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1- Introduction:

1.1- An Overview of Micro-Finance in Nepal

Micro-finance, literally synonymous of small-scale finance is a new coinage in development societies. The original and general concept of micro-finance is alleviating the poverty through providing small production credit to the poor without collateral. Recently, it has evolved to mean providing financial services such as giving facilities for savings as well as credit. Thus, instead of forcing established commercial banks to serve for the poor directly, building sustainable institutions specialized to carry out financial service for the low-income population has gained wider recognition in the world and the same tendency is seen in Nepal.

Microfinance in Nepal was first initiated more than two decades ago and has evolved and diversified since then. In 1974 Agricultural Development Bank started Small Farmers Development Program with financial support from IFAD (International Fund for Agriculture Development). It was to provide small farmers with micro-credit based on group collateral and to deliver the credit in their village. Now maximum of the loan is Rs. 30,000. In 1981, the Nepal Rastra Bank (Central Bank) started Intensive Banking Program. It required Commercial Banks to extend banking services to priority sectors. Banks were directed to dispense 12% of total deposits in rural priority sectors: agriculture, industry and services. Another initiative for a low interest, group-based lending program was taken in 1982 under the Intensive Banking Program. This is the Production Credit for Rural Women (PCRW) administered by the women division of the Ministry of Local Development. Under these programs loans from Rs 5,000 to 15,000 for productive activities are available for rural women with assistance of the Women Division Officers. A third model, known as the Micro-Credit Project for Rural Women (MCPW), has started in 1992 with funding from Asian Development Bank. In this program NGOs work as intermediaries. The Rural Self-Reliance Fund (established by NRB) was initiated in 1991 to provide credit to NGOs that wish to work in the rural sector.

After Cooperative Act (1992) came into effect many co-operatives and NGOs have been registered under the Act and legalized their saving and credit activities. 24 organizations among them obtained banking license for limited banking services. It has widened the micro-finance market to some extent and savings and credit cooperatives are getting popularity among shop owners and salaried workers whose income stratum ranges from the low-income to the middle-income. Another channel to the financial cooperatives was opened by ADB and GTZ. The program was implemented to convert the borrower groups under SFDP into village level cooperatives. As a result, cooperatives, which function as credit unions, have emerged in hilly areas late 1990s. Another facilitator of micro-finance movement and widened the market among the low-income household is the replicate group of Grameen Bank. With the initiative of Nepal Rastra Bank, Regional Rural Development Banks have been established in several regions under the Development Bank Act 1996. They target low-income for group-based micro credit exactly following the system invented by the Grameen Bank of Bangladesh. NIRDHAN and Center for Self-Help Development (CSD) are pioneer NGOs that employed Grameen model. Finally international NGOs such as Save the Children (US) have started women Savings and Credit Organization (SCOs) targeting low-income women and PACT, another international NGO, has partnership programs with local SCOs.

Though various types of micro-finance are flourishing in Nepal as we have seen, some programs have developed the problem of low recovery rate or do not function as expected in the beginning. Thus the future of micro-finance in Nepal depends on the sustainability of financial institutions specialized to microfinance such as Grameen replicates and independent SCOs.

1.2- An Overview of NIRDHAN:

1.2.1- Brief History

NIRDAH, which initially means "people without capital", was founded as an NGO specialized to microfinance in 1991. The founder of NIRDHAN is Dr. Harihar Dev Panta who once served as Deputy Governor of Nepal Rastra Bank. In 1986, he visited Grameen Bank, Bangladesh and was inspired to start Grameen replicate in Nepal. In 1993, NIRDHAN started its operation in Siktohan in Western Nepal near the Indo-Nepal border as Terai plains has the poor and dense population just like Grameen Bank Bangladesh has. NIRDHAN had only one manager and one credit officer for microfinance services in the beginning, but soon it started expansion its operational scale.

NIRDHAN obtained a limited banking license from Nepal Rasta Bank (The Central Bank) in 1994 and it was permitted to mobilize voluntary saving only from its member/clients. The growth of operational size was quite rapid and by July 1997, Nirdhan had 8 branch offices, 75 employees and 4481 active borrowers. In November 1998, Nirdhan Utthan Bank Ltd., which means "the bank for upliftment of the poor", was registered with the Company Registrar with the recommendation of Nepal Rastra Bank. In April 1999, Nirdhan was granted another banking license under the Development Bank Act 1996. Nirdhan Utthan Bank purchased all assets from Nirdhan NGO. Nirdhan Bank has partnership with the International organizations such as Grameen Trust, Cashpor APDC, Save the Children/USAID and Plan international. The relationship with them has been mostly developed since its NGO era and its means good monitors outside.

Now Nirdhan's ownership is distributed to several parties. Issued capital of Nirdhan Utthan Bank is Rs. 10 million, and paid up capital as of January 2000 is Rs. 5.5 million. Shareholders and their share as of 1999 are shown in the table below. While shares of Regional Rural Development Banks, another family of Grameen replicate, are more owned (87.5 %) by the government and government-owned banks, all shareholders of Nirdhan Utthan Bank are from the private sector. High percentage of ownership is spared for their clients. Whether this uniqueness has affected its performance or not is ambiguous but it may make differences in the attitude to solve problems or responding to the market.

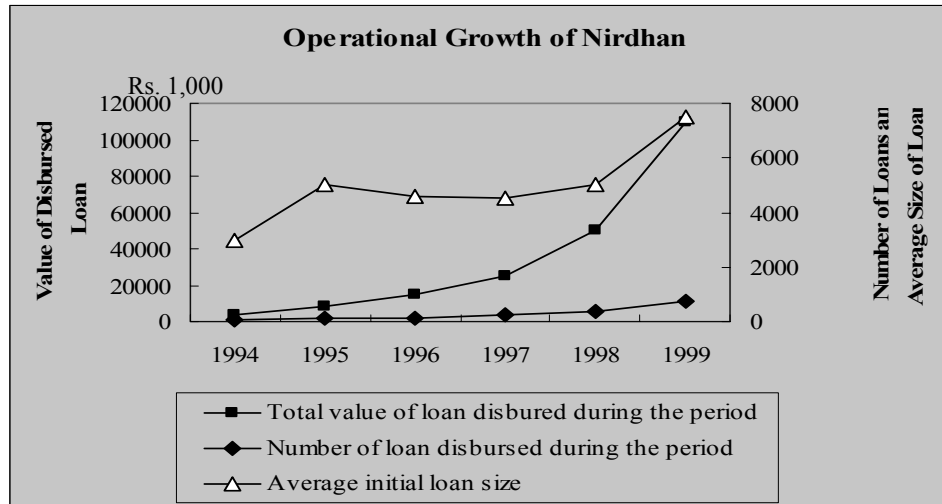
Table No. 1

Shareholders		Shareholders	
Nirdhan (NGO)	12%	Grameen Trust	11%
Himalayan Bank	12%	Individual and Staff	8%
Nepal Arab Bank	12%	Clients (to be issued)	45%

The bank's board is currently comprised of 5 members. Career background of Chairman and Vice-Chairman are Former Governor. Two directors are from Nepal Arab Bank and Grameen Trust and Executive Director is Dr. Dev Pant.

