty alleviation in all less developed as well as in developing countries. Altogether eight goals have been documented, as: (a) eradicate extreme poverty and hunger by half in 2015, (b) ensure children everywhere, boys and girls alike will be able to complete full course of primary schooling, (c) promote gender equality and empower women by eliminating gender disparity in education, (d) reduce child mortality by two-thirds within 1990-2015 with the provision for one-year old children, immunised against measles, (e) reduce maternal mortality rate by three-quarters through education regarding the reproductive health, (f) combat with HIV/AIDS, malaria, and other diseases by providing a comprehensive correct knowledge of HIV/AIDS to population between the ages of 15 and 24 years and using effective malaria prevention and treatment measures, (g) ensure environmental sustainability through sustainable development of country's policies and programmes regarding environmental resources as forest and maintaining biological diversity, and (h) develop a global partnership for development through developing an open, non-discriminatory trading and financial system

including good governance, development and poverty reduction, and also decreasing the special needs of land-locked and other developing countries. Actually, this last goal is about the means to achieve the first seven goals, i.e. related with human development and poverty reduction (Web page: www.paris21.org/better world).

The Summit Campaign committed to make half the proportion of people, whose income is less than one dollar a day. In this regard, a study undertaken in Bangladesh shows that five percent of the Grameen borrowers are moving out of poverty each year (Khandker, 1998). Similarly, women involved in MF programme could be able to enrol their children (especially girls) in schools as high priority eliminating gender disparity within the family. Because of increased living standard from the income-generating businesses, they can afford fees for tuition, books, and uniforms for their children. Reduction by two-thirds mortality rate for children could be possible through combining MF with education in child survival matters (Summit Report, 2002).

Conclusion

Several studies reviewed about the microfinance system in South Asia, revealed that microfinance institutions (MFIs) in India and Bangladesh have failed to reach the very poor community, leaving aside 10 to 15 percent of the rural population away from the service (Alamgir, 1999). The very poor people are reluctant to join the programme mainly due lack of capacity of the poor to manage the loans. The studies have also realised some unfavourable rules and systems within the MFIs like mandatory weekly savings and weekly repayment of loan and regular attendance in the meetings as great hindrances. Recently, many programmes like Income Generation for Vulnerable Group Development (IGVGD) in Bangladesh have eliminated some complicated rules for the very poor, and they have successfully reached out to them by organising the tribal population in village-based institutions to meet their demand for financial services.

A comprehensive review of the literature found that even if the government and developing agencies in Nepal are trying to make more credit available in the market for reducing poverty at a certain level, poverty is still deeply rooted mostly in the rural areas. Though MF has linked with formal financial system of the country since the last thirty years, it has not been able to

achieve the expected target of rural financing for poverty alleviation. Moreover, the review of Microcredit Summit Campaign's activities also found that microfinance as an industry is driven towards quantity rather than quality as they have emphasised to extend microfinance to as many people as possible. The Summit had launched a nine-year campaign and made commitment of "reaching 100 million of the world's poorest families...by the year 2005" with great emphasis on women. Donors also committed for fund support to larger numbers of small MFIs that has further pushed microfinance towards less client-responsiveness and innovations in the apex MFIs as regards for operational norms and standard of the organisation.

But the review also found some positive aspects from the South Asian experiences that poor people also repay their loans and are willing to pay for higher interest rate for collateral free loan. Solidarity group pressure and sequential lending (provide second loan after repaying the first loan) encourages clients to repay the loan and thereby producing low default rate and less non-performing asset. Further, the poor people also can save, and it means savings and credit are equally important in microfinance activities.

However, the present study has filled the research gap of a comprehensive study of microfinance and its impacts on living standard of the households involved in the programme. Various concerned matters like concept, causes, and measures of poverty have brought into light. The study has identified the key issues at various levels and has recommended policy reform measures for impact oriented and sustainable MF programmes suggesting appropriate model for varied topographical region. Moreover, the past research works have not yet been focused on microcredit programmes and its impact on natural resource management. The study has reached the conclusion that poverty, microfinance, and natural resource management are closely related and therefore if the policies and technologies were developed, the poor people can be involved in the management of forest resources including timber and non-timber forest products making an improvement in their livelihood status.

CHAPTER 3

METHODOLOGY

3.1 Background/Study Approaches

This chapter describes in detail how the study was conducted. It contains study approaches, data sources and data collection methods, sample sizes of the respondents and indicators used for impact assessment. Selection of the microcredit programme and the study area are also provided. Nirdhan Utthan Bank Limited (NUBL) whose head office is located at Bhairahawa, Rupendhei District, is selected for case study purpose. Nirdhan bank is a Grameen-type poverty-focused microfinance programme, transformed from a non-government organisation to an established development bank of Nepal. It has exclusive feature of lending to women selecting as its borrowers within the specified poverty limit; and the loan flow is made basically in the small-scale income generating businesses. The research is based on descriptive and discussion method. It does not seek to explain relationship between dependent and independent variables through testing a hypothesis. Simple number, cross tabulations, percentage, and bar diagrams are used to present impact information derived from the field. A two months' field study was conducted during November to December 2003 to acquire primary data. Evaluations made are more objective oriented towards the fact-findings relating to pre and post-socio-economic conditions of the respondents. Efforts have been made to use the latest available data up to mid-July 2004.

As the study is an impact assessment of microfinance programme, it requires measurement of the differences under the programme and what would have happened without it. For such research, two approaches, i.e. either (a) "before" or "after" comparison, or (b) "with and "without" comparison, or both can be followed simultaneously to investigate the impact. The first approach requires baseline information about the socio-economic condition of the programme beneficiaries. But in the absence of baseline information, the respondents were asked to report their pre-socio-economic conditions to compare the characteristics. The study includes both "exploratory" and "evaluation" analysis of microcredit programme implemented by Nirdhan bank. The exploratory process requires primary as well as secondary data, which were collected from the field using appropriate tools and techniques -- survey and interview method.

Analysis was done taking “with” and “without” programme situation in order to find the comparative advantages of the programme. Analysis also included the comparison of current socio-economic conditions of the participants and the non-participants or controlled households. The study compared the values of the indicators among clients using “before” and “after” method. The research objectives, research issues, data sources, data collection, and analysis methods are provided in the matrix (Appendix A).

3.2 Sources of Data

Primary Sources

The study consisted of primary as well as secondary data. The primary data were collected from the field survey in three programme operated village development committees (VDCs) of Rupandehi district. For study purpose, both quantitative and qualitative data were collected from the field using appropriate tools including interview and focus group discussions because to measure the real impact of MF services, quantitative data alone will not fulfil the queries about social and gender impact.

Client’s and Non-client’s Interview

For quantitative data collection, interviews with clients (programme participants) and non-clients (non-participants) were conducted through administering of the structured questionnaire. The questionnaire for clients and non-clients are provided in Appendix K. A client in the study is defined as one of the women members of a group formed by NUBL; and a group consists of five economically homogenous women residing permanently within the specified VDCs. The NUBL uses both “land” and “income” criteria for clients’ identification as poor living below the national poverty line (client identification criteria are discussed in section 5.4).

The qualitative data were collected from Focus Group Discussions (FGD) with the clients, the non-clients, and with the group leaders using participatory research tools, and observations from the field. Informal discussions were also made with the husbands of the clients focusing mainly on gender equity aspects regarding the benefit sharing among male and female members and also sharing domestic workload, or in permitting women to work outside the home.

Researcher's observations at interpersonal behaviour and feelings of the clients during the survey period provided an opportunity to understand the situation for additional information. Family planning, intra-household decision-making roles among senior members such as, mother-in-law and father-in-law in buying and selling of livestock, seeking medical treatment for children and the women herself when they fall sick, and selling and purchasing of agricultural products are the important household areas to be decided. Similarly, the non-clients were interviewed to collect primary data for investigating the comparative advantages of the programme regarding forest resources management like use of forests for different purposes, future plan for using alternative sources of energy, and other economic changes over the period of three/four years. The non-clients, for study purpose, are defined as new clients (women) or the new members, who have just entered and are waiting for loan from the Nirdhan bank.

3.3 Sampling and Sample Size Determination

As the purpose of this study is to analyse and compare the various characteristics of poverty measures between credit recipient and non-recipient groups, the centre from the Branch Office is purposely chosen for sampling the population. The centre in this study represents a cluster, a meeting place for 2 to 8 groups of five-woman members; and it is also a place, where banking transactions and all other activities take place. The first two centres from each VDC were sampled to administer the survey questionnaire. Sample sizes of the population were determined according to programme availability operated in the Branch that covers a large area and population (clients) consisting of 50 centres.

Out of the total clients in each sampled VDC, the representative sample of 130 beneficiaries (17.08 percent) between the ages of 20 and 50 years was selected randomly going through a list of names taking every 5th person as a sample. This way, clients have been equally picked up for interview. The members, who had at least crossed three years of programme participation, were randomly selected for interview. While deciding the sample sizes of the population (clients), the simple rule -- larger the population, lower the percentage and vice versa -- is followed. Additional quantitative data were collected from the key informants like programme staff, branch managers or professionals. Semi-structured questionnaire was administered to the branch managers of the NUBL to get information about future plans and

policies of the programme, linkages and networking among local agencies concerned with service delivery, support services and skill development training (Appendix L). Similarly, the respondents from non-client groups included 70 people (53.85 percent of the total sampled clients). The non-clients were selected for interview adopting the same random sampling method. Table 3.1 shows the determination of clients' and non-clients' sample sizes.

Table 3.1
Sample Sizes for Client and Non-client Groups

Name of the VDCs	Total No. of Active Clients (women)*	Clients Sampled for Interview	Non-clients Sampled for Interview
Devadaha Ward No. 1, 2, 3, 4, 5, 6, 8, 9	504	65 (12.90%)	35
Makrahar Ward No. 2, 3, 6	55	16 (29.09%)	10
Kerbani Ward No. 2, 3, 4, 6, 7, 8, 9	202	49 (24.26%)	25
Total	761	130 (17.08%)	70 (53.85% of the credit group)

Source: Branch Office, Sitalnagar, 2003.

* Clients/members of NUBL are the respondents who are women.

The questions were designed in a comparable way with close-ended pattern putting sufficient tables. Scaling methods were used to know the changes in respondents' attitudes and behaviours. Most of the questions were "yes/no" types through which the quantitative information was collected. The questions for non-client group were the same that had been asked for clients except for loan-related activities. Prior to conducting the field studies, the questionnaire was tested in other similar villages to examine the reliability and validity of the questions.

Secondary Sources

The secondary data were collected from the published and unpublished literature on related themes and from the records of various microfinance organisations to understand the concept and to develop a theoretical background. For new ideas and current trends in the concerning field, abstract, reports, occasional papers, periodicals and journals, and other relevant publications published from various academics were reviewed. Similarly, unpublished reports and proceedings of the national and international seminars were also studied to have knowledge and understanding on issues related to microfinance in Nepal. The national level social,

demographic, and gender-related statistics were collected from the reports published by the Central Bureau of Statistics and from concerning Ministries. The large numbers of financial and statistical data were collected from the manuals, and policy guidelines published from the Nepal Rastra Bank, the central bank of the country. The SAARC level data were collected from the central banks' reports of the concerning countries. The district level data were collected from the publications of District Development Committee (DDC) and District Cooperative Office. The latest regional and global information was retrieved from various Websites through the internet.

3.4 Methodological Issues

The reliable measurement of the impact of financial services on poor families' welfare is much more expensive and methodologically also much difficult. Microfinance (MF), whether formal or informal, is socially oriented system of finance as it has to reach clients, who were not being well-served by the commercial banking system. It is the "fungible" characteristics of finance that often makes difficult to measure the impact in a relatively small investment. Field observation also proved that most of the borrowers were not able to identify the profitable investment opportunities. They have invested the loan money in a variety of activities rather than in a single enterprise. Moreover, the high degree of illiteracy among majority of borrowers (women), they were not able to tell accurate estimates of the costs and revenue of their income generating businesses and also not being able to quantify their exact income when they were enquired about such figures during the field study. Moreover, change in gender equity and economic status takes place over the long term.

Though income is one indicator of socio-economic impact, it is much problematic to measure the income from small borrowers' enterprises as compared to measure income from large-scale borrowers. Besides, only household income can be a misleading indicator of impact. While family income may be rising, net impact may actually be negative for certain family members (MacIsac, 1997). Therefore, researchers need to assess the impact of gender-focused microcredit programmes using the indicators like women's control over credit and income generating activities such as, whether they control income earned, how they use it; and whether women and men, and boys and girls benefit equitably from increased household spending or not. Furthermore, the investigation of impact study can also be undertaken comparing the expenditure

pattern and the quality of life of the programme participants as indicators of economic and social prosperity (Guli, 1998). However, the present study used certain indicators for impact assessment, from which poverty can be measured. These are:

- (a) Change in economic indicators, i.e. assets accumulation like land, house, livestock, household utensils, and tools/machines;
- (b) Change in social indicators, i.e. expenditure pattern on food, clothing, health care, children's education, fuel, and social events;
- (c) Change in women's empowerment through gender equity promotion (benefit sharing among male and female members of the households and also among different ethnic groups);
- (d) Change in decision-making role in some important areas such as, children's education (sending their daughters to school), children's marriage, and family planning and savings access for gender equity improvement at two different periods; and
- (e) Change in household energy types and future plan by clients and non-clients in the community.

3.5 Study Area Selection

Rupandehi district is selected for the case study purpose. The rationale behind the selection of the district is that many microfinance institutions including Western Grameen Bikas Bank, NGOs, savings and credit cooperatives, community based organisations, large numbers of informal moneylenders, and other informal credit schemes are providing microfinancial services in the district. Furthermore, this has been the highly potential area for microfinance practitioners because of better infrastructure as compared to the other hilly regions. Rupandehi district is also a home to both extreme types of population such as, top-level business/industrial classes and the extreme poor without resources or people who produce food for less than nine months in a year. People from the hill and even from other districts are migrating in this district and making squatted settlements encroaching forestland for livelihood.¹²

¹² According to an informal data the total forestland encroachment in Nepal for the year 2003 is 74,636 hectare (personal interview with Keshav Raj Kanel, DOF, Ministry of Forest and Soil Conservation). Similarly, the

Selection of Branch and VDCs

Out of the total 26 branches, seven branches of Nirdhan programme are operating in Rupandehi district throughout 58 Village Development Committees (VDCs) and two municipalities. Present study concentrated on Sitalnagar Branch located its Branch Office at Devadaha VDC, where Nirdhan as a NGO first started its MF services. Selection of the Branch and VDCs is justified on the ground that, people in the area mostly are landless and illiterate as shown in section 3.6. Selection of these particular VDCs and wards is based on the following criteria:

- (a) These are the adjoining VDCs, and, to some extent, the survey in these areas could be cost-saving (map of the VDCs in Appendix K);
- (b) As these VDCs are located in northern side of the district, it will be easy to see the programme's impact on forest resource management;
- (c) Most of the people in these areas are migrants from hills and are unemployed (both male and female), and they work as day labourers on the farms, which is not sufficient to sustain their livelihoods; and
- (d) Sitalnagar is the oldest Branch in the area in regard to programme operation, and the clients have reached to a certain point of maturity regarding to loan activities. At this point of time maturity, impact assessment can produce a good result.

3.6 Study Area Description

Overview of Rupandehi District

Rupandehi is one of the six districts of Lumbini Zone lying in the western development region of Nepal (District map, Appendix I). This is one of the three districts of western terai (plain), with district headquarter at Bhairahawa. It is about 200 km to the west of Kathmandu. Like other terai districts, most of its land are plain, fertile and irrigated, and have access to transportation. Administratively, the district is divided into 69 VDCs and two municipalities, namely Siddharthanagar and Butawal Municipalities. It is located at the height of 151 to 1219 meters from the mean sea level. It is located at a latitude of 27°32" north and a longitude of

83°28" east. The total area of the district is 1360 sq. km. and the total cultivable land is 85122 hectares (DDC, 2057 B.S.)

Demographically, the district has a total population of 708419 (360773 male and 347646 females) with 117856 total households (HHs). Average size of the HH is 6.01 and the density of population is 521 persons per square km. From demographic viewpoint, this is the third largest district of the country with annual population growth rate of 3.05 percent (CBS, 2002). The population is a mix of different ethnic groups mainly Tharu, Brahamn, Yadav, Chhetri, Muslim, Gurung, Newar, Damai, Kami, Sarki, and Harijan following mostly Hindu, Buddhist, Islam and Jain religion. Economically active¹³ households (HHs) are 25464 (21.61 percent) of which, 4.59 percent, 35.69 percent, 4.46 percent and 29.81 percent are operating manufacturing, trade/business, transport, and services respectively (CBS, 2001). Thus, by type of activity, trade and business is in the highest position in the district. Out of the total HHs, 14.06 percent have agricultural land and the HHs having both land and livestock are 35.61 percent. Similarly, 22.99 percent households have no land, livestock and poultry. The literacy rate (read and write) of the district is 65.95 percent of the population 6 years of age and over. The literacy rates for males and females are 58.49 and 41.51 percent respectively (CBS, 2002).

Because of high volume of trade and business, large number of different banks and financial institutions are operating in this district. There were altogether 25 commercial banks (NBL, RBB, JV), 10 agricultural development bank branches/sub-branches, one regional rural development bank (Western GBB), one microfinance development bank (Nirdhan Utthan Bank Ltd.), one development bank (Siddhartha Bikas Bank), and four finance companies by the year 2004 (Appendix M). According to District Cooperative Office, Bhairahawa, 278 different types of cooperatives have been registered till December 2003 of which 66 institutions are working as savings and credit cooperatives (SCCs), which are known as multi-purpose cooperatives. But out of 278 cooperatives, 79 have been closed and few SCCs have absconded with the money of the depositors. Some SCCs are permitted from Nepal Rastra Bank to perform limited banking license. Almost 500 NGOs and many donor-funded programmes are operating with the collaboration of District Development Committee (DDC, 2060 B.S.). The donor-funded programmes are:

¹³ If a person works for \geq six months or seeking job for this duration of work in activities other than agriculture, is categorised as economically active one (CBS, 2001, Fact Sheet).

- (i) UNDP/Norwegian Development Programme:
 - (a) Collaborating District Development Projects
 - (b) HIV/AIDS projects
 - (c) Rural/Urban Linkages Programmes
 - (d) Government/private Linkages Programme
- (ii) HMG/IFAD: Poverty Alleviation Project in Western Terai;
- (iii) HMG/FINIDA: Rural Drinking Water and Health/Hygiene Programme (RDWHHP);
- (iv) DFID/British Council: District Health Strengthening Project (DHSP), Nepal Safe Motherhood Project (NSMP);
- (v) World Bank: Rural Infrastructure Project (RIP);
- (vi) Asian Development Bank: Asian Sector Irrigation Development Project; and
- (vii) UNDP/SNV/DFID: Tourism for Rural Poverty Alleviation Programme (TRPAP).

Overview of the Sampled VDCs

Devadaha (*Devidamar* as the locals call it) VDC is located along the East-West Highway of Nepal in northern boarder of Rupandehi district. The VDC is 13 miles (20.9 km) away from Siddharthanagar, the district-headquarter. It has 4355 households with a total population of 22122. Makrahar is adjacent to Devadaha VDC and it is located 10 miles (16 km) away from Siddharthanagar municipality, Bhairahawa. It has 2755 households with 14420 total populations. Kerabani is adjacent to both Makrahar and Devadaha VDC in north and west side of the district and it is located at 14 miles (22.52 km) away from the municipality. It has 2438 households with a total population of 13049. On average, 90 percent households in the three VDCs are male headed. By occupation, 88 percent people depend on agriculture. Almost 95 percent households' source of firewood in the study areas is government forests and only five percent households' source is community forest. The percentage of illiterate people by male and female in the VDCs is 57.63 and 63.90 respectively (DDC, 2003). The maps of the sampled VDCs are provided in Appendix J.

CHAPTER 4

MICROFINANCE IN POVERTY ALLEVIATION: A THEORETICAL APPROACH

4.1 Background

The theoretical basis of the topic is largely influenced by both socio-economic and cultural perceptions of a society that “poor people are not credit worthy” (Patel’s study [1990], cited in Abeywardena, 1993, p. 2). The special features of formal financial system that made collateral binding also influenced the subject. And this is the main reason why many formal (traditional) finance programmes failed to reach the poor and disadvantaged section of the society. On the other hand, microfinance (MF) programme has the special feature of group-based lending methodology that makes it able to address the true needs and constraints of the poor. Different approaches, models, the concept and causes of poverty, and the innovative roles played by MF to alleviate poverty are highlighted in this chapter in the context of global experiences.

4.2 Microfinance: A New Paradigm

Several studies have indicated MF as a powerful tool for alleviating poverty by giving micro entrepreneurs access to MF services for operating small enterprises, where enterprises are defined as businesses including both farming and non-farming areas. This access can help in improving their efficiency, productivity, and welfare reducing risks during the production processes, and this access is the theme of MF business. The financial services provided can also enable the poor to leverage their initiative accelerating the process of building incomes, assets, and economic security. As a matter of fact, microfinance assists the poor in many ways such as, (a) promoting investment in assets, (b) facilitating activities to earn a livelihood, (c) protecting against income shocks (reducing HHs’ vulnerability by providing means to cope with emergency needs and smooth consumption), and (d) building social capital and improving quality of life (Guli, 1998).

The traditional finance or the commercial banks generally do not serve the needs of low-

income families, or cannot easily serve micro enterprises run by the self-employed poor. These banks must process loans at a cost that can be covered by interest charges, and they must have confidence in the borrower's intent and ability to pay (Rhyne and Otero, 1994). In other words, the commercial lenders prefer dealing with large loans in small numbers to minimise the administrative costs. On the other hand, a large number of small loans are needed to serve the poor people. The bankers perceive different types of risks in providing credit to low-income households such as, credit risks, high transaction and service costs, or high information monitoring costs on operation. These institutions require borrowers' stable source of income out of which principal and interest can be paid back according to the agreed terms. But the low-income households would not have such income sources. Moreover, there are different groups of people -- some are poor with resources and some are without resources. These are the reasons that resource-poor people have no chance of getting access to formal financial system. The formal financial institutions in the Asia-Pacific region have reached the top 25 percent of economically active population leaving the bottom 75 percent without access to formal financial services apart from family, friends, or moneylenders. It has been estimated that 200 million poor households need access to MF services in the region (FDC, 1998).

The traditional credit programmes include five "Cs" in credit management. These are: *capability* (ability of the borrower to repay); *character* (competency of management and willingness to repay); *capital* (base of equity or wealth of borrower against which credit will be extended); *collateral* (nature and marketability of collateral); and *conditions* (internal operating efficiency, market share or volume of sales, competitive factors and current and predicted economic conditions) (Woelfel et al., 1994, p. 271). It is not possible to fulfil all these requirements by the poor people, and this is the main reason for not considering these people as credit-worthy.

Over the last two and half decades, however a new paradigm has emerged for providing financial services to those large numbers of excluded people in building income and assets lubricating their household economies, and mitigating the risks that poor families face (WWB, 2002). Thus, the new paradigm emerged is that the poor should have access from informal to formal financial system to achieve the goal of poverty alleviation. And it is also believed that MFIs, using solidarity group guarantees or peer group model (especially the poverty oriented

NGOs) reach poorer people. Studies undertaken in Latin America and Caribbean have supported the evidence for such a relationship between depth of outreach and loan methodology (Guli, 1998). Moreover, the core theme of the paradigm emerged in the microfinance sector is that the NGOs and CBOs involved in community development have been linked with formal financial system.

Littlefield and Rosenberg (2004) stated that the poor people could also be served profitably on a long-term basis and in some cases on a large scale. Actually, well-run MFIs can perform as the mainstream commercial banks do. The top-performing MFIs in some countries are more profitable than the top-performing local commercial bank. Some MFIs have more stable business than commercial banking even at the time of financial crisis. During Indonesia's 1997 crisis, for example, commercial bank portfolio had deteriorated but loan repayment of Bank Rakyat Indonesia's (BRI) 26 million clients barely declined (Littlefield et al., 2004).

4.3 Genesis and Theoretical Foundation

Genesis

Providing microfinancial services to the poor is not a new thing. For centuries, poor people in Africa and Asia have formed savings and lending groups in informal financial market, which are more usurious and provide quick service at very high costs. In the last century, cooperatives and credit unions in developing countries have focused savings mobilisation and lending to rural poor households. Actually, the concept of MF has originated from supply and demand of credit in a financial market. This is the context that the mission of formal MF emerged during the period of 1970s originating from South Asia. The first steps were taken in Bangladesh to experiment with lending (collateral free loan) to the poor.

Microfinance as an "industry," developed mainly since 1980s in Asia, Africa, and Latin America in the form of NGOs and savings and credit cooperatives (SCCs). This concept particularly developed after the failure of cooperative movement to deliver financial services to the poor that it had promised in Asia, despite the success of Raiffeisen's credit union movement in Europe. However, in Asia Pacific region, microfinance is a recent phenomenon compared to

the cooperative movement flourished in India by middle of the 19th century (Puyalvannan, 1999).

In the last couple of years, many MFIs established from non-government organisations, have transformed themselves into mainstream financial system, or transformed into the development banks as part of their commercialisation strategy. Grameen Bank in Bangladesh, the Unit Desa system of Bank Rakyat Indonesia (BRI), the Bolivian MFI, Banco Sol, and the Consultative Group to Assist the Poorest (CGAP) are the pioneering institutions to be transformed from NGO to mainstream financial institutions (FDC, 1998b). In Nepal's case, Swabalamban Bikas Bank and Nirdhan Bank are the examples of the MFIs moved from NGO to the mainstream financial institutions.

In the Latin America, Caribbean, and African countries, ACCION International began providing "micro" loans and business training to poor, self-employed women and men (who rely on micro enterprises as their main source of income) to start their own businesses since 1970. ACCION's lending methodology is designed to cover their own costs that borrowers pay interest on their loans enough to cover the expenses. In this way, each borrower helps to finance the cost of lending to the next. "The more people the programme reaches, the more resources it has to reach even more people" is the motto of ACCION's lending methodology to make MFIs sustainable. And this focus on financial sustainability has helped to increase the number of people served from 13000 in 1988 to 740,000 in 2002 (Web page: <http://www.accioninternational.org>).

Theoretical Concept

Credit in monetary theory is defined as the "use of someone else's funds in exchange for a promise to pay (usually with interest) at a later date" (Samuelson et al., 1998, p. 434). The short-term loans extended by suppliers and commercial papers are the examples of credit. The word "credit" is derived from the Latin word "credo" means "I believe." Hereby, the combined word microcredit holds an important place in the theory of finance. In banking theory credit is considered as an effective tool to regulate monetary policy by the central bank, i.e. control over money, interest rates, and credit rationing, which is an important method of credit control. But in development theory, credit is supposed to play a vital role in dealing with the problems of rural development. "Credit plays an important role in the acquisition and mobilisation of productive

resources and determines the scale of operations and profitability of economic ventures” (Abeywardena, 1993, p. 2).

The meaning of “microcredit” becomes clear just knowing the meaning of the terminology. According to Encyclopaedia of Banking and Finance (1994), the word “micro” means small, and the word “credit” means “The ability to buy with a promise to pay, or the ability to obtain title to and receive goods for employment in the present although payment is deferred to a future date. It therefore consists of an actual transfer and delivery of goods in exchange for a promise to pay in the future” (Woelfel, 1994, p. 266). Different academics and individuals have defined microfinance in their own way. The CGAP defines microloan as “loan size, for example, a loan which is equal to or less than the value of average GDP per capita or by clientele for example, finance, which serves micro enterprises operating in the informal sector” (ADB/M, 1999, p. 2). The World Bank in its *Microfinance Handbook* defined MF as “the provision of financial services to low-income clients, including self-employees, includes both financial and social intermediation. It is not simply banking, it is a development tool” (Ledgerwood, 1999, p. 2). The NABARD of India has defined microfinance as “provision of thrift, credit, and other financial services and products of very small amounts to the poor in rural, semi-urban, or urban areas for enabling them to raise their income levels and improve living standards” (NABARD [2000], cited in CPSRD, 2004, p. 11). The concept of MF indeed is mainly related to rural development and target group focused programmes specially that of lending to agricultural and related businesses, with an objective of attaining growth with social justice. People who normally live below poverty line demand such credit. Actually, microfinance practitioners define it more specifically in terms of its quantity, targeted beneficiaries, and lending objectives. Microcredit symbolises small loans extended to the poor for undertaking self-employment projects that would generate income and enable them to raise their living standards. In other words, it seems different only because of its demand for and its use, as it is demanded by small borrowers (both men and women) to meet their production (financing small business and consumption needs).

The two words microfinance and microcredit also have different meanings, and the former has some broader definition as compared with the latter. Generally, microfinance means the financial services to the poor (Rhyne et al., 1994). In other words, MF is the provision of a broad range of financial services such as, loans, deposits, payment services, money transfers, and

insurance to the poor and low-income households, whereas microcredit is related only to the credit services.

Approaches of Microfinance

Basically, two approaches, namely “financial system approach” and “poverty lending approach” have been developed regarding microfinance and poverty reduction. Two different schools of thought, namely the “banking school” and the “development school” have interpreted the role and functions of credit. The first approach propounded by banking school believes in sustainable (ability of MFIs to cover the costs) financial services only to the poor, but not to the poorest ones. This approach stresses on financial viability of lending institutions, removal of subsidies, and mobilisation of savings rather than on poverty reduction. In this approach, if loans are demanded and paid back in time, it is considered that the services provided are valuable. The economists like D.W. Adams and Pischke are the supporters of financial system approach who opine that only credit is not an important tool for poverty reduction (Adams’ study [1992] and Pischke’s study [1991], cited in Gulli, 1998).

On the other hand, the development schools of thought emphasised on the poverty lending approach claiming poverty reduction and empowerment as overall goal of microfinance. This approach stresses on measurable impact on client’s poverty level rather than on financial sustainability. The proponents of this approach, like Michel Lipton (1977) gave emphasis on importance of credit as a mechanism for achieving normative or behavioural objectives of income redistribution and social justice. And this is particularly relevant in structural adjustment effects on lives of the poor increasing the opportunity for resource control by these people (Lipton’s study [1977], cited in Abeywardena, 1993). This is the target-group-centred approach favoured by United Nations agencies and bilateral donors, who perceive credit as an instrument for achieving a higher level of distributive justice. Yunus emphasised this view strongly with underlying belief that “Credit for self-employment should be considered as a fundamental human right, ...it should also be recognised as a human right that plays a critical role in attaining all other human rights” Yunus’s study [1987], cited in Bernstein, 1996, p. 232). However, this study is concerned with the poorer women, who are marginalised in development efforts due to the double disadvantages of poverty and gender, and gender is defined as the role played by men and

women based on social norms and values that is changeable.

It is difficult to identify any specific approaches operating in Nepal as there is overlapping of financial system approach and poverty lending approach. Microfinance institutions (MFIs) in Nepal emphasise on the poverty lending approach with poverty reduction and empowerment as their major goal. But unfortunately, they lack the sustainability that the financial system approach tries to gain. On the other hand, commercial banks in Nepal opt for financial system approach, but they seem reluctant to finance the poorest and even the poor opting instead for large industries and firms. Thus, the aim of poverty reduction is not given enough priority by the latter. It is commonly believed that there exists a trade-off between financial sustainability and outreach (impact on poverty reduction).

But the evidence provided by numerous studies does not support this conclusion. Although microfinance programmes established during the 1990s (both NGOs and government-mandated programmes) failed to reach towards financial sustainability, many others demonstrated that poor people, particularly poor women, are excellent borrowers if provided with efficient loan services at commercial rates. In the same way, MFIs also can provide microloans to poor people in an efficient and financially sustainable way, once the number of client increases to reasonable scale. It has also been proved that MF is an effective way to help poor people help themselves in building assets, managing risks, and working their way out of poverty. On the basis of these experiences, it can be suggested that the best approach of MF needs to combine both the characteristics, i.e. institution's financial sustainability, and its willingness, or ability to reach greater numbers of poor people in a particular economic settings.

Principles

The conditions and procedures of microfinance (MF) are more flexible and easy to understand by the local community. Depending on the operational system, some key principles are common to all successful MFIs. The study by Rhyne and Otero (1994) explains three key principles as (a) MFIs are able to know their markets that the major services needed by the poor are savings and credit for liquidity and working capital with one-year loan terms. Simple application procedures and small size of loans are important elements for access and convenience of the clients. Because of these elements, the poor are willing to pay higher interest

rates than the prevailing rates in the formal financial system, (b) the successful MFIs keep administrative costs as low as possible. Quick and simple procedures and decentralised loan approval systems are important principles, and (c) they are able to ensure high portfolio quality as they have developed a modality, like peer-pressure model to ensure high repayment rates than in traditional collateral-based loans.

Yunus has demonstrated some essential elements and practices that differentiate MF from traditional finance, and these elements according to him are major obstacles for the poor people to get financial services from formal economic and banking system. Microfinance does not require collateral, guarantor, and it reaches to the doorsteps of the poor, but the formal finance do not. Because of these important elements and practices persisted, the MF strategy is more suitable to meet the needs and realities of the poor people. In fact, the principle of MF is very simple as it endeavours to emulate essential elements of informal lending system that can create confidence and better relationship between the borrowers and the lenders assuring financial credibility in the credit market. Regarding the confidence creation, ACCION International highlighted the need to learn from the *modus operandi* (minimise the risk and achieve cost efficiently) of the informal lenders in Latin America. It is essential mainly to develop a relationship with them and have knowledge of their investment (use of the loan). If the lenders cannot deliver credit in a timely manner, borrowers go to informal lenders. Besides, the ACCION have used such lending practices that reflect the needs and realities of their clients pursuing client delinquency to make the programmes success (Christen, 1989).

4.4 Microfinance Networking

A network is an institution of people with common interest to find ways and means on issues that affect their work. A MF network is a forum of practitioners, policy makers, regulators, academics, donors, and researchers where they exchange experience, build common performance standards, carryout research on issues affecting their work, develop products, and influence government policy to facilitate the growth of MF sector to fulfil its potential in alleviating poverty and building broad-based economic development (WWB, 1998). Many regional, global, and multilateral microfinance (MF) networks worldwide are involved in the promotion of MF industry that can be categorised broadly into two groups -- practitioners'

network and support networks.

(a) Practitioners' Networks

The first international case of replicating Grameen Banking model Amanah Ikhtiar Malaysia and after this the GB-type MFIs in many low-income countries attracted attention and was adopted rapidly. The credit and savings for the hardcore poor (CASHPOR), the Asian Network of Grameen adaptors, is the outcome of this attraction. The CASHPOR is a network of 22 Grameen Bank replicators (GBRs) working to reduce poverty in the Asia-Pacific region through provision of financial services to poor women. This network based at Seremban, Malaysia, was established in 1991 to strengthen the replicating organisation's capacity to expand by providing management training, technical assistance, and information exchange. Similarly, Grameen Global Network is an institution of GBRs throughout the world.

The MF Network is a global association of leading MF practitioners that works as a vehicle for accomplished institutions to provide technical assistance, and encourages them to learn from each other's experiences. Network members are committed in improving the lives of low-income people through the provision of savings, credit, and other financial services. The office of this network is at Washington, DC.

The Small Enterprise Education and Promotion (SEEP Network) is an association of 40 North American private development organisations working with local NGOs in enterprise development programmes in the south. The network located in New York, provides a forum for members to engage in joint research and training and for the development and dissemination of practitioner-oriented publications. It is engaged in the projects that are related to institutional development, business development services, poverty lending, and programme evaluation. The other is World Council of Credit Unions (WOCCU), which is a global confederation of credit unions. The Council assists its members to establish and strengthen credit unions throughout the world by means of technical and financial support, communication exchange, as well as membership and external relations (Web page: www.gdrc.org/icm/network/networking.html).

(b) Institutional Supporting Network

There are many institutional supporting-networks providing information, resources, and training programmes. Large international consortium/multi-functional donors are actively

functioning to provide financial and technical services to a network of MFIs for institutional capacity building. Efforts have been made to meet the capital shortages, or operating deficits among the MFIs through the development of a new financing paradigm. Gibbons, D.S. and Meehan, J.W. suggested some equity-like financial instruments, or quasi-equity alternatives for financing the MF such as, subordinated debt, convertible debt, and Special Drawing Rights. They also suggested that borrowings of capital by the MFIs at below market rate or soft loans, or to get subsidy at lower interest rates, and capitalising that subsidy as a grant on their balance sheet as equity, is an important part of institutional capacity building for MFIs (Gibbons et al., 2002). Small Enterprise Development (SED), International Development Network (IDN), Journal of Microfinance, and Virtual Library of Microcredit provide information for the MF practitioners/institutions. PlaNet Finance is the other network that aims to develop microfinance sector through promoting Internet and new technology needed.

There are many committed government and non-government organisations worldwide pledging their support for investment funds for the development of MF sector. Many financial networking worldwide have pledged their support for MF programmes for the poorest groups (particularly women) in low-income countries (Mayoux, 1998). Women's World Banking (WWB) is a New York-based global agency engaged in providing guarantee fund to increase scope of banking services to women. The ACCION Gateway Funds, Deutsche Bank, Microcredit Development Fund, Latin American Challenge Investment Fund (LAC-IF), Consultative Groups to Assist the Poorest (CGAP) are some committed organisations in this field. The CGAP, a multi-donor organisation initiated by the World Bank, is a consortium of 29 bilateral and multilateral donor agencies. It serves MFIs and MF industry through the development of technical tools and services, the delivery of training, strategic advice and technical assistance, and action research on innovations (CGAP, 1995)

The ACCION International provides financial as well as technical services to a network of MFIs covering over two million people in Latin America, Africa, and the United States. United Nations Capital Development Fund (UNCDF) was initially founded to fund small-scale enterprises in the developing world. The fund is generated from voluntary contributions made by member-states and co-financing by the governments, international organisations, and the private sector. The AFMIN, AFRACA, APRACA, BWTP, CDF, FDC, and FINCA are some of the

regional microfinance networks currently operating in different parts of the world. Similarly, the FAO, IFAD, ILO, UNDP, UNESCO, World Bank, USAID are the multilateral/donors' networks. The PLAN International, Save the Children, and Freedom from Hunger, CIDA, DANIDA, FINIDA, DFID, and GTZ have created their own microfinance networks under the INGO-networking (Web Page: www.seepnetwork.org). Foundations and NGOs involved in MF include Action Aid, Ford Foundation, Oxfam, and Save the Children are being active in the funding and implementing the programmes (Harris, 2002; Wright, 2000). The Naropa University Microfinance Training Programme, Boulder is providing training programmes to the practitioners. All these activities demonstrate that the expectations of microfinance in recent years are high.

But sometimes, such high expectation might lead some sort of confusion to perceive it as a panacea for poverty alleviation. Hulme and Mosley express with some warning that “credit and financial services should not displace wider strategies for poverty alleviation” (Hulme and Mosley’s study [1996], cited in Wood and Sharif, 1997, p. 41). However, the access and impact of microfinance depend on the programme design and services provided by the institution. Though all people do not need MF, large numbers of people can be benefited as experienced by many low-income countries today. More than nineteen million of the poorest households around the world now have access to financial services (Gibbons et al., 2002).

4.5 Models Developed for Poverty Alleviation

Background

During the 1970s, most of the low-income countries of the Asia-Pacific region and in Latin American countries incorporated the concept of microfinance (MF) within their mainstream financial systems. Since that period, some pioneering microfinance institutions (MFIs) developed and applied a new set of methodologies in microlending businesses for poverty alleviation. The number of MFIs providing credit-based financial services to the poor has increased from a few in the seventies to several hundreds by the mid 1990s. NGOs that integrate credit for the poor have added more to this number. The credit-based programmes in Asia such as, the Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC), and Bank Rakyat Indonesia (BRI) have

visibly grown in size; and also changed from credit-based model to a wide range of lending products offering savings and other financial services like insurance and family budgeting services (Getubig et al., 1997).

Microfinance practices that became popular in different periods, demonstrate that they have contributed to the dynamism of this field evolving with various models. In the early 1970s, targeted and subsidised rural credit models were dominant. But in mid- 1970s, this model was identified a failure, as it led to an excess demand for credit followed by the rationing of the credit. Further, wealthier rural population had more access to this model thereby leading to less optimal allocation of scarce investment funds (Wood and Sharif, 1997). The strategy was shifted from state intervention to market-based solutions. However, this section presents different modalities of microfinance developed so far throughout the world.

Different Models

(a) Rural Credit Union Model

Credit union is a cooperative financial institution owned and run by its members, who agree to save their money together and make loans to each other at reasonable rate of interest. “Innovations within credit unions and in financial markets generally have permitted their evolution as limited liability membership organisations operated democratically under a one-member-one-vote rule, usually financed entirely by members, with voluntary leadership, and having objectives consistent with those of cooperatives generally” (Pischke, 1991, pp. 45, 46).

The author also threw light on the early Raiffeisen’s *Rural Credit Union* and Herman Schulze-Delitzsch’s *Urban Credit Union* model that provided MF services to the German farmers in the last century. Due to the assurance of financial credibility and motivating character, these models were followed rapidly throughout the Central Europe. Today, the World Council of Credit Unions includes more than 70 national associations, and more than 1500 credit unions in developing countries. Friedric W. Raiffeisen was the founder of Heddesdorf Credit Union in Heddesdorf, Prussia in 1864. He was considered to be the founder of *rural credit unions*; and Hermann Schulze-Delitzsch was the founder of *urban credit unions* in Prussia in the same

period.

(b) Cooperative Model

Cooperatives provide microfinance in the form of credit to individuals and groups with limited resources. Savings are the strong bases of cooperatives to make them sustainable and capable of fulfilling both the economic and social needs of their members and the communities where they are operating. In cooperatives, the money that is lent out, come from the members. So the members are not merely the clients but owners of the institution. Cooperatives are autonomous associations of persons united voluntarily to organise and operate any businesses in the society. These associations are governed by some established principles, i.e. open membership, democratic control, and equal contribution in the organisation.

The history of modern cooperative as a form of business enterprise dates back to 1844, when Rochdale Society of equitable pioneers, a consumer's cooperative, was established in England after the failure of a producer's cooperative formed in 1830 with the involvement of a group of 29 flannel weavers (Woelfel, 1994). Within a few years of formulation of this cooperative society, several other societies were expanded and legalised converting themselves into wholesale cooperative societies in England. The movement thus, initiated from England, was spread rapidly to Western Europe, USA, Canada, New Zealand, and Australia in the early 19 century.

In a conference paper, Puyalvannan (1999) discussed that cooperative model emerged out of a felt need to solve the problems posed by the agrarian economy of the then Europe and in the Asian countries mainly pre-independent India. At that time, small landholdings and fragmentation on one side, and monopoly and usurious moneylenders on the other, were exposed as serious problem in the country. Sir Fredric Nicholsson, in his report in 1897 had made a strong suggestion for the introduction of cooperative credit societies in India. The author also highlighted that focusing mainly on agricultural credit, India developed largely the short-term (production credit) and long-term (e g., land mortgage banks) cooperative credit structures. Primary Cooperatives Agricultural and Rural Development Banks (PCARDBs), or State Cooperative Agricultural and Rural Development Banks (SCARDBs) were established in the country. Consequently, towards the end of 1997, there were 452,657 million cooperatives at all

levels increasing the percentage of rural population covered by the agricultural credit cooperatives from 7.8 percent in 1951 to 36 percent in 1960/61; it further increased to 65 percent in 1985/86. Currently, 99.5 percent of the villages are totally covered by cooperatives (Puyalvannan, 1999).