1.2.3- Performance

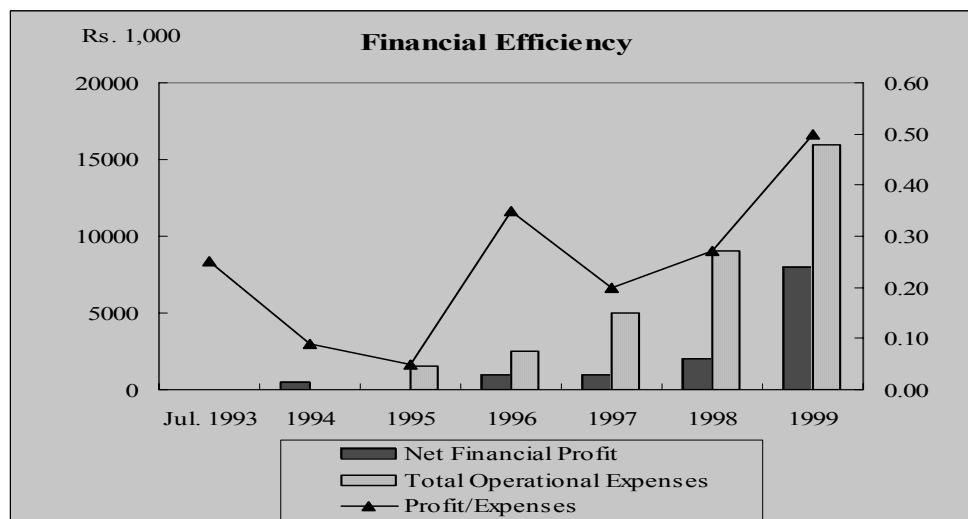
Chart No. 1



Source: Nirdhan Portfolio report 2000

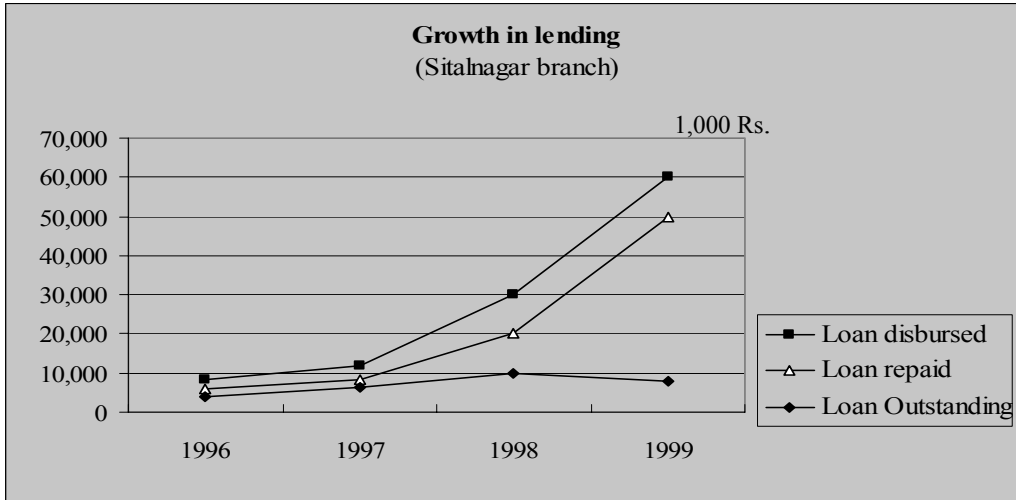
As the Chart No.1 shows, Nirdhan has rapidly expanded its operation area and has grown in its size of transaction. However, it has not been able to make net profit from its financial operation. Although final net profit is positive in recent years, it is because of the grant from donor agencies. There is however, a good sign to improve the financial condition as the ratio of profit to expenditure is getting better slowly. Besides, the balance sheet of Nirdhan shows only the total and it includes the financial data of branches, which are still in infant stage, as well as initial cost of newly opened branches. So we should see the performance of oldest branch. Seeing the monthly report of Sitalnagar branch in July 1996 to 1999, the staff performance has been improved specially in the average amounts of disbursed loan per staff. It is attributed more to the increase of average loan size than the increase of groups. Because the branch is the oldest one, it is expected that other branches will also follow this as they gain experience by practice if other conditions are the same.

Chart No. 2



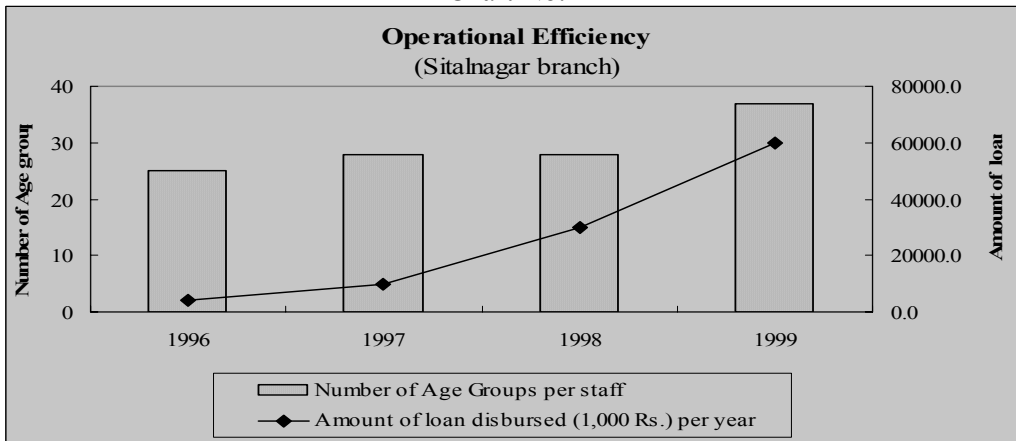
Source: The income & expenditure report of each fiscal year.

Chart No. 3



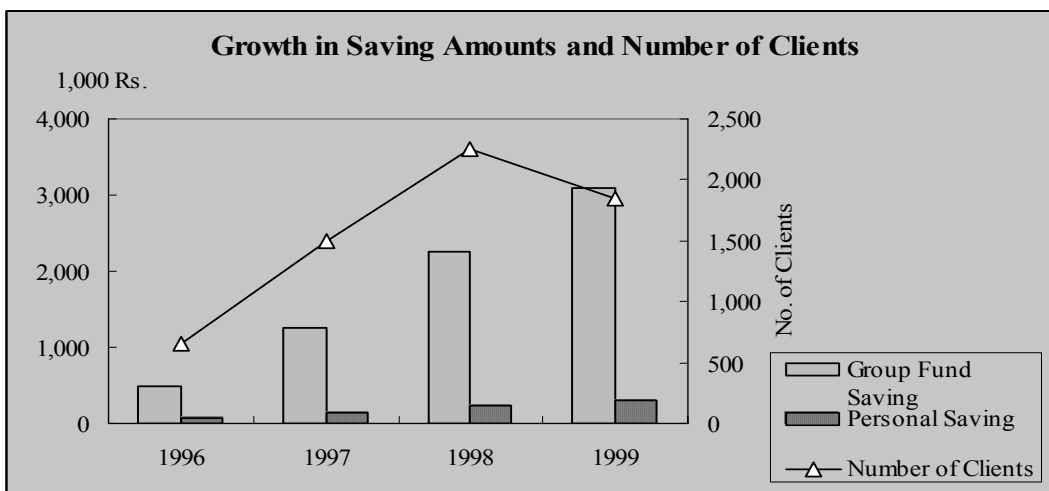
Source: Branch-wise progress report in each year.

Chart No. 4



Source: The progress report of each year.

Chart No. 5



1.3- Objective, Methodology and Data Processing of the study

Nirdhan has shown its significant growth in the scale of operation and the progress in efficiency even though it has started with little help from the government. However, whether Nirdhan or Grameen Bank scheme can survive without subsidies/grant in future is yet to be examined. It is often questioned that whether Grameen scheme is really serving the poor. We do not take this approach. We start with the fact that the institute is absorbing clients and the efficiency in terms of financial transaction is improved in the oldest branch, Sitalnagar. The main objective of this study is to examine how the institution is functioning in local economy with what type of clients, what type of financial services are most demanded and so on. With the results, we can see whether they have more capacity to absorb larger loan continuously and bring out necessary suggestions.

We chose the Sitalnagar branch area for our field survey with the suggestion and permission from the Executive Director, Dr. Dev. Pant, because the oldest one was best suited for our study. At Sitalnagar branch, first of all, we contacted branch manager and the staff and held informal discussion about our objectives, their clients and management system as well as the main causes to leave Nirdhan's membership for the drop-out. Interview with sample clients was carried by two male and one female assistant hired from Kathmandu during the study session. Nirdhan staff helped us during the field survey by identifying the members' houses.

32 active members and 11 dropped members were chosen to give reliable and representative picture of the member's household economy, saving and credit practice and other characteristics. In order to collect various kinds of information from different types of clients, samples were selected after stratified the members into farmers and small business entrepreneurs. There are limitations we did not employ indifferent selection method perfectly. Data collected were listed for analysis with help of the spreadsheet program EXCEL.

2- Field report of Sital Nagar Branch:

2.1- Economic and Financial Environment:

2.1.1- Marketing Area for Products:-

The economic potential is an important factor for a financial institution. The clients of Sitalnagar branch have several types of market as follows:

Big markets: - Kathmandu can be assumed as big market where the excess product and industrial products are mainly supplied due to higher demand prevailing in Kathmandu. It is approximately 350 Km far from this area, connected by Prithivi/Mahendra (East-West) Highway. Daily and Night schedule bus and trucks ply over 24 hours to and from Kathmandu. So transportation service can be accessed every 30 minutes.

Medium Markets:- Butwal, Bhairahawa, Narayangadh are nearest middle-level markets for the local people which are 15 Km, 45 Km and 150 Km respectively from their locality. Most of the whole-sellers are residing in these fast-expanding towns. Excess

agricultural products and industrial products can also be sold there and transportation can be accessed every 15 minutes.

Local Markets:- Khairani, Sitalnagar, Sunawal Bazar are the local markets for the local people. People can take local jeep service every 15 minutes to reach these areas. The people can also sell and barter their excess products at local Hat Bazaar (weekly market) each week.