But cooperative movement in Bangladesh could not be felt to be a successful model. Although after independence, the government of Bangladesh implemented this model developed at the Bangladesh Academy of Rural Development as the basis for a nationwide programme for small and landless farmers, it became a failure because of financial difficulties and recently it revived with group-based lending technology adopted by the Grameen model.

In Nepal's case, though it has a long history since 1953 with the establishment of Cooperative Department, it could not flourish in the society because they were managed and controlled by the government which believed that cooperative needs to be developed by the government. Thus, the true philosophy and principles of cooperative that it should be mutually owned, controlled, and managed by the people themselves were not followed. Only after the political liberalisation of 1989, new Cooperative Act 1992 was enforced that considered cooperatives as an instrument for poverty alleviation in the country.

(c) Individual and Peer Lending Model

The study published by CMF/CECI (n.d.) broadly classified the lending modalities into two types. They are: (a) individual lending, and (b) peer lending. Lending provided by village moneylenders, or by specialised development banks, and commercial banks are based on individual lending philosophy, which includes one of the "Cs," i.e. collateral or co-signers' guarantee. This is a straightforward credit-lending model, where loan is directly given to the borrowers without forming the group or generating peer pressures to ensure repayment. This model possesses a long history in the study of financial system of a country, and in many cases it is a part of larger credit plus programme, which includes other socio-economic services such as health, education, and skill development.

On the other hand, peer lending or group lending, or solidarity model is a gradual modification of ROSCAs operated effectively in different countries in the form of informal

source of finance (section 2.4). In this model, there is a peer group linkage between the borrowers and the peers to ensure loan repayment in microfinance programmes. Mutually guaranteed loans with other borrowers, screening of potential clients by their peers, client's closeness with peers rather than with programme staff are the basic features of peer lending modality. Yunus (1993) made clear about these terms as "formation of small five-member groups of the members' own choosing and federating the groups into centres helps to create right kind of peer pressure at the time, when a member tries wilfully to violate GB rules, and peer support at times, when a member falls into any difficulty in pursuing his economic pursuit" (a study by Yunus cited in Gibbons, 1992 and in Wright, 2000, p. 52).

Peer lending model also can be grouped into two headings: (a) solidarity groups and (b) community based organisations. In solidarity type, groups are formed and size of group may vary. Solidarity models are either Grameen type (group of 5 persons) or Latin American type (group of 5 to 15 members), which is rather flexible. Grameen replicators in Nepal mainly fall in the first category. Group formation in this model is based on the principle of joint liability and homogeneity and it is a loan security and guarantee mechanism. Several practices have shown that this model is based on the principle of *group dynamism*, which has three processes: (a) organising a group from like-minded people within a settlement with an objective of their overall development, (b) group cohesiveness, which needs organisation, savings, and skill generated from social mobilisation, and (c) third is the conversion of their savings into some skill. Thus leadership development, ownership, resource utilisation linkage development, and the networking forum are the essential elements of group dynamism. Actually, the group dynamism is a quality of microfinance that encourages transferring the management and ownership to the groups/cooperatives after becoming the clients self-reliant. But the community-based organisations (CBOs) are that type of NGOs, which do not perform any microfinancial activities. Actually, the CBOs are the modifications of the ROSCAs, which are very informal. Out of two types of NGOs operating, one is financial intermediary type known as FINGO, and the other is social intermediary NGO known as SFINGO that does not perform any MF activities. These SFINGOs are the community-based organisations in the real sense. Thus, village banking, Grameen banking, community banking, self-help model, solidarity model, peer pressure model, and savings and credit organisations (SCOs) lie under the group-lending model

(d) Formal and Informal Type

The other classification of microlending modality is formal and informal type. The ROSCAs or ASCRAs, short for rotating savings and credit associations and short for accumulating savings and credit associations respectively can be found as some other models of microfinance (MF), i.e. association with both a rotating and accumulating fund. Many ROSCAs working around the world fall under the informal financing system. These are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle, thus lending money by one member to other member.

(e) Grameen Bank Model

Over the last two decades, Grameen Bank approach (GBA) appeared as a popular model for poverty alleviation. *Grameen*, which comes from the word village, provides credit to poor women to acquire assets for self-employment. Muhammad Yunus propounded this model as a simple act of trust in lending without collateral with minimal conditions. He realised that the existing economic and commercial banking system is never intended for the poor as it has two main hurdles, i.e. guarantor and collateral.

Features of Grameen Model

Certain characteristics of Grameen Bank (GB) differentiate it from other poverty alleviation programmes. It provides loan for poor women, who occupy a large share among the poorest using loan eligibility criteria as 0.50 acre of land. Small and manageable loan amounts, weekly repayment system, savings mobilisation scheme, and autonomy are the special characteristics in this grassroots-based Grameen organisation (Getubig, 1993). The bottom line of GB's success lies on the fact that-- firstly it has developed close relationship between bank and borrower, and among the borrowers themselves. Secondly, peer pressures and peer support are important tools in putting the clients in the right track of pursuing their economic activities and timely repayment of loan.

But critics have doubted the effectiveness of these methodologies on the ground that the

group members cannot always ensure default loans. It is important only for the first few loan cycles, and thereafter it becomes irrelevant (Sharif, 1997; Yaqub, 1995, cited in Wright, 2000). Critics also remarked about the main features of Grameen, i.e. group size, weekly savings, weekly repayment, and regular attendance in the weekly meetings considering them as restrictive factors to reach into the very poor community. The very poor clients often do not have the capacity to manage fund and to repay the loan resulting negative impact. But these days, most of the Grameen types MFIs have changed the weekly meeting arrangements into fortnightly transactions.

Early MF programmes in Bangladesh also proved ineffective in mobilising savings. But recent experiences have shown that the MFIs have been able to mobilise savings from their clients, it means they are moving close towards self-sustainability. Savings schemes are now compulsory for every member, which is accumulated in Group Fund. But now the Group Fund is replaced by Grameen II or modified Grameen.

Modified Grameen Model

Grameen Bank (GB) gained a lot of experience through its success and failures. It incorporated many new features in its methodology to address various crises and problems like the flood of 1998 that made loss of all possessions including houses of the Grameen borrowers like many other people of Bangladesh. The GB started issuing fresh loans for restarting income generating and to repair or rebuilding their houses. Borrowers and their family demanded to withdraw the “group tax” or the component of “group fund” at the time of leaving the bank. For some period borrowers fell off the track and did not pay the loan instalments. In 14 April 2000, GB implemented a new system, i.e. The Grameen Generalised System (GGS). This is called Grameen II, or second-generation MFI. The GGS includes a single prime loan product called "basic loan" with two other loan headings, i.e. (a) housing loan and (b) the higher education loan replacing all the features of Grameen Classic System. It has replaced general loan, seasonal loan, family loan group fund, branch-wise, zone-wise loan ceiling, fixed size weekly instalment etc. (Yunus, 2002).

Yunus described this basic loan as “Grameen Microcredit Highway.” In this system, if a borrower faces some trouble (Business slow-down/failure, sickness, family problems, accidents

or natural disasters) and cannot keep up with the high way speed she (client) has to quit the highway and take an exit on to a detour called a “flexible loan” that way she can reduce the instalment size (affordable to pay) by extending the loan period. Some encouraging features, like pension fund, loan loss provisioning and write off policy, loan insurance (for both borrowers and enterprises) are included in the modified system.

(f) Village-banking Model

An impact study of village-banking (1996) undertaken by Nelson, McNally, and Yanovitch described this model as an informal bank for non-collateral loan to members in a community in which the community will be responsible for handling the credit directly to individuals. This model was first developed in Bolivia, the Latin American country by the Foundation for International Community Assistance (FINCA) in the mid-1980s, and spread throughout the Africa. Village banks, the community-based savings and credit associations are closely related to community banking consisting of 25 to 50 low-income individuals mostly women (Nelson et al., 1994). Initial loan capital for the village bank comes from an external source. But, members themselves collect payments and savings through their own by-laws. This model has evolved in Asia, Africa, Latin America, and the Middle East.

The principles and standards were enunciated in the first International Conference for practitioners of village banking in 1994. Targeting the poorest from women, democratic type of management and structure, credit linked with savings (members must save in order to borrow), are the main principles and standards. But they have changed their savings policies from original model or they have moved from “forced” to “voluntary savings” adopting more flexible approaches. Further, in Latin American village banking model, loan ceilings are not fixed as they determine it based on the borrowers’ capacity to repay and available programme funds, whereas in Asia and Africa the original \$300 loan ceiling is still prevailing (Yaron 1994 CMF: Call # 250 Village Banking).

(g) Self-reliant Village Banking Model

Self-reliant village banking model was developed in Africa, where population density is low, similar to the hills of Nepal. Self-reliant village banks are established and managed by a

rural village community. This model differs from *village banks* only on one ground that it meets the needs of the village as a whole and not just a group of 25 to 50 people. The French NGO, the Centre for International Development and Research (CIDR) developed this model in the mid-1980s (Ledgerwood/Deprosc, 1997).

(h) Association

In association type, the target community such as youth or women form an association regarding political, religious, or cultural issues through which, microfinance activities are initiated. In some countries, an “association” can be a legal body that has certain advantages such as collection of fees, insurance from the customers. Associations, the community-based organisations are also informal systems.

(i) Bank Guarantees

As the name itself suggests, a bank guarantee is used to obtain loan from a commercial bank. This guarantee may be arranged externally through donors/government agencies, and internally it is arranged using savings of its members. Bank guarantee is a form of capital guarantee scheme and the guaranteed funds can be used for various purposes including loan recovery. These days, many international and UN organisations have been creating international and guarantee funds that banks and NGOs can subscribe for/or start MF programmes.

(j) Self-help Group Model

Credit needs of the poor people, particularly of the rural poor, are characterised by the absence of any clear distinction between production and consumption purposes. Therefore, Self-help group (SHG) model evolved as an alternative mechanism for meeting both these needs. And the groups formed, may be either existed spontaneously, or may be actively involved into voluntary agencies consisting of homogeneous members (10 to 12) belonging to poor sections of the rural society. Swiss Agency for Development and Cooperation (SDC) considered this model as a viable alternative as well as a link between the formal financing system and the poor (SDC/*Spandana*, 1997). Historically, the SHG model is originated from the ROSCAs, which are effectively operated by different names in different countries. Particularly, Asia-Pacific Rural Agricultural Credit Association (APRACA) has encouraged this model since the early 1990s. This model was largely promoted in India in the form of savings and credit groups and non-credit groups. Non-credit groups include joint farming, social forestry programme, rural industries, and marketing of farm and non-farm sector products. But the savings and credit groups are promoted for farm products. Several such groups in India are linked with National

Bank for Agricultural and Rural Development (NABARD) in various development projects as partner agency of the banks.

Thus, the SHGs play an intermediary role between people and commercial banks particularly in the identification of poor, monitoring the performance of the assets and loan repayments at the local level. Because the formal banks who are directly lending to individuals, cannot perform these tasks. Cent percent recovery rate, feeling of ownership and self-management among the members, and principles of “savings first, and credit later” are the main features of this model. The NGO and SHG in Nepal are first used in MCPW programme introduced by the government in the form of financial intermediary agents for linking clients to commercial banks.

(k) Banking with the Poor Model

A study edited by Conroy et al. (1994) reported about the genesis of Banking with the Poor (BWTP) model, which came into existence at the first regional workshop in Manila in 1991. Third Asia-Pacific Regional Workshop on BWTP network was held at Brisbane in 1994. NGOs from eight Asian countries (Pakistan, India, Bangladesh, Nepal, Sri Lanka, Philippines, Malaysia, and Indonesia) had represented in the programme. The study reported that the BWTP is the “minimalist” type of NGO associated with the Grameen Bank, whose interest is better access to credit for the poor. This model gives emphasis on domestic financial development by linking between self-help groups of the poor and commercial financial institutions with NGOs performing a range of intermediary functions (FDC, 1994).

Thus, the various types of microlending modalities adopted worldwide have been grouped in a broader way as indigenous model (direct and indirect), cooperatives association, bank guarantee, community banking, credit unions, Grameen, NGOs, peer pressure, ROSCAs, and village banking. Commercial banks’ lending to the beneficiaries or to the self-help group members is a direct approach, whereas the wholesale credit provision from the apex MFIs to savings and credit cooperatives (SCCs), or to the authorised NGOs made by the banks is indirect approach. Various microfinance models developed throughout the world are provided in the flow chart (Appendix P).

4.6 Concept of Poverty

Poverty and social marginalisation are significantly affecting the lives of many rural people in developing countries seriously hindering economic development. Though much has been talked, much has been written and several governments and planners have included poverty reduction as over-riding objective in their development programmes, the poverty has still not been alleviated from developing and less developed countries in the world. Since the concept of "absolute poverty" is wide and common in comparison to "relative poverty," the government, planners, and the researchers have focused on this type of poverty. Absolute poverty is usually contrasted to relative poverty. The relative poverty compares the relative living standards of different groups or individuals and considers those with lower living standards to be in poverty (Sen, 1982; Townsend, 1979). On the other hand, the absolute poverty cannot be compared relatively to other people's standard of living. It is measured through a hypothesised poverty line, and the proportion of population below this line, are considered as absolute poor.

Poverty has been defined in various ways. CIDA (1994) made some restatements of poverty "The idea that poverty is multi-faceted has been widely accepted and apart from material deprivation, it is not unusual to include health status, illiteracy, and several types of vulnerability, powerlessness and absence of choice..."(CIDA, [1994], cited in Wright, 2000, p. 9). In the words of Sharif (1997), "Poverty...is not only about having inadequate income or income below the poverty-line but is also about the inability to sustain a specified level of well-being" (Sharif (1997, quoted in Wright 2000, p. 8).

Yunus defined poverty on the basis of his own country experiences "Poor is a much larger collection of people than the small or marginal farmer that excludes women and children who constitute over half of the total population of the country" (Yunus, 1993, p. 6). He further classified the poor into three categories: P1 or hard-core-poor or absolute poor; in many countries it would be the bottom 20 to 25 percent; P2 bottom 35 to 40 percent; P3 bottom 50 to 55 percent. Within each category of poor, there may be sub-classifications on the basis of region, occupation, religion, ethnic background, sex and age group. Similarly, the Summit Campaign defines "poorest" as the bottom half of those living below their nation's poverty line. The poorest in developing countries refers to families, whose income is in the bottom 50 percent of all those

living below their country's poverty line (Summit Report, 2002).

A further category of poor is recognised as “vulnerable poor” who are associated with certain type of risks. The World Development Report 2000 focused this risk and vulnerability aspect of poverty with a focus on both risk mitigation and risk prevention faced by the poor people. The vulnerable poor have higher exposure to a variety of risks and also lack access to risk management instruments. Vulnerability can be exposed not only in the level of consumption, but also in a number of other dimensions such as children's health and development, physical well-being, social capital, family sizes, and insecurity of old age (World Bank, 2002c). Poverty is generally associated with deprivation of health, education, food, knowledge, and influence over one's environment (social mobility) that are forcing them for mere surviving (World Bank, 2002c). These groups are not able even to meet their families' essential needs (Simanowitz et al., 2002). Amartya Sen viewed that “In a poor community... the perception of poverty is primarily concerned with the commodity requirements of fulfilling nutritional needs and perhaps some needs of being clothed, sheltered, and free from disease” (Sen, 1983, p. 161).

Poverty Incidences in Nepal

There is an extreme inequality of income distribution in Nepal making a vast gap in the standard of living of the people. Because poverty in Nepal is directly related to income, and therefore the national poverty estimation is calculated on the basis of basic needs of the people like income, consumption, and access to facilities. Besides, poverty is the result of “landlessness” or the “marginal land holders” as 69 percent people hold below one hectare of land (NESAC, 1998). Underemployment rather than unemployment is the more challenging problem in Nepal. With a given 2.24 percent population growth rate, country faces a challenge of absorbing 300,000 persons entering into labour force each year along with the large numbers of underemployed people (47 percent approximately) (ADB/M, 2003b).

The Tenth Plan has looked at poverty aspect more from human and social dimensions. The Interim Poverty Reduction Strategy Paper (I-PRSP 2001) prepared under the suggestion of Nepal Development Forum meeting 2000, had set a goal of reducing poverty rate to 30 percent by the end of the Tenth Plan period. Actually, PRSP is the reorientation of policies and programmes towards achieving Millennium Development Goals (MDGs) as it has incorporated most of the

contents of MDGs such as, literacy, birth/death rates, and access to the basic social and economic infrastructures with particular focus on the deprived classes, women, and remote area.

However, the incidence of poverty between 1995/96 and 2003/04 has declined by eight percent according to the recently published poverty monitoring report (2005) by the Central Bureau of Statistics. According to this report, the estimated poverty headcount is 31 percent as compared to 42 percent estimation provided by the Nepal Living Standard Survey (NLSS) report 1996. Similarly, the rural poverty has declined from 43 percent to 35 percent; and urban poverty declined from 22 percent to 10 percent during the same period (CBS, 2005).

Poverty Measurement Criteria

Small Enterprise Foundation (SEF) argued that an institution would not provide microfinance (MF) services for the poorer unless active poverty targeting method is used. There are many poverty measurement criteria. UNDP has defined poverty through Human Poverty Index criteria. CASHPOR House Index (CHI) is another type of indicator to measure the poverty level. In this tool MF practitioners determine the degree of poverty level simply by inspecting walls and roofs of the houses of potential clients. “Participatory Wealth Ranking” test is other tool developed by SEF/South Africa, which has been used by Grameen Bank, Bangladesh and CASHPOR Network/Malaysia. In this method, the villagers will be ranked from bottom income group (Hatch et al., 2002). World Bank has defined poverty on one dollar a day criteria, i.e. the group of people are known as extreme poor (those in bottom 10 to 50 percent of households below poverty-line), and destitute (bottom 10 percent below poverty-line) who are living below half the national poverty line or living on less than US \$1 per day. The Summit has defined this group as the “poorest” and the CGAP defines as “very poor” (Simanowitz et al., 2002).

4.7 Microfinance: Some Innovative Cases

The purpose and the objectives of various microfinance institutions (MFIs) in different countries have varied. For example, in Indonesia *Badan Credit Kecamatan* (BKK) or sub-district credit body began to provide MF services to low-income clients during the 1970s making credit accessible to rural poor (both for rural and urban) for off-farm income generating activities. Another institution in Indonesia, i.e. BRI/Unit DESA (BUD) known as General Rural Credit

Programme has been providing credit and savings facilities since the 1980s for income generating activities in rural areas. Similarly, in Thailand, Bank for Agriculture and Agricultural Cooperative (BAAC) provides financial services only to the agricultural producer since 1966. *Amanah Ikhtiar Malaysia* (AIM 1987), a NGO, provides small loans to the poor playing a complementary role to the government's poverty reduction programme. In the same way, Grameen Bank (GB) provided MF services since the 1980s to improve economic condition of the rural poor of Bangladesh (Yaron, 1992).

Despite two decades of providing cheap subsidised credit in the Philippines, the country adopted GB financial system to supply credit flow to rural areas. But in Sri Lanka, Save the Children through Credit (SAVECRED) considered savings as important as credit for poverty alleviation. The SAVECRED is not a full replication or adoption of Grameen model; they only adopted some features and policies, as Sri Lankan government and planners believe that "institutional structures and culture are not transferable" (Wijiwardena, 1993, p. 289). There are many innovative cases of MF programmes regarding their products and services achieving a significant scale of outreach to the poorest families. The National Bank for Agriculture and rural Development (NABARD) and CASHPOR Financial and Technical Services (CFTS) working in Uttar Pradesh in India are some examples of the innovative programmes. These programmes have designed a loan product based on growing of poultry for women working as agricultural labourers (Hatch et al., 2002).

China has made great efforts to eradicate poverty in the past two decades making a drastic change in land management system and the economic system. It reduced its population living in poverty from 250 million in 1978 to 65 million in 1995 (Hatch, et al.). China's remaining poverty is primarily rural, mainly scattered among remote mountainous and minority nationality areas in the northwest and southwest. To address this challenge, China is shifting from regional development projects to household-based initiatives targeted at women. Women in China accounted for over half of the poor population. Compared with men, women are less educated and less skilled and highly illiterate. The programme for women development 2001-2010 has been approved by the State Council emphasising women's equal access to economic resources through MF projects. In the year 2001, the government provided 378.4 million Yuan of microcredit for poverty reduction, accounting for 21.5 percent of the total national expenses

against poverty. The other poverty alleviation programme is sponsored by the Luliang Prefecture Women's Federation (LPWF) in Shansi province, which has brought opportunities for women for self-developed and economic independence. Women in some parts of China consider MF as a "key to life change" (Fuzhou, 2002).

In the Philippines, Freedom from Hunger (FFH) included education in microcredit programme through credit union movement in partnership with the World Council of Credit Unions (WOCCU) since the early 1990s. Though FFH are the advocators of village banking methodology, they emphasise health, nutrition, family planning, and business skills arguing that poverty is the product of scarcity--not just of economic resources, but scarcity of skills and information. Integrating access to money with access to information has been considered as a powerful tool for poverty alleviation. The clients of village banking model are also affiliated with WOCCU to access a new and large market for their financial services. FINCA/Peru, FINCA/Uganda, ASA/Bangladesh, Alternative Solidaria (AISol) in Mexico, and Pride Africa are the best examples of innovative programmes in the field of microfinance.

Pioneer works have been done by Grameen Bank, Americans for Community Cooperation in Other Nations (ACCION) International in Latin America and Women's World Banking (WWB) to expand MF programmes in many developing countries. The ACCION, an American NGO established in 1961 as a private Peace Corps, worked for over 10 years in Integrated Rural Development in Latin America. Its entry into this field began in the 1970s with a credit-lending programme known as UNO-programme in Brazil. Mainly, these three agencies developed special microlending methodologies such as, target group identification and group-based lending approach (collateral free loan) giving a challenge to traditional financing system (Christen, 1997; Khandker, 1998; Shete, 1994).

In Peru, FINCA has served more than 6400 clients through 256 village banks giving first emphasis to savings rather than the credit. This approach is adopted even in Canada, France, and the United States to help people in becoming income-generators. Home-based day-care, street vending, cleaning, trucking, sewing, manufacturing gift baskets are the typical loan activities in the United States (GTB, 2000). Among these countries, some have replicated the Grameen model and some have just followed the principles of MF. Small entrepreneurs, accessed to

financial services from these innovative organisations, have become able to repay the loans and increase families' income and assets, which would be further innovation to them to work for way out of poverty. Particularly, because of the perceived success of GB, the possibilities of MF have become a global concern becoming a source of inspiration for replicating the programme in many low-income countries of Africa, Asia, Latin America and the Caribbean and North America. In Asia, the countries like Sri Lanka, Malaysia, the Philippines, India, Vietnam, Indonesia, Pakistan, and Nepal have adopted this model. It is replicated by other developing countries of Africa as Guinea, Kenya, Malawi, Zambia, Mali and Chile. Bolivia and Peru in South America also replicated this group-lending model of microfinance (Angela et al., 1993).

Thus, wide varieties of MFIs have stimulated widespread innovation throughout the world. And this competition and innovation have become a choice for the poor people. Among several initiatives, some have linked MF with financial services and some have linked to non-financial services, such as education or literacy programme, and managing remittances (Haiti), credit and savings with education (Philippines), "putting savings first" in Peru/FINCA, "Education Fund for Children" in Tanzania, and "Health Insurance and Health Services" in Uganda/FINCA.

CHAPTER 5

MICROFINANCE IN NEPAL

5.1 Background

This chapter analyses the different microfinance (MF) models existing in Nepal. It also highlights the banking activities during the past two and half decades. The Nepalese financial system has achieved rapid change in expansion and diversification of institutional network and volume of operations within this period. And more importantly, a potential value of MF for poverty reduction was recognised, and hence it was incorporated within the formal financial system of the country. Consequently, large commercial banks of Nepal were directed to be involved in MF since the early 1970s. And these particular programmes are known as government-mandated models in Nepal's microfinance system.

5.2 Development of Banking Activities

Liberalisation of the Eighties

International community realised that poverty could not be eliminated from less developed and developing countries within non-liberalised economic system. Average living standards of the people of these countries were found very low. With these experiences, International Monetary Fund (IMF) recognised Structural Adjustment Programme 1986 (SAP) and Enhanced Structural Adjustment Programme 1987 (ESAP) to liberalise economic system of these countries focusing mainly on poverty reduction. Accordingly, Nepal introduced financial sector reforms since the 1980s mainly to increase competition in financial markets, and facilitate efficient financial intermediation.

Expansion of banking institutions is the measurable outcome of financial liberalisation of the eighties. Entry of joint venture and domestic private commercial banks were encouraged. The number of development and especially rural microfinance development banks (MFDBs) including government, privately owned, and two apex MFDBs have reached to almost two dozens (Table 5.1). These banks have tried to fill up the gaps of the financial services created by the closure of commercial banks and ADB/N branches covering all districts of terai and few

districts of the hill area.

Outstanding deposits and outstanding domestic credit as percentage of GDP increased from 21.1 and 28.7 percent in 1990 to 40.4 and 45.7 percent respectively in 2001. Quantitative dimensions of financial operations also grew largely. Two commercial banks RBB and NBL have occupied a large pie in Nepal's banking system in volume of operations and number of branches. These banks account for 49 percent of banking system assets, 46 percent of total loans and advances, and 43 percent of total deposits (NRB, 2003c). The Seventh Plan (1985-1990) had a target of providing one bank branch for 30,000 people. The bank branches of RBB and NBL were expanded largely within the decade of 1990s reaching 481 branches within the period of 1991-1999 -- highest ever numbers -- representing 75.8 percent operation in rural areas (NRB, 2003c).

Remarkable growth is found in non-banking financial institutions too. Finance companies came into operation under the Finance Company Act 1985 and the numbers of NRB-licensed finance companies in Nepal are 57 with total credit disbursement and total deposits of Rs.13045.9 and Rs. 14722.2 millions respectively till mid-January 2003 (NRB, 2003a). There are 18 insurance companies including Deposit Insurance Credit Guarantee Corporation (DICGC) established in 1974 under the Company Act 1964. The DICGC mainly guarantees loans given by commercial banks to priority sectors. Large amount of fund collected by these insurance companies are mobilised through financial system. Employment Provident Fund, two mutual trust companies (Citizen Investment Trust and NIDC Mutual Trust), Nepal Stock Exchange Ltd. (NEPSE), former Security Marketing Centre, comprise an important part of financial structure. Deposits with these non-bank financial institutions have increased from 0.5 percent in 1995 to 4.6 percent in 2001. Similarly, NEPSE covers more than 88 percent transactions related to the securities of the financial institutions (NRB, 2003c).

Likewise, the semi-formal financial institutions such as savings and credit cooperatives (SCCs), NGOs, SHGs and postal savings banks also increased largely. After the enactment of Cooperative Act 1992, a total of 228 SCCs were registered by mid-July 1995, which increased to 2262 by mid-January 2002. And 34 out of them are authorised to accept deposits and advance loans to their member by mid-July 2004. More than 25,000 NGOs have been registered under the

Society Registration Act. Among them, 25 have been permitted with limited banking transactions from NRB to function as financial intermediaries NGOs (FINGOs) (NRB, 2004). These organisations are defined as "semi-formal" because once they are registered under certain Act and they will neither be regulated nor supervised. The total numbers of banking, non-banking, and semi-formal financial institutions are provided in Table 5.1.

Table 5.1
Number of Bank, Non-bank and
Semi-formal Financial Institutions (Mid-July 2003)

S. No.	Description	Govt. Managed	Privately Managed	Total
1.	Comm. Banks	2	15	17
2.	Dev. Banks	2	10	12
3.	MF Dev. Banks	5 (GBBs)	6 (Nirdhan, Deprosc, RMDC, Chhimek, Swabalamban, SKBB)	11
4.	Finance Companies	-	57	57
5.	SCCs (licensed)	-	34	34
6.	NGOs (licensed)	-	25	25
7.	Insurance Companies	2	16	18
8.	Employees Provident Fund	1	-	1
9.	NEPSE	-	1	1
10.	Mutual Trust Companies	2	-	2
	Total	14 (7.86%)	164 (92.13%)	178

Source: NRB 2003a 40, P.51, 52; NRB 2003c, pp. 18, 20; NRB 2004, Monetary Policy, p. 29.

Thus, Nepalese financial institutions after 1990s became more private-management-dominated rather than the government. Data reveal the fact that more than 90 percent financial institutions are operating under private ownership and management.

Liberalisation policy of the 1980s brought a broader approach with some policy reforms in rural financial programmes and institutions. Commercial bank branches were expanded rapidly to meet the need of rural financing. Up to 1998/99, 274 total branches/sub-branches and 380 sub-project offices (SPOs) of ADB/N, and more than 300 rural branches/sub-branches of RBB and NBL with total (574) branches were extending rural credit. The bank branches of RBB and NBL alone expanded to 481 branches within the period of 1991-1999 ever highest numbers representing as 75.8 percent operation in rural areas (NRB, 2003c).

There had been tremendous expansion in rural credit disbursement by ADB/N. Since 1968-

1999 it disbursed rural credit of Rs. 36.21 billion through direct and through credit cooperative societies. Thus ADB/N is the financial institution, which is primarily responsible for extending almost 75 percent institutional agricultural credit (IAC) and 55 percent of the total institutional rural credit (IRC). Two commercial banks RBB and NBL contribute almost 20 percent of the IAC and 35 percent of the IRC. Rural development banks SCCs and FINGOs have delivered the remaining portion of institutional and rural credit (Shrestha, 2000c).

Currently, only 454 bank branches of the three banks are under operation, reducing the number of branches by 20.9 percent in mid-July 2003. Table 5.2 reveals the expansion trends and distribution of area wise branches.

Table 5.2
Bank Branches of RBB and
NBL by Area since 1994 to April 2003*

Year	Kathmandu	Hill	Terai	Total
1994	62	190	186	438
1995	65	190	189	444
1996	67	190	191	448
1997	70	194	197	461
1998	75	195	205	475
1999	75	192	214	481
2000	75	162	200	439
2001	83	145	202	430
2002 (Mid-October)	82	130	188	400
2003 (Mid-April)	84	132	190	406

*Source: NRB 2003d, pp. 21, and 22.

To this date, total bank branches, including the ADB/N's commercial banking branches, have reached to 454 (NRB, 2003e Table-12).

The percentage distribution of bank branches according to three ecological regions, i.e. terai, hill and Kathmandu is as 46.79, 32.51 and 20.68 respectively up to mid-April 2003. These large numbers of bank branches were involved in the implementation of government mandated microcredit programmes in the country. But financial markets in rural areas could not operate efficiently because of government interventions and unstable political situations of the country.

A declining trend of bank branches has been appeared since the year 2000 reaching the number to 406 by this year. It also demonstrates an increasing trend in bank branches in Kathmandu and declining in hill region since the last three years. More than 100 commercial

bank branches have been shifted, transferred, and closed for many reasons mainly being bad performances, financial indiscipline in some cases, and involvement of new management for these two commercial banks. Law and security problem (the Maoists' insurgency) poses a major challenge for rural financial institutions in the country. Security situation has threatened particularly to operate branches in rural areas, as the government-owned banks have become the central target of looting by social revolutionary group.

Credit flow of these institutions also is highly concentrated in urban centres of Kathmandu, Lalitpur, Biratnagar, Pokhara, and Birgunj though more than 70 percent (the ratio in 1992/93 was 70.8 percent for rural and 29.2 percent for urban) bank branches were established in rural areas particularly within the decade of 80s to meet rural credit need as per government's policy of subsidised credit programme (NRB [1994], cited in Bajracharya, 1994). Nepal Rural Credit Review (1994) has figured out the situation of credit concentration in these five centres. The credit flow in Kathmandu only constituted more than fifty-five percent (1991) of the banks' total credit distribution. Table 5.3 estimates the concentration of formal financial activities in the country during the four years period.

Table 5.3
Credit Concentration (Rs. in million)

Urban Areas	1988	1989	1990	1991
1. Five urban Areas	5104.0	6379.7	8189.3	11659.9
2. Kathmandu	3124.9	3908.6	5527.8	8898.5
3. All Nepal	8280.4	1022.6	12161.4	15699.2
4. Urban centres as % of All Nepal	61.6	62.4	67.3	74.3
5. Kathmandu as % of all Nepal.	37.7	38.2	45.5	56.7

Source: NRRCR, 1994, vol. II p. 170.

Financial Reforms of the Nineties

Early steps of economic liberalisation and financial reform programme enlarged the financial institutions with rapid expansion of commercial bank branches. But these quantitative developments could not yet be sufficient to meet the desired goals of national development in general and alleviation of widespread rural poverty in particular. Realising this fact, the commercial banks reform programme was started in the mid 80s before the recommendation of Commercial Banks Problems Analysis and Strategy Study (CBPASS). But a comprehensive financial sector reform (FSR) was started only in 2003 under the credit agreement of IDA for

reform programme (NRB, 2003c).

This reform has become urgently important particularly for two reasons. Firstly, it became essential to minimise the financial risk position of institutions that can adversely affect income and employment level, further worsening poverty situation of the country. Other reason for its urgency is Nepal's accession to World Trade Organisation (WTO) with potential commitment in financial service sector reform. Nepal got membership of WTO on April 2004. WTO has also encouraged its member countries to go for Foreign Direct Investment (FDI) with foreign equity participation of 67¹⁰ percent. For this, a more sound and competitive financial system is needed.

The first hallmark deal of the FSR is restructuring and privatising the two large commercial banks of Nepal, i.e. NBL and RBB under the financial sector technical assistance programme of World Bank and DFID. Management contracts of NBL and RBB are offered to two foreign companies, viz. the ICC Bank, Ireland and international expert team from America respectively. Similarly, the initiation of five-year structural reform programme to strengthen the rural development banks is the other part of the reform programme. However, the overall objectives of the current FSR are: (a) consolidation of financial activities, (b) regularisation (c) stabilisation, (d) privatisation and (e) improvement in existing financial system, i.e. improving the soundness, and particularly the credibility of financial system within and outside the country, which is the main objective of reform programme of the nineties.

Though more than 50 percent of banking sector assets in Nepal is owned by RBB and NBL, rafts of negative factors like bureaucratic control and management, politically motivated lending and mostly the insider lending have badly affected commercial as well as rural development banks' financial position. Moreover, lack of transparent policy for selection of board members, continued political instability, a deteriorating law-and-order-situation as well as strong resistance from unions and politicians led banks into the pit of bottomless financial losses with high level of non-performing assets (NPA). The amount of such NPA increased by 18, 29, and 30 percent in the successive years 2001, 2002, and 2003 respectively. Only the share of RBB's non-performing loans is estimated at 25 percent (Dhungana, 2004; NRB, 2002b).

¹⁴ Maximum foreign equity participation for joint venture bank is 67 percent of the total capital as proposed by WTO meeting held in Geneva HQ on 28 August 2003.

Commercial bank branches were also expanded abruptly since early 1980s without considering potential opportunity to comply the mandated guidelines for priority sector lending programme (direct lending).

The central bank is phasing out the mandated priority sector credit (PSC) programme under the new financial sector reform programme. Commercial banks were investing PSC loan in rural areas since the last 28 years, and this provision now is being completely phased out and is expected to reach zero level by the FY 2007/2008 except the three percent deprived sector loan provision for the hard-core-poor. Table 5.4 below represents the phase out scheme of central bank of Nepal.

Table 5.4
PSC Programme Phase out Scheme*

Percentage	FY (BS)	FY (AD)
12	2047	1990
7	2059/60	2002/03
6	2060/61	2003/04
5	2061/62	2004/05
4	2062/63	2005/06
3	2063/64	2006/07

Source: NRB Priority Sector Department.

* The percentage of priority sector credit was 5% in 1975, 8% in 1985, and 12% in 1999 (NRB/NRCR Report, 1994, vol. I. p. 211)

Thus, the consolidation trend in bank branches, poor operation and management of the poverty-focused rural development banks have created once again a situation of credit gap in rural areas for the rural poor. Due to these factors, credit flow supplied from institutional sources will definitely decline. Moreover, the microfinance development banks also are not in a position to extend and strengthen their branches in rural areas mainly because of the conflict environment. Furthermore, these banks are providing very limited financial services in hilly regions where large number of poor people are scattered. Hence, it is the time to rethink and find a way out for rural sector financing in a sustainable manner and for combating the deeply rooted poverty from rural society.

5.3 Microfinance in Nepal

Country Background

Statistics prove that Nepal is the poorest country in Asia and even the poorest among South Asian nations. She has the lowest annual per capita income of US\$ 250 (NRS 19468 in 2002/03 at current prices, with total population 24.20 million for the same year) (CBS, 2004). The country has the lowest GDP growth rate (3.5 percent), and the highest population growth rate of 2.24 percent (Appendix B). Though Nepal with this per capita income ranks in the 12th position in purchasing power parity terms, its per capita income makes it the 30th poorest country in the world (World Bank, 2002b). Nepal had 5.5 percent GDP growth rate (at producers' price) for the year 2000 because of favourable conditions in agricultural production depending largely on weather condition (Haq, ul HDC, 2000). The recent estimate of the GDP for the year 2002/03 is 3.09 (revised) (CBS, 2004).

Both formal and informal MFIs in Nepal are providing financial services to generate income through creation of job opportunities for the low-income families. The informal financial markets in the country have existed for generations, whereas the first formal sector microlending began in 1956 with the establishment of Credit Cooperatives in the Rapti Valley of Chitwan district to provide financial services in rural Nepal (Sharma and Nepal, 1997). Later in 1963, the Cooperative Bank (converted in ADB/N in 1968) was established to provide financial services to the credit cooperatives. Thereafter, several credit cooperatives and the ward/village committees were established to extend credit at the grassroots level along with a national level institution, i.e. Land Reform Savings Corporation. Thus, 1956-1970 is the beginning phase of formal MF in Nepal.

Beginning of Microfinance

Microfinance formally started in 1974 following the Nepal Rastra Bank's (NRB) direction to commercial banks for lending five percent of their total deposit liabilities to "small sector" in order to increase production and employment in rural areas. The small sector programme was renamed later as priority sector credit (PSC) in 1976 raising the lending percentage to seven percent of total deposit liabilities (NRB, 1996). Actually, PSC is the beginning of formal MF

programme in Nepal, which again was redefined as Intensive Banking Programme (IBP) in 1981, and it was the main concern of government for implementing microcredit programme through major commercial banks of the country, viz. RRB, NBL, and NABIL Bank (the joint venture bank). NRB also made successive changes in lending percentage and it increased to eight percent in 1984, and this lending target was fixed at 12 percent for the year 1990.

Priority sector is defined as an integration of “micro” and “small enterprises” that support for enhancing production, employment, and income, and improve the living standards of deprived and low income people. The micro and small enterprises are have been classified into three sectors, as agriculture, cottage and small-scale industry, and service sector. The deprived sector includes men/women from low-income households, and landless people. Microcredit, micro savings, transfer of payment services, and micro insurance are defined as MF services. Similarly, the loan size, ranging from Rs. 5,000 to 30,000 is defined as microcredit by the credit manual of NRB (NRB, 2000a). To fulfil priority sector and deprived sector lending requirements, commercial banks can also lend ADB/N, rural development banks, authorised savings and credit cooperatives (SCCs) and FINGOs, which have been defined as actual microfinance institutions (MFIs) in Nepal.

Deprived sector credit scheme was introduced by NRB in 1990. Since that time the commercial banks were mandated to lend at least three percent of total loans and advances to the deprived sector from their priority sector loan portfolio, and are penalised for the shortfall (NRB, 1996). The act of providing loans by commercial banks to prioritised (agriculture, cottage industry, and service sectors) and deprived sectors or the “hard-core-poor” is a non-traditional banking scheme for commercial banks. Therefore, considering guarantee compensation against default on such lending as crucial, the Credit Guarantee Corporation was established in 1974 with the joint investment of NRB, NBL, and RBB. This corporation provided credit guarantee to these two commercial banks for providing priority sector loans. The corporation has also started guaranteeing loans for cattle since 1987/88 (NRB, 1996).

Despite lots of efforts for credit flow to rural poor through many poverty alleviation programmes in the past, a wide gap is persisting in the coverage of credit from institutional sources. The Nepal Rural Credit Review Report (1994) revealed the fact that 18 percent in

1969/70, 24 percent in 1976/77, and only 25 percent borrowers/farm families in 1991/92 had utilised the institutional credit in Nepal (NRB, 1994). Thus, in the beginning of the Eighth Plan period, the coverage of rural finance from the formal sources was just one fourth and the informal sources four fifths.

Institutions Involved in Microfinance

The institutions involved in microfinance include national and international institutions. The national institutions include banks, non-government organisations (NGOs), and cooperatives registered within the existing regulatory framework of the country. International institutions include bilateral and multilateral agencies and international non-government organisations (INGOs) supporting directly or indirectly for the expansion of MF activities in Nepal. Formal and semi-formal financial institutions operating in Nepal are: Agricultural Development Bank of Nepal (ADB/N), commercial banks (CBs) and development banks (DBs), regional rural development banks (RRDBs), finance companies (FCs), savings and credit cooperatives (SCCs), financial intermediary NGOs (FINGOs), and social and financial intermediary-NGOs (SFINGOs). Particularly, these are the rural credit providers in the Nepalese context. There are separate Acts to govern these financial institutions. Central bank takes the responsibility of keeping records of credit and reimbursing the participating banks. It also provides refinance facilities to the ADB/N, RRDBs and also executes donor-funded MF programmes/projects through participating institutions.

5.4 Existing Models

Particularly after the mid 1970s, the commercial banks (CBs) both private and mainly the government banks have been engaged in microfinancing activities. The trend has also shown that most of the banks have become failures because they were government-mandated and they had to lend with subsidised rate of interest. These banks also lacked intensive supervision, progressive lending, compulsory savings, and free interest rate policy. But the banks with government-mandated programme charging commercial rate of interests, are found highly successful. In Latin America, CBs involved in MF are lending their own funds to MFIs on a commercially viable basis. The Banco Wiese of Peru is an example. It lends the savings of its

clients to NGOs, who in turn, lend it to the individuals. Two other famous banks (Banco Sol in Bolivia and Scotia Enterprises in Guyana), which started from NGO programme, were the first MFIs to transform into a commercial bank and they are still lending profitably to groups. Banco Sol uses the ACCION group lending methodology, i.e. to cover the costs first. It means borrowers pay interest enough to cover the expenses of making other loan (Barbara, 1998).

Government-mandated models are implemented or channelled through CBs and government line agencies to meet government target for lending, in which the CBs have little control over design and delivery of the product (credit) as the government fixes the interest rates. It is the government's money either wholly or partially, and the banks are the government's distribution channels. Under this model, government provide highly subsidised interest rates¹⁵ understanding that microborrowers cannot afford market interest rates. Integrated rural development programme (IRDP) (both in India and Nepal), Samurdhi Development Credit Scheme in Sri Lanka, IBP, and PCRW are some examples of subsidised credit programmes. None of these programmes could be successful. But after the decade of mid-eighties, some changes were made in the operation of the scheme. The government subsidy was redesigned, and now there is no such provision for an improvement in programme performances.