2.1.2- Products:-

Products are mainly agro-based. They range from Paddy, Wheat, Mustard, Lentils and Vegetables to potato. Different types of lentils are harvested and exported to Kathmandu and even to India. Bananas from this place are also sold in large amount. The villagers also supply milk to the dairy and local teashops. Goat raising and poultry-keeping has been taken as income generating business. One profitable business found here is making of Rakshi (local alcohol drink) which is brewed mainly by the flood-afflicted Gurungs and Magars of the survey area.

2.1.3- Wages Labor Opportunities:-

Carpentry and brick laying are the two occupations currently in great demand in the area. A local brick-kiln also provides good labor opportunity for the locals, especially those who lack skills. Dish washing and cooking in the local tea-shop or food restaurants are also providers of labor opportunity for the people there. Jeeps, which make up the majority of the local transports, provide drivers and helpers with steady jobs. Rickshaws are also the main providers of job to the food-afflicted local youth. Generally women get seasonal works as landlords during crop harvesting periods call them to work. Majority of the males of this area works in India either as soldiers or servants. Some of them are working in India (Punjab) for seasonal agriculture workers.

2.1.4- Financial Institutions:-

Most of the financial institutions are located in large business center, namely Butwal, Bhairahawa. And they have also branches in Khairani Bazar and Sunawal Bazar which are accessible by bicycle from the office of Sitalnagar as well. ADB has an office near by. Its clients are relatively wealthy farmers with several bighas of land and larger size of loan is available based on land collateral. Many banks have established their branches in Butwal over these years. Four years back there were only three banks (Nepal Bank, Banijya Bank and Agricultural Development Bank). Presently there are ten Banks and Cooperative & financial companies have mushroomed and which have heavy investments. Many of them are branches of the banks and financial companies. The latest one is branch of Nepal Bangladesh Bank. New financial institutions, with their newer technology and better customer services, are attracting clients with new and attractive schemes.

2.2- Social Characteristics and the Population of the village:

Our study reached between the Nawalparasi and Rupandehi district in Central Terai Region (15 Km east from Butwal town) of Nepal. Sitalnagar branch office covered 2 VDCs of Nawalparasi district and 5 VDCs of Rupandehi district.

Total population of these 7 VDCs, which are covered by this branch office, is 62,233. Bramin, Chhetri, Gurung, Magar, Tharu and other lower castes peoples inhabit this area. The Bramin, Chhetri, Tharu and other lower caste people are belong to the Hindu caste society and Gurung, Magar are an ethnic group with in Tibet-Bramin origin. Along with the both Hindus

and Tibet-Bramin people, there are few numbers of Muslim peoples who came into the area several decades ago. Mostly the Gurung, Magar and some of Bramin, Chhetri people are migrated from mid hill region since last one and half decades ago. Such migration trend is going on due to difficult geographical structure in the nearer mid-uphill region of these areas.

The dominating religions are Hinduism and Buddhism, but the degree of cultural integration and influence from one culture and society to another has lead to a more mixed culture and thus a mixed practice regarding religion. The main festivals for Hindus are *Dashain*, *Tihar* and *Teej*. These are celebrated by both of religion's people during the period of September to November. For Buddhists, *Pus Pandra* and *Buddha Jayanti* (Buddha's Birthday) in the months of December and March (celebrated only by Tibet-Brahmin Buddhists) constitute the main festival. As per the Hindu festivals, both religions' people due to mixed practice culture and religion celebrate these festivals. Therefore, during the period of these festivals (especially in Dashain), they prefer to celebrate in a full measure capacity even if they are not able to expense such a huge amount of money for their other fundamental necessities.

2.3- Operation size of the branch

Sitalnagar branch office is located near by the east west highway. It has covered 7 VDCs namely Sunawal, Debadaha, Kerwani, Siktahan, Banjariya, Kataiya and Makrahar in Rupandehi and Nawalparasi districts. This branch office has 9 staffs including 1 branch manager, 1 accountant and 7 field officer and they deliver financial services to 1,836 clients (as of July 1999) and total amounts of disbursed loan was Rs. 58,835,640. Out of 21 branches of Nirdhan, it is the oldest branch among of them and the largest in transaction.

2.4- Operational Pattern:

2.4.1- Procedures of group formation and loan lending:

To launch a micro-credit program in areas or villages, Nirdhan conducts a survey to access the need and demand for micro-credit and explore probable obstacles. If the conditions are favorable, the Nirdhan organizes people (women) into group of 40-50, which are called Samiti (committee). The Samiti itself is divided into six to eight smaller groups. Each smaller group has 5 members in average. Eligibility is strictly limited to people who don't own more than half a hectares of unirrigated land or 0.25 hectares of irrigated land per five person family. Those who have family members working in the formal sector and houses with cement walls or ceiling, a per capita income of more than US \$ 61, current loans from other providers of financial services are not allowed to join. Similar social status and economic resources are regarded preferable to make the groups have equal bargaining strength. New members should enjoy mutual trust and confidence and belong to the same locality.

Group members make a small saving deposit and are trained for two or three days after group formation. If members conform to the discipline of the Nirdhan, credit is disbursed in a 2-2-1 pattern with the group leader receiving the last loan. Each member must contribute 5% of the loan amount at the time of loan disbursement as compulsory group saving. Initially, members of the group are given credit to be repaid within a year in equal weekly installments and observed over one year. Generally, the loan amount is ranges from Rs. 2,000-5,000 and goes up to Rs. 25,000 except house construction loan.

If they can pay their weekly installments and maintain group discipline, new loans are given to them the next time. If any member defaults, the whole group members pressurize the defaulter to keep up with regular payments. In this way, although credit is given to an

individual member, the group is ultimately responsible for loan repayment and maintaining financial and social discipline. Group members can also take multiple loans, which actually show up as new loans.

The place where the Samiti meets is called a Kendra (Center), which is the core of all activities. All transactions are openly conducted at the center's meetings. Nirdhan staff, who visits the center each week, assists each center's group leaders. Members are required to attend all meetings. The agenda and monitoring of transactions is done by consensus. The center chief and each group leader enforce member attendance, weekly payment, monitor loan utilization and discipline. The Nirdhan staffs also monitor loan use. Such close monitoring is believed to improve the performance of the borrowers.

Nirdhan also mobilize savings and consider it an integral part of lending. Each member has to save Rs. 2 per week and deposit it at the weekly group meeting. Members are also required to pay once Rs. 9 as training fee, which is, provides in starting phase. If someone delays to repay her installment, penalty could be imposed. Penalty amount is used for building the Center's house where 35 center houses have already being constructed in the Sitalnagar branch area. Besides these, if any one of the active member passes away, the deceased member's family will get Rs. 1,500, Rs. 2,500, Rs. 3,500, Rs. 4,500 and Rs. 5,000 (depending on the number of years she had been the member) as funeral expenses.

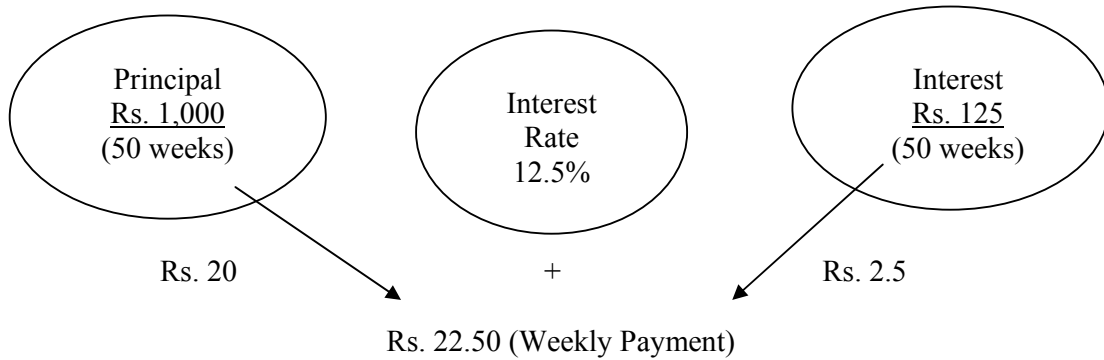
Loan Scheme:

Table No. 2

Purpose	Loan amount	Interest Rate	Due in yrs.	Loan Provided on
Buffalo	5000-20000	12.5%	1	
Goat Raising	2000-20000	12.5%	1	
Pig Keeping	5000-20000	12.5%	1	
Vegetable/Business	5000-20000	12.5%	1	
Fertilizer	2000-2500	12.5%	1	After 6 months of first Loan
Tap and Sanitation	3000-6000	12.5%	2	
Seasonal	50% of general Loan	12.5%	1	After 6 months of second Loan
Housing	5000	18%	6	
Housing Plot (Ghaderi)	15000	18%	6	
Rickshaw	8000	12.5%	1	
Tanga	10000	12.5%	1	

Chart No. 6

Interest on Loan:



According to above diagram, the interest rate on loan is 12.5% but if we calculate it on law of diminishing balance method, interest rate will comes up to 23.58%.