On the other hand, government-managed and government-run programmes/projects have different modality. These programmes use the NGOs and self-help groups (SHGs) as credit agents for linking the clients to the commercial banks. A brief description of each model is provided in this section. In Nepal's context, it is difficult to classify various microfinance models in generalised forms, as there is substantial overlapping of government and non-government programmes. However, it can be classified mainly into following five models based on their functional and organisational structure. Government-mandated, government-involved programme, Grameen type, development bank, and FINGO/SCC/INGO/Donor models are the major models, which particularly differ in their implementation, design, target population, and fund sources.

¹⁵ In Nepal, maximum of 80 percent and 33 percent interest rate subsidies were provided for Rs. 5000 and Rs 15,000 loans respectively during the period of 1970s to 1980s. In some credit provisions like fertiliser loan was subsidised even with zero rate of interest using heavy foreign borrowings (Ledgerwood/Deprosc, 1997, p. 11).

A. Government-mandated Programmes

Small Farmer Development Programme (SFDP), Intensive Banking Programme (IBP), Production Credit for Rural Women (PCRW), and Banking with the Poor (BWTP) are government-mandated or subsidised microcredit programmes. The SFDP programme was funded from Asian Development Bank and bilateral donors.

(a) Intensive Banking Programme 1981

Intensive Banking Programme (IBP) is a redefined name of PSC programme mandated by NRB in 1974 for two state-owned and one joint venture bank as Rastriya Banijya Bank (RRB), Nepal Bank Ltd (NBL) and Nepal Arab Bank Ltd (NABIL) to deliver loan in priority sectors including three percent loan to deprived sectors. The IBP, originally launched in 46 branches of two commercial banks, reached to 337 in 1995 with total outstanding loan of Rs. 914.7 millions to 256439 (Sharma et al., 1996; Sharma, 1997). Though the programme extended largely throughout the country, it could not be sustained financially. The overdue as percentage of outstanding loan increased every year by 14.4 percent in 1987/88. In 2002/03, the overdue percentage of a single bank (RBB) reached to 39.97 percent (RBB/MSED, 2060 B.S.). A majority of rural branches of RBB and NBL is involved in extending priority sector loan. And this was considered an important element for meeting the prioritised development financing needs and also reaching formal finance in rural areas. All commercial banks (including government, private domestic and joint venture banks) have invested Rs. 22604.86 million in priority sector by July 2003 (Ashad 2060). Table 5.5 shows the details of priority and deprived sector loans of commercial banks.

Table 5.5
Priority and Deprived Sector Loan Statement of
Commercial Banks * Mid-July 2003 (Ashad 2060 B.S.)Rs. in million**

Description	BOK	EBL	HBL	NABIL	NBBL	SBI	SCBL	NIBL	NBL
1. Priority Sector Loan+	519.10	550.61	986.32	895.81	984.00	797.11	722.30	493.99	11468.90
a) Direct Investment	315.40	419.59	419.94	609.63	702.33	519.95	505.98	285.71	10876.21
b) Indirect Investment	203.70	119.22	276.38	280.11	279.11	172.16	11.19	126.39	139.19
2. Loan Overdue**	47.91	3.34	64.56	64.97	172.53	71.76	NA	12.38	1216.00

Continued...

Description	RBB	NCCBL	NICBL	LBL	MBL	KBL	LXBL	SBL	Total
1. Priority Sector Loan+	3807.74	398.90	317.19	260.68	147.51	181.25	74.30	NA	22604.86
a) Direct Investment	2687.30	322.60	248.09	209.75	140.77	119.02	72.80	NA	18455.12 (81.64%)
b) Indirect Investment	15.00	69.60	69.10	50.93	5.10	62.22	1.50	NA	1880.94
2. Loan Overdue**	1581.80*	NA	35.48	NA	1.17	18.12	NA	NA	

Source: *** from NRB, Bank Supervision Department (off-site calculation) July 2003.

Source: ** from Annual progress Report of Each Bank July-2003.

* Overdue of the year April-2002.

@ Deprived sector loan of commercial banks is included in priority sector loan.

Statistics on Table 5.5 show that less than 20 percent loan is invested in institutions (cooperatives, development banks, NGOs and shares and loans in and to RMDC), which are known as indirect lending. On the other hand, 81.64 percent loan is channelled directly to individual clients under high operating costs and this is the main reason of accruing a large volume of non-performing loan outstanding for commercial banks.

(b) Small Farmer Development Programme 1975

Small Farmer Development Programme (SFDP) is another milestone in the Nepalese microfinance (MF) sector. The programme is the outcome of FAO/UNDP-joint regional project named Asian Survey of Agrarian Reform and Rural Development (ASARRD). This is an anti-poverty MF programme, which covered almost all parts of the country, has a loan outstanding of Rs. 823.49 million with Rs. 307.09 million overdue (37.29 percent) comprising a total of 165,679 members till mid-July 2004 with 357 sub-project offices (ADB/N, 2002/03). This programme is also being phased out by 2007 AD under the institutional development process (IDP) with a new model known as Small Farmer Development Cooperative Limited (SFCL) based on the cooperative principle.

(c) Production Credit for Rural Women 1982

Production Credit for Rural Women (PCRW) programme was launched under joint collaboration of Women Development Section (WDS) of the then Ministry of *Panchayat* and Local Development and UNICEF with three implementing agencies, as RRB, NBL, and ADB/N. Later, it continued under WDS, Ministry of Women Children and Social Welfare (MWCSW). Number of borrowers reached through this programme was 66525. In July 1997 loan agreed by the donors was completed. But the programme failed to ensure loan repayment as other government mandated programmes comprising a large overdue for each participating banks: 51, 38, and 11 percent for RBB, NBL, and ADB/N respectively by July 1999 (MWCSW/Nepal, 2000). Currently, the programme is continued by NRB under the International Fund for Agriculture Development IFAD's Project loan agreement, and the WDS is not involved in the programme.

(d) Banking with the Poor 1991

The Foundation for Development Cooperation (FDC) Australia initiated the Banking with the Poor (BWTP) project using NGOs and SHGs. Rastriya Banijya Bank (RBB) of Nepal along with other seven leading commercial banks of South Asia launched this project in their respective countries. Under the priority sector programme, RBB extended more than Rs. 80 million for more than 9000 poor families through self-help groups by the year 1999. Lack of managerial skill in the programme agent and reluctant nature of NGOs to stimulate and facilitate their members made programme highly unsuccessful with low repayment rate and high transaction costs with nominal rate of savings. Programme has an alarmingly high overdue percentage for RBB as 66.98 percent in FY 2002/03 (RBB, 2059/60).

Operating Principle

In government-mandated programmes, the loan size ranges from Rs. 5000 to a maximum of Rs. 50,000 per member for 1 to 2 year period depending on the loan purpose. The SFDP provided collateral free loan to the clients identified on both land-based (below 0.5 hectare) and

income-based (4400.00)¹⁶ criteria for clients' selection. They have raised this income level from Rs. 2500 (at 1987/88 prices) to adjust inflation of the country (SFDP/ADB/N, 2002). The loan of maximum limit (50000) is provided on collateral basis and majority of such loans are provided to men since land is required for collateral and women in the rural areas have rarely owned land nor registered on their name. Two other programmes, namely PCRW and MCPW also used land criteria and minimum subsistence consumption approach along with other socio-economic indicators such as, housing condition of clients while entering for the first time loan. On-lending interest rates for the clients in these government-mandated programmes range between 14 to 18 percent.

B. Government-involved Programmes

Government-involved microcredit programmes are different from the first model because most of them are wholesale loan providers to the microcredit projects rather than lending directly to the clients and the government funds these programmes. The government involved microcredit programmes/projects are SFCL, MCPW, RSRF, and other projects run by the government.

(a) Small Farmer Cooperative Limited 1991/92

Small farmer development programme (SFDP) implemented by ADB/N, for a long time, was considered as an unsustainable programme with low recovery rates and high overhead costs. Responding to this challenge, this programme was transformed into Small Farmer Cooperative Ltd. (SFCL) since the early 1990s under institutional development process (IDP) with GTZ'S Rural Finance (RUFIN) and HMG/N. SFCL is a government registered, member-based three-tier organisation of small farmers group operating at different levels, i.e. groups at village level, inter-group committee at Ward level and main committee at VDC level consisting of nine board members. This is a multi-service, locally managed organisation based on cooperative principle to

¹⁶ National poverty level defined by government is per capita income of Rs. 4404 at the 1996 prices and it is revised as Rs. 7696 at the 2004 prices (MOF, 2004, p. 101).

deliver primarily financial, but also non-financial services (skill enhancement to its committee members and staff).

All ADB/N-owned sub-project offices (SPOs) at village level are being transformed into SFCLs and will be completely phased out by the year 2007. These small farmers' cooperative are expected to be more autonomous in group savings collection and internal resource generation. Group savings, share of members, and livestock insurance funds are the sources of capital formation in this programme. Till the FY 2002/03, 128 SPOs have been handed over to the SFCLs (SFDP/ADB/N, 2002). This programme currently comprises US\$ 9.2 million and internally generated resources of US\$ 1.5 million with 33 percent female members (Wehnert, 2001).

(b) Microcredit Project for Women 1994

Government introduced microcredit project for women (MCPW) with some different modality using NGOs and self-help groups (SHGs) as credit agents for linking clients to commercial banks. The ABD/M with NRB and HMG/N collaboration had made a loan agreement in 1993 and the project loan completion date was March 2000. In the beginning, the WDD under Ministry of Local Development was the executive agency to administer the project with some other participating agencies with NRB coordination. In fact, MCPW was the main promoter of FINGO to be promoted for receiving licenses from NRB. As of mid-July 2003, 40 such organisations had license from NRB (CMF, 2003). But MCPW also could not be sustained financially and has a large overdue loan as 47.40 million for RBB only (RBB/MSED, 2004). Now, it is being continued as a project under the management of NRB. Currently, it comprises 25000 beneficiaries with outstanding loans of Rs. 189.10 million by January 2004 (NRB/MFD, 2004a).

(c) Government-managed Projects

There are some government-run microcredit projects focusing specific areas for specific activities under poverty alleviation programme. Community Ground Water Irrigation Sector Project (CGISP) 2000, the Third Livestock Development Project (TLDP) 1997, and Poverty Alleviation Project in Western Terai (PAPWT) 1998 are the projects handled by Nepal Rastra

Bank. Former two programmes are funded by ADB/M and latter by IFAD. The CGIS Project is implemented in 12 districts of the country for providing shallow tube well (STW) installation and crop production loan for marginal and small farmers. The number of STW installation reached 1178 irrigating 5,928 hectares of land comprising a total of 5,012 group members with outstanding loan of Rs. 25.90 million (NRB/MFD, 2004a). The TLDP is implemented in 26 districts comprising a total of 9,211 families with access to livestock processing and marketing of livestock-products-loan in the project area. Loan repayment period for the borrowers is 1 to 4 years and for implementing agencies (CBs, NGOs, Cooperatives, and GBBs) is 14 to 20 years.

The PAPWT is introduced in eight districts comprising 19,560 borrowers who are the small farmers and ultra poor.¹⁷ Main purpose of this programme is to provide loan for income generating activities to these targeted people in western terai of Nepal. Three Grameen Bank replications are the implementing agencies for this project, i.e. NUBL, CSD-SBP, and five GBBs (NRB/MFD, 2004b).

(d) Other Government Supported Programmes

The National Planning Commission, Ministry of Local Development, and the Department of Women Development under (MCSW) have supported some programmes like Bishweshwor among the Poor (1999), Mahila Jagriti Karyakrum (women's awareness programme 1999) funded by the His Majesty's Government of Nepal.

Operating Principle

The loan ceiling for the clients varies in each project, for example, the CGISP, the TLDP, and MCPW have the loan limit of Rs. 75,000 (per shallow tube well), Rs. 30,000 (for group based collateral free loan and Rs. 2,50,000 for individual loan with collateral) and Rs. 30,000 to Rs. 50,000 per client respectively.

Credit will be reimbursed by NRB according to the provision of bearing 20 percent project costs by implementing agencies and 80 percent re-funding by NRB. In some project like PAPWT, it has 100 percent financing scheme. Loan repayment period for the beneficiaries, banks, and the cooperatives varies under each project. Such as 1 to 5 years for beneficiaries, five

¹⁷ "Poor" (annual income between NRS 1800 to NRS 2500 per capita); "Very poor" (annual income between NRS 1200 to 1800 per capita); "Ultra Poor" (annual income less than NRS 1200 per capita) at 1987/88 prices (SFDP/ADB/N, 2000, p. 5).

years for banks, and three years for cooperatives are the different loan repayment schedules. Interest rates charged by HMG/N to NRB ranges between 2 to 4 percent and the interest rate charged by NRB to Implementing agencies ranges between 3 to 8 percent¹⁸ (NRB/MFD, 2004a). Regarding financial viability, these projects comprise a large amount of outstanding loan. Nonetheless, it can be said that these are becoming viable. Because in every successive year, they are paying certain amount of principal and interest to NRB, and some amount of this collected loan will be re-invested again in the form of revolving fund for poverty alleviation programme.

Fund Sources

Donors provide long-term loan to HMG/N with 0.7 to 1 percent service charge, and HMG/N transfers this money to NRB for long-term period to banks, NGOs, and cooperatives both licensed and non-licensed. Total loan for CGISP, TLDP, and PAPWT projects under loan agreement made by donor agencies is on SDR¹⁹ 21.90, 12.55, and 6.55 million respectively (NRB/MFD, 2004a).

C. Grameen Model

Grameen Bank is a unique model implemented separately by both the government and the local NGOs in Nepal. Nirdhan, Swabalamban Bikas Bank (SBB), Chhimek Bikas Bank, and Depros Development Bank are the NGO-promoted microfinance development banks (MFDB/GBRs); and five GBBs are the government-owned rural development banks to replicate the model developed in Bangladesh. Transformation of NGOs into development banks is the recent development in the Nepalese microfinance sector as in other developing countries. The self-help banking programme (SBP) under the CSD now has been promoted as a microfinance development bank after the name of SB Bank. These government and private microfinance rural development banks occupy a prominent place in the Nepalese MF sector providing Rs. 1966.56 million to altogether 246735 families till the end of mid-July 2004 (NRB, 2004b).

¹⁸ Under RSRF Project 75 percent of the interest amount will be refunded to SCC/FINGO for timely repayment of loan and the net effective rate will be 2 percent only (NRB/MFD, 2004a).

¹⁹ Current exchange rate for SDR is:
One SDR= US\$ 1.494880 and
One SDR= NRS 109.9410 as of February 2004.

(a) Grameen Bank Replications (Private sector)

Nirdhan Utthan Bank Limited (1998)

Nirdhan-NGO started its financial operations in 1993 as two-year pilot effort with a US\$ 25,000 recoverable grant from Asian and Pacific Development Centre (APDC), Malaysia and a US\$ 35,000 soft loan from Grameen Trust, Bangladesh (GTB). It was promoted as a microfinance development Bank, Nirdhan Utthan Bank Limited (NUBL) in 1998 with the mission of alleviating poverty through credit intervention and creation of social awareness to poor in under-served and un-served areas of Nepal in a sustainable manner. They have defined these two terms under-served and un-served as rural and urban area poor population respectively. Currently, the bank comprises a total of 36,830 active clients²⁰ with total loan outstanding of Rs. 210.68 million by July 2003. The programme is implementing in 219 VDCs of eight districts²¹ of terai, expanding 26 branches and four area offices during the same period (Nirdhan, 2003).

The bank lends directly to members, and there is no intermediary agent between institution and the members of the groups. Staffs themselves perform activities right from social preparation such as, group formation, training, loan appraisals and loan disbursement, and collection and savings mobilisation. It performs retail lending functions with some special arrangements and procedures e.g., loan extension to group members under group guarantee system, weekly repayment (currently fortnightly) of the instalment (two percent of the loan amount makes an instalment), compulsory individual savings, and contribution to group fund (five percent of the loan amount should be contributed).

Programme Expansion

Though NUBL has expanded its programme to eight districts of terai region, actual affected districts are seven. The figures for district wise coverage (excluding Banke district) show that Nirdhan has extended its coverage, outreach, and lending activities largely in Rupandehi district. Out of the total loan investment, 40.89 percent is invested in this district (Appendix E). Figures for total achievements of Nirdhan and particular progress in Rupandehi district are provided in Table 5.6.

²⁰ Active clients are defined as group-based clients enrolled plus # of microcredit loan clients minus # of clients dropped out (ibid. 2004). But in simple way it is defined as the number of clients with loans outstanding on the date its financial statements are filed.

²¹ Bara, Rautahat, Parsa, Banke, Rupandehi, Nawalparasi, Kapilvastu, and Chitwan. Recently the Programme is being extended in Palpa, a hill district.

Table 5.6
Coverage of NUBL in Total and in Rupandehi District

Rs. in '000'

Serial No.	Particular	In Rupandehi District up to mid-Sept. 2002	Total Progress up to July 2003
1.	No. of Branch Office	7	33
2.	No. of Area office	1	4
3.	No. of VDC/Municipality.	58	219
4.	Loan Disbursed	471,026	1,335,506
5.	Loan Repayment	396,197	1124819
6.	Loan Outstanding (2003)	67,495	210687
7.	No. of Group Members	16480	51148
8.	No. of Active Clients	11000	36830
9.	Group Fund Saving	21,166	55046
10.	Personal Saving	1657	6787
11.	No. of Staff	84 (Male 77, Female 7)	196 (Male 186, Female 10)

Source: NUBL Programme Progress Report of 2002 and 2003.

The year wise figures show that in the programme expansion during 1999 to 2003, Nirdhan has rapidly expanded its branches, VDCs, and Centres. Branches have been increased from 21 to 26; VDCs from 174 to 219; and Centres from 789 to 1217 during these five-year period. Similar expansion is found in its lending activities. Loan disbursement has increased from Rs. 228.96 million in 1999 to Rs. 1335.51 million with 84.22 percent repayment rate. Along with it, the number of drop out clients also is increasing during the period. It has increased from 3009 in July 1999 to 17609 (increased by 17.9 percent) in July 2003 (Appendix D).

According to VDC wise progress (in case of Sitalnagar Branch), Devdaha has the highest loan outstanding and the highest number of active clients (Appendix F). This is the largest VDC by population and by area also as it has more than 22 thousand population according to 2001 census. No data are available for Banke district. Nirdhan is trying to implement the Self-reliant village-banking model on experimental basis as a changed model, in which banking programme will be managed by the rural village community. Nirdhan is currently starting this model in Palpa district as well. The top ten income-generating activities according to loan utilisation is found to be investment in buffalo and cow for milk-raising purpose, which comprised 50 percent of the total loan and remaining is invested in other different services like grocery shop, hotel and restaurant, fruit shop, and bicycle-repairing shop (Appendix G). But there is zero investment in manufacturing enterprises.

Other Private Sector GB Replications

Centre for Self-help Development (CSD), an NGO established in 1991, initiated Self-help Banking Programme (SBP) on Grameen Banking pattern. This NGO was promoted into Swabalamban Bikas Bank (SBB) in January 2002 with authorised and issued share capital of Rs. 20 million and Rs. 10 million respectively. The CSD's loan portfolio of Rs. 160.13 million along with group members, borrowers, and employees was transferred to SB Bank. The CSD as an NGO is now concentrating its SBP in 10 VDCs of Dang district.

There are other NGO-promoted microfinance development banks (MFDBs) in private sector established under the Development Bank Act 1996 to carry out MF activities under their own initiation e.g., Depros Development Bank (2000) and Chhimek Bikas Bank (2001). They are on the way to become established MFIs in the country. Transformation of NGOs into development banks is the recent development in Nepalese MF sector. The Chhimek Bikas Bank promoted by the Neighbourhood Society Service Centre (NSSC) also is expanding its activities mostly in terai belts.

(b) GBBs 1992-1996 (Government sector)

Five government-owned regional rural development banks, known as Grameen Bikas Banks (GBBs), viz. Far Western (1992), Mid-Western (1995), Western (1995), Central (1996), and Eastern GBB (1992) were established in each development region. These banks were established with Rs. 60 million each with 70 percent authorised and share capital of NRB and HMG/N, and remaining 30 percent was subscribed by other banks. Main objective of GBBs' establishment is to provide credit access to those poor sections that could not gain access to the government-mandated programmes. Up to mid-July 2003, GBBs comprise 1,52,000 clients with outstanding loans of Rs. 129.5 million²² these banks provided services through 4799 centres in 43 districts of the country. Details about the achievements of these five GBBs are provided in Appendix C.

²² Outstanding loans of these banks under TLDP and PAWPAT projects are also included, as these Institutions are participating financial institutions in the projects.

Operating Principle

Using land-based criteria, Grameen models adopted in Nepal consider women below poverty line, if her family owns less than 0.6 and 0.5 hectare of land in terai and hills respectively. If a person owns less than this, but he/she has a business or other sources of income, which is sufficient for his/her livelihood, is not considered as a target client for microfinance services. The target groups for the GBRs are poor women who are landless, or have less than 15 *Kattha* (0.5) and 10 *Kattha* (0.33) hectare of land in terai and hill respectively. Nirdhan has classified the land for client's selection as 15 *Kattha* (0.5 hectares) of land in case of unirrigated land (*pakho/bari*), and 7.5 *Kattha* (0.25 hectare) for irrigated land (*Khet*) per household of five family members, or the income level fixed for national poverty level. Other financial institutions like development banks and finance companies provide only collateral-based loans so that they do not need to identify the target clients. But if SCCs and FINGOs have to borrow loans from RMDC, they have to follow the criteria as followed by the GBRs of Nepal (Pant's study [2000], cited in Shrestha, 2000b).

Nirdhan has adopted two types of operating principles, i.e. group-based and non-group-based financial service criteria. For group financial services, it provides collateral-free loan to the poorest of the poor e.g., bottom 20 percent of the population adopting mainly the land-based criteria for client's selection. Interest rate on collateral free loan is 20 percent, which is justifiable considering the rates charged by SCCs and by informal sources of lending. Similarly, it charges 18 percent interest rate on collateral-based lending with 6 percent interest rate on savings. NUBL provides six percent rate of interest on personal savings and charges 18 percent on borrowings for all type of loans with the repayment period of one year. Maximum loan sizes range from Rs. 8,000 to Rs. 30,000 for general loans; Rs. 10,000 for seasonal agriculture and seasonal business loan; and Rs. 5000 for housing loan with repayment period of two years (NUBL Business plan, 2001). But the GBBs charge 20 percent interest on loans, and pay eight percent on group savings.

Fund Sources

The group fund, borrowings from domestic commercial banks, and fund from GTB and Rural Microfinance Development Centre (RMDC) are the main fund sources of the private

GBRs for their service expansion. They use the ADB/M and IFAD fund through NRB's re-finance credit disbursement mechanism. They are also working with many other partner organisations like Plan International, Save the Children Federation, USA, and Centre for Microfinance (CMF). On the other hand, the sources of lending fund for government-owned GBBs are mainly the equity capital, group fund, and the borrowings from domestic commercial banks and NRB.

Financial Viability

Financial viability and sustainability of the programme rather than of growing numbers of institutions are the major concerns. These two words give different meaning in MF industries. If a programme is able to meet its expenditure (operating costs) it can be said that the programme is viable even though it depends on external sources for capital fund, and if it is able to generate funds within itself, it is also considered as sustainable. To earn certain amount of profit, the institution requires earning an income largely from interest charges to cover salaries of the staff, other operating costs, cost of funds, and some allowance for bad debt loan and inflation. A programme can generate the fund sources through: (a) increasing savings fund and its mobilisation, (b) borrowing from donors/commercial banks at commercial rate of interest, and (c) ploughing back some retained earnings from every year's profit.

In a free market competition, credit programme must be able to cover all these costs to become financially sustainable, which is possible only through (a) increasing the differential between interest being charged and the cost of funds (either by increasing interest or lowering the fund costs), (b) keeping the repayment rate high (or decreasing the bad debts), or (c) increasing the volume of profitable loans (Getubig, 1993). But in reality, other factors affect financial sustainability of MFIs such as, cost of the fund, inflation rate, and delinquency management because finance cannot be separated from risk as explained by Pischke Von. The intention of MFIs is to provide sustainable financial services to the maximum number of poor. But reaching to the poor and sustainability are two controversial things. The intention of formal finance is to maximise profit, whereas the maximisation of profit is not the intention of microfinance.

Normally, if the margin between borrowing and lending rates is somewhat more than the

market rates paid by banks for fixed deposit, then in this case the MFI can be considered as sustainable (Getubig, 1997). In such cases, the concerned investors are encouraged to buy shares of the MFI with a view to keep the funds in a relatively safe fixed deposit. According to this analysis, Nirdhan Bank has become able to sell its share to the public.

However, the four MFDBs mentioned above, have become able to expand outreach more quickly after start-up than SCCs and FINGOs because of adequate capital investment in their starting period, and those banks are at break-even point as of mid-January 2003 (CMF, 2003). On contrary, the SCCs and FINGOs often start on a smaller scale and expand their operations when funds are generated. So it takes time to become financially sustainable for these MFIs. The internal rate of return (IRR) of Nirdhan Bank is calculated in Table 5.7.

Table 5.7
Financial Viability of Nirdhan (IRR Calculation)

Fiscal Year (Mid July)	Net Surplus/Deficit (NRS in '000')
1993	84
1994	501
1995	1,460
1996	1,486
1997	1,359
1998	1,152
1999	6,90
2000	352
2001	187
2002	2,179
2003	2,240
2004	837

Internal Rate of Return (IRR) - NIRDHAN as NGO (1993-1999) = 5%
 Internal Rate of Return (IRR) - NIRDHAN as NUBL (2000-2004) = cannot be calculated
 Internal Rate of Return (IRR) - Both (1993-2004) = 19%

Source: Programme and Financial Performance Statement of NUBL
 Mid-July 2003 to mid-April 2004.

Internal Rate of Return (IRR) is calculated on the given annual surplus/deficit data based on two institutions, i.e. Nirdhan NGO (1993 to 1999) and NUBL (2000 to 2004). The overall internal rate of return for both Nirdhan NGO and NUBL within the period 1993 to 2004 is 19 percent. During Nirdhan NGO it was only five percent. Internal rate of return for the period of NUBL (2000 to 2004) could not be calculated due to very fluctuating values. The overall IRR is much higher than the current interest rate (6 to 8 percent) suggesting financially viable (Table

5.7).

Regarding the viability situation of GBBs, they have large cumulative capital losses of Rs. 162.8 million up to July 2001 (Pradhan, 2002). Excessive overheads, too much unionisation, (as in other government organisations) insufficient resources, declining law and order situation within the organisations are some of internal problems that led them to such a great losses. In addition, there are many other external reasons, as:

- (a) GBBs are not privileged with long-term loan facility from the donor agencies.
- (b) GBBs are not permitted to perform development-banking activities, or not allowed to operate savings account for public except collecting group savings from their group members.
- (c) Interest rate subsidies provided by government for GBB clients during the early years of its establishment created uneven market for credit services.
- (d) Political interference in terms of staffing and target areas is another reason that led these banks towards unfeasible situation leading to high administrative costs and low marginal productivity.
- (e) Selection procedure of executive directors was not democratic. It is also perceived that less professional board members and directors dominated for loan investment in more untargeted areas.
- (f) Abrupt expansion of bank branches also led them into great financial losses.
- (g) These banks are not supposed to use group fund for their loan portfolio. They are allowed only to borrow capital from commercial banks. This is one of the main reasons that GBBs could not generate internal resources to meet the operating costs.
- (h) Politically influential borrowers made repayment performances week.
- (i) Peace and security problem since the last 2/3 years has also increased their operating costs as the field staffs have to provide door to door service even to collect small amount of loan re-paid by the clients.

Because of these multifaceted external reasons, GBBs could not achieve as sustainable

MFIs, though they have been active in the rural sectors, providing access to financial services for more than 152,000 borrowers with Rs. 3.37 billion within a twelve-year period. Other government-mandated programmes also appeared with very low revenue or retained earnings (gains retained after a transaction or an amount left over after all costs met by the programme), and high costs because of all substantial loan transformation in non-performing assets (NPA). A study undertaken by Ledgerwood on revenue and expenditure basis has presented a total negative result for IBP, SFDP, and PCRW programme for the year 94/95 as minus 17, minus 33, and minus 10 percent respectively (Ledgerwood, 1999). Major factors perceived as responsible in rendering these programmes unviable are low repayment rates and insufficient interest rates to cover the costs. The repayment rates are very low as 44 percent, 41 percent, and 82 percent in SFDP, IBP, and in PCRW respectively (Seibel et al., 1998).

D. Apex Microfinance Institutions

Establishment of second tier refinancing institutions is a new mode of Nepalese MF sector. As rural financial service providers, many non-bank financial institutions and large numbers of savings and credit grassroots organisations have been emerging since the late eighties in the form of NGOs, cooperatives, or development banks. The main aim of these organisations is to tap local and other resources to supply credit to the rural poor. The second tier refinance institutions are meant to provide wholesale loans to MFIs.

(a) Rural Microfinance Development Centre (RMDC 2000)

Rural Microfinance Development Centre (RMDC) is an apex MFI established in 2000 under the Company Act 1995 with an authorised capital of Rs. 160 million, issued and paid up capital Rs. 80 million. It is a second tier refinance institution for on lending to eligible MFIs, NGOs, and cooperatives authorised by NRB as financial intermediaries with the Asian Development Bank (ADB/M) funded loan. An agreement of US\$ 20 million was signed between HMG/N and Asian Development Bank (ADB/M) on February 1999. RMDC helps in developing and strengthening the institutional capacity of the MFIs with an international-level training/workshop programmes for their officials as well as provides skill development training support for clients of the respective MFIs. As of June 2002, RMDC has been able to approve a

total loan of Rs. 204.7 million (US\$ 2.7 million) to some 17 MFIs (including two GBBs--WGGB and MWGGB, NUBL, SB Bank, Deprosc, Chhimek, and other small MFIs). Out of this approved loan, Rs. 107.8 million has been disbursed on instalments to the respective institutions, and they have claimed to have cent percent repayment rate by these intermediaries. It has a target of disbursing wholesale loan amount of Rs. 1.81 billion US\$ 24.79 million during the Tenth Plan period (RMDC, 2002; NRB, 2060 B.S.). Thus, it can play a vital role in improving financial position of the GBBs providing them on-lending fund resources. But this apex MFI has not been able to speedily flow fund support for MFIs for institutional capacity building; and a large proportion of its resources languish in fixed deposit of the commercial banks.

(b) Sana Kisan Bikas Bank (SKBB/SFDB) 2001

Sana Kisan Bikas Bank (Small Farmer Development Bank) is a specialised wholesale MFDB established with the aim of promoting and strengthening the grass-roots level Small Farmer Cooperative Ltd. (SFCLs) in particular and similar other MFIs in general. Its authorised capital is Rs. 240 million; the issued and paid up capital is Rs.120 and 105.78 million respectively. ADB/N is the major promoter of this bank occupying 66 percent share capital; HMG/N (19 percent), 21 SFCLs (8 percent), and two other commercial banks, i.e. NBL (five percent) and Nabil Bank (two percent) are other promoters (SKBB: At a Glance, Folder). The bank also works in partnership with the NGOs, INGOs, and donor agencies for the socio-economic development of the rural poor.

(c) Rural Self-reliance Fund 1990

Rural Self-reliance fund (RSRF) was initiated in 1991 for the provision of financial assistance to deprived people in rural areas. The fund has been managed by NRB (as it has contributed Rs. 100 million) since its introduction and also managed by the government to meet long-term capital requirements for the prioritised sectors in agriculture. The RSRF has approved Rs. 20.4 million to 49 NGOs and Rs. 53.2 million to 141 cooperatives both licensed and non-licensed by NRB (CMF, 2003). Since the FY 2004/2005 the RSRF has been converted into a wholesale MFI under NRB regulation (NRB, 2004/2005).

Operating Principle

The Rural Microfinance Development Centre (RMDC) provides wholesale loan to development banks, NGOs, SCCs that have been registered under the respective Acts to furnish credit to poor families below national poverty line. RMDC charges varied rate of interest on loans to its partner organisations as 6.5 percent for GBBs, 6 to 6.5 percent for development banks, 1.0 to 6.5 percent for NGOs and SCCS (Uprety, 2004). The loan repayment period is 1.5 years, three years, and up to five years for first loan, second loan, and in the subsequent loans respectively based on the previous repayment records (RMDC, 2002). RSRF uses land-based criteria for client's selection through self-help groups, cooperatives and FINGOs.

E. Cooperative Model

Though the history of cooperatives goes back to 1953 with opening of Cooperative Department, the savings and credit cooperatives (SCCs) have become more active particularly after the political liberalisation of 1991, specially after the enactment of Cooperative Act 1992 (2048 B.S.). A cooperative society can be registered under this Act at respective District Cooperative Offices under the Department of Cooperatives, Ministry of Agriculture and Cooperative (MOAC). Cooperatives, established during the *Panchayat* regime, could not achieve real progress as they were owned, managed, and controlled by the government.

But these days, more than 3000 SCCs, among many other types, are providing financial services to people in remote areas (MOAC, 2004). Deposit/ savings and the shares of shareholders are the main sources of capital formation in cooperative model. The capital, collected from the shareholders, can be mobilised to other needy people/members of the organisation. Registered NGOs or authorised organisation from NRB can be the member of a cooperative society. The Act of 1992 has classified various cooperative societies into five tiers such as, (a) single purpose primary cooperative society (SPCS), (b) multipurpose primary cooperative society (MPCS) [25 individuals can organise these societies], (c) district cooperative union (DCU), a central cooperative union (CCU), and (d) national cooperative federation (NCF) [includes 15 DCU, PCU, and CCU].

Large numbers of SCCs in Nepal have been managed under Nepal Federation of Savings

and Credit Cooperative Unions (NEFSCUN) established in 1993 and registered under the Cooperative Act in 1998 as a national apex organisation to promote the SCCs. It is affiliated with the Asian Confederation of Credit Unions (ACCU) and the NCF of Nepal. The total number of cooperatives registered under this Union is 404 comprising 63585 members (about 15,000 female and about 63,000 male) collecting total savings of Rs. 732.7 million with Rs.83.3 million shares capital up to mid-July 2004 (NEFSCUN, 2004). USC Canada-Nepal (USCCN), the main promoter of savings and credit programme in Nepal, is working under collaboration with Association of Asian Confederation of Credit Unions (ACCU) in Bangkok, Thailand that has a networking with various organisations in South Asia region.

F. FINGO/INGO Model

(a) Financial Intermediary NGO (FINGO)

Two types of NGOs are operating--some are social intermediary NGOs known as SFINGOs, which do not perform any microfinancing activities, and deal only with social intermediary task for micro entrepreneurs in rural areas. These are known as community based organisations (CBOs). Other financial intermediaries NGOs (FINGOs) registered by the District Administrative Office under the Society Registration Act 1978, and licensed from NRB under Financial Intermediary Act, are included in the formal MFIs in the Nepalese MF sector. The number of such NGOs has reached to 44 (NRB, 2004c). Actually, the FINGO cannot be identified as a MF model in the same sense as cooperatives or GBRs can be identified. The FINGO is unique for Nepal; and it serves as an option for NGOs involved in MF activities to become formal financial institutions out of more than 25000 NGOs registered in the country. Most of the authorised (sometimes non-authorised also) NGOs, FINGOs, and SCCs are working as a linkage programme between commercial banks and individual clients. Many FINGOs and Financial cooperatives (FINCOPs) are working as financial intermediaries in various NRB/government/donors-funded projects like MCPW, PCRW, TLDP, and PAPWT.

(b) International Non-government Organisations (INGO)

International non-government organisations (INGOs) are actively supporting local NGOs and cooperatives to provide microfinance (MF) in Nepal. Some INGOs operate their own

programmes with other service deliveries such as literacy training, health, and education in collaboration with local and professional NGOs. Mostly, INGOs in Nepal are providing technical assistance including programme development, group formation, staff and clients training, and financial management. Sometimes, they provide revolving funds in the form of social and consumption loans to meet the immediate needs of the clients, and provide grants to NGOs covering operating costs and other expenses. Canadian Centre for International Studies and Cooperation (CECI/Nepal) is one of the leading INGO-MF practitioners that has supported more than 100 savings and credit organisations (SCOs) in the remote western hills through its community based economic development programme (CBED) claiming with financial self-sufficiency attainment (World Bank, 2002a). PLAN International, Save the Children US, CIDA, USC Canada, and SDC are some country-based INGOs involved in microfinance. INGOs provide loan to the government at the rate of interest ranging between 0.75 and one percent (Ledgerwood, 1999). These gender-focused programmes provide social as well as financial services for the poor people in rural areas.

(c) UNDP Sponsored Programmes

Participatory District Development Programme (PDDP), Local Governance Programme (LGP), and Micro Enterprise Development Programme (MEDEP) are some UNDP sponsored poverty alleviation programmes. These programmes, based on micro and small enterprise development (MSE) model, emphasise on community development, social mobilisation, and development of village organisations rather than on MF service delivery. Ministry of Industry, Commerce and Supply MICS/UNDP implemented MEDEP as a pilot programme for five-year period (1998-2003) to support in achieving Ninth Plan's poverty alleviation goal through the creation of MEs. The proponents of MSE model claim that this scheme is designed in accordance with local needs, people's genuine participation, and their loan utilisation capacity to income generating activities. They also claim that average employment generation in MSE model is around 17 as compared to three in other micro enterprises (ILO/UNDP, 2003). But this programme is more costly and, it is highly politicised as the Local Development Officer, Officer of the District Development Committee have strong influence in the selection of micro entrepreneurs rather than the demand forces, and they are distributing the seed capital to the

persons of their favour.

There are other programmes established under this model to link for MSE development and integrate with other core sectors such as forestry, natural resources, agriculture, or community development. Some examples of this approach are: Environment and Forestry Enterprises Programme (New Era/USAID) implemented in eight districts, Churia Forestry Development by GTZ in three districts, Community Forestry Development by DANIDA in three districts, Forestry Programme for Livelihood by DFID in seven districts, Sindhuli-Kavre Forestry Development Programme by Aus-Aid, and NRM Sector assisted by DANIDA in 17 districts. These are totally the donor-dependent programmes.

Trends in Multilateral Assistance

After the 80's economic liberalisation, multilateral donor agencies have focused for poverty-targeted rural and agricultural credit programme in Nepal with high levels of assistance between \$300 million and \$500 million per annum covering major other needed areas (DFID, 1998). The World Bank, IFAD, and Asian Development Bank are the largest multilateral banks, which provide long-term soft loans²³ with government collaboration. Thus, multilateral agencies have become the sources of fund at national level.

Asian Development Bank (2002) has reviewed microfinance operations in Asia-Pacific region within one decade that of 1988-1998. Over this period, it has approved many loan projects concentrating in selected countries. Accordingly, Bangladesh and Indonesia received about 62 percent and Philippines and Nepal received 33 percent of the total loan amount for MF projects. ADB/M has observed that its early projects focused only on microcredit delivery at subsidised interest rate rather than financial viability through savings. But recently, they have paid more attention in promoting voluntary savings rather than on credit services focusing on market-oriented interest rates for financial viability of the institutions encouraging greater participation of private sector in MF activities (ADB/M, 2000).

²³ Soft loan combine the characteristics of both equity plus loans that has also been marked as *quasi-equity*, which is a new financing paradigm for MF institutions (Gibbons, et al., 2002, p.253).

Trends in Bilateral Assistance

The bilateral donors are providing grants that can improve capital adequacy in MFIs, improving their ability to leverage funds from commercial financial markets (ADB/M, 2000). The major bilateral donors are Japan, UK, Denmark, the USA, Germany, France, and India. Recently, Nepal is receiving loans from Kuwait, Belgium, and, Austria also. Normally, the bilateral donors are not found to be involved in microcredit and poverty-focused programmes so far. Moreover, from 1980s onward, a rising trend of multilateral sources and a declining trend of bilateral sources in aid proportion to total foreign assistance have been observed. It means bilateral donors have failed to dominate more in the total aid scenario of Nepal after 1980s decade (Sigdel, 2002).

Besides INGOs and multilateral agencies, there are large development oriented foundations like Grameen Trust²⁴ of Bangladesh (GTB), Grameen Foundation USA, which are providing equity finance to cover the deficits of many MFIs in the developing countries. In Nepal's context, two private sector Grameen replicators, i.e. Nirdhan Bank and Self-help Banking programme are receiving fund from GTB through which, they are meeting the operating deficits and absorbing the losses. This way, they have become able to balance the capital adequacy²⁵ situation in their respective institutions.

Thus, multilateral, bilateral, social investors, or the national level development banks like RMDC could be the major source of quasi-equity for large MFIs to expand their activities. RMDC is an example in Nepal's case that has been supposed to assist with large fund by multilateral Development Banks. These multilateral banks have assisted in establishing apex financial institutions in some countries of Asia e.g., Palli Karma Sahayak Foundation (PKSF), Bangladesh with World Bank's support, People's Credit and Finance Corporation (PCFC), Philippines, and RMDC (Nepal) with Asian Development Bank's fund. The quasi-equity can play a vital role in: (a) absorbing losses in the MFIs, (b) assessing the capital adequacy of the

²⁴ Grameen Trust is working for credit and savings for the Hard Core Poor (CASHPOR) Network Head Quartered in Malaysia.

²⁵ Capital adequacy (CA) is defined as a "quantitative and qualitative measures of our institutions' level of equity versus the risk it incurs." Thus, CA is a measurement that shows a program/institute's ability to absorb loan loss (Web page: www.microfinanceglossary.net.org).

MFI, and (c) being a secondary source of equity-like financing, or subordinating loans that will make flexible for repayment of interest rate in MFIs (Gibbons et al., 2002).

5.5 Outreach/Coverage

Different models implemented in Nepal are organised in different ways varying in relation to their design, target groups, and implementation processes. Programmes like IBP, SFDP, SFCL, RSRF, and government-run projects are mixed-targeted schemes. Others, like MCPW, PCRW, and Grameen Bank models (both government and non-government models) are gender-focused programmes. Cooperative model also focuses mainly on poor women because women are lagging far behind men in every economic and social aspect.

Reaching into the poor community is the same goal in every model with many other similarities such as, small loan size, targeted to the poorest (mostly women), short repayment cycle, absence of collateral, and group-based methodology. Furthermore, these models recognise the role of MF as highly positive to reduce poverty though they have not reached into depth and breadth of outreach into the poor community, where “depth of outreach means the services provided to maximum number of the target groups (in all ecological regions), and the breadth of outreach means the economic sectors in which they are engaged” (Gulli, 1998, p. 5). Besides this, the quality of outreach and cost of outreach are important areas to be covered by a microfinance programme, if its service providers are to meet the major costs, i.e. operation costs, loan loss costs, and financial costs (interest rate paid for fund sources).

However, the four large targeted programmes have appeared with some significant outreach to the poor in Nepal. These are, for example, the SFDP (165679), the IBP (256439), the PCRW (66525), five GBBs (152956), and NUBL (40715) after transformed from NGO to a microfinance development bank. Sources are provided in the respective models and all as of 1999-2000. Large numbers of registered and unregistered savings and credit organisations and cooperatives have also covered large numbers of beneficiaries. The number of such institutions reached to 2861 excluding commercial banks, development banks, and Finance Companies by mid-January 2004 as revealed in Table 5.8.