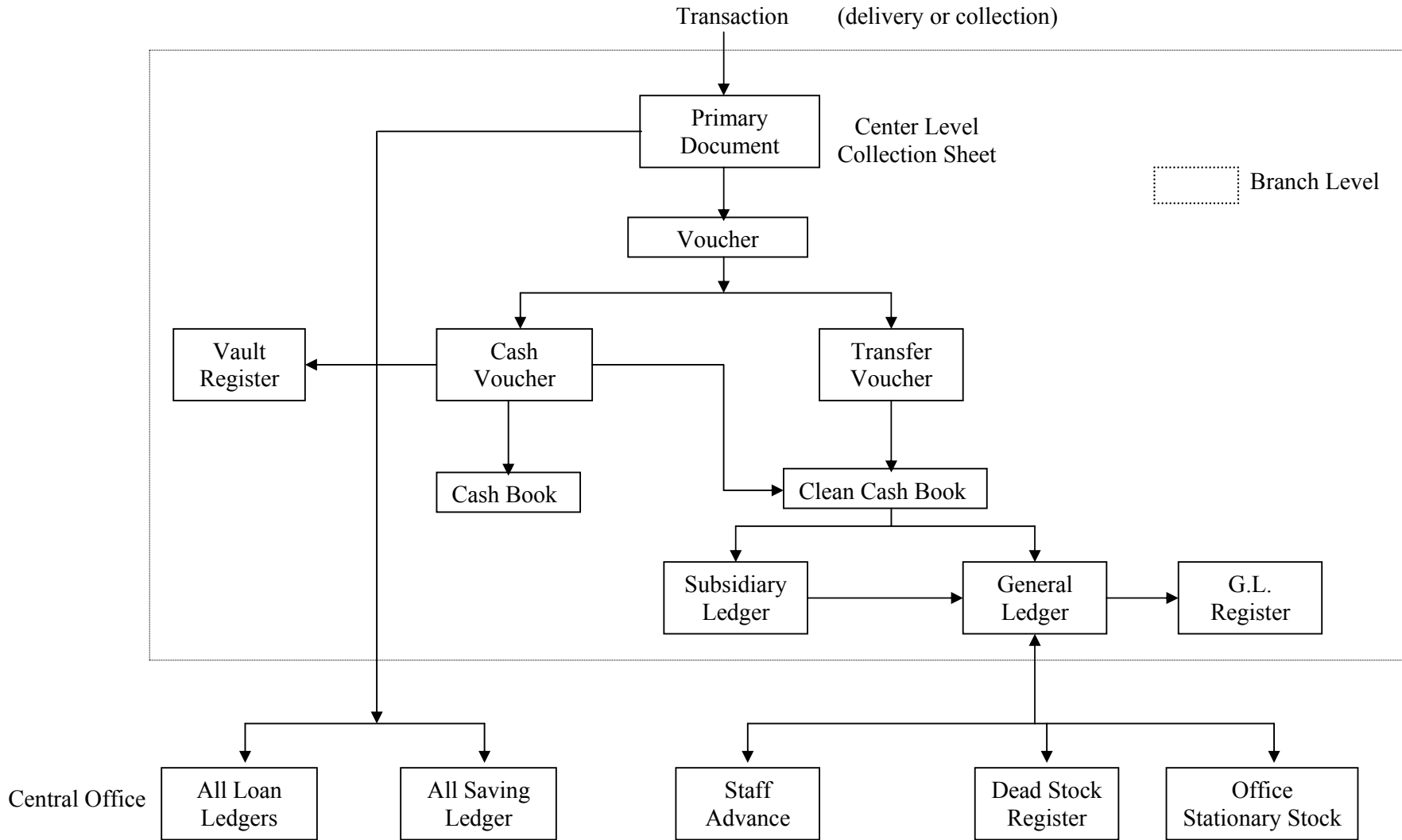
Saving Scheme:

Table No. 3

Types of Saving	Interest Rates	Remarks
1- Volunteer Saving	8%	
2- Compulsory Saving	8%	
1) Rs. 2 weekly		Refund at end
2) 5% of loan		Refund at end
3) 6 months interest		Refund at end
4) Penalty		Not-Refundable
5) Rs. 9 for Training		Refund after 10 years

Chart No.7

Book Keeping System of a Branch Office



2.5- Brief sketches on the staff and its activities

Our study area comes under Nirdhan's Bhairahawa area office, which has 11 branches including Sitalnagar branch office. Although all Nirdhan's branches are currently serving rural areas, Sitalnagar branch office is located in semi-urban area. It has 1 branch manager, 7 loan/field officers and 1 accountant. Most of them are 20s and active. As Nirdhan's policy is to hire its personnel from rural areas and of similar socio-economic status as its clients, all of the staff is from the local areas. Education level of the majority of the loan officers is SSLC¹ graduate. Loan officers have little or no experience before joining Nirdhan Mr. Pawan Shrestha, branch manager of this branch, hold Bachelor's degree in commerce and management, and the accountant hold intermediate in commerce and management.

The staff starts their routine work around 8 o'clock, much earlier than other banks. They have to be in the field following their daily schedule for weekly loan disbursement, installment collection and checking member's attendance as well as monitoring and counseling of the members. After return to the office, field officers have to fill several forms for reporting. In accordance to the field manual, the branch office has to submit various reports to its area office on regular schedule. The reports and ledgers to be made are shown in the Table No. 4 and Chart No. 7. Therefore the working hours are longer and their working style is more intensive than in an office of ADB, state-owned bank.

Branch manager is provided with specific monthly targets such as the number of centers to form, the number of groups per center, and the number of center to be managed by each field officer. This gives pressure to the manager to monitor and counsel the field staff, but these tasks does not seem to be overburden because all the staff spend much time together including taking lunch or dinner and exchange information in informal ways. The office has accommodation to stay overnight and live-in system for some workers. It seems to be very helpful for both manager and field staff to share the problem they are facing.

With all these, the staff seems to be enjoying their job to some extent and nurturing team spirit.

Table No. 4

Type of report	Cycle
Loan disbursement	weekly
Loan collection	weekly
Overdue loan	weekly
Member attendance	daily and monthly
Loan utilization check	monthly
Income-expenditure statement	monthly
Balance sheet	monthly
Progress report	monthly
Portfolio per loan product	monthly
Portfolio per loan officer	monthly

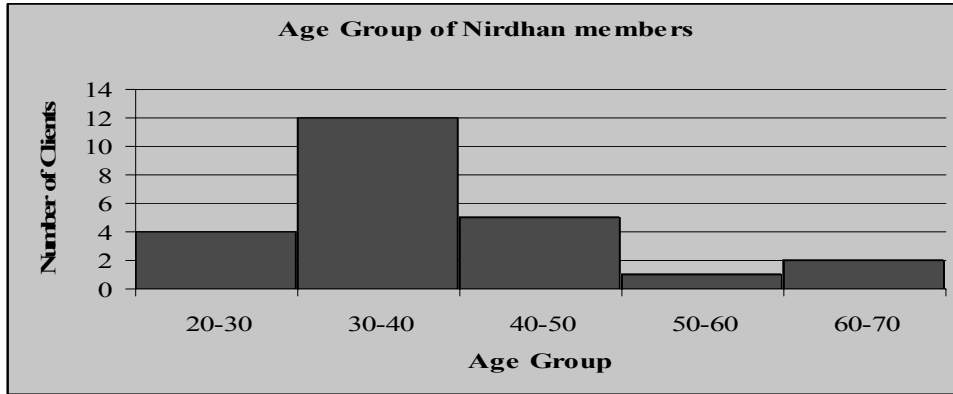
¹SSLC (Secondary School Leaving Certificate) is given to those who pass the examination carried across the nation annually and it is equivalent of 10th grade.

3- Profile of members:

3.1- Age group of members

The chart No.8 gives the age structure of the sample members in entire survey. 8 respondents did not give answer but apparently majority of Nirdhan clients belongs to the group of economically active age.