Table 5.8
Formal and Semi-formal MFIs (mid -Jan 2004)

S. No.	MFIs/Programmes	Number
1	Grameen Bikas Banks	5
2	Nirdhan Utthan Bank	1
3	Swabalamban Bikas Bank	1
4	DEPROSC Bikas Bank	1
5	Chhimek Bikas Bank	1
6	Rural Microfinance Development Centre*	1
7	Sana Kisan Bikas Bank (SKBB)*	1
8	Savings and Credit Cooperatives@	2,800
9	FI-NGOs	44
10	CSD-SBP (An NGO)	1
11	DEPROSC (An NGO)	1
12	Chhimek Samaj Sewa (An NGO)	1
13	Small Farmers Development Programme	1
14	Rural Self-reliance Fund*	1
15	Deprived Sector Credit Programme	1
	Total	2,861

Source: Sharma S.R., 2004, p. 7.

* These are wholesale MFIs.

@ Excludes the 19 municipality-based SCCs, as their lending policies and programmes do not match with MFIs, but includes 125 SFCLs.

Detail information about the cumulative number of borrowers, loan disbursement, repayment, loan outstanding, and savings collected is presented in Table 5.9, but the information of three wholesale lending institutions, viz. RMDC, SKBB, and RSRF is not included. Of the 44 FINGOs, the information of only 15 organisations has been presented.

Table 5.9
Credit Operations of MFIs/programmes
(As of mid-January 2004)

S. No.	Institutions/Programmes	Cumulative no. of borrowers (In ' 000)	Cumulative loan disbursement (Rs. million)	Cumulative loan repayment (Rs. million)	Loan outstanding (Rs. million)	Saving Balance (Rs. million)
1	Grameen Bikas Banks (5)	150	9,868	8,523	1,345	426
2	Nirdhan Utthan Bank	37	1,462	1,255	197	69
3	Swabalamban Bikas Bank	27	1,653	1,464	189	90
4	DEPROSC Bikas Bank	9	223	164	59	13
5	Chhimek Bikas Bank	7	143	87	56	15
6	Small Farmers Cooperative Ltd. (125)	69	1,829	849	980	165
7	Savings and Credit Cooperatives (2,118) as of mid-July 2001	160	1,896	701	1,195	2,237
8	FI-NGOs (15) as of mid July 2002	12	58	27	31	-
9	CSD-SBP (An NGO)	3	98	83	15	7
10	DEPROSC (An NGO)	6	62	38	24	6
11	Chhimek Samaj Sewa (An NGO)	5	193	159	34	10
12	SFDP (1) as of mid-July 2001	166	6,384	5,344	1,040	78
13	Direct Lending of NBL and RBB Under Deprived Sector Credit Programme	76	846	557	289	75
	(i) PCRW as of mid-April 1999	50	451	287	164	25
	(ii) MCPW as of mid-July 2002	26	395	270	125	50
	Total [(1)+.....+(13)]= 2272	727	247,15	192,51	5,454	3,191

Source: Salika Ram Sharma 2004, p. 9.

Note:

- i. As of mid January 2004, there were a total of 2,800 savings and credit cooperatives operating in the country. Of this total, credit operations of only 2,118 are given in S. No. 7. Municipalities based SCCs are not included as their lending policies and programmes do not match with MFIs, and of the 125 SFCLs whose information are given separately in S. No. 6.
- ii. Of the 44 FI-NGOs, credit operations of only 15 FI-NGOs are presented in S.No.8. Information of the remaining 29 FI-NGOs was not available.
- iii. SBP and DEPROSC, and Chhimek the NGOs, now have transformed into development banks.

Thus, the total of 2,272 MFIs excluding three wholesale lending institutions provided a total of Rs. 24,715 million of microcredit to 727 thousand micro borrowers in various sectors by mid-January 2004. With the total population 23151 thousands and number of HHs 4253 thousands according to Census 2001, and by assuming 38 percent of the population/HHs as those below poverty line, the population and the number of HHs falling below the poverty line would come to 8,797 thousand persons ($38/100 \times 23,151,000 = 8,797,000$) and 1,616 thousand HHs ($38/100 \times 4,253,000 = 1,616,000$) respectively by mid-July 2001. Therefore, the access of formal and semi-formal MFIs is estimated to reach at 44.99 percent ($727/1,616 \times 100$) of the HHs below the poverty line to this date. But this outreach is calculated on the assumption that the MFIs' borrowers had not misused the loan amount. If the margin of loan utilisation increases, the percentage of outreach goes on declining. This achievement falls far below the expectations.

Similarly, the percentage distribution of MFIs working in hill, mountain, terai, and valleys is 36.09, 10.6, 49.7 and 4.14 percent respectively showing inadequate coverage of microfinance services in the hills of Nepal (Table 5.10). Though the 46 percent SCCs including NEFSCUN and other INGO, and GTZ supported SFCLs are working in the hills, the percentage of MFIs like RRDBs, MFDBs, and FINGOs is very low. Data illustrated in the Table indicate that the coverage of these development banks and the FINGOs in mountain region is negligible (around 1.33 percent), whereas their coverage in terai region is found more than 80 percent (Table 5.10).

Table 5.10
Ecological Coverage of the MFIs (%)

Microfinance Institutions (MFIs)	Programme Expanded				Total Districts
	Hill	Mountain	Terai	Valley	
1. Five RRDBs*	17 (22.67)	-	25 (33.33)	1 (1.33)	43/75
2. MFDBs** (a) Deprosc Development Bank (b) Swabalamban Bikas Bank (c) Chhimek Development Bank (d) Nirdhan Utthan Bank	5 (6.67)	-	29 (38.67)	-	34/75
3. SCCs*** (2262) All SCCs registered under District Coop. Department which include: (a) SCCs authorised with limited banking licenses by NRB, (b) SCCs under NEFSCUN management, (c) SCCs covered by RSRF and other government run projects and (d) Large number of unauthorised/informal SCCs	35 (46.67)	16 (21.33)	21 (28.00)	3 (4.00)	75/75
4. FINGOs (44) Licensed by NRB****	4 (5.33)	1 (1.33)	9 (12.00)	3 (4.00)	17/75
Total	61 (36.09)	17 (10.6)	84 (49.7)	7 (4.14)	169@

@ The total number of districts can exceed to 75, because, more than one MFIs can be implemented in one district. Figures in the parenthesis indicate the percentage.

Sources:

* Annual Reports of each GBBs (2059/60), NRB MF Department. Progress Report of GBRs (mid-July 2004)

** Annual Reports of each MFDBs (2059/60)

*** CMF Directory 2003 Appendix B

*** Statement of Member Organisation, July 2004, NEFSCUN, Kathmandu.

*** Information Sheet of Cooperative Societies July 2004, Cooperative Department, Ministry of Agriculture and Cooperatives.

**** NRB, Banking and Financial Statistics # 42, mid-January 2004.

Thus, the registered and regulated MFIs in the mountain region are nil except few NEFSCUN managed SCCS. Furthermore, though the number of the institutions reached to 2,861, most of these programmes were in the business hardly for two to three years, and most of them were new entrants.

5.6 Microfinance and Legislations

The microfinance institutions (MFIs) in Nepal are being regulated by central bank or Ministry of Finance under this legal framework. They are also regulated by their apex finance institution e.g., RMDC, MF development banks, Bankers Associations in case of CBs, District Administrative Office, Nepal Federation of Savings and Credit Cooperative Union (NEFSCUN), the Cooperative Board in case of SCCS, and Federation of NGOs in case of FINGOs and SFINGOs. These semi-formal MFIs are also self-regulated to maintain the trust and confidence of their clients. Legislating, regulating, and supervising of MFIs can be justified for the protection of public deposit collected and to operate them with required norms and standard.

Various existing laws and Acts to regulate MFIs in Nepal are: NRB Act (2002), Agricultural Development Bank Act (1967), Cooperative Act (1992), Finance Company Act (1985), Development Bank Act (1996), Social Welfare Act (1991), Company Act (1997), Financial Intermediary Act (1998), Societies Registration Act (1978), and many other laws. Thus, many laws and Acts are being formulated, but the execution and implementation parts of these laws are not effective.

5.7 Interest Rates Charged by MFIs

The main source of income of the MFIs in Nepal is the interest spread between the cost of capital and lending rate for meeting operational expenses. The cost of capital to MFIs varies between 6 to 10 percent depending upon the sources of borrowings. Grameen Trust of Bangladesh charges relatively cheaper rate of interest at six percent while RMDC and commercial banks charge 6.5 and 6.8 percent respectively, and the MFIs charge 20 percent interest rates on their lending capital (CPSRD, 2004). But practical experiences of the microfinance practitioners in Nepal have a consensus that the prevailing lending rate would not make them financially viable given the current cost of capital and high operating costs of the MFIs. They opined that the MFIs would be able to sustain only if the lending rate is fixed in the range of 30 to 35 percent. There is a common concern that the high interest rates charged by MFIs inhibit growth of micro enterprises and reaching to the poorer people resulting negligible impact on poverty reduction. A discussion programme organised by RMDC (2004) concluded

that the lending rate would have to be a minimum of 31 percent for making the MFIs financially sustainable considering the cost of various factors such as, operation expenses, loan loss provision, risk fund, inflation, and growth rate. The data given in Table 5.11 below provides the suggested lending rate.

Table 5.11: Suggested Lending Rate

S.N.	Headings	Rate (%)
1	Operation Expenses <ul style="list-style-type: none"> • Staff Cost • Other Cost 	12.0
2	Financial Expenses <ul style="list-style-type: none"> • Interest on Loan • Interest on Savings 	6.0
3	Loan Loss Provision	2.0
4	Risk Fund	1.0
5	Inflation	5.0
6	Growth Rate	5.0
Total		31.0

Source: RMDC, 2004

But if the MFI's lending rate is increased to 31 percent, it will be higher even that of commercial banks, which contradicts with the objectives of the microfinance programme providing easy and low cost capital to the poor. It discourages to the poor people to join the credit programme. But the experiences from the field have proved that poor people demand credit even in this high rate of interest as they do not have the tension of collateral and further what really matters to the poor is easy and availability of credit not the interest rate. Personal discussions with the senior staff of MFIs in the study area have found that high cost of capital may not inhibit for demanding loan, if there is higher return from the loan investment. Therefore, the major issue in expanding microfinance is not the interest rate, but it is the limited economic opportunities and infrastructure as well as marketing constraints in operating enterprises in the rural areas.

A consensus in the MF literature also is found that MFIs should charge interest rates equal to or higher than those charged by other commercial lender in order to cover the high costs of making small loans (Christen et al., [1995], cited in Gulli, 1998). Moreover, the rates charged by MFIs should be lowered than those charged by informal moneylenders which are the main alternative sources of financing for micro entrepreneurs.

5.8 Microfinance Networking in Nepal

Microfinance networking is essential for the overall growth of this sector--develop information system, staff motivation and access to resources; increase clients' propensity to borrow, and policy advocacy. Three microfinance-related networks exist in Nepal, namely Grameen Network Nepal (GNN), Microfinance Association of Nepal (MIFAN), Nepalese Federation of Saving and Credit Union (NEFSCUN). The GNN was established in April 1996 with five GBBs, NUBL, CSD, and Women Cooperative Society as its members. It was primarily formed for the effective mobilisation of funds and capacity building of member organisations. But this networking is not actively functioning.

Microfinance Association of Nepal (MIFAN) was formed in 1998/99 as a member based network of all the MFIs and cooperatives. Initially, there were 78 members. A member organisation had to pay Rs. 1,000 as annual fee. This initiative was supported by CECI for few years. The office of this network was maintained at DEPROSC's central office, which is not also functionally active. Nepalese Federation of Saving and Credit Union (NEFSCUN) is the federation of 414 savings and credit cooperatives (SACOS) and were registered in the year 1993. The organisation has not yet covered all the SACOS into its umbrella. CECI had supported it in its initial years.

5.9 Commercial Banks and Rural Financing

Commercial Banks (CBs) in Nepal have been involved in rural lending since 1974 with the initiation of priority sector credit programme. But this policy is being phased out except the three percent deprived sector loan programme. The CBs are meeting the deprived sector credit target mainly through three options: firstly, providing direct loan to people below the poverty line, secondly, providing wholesale loans to ADB/N/FINGOs/GBBs/GBRs, and thirdly, making share participation in RMDC/GBBs.

But the nature of MF services is such that the institutions involved in this sector need: (a) to serve a large numbers of clients with small loan size, (b) to supervise intensively and follow-ups, and (c) to have highly motivated and rural oriented staff. To provide services in this sector they have to bear higher operational costs than the CBs have to incur in their regular banking

activities. For this reason, these banks were reluctantly investing in priority sector under compulsion of the government mandates.

In addition, the two large commercial banks--the RBB and NBL are dealing more than 80 percent loan directly with individual clients (Table 5.2) causing high transaction costs and making them failure in MF activities. Actually, the CBs of Nepal were strangled on the very key success factors. Firstly, these banks were not allowed to charge commercial rate of interest to cover all the costs of the lending products, and secondly, these banks were directly dealing with individual clients rather than with institutions. And since the last 4/5 years it has been stereotyped that commercial banks became failure in MF activities leading to a misconception about CBs and MF towards general public. Therefore, the right option for CBs will be to provide wholesale loans to ADB/N and MFIs licensed by NRB, and working with authorised SCCs, or making share participation in RMDC/GBBs.

In the present context, therefore, the commercial banks of Nepal should play an additional role in linking with those authorised financial intermediaries NGOs/SCCs/SHGs along with their commercial functions. This way, formal banks also could reach into the poor community through involving in MF and thereby reducing rural poverty in the country. Only priority-sector-phase out programme under the pressure of donor agencies would not be a solution to the problem. The task of poverty alleviation is not possible only through the private sector because this is highly profit seeking sector of the economy. Poverty-concern task therefore lies under the responsibility of government. The only thing needed is that the FINGOs and savings and credit cooperatives emerging in a thousand of numbers since the last one and half decade should be used in microlending activities. International experiences also have proved that the commercial bank's lending to non-banking institutions rather than groups and individuals have gained success. Low transaction costs, high repayment rate, and easy legal action in case of repayment failure are some advantages of indirect lending to non-bank institutions.

Challenges for Rural Financing

Microfinance, or rural finance, or agricultural finance for rural development is synonyms for each other for agricultural and rural-based economy like Nepal. Out of 85 percent of the total population living in rural areas, 90 percent are poor and almost 50 percent of them are

categorised as the poorest of the poor. Similarly, almost 60 percent of the poorest families are marginal and small having a small landholding just sufficient to meet food grains for not more than 5 to 6 months a year (Malla, 2001). The theory of rural development and planning hypothesises that the development of rural economy (covers agriculture, forest, animal husbandry) is the most essential for overall development of the country. An undeveloped economy can be changed to a developed one through discouraging the mobility of population from rural to urban among many other ways (Mehta, 1979). On the contrary, Nepal has not been able to develop her rural economy even after five decades of rural development efforts made by the government, because people are still migrating from villages to cities and towns in search of wage-employment rather than self-employment for their livelihoods.

In the present context, basic challenge for Nepal is the development of rural economy with mass opportunities of employment through adequate rural financing. But government domination and intervention in rural finance have discouraged the emergence of a viable rural finance system with active private sector participation within the country. Further, the inadequate legal and regulatory policies and also the inadequate information about financial intermediaries (SCCs, NGOs, SHGs), and borrowers and depositors have hindered the Nepalese rural financial markets.

More than this, the conflict environment is a serious challenge for rural financing. The banking sector in particular has been heavily affected by the conflict. Between 25 and 30 percent of the branch network of the three largest banks, i.e. RBB, NBL, and the ADB/N²⁶ have been vandalised by the insurgents. Even the branches at the prime areas have become the target of the armed conflict. This is resulting in a withdrawal of banking services from affected areas. Even “pro-poor” providers of rural financial services such as, Small Farmer Cooperatives Ltd. (SFCLs) or Grameen Bank replications have become targets of the Maoists. The financial institutions are facing higher costs due to reconstruction efforts, and last but not least, branch staff is often in a state of fear and continuous tension due to security concerns. Thus, consolidating or moving towards institutional sustainability in the present context is a vertical challenge for all financial institutions in Nepal.

²⁶ Until July 2003, over 180 offices of ADBN have been vandalised and looted, including over 70 bank offices and over 90 sub-project offices. These incidents caused physical damage valued about NRs 10.6 million (USD 135,000). In terms of cash, NRs 28.7 million (USD 370,000) were looted (Dhakal, 2004).

The Nepalese rural financial market is characterised by poverty, seasonal incomes, limited opportunities for risk diversification, and lack of traditional collateral. And this lack of traditional collateral is the main reason that profit-oriented financial institutions are more discouraged from establishing themselves in rural areas. The usury laws and regulations also prevent small holders from using their land as collateral. Because of these peculiarities and constraints rural development activities should be placed in a separate policy from the policy of sectoral development like industrial or urban development policies (Yaron et al., 1997).

The simple approach of rural financing is to increase incomes and reduce poverty in rural areas by addressing acute credit shortages. Before 1980s, government made efforts to channel large sums of money through state-owned credit institutions for lending to farmers at below market rate of interest. But this approach could not be successful, because it suppressed the development of rural financial markets benefiting only a small percentage of the rural population. Integrated Rural Development Projects or government-mandated credit programmes justified this situation.

Lessons to be learnt

Key lessons should be learnt from other successful commercial banks throughout the world that large numbers of commercial banks are moving into microfinance. The commercial banks in Asia-Pacific region, like the Bank Rakyat Indonesia (BRI), a government owned bank, and three other small private commercial banks e.g., Bank Dagong Bali in Indonesia, Hatton National Bank in Sri Lanka, and Krishna Bhima Samaruddhi Bank in India have treated microfinance as a profitable business (Barbara, 1998). Similar situation has been found in National Bank for Agricultural and Rural Development, NABARD's case. Of the total bank credit of NABARD, priority sector lending covers 40 percent net, and it has also been proved as the successful bank (apex bank for rural credit) in priority sector lending in India. The reason behind this success can be attributed to linkage programme with self-help groups (SHGs), NGOs, and cooperatives rather than directly lending to individual clients. The experience of Indian linkage programme demonstrates that due to certain reasons lending to NGOs and SHGs can become more profitable than lending to individuals. The reasons are: (a) the transaction costs are lower, (b) repayment is 100 percent on time, (c) in the event of default, legal action can be taken against NGOs but not

groups and individuals, and (d) groups listen more to the NGOs, which makes them more likely to pay them than banks (Barbara, 1998).

The other key success factors identified by these banks are excellent management information system (MIS) and portfolio management, recruiting the staff from outside the bank, or give staff special training, compulsory savings, intensive supervision, peer groups monitoring, and progressive lending. Progressive lending means borrowers who repay the loan promptly are entitled to progressively larger loans over time.

Therefore, it can be concluded that instead of the government-owned financial institutions, the FINGOs, SCCs, and SHGs, which lie under the group lending modality, should be encouraged and linked them with traditional formal finances. Microfinance can, thus, promote and finance the rural sector in a sustainable manner to alleviate poverty rooted in rural areas. The enormously growing FINGOs, SCCs, and SHGs could be the sustainable source of MF/rural finance for the country. They can collect rural idle resources in the form of savings and mobilise it for the needy micro borrowers, thereby reducing gradually the dependency on donors' fund. These organisations should be encompassed into a strong legal and unified regulatory framework by the central bank authority.

CHAPTER 6

IMPACT OF MICROCREDIT

ON ECONOMIC AND SOCIAL ASPECTS

6.1 Background

This chapter presents the findings from the overall impact assessment on poverty alleviation, where “impact” refers to effects of microfinance (MF) on livelihoods and welfare of the clients. The study includes quantitative as well as qualitative impacts on economic and social conditions of the clients of Nirdhan Utthan Bank Ltd. (NUBL). The effect of the changed income is assessed on the basis of client’s expenditure on accumulation of household assets and their expenditure pattern on food, clothing, health care, children’s education, and social events. The ownership of assets (land, house, livestock, household utensils, and tools/machines) can be used to create wealth groups, which are useful for defining relative poverty and for analysing baseline indicators. The study compared the values of these indicators among the clients and also among the different ethnic groups before and after introduction of the credit programme. Indicators were also compared between the clients and non-clients using with and without programme situation for impact assessment on natural resource management.

6.2 Socio-economic Characteristics of the Respondents

Sample Distribution

This section provides general socio-economic conditions of the clients and the non-clients in the study area. The survey includes data on 130 and 70 households for the credit and the non-credit group respectively from three sampled VDCs. Out of the total sample of credit groups, the highest percentage of the respondents was from the age group of 30 to 40 years; and women aged 50 years and above participated least in the programme. The non-credit households surveyed also were from the same age group (Table 6.1).

Table 6.1
Distribution of Respondents by Age Group

Age Group	Clients		Non-clients	
	20 to 30 Years	41	(31.5)	23
30 to 40 Years	56	(43.1)	26	(37.1)
40 to 50 Years	27	(20.8)	8	(11.4)
50 Years & Above	6	(4.6)	13	(18.6)
Total	130	(100.0)	70	(100.0)

Source: Field Survey, 2003.

Note: Figures in parentheses represent the respective percentages.

Ethnic Distribution

Table 6.2 shows the ethnic composition of respondents surveyed. Among the credit group, more than fifty percent respondents were Janajati²⁷ followed by about one third Brahmin/Chhetri/Thakuri and some Dalit. Similarly, among the non-credit group, about fifty percent respondents were Dalit, followed by Janajati and some Brahmin/Chhetri/Thakuri.

Table 6.2
Distribution of Respondents by Ethnicity

Ethnicity	Clients		Non-clients	
	Brahmin/Chherti/Thakuri	44	(33.8)	10
Janajati	70	(53.8)	26	(37.1)
Dalit	16	(12.3)	34	(48.6)
Total	130	(100.0)	70	(100.0)

Source: Field Survey, 2003.

Marital Status

In both groups, almost all respondents were married. There were more widows in non-credit group than in credit group. Credit group reported no divorced cases while the non-credit group reported few cases. Group discussions and observation of the researcher during site visit also justified it with the following reasons. Firstly, as a result of male dominated society, younger poor women with almost no access to education and counselling on her married life face many problems related to intra-household decision making. Secondly, infants and children, less than five years of age were found obstructing women from joining such programme, as husbands in the study area believe that childcare is the job of women alone.

²⁷ Castes/Ethnicity included in *Janajati* and *Dalit* as per the definition of MLD.

Family Size

Table 6.3 below shows the average family size by ethnicity and by credit and non-credit groups. There was no significant difference in family size either among ethnicity or among the credit and non-credit groups. For both groups, the average household size stood between five and six persons. Janajati in credit groups and Brahmin/Chhetri/Thakuri in non-credit groups have the largest family size.

Table 6.3
Average Family Size

Ethnicity	Clients	Non-clients
Brahmin/Chhetri/Thakuri	5.34	6.90
Janajati	5.76	5.62
Dalit	5.44	5.21
Total/Overall	5.58	5.60

Source: Field Survey, 2003.

Literacy Level

Table 6.4 below shows the literacy rate of respondents for both groups and for ethnicity. Very high difference in literacy is observed between the credit and the non-credit group, which is true for all caste/ethnic groups. The percentage of non-client literate respondent is even less than half that of credit group respondent. About three quarter clients and about one third non-clients are found literate. Whether client or non-client, the highest and lowest literacy rates were found between Janajati and Dalit. In terms of literacy, Brahmin/Chhetri/Thakuri stood in between.

Table 6.4
Literacy* Statuses of Respondents
(Clients and non-clients)

Caste/ Ethnicity	Literate		Illiterate		Total	
Clients						
Brahmin/Chhetri/Thakuri	33	(75.0)	11	(25.0)	44	(100.0)
Janajati	53	(75.7)	17	(24.3)	70	(100.0)
Dalit	11	(68.8)	5	(31.3)	16	(100.0)
Total/ Overall	97	(74.6)	33	(25.4)	130	(100.0)
Non-clients						
Brahmin/Chhetri/Thakuri	7	(30.4)	16	(69.6)	23	(100.0)
Janajati	12	(46.2)	14	(53.8)	26	(100.0)
Dalit	6	(28.6)	15	(71.4)	21	(100.0)
Total/ Overall	25	(35.7)	45	(64.3)	70	(100.0)

Source: Field Survey, 2003.

* Literacy level is taken to denote reading, writing and, simple arithmetic skill.

Level of Education

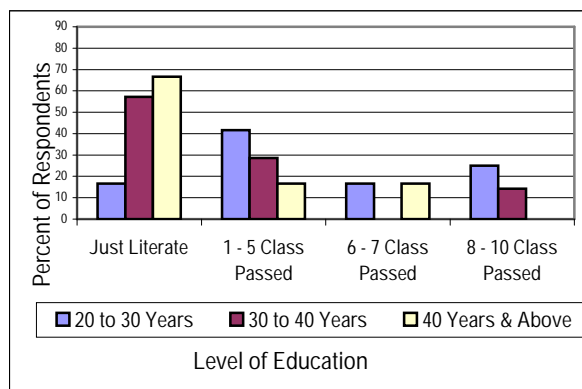
Table 6.5 and figure 6.1a and 6.1b below show level of education for caste/ethnic groups between clients and non-clients. The highest percentage of respondents were just literate²⁸ in both credit and non-credit groups. Among the credit group, only one fifth literate respondents completed primary level (class 1-5) and very few literate respondents completed lower secondary level (class 6-7) and secondary level (class 8-10).

Table 6.5
Level of Education for Ethnic Groups
(Clients and non-clients)

Ethnicity	Literate Only		1 - 5 Class Passed		6 - 7 Class Passed		8 - 10 Class Passed		Total	
Clients										
Brahmin/Chhertri/Thakuri	9	(27.3)	9	(27.3)	4	(12.1)	11	(33.3)	33	(100.0)
Janajati	40	(75.5)	8	(15.1)	3	(5.7)	2	(3.8)	53	(100.0)
Dalit	6	(54.5)	2	(18.2)	2	(18.2)	1	(9.1)	11	(100.0)
Total/ Overall	55	(56.7)	19	(19.6)	9	(9.3)	14	(14.4)	97	(100.0)
Non-clients										
Brahmin/Chhertri/Thakuri	2	(28.6)	3	(42.9)	-	-	2	(28.6)	7	(100.0)
Janajati	6	(50.0)	2	(16.7)	2	(16.7)	2	(16.7)	12	(100.0)
Dalit	2	(33.3)	3	(50.0)	1	(16.7)	-	-	6	(100.0)
Total/Overall	10	(40.0)	8	(32.0)	3	(12.0)	4	(16.0)	25	(100.0)

Source: Field Survey, 2003.

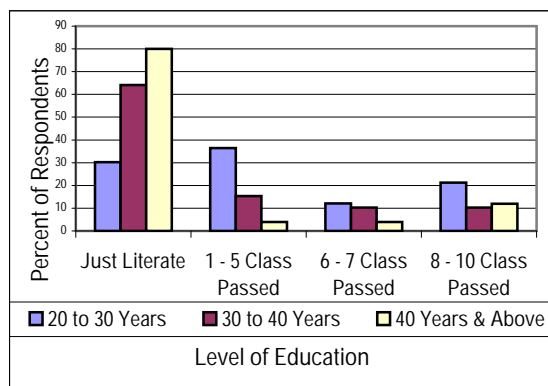
Figure 6.1a
Level of Education among Clients



Source: Field Survey, 2003.

Figure 6.1b

Level of Education among Non-clients



Source: Field Survey, 2003.

²⁸ Nirdhan, as other Grameen model, provides compulsory group training in which participants are expected to sign at least their name.

6.3 Economic Impact

Background

Providing microfinance facility to rural poor women eventually delivers them entitlement to legally registered assets like land and house, which is usually is not possible without their active role (especially cash earning) within the household. With given traditional, customary, and legal binding, it would not easily be possible to entitle women as the owner of livelihood assets without such targeted programmes. The programme helps not only clients but it helps their family and the community in many ways. Firstly, it can show the male dominated family/community that women are not less active and productive than men and can earn and support family livelihood as men do. Secondly, it also illustrates traditional people in the rural area (either males or females) that women's participation in income generating activities is as important as male involvement.

Impact on Landholding

Table 6.6 below shows the change in land owning position among credit groups before and after they joined the programme. There has been a significant increase in the percentage of households owning land in all caste/ethnic groups. On an average, about one fifth additional households owned some type of land now. Before microcredit programme, nearly fifty percent of the surveyed households owned land, which has now increased to more than two-third. There was not much variation on the percentage of households land holdings among caste/ethnic groups. The highest increase in the percentage of households having access to land was found among Brahmin/Chhetri/Thakuri and least among Dalit.

Table 6.6
Number and (%) of Clients' Land Owning Position

Ethnicity	Before		After		Change*	
Brahmin/Chhetri/Thakuri	21	(47.7)	34	(77.3)	13	(29.5)
Janajati	35	(50.0)	47	(67.1)	12	(17.1)
Dalit	7	(43.8)	9	(56.3)	2	(12.5)
Total/ Overall	63	(48.5)	90	(69.2)	27	(20.8)

Source: Field Survey, 2003.

* The change percentage is simply calculated using "after" minus "before" formula.

Among non-credit group, the overall percentage of households owning land is almost the same as that of clients' households (Table 6.7).

Table 6.7
Number and (%) of Non-clients' Land Owning Position

Ethnicity	Own Some Land		Do Not Own Land		Total Respondents
Brahmin/Chhertri/Thakuri	8	(80.0)	2	(20.0)	10
Janajati	13	(50.0)	13	(50.0)	26
Dalit	12	(35.3)	22	(64.7)	34
Total/ Overall	33	(47.1)	37	(52.9)	70

Source: Field Survey, 2003.

The comparative study of both groups, regarding asset accumulation (mainly land) shows that more than 20 percent clients have added land after two to three years period. On the other hand, more than 52 percent non-clients' households did not own land during the same period (Table 6.6 and 6.7).

Level of education showed positive relationship with land ownership between both the groups. It is stronger in case of non-credit group than in the case of credit group. Among non-credit group, everybody who completed class eight or above, owned some land while only one third of the illiterate women in this group own land. Numerically, the variation among non-client ranges from just thirty three percent illiterate women having access to land to hundred percent non-client women who have passed grade eight have the access to land. Similarly, among credit group, eighty-six percent women who have completed grade eight and above, own land and almost fifty eight percent illiterate women own land. The overall resultant difference in the percentage of land owning women between client and non-client is about one-thirds and two-thirds respectively. These results clearly indicate that the targeted programmes for poor rural women contribute significantly to narrow down various inequalities (social, gender, and caste/ethnicity) in the community.

Table 6.8
Land Owning HHs by Level of Education

Level of Education	Clients		Non-clients	
	Count	Percentage	Count	Percentage
Illiterate	19	(57.6)	15	(33.3)
Literate Only	39	(70.9)	6	(60.0)
1 - 5 Class Passed	13	(68.4)	6	(75.0)
6 - 7 Class Passed	7	(77.8)	2	(66.7)
8 - 10 Class Passed	12	(85.7)	4	(100.0)
Overall	90	(69.2)	33	(47.1)

Source: Field Survey, 2003.

Table 6.9 below shows that microcredit has contributed largely in acquiring land. About half of the women, who were landless before and received more than Rs. 40,000 total loan, now own land. Very fewer women receiving credit amounted less than Rs. 40,000 could purchase land. Thus, it is clear that loan amount higher than Rs. 40,000 (either in one loan or more than one borrowing) helped the poor women to have their own settlement and/or acquiring *khet* land.

Table 6.9 Land Owning HHs by Total Amount of Loan Borrowed

Loan Amount	Before		After		Change	
	Count	Percentage	Count	Percentage	Count	Percentage
< 20, 000 Rupees	15	(50.0)	17	(56.7)	2	(6.7)
20,000 - 40,000 Rupees	33	(60.0)	37	(67.3)	4	(7.3)
> 40,000 Rupees	15	(33.3)	36	(80.0)	21	(46.7)
Overall	63	(48.5)	90	(69.2)	27	(20.8)

Source: Field Survey, 2003.

The credit programme has contributed not only in increasing the number and percentage of households owning land but it has also contributed in increasing the average size of holding. Among the credit groups, the average landholding has increased to 0.336 hectare per household from the previous average of a mere 0.107 hectare per household resulting in a net increase of 0.229 hectare or 213 percent (Table 6.10).

Table 6.10
Average Size of Landholding among the Clients

Ethnicity	Unit: Ha/HH		
	Before	After	Change
Brahmin/Chhertri/Thakuri	0.082	0.409	0.328
Janajati	0.139	0.333	0.194
Dalit	0.04	0.147	0.106
Total/ Overall	0.107	0.336	0.229

Source: Field Survey, 2003.

By caste/ethnicity, Brahmin/Chhetri/Thakuri was most benefited from the credit programme in terms of increase in average landholding. The other two caste/ethnic groups were also benefited but with a smaller increment in their landholding. Thus, the surveyed households from both group, have very small landholding according to baseline condition. They were not able to meet their normal food requirement through agriculture. They rely on cultivation of rented land, sharecropping, or work as day labourers.

Impact on Household Assets

When asked whether some type of assets like land, house, livestock, household utensils, machines/tools, and cash was increased after joining the programme, only one-thirds respondents reported increase in some type of asset (Table 6.11). By ethnicity, it was highest among Dalit followed by Brahmin/Chhetri/Thakuri, and Janajati.

Table 6.11
Increase in Asset Holding among the Clients

Ethnicity	Yes		No		Total	
Brahmin/Chhetri/Thakuri	17	(38.6)	27	(61.4)	44	(100.0)
Janajati	18	(25.7)	52	(74.3)	70	(100.0)
Dalit	7	(43.8)	9	(56.3)	16	(100.0)
Total/ Overall	42	(32.3)	88	(67.7)	130	(100.0)

Source: Field Survey, 2003.

Table 6.12 shows the results on increase in different types of assets²⁹ after they joined the credit programme. Mostly, land area, number of house and number of household utensils, livestock, and number of Radios were increased.

²⁹ The HHs increased livestock owned mainly milking buffalo, goat and pig. The current prices for the following items are:

- NRs. 2500-3000 per *dhur* for *khet* land
- NRs. 15-20 thousand per milking buffalo
- NRs. 1000-1500 per matured female goat
- NRs. 400-500 per pig (local)
- NRs. 10,000 per Riksha

Table 6.12
Clients Reporting Change in Different Assets

Assets	Number Reporting Increase*	
Land Increased	27	(20.8)
House Increased	18	(13.8)
Livestock Increased	8	(6.2)
Household Utensils Increased	16	(12.3)
Radio	6	(4.6)
Riksha	1	(0.8)

Source: Field Survey, 2003.

* Number and percentage may not tally with Table 6.11 because some HHs own more than one asset.

Quality of houses was also found improved. Before the credit programme, the HHS had mud and thatched houses. More than 50 percent clients' HHs found accessed with toilet facilities. During the group discussion period, it was reported that the assets holding among non-clients was not changed significantly within the 3 to 4 years period.

Consumption

As a result of increased economic standard, the amount of annual expenditure on consumption (include food items and non-food items) has increased dramatically. More than 90 percent households reported their increased annual expenditure on consumption. But caste/ethnicity has its influence on the expenditure on consumption also. Dalits preferred increasing expenditure on household daily consumption while Brahmin/Chhetri/Thakuri and Janajati increased expenditures on health and sanitation (as they are more conscious in health matters), and housing respectively. Dalits gave importance to basic need while other two cast/ethnicities gave importance to relatively luxurious items and/or invested for future.

Out of 130 households surveyed, almost all households reported the increased annual expenditure on consumption. Among the caste/ethnic groups, the change on expenditure on consumption was the highest among Dalits, and the least among Janajatis. The percentage increase ranges from about two hundred percent to more than three hundred percent. The average amount currently spent on consumption items was highest among Dalits followed by high caste group and Janajati. Currently on an average, households are spending Rs. 101,829 annually on

consumption items (Table 6.13, Figure 6.2).

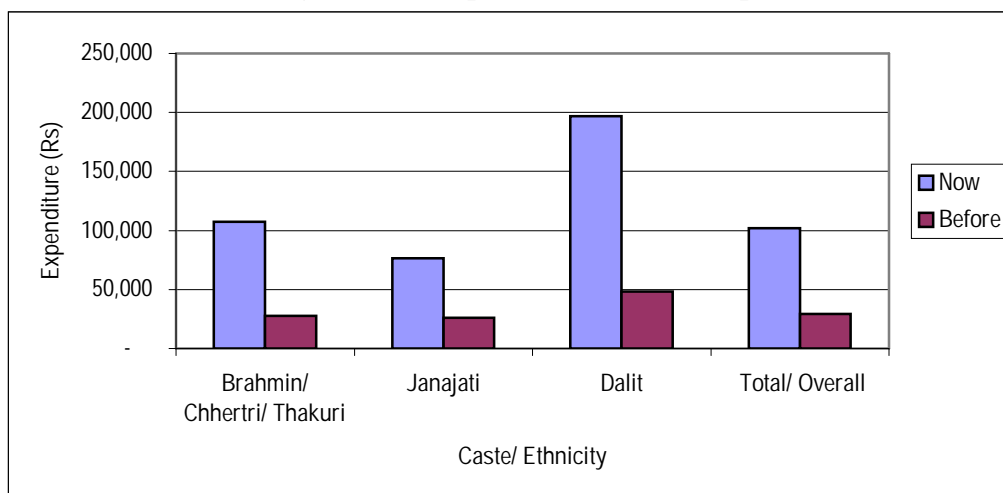
Table 6.13
Average Annual Expenditure on Consumption

Unit: Rs./HH

Ethnicity	Before	After	Change	HHs Reporting	
				Count	Percentage
Brahmin/Chhertri/Thakuri	27,873	107,482	79,609 (285.6)	41	(93.2)
Janajati	25,766	76,577	50,811 (197.2)	64	(91.4)
Dalit	48,075	196,763	148,688 (309.3)	16	(100.0)
Total/ Overall	29,225	101,829	72,604 (248.4)	121	(93.1)

Source: Field Survey, 2003.

Figure 6.2
Average Annual Expenditure on Consumption



Source: Field Survey, 2003.

Food Sufficiency

The group guaranteed loan has brought drastic change in food sufficiency on household level. The overall percentage of food sufficient households has increased to more than ninety percent from less than fifty percent making a net increase of about forty-five percent. By ethnicity, half of the additional Janajati and Dalit households became food sufficient, while every Brahmin/Chhetri/Thakuri household became food sufficient. Very few Janajati and Dalit households still faced food shortage (Table 6.14).

Table 6.14
Level of Food Sufficiency among Borrowers

Ethnicity	Before		After		Change	
	Brahmin/Chhertri/Thakuri	28	(63.6)	44	(100.0)	16
Janajati	28	(40.0)	63	(90.0)	35	(50.0)
Dalit	7	(43.8)	15	(93.8)	8	(50.0)
Total/ Overall	63	(48.5)	122	(93.8)	59	(45.4)

Source: Field Survey, 2003.

Among non-clients, majority of households faced food deficiency as less than half of the households owned some (very little) land depending on day labouring.

Table 6.15 below illustrates the strategies taken to overcome the problem of food deficit by client households. Among the 67 food deficit households, agricultural labour was the most common strategy to overcome the food deficiency. Other generally depended on business income, selling livestock, selling firewood, seasonal migration, and borrowing cash or kind from neighbours. Coping strategies for food deficiency differed among caste/ethnicity. Majority of Janajati and Dalit food deficit households depended on agricultural labour, while only half of the food deficit Brahmin/Chhetri/Thakuri households depended on it. Brahmin/Chhetri/Thakuri also depended on income from business and livestock to mitigate food shortage.

Table 6.15
Measures taken to Overcome Food Deficit

Ethnicity	Coping Strategies														
	Agri. Labour		Seasonal Migration		Sell of Firewood		Remittances		Business		Livestock		Other		Total
Brahmin/Chhertri/Thakuri	8	(50.0)					2	(12.5)	3	(18.8)	4	(25.0)	2	(12.5)	16
Janajati	32	(76.2)			1	(2.4)	1	(2.4)	8	(19.0)	1	(2.4)	10	(23.8)	42
Dalit	6	(66.7)	1	(11.1)	2	(22.2)			2	(22.2)			2	(22.2)	9
Total/ Overall	46	(68.7)	1	(1.5)	3	(4.5)	3	(4.5)	13	(19.4)	5	(7.5)	14	(20.9)	67

Source: Field Survey, 2003.

Access to Credit

Table 6.16 and Figure 6.3 below show the distribution of borrowing households by number

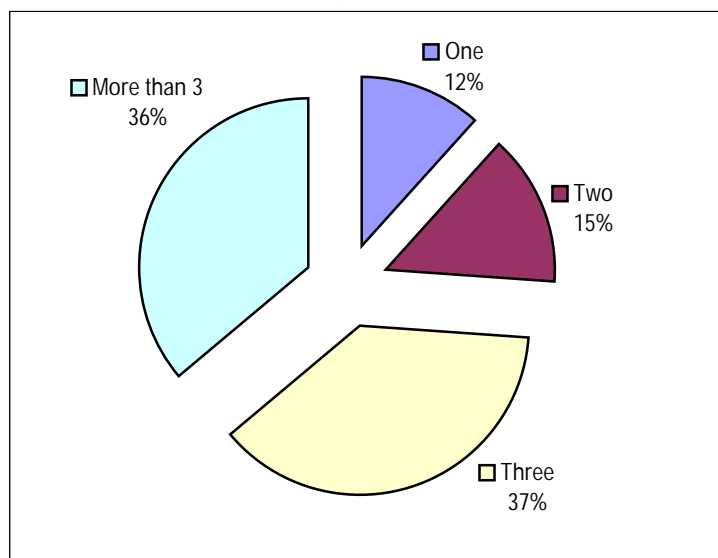
of times they borrowed. Almost two-third households borrowed more than three times or more, while less than one-third households borrowed two times or less. Across ethnicity, higher percentage of Dalit households borrowed three times or more indicating proper mobilisation of loan and business success, which is also true for other two caste/ethnicities. The proportion of households whose frequency of borrowing is low, suggests that either the business was not beneficial or they were the newer ones. The drop out (those who did not borrow next time) caused by business loss or inadequate benefit, needs to be corrected by providing proper extension service.

Table 6.16
Distribution of Clients by Number of Times Borrowed

Ethnicity	Number of Clients									
	One		Two		Three		More than three		Total	
Brahmin/Chhertri/Thakuri	4	(9.1)	8	(18.2)	15	(34.1)	17	(38.6)	44	(100.0)
Janajati	9	(12.9)	10	(14.3)	26	(37.1)	25	(35.7)	70	(100.0)
Dalit	2	(12.5)	1	(6.3)	8	(50.0)	5	(31.3)	16	(100.0)
Total/ Overall	15	(11.5)	19	(14.6)	49	(37.7)	47	(36.2)	130	(100.0)

Source: Field Survey, 2003.

Figure 6.3
Distribution of Clients by Number of Times Borrowed



Source: Field Survey, 2003.

Table 6.17 below shows that lower the educational level causes higher frequency of borrowing. The percentage of women who borrowed more than three times is highest among 6-7

class passed women followed by illiterate, literate only, 1-5 class passed and 8-10 class passed. The percentage of women borrowing more than three times is least among 8-10 class passed women.