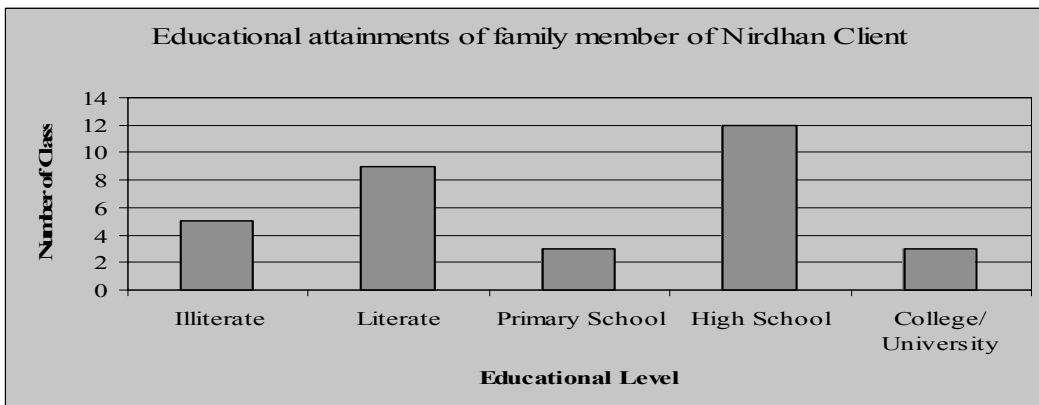
Chart No.8



3.2- Educational attainments of Family members:

A rough study preceding to this research revealed that average schooling years among members is less than 6 years and more than 30% were illiterate. In this report, educational attainments are mentioned not only of the respondents but also family members. If any one of the household members has attained the minimum schooling or above, the educational attainment is classified in the primary (≥ 6 class), high school (≥ 8 class), and college and university categories (10+2 to Master Level), respectively. If any of the household members has attained education below class 6 but can read and write, the household is categorized as literate. It is to see the family's functional level of literacy and potential to absorb information, earn cash income and deal the problems now and in future with next generation. If the family has a child with high school education, it would make difference in absorbing information from outside and a family with a college degree holder will bring stable income. We found that about 16% of households are completely illiterate while 17% have family members with more than 10 years education.

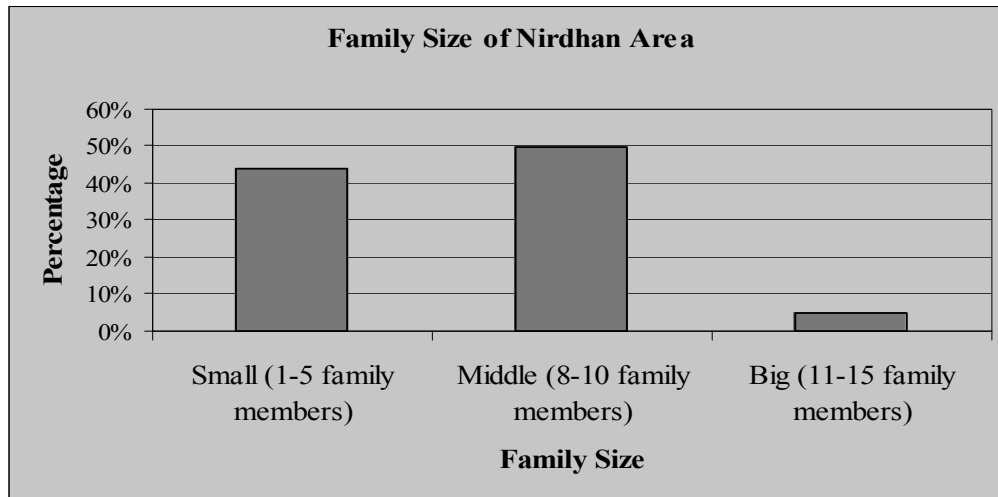
Chart No.9



3.3- Family Size:

As in the case of family size, the proportion of respondent's family size are classified into 3 groups, "Small" with family number 1-5, "Middle" with 6-10 members and "Large" with 11-15 members. While "Large" is only less than 10%, "Small" and "Middle" family sizes even the rest. Though the Tharu people are residing mostly in joint family and their native country is under the study area, our field survey covered mostly the flood afflicted people or the people who have migrated from other places. That's why big family size seems less in percentage.

Chart No. 10



A Story of A Successful Entrepreneur

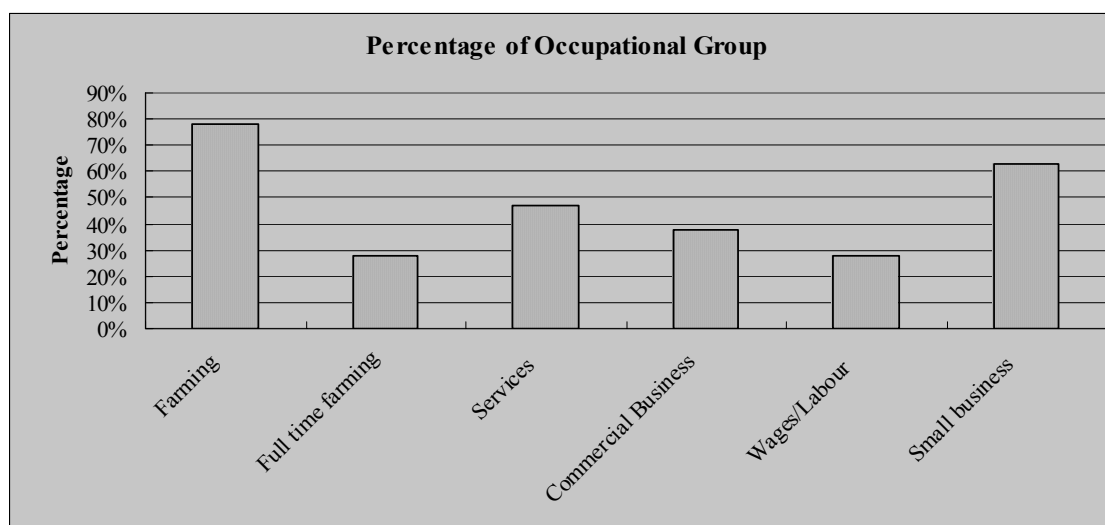
While we reached the door to Nirdhan loanee named Prema Tiwari she became so happy to see us. She was a successful entrepreneur of Nirdhan clients. Actually she was migrated from Baglung district 10 year ago. Her husband and herself started fruit business first in mobile stall. Due to same locality Nirdhan started to give them loan also. Her start up business money was Rs. 15,000 including mobile stall. Gradually they became success on their fruit business. Since last couple of year, they have started wholesale fruit business in Butwal leaving their retail fruit shop. Giving answer to our question, they have planted banana plant in 0.30 hectare land which will start to give return after 2 years. Along with this business, they have made a shed for poultry farming whose cost was around Rs. 18,000. Last year they had been able to earn Rs. 15,000 excluding all expenses from poultry farming. Beside this, they have been able to save monthly 4,000 rupees from banana business where they used to pay monthly Rs. 4,000 to 7,000 (Rs. 600 to 900 per trip) on transportation for banana business. Now they have been able to admit their kids in private boarding school.

Finally she says:

*JASO TASHO HAT MUKH JORNA SAKEKO CHHU
(Anyway, have been able to live hand to mouth)*

3.4- Occupation and Income Sources

Chart No. 11



Above table shows that 78% respondent gain income from farming whereas only 28% are full time farmers. Besides farming, it can be seen that various types of occupational groups have been found. Though many households are involved in farming in some way, the income from farming is not significant, rather insufficient to support their family. However, many households have other income sources and this plurality brings more frequent cash flow.

Table No. 5 Main Income Sources

Main Source	No.	%
Farming (A)	25	78
Salaried (B)	8	25
Business (C)	12	38
Skilled wages (D)	4	13
A + B	7	22
A + C	8	25
A + D	2	6
A + B + C	2	6
Total	32	100

Note: - "Skilled wage" includes tailors and carpenters.

Table No. 6 Self-sufficiency with their own production

	Farming	Small Business	Total
Self-sufficient	9 (75%)	5 (25%)	14 (44%)
Not self-sufficient	3 (25%)	15 (75%)	18 (56%)
Total	12	20	32 (100%)

Note: - The number in parenthesis is the ration against the total of each occupational category.

3.5- Average land holding size

It was observed that most of the people don't have land certificates due to resettlement area being chosen during the study period. Because *Bari* (Low Land) is similar to rain feed *Khet* in Terai region, rain feed *Khet* also can be assumed as a *Khet* which yields only one harvest at a time in a year. Though the land in the survey area was not classified as to whether the farms were with certificate or without certificate, proportionately the farmland in the areas seems much lesser in size than what the general Nepalese people hold. In the study sample, where 7 households rented *Khet* and 2 households rented out *Khet*, the average size of the rented *Khet* is 0.167 hectare and rain feed rented out *Khet* is 0.039 hectare respectively¹.

Table No. 7

Types of land (with certificate & without certificate)	Average Land in hectare
Own Irrigated Land	0.0144
Own Rain feed Khet	0.351
Own Rain feed Bari	0.004
Rain feed rented in Khet	0.167
Rain feed rented out Khet	0.039

3.6- Assets other than Land:

It is revealed that durable goods, which are shown above indicate the economic status or living standard of people. Though the Radio and Bicycle holding numbers are higher than others, generally TV, private well, private toilet and motorbike indicate better household economic status as compared to the rest. To calculate the value of mobile assets other than cash, 4 items' values are weighted according to the market price. So, aggregated points of total items comes to 181. In average, it comes to 5.7. According to given weighted factors, one point is assumed as a value of Rs. 1,000. Therefore, average value of mobile assets, which have high potential to be collateral for porn shop if available, seems to be Rs. 5,700.

¹Land area is measured in the local measuring units, namely, the *Dhur*, *Kattha*, *Bigha*, *Ropani* and these are converted to Hectares.

1 Dhur	182.25 Sqf.
1 Kattha	20 Dhur
1 Bigha	20 Kattha or 13.31 Ropani
1 Ropani	0.05 Hectare

Table No. 8

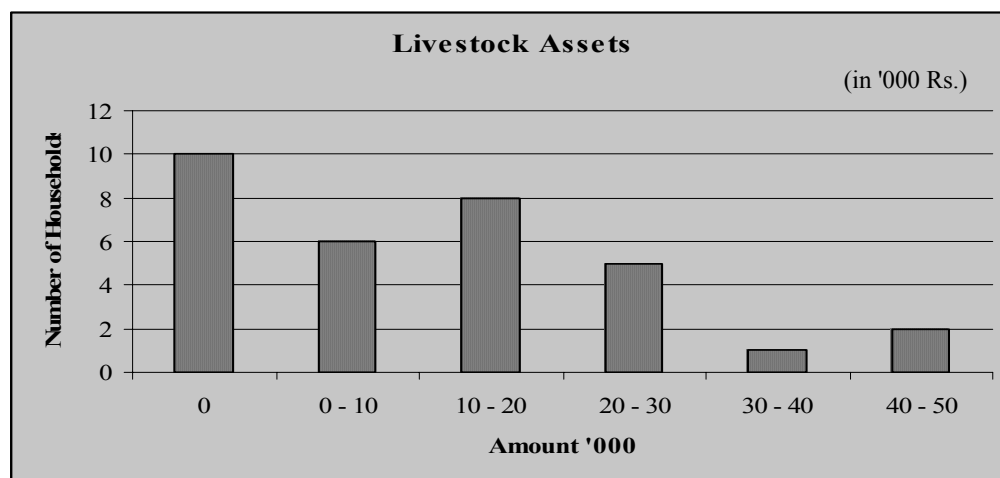
Assets other than Land	
Items	Numbers
Tape Recorder	5
Bicycle	17
TV	10
Refrigerator	2
Weighted Points	181
Average per household	5.7
Radio	15
Stove	12
Well	12
Toilet	13
Bio-gas	0
Total	233
Average per household	7.3

Note: - Weight on factors: Tape Recorder 2, Bicycle 3, TV 10 and Refrigerator 10

3.7- Livestock Assets

Livestock can be assumed as main wealth of the rural household along with land. The most common form of livestock holding is cow, oxen, goat, buffalo and poultry. The value of livestock which they possess was taken by asking about current market price. Generally cow, goat and male buffalo holding households are more than pig, female buffalo and others. Male buffaloes are mainly kept for plowing and pulling bullock-cart as a means of transportation. Cows and female buffaloes are kept for milk and manure.

Chart No. 12

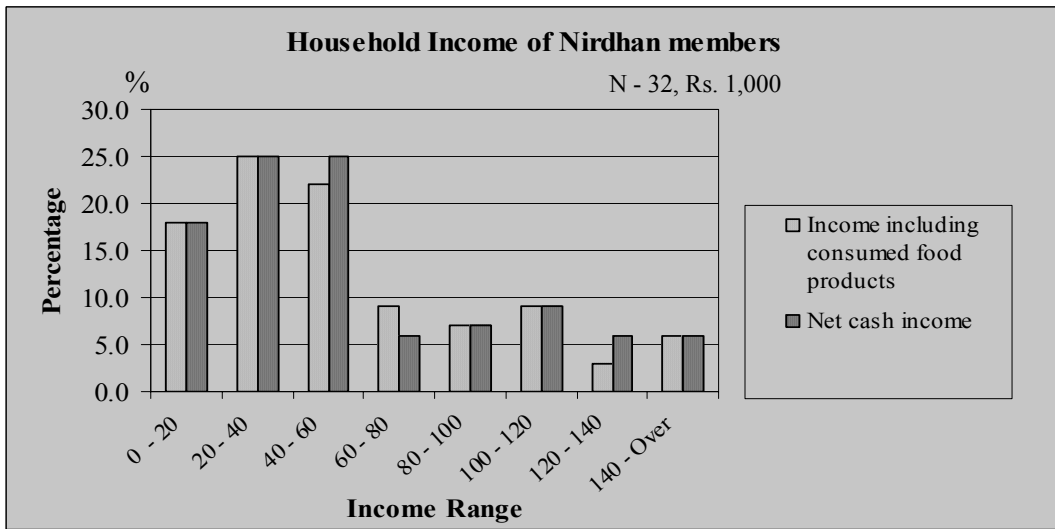


4- Annual Household income and Expenditure:

4.1- Annual household income

Average income including the consumed products is Rs. 61,778.72, which is a little better than the average income of small farmers in Terai belt ². However, the each household income is widely dispersed and about half of them are under 40,000. The distribution of net cash income levels does not differ so much from income with consumed food products because the families whose production is enough to feed family members more than 9 months account only 44% among the sample. The high income households with more than Rs 100,000 have plural sources of good cash income such as remittance, salaries or sale from businesses.

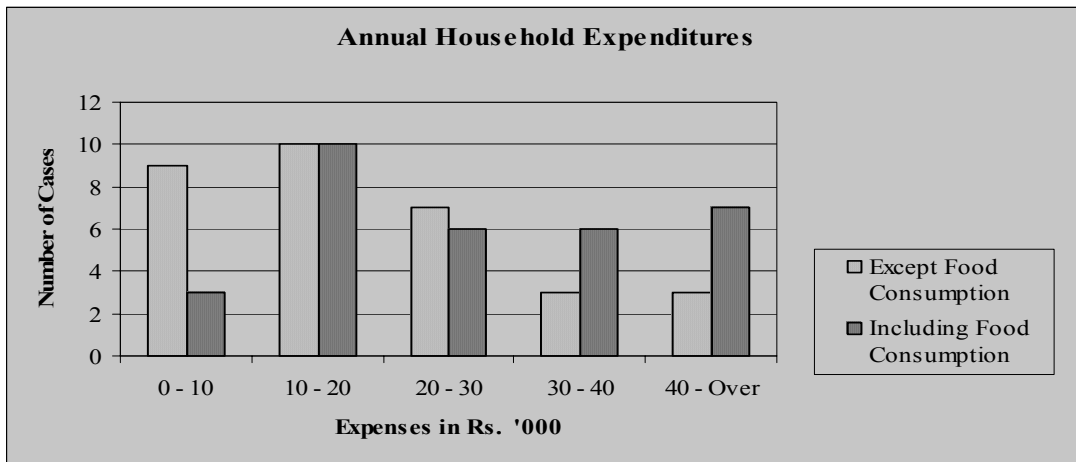
Chart No. 13



4.2- Annual Household Expenditures:

4.2.1- Annual Household Expenditures

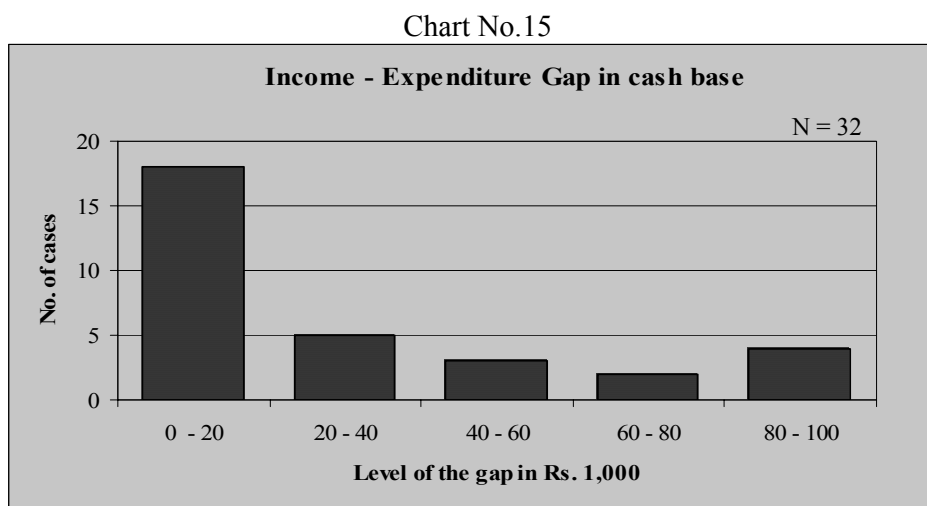
Chart No. 14



According to the sample survey done in 1990/91, the average annual income of small land holders in Terai was Rs. 24,367 (Nepal Rastra Bank [1994] *Nepal Rural Credit Review* Volume 2).