Table 6.17
Number of Borrowers by Level of Education

Education Level	Number of Borrowers									
	One		Two		Three		More than 3		Total	
Illiterate	3	(9.1)	8	(24.2)	9	(27.3)	13	(39.4)	33	(100.0)
Literate Only	5	(9.1)	7	(12.7)	23	(41.8)	20	(36.4)	55	(100.0)
1 - 5 Class Passed	2	(10.5)	2	(10.5)	8	(42.1)	7	(36.8)	19	(100.0)
6 - 7 Class Passed	2	(22.2)			3	(33.3)	4	(44.4)	9	(100.0)
8 - 10 Class Passed	3	(21.4)	2	(14.3)	6	(42.9)	3	(21.4)	14	(100.0)
Overall	15	(11.5)	19	(14.6)	49	(37.7)	47	(36.2)	130	(100.0)

Source: Field Survey, 2003.

Number and Purpose of Loan

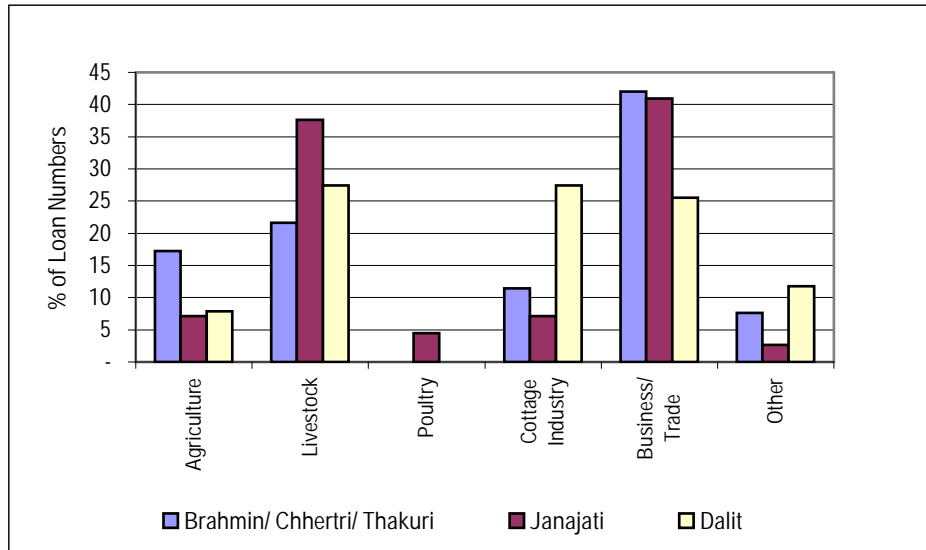
There were 474 borrowings (total number of loans) reported by 130 households surveyed (Table 6.18 and Figure 6.4). On an average, every household enjoyed more than three loans. There was not much difference in the average number of loans among caste/ethnicity. On the overall, the preferred areas of borrowing, in the order of percentage beneficiary households borrowed, was business/trade, livestock, cottage industry, agriculture, and some other activities.

Table 6.18
Number and Purpose of Borrowings

Ethnicity	Agriculture		Livestock		Cottage Industry		Business/ Trade		Other		Total	Average No of Borrowings	
Brahmin/Chhertri/Thakuri	27	(17.2)	34	(21.7)	18	(11.5)	66	(42.0)	12	(7.6)	157	(100.0)	3.57
Janajati	31	(11.6)	100	(37.6)	19	(7.1)	109	(41.0)	7	(2.6)	266	(100.0)	3.80
Dalit	4	(7.8)	14	(27.5)	14	(27.5)	13	(25.5)	6	(11.8)	51	(100.0)	3.19
Total/ Overall	62	(13.0)	148	(31.2)	51	(10.8)	188	(39.7)	25	(5.3)	474	(100.0)	3.65

Source: Field Survey, 2003.

Figure 6.4
Number and Purpose of Borrowings



Source: Field Survey, 2003.

Purpose of the loan varied slightly by caste/ethnicity in the study area. Borrowing priorities of Brahmin/Chhetri/Thakuri and Janajati were business/trade, whereas Dalit prioritised their borrowing areas as livestock also giving priority to occupational jobs according to their castes.

Around 70 percent clients, who borrowed for agricultural purposes, grew vegetables and received cash income from the sale of surplus vegetables they grow. They also reported that growing vegetable is more profitable than any other crops. Very few households were involved in running forest-based enterprises in the surveyed area. Other purposes of borrowing referred mostly to consumption loans, which are commonly a coping strategy used to meet short-term needs such as, food, medicine, emergencies, funerals, and weddings.

Size of Loan

The overall average loan size varied according to the number of times the client borrowed. The more a client goes on borrowing -- given that the previous loan is paid -- the size of loan increases significantly. The average first and third loans are found to be Rs. 4,633 and Rs. 9,255 respectively. The overall average loan size is found to be 10,994 Nepalese Rupees in Nirdhan programme. Numerically, the overall average loan size has increased by 237.3 percent. Caste/Ethnicity played significant role on the size of loan. By ethnicity,

Brahmin/Chhetri/Thakuri enjoyed the largest size of loan amounting NRs 11,710 followed by Janajati with NRs 10,964 and Dalit NRs. 8,941, which were 217.9 percent, 266.7 percent and 162.6 percent higher than their respective average size of first loan (Table 6.19 and Figure 6.5).

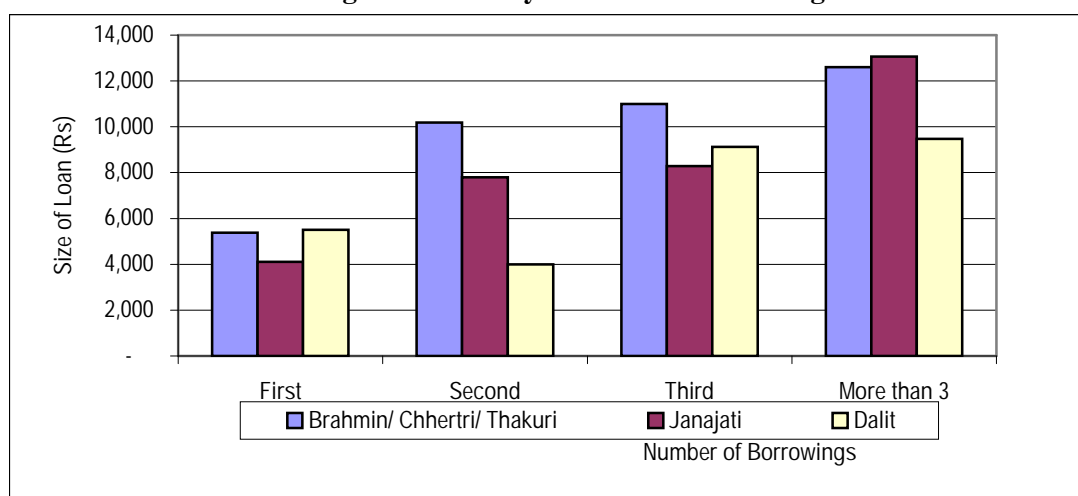
Table 6.19
Average Loan Size by Number of Borrowings

Unit: Rs.

Ethnicity	Size of Loan by Number of Borrowings									
	One		Two		Three		More than 3		Total	
Brahmin/Chhetri/Thakuri	5,375	(100.0)	10,188	(189.5)	11,000	(204.7)	12,598	(234.4)	11,710	(217.9)
Janajati	4,111	(100.0)	7,800	(189.7)	8,288	(201.6)	13,063	(317.8)	10,964	(266.7)
Dalit	5,500	(100.0)	4,000	(72.7)	9,125	(165.9)	9,478	(172.3)	8,941	(162.6)
Total/Overall	4,633	(100.0)	8,605	(185.7)	9,255	(199.8)	12,606	(272.1)	10,994	(237.3)

Source: Field Survey, 2003.

Figure 6.5
Average Loan Size by Number of Borrowings



Source: Field Survey, 2003.

Performances of Income Generating Activities

More than two-thirds businesses were cited as profitable, while 16.9 percent covered only the cost and remaining 6.2 percent were in loss. Caste/ethnicity also played important role in the success of business run from loan. Brahmin/Chhetri/Thakuri was the most efficient in running business (88.6 percent making profit), while the Dalits were the least efficient (68.8 percent in profit). Janajati stood in the middle with 71.4 percent of businesses making profit. Few households reported business failure mainly because of their traditional habits of expending

carelessly on social events. It was also observed through personal contact that the behavioural habits like drinking and smoking particularly between Dalit and Janajati groups was the other reasons for business failure (Table 6.20).

Table 6.20
Performance of Income Generating Activities

Ethnicity	Profitable		Covers Cost		In Loss		Total	
Brahmin/Chhertri/Thakuri	39	(88.6)	4	(9.1)	1	(2.3)	44	(100.0)
Janajati	50	(71.4)	13	(18.6)	7	(10.0)	70	(100.0)
Dalit	11	(68.8)	5	(31.3)			16	(100.0)
Total/ Overall	100	(76.9)	22	(16.9)	8	(6.2)	130	(100.0)

Source: Field Survey, 2003.

Loan Repayment

Table 6.21 shows that more than eighty percent borrowers pay loans back with the money earned from investment of the borrowed money, while remaining borrowers repay the loans from other sources of income like household other income, sale of firewood, and some of them even borrow again. Mostly, Janajatis and high caste groups have strong source of income from remittances earned from family members working in other countries. Many heads of the households among the clients were found working in other countries, mainly in India.

Table 6.21
Sources of Loan Repayment

Ethnicity	Income from Loan Investment		Other HH Income		Sale of Firewood		By Borrowing from Other Sources		Other Sources	
Brahmin/Chhertri/Thakuri	37	(84.1)	3	(6.8)					5	(11.4)
Janajati	55	(78.6)	11	(15.7)	2	(2.9)	2	(2.9)	8	(11.4)
Dalit	13	(81.3)	4	(25.0)					3	(18.8)
Total/Overall	105	(80.8)	18	(13.8)	2	(1.5)	2	(1.5)	16	(12.3)

Source: Field Survey, 2003.

6.4 Social Impact

Clothing

Out of the total households surveyed, one-fifth households reported the amount of expenditure on clothing. The amount spent on clothing has increased by at least two folds. There was a wide variation among caste/ethnicity on expenditure on clothing. The higher the

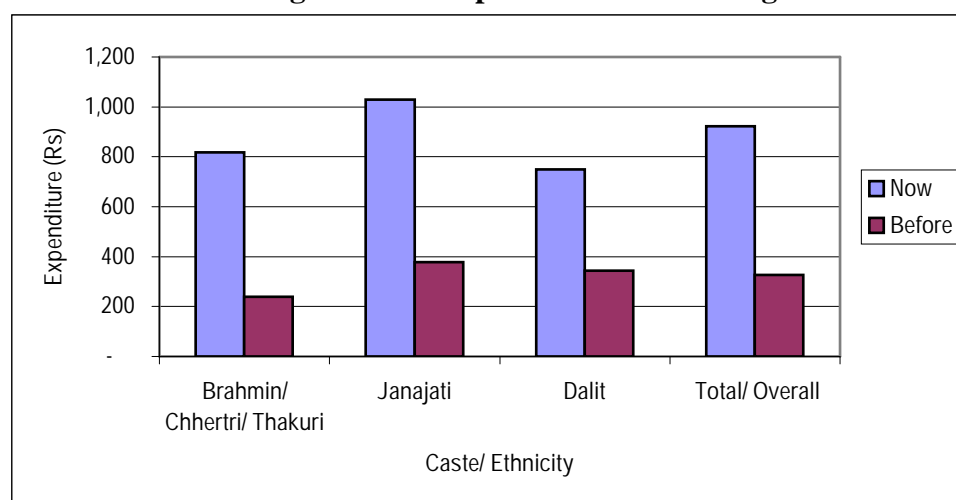
caste/ethnic levels the rate of increase on expenditure on clothing was also found to be higher (Table 6.22, Figure 6.6).

Table 6.22
Average Annual Expenditure on Clothing

Ethnicity	Before	After	Change	Unit: Rs./HH	
				HH Reporting	
Brahmin/Chhertri/Thakuri	239	818	579	(242.3)	6 (13.6)
Janajati	379	1,029	650	(171.5)	16 (22.9)
Dalit	344	750	406	(118.0)	3 (18.8)
Total/ Overall	327	923	596	(182.3)	25 (19.2)

Source: Field Survey, 2003.

Figure 6.6
Average Annual Expenditure on Clothing



Source: Field Survey, 2003.

Education

Table 6.23 and Figure 6.7 compare data on expenditure on education. The overall average amount of expenditure on education is very low. Even though it has become more than double after the programme, it is still less than thousand Nepalese Rupees per household per year. The percentage change on expenditure on education varies by caste/ethnicity. The increase was very high between Janajati and Brahmin/Chhetri/Thakuri, while it was negligible among Dalits.

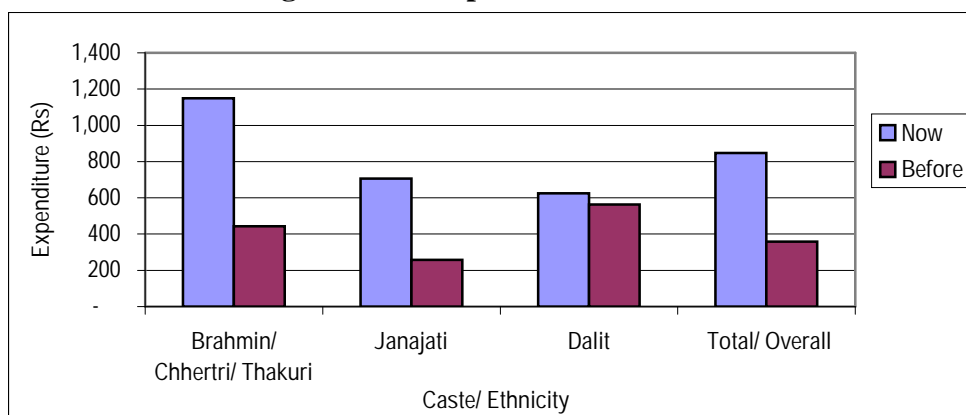
Table 6.23
Average Annual Expenditure on Education

Ethnicity	Before	After	Change	Unit: Rs./HH	
				HH Reporting	

Brahmin/Chhertri/ Thakuri	443	1,150	707	(159.6)	6	(13.6)
Janajati	257	707	450	(175.1)	13	(18.6)
Dalit	563	625	62	(11.0)	2	(12.5)
Total/ Overall	358	847	489	(136.6)	21	(16.2)

Source: Field Survey.

Figure 6.7
Average Annual Expenditure on Education



Source: Field Survey, 2003.

Health Care

Twenty-three households spent on health and sanitation (Table 6.24, Figure 6.8). The overall annual average amount spent on health and sanitation increased from Rs. 260 to Rs. 708 after joining the credit programme. The amount has been increased by at least two fold. The caste/ethnicity showed very strong relationship with the percentage increase on expenditure on health and sanitation. The highest caste/ethnic group, Brahmin/Chhetri/Thakuri had the highest percentage increase, as they are more conscious in health matters compared with other two ethnic groups. Dalits have the least increase on expenditure on this matter. Social mobilisation among these groups could be the way to increase expenditure on health and sanitation. Awareness on health and sanitation has also increased among clients. With the increased economic standard and knowledge, clients spent more on health and sanitation annually and more percentage of clients compared to non-clients' visit in health post for treatment.

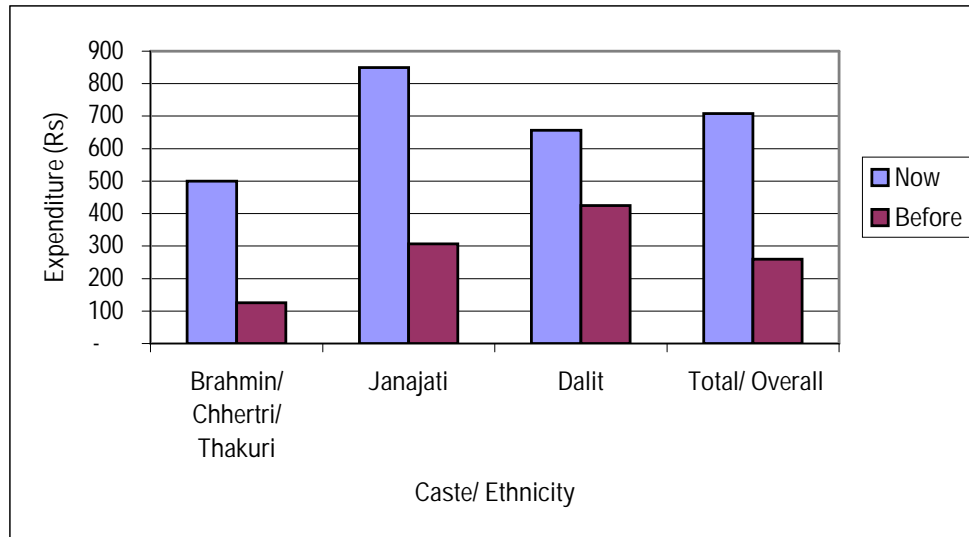
Table 6.24
Average Annual Expenditure on Health Care

Ethnicity	Before	After	Change	Unit: Rs./HH	
				HH Reporting	
Brahmin/Chhertri/Thakuri	125	500	375	(300.0)	5 (11.4)

Janajati	307	850	543	(176.9)	15	(21.4)
Dalit	425	656	231	(54.4)	3	(18.8)
Total/ Overall	260	708	448	(172.3)	23	(17.7)

Source: Field Survey, 2003.

Figure 6.8
Average Annual Expenditure on Health Care



Source: Field Survey, 2003.

The increased awareness on health and sanitation has not only increased average annual amount spent on health and sanitation but it has contributed to increasing the number of households spending on health and sanitation. On an average, about ten percent additional households started spending on health and sanitation. Janajati have started spending largely after the credit programme. Similarly, almost all the women who joined the credit programme reported that they visit health post for treatment when they fell ill because of their improved household economic condition, while this percent among non-credit group is much lower.

Fuel

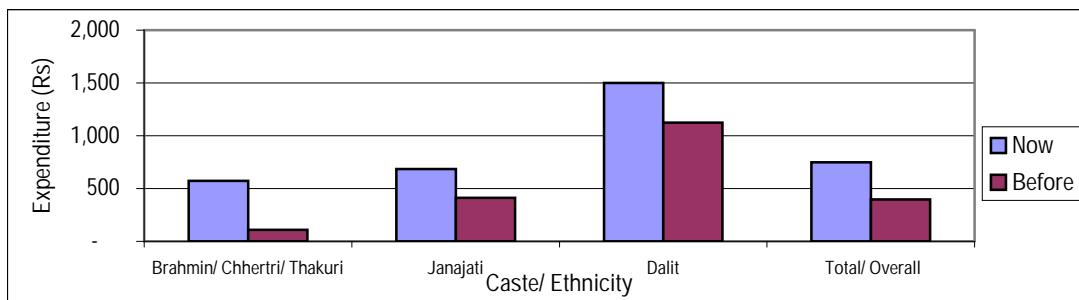
Very few households reported expenditure on fuel (Table 6.25, Figure 6.9). Currently, on an average, Rs. 748 has been spent on fuel, which is 88.4 percent higher than the previous amount of Rs. 397. The percentage change was found highest among Brahmin/Chhetri/Thakuri (425.7 percent) compared to 66.9 percent and 33.3 percent between Janajati and Dalit respectively. The high caste groups mostly were found using LP gas for cooking purposes, whereas non-client households do not expend money for fuel, as they totally depend on community and government forests for fuel.

Table 6.25
Average Annual Expenditure on Fuel

Ethnicity	Before	After	Change		HH Reporting	
Brahmin/Chhertri/Thakuri	109	573	464	(425.7)	8	(18.0)
Janajati	411	686	275	(66.9)	3	(4.3)
Dalit	1,125	1,500	375	(33.3)	1	(6.3)
Total/ Overall	397	748	351	(88.4)	12	(9.3)

Source: Field Survey, 2003.

Figure 6.9
Average Annual Expenditure on Fuel



Source: Field Survey, 2003.

Housing

The qualitative study from the field found that housing condition among clients and non-clients is more or less similar. But it varied among the ethnic groups. Greater percentages of high caste groups are residing in houses of fair condition normally called *pakki*. Out of the total respondents, more than four percent, including individuals from all groups, reported that they have spent on house maintenance thanks to poor housing condition where the houses were made with mud and thatch (Table 6.26). Usually, the disadvantaged groups, who have thatched houses, are spending their money or their labour in house maintenance every year at the end of the monsoon.

Table 6.26
Average Annual Expenditure on Housing

Ethnicity	Before	After	Change		HH Reporting	
Brahmin/Chhertri/Thakuri	-	898	898		3	(6.8)
Janajati	21	93	72	(342.9)	2	(2.9)
Dalit	281	313	32	(11.4)	1	(6.3)
Total/Overall	46	392	346	(752.2)	6	(4.6)

Source: Field Survey, 2003.

Savings Mobilisation

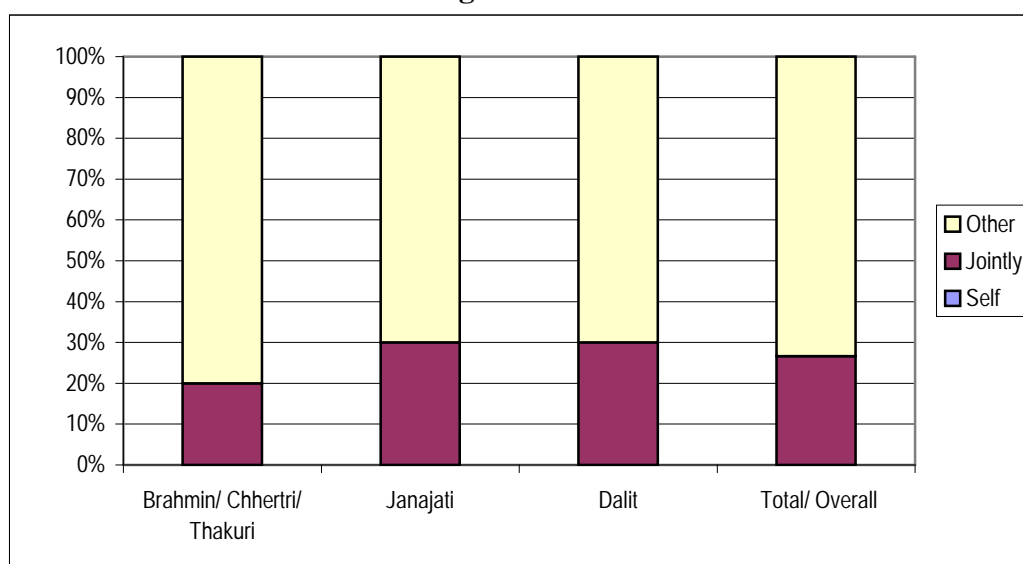
Table 6.27, Figure 6.10 show the clients' role in mobilisation of savings generated from business with the loan money received from microcredit and households' other savings. A very high majority of women have no role on mobilising household savings except the institution's compulsory saving scheme. About one fourth women have joint role on savings mobilisation with a strong belief that opening savings account is the responsibility of male (especially husband) rather than theirs. Moreover, clients (women) access themselves as less experienced on this matter and do not possess enough education to do it. Across caste/ethnicity, high caste group have the least role on mobilisation of household saving compared to Janajati and Dalit.

Table 6.27
Savings Mobilisation

Ethnicity	Decision Maker			Total
	Self	Jointly	Other	
Brahmin/Chhertri/Thakuri		20.0	80.0	100.0
Janajati		30.0	70.0	100.0
Dalit		30.0	70.0	100.0
Total/ Overall		26.7	73.3	100.0

Source: Field Survey, 2003.

Figure 6.10
Savings Mobilisation



Source: Field Survey, 2003.

6.5 Overall Implications

The study found that the availability of agricultural land is limited to the HHs surveyed and they have to rely on rented land or on agreements for sharecropping. The average size of holding also is small compared with the district and national figure.³⁰ However, the average land acreage among the credit groups has increased from 0.107 to 0.336 hectare after the programme intervention (Table 6.10).

Though the income is one indicator of economic impact, the changed income of the participants has not been quantified because of some methodological issues experienced during the field survey particularly illiteracy among the clients and no records of cost and revenues of the loan-related businesses. Respondents also reported that they include their profit in the “cost” of feeding their family. This indicates that there is a link between the programme participation and improved diets. This is the reason that more than 90 percent clients have become food sufficient after the programme participation (Table 6.14). Moreover, the impact is also studied from indirect economic benefits of the programme e.g., the clients spend fewer hours in collecting firewood or work less as an agricultural labour.

Based on these factors, the study concludes that microfinance has increased the access to livelihood resources, creating self-employment and developing entrepreneurs among the target group. Accumulation of essential livelihood assets like land (mostly *ghaderi* of five to ten *dhur* by the homeless poor clients), house repairing, livestock, household utensils and radios/television has increased. The performances of income generating activities, increased loan sizes in every next loan cycle, increased number of times borrowed, and the total loan received by a client of more than five loan cycles (a matured client who has borrowed loan from Nirdhan gets a total loan amount of more than Rs. 80,000) have increased their household annual expenditure, and this result obviously indicates that there is significant increase in income level of the client. But it is important to note that other factors like remittances, agricultural wages and non-farm wages have also affected in increasing annual expenditure of a client. The comparison of the clients’ assets creation and other social status in two different periods (before and after

³⁰ The average sizes of landholding for the nation and for the district are 0.789 and 0.896 (Rupandehi) hectare (CBS, 2004, p. 73, 80).

involvement in the credit programme) shows that they have improved their living standards tremendously.

Despite the fact that agriculture is the primary occupation for all caste/ethnicities, and at least one family member is engaged in this sector except landless clients, credit was highly demanded for business and livestock purpose, whereas it is very low for agriculture and cottage industry and it is even zero percent in manufacturing sector. Female employment is higher in agriculture sector than male member, and agriculture was found as the main income source in all the VDCs studied.

Before joining the credit programme, most of the poor household particularly low caste groups were engaged in agricultural labour. But after the programme intervention, the disadvantaged groups are likely to engage in business trade and livestock or in non-farm activities. The performances of income generating activities, increased loan sizes in every next loan cycle, increased number of times borrowed, and changed pattern of expenditure on consumption and other social indicators proved that there is significant increase in income level. Clients, who are landless or poor with resources, are engaged in non-farm activities financed by microloan and are earning some additional income. Moreover, the overall average loan size varies by number of times the client borrows. The more a client goes on borrowing, given that the previous loans are paid or there is no loan pending, the size of loan increases significantly, indicating positive impact on income.

CHAPTER 7

IMPACT OF MICROCREDIT ON WOMEN'S EMPOWERMENT

7.1 Background

In recent days, women's empowerment is considered a critical part of the development process. "Empowerment of women and gender equality are prerequisites for achieving political, social, economic, cultural, and environmental security among all people" (Beijing Platform, 1995, p. 41). The UN Convention on All Forms of Discrimination against Women (CEDAW, 1981) and the Beijing Conference both had made some commitments regarding women's rights and concerns about health and educational status of women, and also focused on women's access to financial resources considering it as a human right instrument. The conventions also considered access to credit as an important mechanism for reducing women's poverty.

Microfinance practitioners have shown great concern about the link between microcredit and women's empowerment giving genuine reasons for empowering this large and deprived section of the society. In first instances, it is generally accepted that *women are the poorest of the poor*, as data have proved that 19.3 million women in the world fall under this category, of which only 14.2 million have access to financial services and this accounts for nearly 74 percent of those poorest women (Cheston et al., 2002). Secondly, in most societies, women manage the day-to-day household budgets, and are more likely to save money from any increase in income from any sources for family welfare. Thirdly, they have proved themselves to be much better credit risks than their male counterparts. The on-time repayment of loan for women clients ranges between 81 and 95 percent (Gibbons and Kasim, 1991; Hossain, 1988; Hulme and Mosley, 1997; Wright, 2000). However, this chapter presents the results from the evaluation of gender, credit and empowerment showing the inter-relationship among each other. Women's empowerment, which is measured from the (a) change in gender equity considerations such as, control over loan money, loan related businesses, family support, husbands' attitude towards women, and (b) change in decision-making roles in some important areas such as savings/spending for the family, children's marriage, and family planning. The empowering impact based on these indicators are compared among clients and non-clients and also compared

among the different ethnic groups. Status of the Nepalese women, government's policy, and different approaches about women development are also highlighted in this chapter.

7.2 Women's Status in Nepal

Nepal's gender empowerment measure is only half of the global average and after Pakistan, the second lowest in South Asia. Pakistan also is a country with low levels of gender equity in educational opportunities. Integrated Household Survey 2001-02 conducted by Federal Bureau of Statistics in Pakistan shows that the percentage of the boys and girls (13 to 17 years) enrolled is 81 and 58 percent respectively (ADB/M, 2003b).

Women in Nepal constitute 50.04 percent of the total population. But they are not fully mainstreamed into the development process. There are vast differences in gender statistics regarding social and economic indicators. The gross primary school enrolment ratio for female and male is 108 and 128 respectively for the year 2000. Only 30 percent of primary school children are girls. In Nepal, the literacy rate of the population aged 6 years and above is 54.1 percent (42.8 percent female and 65.5 percent male). Similarly, the adult female literacy rate (34.9 percent) is much lower than the adult male (62.7 percent) literacy rate. Regarding marriage and social deprivation, the percentage of married population of age group 10-15 years is 28.8 percent for female and 11.2 percent for male (CBS, 2001). The percentage of economically active female and male population is 43.7 and 62.6 percent respectively. The estimated national level unemployment is 5.1 percent. The labour force participation rate of population (in all activities) for 16-49 years of age for female and male is 48.9 and 67.6 percent respectively. By employment status, the unpaid women workers are 12.9 percent in comparison to 5.7 percent for unpaid men workers. Approximately, 70 percent of women working outside the domestic sphere are self-employed (agricultural labour, non-agricultural family enterprises, and off-farm work in urban areas) and 12.8 percent are wage employed, as compared to 56.7 percent and 33.7 percent in the case of men (CBS, 2001). Women occupy only 8.1 percent of the professional workforce in agriculture and natural resource management (Adhikary, 1995). Similarly, less than four percent of working women hold the status of employer (CBS, 2003).

Moreover, female participation in non-agricultural sector is lower than that for male. It

means women's labour input in agricultural sector is increasing in the successive censuses making agriculture progressively feminised. The census data show the increasing proportion of female labour force - 30 percent in 1971, 36 percent in 1981, 45 percent in 1991, and 57.8 percent in 2001 census (Acharya, 1994; Adhikary, 1995; CBS, 2001). But "agricultural feminisation" in Nepal is caused by *de facto* rather than *de jure* reason as the number of female-headed households in rural areas is increasing mainly because of male out-migration and due to male employment in other sectors. Majority of women, therefore, do not have the access to the provision of land rights in Nepal.

Thus, women of Nepal work hard contributing much in the domestic and the national economy. But their access to skills, resources, opportunities, and power still remains low. They work as agricultural labourers not as resource managers as Meier suggests (Meier, 1995).

7.3 Women Development Approach

The Gender and Development (GAD) theory mainly developed by UNDP, UNIFEM, and the World Bank during the eighties emphasised greatly on gender equality giving logic that gender inequalities in developing societies inhibit economic growth and development. The World Bank report states "societies that discriminate on the basis of gender, pay the cost of greater poverty, slower economic growth, weaker governance and a lower living standard of their people" (World Bank, 2001, p. iv).

In Nepal's context, the development strategies during the 80s targeted women as passive beneficiaries or "welfare recipients" of food and shelter. They did not care much about equity aspects (Acharya, 1995). Current strategies have emphasised both efficiency as well as equity, accepting the reality that gender bias is the primary cause of poverty. This is because it inhibits women from obtaining the education, health services, legal status, and other opportunities needed to combat poverty. This gender equity approach in social development is based on the fact that needs and priorities of women are different from that of men. Furthermore, all people in the society are not equally capable. So, opportunity and right should be provided to such people according to their need and ability. And "empowerment" is the most commonly used word in recent approach of women development.

7.4 Government's Policy on Women Development

The possibility of women development through microfinance programme was realised and women's access to credit was given emphasis at the first International Women's Conference in Mexico in 1975 (Women's International Year). It was stated that, "Access to credit was seen as vital to women's ability to earn income, and in turn was seen as central to their wider status and autonomy" (Mayoux, 1998, p. 5). But the impacts of this first Women's Conference on Nepalese women were very limited, though it had focused on the wide disparities in access to development resources by women. It had also pointed the need to ensure an adequate supply of development inputs in order to integrate women in the development efforts.

Government in Nepal, had no policies and objectives specifically directed to women development before the Sixth Five Year Plan (1980-1985). The UN Convention CEDAW (1981) and the Convention of the Rights of Child (CRC) were constituted together with the objective of promoting and protecting the rights of girls and women and eradicating inequality and discrimination (UNICEF, 1996). But Nepal ratified the non-discriminatory provisions of CEDAW only after one decades of its enforcement (in April 1991) making few efforts in improving the social, economic, and political status of women. Some specific provisions (like equal salary for equal work, provisions for women's education, health and employment, reservation of at least five percent seats for women candidates in Parliament) had been added in the constitution of 1990 following the restoration of democracy in Nepal.

Few policy guidelines were effectively formulated in the Eighth Plan (1992-1997) for mainstreaming women in economic development with the intervention of credit programmes like PCRW and SFDP and expansion of Grameen model rural development banks. In 1993 the NPC created the Children and Women Development Section under the Population Division. In 1994 the National Council for Women and Child Development was formed followed by the establishment of the Ministry of Women and Social Welfare in 1995 to coordinate and monitor all activities directed towards enhancing women's status. The Plan also undertook other important actions like elimination of discrimination against women and enforcement of the revised *Mulki Ain* (inheritance law) to remove the legal constraints related to equitable access to resources. Similarly, the Ninth Plan (1997-2000) and the Tenth Plan (2002-2007) also considered

women as its major target group to fulfil the goal of human resource development and poverty alleviation in the country.

7.5 Women's Empowerment and Gender Issues

The common practice of the term “women's empowerment” is changing power in relation to gender. But different agencies have described women's empowerment in different ways. North American and European development agencies have referred “education” and “employment” as empowering instruments leading to a reduction in childbearing (a study by Visvanathan, [1997], cited in CMF/CECI, 2000). South American feminist organisations have termed productive activities, which lead to a greater equality for women's empowerment (Escobar's study, [1995], cited in CMF/CECI, 2000). But South Asian feminists have described empowerment as individual challenges made to patriarchal relations (a study by Batliwala, [1995], cited in CMF/CECI, 2000). The other way it is defined as the process of gaining control over the self, the ideology and the resources, which determine power (Batliwala's study [1993], cited in Acharya, 1995). Thus, empowerment is a process, which enables women to meet both their practical needs (immediate problems like poverty, health, and water), and strategic needs (access to property and wealth, changing division of labour, and the system of unequal wages) (Acharya, 1995).

Gender Issues

Gender means the role played by women and men, based on social norms and values. It is changeable (except the reproductive roles of women) and it varies in relation to regions or communities. As Nepal is a multi-ethnic country, the gender relations, socialisation processes, and social norms between girl and boy children differ largely. Although women's access to financial services has increased in recent years, their ability to benefit from this access is often still limited by the disadvantages they experience because of their gender. Microfinance programme therefore, should do more to address these gender issues transforming power relations and empower the poor both men and women.

7.6 Impact on Women's Empowerment

Gender Equity Improvement

This section has analysed the impact on women's empowerment on the basis of data, provided by field survey. The "use of loan" is an important indicator of women's control over resources, which was mostly discussed during the focus group discussions. More than 64 percent borrowers reported that they have joint control over the fund (loan money). About one fourth of the total borrowers have full control over the loan money, business and the income earned. There is not much difference in the percentage of borrowers having joint control over the loan across caste/ethnicity. Nonetheless, high caste groups have the highest percentage, while it is least among Dalits (Table 7.1).

Table 7.1
Control over Loan

	Own		Husband		Father/Mother in Law		Joint		HH Reporting
By Caste/Ethnicity									
Brahmin/Chhertri/ Thakuri	13	(29.5)					31	(70.5)	44
Janajati	17	(24.3)	11	(15.7)			42	(60.0)	70
Dalit	2	(12.5)	2	(12.5)	1	(6.3)	11	(68.8)	16
Total/ Overall	32	(24.6)	13	(10.0)	1	(0.8)	84	(64.6)	130
By Amount of Loan									
< 20, 000 Rs.	6	(20.0)	7	(23.3)			17	(56.7)	30
20,000 - 40,000 Rs.	12	(21.8)	5	(9.1)			38	(69.1)	55
> 40,000 Rupees	14	(31.1)	1	(2.2)	1	(2.2)	29	(64.4)	45
Overall	32	(24.6)	13	(10.0)	1	(0.8)	84	(64.6)	130
By Number of Times Borrowed									
One	2	(13.3)	5	(33.3)			8	(53.3)	15
Two	4	(21.1)	2	(10.5)			13	(68.4)	19
Three	11	(22.4)	4	(8.2)			34	(69.4)	49
More than Three	15	(31.9)	2	(4.3)	1	(2.1)	29	(61.7)	47
Overall	32	(24.6)	13	(10.0)	1	(0.8)	84	(64.6)	130

Source: Field Survey, 2003.

Besides caste/ethnicity, both the amount of loan and number of times borrowed influence in control over the loan money. As the total amount of borrowed money increased and/or the member's borrowings increase more than once, sole control of husband over the loan money decreases significantly resulting increase in self-control of women and/or joint control with her

husband. During the non-client's survey, it was reported that these women were neither involved in any other credit programmes nor mobilised the resources, and hence, it is clear that these women have no control over any type of resources.

Family Support

Household members were found cooperative to women in household chores. Besides, most of the women reported that male members supported and assisted in the loan enterprises mainly in the marketing of resources needed and products of the business. Also, women were found to negotiate with their husbands regarding the loan investment in the most profitable business. During the discussion period, women also reported that it was more prestigious for a married woman to decide about economic activities jointly in a family. But in case of joint family (with many dependants), the situation was found different. Very high percentage of husbands of the clients was either very helpful/positive or remained neutral, but very few of them turned negative mainly because of their business failure. The highest percentage, that turned negative, was found among Dalits followed by Janajati and Brahmin/Chhetri/Thakuri (Table 7.2). These figures indicate that most of the clients have improved status and balanced gender relations in the home in comparison to non-clients' experiences.

Table 7.2
Attitude of Clients' Husbands

Ethnicity	Very Positive/ Helpful		OK		Negative		HH Reporting
By Caste/Ethnicity							
Brahmin/ Chhetri/ Thakuri	42	(95.5)	1	(2.3)	1	(2.3)	44
Janajati	58	(82.9)	10	(14.3)	2	(2.9)	70
Dalit	11	(68.8)	4	(25.0)	1	(6.3)	16
Total/ Overall	111	(85.4)	15	(11.5)	4	(3.1)	130
By Total Loan Amount							
One	11	(73.3)	4	(26.7)			15
Two	17	(89.5)	2	(10.5)			19
Three	41	(83.7)	5	(10.2)	3	(6.1)	49
More than Three	42	(89.4)	4	(8.5)	1	(2.1)	47
Overall	111	(85.4)	15	(11.5)	4	(3.1)	130

Source: Field Survey, 2003.

Children's Education

Very high percentage of the respondents schooled their children irrespective of sex of the

children, while very few discriminated and forced girls to perform household works instead of going to school. They have been given access to more years of schooling for both male and female children equitably though caste/ethnicity has hindered the equitable increase in the access to livelihood assets. But they gave reason that they were not interested to go to school. Note that, discrimination is inversely related with the caste/ethnicity level. It is highest among Dalits and least among high caste groups.

Table 7.3
Priority in Education for Clients' Daughters and Sons

Ethnicity	Yes		No		HH Reporting
Brahmin/Chhertri/Thakuri	40	(90.9)	4	(9.1)	44
Janajati	60	(85.7)	10	(14.3)	70
Dalit	13	(81.3)	3	(18.8)	16
Total/ Overall	113	(86.9)	17	(13.1)	130

Source: Field Survey, 2003.

But most of the non-client families reported that they could not school all their children because of their poor financial condition. Only the male ones are selected to go to the school, while females are forced to perform the household tasks. They also complained that they could not buy the books in advance sold by the government, because they have to pay first and get bill/receipt, which will be refunded by the Sajha Prakasan one year later. This is the reality of government's policy regarding free primary education.

Impact on Decision Making

Microfinance has increased the women's role on making decisions on purchasing of both the small amount of household consumption items (purchased with less than NRs 500 at a time and the clients (women's) own personal use items) and larger amount household assets and durables. Currently, almost all women have influence on spending on small amount household consumables. Table 7.4 shows the impact on decision making on small amount spending among clients. This increment is higher among Brahmin/Chhetri/Thakuri (40 percent) compared to Janajati and Dalit (30 percent each).

Table 7.4
Decision Making Role on HH Spending (small consumables)

	Self	Jointly	Others	Total
Before	56.7	30.0	13.3	100.0
After	90.0	8.3	1.7	100.0
Change among Ethnicity				
Brahmin/Chhertri/Thakuri	40.0	-25.0	-15.0	
Janajati	30.0	-20.0	-10.0	
Dalit	30.0	-20.0	-10.0	
Total/ Overall	33.3	-21.7	-11.7	

Source: Field Survey, 2003.

Women's decision making role on spending on household assets and durables is found very low compared to their role on spending on small amount consumables (Table 7.5). Before joining the programme, no women could make sole decision on acquiring household assets and durables. But after the programme, about one tenth women could make sole decision on purchasing/selling household assets and durables. The percentage of other family members, who made sole decision on spending on household assets and durables, has decreased to less than one-third giving about one-fourth additional women some decision-making role (either joint or sole decision making role) on the purchase of household assets and durables. In total, ten percent women make sole decision on purchasing household assets and durables while it was zero percent before.

Across the caste/ethnic groups, the increase is least among the high caste groups compared to Janajati and Dalit. Similarly, twenty percent additional women from remaining two caste/ethnic groups (Janajati and Dalit) received joint and independent role respectively while acquiring household assets.

Table 7.5
Decision Making Role on HH Spending (durables)

	Self	Jointly	Other	Total
Before	-	41.7	58.3	100.0
After	10.0	58.3	31.7	100.0
Change among Ethnicity				
Brahmin/Chhertri/Thakuri	10.0	10.0	-20.0	
Janajati	10.0	20.0	-30.0	
Dalit	10.0	20.0	-30.0	
Total/ Overall	10.0	16.6	-26.7	

Source: Field Survey, 2003.

Besides participating in the process of decision related to households and family affairs, majority of client women were found affiliated with some sort of NGOs/CBOs/production

groups. Among the clients who are members of CBOs/NGOs, very high percent of them are associated with Community Forest Users Group (CFUG). Very few of them are member of co-operatives and other local groups/institutions. More than 50 percent clients (women) reported that they have joined some type of CBOs, NGOs, and the most common institution seems the CFUG, where 59.5 percent women were involved (Table 7.6).