The Chart No. 14 shows the levels of annual household expenditure. The expenditure was calculated with the expenditure for food and without food because the expenditure for food is still significant. Though the income levels range widely 80% of the amounts of total expenditure come under Rs. 30,000 except food consumption and Rs. 40,000 when food consumption is included. It means that not a few families have enough surpluses to save in bank accounts. (See the chart)

There are, however, households with extremely high expenditure over Rs. 80,000. They each had a marriage ceremony in the study year and two families spent more than Rs. 100,000 each.



The expenditures for consumption of goods/commodities are grouped under various categories for simplification. All expenditure recorded refers to the last year's expenditure. Above chart shows that average annual food consumption is Rs. 12,000 which is fairly high compared to other categories. Marriage and funeral expenditures are also higher compared to other categories.

4.2.2- Annual Expenditures on Health and Education (More than Rs. 5,000)

Table No. 9

	Households whose expenditure on health exceed Rs. 5,000	Households whose expenditure on education exceed Rs. 5,000
Number of Household	2	15
Percentage	6%	47%

Though majority of respondents who had spent some money for the medical treatment and education was found during our field survey, it was thought that the appropriate measuring

way to below the impact of micro-credit was if the respondents who had spent more than Rs. 5,000 yearly for the medical treatment and education .

Current average income level is estimated from this amount in consideration of the price increase of consumer stands between 1990 and 1998. It is about 41,000.

Therefore, only 2 households (6%) and 15 households (47%) had spent more than Rs. 5,000 annually for medical treatment and education for their spouses respectively.

4.3- Earnings from Small Business

Table No. 10

Rs. in '000	Kirana, Box shop	Tea Shop, Restaurant	Vendor, Trade	Tailor, Carpenter	Other small Business
Under 10	1	0	1	0	1
10 - 20	1	1	0	1	1
20 - 30	1	0	1	0	1
30 - 40	0	0	0	1	1
40 - 50	1	2	2	0	0
Above 50	0	0	3	0	0

As we have seen before, many members are involved in small business. The levels of income from these small businesses are shown in above table. Half of them are not raising income enough to support their family by the business alone while some trading businesses earn good income.

5- Saving and Borrowing Behavior:

5.1- Investment:

5.1.1- Investment and its Financial Sources:

Investment in Last two years Table No. 11

	Livestock	Housing	Business
Numbers	16	12	10
%	50%	38%	31%
Range of Loan Amount	Rs. 3,500 - 70,000	Rs. 6,000 - 190,000	Rs. 4,500 - 50,000
Total Amount	Rs. 237,100	Rs. 857,600	Rs. 161,500
Average Amount	Rs. 14,818.5	Rs. 71,466.7	Rs. 13,458.3
Ratio Covered by Loan	60%	11%	69%
Ratio Covered by Saving	10%	80%	31%
Ratio Covered by Others	30%	9%	0%

To know the loan and saving utilization, we had included the investment pattern asking them the last two years' investment in different sectors. Table No. 4 reveals active investment among members and their capacity of saving. Livestock, housing and business are the biggest three categories for investment. Some households have invested in both of or three of above categories as well. What surprising us is the fact that total amount as well as the average of investment for housing is quite large and some households among Nirdhan members can afford for that amount of money. However, housing is less covered by loans. It may be because taking formal loans for housing is difficult and not enough to cover the total costs while loans for other sectors are more accessible for the Nirdhan clients.

5.1.2- Covering the Start-Up Cost for Business

Table No. 12

Types of business	Kirana, Box shop	Tea Shop, Restaurant	Vendor, Trader	Tailor, Carpenter	Other small Business
Total Number of Business Operating	4	3	7	2	4
No. of Business Started from Nirdhan Loan	1	0	4	1	4
Average size of Start-up Cost	Rs. 10,000	Rs. 3,000	Rs. 22,500	Rs. 5,000	Rs. 7,375

In our field survey, 20 households are engaged in small business. 10 businesses (50%) were found started with Nirdhan loan. The small businesses are categorized in its natures and types; Kirana box shop, Tea shop or Restaurant, Vendors or Traders, Tailoring or Carpentry and other Small Business. We found some households of the Tibetan - Bramin origin engaged in brewing local alcohol (*Rakshi, Jaad*), which is popular in flood afflicted area. They are categorized under "Other Small Business" in the table.

5.2- Saving Capacity and Behavior:

5.2.1- Changes of Personal Savings:

We had randomly taken out 20 member's personal saving records from the ledger of the branch office because the respondents were not able to tell how much balance is in their personal saving accounts. The Chart No.16 shows seasonal fluctuation of savings. Saving amount seems higher in the month of Sawan and Mangshir (July, November) due to more opportunities of agriculture labour in these two months. Occasionally, very few members have saved Rs. 2,000 or over Rs. 3,000 at a times.

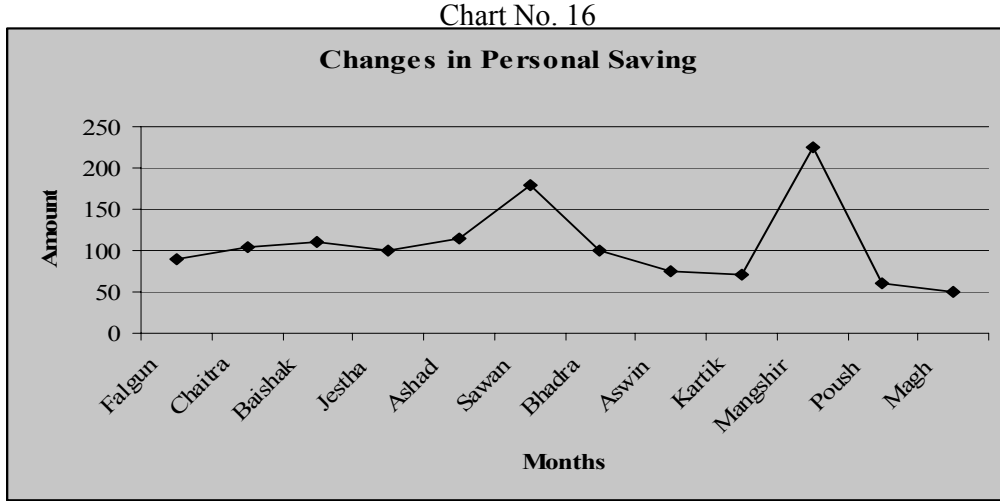
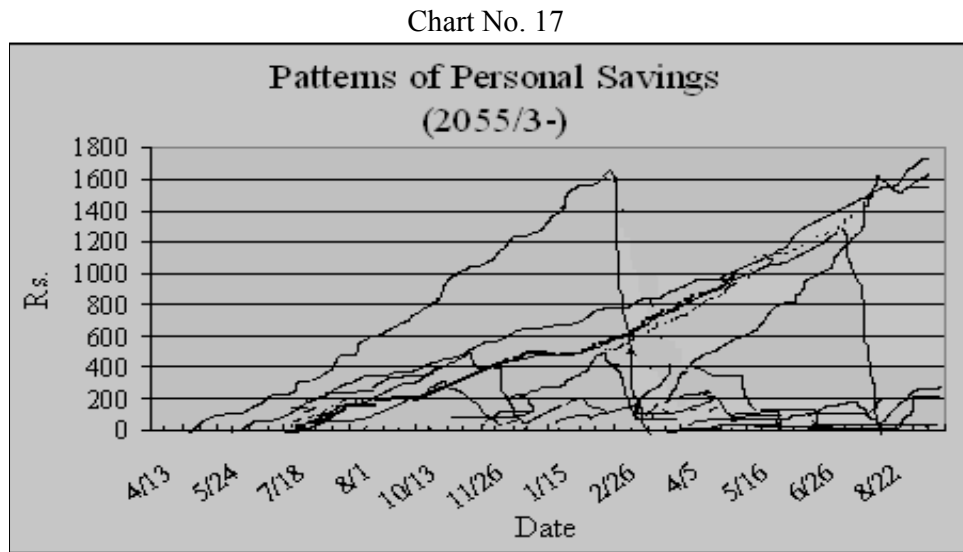
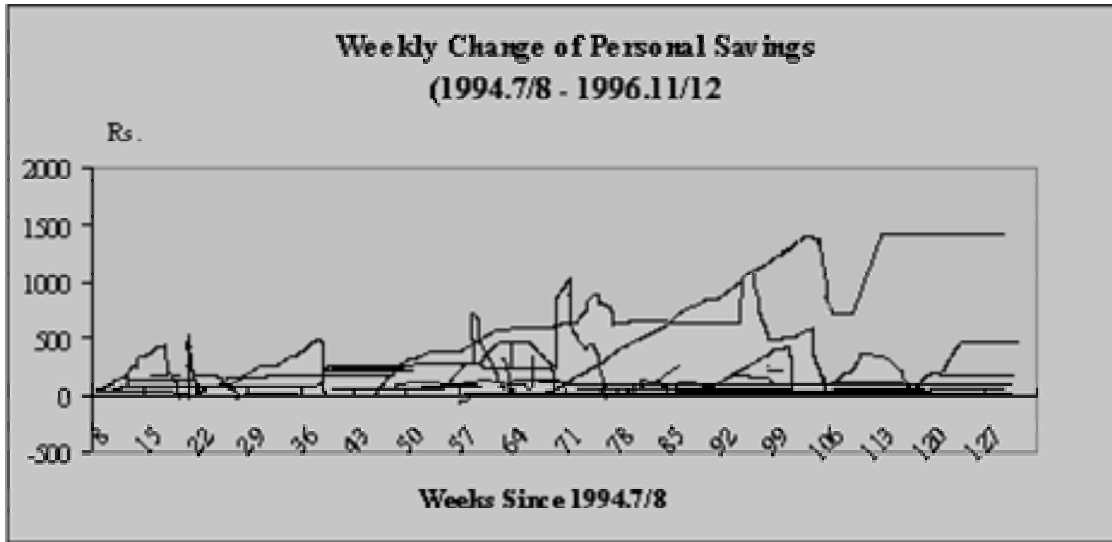