Table 7.6
Membership of CBOs/NGOs

Description	Number	Percent
Is member of NGOs/CBOs	68	(52.3)
Member of Community Forest Users Group	44	(59.5)
Member of women in Forest Management Committee	7	(9.5)
Member of Cooperatives	4	(5.4)
Member of Other Groups/Institutions	19	(25.7)

Source: Field Survey, 2003.

But the field observation found that lack of inclusive decision-making was felt as a problem for the poor people in such organisations. Most of the respondents expressed that their voices were not heard in the executive committee of the CFUGs the reason being lower status, illiteracy, gender discrimination and domination of few elites. In this way, though client's decision-making role within the households has increased, it has not increased outside the household activities.

Family Planning

Women in the study area were found less active regarding decision-making on family planning matters. They feel shy about accessing the means of family planning themselves and have strong feeling that they should first consult their husband on this matter. Neither clients nor non-clients made sole decision in household matters. However, decision-making role among the credit groups is found increased regarding family planning and decision about the marriage of their daughters in comparison to non-credit women. Among non-clients, majority of husbands of these groups (more than 53 percent) make independent decision on family planning (Table 7.7).

Table 7.7
Decision Making Role on Family Planning

	Self	Jointly	Husband	Total
Client	-	64.0	36.0	100.0
Non-client	-	47.7	53.3	100.0
Difference	-	17.3	-17.3	

Source: Field Survey, 2003.

Children’s Marriage

Increased income of clients has empowered them on deciding the marriage of their daughters. During the field survey, it was also reported that client (women) were more active on their daughter’s marriage especially on spending on “*dowry*.” The clients were also in favour of late marriage of their daughters and gave emphasis on their education.

7.7 Implications

Regarding gender issues of access and control, women are the primary caretakers of livestock. But very few reported access to a control over the net sum earned from buffalo or pig-raising business. Note that the buffalo and pigs are high price cattle. In focus group discussions and household interviews, it was found that most women were actually unable to relate financial or social benefits from cattle-raising schemes. One interesting thing to note is that women from wealthier, relatively well-educated families tended to invest loan money in goat raising and selling them for profits. And money from such ventures is either tucked away as their “*pewa*” or invested in purchasing jewellery.

Change in gender equity is found in credit groups rather than in non-credit groups. Matured clients, who have crossed third/fourth loan cycles from Nirdhan, have more knowledge, self-confidence and have increased status in the family. In decision-making matters, they make any decision jointly e.g., in case of loan activities, sharing the household workload, sending their daughters to school along with male child. Note that the gender equity is found improved among the Janajati families sampled from credit-group. Overall spending patterns for men and women have changed. Girls from credit-group have more access to benefits from increased family income as compared to the girls of sampled non-credit families.

Joint decision making attitude is found largely in credit group rather than in non-credit group. This is the main reason that more than 73 percent of sampled clients have no role on household savings mobilisation (Table 6.27). Almost all the male heads were found as the account holder in a bank. Among ethnicity, Janajati and Dalits enjoy more decisive power and more freedom from male-domination in comparison to Brahmin/Chhetri/Thakuri. Particularly, power sharing was found less influenced among the *Madhise Brahmins*. The study also has proved that gender equity concept is different from the Western feminist interpretation. Women want to give loan money to their husbands to use in more productive activities. This way, they want to decrease gender-related tensions in the family. However, more than 64 percent respondents from the credit group told that they decide jointly regarding important household matters (Table 7.7). Cultural factor also is the main reason behind this.

CHAPTER 8

IMPACT OF MICROCREDIT

ON NATURAL RESOURCE MANAGEMENT

8.1 Background

Microfinance Institutions (MFIs) in Nepal do not have the schemes of providing credit directly for natural resource management (forest in this study) as such. Experiences also have proved that poor people generally demand credit for agricultural production rather than for forest resource management. Credit supplied by the MFIs goes first either to produce agricultural goods, or to purchase such goods for survival purpose. The field survey results also demonstrated that the poorest micro entrepreneurs demand credit for various other livelihood activities like storing wealth, meeting household expenses, and financing traditional events such as, weddings and funerals. Most of the MFIs in Nepal aim to provide financial services to poverty reduction through increased economic and social status among the credit recipients.

Hence, the present study assumed that the credit recipient groups could have more incentives in conserving resources and less inclined to forest depletion/extraction activities in government-managed forests through plantation in community forestry (CF), where they directly rely for livelihoods. Thus, savings and credit programmes could have positive impact on natural resource management (NRM). However, this chapter analyses the indirect impact of credit provided by Nirdhan Utthan Bank Ltd. (NUBL) on forest resource management and environmental conservation.

Studies have indicated that resource degradation, soil erosion, and pollution are the major environmental problems in Nepal, where degradation means loss of forest area and forests quality increasing grassland and shrub land (DOF, 2004). Existing poverty and lack of awareness in majority of people among many other reasons are the root causes of forest depletion and environmental problem. In addition, the situation has become worse by the ever-increasing pressure of population on limited land resources resulting in an increased deforestation. Forest is also an integral part of the agriculture system, especially in the hills and mountains, and the

growing demand for food has led to degradation of these vital natural resources (DOF, 2004). Forest, after water resources, is the second largest natural resources in Nepal, which is supposed to occupy important place for environmental preservation. Despite this fact, the percentage of coverage by forestland is declining in every decade. For example, more than 45 percent in 1960s, 43 percent in 1970s, 37.4 percent in 1980s, and in 1998 only 29.0 percent land is covered by forest. A survey undertaken in 1998 clearly demonstrates the depletion of forestland in terai and inner terai every year by 1.3 percent (HMG/N, 1998).

Therefore, expansion, development, and conservation of forests are essential to maintain ecological balance and supply adequate goods and services needed for the sustainable livelihoods. A livelihood has been defined as comprising “the capabilities, assets (including both material and social resources), and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets, both now and in the future, while not undermining the natural resources base” (DFID, [1999], cited in DOF, 2004, p. 172). The idea of sustainable livelihoods for the first time was spelled in the report of the United Nations Conference (1992) on World Commission on Environment and Development. This conference advocated for the achievement of sustainable livelihoods as a broad goal for poverty eradication focusing on the poor who live in the marginalised area. Moreover, sustainable livelihoods demand the policies to address development, sustainable resources management and poverty eradication simultaneously.

8.2 Use of Forests and Women’s Role

The natural high value areas including shrubs, grasses, and pastureland are defined as “forests” that provide multiple goods and services essential for peoples’ daily life like firewood, fodder, forage/pasture, timber, charcoal, coal, and many other non-timber forest products (NTFPs). Similarly, watershed protection, carbon sequestration, biodiversity, and environmental or ecological matters are the important services derived from the forests which are the main source of livelihoods to the people who are dependant on these resources. Thus, the benefits derived from the forests can be valued both from economic and environmental aspects. In Nepal’s context, forest has become a vital source of products to the household economy e.g., firewood which is the main source of cooking and heating energy and also the source of seasonal

employment (collecting and selling firewood) for the people living close to town or transportation facility where it is produced sufficiently. And the availability of firewood determines the consumption behaviour of households and workload of women (Cooke's study [1998], cited in DOF, 2004).

The Nepalese women, traditionally being an invisible workforce, are contributing a lot to uplift the socio-economic status of their families. Because of the gender differences that prevail in the Nepalese society as in many other developing countries, women are compelled to take more workload than men. They are also compelled to take roles in the forest products collection on top of other household responsibilities. Women mainly perform three type of tasks³⁰ a) survival tasks -- growing food crops, fetching water, gather fuel, and many other essential works to sustain family; b) household tasks like food preparation, cooking and child care; and c) income generation -- contributing sustainability to the family budget through activities like food processing, trading of agricultural products and the production of handicrafts. Especially, the first two tasks make women inactive in cash economy as men are.

Moreover, the Nepalese women are taking a greater proportion of the agricultural tasks because of the feminism in agriculture sector (section 7.2). They not only perform the physically demanding tasks but also work longer hours than men as a backbone of the family economy. In a study carried out in eight villages of Nepal on the basis of family time-allocation, has found rural women's contribution to the household economy as approximately eleven hours daily as compared to approximately eight hours for men (Molnar, 1987). But the basic contradiction is that women are not seen active in the cash economy as men, and are therefore, underrepresented in the national statistics on participation in the labour force (section 7.2).

At the same time, women's roles as users and preservers of forest areas are crucial to the success of any national level programmes aimed at forest conservation. Therefore, conservation and sustainable forests and NTFPs management would be possible only if these women were involved and made aware of the problems, and if some technological advancement in these sectors were provided. Besides this, sustainable forests and NTFP management depends on the

³⁰ Maya Devi Khanal "Women and Nature" Vol. 4, November 2000 Seminar in Pakistan, Himwanti Regional Committee, p. 5.

way it addresses social issues like social values, norms and behaviours (Poudyal's study [2004], cited in DOF, 2004). Positive discrimination in benefit sharing from the forest resource management programme needs for gender equity improvement. And a need of gender approach in forest resource management can be justified on the ground that women are the primary users and managers of these resources. They are also the immediate stakeholders of forest product scarcity in their community because the growing scarcity of fuel wood and other resources add women's working hours (WECS, 1995).

Women's role in the conservation, growth, and development of forests through co-operatives and NGOs was realised only since the Seventh Plan period (1985-1990). The Eighth Plan (1990-1995) also encouraged their participation and environmental conservation activities, as environmental damage and the shortage of forest products seriously affect women's lives (UNICEF, 1996). Poverty reduction has become the major concern at global level and is explicitly spelled out in the Millennium Development Goals (MDGs) of the United Nations (section 2.8). The MDGs have also been reflected in the strategic imperatives of Nepal's Tenth Plan (2002-2007). It has been realised that community forestry, among other programmes, has the potential to contribute in achieving the national goal of poverty reduction through sustainable forest management (SFM) and livelihood improvement of Community Forest Users' Group (CFUG) members (DOF, 2004). And maximum numbers of women than men are involved in community forestry programme though they are not equally consulted in decision-making parts within the programme. Hence, in a real sense, women's involvement in the decision-making role regarding income generation from the sale of timber is a major challenge of male-dominated society.

8.3 Use of NTFP

Human population pressure is increasingly converting forests to other uses as a source of income. This is called non-timber forest products (NTFPs), which provide sustainable alternatives to deforestation and cattle production. Amazonian region is an example of rich forest in NTFPs such as, Brazil nuts, palm thatch, fruits, bamboo, and medicinal plants. These plants need not to be cultivated but occur naturally in the forest. NTFPs are an important source of livelihood, cash income, medicine, food and fibre, and the plants could be the key resources for wildlife. Brazil nuts dominate the economy of the Southwest Amazon in South America and

provide virtually the only significant source of paid employment for women in the area (Web page: www.amazonconservation.org).

Guinea has largely an agricultural-based economy, where two-thirds of the economically active population was employed in informal activities and 62 percent of the GDP came from the informal economy. This sector was formulated and refocused with USAID/NRM activities with the expansion and encouragement of micro and small enterprise in the country. Microfinance institutions (MFIs) like USAID sponsored Poverty Reduction Project (PRIDE) and USAID/Guinea NRM Strategic Objective (NRMSO) both encouraged micro enterprise assistance in Sub-Saharan Africa and worked in Guinean government. They designed to assist small landholders to conserve the natural resource base by investing in more profitable and less destructive agricultural and natural resource management practices supporting for more than 10,000 resource-poor micro entrepreneurs, 70 percent being women (Web page: www.usaid.gov/gn/nrm). The major approach they adopted was to transfer appropriate practices to farmers, develop income-generating activities, and empower local populations to manage their resources. An economic valuation of the Sekong Forests in Lao People's Democratic Republic, undertaken jointly by IUCN and WWF, revealed that HHs derive up to US\$525 per year from forest products, where the average annual income is estimated at US\$120. The study "Bitter bamboo and sweet living" provides evidence that the economic benefits from natural forests are substantial, especially for poorer communities (IUCN, 2003).

In Nepal's context, it has become essential to integrate the livelihoods improvement and forest conservation programmes through sustainable production of available NTFPs e.g., mushrooms, strawberries, herbal teas, medicinal plants, and marketing them. Only production and no marketing linkage cannot improve the economic standard of the micro entrepreneurs. Marketing opportunities for these people should be generated connecting them with international markets to attract the microfinance clients in producing such products.

Forest resources in general and the NTFPs in particular, are considered as having immense potential for employment and income generation to the rural people of Nepal. These are the key

resources for the people living in all altitudinal ranges such as, high altitude,³¹ inaccessible mid hills, or in accessible hill and plain areas with varied patterns of utilisation of the products available. Livestock farming in shrubs and in pastureland and the medicinal plants (*jatamasis*, *yarsagumba*) are the examples of high altitude NTFPs contributing largely in the HH economy of the rural poor. Many nutritious foods like mushrooms, asparagus, and varieties of fruits, and other products are available in the forestland areas of the country. Among more than 7000 plant species, 2000 plants have medicinal properties, and over 1,463 species are used locally in Nepal (DOF, 2004). In recent years, role of NTFPs in livelihoods of rural population has increased significantly. This is evident from the fact that 470,000 HHs are involved in commercial collection of NTFPs and poor people's involvement is even higher (a study by Olsen, [1998], cited in DOF, 2004). The trade of medicinal plants is one of the major sources of revenue to the government as well as some cash income to the rural poor. The NTFPs contribute about 30 to 50 percent annual income in some of the hill areas of Nepal. About 10,000 to 50,000 tons of plant products of more than 100 species are exported to India annually (Edwards, 1996; Kanel 1999; DOF, 2004).

But the literature on NTFPs, report that the products are collected very haphazardly, threatening the sustainability of the resource and the collectors and the intermediary traders of the products have little concern about the management of the resource making depletion of the NTFPs. Government has spelled out policies for the promotion of and management of NTFPs in community, private, and national forests during Ninth and Tenth Plans, and formulated sectoral NTFP development policy, which is also associated with so called "special area development" administrated through Remote Area Development Committee (HMG/N, 1998; DOF, 2004). The Tenth Plan aims at managing NTFPs and major activities identified for this plan period are support for micro and small enterprise of important NTFP species, cultivation of important NTFPs, NTFP marketing, increase in employment and incomes, and participatory research (HMG/N, 2003). But all these policies and programmes are unfulfilled.

Many issues related to sustainable NTFP management have been identified. Poor knowledge regarding identification and uses of the NTFP products, haphazard collection, over

³¹ "High altitude" or mountain districts defined as upland areas located between 2,000-5,000 meter height combining the characteristics of inaccessibility (e.g., Jumla, Sankhuwasabha, Terathum, and Dolkha) and mid hills up to 200 meters height characterising mostly accessible (DOF 2004, p. 100).

harvesting, poor management, forest fires, and uncontrolled grazing resulted in the depletion of NTFP resources. Moreover, there is a lack of systematic NTFP assessment techniques and knowledge among the rural community (DOF, 2004).

8.4 Microfinance and Natural Resource Management

Joining group-based microcredit programme, the group members invest their series of loans in more profitable businesses and earn supplementary family income. Further, entrepreneurial spirit will be developed among the group members, which ultimately diverts them to off-forest and other activities for their livelihood. This way, microfinance has relationship with natural resource management (NRM) mainly forests. The term NRM refers to activities grouped within the natural resources sector; forest resource management means the use, management, and conservation of forests in sustainable and integrated manner, which is the concern of present study.

Microfinance can have effects on sustainable development and in particular on environmental resources and common pool resources in a community (CPRs) (Anderson et al., 2000). Because the group of women can manage the common resources (mainly forest/grass/fodder) to be used when needed. The credit programmes can also change the social and human capital of the communities in which they operate. In turn, a community's social capital is an important determinant of how CPRs are managed. By definition, the common property resources in contrast to other type of resources, is owned and controlled by a specified groups, like community forestry user's groups (CFUGs). Anderson et al. have summarised how credit recipient women can play important role in natural resource management as:

Firstly, “most lending programmes require that borrowers attend weekly meetings. These meetings provide a valuable venue for communicating and sharing information, and if successful, can build understanding and trust, strengthening associations among neighbours and families. In turn, this lowers the cost of collective action and hence the monitoring and enforcement costs of natural resource management. In the Western Forest Complex in Thailand, for example, group meetings are used to report on forest burning activity and coordinate village responses to support measures to reduce deforestation.”

Secondly, “microfinance organisations mobilise women. Microfinance meetings provide women, some of whom would otherwise be isolated in or near their homes, with an opportunity to share information on families, work, acceptable norms and customs, and to offer support for

one another. This association is particularly valuable for women, who, in many developing countries, have an important and unique relationship to environmental resources. Women are usually responsible for gathering fuel wood, non-timber forest products, and collecting water for their households. They often suffer most from the effects of deforestation and desertification, and consequently have a particular incentive to maintain or improve their local environment.”

Thirdly, “many microfinance organisations combine credit with education, including technical training on resource management. In some cases, this training includes techniques on successful collective action and group efforts to manage the commons” (Anderson et al., 2000).

Experiences of South American countries like Peru and Guinea in Africa have proved that women involved in credit programmes are engaged in off-forest activities like resource generation (production) through producing non-timber forest products. In Nepal’s case, different social groups within the CFUGs are using common property resources under the CPRs management system mainly being the community forestry programme. A study undertaken in two districts of terai, i.e. Nawalparasi and Rupandehi, the CFUGs have managed and used some key community resources like community forests, grass, thatches, and canal-side tree planting. The study also indicates that not only the poor households with some land but also the poor landless households are using those common resources as a part of their overall subsistence strategy (DOF, 2004). The field survey undertaken in Rupandehi district also found that the highest percentage of the respondents (only client groups) is involved in community forest protection/management activities in the study area (30 percent), and there was no much variation across the ethnicities (Table 8.4). These experiences prove that sustainable forest management and livelihoods are closely related matters. People try to manage forest if it can fulfil their needs; and forests can improve livelihoods only if it provides forest products through “sustainable management.”

The significance of “sustainability” concept in the community forest management lies on the basic principle that it is a process through which Government transfers the responsibility of managing the forests to the communities and recognises the latter’s right to use on sustainable basis. But in general, the sustainable development became a common theme as concerns grew over the increasing world population and increasingly polluted environment. The traditional

concept of SFM focused mainly on the conservation, utilisation, and production/regeneration of the forest resources. But the new focus for SFM has been shifted from pure production/utilisation towards ecological orientation and the revised concept of SFM focuses on many other services and non-material benefits e.g., ecological, social, and economic well-being.

Anyway, the SFM in Nepal's context is defined as "management and use of trees and forestland in such a way that biodiversity and productivity of the forests are maintained and peoples' requirements are met in terms of economic and social well-being without damaging the ecosystem." In other words, the sustainable forest management means to meet the current and future needs of consumption through stopping depletion and making efficient use of potential resources. Only sustained timber yielding is not the management of forest. But SFM needs to address other issues like environmental, social, and economic functions of the forests (FAO, [2000], cited in DOF, 2004, pp. 31, 32, 33).

Viewing the high level of poverty in Nepal, government has implemented participatory forest management scheme in the two programmes, viz. Community Forestry (CF) and Hills Leasehold Forestry Programme.³² The CF started in 1978 under the Community Forestry Act (1978) has been accorded the highest priority. However, these two programmes have affected rural livelihood in significant ways. There are currently over 13,000 Community Forestry Users Group (CFUGs) involving 1.4 million households (35 percent of total population) with responsibility to manage about 25 percent of Nepal's forest and shrub land. Similarly, 2100 leasehold groups comprise 15000 households to manage 9000 hectares of forests. And the thousands of women have officially been part of users groups and involved in resource management (DOF, 2004, pp. 1,199,208,209,356).

The Leasehold Forestry and Livestock Project (LFLP) had run by the Small Farmer Development Programme (SFDP) under the management and coordination of Livestock Forestry Division, Department of Forest. The programme is going to be implemented again in the second

³² The major programmes in Nepal run by the government and International non-government organisations (INGOs) for forest management and livelihoods improvement are:

- Community Forestry Programme (DOF)
- Livelihood and Forestry Programme (DFID)
- Nepal Australia Community Resource Management and Livelihood Project (Australian Govt.)
- Women Acting Together for Change (NGO)
- Hills Leasehold Forestry Programme (SFDP/DOF) Source: DOF, op. cit. p. 71).

phase (since the FY 062/63) as a support programme for savings and credit activities of the leasehold groups. Land will be leased to a cluster of 9 to 10 groups to manage and use for forage/fodder plantation for the goat production (LFLP Report, 2005).

8.5 Impact on Forest Resource Management

This section intends to explore the possibilities of microfinance (MF) on forest resource management on the basis of real needs of this group of people. Data derived from clients and non-clients' survey undertaken have disseminated quantitative impact.

Rural communities live in close proximity of community forest (CF) mostly relying on the firewood, and grass/fodder for livelihood. There are many other components of forest resource management, and which are most important for day-to-day livelihood purpose of the people. But for study purpose, only two components, i.e. firewood and grass/fodder are taken into consideration. Accordingly, the table 8.1 summarises changes in dependency on these forest products among credit groups. Percentage of dependant households on forest for firewood and grass/fodder has decreased by 13.1 percent and 3.1 percent respectively after the programme intervention. This is mainly because of their changed occupation after involvement in the credit programme (Table 8.1).

Table 8.1
Clients' Need Fulfilment from the Forest

Ethnicity	Firewood						Grass/Fodder					
	Before		After		Change		Before		After		Change	
Brahmin/Chhertri/Thakuri	33	(75.0)	26	(59.1)	-7	(-15.9)	8	(18.2)	7	(15.9)	-1	(-2.3)
Janajati	66	(94.3)	56	(80.0)	-10	(-14.3)	22	(31.4)	19	(27.1)	-3	(-4.3)
Dalit	15	(93.8)	15	(93.8)			3	(18.8)	3	(18.8)		
Total/ Overall	114	(87.7)	97	(74.6)	-17	(-13.1)	33	(25.4)	29	(22.3)	-4	(-3.1)

Source: Field Survey, 2003.

Table 8.2 shows data on dependency of non-clients on forest. Overwhelming majority of non-credit households depend on forest for firewood, which is slightly lower than that of credit group before they joined the group. Eight in ten households from all caste/ethnic groups depend on forest for firewood. The dependency is highest among Janajati followed by Brahmin/Chhetri/Thakuri and Dalit.

Table 8.2
Non-clients' Need Fulfilment from the Forest

Ethnicity	Firewood		None		Total Respondents	
Brahmin/Chhertri/Thakuri	8	(80.0)	2	(20.0)	10	(100.0)
Janajati	23	(88.5)	3	(11.5)	26	(100.0)
Dalit	27	(79.4)	7	(20.6)	34	(100.0)
Total/ Overall	58	(82.9)	12	(17.1)	70	(100.0)

Source: Field Survey, 2003.

Types of Forests Used

Table 8.3 summarises the types of forests used for firewood and grass/fodder for both client and non-client groups. It is clear that non-clients depend solely on government forest for firewood and grass/fodder while a remarkable percentage of clients had adopted alternative measures like community forest and private forest. Among credit group and across caste/ethnicity, Dalits depend more on government forest than two other castes/ethnicities for daily needs. Among the households, fulfilling their needs from community forest, the highest percentage is found among Janajati followed by Brahmin/Chhetri/Thakuri and Dalit. The survey data also show that still the majority of clients' households depend on government forest for firewood and grass/fodder. Slightly less than one-thirds depends on community forest for these products, while negligible households among client groups have private forest to supply these products (Table 8.3).

Table 8.3
Types of Forests Used both by Clients and Non-clients

Ethnicity	Government Forest		Private Forest		Community Forest		Total Users
Clients							
Brahmin/Chhertri/Thakuri	20	(58.8)	1	(2.3)	13	(29.5)	34
Janajati	41	(58.6)	4	(5.7)	25	(35.7)	70
Dalit	13	(86.7)	1	(6.3)	1	(6.3)	15
Total/ Overall	74	(62.2)	6	(4.6)	39	(30.0)	119
Non-clients							
Brahmin/Chhertri/Thakuri	8	(100.0)					8
Janajati	23	(100.0)					23
Dalit	27	(100.0)					27
Total/ Overall	58	(100.0)					58

Source: Field Survey, 2003.

Participation in Forest Protection/Management

Majority of the respondents were found involved in forest protection/management activities after they joined the credit programme with main attraction on community forest. Currently, about half of the respondents are involved in forest protection/management activities while it was very low (about one fifth) before. There has been a net increase of 27.7 percent households involved in protection/management of forest caused mainly by increase in community forest (Table 8.4).

Table 8.4
Clients Involved in Forest Protection/management

Forest Protection/Management Activities	Before		After		Change	
Private <i>Pakho</i> land converted to private forest	13	(10.0)	9	(6.9)	4	(-3.1)
Community forest	-		39	(30.0)	39	(30.0)
Plantation of trees in government land	2	(1.5)	2	(1.5)		
Established nursery, plantation of fodder trees	3	(2.3)	8	(6.2)	5	(3.8)
Involved in forest guarding	6	(4.6)	2	(1.5)	4	(-3.1)
Other	1	(0.8)	1	(0.8)		
Total/Overall	25	(19.2)	61	(46.9)	36	(27.7)

Source: Field Survey, 2003.

Eighty-seven percent sampled non-client women reported no future planning for using alternative sources of energy. Very few non-client respondents reported future plan to use alternative sources of energy like kerosene and biogas. It is the highest between Brahmin/Chhetri/Thakuri and least among the Janajati (Table 8.5).

Table 8.5
Non-clients' Future Plan for Using Alternative Sources of Energy

Ethnicity	Not Planning for Alternative Sources of Energy		Planning for Alternative Sources of Energy		Total Respondents	
Brahmin/Chhetri/Thakuri	5	(50.0)	5	(50.0)	10	(100.0)
Janajati	25	(96.2)	1	(3.8)	26	(100.0)
Dalit	31	(91.2)	3	(8.8)	34	(100.0)
Total/ Overall	61	(87.1)	9	(12.9)	70	(100.0)

Source: Field Survey, 2003.

Use of Alternate Sources of Energy

Table 8.6 shows that after joining the credit programme, many respondents started using

other sources of energy like biogas, kerosene instead of firewood. Overall, the percentage of respondents, who started using alternate sources of energy, was 23.8 percent. Across ethnicity, Janajati changed much more as compared to other castes.

Table 8.6
Clients Using Alternative Sources of Energy

Ethnicity	Yes		No		Total Responses	
	Count	Percentage	Count	Percentage	Count	Percentage
Brahmin/Chhetri/Thakuri	5	(11.4)	39	(88.6)	44	(100.0)
Janajati	18	(25.7)	52	(74.3)	70	(100.0)
Dalit	8	(50.0)	8	(50.0)	16	(100.0)
Total/ Overall	31	(23.8)	99	(76.2)	130	(100.0)

Source: Field Survey, 2003.

After joining the credit programme, many respondents started using other sources of energy like biogas, kerosene instead of firewood. Among those who changed energy type, 32 additional houses are using kerosene. But before, only ten households were using kerosene as source of alternative household energy that is not based on forest. Similarly, 10 households are using biogas and 13 households are using improved stove at present (Table 8.7). They told that they have changed the energy type and started using kerosene for cooking purpose because of time shortage due to their business/income-generating scheme.

Table 8.7
Change in HH Energy Type by Clients

Energy Type	Before		After		Change	
	Count	Percentage	Count	Percentage	Count	Percentage
Biogas	-		10	(7.7)	10	(7.7)
Improved Stove	-		13	(10.0)	13	(10.0)
Kerosene	10	(7.7)	42	(32.3)	-2	(-1.6)
Total/ Overall	10	(7.7)	34	(23.8)	21	(16.1)

Source: Field Survey, 2003.

Membership of CBO/NGO

Table 8.8 shows that more than half (52.3 percent) women have joined some type of community based organisations (CBO)/non-government organisations (NGO). It is the highest among Brahmin/Chhetri/Thakuri (61.4 percent) followed by Janajati (52.9 percent) and Dalit (25.0 percent).

Table 8.8
Membership of CBO/NGO after Borrowing by Ethnicity

Ethnicity	Yes		No		HH Reporting
Brahmin/Chhertri/Thakuri	27	(61.4)	17	(38.6)	44
Janajati	37	(52.9)	33	(47.1)	70
Dalit	4	(25.0)	12	(75.0)	16
Total/ Overall	68	(52.3)	62	(47.7)	130

Source: Field Survey, 2003.

8.6 Implications

Nepal is a rich country in terms of forest resources. But adequate policies have not yet been formulated in national or local government level. The most commonly used forest products in the study area are firewood and grass/fodder. Credit groups use both of the products, whereas non-credit groups use only firewood. Household survey, group discussions, and the observation of the researcher revealed that increased income from women-initiated businesses encourage housewives to use relatively healthier sources of household energy like smokeless stove, biogas, gas stove, and kerosene that ultimately reduces the dependency on forest for household energy because it largely contributes in the improvement in the health of client's family. But there was no practice of NTFP cultivation in the study area. The use of forest products was for subsistence purpose. The users' current ultimate goal is to meet the daily subsistence need. But the client group are much more aware about forest management, and if given technical guidance and some financial support to protect/manage, and promote commercial NTFP cultivation women can contribute much more than men do.

Therefore, it can be concluded that the percentage of dependant households on forest for firewood and grass/fodder has decreased and main reason for this is the change in occupation by the clients after involving in the credit programme. But still, majority of the clients' households depend on government forest for firewood and grass/fodder. Slightly less than one-thirds depends on community forestry for these products, while a negligible number of households have private forests to supply these products. The most commonly used forest products in the study area are firewood and grass/fodder. Credit groups use both of the products, whereas non-credit groups use only firewood.

CHAPTER 9

KEY ISSUES IN MICROFINANCE SECTOR

9.1 Background

These days, Human Empowerment Index (HEI) rather than Human Development Index (HDI) is considered a more powerful index for poverty alleviation. It comprises economic, social, and political empowerment of which, economic empowerment is the lowest one in Nepal. This again reflects low level of income, limited access to productive resources, and lack of employment opportunities for the people (MOF, 2004). Viewing this situation, government has focused on poverty reduction through self-employment generation, and expansion of microfinance (MF) considering it as an important tool for employment generation.

Strengths of Microfinance

Thus, the strength of MF as a big market has been realised on the ground that it provides a wide range of MF services for the poor determining them as “credit worthy”. Microfinance assists these people in many ways as it (a) provides access to financial services, (b) provides a means to accelerate asset accumulation, (c) facilitates activities to earn a livelihood, (d) increases the economic security of the household, and (e) generates social capital improving dignity and sense of empowerment among the clients. Impact study from the field has proved that MF has provided a range of household welfare services such as, nutrition and health, children’s education and better livelihood facility. The improved livelihood has further helped directly or indirectly in conserving and managing the forest resources through using of/or planning for future in using alternative sources of household energy. Besides, it has empowered women by increasing their contribution to asset accumulation through increased decision-making power that has positively affected their lives. This way, the MFIs are moving towards socially oriented financial institutions as they were created not to be profit-earners but rather to reach the clients, who were not being well-served by the commercial banking system (IMF, 2004).

9.2 Existing Policies

The commercial banks (CBs) by nature are not able to provide adequate financial services to large numbers of the poor particularly to the very poor section of the society. In this context, government's policy has focused on the promotion of regional rural development banks (RRDBs) located in the targeted regions. Majority shares of these banks under government ownership has created excessive government intervention and increased politicisation. So, a five-year structural reform programme (2001) has been initiated with the objective of improving financial position of these banks. Necessary reforms undertaken as compensation with fund for insufficient resources, implementation of sound regulating mechanism, and privatisation of Grameen Bikas Banks (GBBs) in phase-wise process, are some positive steps taken in the Tenth Plan period. Thus, reduction of government's ownership in financial institution with the initiation of corporate governance is the major area of current reform policy. Accordingly, Western GBB, Butawal has already sold 51 percent share out of NRB-owned (61 percent) share to private sector in June 2003 (37 percent to GBB clients, five percent to staff, and remaining share to institutions). Ten percent share remains with NRB in the same level as HMG/N holds. Similarly, out of NRB-owned (66.8 percent) share of Eastern GBB, 56.8 percent share has been sold to its clients, institutions, and to the public.

Establishment of National Cooperative Bank Ltd. (NCBL) under the Cooperative Act 1992 is another important step in government's policy for poverty alleviation. The Tenth Plan has some other institutional development and strengthening support to MFIs focusing on: (a) promotion of savings and credit organisations (SCCOs) as locally operating mechanism for MF delivery, (b) establishment of some additional apex MFIs like SKBB and RSRF, (c) creation of Poverty Alleviation Fund (PAF) to support NGOs to carry out social mobilisation, and (d) phasing out of priority sector programme.

The PAF, created since 1999/2000, is the government's long-term vision to develop an integrated poverty-focused programme through ensuring flow of resources for income generation and social empowerment. It is legally supported by a separate Act known as Poverty Alleviation Fund Operation and Working Ordinance 2060 B.S. (2003). A sum of Rs. 508.1 million is set-aside for the PAF from the budget of F/Y 2005/06. This year's public statement on income and

expenditure clearly states that “Intensive social mobilisation and enabling programmes focused and targeted at poor communities for their income generation, will be carried out through the Poverty Alleviation Fund in 25 districts lagging behind in the Human Development Index” (MOF/N, 2005, p. 8). The PAF with reference to microfinance can play an important role in financing the MFIs facing the problem of operating deficits/capital constraints. In fact, PAF is the best practice of social fund development for poverty-focused programmes. But the PAF is not gaining success in carrying out the social intermediary function as expected. On a pilot basis, it has selected six districts for its preliminary operations.³³ It should be fully autonomous and transparent institution with limited government representation in the Board of Directors. On the contrary, it is functioning under the control of the Ministry of Finance without clear-cut objectives. Without full autonomy and transparency, the PAF also will become crippled as did other government-managed financial institutions.

Poverty monitoring and analysis is the most essential component of government’s policy. Accordingly, the next Nepal Living Standard Survey (2003-04) is recently completed by the CBS and the Report has been published (section 4.5). Conversion of Rural Self-reliance Fund (RSRF) into an apex MFI to provide financial assistance to registered³⁴ SCCs and NGOs; establishment of Sana Kisan Bikas Banks (2001) under GTZ’s initiatives to extend wholesale loans to the member-SCCs are some other promotional activities undertaken for the promotion of microfinance sector. With this step, the total number of apex MFIs in Nepal has reached to three including RMDC.

Three important Acts to regulate MFIs, namely Cooperative Act 1992 (2048 B.S.), Financial Intermediary Act and Development Bank Act 1996 (2052 B.S.) and Financial Intermediary Act 1998 (2055 B.S.) have already been enacted, which largely influence the structure, conduct and performance of MFIs in the Nepalese MF sector. On the legislative front, the Cooperative Act is a welcome change that replaced the previous system of government-controlled cooperatives with provisions for member-owned cooperative organisations. Under these legal and regulatory frameworks, there are two broader legal options for MF promoters to

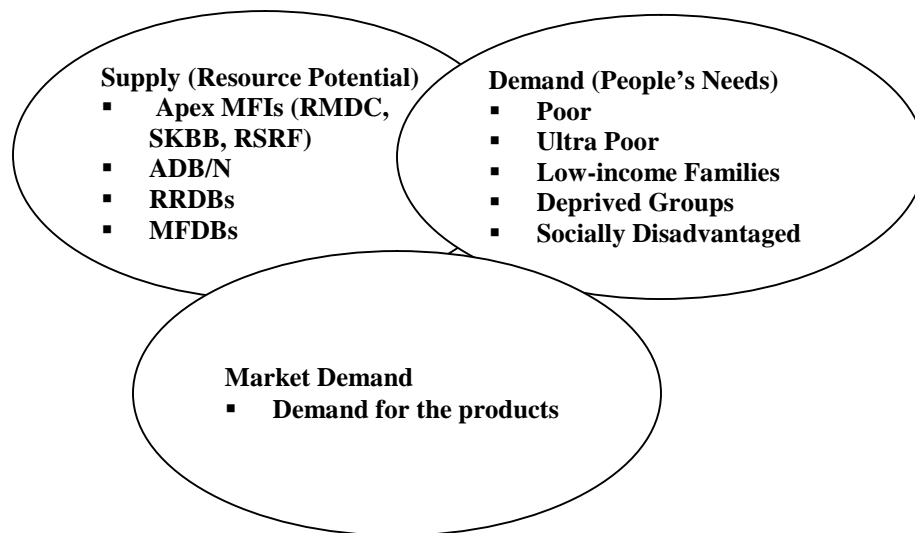
³³ Six districts are Darchula, Pyuthan, Kapilbastu, Mugu, Ramechhap, and Siraha (Source: MOF 2004 p. 108).

³⁴ In case of SCCs they need to be registered as a cooperative society under the Cooperative Act (1992) and for NGOs need to be registered by the District Administrative Office under the Society Registration Act, 1978, and licensed by NRB under the Financial Intermediary Societies Act, 1998.

develop or facilitate the emergence of MFIs: (a) community based organisation including either SCCs under Cooperative Act or NGOs established under Society Registration Act (1978) and obtaining license to work as financial intermediary (FINGOs) under Financial Intermediary Act; or (b) capital based organisation includes development financial institutions established under Development Bank Act.

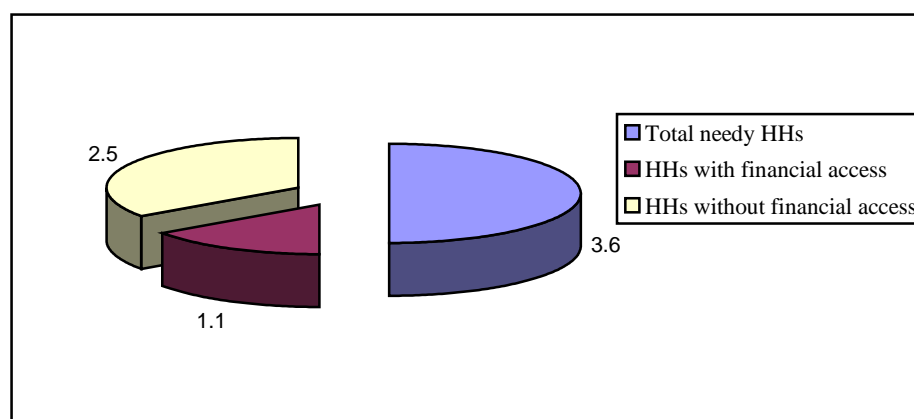
Thus, in the Nepalese context, the recognised MFIs are : (a) MF development bank, (b) GBBs, (c) Savings and credit cooperatives (over 2000), (d) small farmer’s cooperative Ltd. and, (e) financial intermediary NGOs regulated under these legal frameworks. Microfinance market in Nepal seems well balanced among the cooperatives, private and government-owned GBBs, and government supported MF programmes with appropriate legislations, high level MF practitioners and donors and ample supply of resources and large demand for MF (Table 5.9). Government has also moved towards playing facilitating role particularly after the 1990s with a number of promising approaches to sustainable financial service delivery to rural poor women and men. The supply and demand situation in the MF market also is wide as shown in Figure 9.1.

**Figure 9.1
Potential Supply and Demand for MF Market**



Despite all these situations, outreach to rural poor is still very low. Outreach is still around 700 thousand (Table 5.9) against a demand of 2000 thousand. In this context, more than 1300 thousand poor households are yet to be covered. Moreover, quality is the other area of concern. About 44 percent outreach of MF access to the estimated poor (38 percent) is calculated (Table 5.10) and it is based on the assumption that the MFIs' borrowers had not misused the loan amount. If the margin of loan utilisation increases, the percentage of outreach goes on declining. Further, this calculation is intensively based on programme expansion in terai region excluding the hills and mountain regions. In the same way, the formal public and private sector financial institutions of Nepal have been able to provide only 6.5 percent access to poor households (World Bank, 2002). The total figure of clients/members reached with financial services (including ADB/N, NBL, and RBB) arrives at around 1.1 million as against the estimated demand of 3.6 million households in rural Nepal for financial services (Figure 9.1) (Dhakal et al., 2004).

Figure 9.2
Outreach of Microfinance Service against the
Estimated Demand (HH in million)



Poverty in Nepal varies largely in between rural and urban areas. It also varies in different ecological zones: terai (42 percent), central hill (41 percent) and mountain (56 percent) (according to Nepal Living Standards Survey [NLSS], 1996). Thus, poverty incidence in first two zones is similar to the national average, where it is much higher in the latter region (HMG/N/N, 2003). In the same way, Human Development Index

(HDI)³⁵ value also differs significantly in these regions. The (HDI) value in the mountains is far below (0.386) than in the hills (0.512) and terai (0.478), whereas the national average is 0.471 (NHD, 2004). These figures are based on the 2001 census data. On the contrary, the coverage of poverty focused microcredit programmes in these high poverty incidence areas is very low. For example, the coverage of MFIs (including five GBBs, MFDBs, SCCOs and FINGOs) in the accessible hills is 36.09 percent, whereas it is 10.6 percent in the inaccessible hill and mountain region as against the 50 percent coverage in the terai area (Table 5.10). If the coverage of SCCs is excluded from the estimation, then the outreach of MFIs (including GBBs, MFDBs, and FINGOs) in hill and mountain is around 34 and one percent respectively as against the 84 percent MFIs concentration in the plain area (Table 9.1).

Table 9.1
Ecological Distribution of GBB/GBR/FINGO

Microfinance Institutions (MFIs)	Programme Expansion				
	Hill	Mountain	Terai	Valley	Total Districts
1. Five GBBs*	17 (22.67)	-	25 (33.33)	1 (1.33)	43/75
2. MFDBs**	5 (6.67)	-	29 (38.67)	-	34/75
3. FINGOs (44) Licensed by NRB	4 (5.33)	1 (1.33)	9 (12.00)	3 (4.00)	17/75
Total	26 (34.67)	1 (1.33)	63 (84)	4 (5.33)	94@

Figures in the parenthesis indicate the percentage.

@ More than one MFI can be implemented in one district, the total number of districts can exceed to 75.

* Annual Reports of each GBBs (2059/60), NRB MF Department, Progress Report of GBRs (mid July 2004).

** Annual Reports of each MFDBs (2059/60).

**** NRB, Banking and Financial Statistics # 42, mid-January 2004.

9.3 Issues in the Microfinance Sector

Although MF is a relatively new intervention in Nepal after 1990, it is increasingly moving towards maturity. However, there are several issues affecting this sector to reach at its perfection. New issues are also emerging in this industry, which need to be addressed through combined and collaborative efforts of concerned authorities--government, MFIs, and other stakeholders. Some particular programme and policy-related issues identified are discussed in this section.

³⁵ Human Development Index (HDI) as compiled by UNDP can be measured by life expectancy, adult literacy rate and combined enrolment ratio, and decent standard of living measured by the adjusted per capita income of a particular country (ADB/M, 2003, p. 407).

(a) Issues within the Programme

Internal Problems

i. Loan products

The MFIs in Nepal have not been able to expand the scope of their market in order to make themselves more flexible and to provide services that are appropriate for a range of clients including the poor, very poor, and the poorest of the poor.

ii. Design and delivery

Exclusion of the poorest group from MF services is still a challenge for most of the MFIs. Field experiences also show that majority of respondents from credit group were only poor and very poor as shown by asset ownership since all clients have some land (Table 6.10). But the “poorest” women (homeless or other who are residing on government land) were not involved in credit programme. Similarly, majority of the poorest women sampled from non-credit group reported that they were not informed about the credit programmes. Others reported that they do not have skills to run business with the loan money and do not have time also. They give value for important domestic tasks as well as other remunerative activities like day labouring.

iii. Lack of institutional capacity building and operating funds deficit

There is no scarcity of MF institutions, but most of them are very small and are facing the operating fund deficits (capital constraints) rather than on-lending funds to scale up their services to the very poor and the poorest families. Here capital is referred to all sources of financing available. In this regard back financing from the donors is also needed for rapid expansion of the MFIs even after the capacity is built once. The global figure regarding MFIs’ capacity building as reported to Summit Campaign (2002) also reveals that hardly more than 10 percent of all the MFIs are able to build institutional capacity and remaining institutions are very small, serving less than 2500 clients each year (Gibbons, et al., 2002). In Nepal’s case also, though actual figure is not available to this date, it is realised that the rapidly growing MFIs have not been able to build their necessary capacity and to scale up their outreach to large numbers of poor people due to the lack of “core capital.”

iv. Lack of institutional linkages

Lack of institutional linkages (both vertical and horizontal linkages) has created the problems of financial constraints and also created the problem of programme duplications. Vertical linkages with apex institutions and other formal sector financial institutions for adequate fund/resources and horizontal linkages with other institutions, e.g., government line agencies, DDC, Cottage Industry Office, District Agriculture Office, SCCs, FINGOs are essential in order to work in coordination and to strengthen the institutions. Linkages with UNDP supported projects such as Participatory District Development Programme (PDDP) or Rural-Urban Partnership Project (RUPP) can avoid programme duplications. Similarly, marketing linkages with private sector and linkages with technical agencies for various types of technical support to the clients could be more important for institutional strengthening.

v. Lack of access to credit plus interventions

Credit plus interventions such as literacy (legal literacy, basic literacy or business literacy), skill training, and enterprise supports have not been provided to the clients though the compulsory group training provision to the participants makes them literate at least to sign their name (more than 74 percent are literate). This is the regular process of credit delivery mechanism in Grameen system.

vi. Lack of enterprise-based MF programmes

To achieve the goal of poverty reduction of low-income families through increased employment, the MFIs need to encourage enterprise-based undertakings/businesses that incorporate risk of initiation, operation, and management. And such undertakings based on agriculture, agro-forestry, or NTFP products could be more sustainable because these enterprises use locally available raw materials. It is also essential to encourage the clients to run such enterprises, which they are familiar with and have skills in, or indigenous skills need to be encouraged.

vii. Lack of business approach

Most of the MFIs in Nepal are lacking business approach. MF should be perceived as a business approach rather than welfare approach to make its service more effective for poverty

alleviation through increased commercial orientation.

viii. *Lack of poverty mapping in the area or VDC*

Total poverty mapping in the area or VDC to identify the intensity of poverty at household level is lacking. Most of the MFIs conduct a rapid survey in a settlement to identify the target population, where the real poor remain excluded.

ix. *Lack of monitoring of loan-related activities*

Monitoring of the micro enterprises (not full but surface monitoring) is essential to prevent loan from being misused and prevent from business failure. It results in lessening the high dropouts percentage (the dropouts rate is 17.0 percent in Nirdhan programme), which is mainly caused by low yielding from the investment.

External Problems

i. *Political interference*

Political interference is a dangerous hurdle for MF sector. The failure of government-managed and government involved MF programmes in Nepal are the consequences of too much politicisation in the financial institutions. Poverty-focused institutions should be kept far away from political influence as it kills the motivation of staff in an organisation. This has been proved by almost of the government-managed and government-involved MF programmes in Nepal.

ii. *Excessive unionisation in government-managed MFIs*

The Employee's Unions established under the Trade Union Act 1992 have been making unnecessary interference on the smooth functioning of the formal financial sector including larger MF rural development banks. Therefore, initiation should be taken to avoid such unionisation, and the related clauses of the Act should make applicable only to the workers of industrial establishments.

iii. *Continued political instability*

Political situation with more than half a dozen governments in last 10 years has become the major constraints in the expansion of MF activities in Nepal.

iv. *Conflict environment*

Working on conflict situation resulted due to the Maoist insurgency is one of the major challenges for MFIs at the moment. There is a risk of continuing and expanding programme activities at local level. Such situation particularly appeared since the declaration of People's War by the Maoists in 1996. But it is notable that the pro-poor financial service providers like SCCs/SCOs are not the target corner of the Maoist. The anti-poor, government mandated MFIs like SFDP and SFCL (This programme also is inherited from the subsidised government SFDP programme) have been affected apparently.

(b) Issues within the Policies

i. Lack of inclusive MF model for different economic settings -- accessible and inaccessible areas and for different geographical regions -- hill and mountains

Though the number of MFIs such as RRDBs, MFDBs, FINGOs and SCCs operating under legal and regulatory framework has increased during the last ten years period, these institutions are mostly concentrated in terai and accessible hill and valley areas (Table 5.11). The Grameen model has gained success in terai region in achieving considerable outreach although the government-owned GBBs have not proven to be sustainable. It has been realised that the hill and mountain regions require a different kind of delivery model.

ii. Shortcomings in the policy and regulatory framework for MF

Government's directions, plans, and commitment towards poverty alleviation goals through MF expansion in all regions by financial institutions and private bodies are not reflected in its policies. Despite the fact that Nepal has adopted the policy of increased capitalisation for the development banks, permitting NGOs to register as financial intermediaries and provide limited-banking licenses to cooperatives approved by the central bank, many imperfections remain in the legislations.

iii. Inadequate social fund mobilisation

Investment in social intermediation, capacity building of financial intermediaries, and business support services from the PAF and RMDC is inadequate.

iv. Lack of regulation and supervision of increasing number of MFIs

Issues in relation to regulating, supervising, and monitoring of large numbers of MFIs and

donor-funded programmes under a single umbrella-management and a policy to enable them to grow with financial self-sufficiency have been realised greatly.

v. *Lack of coordination among various government agencies working in credit plus activities*

Funds have been overwhelmingly allocated by the government in broad-based national level programmes as education, agriculture or health, which all are for poor people. Issues are also prominent in relation to coordination among various programmes and schemes for entrepreneurship development. The national programmes targeted for men, women, youth and disadvantaged groups regarding entrepreneurship development, have not been implemented effectively though these schemes were formulated since the early years of the Eighth Plan.

viii. *Inadequate performances of apex institutions*

Rural MF Development Centre (RMDC) has not been able to perform its activities as expected. Although it has large government-secured loan for refinance of these intermediaries, its performance since last five years has indicated that it could not utilise the loan money. Within five-year period it could hardly utilise 15 percent of the fund (RMDC, 2002). Further, its service to those institutions of outstations and of remote areas has been proved as beyond their access because of high transaction costs as its office is located in Kathmandu valley.

ix. *Government intervention in MF sector lacks vision*

Programmes like “Bisheswor with the poor”, Mahila Jagriti Programme” that government brought haphazardly in the recent years, have no sense. And these highly subsidised and limited outreach schemes have further damaged the MF market in the country. Such programmes have brought distortion in the field of microfinance.

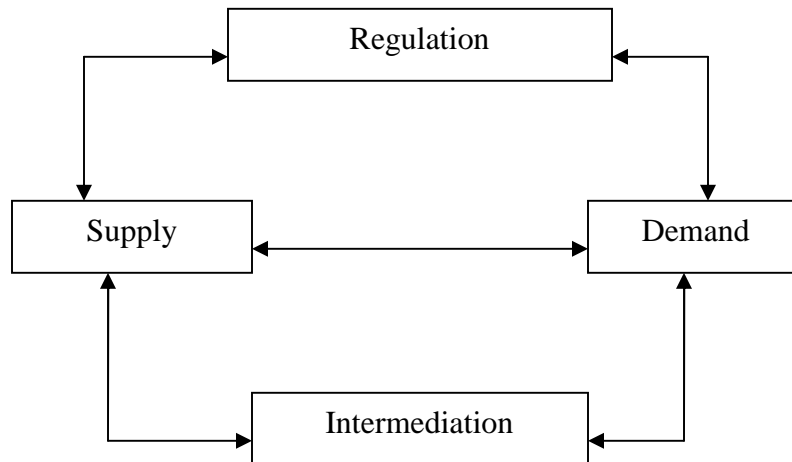
x. *Infancy stage of cooperative sector*

Considerable number of primary and multipurpose cooperative societies like Savings and Credit Cooperatives (SCCs) are growing extensively. Lack of adequate legal provision and more unstable political environments are the main hurdles to expand MF access to large numbers of needy people in rural areas through cooperatives. Political slogans like “Cooperatives in every village and employment in every family” also have no sense as the political leaders want to link cooperative movement into the mainstream politics. Cooperative credit societies also lack

operating capital (fund).

xi. Lack of linkages with mainstream financial institutions

Large numbers of growing financial intermediaries lack linkages with mainstream financial institutions. Intermediation is one of the four essential bases of MF system as shown in Figure 9.2 where, FINGO/CBO/SCC could be the intermediary institutions.



xii. Lack of active microfinance networking

MF networking is essential for the overall growth of this sector (information system, staff motivation, access to resources, and increase loan absorbing capacity of the clients). Three MF-related networks exist in Nepal, viz. Grameen Network Nepal (GNN), Microfinance Association of Nepal (MIFAN), Nepalese Federation of Saving and Credit Union (NEFSCUN). But these networks are not actively functioning to influence the government policies regarding the growth of microfinance sector. Among these networks, the GNN is not actively functioning.

Policy Reforms

The weaknesses identified above have made MF sector as a limited-outreach business indicating that this sector has not yet reached to its maturity though it has crossed more than three decades of its practice. However, it is accepted and also proved that “microfinance is a way out of poverty for those who are ready to participate.” But one of the challenges faced by MF sector is that those in extreme poverty are not yet ready to participate in the programme because of many reasons. Therefore, while formulating MF policies for poverty alleviation, it is essential to identify the issues at different levels and need to address those issues seriously. Levels of issues/findings and conclusions derived from the overall research and the required policy reforms are provided in the matrix below.

Policy Reforms

A	B	C
Levels	Issues/Findings	Conclusions/Recommendations
1. Client Related	<ul style="list-style-type: none"> • Lack of education • Less experience in marketing of their products • Lack of entrepreneurship skill • Loan fungibles • Clients' levelling off or stagnated 	<ul style="list-style-type: none"> • Social mobilisation • Mobilise the market groups/agents under the cooperative system to collect the clients' products and supply them in the market. • Award with graduation certificate to the clients for good business performances • Skill development training for specific enterprises • Invest in creating better economic opportunities
2. Institution Related	<ul style="list-style-type: none"> • Lack of coordination among MFIs and credit plus activities • Products services, design & delivery • Lack of research on impact evaluation • Natural resource management • Lack of core capital to meet operating cost/capacity building of the MFIs • Lack of commercial orientation of MFIs • Interest rate issues 	<ul style="list-style-type: none"> • Horizontal linkages • Design, develop products and services to better serve all types of poor • Along with operational and financial self- sufficiency, impact evaluation is a concern for MFIs • Encourage clients to run agro-forestry-based and NTFP-based enterprises • Back finance from the leading support service providers, donors, and social investors and coordination of MFIs with other apex MFIs is needed. • Commercial operating, international accounting, and auditing from mainstream auditing firms, and ratings from commercial rating agencies are essential. • Optimum interest rate should be charged.
3. MF Sector	<ul style="list-style-type: none"> • Low outreach in the remote hills and mountains • Lack of MF networking among practitioners • Sustainability • Conflict environment • Inefficient state-owned MFIs • Lack of competitive apex MFIs to supply capital at below market rate of interest 	<ul style="list-style-type: none"> • Appropriate model that cuts down service delivery costs • Government's persuasion in a better way through a unified and organised networks • Pricing at sustainable level, productivity, investment, cost control, appropriate tax policy to make MFIs profitable • Develop member-owned and member-managed institutions • Consider MFIs as a part of mainstream financial system and supervise them as seriously as commercial banks • Number of apex MFIs should be increased
4. Govt's Role	<ul style="list-style-type: none"> • National microfinance policy • Regulation and supervision • Government intervention • Lack of basic infrastructures in rural areas 	<ul style="list-style-type: none"> • Formulate policy • Regulating body formulation • Reducing government intervention • Develop basic infrastructures
5. Donors' Role	<ul style="list-style-type: none"> • Lack of capacity building of the MFIs because of capital constraints • Limited role of NGOs • Lack of fund for apex MFIs • Lack of donors' commitment towards encouraging small MFIs for more client-responsiveness and innovations in the apex MFIs as regards for operational norms and standard of the organisation 	<ul style="list-style-type: none"> • Strengthen poverty-focused MFIs to improve their capacity for financial intermediation • Provide high level assistance (long term soft loan) at national level under government collaboration • Assist the local NGOs to increase their scale of operation on a sustainable basis thus playing the role of back financing • MFIs networks need to link with large international consortium/multi-functional donors for financial and technical services for their institutional capacity building • Make MF more quality oriented rather than quantity oriented

9.4 Appropriate Model

Microfinance model adopted worldwide can be grouped into group-based (Grameen type) and community-based (cooperative, credit union, CBOs, SCCs, or the village banking) model. Because of some differences in service delivery mechanism, the operating cost also differs between these modalities. Grameen, one of the most successful models discussed around the world, performs weekly or fortnightly transactions for the sake of clients' benefit making low repayment instalment. It is centrally managed. In community-based (member-based) model, monthly transaction is possible and it is controlled and managed by the members themselves. Because of such differences, the delivery cost differs upon which the viability of the programme depends.

A comparative cost estimation made in Bangladesh shows that the cooperative model can operate with overheads of between two to three percent, while the highly centralised Grameen model requires overheads of around 30 percent (World Bank, 2002a). Despite such cost differences, it has successfully served the rural poor in Bangladesh. Similarly, the government-managed GBB in Nepal, operating in the more densely settled and accessible terai region could not be financially viable. But they served to provide more than Rs. eight Arab microloan to more than 152,000 poor clients with high repayment rate by mid-July 2003 (Appendix D). Thus, the Grameen modality itself is not bad. But the problems with these GBBs are associated with management such as overstaffing, excess political influences, and reluctance of RMDC to lend or refinance to the GBBs (except one, i.e. WGBB), corrupt mentality of the executive chairperson represented from the central bank (NRB), and lack of monitoring and evaluation capacity of the central bank. These factors led GBBs into the large accumulated capital losses. On the other hand, the privately managed Grameen replicators (GBRs) like NUBL, CSD-SBP [currently, the Swabalamban Bikas Bank] and other MFDBs are highly subsidised from the donors. They also borrow from the RMDC and the commercial banks at cheaper rate and capitalising that subsidy on the balance sheet as "equity" making institution financially sound and healthy.

Cooperative is expected to become a role model in the large backward rural areas for sociological as well as economic changes in the society. But the design of cooperatives

implemented in Nepal prior to the restoration of democracy in 1989, had no autonomy. It was initiated by the government itself and served for the government by delivering goods and services to the limited number of people in accessible areas of the country. This was not the true practice of cooperatives, which have been observed in most of the developed countries of the world two centuries ago. Cooperatives have both social and economic/financial objectives. These days, savings and credit organisations among different types of cooperatives have been emerged largely, which are known as financial cooperatives. Deposits (savings) and share capital of the shareholders are the main sources of capital formation in these organisations. They can have link with formal sector financial institutions for resources through borrowing from commercial banks of urban areas, which might have excess liquidity because of excess deposits and mobilise this fund in rural areas fulfilling the credit need of the rural people.

The other is Financial Intermediary NGO (FINGO) model that can choose any micro-lending methodologies either Grameen or Latin American Solidarity group model. These are community-based organisations (CBOs) mainly adopting the village banking methodology also known as the modified Grameen model. The NGOs, licensed from NRB under Financial Intermediary Act, are included in the formal MFIs in the Nepalese MF sector.

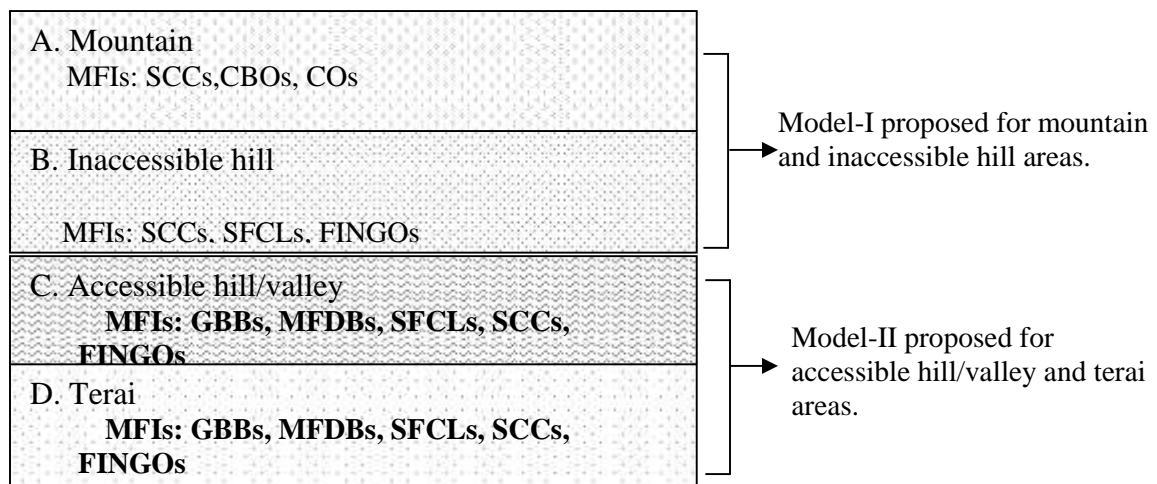
Appropriate Delivery Model

Demographically, Nepal can be broadly divided into two parts: densely populated few urban areas on the one hand and thousands of backward villages with a landscape of scattered settlements on the other. The country can be divided geographically and economically into two settings, as plain terai and accessible hills/valleys on the one hand and inaccessible hills and mountains characterised with largely subsistence economy on the other hand. In these areas, accessibility of infrastructure development, skills, resources, and marketing condition also differ largely making the cost of operation very high. The Remote Area Development Committee under the Ministry of Local Development (MLD) has redefined the remote and inaccessible districts in 2047 B.S. and accordingly the numbers of such districts are 22 out of which, 13 districts are fully inaccessible³⁶ from road and other facilities. And nine other districts are partially inaccessible in the sense that few VDCs in each district are road accessible. Actually,

³⁶ Names of the 13 inaccessible districts are: Solokhumbu, Manang, Mustang, Rukum, Dolpa, Mugu, Humla, Jumla, Kalikot, Jajarkot, Bajura, Bajhang, and Darchula.

large numbers of poor reside in these inaccessible areas, where the MFIs like GBBs and MFDBs have not yet reached. Chart given below shows the existing microfinance institutions distributed over the country according to geographical region.

Figure 9.4
Overall Mapping of the MFIs



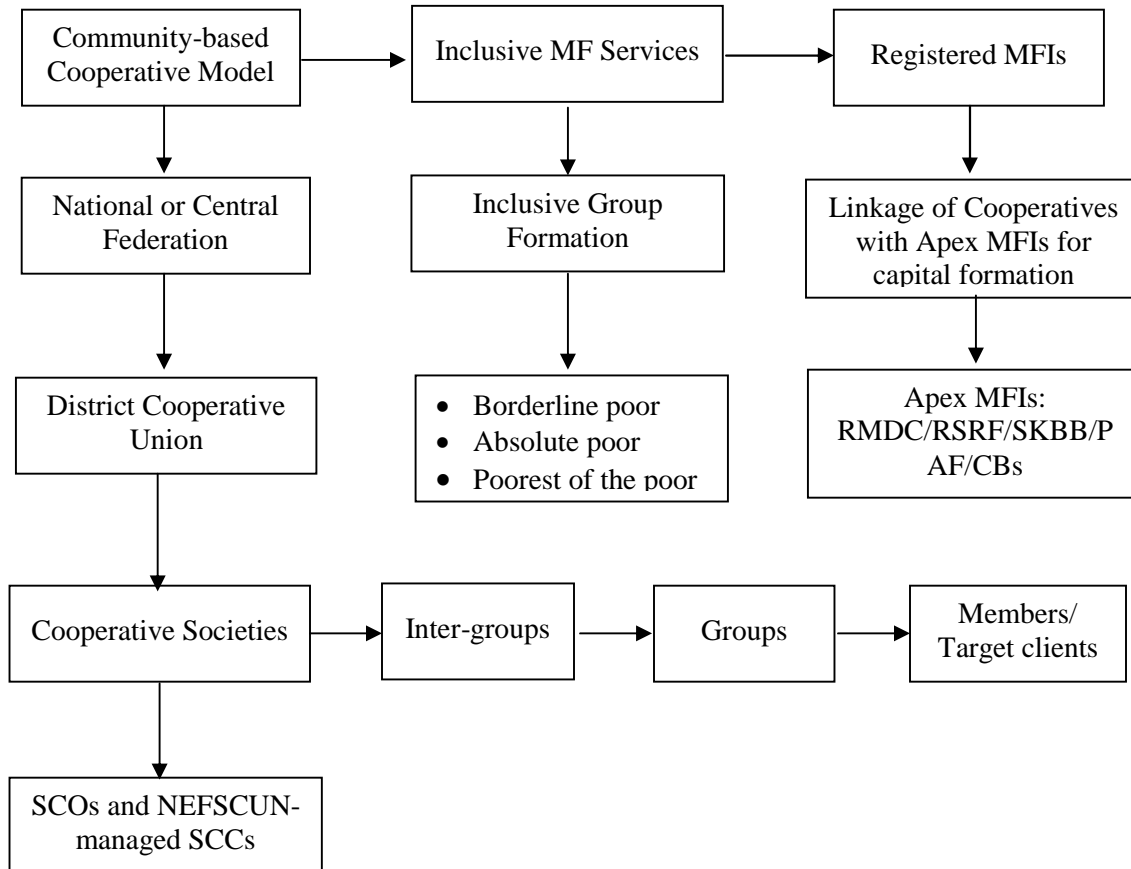
Thus, the overall mapping of MFIs in the country according to the geographic and economic diversification shows that SCCs and CBOs are providing MF services in inaccessible hills and mountains, whereas major microfinance programmes like SFCLs, SCCs, MFDBs, and FINGOs are operating only in terai and in few accessible hills and valleys. Concentration of GBBs is found mostly in terai and in few accessible hill districts. There is a strong need to promote GBBs/MFIs in inaccessible areas by providing some sort of incentives like tax exemptions, some subsidy on administration and management cost so that the rural poor women residing in remote areas can also be benefited. Therefore, conclusion derived from the overall study is such that an inclusive model will be appropriate for poverty alleviation through microfinance service.

Suggested Model

The model presented is "inclusive" in the sense that it should meet the microfinance need of the poor in different spectrum. In view of the geographical diversification of the areas, two

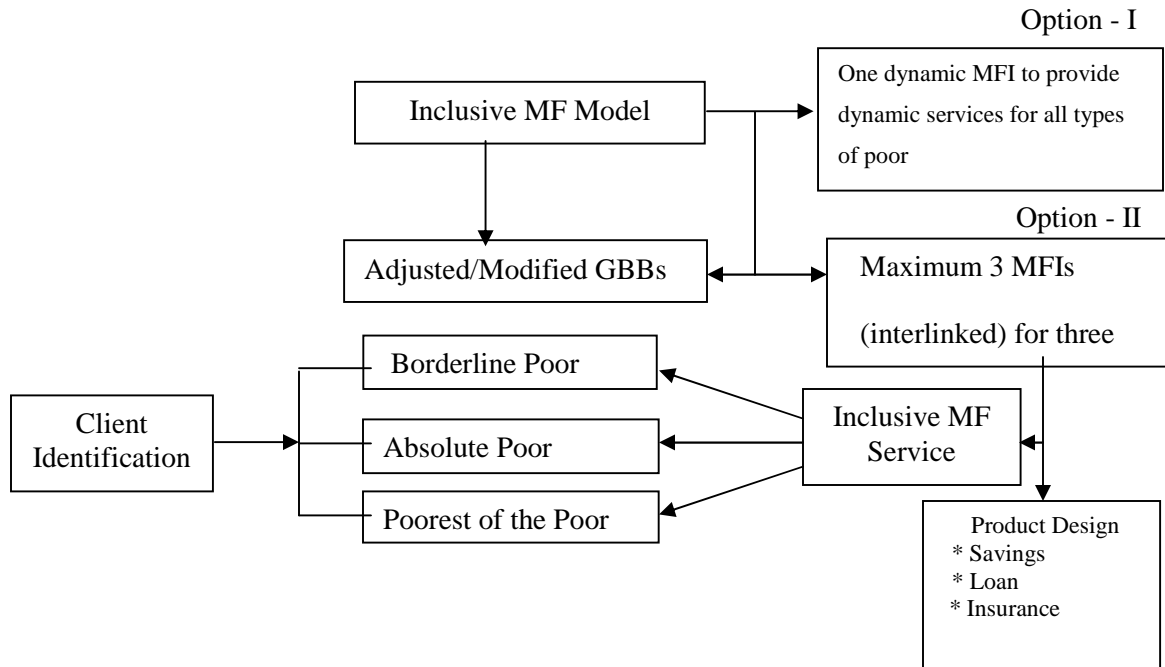
types of model have been proposed: Model-I for inaccessible hill and mountain districts and Model-II for terai and in some accessible hills/valleys.

Figure 9.5
Model-I for Inaccessible Hill and Mountain Districts



All savings and credit organisations (SCOS) and NEFSCUN-managed SCCs could be the microfinance service providers in the remote hill and mountain areas. Deposit/savings and the shares of the shareholders are the main sources of capital formation in cooperative model. The capital, collected from the shareholders, can be mobilised to other needy people/members of the organisation. This could be an appropriate model for inaccessible hill and mountain areas because it has low operating-cost, it provides access to affordable financial services to all including “have-less” and promotes self-help development practices enabling its members to work together in development activities.

Figure 9.6
Model-II Proposed for terai and Accessible hill/valley



The modified Grameen model can be suggested for terai and accessible hill and valley. This model includes privatised GBBs with two options -- (a) first option is to operate a single dynamic microfinance institution that provides dynamic services for all types of poor, and (b) the second option is to operate maximum three interlinked microfinance institutions to provide lending products and services for all types of poor. Moreover, under this model, federation of savings and credit organisations (SCOs) having members of 20 to 40 persons would be the implementing agencies, which needs to be strengthened and capability building and providing financial know-how. Instead of visiting every centre every week, the Grameen field worker could visit the federated SCOs once a month and this would reduce the cost of operation.

Both Grameen and Community-based cooperative models lie under the group liability mechanism. But the marked differences between the two modalities lie on the ground that the first one is the banking model that provides credit to its group members on group liability basis to run income generating businesses. The members/clients in this model become the owners and managers of their enterprises. On the other hand, the members in the community-based cooperative model, become not only the owners and managers of the enterprises they run, but they are the shareholders and because of this characteristics they could also become the owners

and managers of the institution sharing the profit of the organisation. The other difference is that the cooperative system is saving-focused in nature, whereas the Grameen type microfinance system is credit-focused giving emphasis only on financial services.

CHAPTER 10

SUMMARY, CONCLUSION AND RECOMMENDATIONS

10.1 Summary

In view of the growth of microfinance programme as one of the major poverty- focused development activities in the country, it is imperative to evaluate the effectiveness of the programme in reducing poverty. The present study is aimed at evaluating the impact of such programme on poverty reduction. Within this basic objective, the economic and social impact on beneficiary households, gender empowerment regarding gender equity improvement and decision making role of women within and outside the households were examined. The study also evaluated the indirect impact of credit programme on forest resource management and environmental conservation proving that microfinance, natural resource management (NRM), and poverty are interlinked with one another. The entrepreneurial spirit developed among the group members, ultimately diverts them to off-forest and other activities for their livelihoods. The key issues and other weaknesses that have hindered the growth of microfinance programme making this sector a limited outreach business, are thoroughly examined. Various microfinance models operating in Nepal have been classified and their operating principle, viability situation, fund sources, and outreach of different models analysed on the basis of their functional organisation. Explicit policy measures are recommended to take a right course of action by the microfinance institutions. It has proposed suitable delivery models for varied topographical and economic settings of the country in order to make microfinance a wider outreach business.

The study is based on secondary as well as primary data and information. Primary data were collected from a sample of 130 households for clients and 70 households for non-clients (control group) from the sampled area. A set of structured questionnaire was used for both groups to investigate the comparative advantages of credit programme on clients' lives. Clients' interview, focus group discussions, and field observations were thus the research tools used to collect both quantitative as well as qualitative data from the field. The research methodology is mainly guided from the principles of participatory and feminist research in the sense that the

stakeholders on which research issues were examined are all women; and they have discussed a general definition of empowerment by themselves that gave them a sense of power in their lives.

Asset accumulation, expenditure pattern of the clients on food, clothing, children's education, house repairing, access to health services, and enterprise performances are the indicators used for study purpose. Analysis is done through comparing the variables in two different periods and also comparing them with and without programme situation between the clients and non-clients. Similarly, the change on women's empowerment is assessed through evaluating the impact of the programme on clients lives measuring the benefit sharing between men and women of the credit recipient households, and also measuring the levels of women's consciousness and power in decision-making within and outside the households. In addition to individual interview, interviews and discussions were made with the key informants, who have special insights into a particular issue or issues and provide some feedback on the issues.

Microfinance in the formal sense of the term was started in Nepal with the establishment of GBBs in the government sector since 1992. Following the open and private sector-led growth strategy since 1990, a few microfinance development banks were established as replications of Grameen model, Bangladesh. Besides these, several savings and credit cooperatives and (FINGOs) are providing microfinance services in various parts of the country including three apex lending agencies, viz. RMDC, RSRF, and SKBB established under the different Acts. The coverage of MFIs (including five GBBs, MFDBs, SCCS, and FINGOs) in the accessible hills and inaccessible hills and mountains is 36.09 percent and 10.6 percent respectively (Table 5.10). A study undertaken by the Centre for Policy and Studies and Rural Development (2004) carried out in six districts found that by type of MFI, government programme showed a larger coverage than the non-government programmes. In terms of ecological belt, the outreach is twice as high in terai (43.5 percent) than in hills (22.2 percent). The outreach, however, is not confined to the poorest of the poor.

Personal characteristics of the respondents show that out of the total sampled clients and non-clients, the highest percentage was from 30 to 40 years age group while women aged 50 years and above participated the least in the programme. By ethnicity, high caste group represented the highest percentage followed by Janajati and Dalit from among the credit group,

whereas Dalit represented the highest in non-credit group. The family structure is mainly male headed (more than 90 percent) with average family size of 5 to 6 persons. Very high difference in literacy is observed between credit and non-credit group, which is true for all caste/ethnic groups

Based on a measure of asset increase, the survey found that most of the respondents were very poor, as they owned 0.107 hectare of land which is far below than the poverty line defined by the MFI (0.5 hectare) and they were not entitled to have assets on their name before they joined the programme. Currently, one-fifth respondents own land. The highest percentage change is found on land asset as it has increased by more than 20 percent reaching 0.33 hectare (Tables 6.8 and 6.10). Among these land-increased households, more than 70 percent women are entitled to have land assets on their own name mainly *ghaderi*. Similarly, the increased percentage in house and household utensils is 13.8 percent and 12.3 percent respectively. Households' average annual expenditure on consumption items has increased dramatically. Similarly, the change in food sufficiency level among the borrowers has increased by 45 percent during this period. But caste/ethnicity has its influence on the expenditure. Dalit preferred to expend more on household daily consumption, while high caste group increased the expenditure on health and sanitation.

Regarding the gender equity improvement, clients' husbands are very positive in sharing the workload that their wives were undertaking before. Regarding the loan related business control, 78 percent respondents reported that they do have the sole control over loan money and the businesses they run. But the loans under the category of pig or goat raising rather than the loans demanded for farm inputs, or cattle raising like buffalo/cow had higher women control. Regarding loan use, they decide jointly. Programme has also given access to more years of schooling for both male and female children equitably (up to primary level). No discrimination was found between son and daughter in sending school up to this level. More interestingly, decision-making role among the credit groups regarding family planning and marriage of their daughters is found to be increased as 68 percent women reported positively in this regard. Field observation also showed that the clients have more access to general health care services and particularly in gynaecological services from the hospital.

The qualitative and quantitative study from the field also proved that clients rather than non-clients have managed forests through various ways as: (a) using alternative sources of household energy that has saved their time, labour, and protect/improve their health conditions as they reported. With certain improvement in social and economic status, the housewives were found to be encouraged to use relatively healthier sources of energy like biogas, gas stove, and smokeless stove rather than using the firewood depending on government forest, (b) they showed their interest in using forest for non-timber products as a source of income like herbs and sericulture rather than using forests for collecting the firewood, and (c) they have future plan for using timesaving and health promoting sources of energy for households' use. This way, the composition of economic activities undertaken, have affected clients' lives and in turn affected in the forest management activities in their community.

10.2 Conclusions

The study reaches to the conclusion that no unique model of microfinance is applicable for all situations. It is very contextual, and it needs to be context-specific to achieve the goal of poverty alleviation. Moreover, a successful programme cannot be generalised in all needs and geographical spread. To provide microfinance services to large numbers of scattered poor people in the hills and mountains of the country through well-managed operating costs, the programme should be designed as according to its topographical differences and diversified settlements. In sparsely populated areas of these regions, modified Grameen model through federated "credit agent" could be suggested as an appropriate model, where bank can work through the agents rather than deal with the clients directly. The savings and credit organisations (SCOs) can be nominated as agents that could be socially mobile to provide door-to-door services to the poor people. There are many community-based organisations in the villages like "*Aama Samuha*." These groups also could be mobilised as the credit agents since they could be more informal and more service-oriented in comparison with the self-help groups (SHGs). On the contrary, the SHGs pay attention only towards institutions' development rather than the beneficiaries.

Cooperative is the other alternative for the remote area that can provide marketing, social, and financial services through multipurpose cooperative societies. If the market agents are financed, they can collect and market the products of the clients, and also encourage producing goods and services according to market demand. In the present conflict situation, the member-

owned and member-managed financial institutions like SCCs, SCOs, or Women's Savings Groups need to be encouraged to provide rural financial services in the remote hills and mountains.

Present study, incorporating many useful suggestions to strengthen microfinance programmes, concludes that such programmes have positive impacts upon the livelihood status of the clients. And the clients in group-lending model are hundred percent women. If women are empowered economically and socially, they can increase their skill and confidence and can begin to think of themselves as equals to men. With this confidence in turn, they can change the resource allocation patterns within the households directing more expenditures to improve their own and their families' well-being. They can also take active roles in the community making their families better equipped to face the challenges of poverty. However, the effectiveness of programmes in improving socio-economic condition is more visible in the increase in food security, improvement in housing conditions, and possession of consumer durables. Microfinance loan has enabled women to start non-farm activities, particularly, petty trade. From the overall impact evaluation, it can be concluded that microfinance can achieve the first three out of eight goals of Millennium Development proposed by the Millennium Summit 2000.

But the existing situation of microfinance is not what it should be. Lack of national microfinance policy binding MFIs to the set norms and practices to reach the poor, inability of Nepal Rastra Bank to monitor and supervise the activities of MFIs, lack of competitive apex MFIs to supply capital, lack of apex supervisory body compelling MFIs to concentrate on the poorest of the poor, lack of coordination between the MFIs and institutions working in credit plus activities, lack of appropriate model for diversified geographical and economic settings, lack of "first skill and then credit for the poor" principle among microfinance practitioners among many other weaknesses, have made MF sector a limited-outreach business indicating that this sector has not yet reached to its maturity though it has crossed more than three decades of practice. One of the challenges faced by this sector is that those in extreme poverty are not yet ready to participate in the programme. These weaknesses have hindered in its development and expansion as an effective strategy for poverty alleviation.

The investment portfolio (input and output) of most of the MFIs also is such that funds are mostly utilised in labour-intensive and low profit enterprises rather than in the productive businesses such as trade, food processing and manufacturing. The poor people on the other hand, are not able to identify themselves the profitable investment opportunity. The survey result found that clients began to establish micro enterprises (MEs) only after completing two to three loan cycles. Because of low infrastructure development in rural Nepal, the stakeholders have to struggle in order to be established as sustainable entrepreneurs. Moreover, the burden of poverty seems more biased towards women and ethnic minority and the disadvantaged people, given their low literacy rates, lack of income opportunities, and lack of skill diversity. In addition, the survey found that average size of landholding is far below the national average (Table 6.10). Even high caste clients have 0.409 hectare of land. The total/overall size of landholding is 0.336 hectare. It indicates that poorer households are food unsecured even after two to three years of programme participation.

10.3 Recommendations

The study has raised significant research questions among several possible issues, and these issues indeed can help in identifying the gaps in previous research works regarding the gender equity aspects and also the linkage among microfinance, natural resource management, and poverty alleviation. The major microfinance issues identified at different levels have played a crucial role in making this sector more challenging. Therefore, the study leads to the following policy recommendations, for which the government and non-governmental authorities need to pay due attention:

- i. Government should formulate a microfinance-friendly national policy on MF setting the vision, objectives, and strategies specifying the implementation modalities to direct the microfinance programme to accomplish the given objectives.
- ii. Privatisation of Grameen Bikas Banks (GBBs) to run them efficiently is realised, and the process for Western GBB is already completed. But if all five GBBs are to be privatised and run efficiently, the majority share (at least 50 percent share) should be given to group members who could be more poor-friendly and more responsible towards the institutions.

And the remaining share should be distributed to commercial banks, NRB, and MFIs. The share of NRB and government should be reduced.

- iii. Coordination among various government agencies working in credit plus activities (health, education) and other programmes is essential. The national programmes targeted for men, women, youth, and disadvantaged groups regarding entrepreneurship development should also be implemented effectively. Because enterprise development service is one of the important services being provided by the MFIs. Training, marketing, and technical skill development services are the essential factors for enterprise development, which is possible only through coordination between the MFIs and those working in credit plus activities.
- iv. Government should design and implement especial programmes for the inaccessible hill and mountain areas with the provision of subsidies for meeting operational costs in order to motivate the MFIs to run such programmes in these areas. And the MFIs should promote the local NGOs, or nominate the credit agents to carry out the programmes because these organisations could be more cost-effective and locally oriented.
- v. The inclusive microfinance models as proposed by this study, i.e. (a) cooperative modality and (b) modified Grameen model for terai and accessible hills and mountains with the federated savings and credit organisations should be implemented.
- vi. Commercial banks need to take active part in MF because their involvement in MF and poverty alleviation (through dealing with indirect lending) is essential in the country until the MFIs will be sufficient in number and strong enough to provide sustainable MF services. These banks need to provide wholesale loans to MF development banks, authorised FINGO/SCO and the SCC with the Nepal Federation of Savings and Credit Cooperative Union's (NEFSCUN) membership.
- vii. In order to access the smaller MFIs/FINGOs to MF fund, the apex MFIs like RMDC need to revise the conditional ties set by this organisation for its wholesale loan. It is the responsibility of Nepal Rastra Bank (NRB) to monitor and supervise for the wholesale lending institutions to control the present "fund parking problem." Besides this, regional branch offices of three existing apex MFIs (RMDC, RSRF, and SKBB) should be

established and their numbers increased with justification of business volume and business plan to strengthen the financial intermediaries/institutions working in outstations and in remote areas.

- viii. In order to encourage the interest and participation of the poorest group in the membership, lending interest rate should be varied for different categories of poor. Moreover, loan products also need to be varied, i.e. income generating loan, student loan, loan for going abroad for foreign employment, and even interest free loan is needed for struggling members or the very poor to run certain types of enterprises/business.
- ix. Increasing interest rate for MFIs' sustainability would not be the right step for the betterment of the poor people because higher interest rate discourages them from demanding loans in the context of limited economic opportunities and lack of infrastructure development in the rural areas. To lower the cost of capital, the MFIs need to create a common pool of microfinance fund from the multiple sources or the wholesale lending institutions to provide loan to MFIs directly and then provide to the individual clients.
- x. Loan ceiling also should be varied according to the purpose, nature and the money managing ability of the clients. The current loan ceiling of Rs. 30,000 should be increased to Rs. 100,000 depending upon the client's ability to handle the business.
- xi. In order to provide the choices to the clients for loan repayment, flexibility with dual policy system is needed, i.e. one for normal condition and another for abnormal situations specifying the risks that might happen in clients' families. Institutions' asset insurance, clients' insurance, and more important, credit supported enterprise insurance should also be added in MF programme.
- xii. The solidarity group-lending model is considered as one of the best practices of microfinance system because it is based on the group guaranteed mechanisms. It is therefore suggested that the "group dynamism" spirit should be promoted providing group loans for collective enterprises, and this group loan can be provided at two levels -- group levels to start enterprise under group ownership and at the centre level (Centre is one of the arrangements in Grameen type microfinance system) in a large scale to encourage the

members to take up the larger scale enterprises in the form of cooperatives. In this process, the enterprises in the beginning need to be managed jointly by the MFIs and the clients until the business becomes sustained.

- xiii. The government should constitute a MF apex body consisting of representatives from the government, MF practitioners, and MF experts to execute the national microfinance policy.
- xiv. Large numbers of increasing MFIs and donor-funded programmes should be put under a single umbrella of management by the apex regulatory body. Even donor's fund need to be regulated and put in a single national MF policy.
- xv. Microfinance rating agencies like Microcredit Rating and Guarantees International Ltd. (M-CRIL, India) should be developed under the initiation of central bank for making MFIs transparent and committed to performance oriented.

APPENDICES

APPENDIX A

Schematic Representation

A. Research Objectives	B. Research Issues	C. Information Needed	D. Data Sources & Data Collection Method	E. Analysis Method
1. To analyse different models of MF available in Nepal (both government and non-government) with methodologies and viability situation of each model	Substantial overlapping of many government and non-government MF programme in Nepal.	General classification of available MF models of Nepal on the basis of their functional and structural organisation	Secondary sources (institutional survey and review of the literature)	Descriptive and discussion method
2. To assess the impact of MF on socio-economic indicators (fixed and variable assets, i.e. land and household assets and household expenditure on food, clothing, health and sanitation, children's education, fuel and social events)	Research is required in ascertaining the impact of MF assessing its ability to contribute for poverty alleviation.	Finding measurable impacts of the programme as far as possible	Primary data from clients' survey, observation, and focus group discussion	Clients' survey
3. To examine gender equity situation (access to opportunity) and control over loan and loan activities, (decision making power) among male and female members of the borrowing households and among the different ethnic groups	It is a matter of great concern to find the implications of programme on gender equity aspect because women are the stakeholders for taking burden of MF.	Understanding gender equity concept that how men and women and girls and boys are treated differently with great biasness and what changes MF has brought within the credit recipient households	Primary data from clients' survey, observation, and focus group discussion	Clients' survey
4. To investigate the impact of MF on forest resource management that to what extent women "with" and "without" credit programmes are involved in the conservation and management of the forests;	It is essential to find the implications of MF on forest resource management because poverty is one of the reasons of environmental degradation.	Understanding women's roles and responsibilities in household energy resources management after the involvement in credit programme (to see the comparative advantages of MF)	Primary data from clients' as well as non-clients' survey, observation, and focus group discussion	Clients' and non-clients' survey
5. To suggest appropriate policy measures for poverty alleviation through MF identifying its strengths and weaknesses	Policy recommendations	Provide appropriate model for diversified geographic and economic settings	Observation from the field	Conclusions derived from the overall research

APPENDIX B

Key Economic and Human Development Indicators-2002

(Bangladesh, India and Nepal)

Description	Country		
	Bangladesh	India	Nepal
A. Economic and Demographic Indicators			
1. GDP growth Rate*	5.7	6.3	3.5
2. Value added as % of GDP 2003 @			
a) Agriculture	22	23	40
b) Industry	27	26	8.4 (manufacturing only)
c) All (including service sectors)	52	52	39
3. Inflation Rate (2003) *	4.5	5.0	5.0
4. Foreign Direct Investment at 2002 (US\$ millions) @	47	3,030	10
5. Total Population (millions 2003) @	138.1	1,064.4	24.7
6. Population Growth Rate (%) 1990-2003	1.7	1.7	2.4
7. Economically Active Population of Working Age (%)			
a) Female	55.9	57.0	57.0
b) Male	87.2	88.0	86.0
8. Per Capita Income (US\$) @	400 (2003)	530 (2003)	240 (2003)
B. Poverty and Human Development Indicators			
1. Population in Poverty (%)			
a) Based on US\$ one a day @	36.0 (2000)	34.7(1999-00)	53% in 1989-94, 37.7 in 1995 & 24.1% in 2003/04 (CBS 2005)
b) Based on National Poverty Line (Total)	49.8 (2000)	28.6 (1999-00)	42.0 (1996) & 31% in 2003-04 CBS 2005)
Urban	36.6	23.6	23.0 (1996) & 10 in 2003-04
Rural	53.1	27.1	44.0 (1996) & 35 in 2003-04
2. Literacy Rate (%) 15 – 24 years old			
a) Female	41.0	67.0	46.0
b) Male	58.0	81.0	78.0
3. Gross Primary School Enrolment Ratio (2000)			
a) Female	101	92 (1999)	108
b) Male	100	111(1999)	128
4. Daily per capita Calorie Supply (2000) (Calories)	1755 (1999)	2489	2446
5. Population with Access to Sanitation (%) (2000)			
Urban	71	61	73
Rural	41	15	22
6. Population with Access to Safe Water (%) (2000)			
Urban	99	95	94
Rural	97	79	87
7. Life Expectancy 2002 (Years)			
a) Female	62 (national)	63 (national)	60
b) Male	62	62	59
b) Male	62	60	60
8. Infant Mortality Rate (2002) per 1000 live births	51	67	66
9. Maternal Mortality Ratio (per 1,00,000 live births)	300 (1998)	407 (1998)	539 (1996)

Source: ADB/M 2003 b, p. 84 -104.

- Source from ADB/M 2003a, p. 96.

** Working age refers to ages 15 years and above (ibid. p. 96).

@ World Development Report 2005, pp. 256, 257.

APPENDIX C
Progress Report of five Grameen Bikas Banks
Ashad 2060 (Mid-July 2003)

Rs. in million

Particulars	EGBB	CGBB	WGBB	MWGBB	FWGBB	Total
No. of center	1375	1168	1111	551	594	4799
No. of Group	11274	7663	8038	3897	3419	34291
No. of member	53270	37479	40140	19485	19198	169572
No. of borrowers	49233	36511	38942	16515	11755	152956
General loan disbursed	3423.6	1139.3	1798.9	638	714.8	7715
General Loan repaid	3037.6	909.5	153.2	553.9	615.4	6651
General loan outstanding	386	229.2	263.7	84.2	99.4	1063
Other loan disbursed	524.3	8.8	245	193	107.3	1157
Other loan Repaid	435.8	74.2	159.7	155.9	99.2	925
Other Loan outstanding	88.5	13.8	85.3	37.2	81.1	233
Total Loan Disbursed	3947.9	1227.3	2043.9	831	822	8872
Total Loan Repaid	3473.4	983.7	1694.9	710	7147	7576
Total loan Outstanding	474.5	243.6	348.9	121	107.5	1295
Personal Saving Balance	18.7	3.2	11.1	2.3	1.5	37
Group Fund Balance	14.9	64.2	89.9	58.2	49	276.2
Group Fund Loan Disbursed	108.7	20.6	26.7	32.3	72.9	261
Group Fund Repaid	105.3	17.7	25.4	27	63	238.4
Group Fund Outstanding	3.4	2.9	1.2	5.2	9.9	22.7
Staffs	330	267	244	121	135	1097
Number of Branches	44	39	41	22	20	166
VDC Covered	262	246	273	102	83	966
Districts Covered	9	12	13	4	5	43
Non-performing Loan	13.9	20.1	17.87	25.92	41.79	119.54

Source: NRB, Microfinance Department.

APPENDIX D

Year wise Coverage of NUBL

Rs. in '000'

S. N.	Particular	1999 July (2056 Ashad)	2000 July (2057 Ashad)	2001 July (2058 Ashad)	2002 July (2059 Ashad)	2003 July (2060 Ashad)	2004 July*
A.	Coverage						
	1. No. of Branch Office	21	23	26	26	26	33
	2. No. of Area Office	3	3	3	3	4	4
	3. No. of District Covered	6	7	7	7	8	9
	4. No. of VDC Covered	174	196	218	219	219	262
	5. No. of Centres	789	1078	1173	1213	1217	1429
B.	Loan Account						
	1. Loan Disbursed	228962	443925	737904	1047612	1335506	155072
	2. Loan Repaid	162987	323576	563058	836500	1124819	1319010
	3. Loan Outstanding	65975	120349	174846	211112	210687	221523
C.	Savings						
	1. Group Fund Saving	15036	28519	43177	52551	55056	63697
	2. Personal Saving	3298	7496	8163	6908	6781	6267
	3. Other Savings	295	878	1612	2171	2451	2641
	4. Total Savings	18629	36893	52925	61630	64281	72605
D.	Information on Clients and Groups						
	1. No. of Clients Dropouts	NA	3009	6762	12601	17609	NA
	2. No. of Active Clients	19371	31399	35268	35388	34817	40715
	3. No. of Loan Clients	15382	26618	30559	29589	27457	29632
	4. No. of Groups	3955	6481	7629	7791	7525	8134
E.	Information on Staff						
	1. Female	13	13	12	12	10	13
	2. Male	157	208	199	191	186	218
	3. Total Staff	170	221	211	203	196	231

Source: Programme and Financial Performance Statement of Nirdhan, Central Office Mid-January 2003.

* Provisional

APPENDIX E

District wise Coverage of NUBL (Cumulative) July 2003 Rs. in '000'

S. No.	Particular	Name of the Districts							
		Rupan-dehi	Nawal-parasi	Kapil-vastu	Chitwan	Bara	Parsa	Rauthat	Banke
A.	Coverage								
	1. No. of Branches	7	2	2	5	6	1	3	
	2. No. of Area Office	1	0	0	1	1	0	0	
	3. No. of VDCs Covered	58 + 2	29+1	24+1	27+2	60+2	17+1	16	22
B.	Loan Account								
	1. Loan Disbursed								
	2. Loan Repaid	546052	134103	58766	156661	291087	25945	122892	NA
	3. Loan Outstanding	478557	118273	50752	134760	227112	17748	97617	
		67495	15830	8014	21901	63975	8197	25275	
C.	Savings								
	1. Group Fund Saving	21807	5829	1742	4027	15247	1380	5409	NA
	2. Personal Saving	1756	395	211	460	2332	927	634	
	3. Other Savings	805	21	160	138	753	42	210	
	4. Total Savings	24367	6245	2113	4625	18332	2349	6253	
D.	Information on Groups								
	1. No. of Group Based Client Enrolled	17264	4899	2960	6669	12520	1311	5525	NA
	2. No. of Micro enterprise Loan Clients	561	96	76	38	275	24	208	
	3. No of Clients Dropped Out	8209	1937	1330	2391	2461	74	1207	
	4. No of Active Clients	9616	3058	1706	4316	10334	1261	4526	
	5. No of Loan Clients	8935	2309	988	8373	8373	1138	2301	
	6. No. of Groups	2569	716	422	2026	2026	249	541	
	7. No. of Centres	387	110	95	309	309	39	94	
E.	Information on Staff								
	Female	4	0	1	1	4	0	0	
	Male	70	14	10	25	41	5	19	NA
	Total Staff	74	14	11	26	45	5	19	

Source: Office Records (Central Office, NUBL).

APPENDIX F

VDC wise Coverage of NUBL (Sitalnagar Branch) July 2003

		Rs. in '000'						
S. No.	Particular	Dev-daha	Makra-har	Kera-bani	Sikta-han	Sunwal	Banja-riya	Amraut
A.	Coverage							
B.	Loan Account							
	1. Loan Disbursed							
	2. Loan Repaid							
	3. Loan Outstanding	3898	416	2170	190	3279	13	171
C.	Savings							
	1. Group Fund Saving	1679	175	848		1197		77
	2. Personal Saving	86	5	31		56		
	3. Other Savings	5	0	1	NA	2	NA	
	4. Total Savings	1770	180	880		1255		77
D.	Information on Groups							
	1. No. of Group Based Client Enrolled	NA	NA	NA	NA	NA	NA	NA
	2. No. of Microenterprise Loan Clients							
	3. No of Clients Dropped Out							
	4. No of Active Clients	504	55	202	NA	492	10	30
	5. No of Loan Clients	424	55	205		465	10	25
	6. No. of Groups	119	12	51		109	2	6
	7. No. of Centres	21	1	11		20	1	1

Source: Branch Office, Sitalnagar.

APPENDIX G

Top Ten Income-generating Activities (Overall loan utilisation)

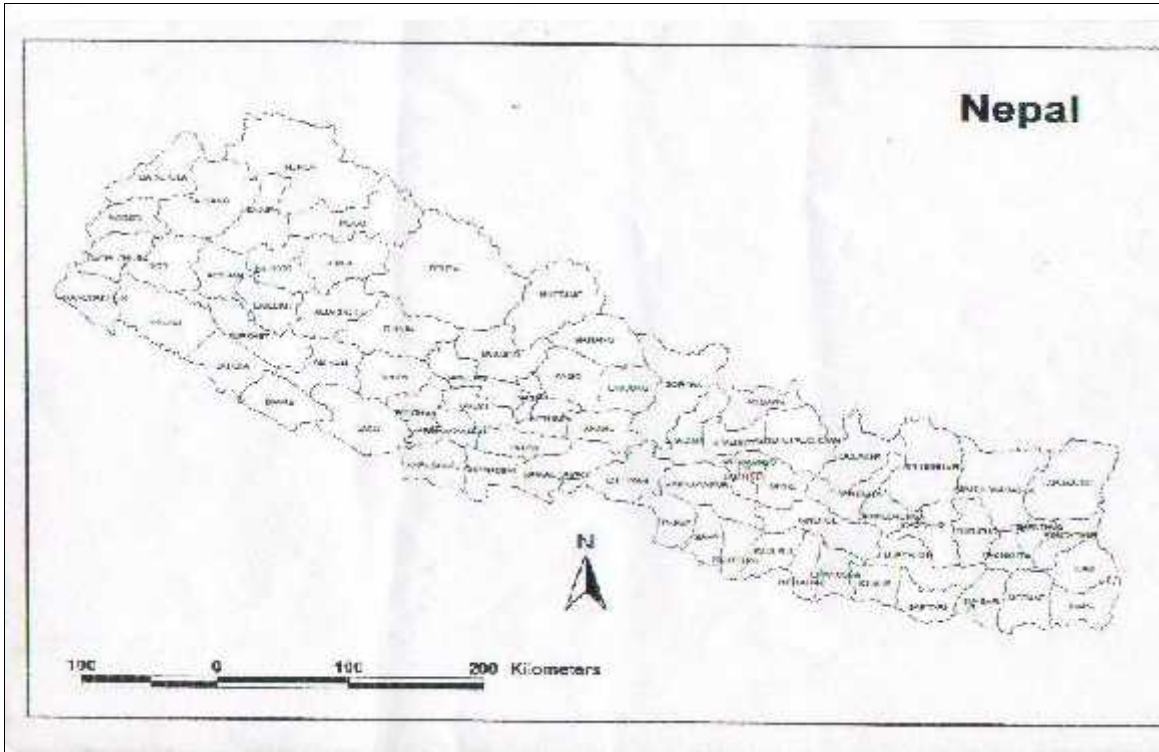
Rs. in '000'

Ranks	Types of Activities	No. of Loans	Amount of Loans	(%) Distribution
1	Buffalo and Cow Raising	16392	105,344	50%
2	Goat Raising and Poultry Farming	2622.72	16,855	8%
3	Grocery	2294.88	14,748	7%
4	Petty Trading	1639.2	10,534	5%
5	Vegetable Farming	1311.36	8,427	4%
6	Hotel and Restaurant	2622.72	16,855	8%
7	Beauty Parlour	1311.36	8,427	4%
8	Fruit Shop	655.68	4,214	2%
9	Cycle Repair Shop	655.68	4,214	2%
10	Cattle Trading	1639.2	10,534	5%
11	Others	1639.2	10,534	5%
12	Total	32784	210,687	100%

Source: Office Records, NUBL as up to July 2002.

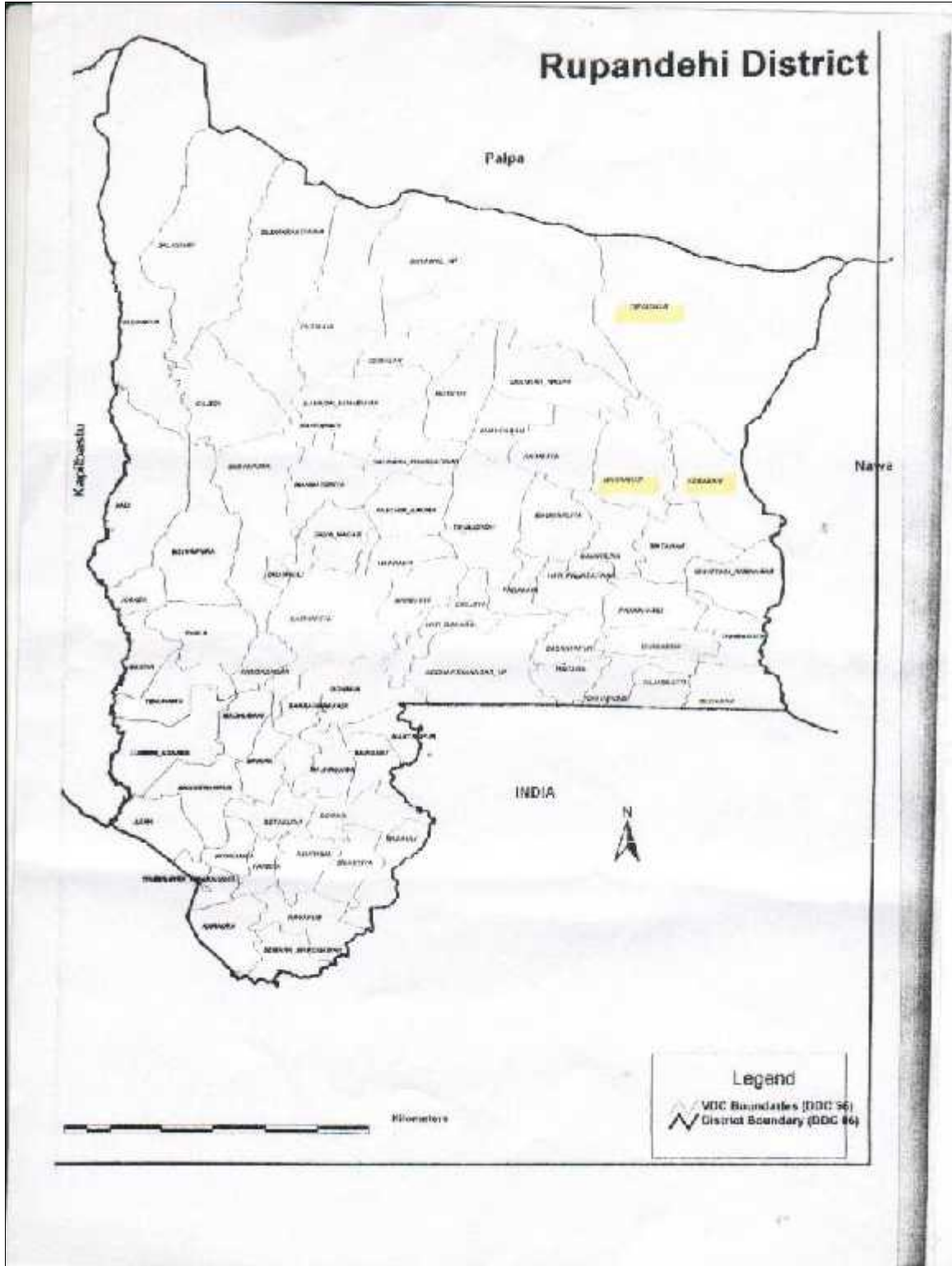
APPENDIX H

Map of Nepal



APPENDIX I

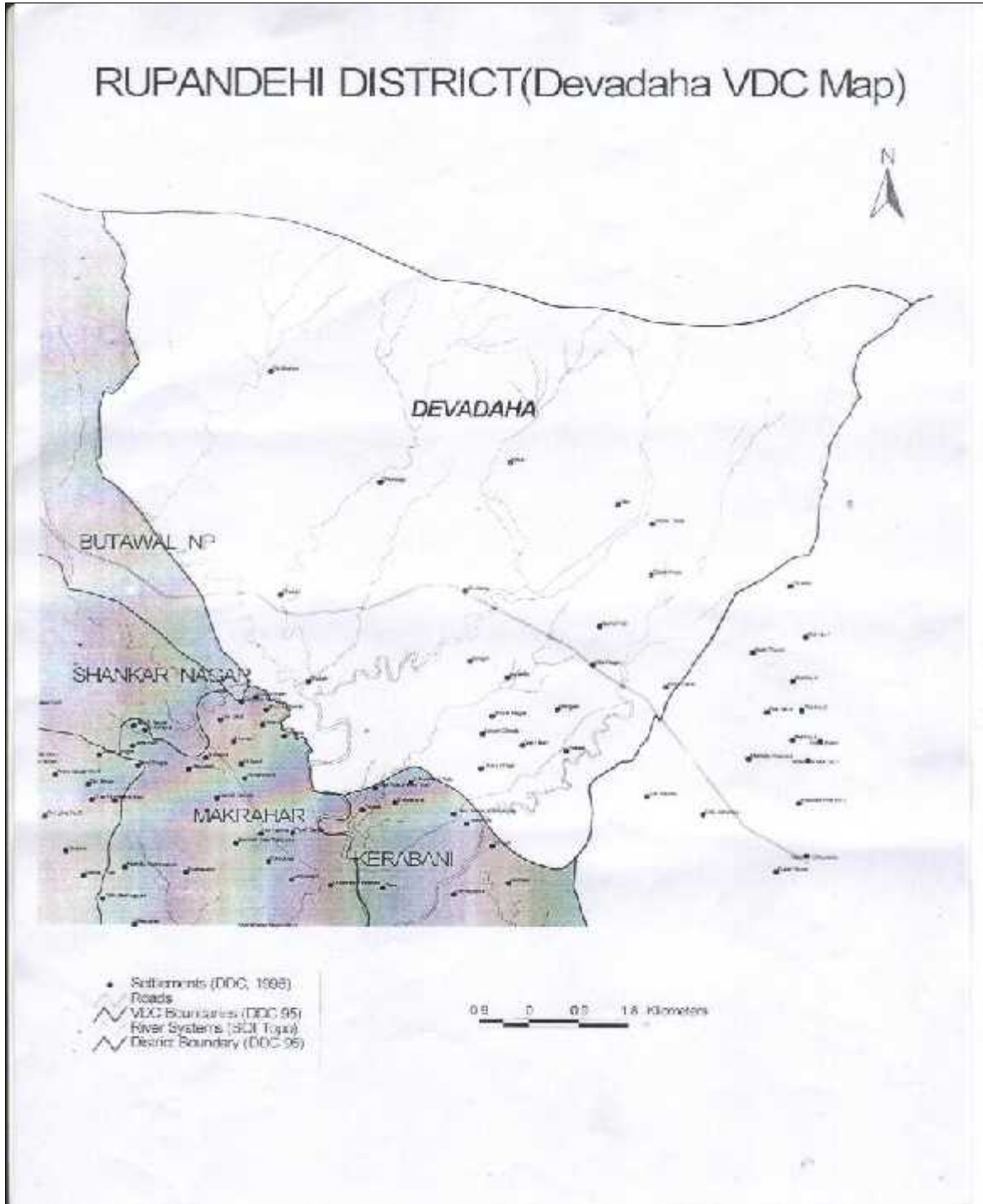
Map of the District



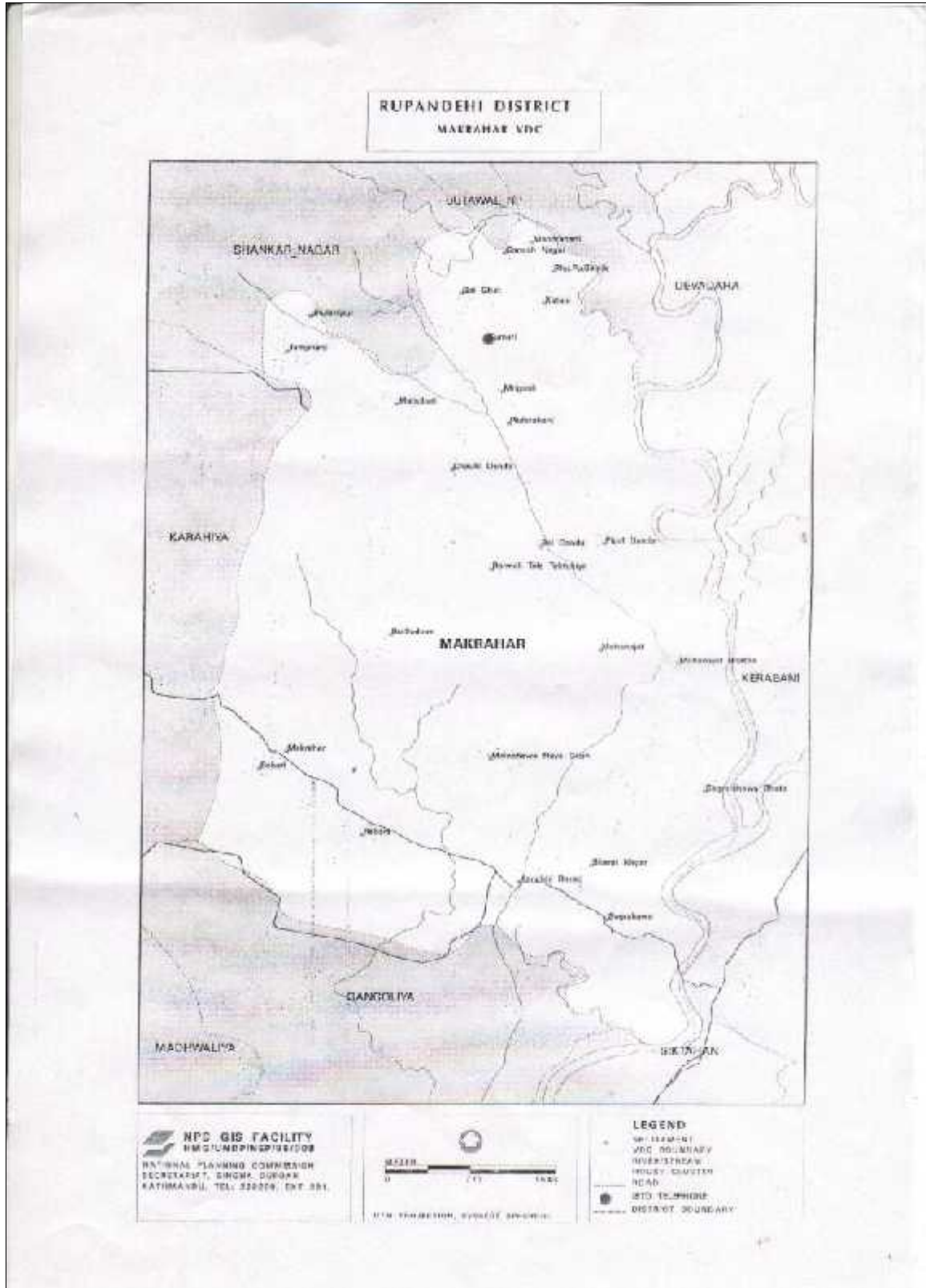
APPENDIX J

Map of the VDCs

(a) Devdaha VDC



(b) Makarahar VDC



APPENDIX K

Questionnaire for Clients and Non-clients

A. Questionnaire for the Clients

District: Rupandehi

1. Respondent's Information:

- 1.1 Name: _____ Caste/Ethnicity: _____ Age: _____
 1.2 Locality: _____ Ward No: _____ VDC/Municipality: _____
 1.3 Marital Status: _____
 (a) Married ()
 (b) Unmarried ()
 (c) Widow ()
 (d) Separated ()
 1.4 Family size _____
 (a) Male ()
 (b) Female ()
 (c) Total ()

2. Educational Status:

2.1 How many members are literate in your family?

Description	Female	Male	Total
a) Illiterate			
b) Literate			
c) School going children			
d) Infants			

2.2 What is your own level of education?

- (a) Illiterate
 (b) Just literate (formal/informal)
 (c) Passed class

3. Occupation:

Description	Before	After
• Agriculture		
• Cottage industry		
• Business/trade		
• Day labourer		
• Migration for seasonal labour		
• Migration from other countries		

4. Do you have your own house?

- (a) Yes (b) No
 If yes, then how is the quality of the house?
 (a) *Pakki* (Good house) (b) *Kachi* (Straw or thatched house)

5. Was your family food -sufficient two or three years ago?

- (Before joining the credit programme)**
 (a) Yes (b) No

If no, then how did you meet the problem of food deficit?

- (a) Working as an agricultural labour ()
- (b) Making traditional handicrafts materials ()
- (c) Wage salary ()
- (d) Remittances ()
- (e) Other, specify ()

Is your family self-sufficient at present?

- (a) Yes
- (b) No

6. Landholding Position:

6.1 What is your land tenure status?

- (a) Owner ()
- (b) Tenant ()
- (c) Share cropper ()
- (d) Other specify ()

6.2 What is the size of landholding before and after joining the credit programme?

<i>Khet</i> (Irrigated land)		<i>Pakho</i> (Unirrigated land)	
Before	After	Before	After

7. Have you or your family bought additional household assets recently, or within the last 2-3 years?

- (a) Yes
- (b) No

If yes, identify from the list below:

8. Loan Access:

Description of Assets	Income Source		
	Income earned from the current enterprise	From other HH income	
• Land			
• Cattle			
• Radio			
• Bicycle			
• Tools/Implements			
• Hand tractor			
• Other specify			
Number of borrowings	Loan demanded by purpose	Loan amount	Loan invested*
• First			
• Second			
• Third			
• Fourth			
• More than this			

What is the purpose for taking loan? Give information

*** Loan Investment Areas:**

- (a) Buffalo/cow for milk raising ()
- (b) Goat/pig raising/poultry farming ()
- (c) Grocery/tea shop ()
- (d) Farm cultivation ()
- (e) Vegetable farming ()
- (f) Fruit shop ()
- (g) Tailoring ()
- (h) Manufacturing ()
- (i) Consumption purpose ()
- (j) Other, specify ()

9. How is your business performance?

- a) Highly profitable ()
- b) Profitable ()
- c) Not profitable ()
- d) Losses ()

If losses, what are the reasons?

- (a) Misunderstanding in the family
- (b) Unfortunate happenings
- (c) Lack of technical support, advice and skilled training
- (d) Lack of marketing of the products

10. From which sources you repay the loan?

- (a) Money earned from loan related business ()
- (b) Other household income ()
- (c) Selling firewood ()
- (d) Borrowing again from the Nirdhan or from ()
- (e) Other, specify ()

11. Has your household expenditure increased after joining the credit programme or within 2-3 years period?

- (a) Yes
- (b) No

If yes, give the increased amount of expenditure on following items.

Annual Household Expenditure (in Rs.)

Description	Before	After	Change
• Food expenses (monthly)			
• Clothing			
• Children's education			
• Social expenditure			
• Health and Sanitation			
• Medical treatment			
• House repairing			

Women's Empowerment:

12. In your family, who decides on the following areas?

Areas to be Decided	Self	Husband	Jointly	Others
• Selection of enterprise				
• Purchasing choices				
• Managing household funds				
• Managing enterprise funds				
• Buying and selling of property				
• (All types such as durable & small consumable goods)				
• Marketing				
• Resources				

13. What type of attitude/behaviour you have got from your husband after joining the credit programme?

- (a) Very helpful
- (b) Positive
- (c) Neutral
- (d) Negative

14. Does your husband share household workloads after your involvement in loan related enterprises?

- (a) Yes
- (b) No

15. Where do you go for treatment, if you fall sick?

- (a) Health post/hospital
- (b) Use traditional method in the home?

16. Are you sending your daughter to school regularly? Has she dropped out from school (Primary level)?

- (a) Yes
- (b) No

If yes, give reason.

17. Who decides on the following important family decisions?

Description	Self	Husband	Jointly	Other
• Children's marriage (daughter)				
• Sending daughter to school if you have girl child of school going age				
• Family planning (Number of children)				
• Dowry for daughter's marriage				

Impact on Forest Resource Management:

18. What type of household needs is fulfilled from the forest before and after joining credit programme?

Household Needs	Before	after
• Fuel for cooking		
• Grass/fodder		
• Cash earning (Selling fire wood)		
• Agriculture farming		
• NTFP cultivation		
• Other, specify		

19. Which type of forests you have used to fulfil these needs?

- (a) Government forest
- (b) Private forest
- (c) Community forest
- (d) Collaborative forest

20. Are you involved in the protection/management of forest through involving in the following activities?

Description	Before	After
• Converting private <i>Pakho</i> land into private forest	(Yes) (No)	(Yes) (No)
• Taking membership of the community forest group		
• Planting fodder trees/establishing nursery		
• Trees plantation in government land		
• Involving in forest guard		
• Others		

21. Are you using alternative sources of energy, derived from other sources rather than the forest?

- (a) Yes
- (b) No

If yes, what type of energy you are using currently?

- (a) Biogas ()
- (b) Kerosene ()
- (c) Improved stove ()

If No, then do you have future plan for using alternative source of energy?

- (a) Yes
- (b) No

22. Are you involved in any other institutions/organisations?

Type of Institutions	Yes	No
• Community forest users group		
• Women's Forest Management Committee		
• Cooperatives		
• Other, specify		

23. In your experience, how do you feel about the weekly savings, weekly repayment, and weekly meeting? Is it favourable or unfavourable rule for clients (women)?

- (a) Favourable ()
- (b) Unfavourable ()

If unfavourable, give reasons.

B. Questionnaire for Non-clients**District: Rupandehi****1. Respondent's Information:**

- 1.1 Name: Caste/Ethnicity: Age:
 1.2 Locality: Ward No: VDC/Municipality:
 1.3 Marital Status:
 (a) Married ()
 (b) Unmarried ()
 (c) Widow ()
 (d) Separated ()
 1.4 Family Size
 (a) Male ()
 (b) Female ()
 (c) Total ()

2. Educational Status:

2.1 How many members are literate in your family?

Description	Female	Male	Total
(a) Illiterate			
(b) Literate			
(c) School going children			
(d) Infants			

2.2 What is your own level of education?

- (a) Illiterate
 (b) Just literate (formal/informal)
 (c) Passed class

3. What is your main occupation?

- (a) Agriculture
 (b) Cottage industry
 (c) Business/trade
 (d) Day labourer
 (e) Migrating for seasonal labour
 (f) Migrating to other places in Nepal and India to work

4. Do you have your own house?

- (a) Yes (b) No

If yes, then how is the quality of the house?

- (a) *Pakki* (Good house) (b) *Kachi* (Straw or thatched house)

5. Was your family food -sufficient two or three years ago?

- (a) Yes (b) No

If no, then how did you meet the problem of food deficit?

- (a) Working as an agricultural labour ()
 (b) Making traditional handicrafts materials ()
 (c) Wage salary ()
 (d) Remittances ()

(e) Other, specify ()

Is your family self-sufficient at present?

(a) Yes (b) No

6. Landholding Position:

6.1 What is your land tenure status?

- (a) Owner ()
(b) Tenant ()
(c) Share cropper ()
(d) Other, specify ()

6.2 What was the size of landholding in two-three years ago?

- (a) *Khet* (Irrigated land) *Bigha...Katha...Dhur...*
(b) *Pakho* (Unirrigated land) *Bigha...Katha...Dhur*

7. Have you or your family bought additional household assets recently, or within the last two-three years?

(a) Yes (b) No

If yes, identify from the list below?

- (a) House ()
(b) Land ()
(c) Cattle ()
(d) Radio ()
(e) Bicycle ()
(f) Tools/Implements ()
(g) Other, specify ()

8. In your family, who decides on the following important household decisions?

Areas to be Decided	Self	Husband	Jointly	Others
• Children's marriage				
• Sending daughter to school (if you have girl child of school going age)				
• Family planning (Number of children)				
• Dowry for daughter's marriage				

Forest Management Activities:

9. What types of household needs are fulfilled from the forest? Identify from the list below.

- (a) Fuel for cooking
(b) Agriculture forming
(c) Cash earning (selling firewood)
(d) NIFP cultivation
(e) Other, specify

10. Which type of forest, you have used to fulfil the daily needs?

- (a) Government forest
(b) Private forest
(c) Community forest
(d) Collaborative forest

11. Are you involved in the protection/management of forest through involving in the following activities?

- (a) Converting private *pakho* land into private forest
- (b) Taking membership of community forest group
- (c) Planting fodder trees/establishing nursery
- (d) Trees plantation in government land
- (e) Involving in forest guard
- (f) Other, specify.

12. Are you using alternative sources of energy derived from other source rather than the forest?

- (a) Yes
- (b) No

If yes, what type of energy you are using currently?

- (a) Biogas ()
- (b) Kerosene ()
- (c) Improved stove ()

If no, then do you have future plan for using alternative sources of energy?

- (a) Yes
- (b) No

13. Gender Equity:

14. In your family, who decides on the following household decisions?

Areas to be Decided	Self	Husband	Jointly	Others
• Buying and selling of property				
• Managing HH funds				
• Children's marriage (daughter)				
• Sending daughter to school • (If you have girl child of school going age)				
• Family planning				
• Dowry for daughter's marriage				

15. Where do you go for treatment, if you fall sick?

- (a) Health post/hospital
- (b) Use traditional method in the home

16. Are you sending your daughter to school regularly? Or has she dropped out from school (primary level)?

- (a) Yes
- (b) No

If yes, give reason.

APPENDIX L

Questionnaire for Branch Manager Nirdhan Utthan Bank Ltd.

Name of the Branch:

Office Location:

Name of the Manager:

VDC:

Male/Female:

Ward No:

Questions:

1. Please give a brief socio-economic background of the area with an average annual income of the credit recipients in your area. How Nirdhan has identified the poor?
2. What are the line agencies in the area with which you have to deal regularly? What type of role they are playing for poverty reduction in the area?
3. What support/cooperation do you receive or not from local political leaders (CDO, LDO, chairman of the VDCs)?
4. What do you count as the greatest achievements of loan programme for poverty reduction in the area?
5. What qualitative changes you have noticed in women's empowerment e.g., improved leadership, self-reliant position, and decision-making power of the clients?
6. What changes have you noticed in gender equity matters such as sharing benefits from loan activities and even sharing household workloads among male and female members?
7. What changes have you noticed in sharing the benefits among male and female children specially enrolling the girl child in school, and equal health facility for both of them?
8. Have you noticed some changes in women's behaviour in conserving forests in your area after the involvement in credit programme? If yes, then how they have been changed themselves?
9. Please identify the strengths and weaknesses of microcredit programmes in general and of Nirdhan Programme in particular?
10. What are the reasons for dropout of Nirdhan Bank's clients?
 - a) Because of unsuccessful from the self-employment scheme (%...)
 - b) Because of graduation from the credit programme (self-reliant) (%...)

APPENDIX M

Banks and Financial Institutions Operating in Rupandehi District

Commercials Banks

A. NBL	B. RBB	Joint Venture Bank
NBL, Siddharthanagar NBL, Manigram NBL, Butawal NBL, Khasauli	RBB Inspection Office, Butawal RBB, Siddharthanagar RBB, Kotihawa RBB, Khasauli RBB, Ramnagar	<ol style="list-style-type: none"> 1. Nabil Bank Ltd., Butawal 2. Nabil Bank Ltd., Bhalwari 3. Nabil Bank Ltd., Bhairahawa 4. Nepal Credit and Commerce Bank Ltd., Bhairahawa 5. Nepal Credit and Commerce Bank Ltd., Lumbini 6. Bank of Kathmandu Ltd., Butawal 7. Nepal Bangladesh Bank Ltd., Butawal 8. Everest Bank Ltd., Butawal 9. Everest Bank Ltd., Manglapur 10. Lumbini Bank Ltd., Butawal 11. Standard Charter Bank Ltd., Bhairahawa 12. Himalayan Bank Ltd., Bhairahawa 13. Nepal SBI Bank Ltd., Bhairahawa 14. Machhapuchre Bank Ltd., Bhairahawa 15. Nepal Investment Bank Ltd., Butawal 16. Nepal Investment Bank Ltd., Bhairahawa

Agriculture Development Bank and its Branches Operating in Rupandehi District	Regional Rural Development Banks	Finance Companies	Branches of Nirdhan Bank
Regional Training Centre, Manglapur Inspection Office, Bhairahawa Branch Office, Bhairahawa Branch Office, Butawal Branch Office, Dayanagar Branch Office, Parauha Sub-Branch Office, Lumbini Sub-Branch Office, Majhagawa Banking Department, Bhairahawa Banking Department, Butawal	Western GBB, Butawal Western GBB, Area Office, Semalar Western GBB, Area Office, Padsari Western GBB, Branch Office, Shankarnagar Western GBB, Branch Office, Aamoba Western GBB, Branch Office, Suryapura Western GBB, Contact Office, Marchawar	Western Finance Company, Butawal Siddhartha Finance Company, Bhiarahawa Butawal Finance Company, Butawal Everest Finance Company, Butawal	Branch Office, Dhakdhai Branch Office, Sitalnagar Branch Office, Majhagawa Branch Office, Rampur Branch Office, Mahagdiya Branch Office, Kotihawa Branch Office, Haraiya Siddhartha Development Bank, Butawal

Source: Office Records, Nepal Rastra Bank, Siddharthanagar, Bhairahawa (2003).

APPENDIX N

Reaching 100 Million Poorest

Year	Number of Programmes/ Institutions Reported	Total Number of Clients Reached (in million)	Number of the Poorest Clients Reported
1997	618	13.4	7.6
1998	925	20.9	12.2
1999	1065	23.5	13.7
2000	1567	30.6	19.3
2001	2136	54.9	26.8

Source: Summit +5 Report 2002 pp. 9, 10.

APPENDIX O

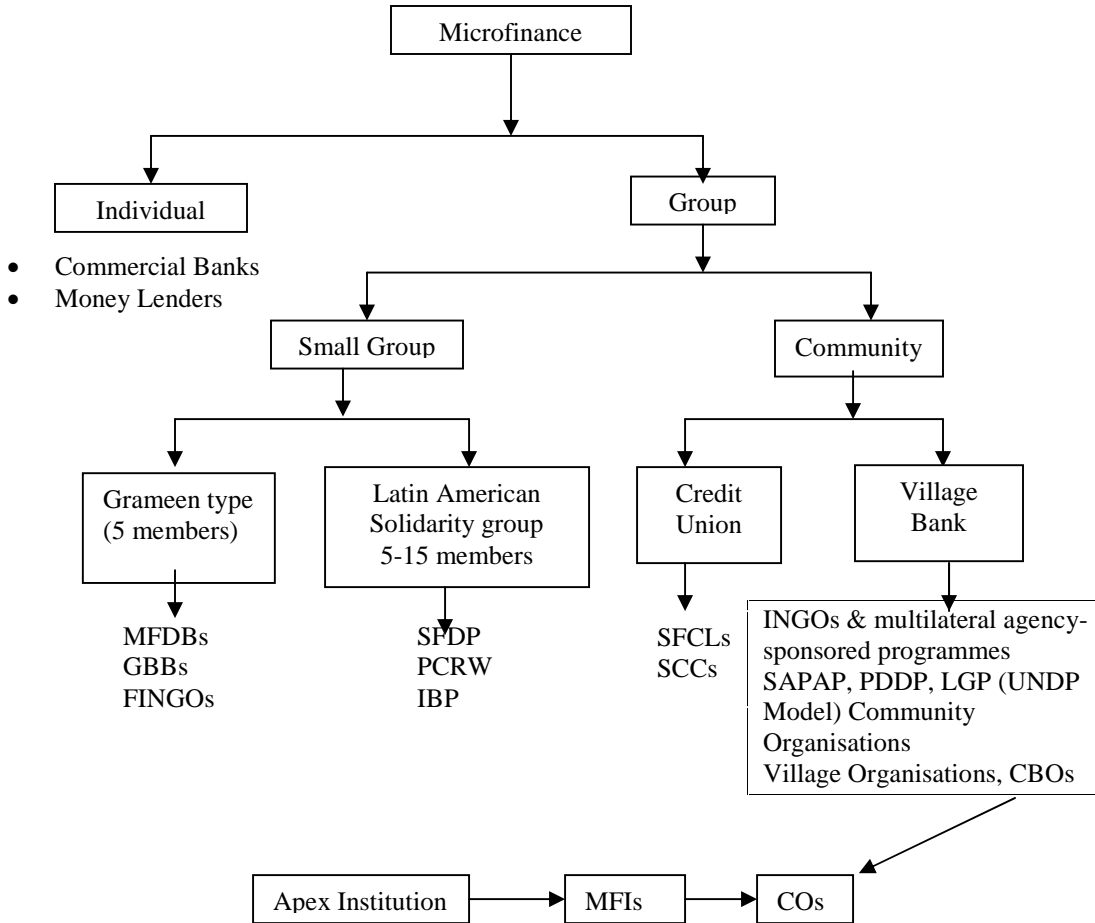
Nepal's Representation to Summit +5 (Data Reported by 31 December 2001)

S.N.	Institution	Total Active Clients (in million)	Total Poorest Clients (in million)	Percentage of the Poorest Clients that are Women
1	ADB/N	162,710	129,980	32
2	RBB	72,953	51,067	56
3	Nirdhan	30,559	30,559	100
4	Swabalamban Bikas Bank	29,530	21,668	100
5	CECI/Nepal	24,058	16,838	50
6	Central GBB	16,540	14,059	100
7	MWGGB	16,540	14,059	100
8	Western GBB	30,415	6,083	100
9	FWGGB	11,786	11,786	100
10	Action Aid/Nepal	11,454	11,454	52
11	Deprosc/Nepal	8,960	8,960	33
12	CSD	1,797	1,300	100
Total		4,17,302	2,87,254	

Source: Summit +5 Report 2002 pp. 22-25.

APPENDIX P

Microfinance Models Developed so Far



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