Chart No. 17 was made from ten members' saving records in a ledger. It shows the rough pattern of personal savings. The members who have good income keep savings longer and the poorer members have shorter cycle; withdraw comes within six month for daily needs. This trend is observed in longer period with the accounts of 40 members in the study in 1996 (See Chart No. 17). In the latter case, using the saved money for payment is common, thus saving accounts secures payment to Nirdhan.



Source: The Ledger of Personal Savings.

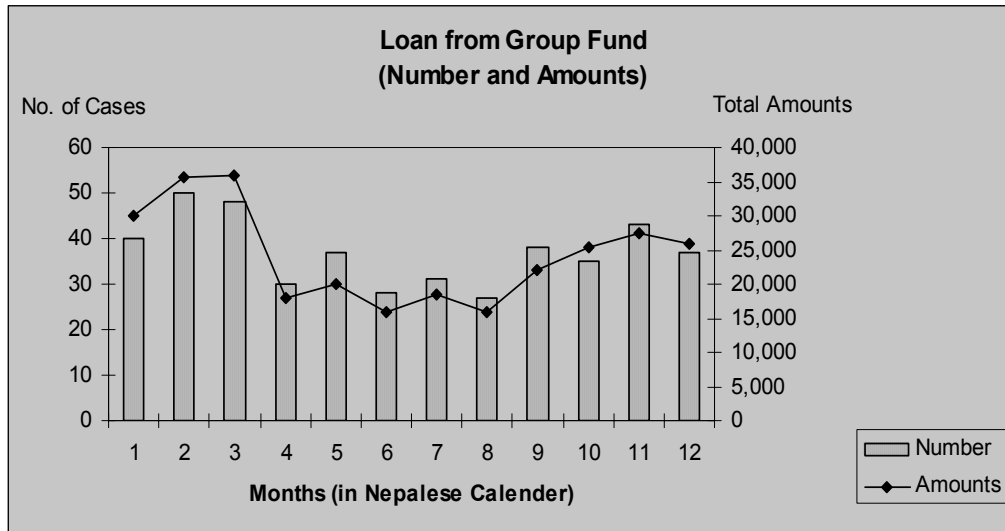
Chart No. 18



5.2.2- Changes of Group Funds

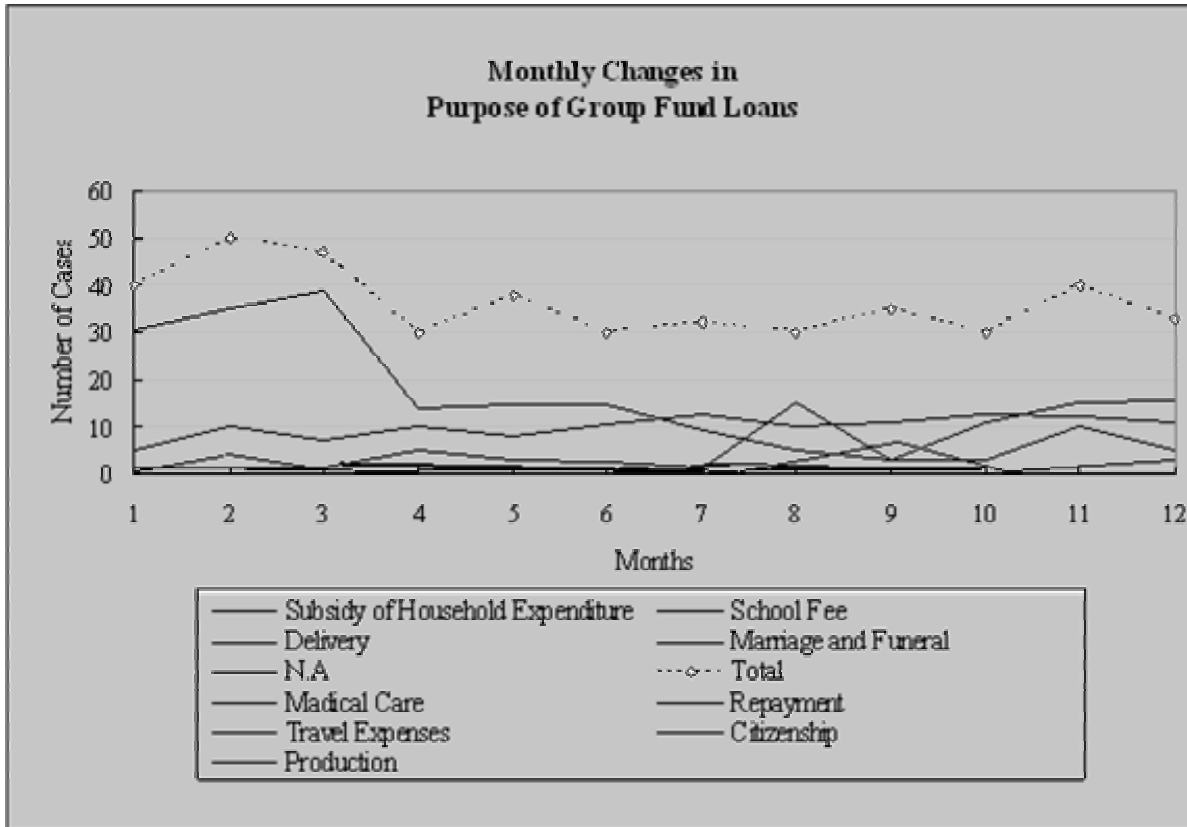
Small loan is available from the group fund. The chart of monthly change of group fund shows the seasonal changes of loan demand. The purposes stated in the application form are shown in the chart below. Medical care appears most frequently although the average expenditure on medical care is not high in the answer to the questionnaire. It is most understandable that it is just because the reason is most acceptable by the group members. We can well guess that members utilize the fund for the various consumption needs.

Chart No. 19



Source: Monthly report in 1996 made by Sitalnagar branch

Chart No. 20



Source: Monthly report in 1996 made by Sitalnagar Branch

5.2.3- Personal saving in the households

In the field study carried in 1999, 26 respondents have personal saving accounts in Nirdhan and only one person has an account in a commercial bank. Average amount in personal account with Nirdhan is, Rs. 1,680 showing that Nirdhan has succeeded in mobilizing savings.

Table No. 13

	Nirdhan	Others
Number of Personal Account Holders	26	1 (Everest Bank)
Range of Saving Amount	Rs. 32 - Rs. 5,000	Rs. 1,500
Average Amount in Personal Account	Rs. 1,680	Rs. 1,500

5.2.4- Purposes and Amounts

The Table No. 14 shows that savings for emergent needs is a good reason for a third of respondents but getting loan is also a purpose of having a saving account for some others. Then how do the members prepare for the expected future expenditure? According to Table No. 15, most of the members do not have any plan for the biggest two of future expenditures commonly expected in their life cycle. The concept of accumulating liquid assets for a particular future expenditure is not built in members yet.

Table No. 14

Purpose of Savings		%
Safety	0	0
Saving for future Expenditure	0	0
Savings for emergent needs	15	48.4%
To get Loan	13	40.6%
Not answered	8	25%

Table No. 15

Amount '000	For Housing	%	For Marriage	%
No-plan	26	81%	27	84%
0 - 50	3	9%	4	13%
50 - 100	0	0%	0	0%
100 - 150	0	0%	1	3%
150 - 200	1	1%	0	0%
200 - Over	2	2%	0	0%

5.2.5- Reasons for the choice of institution

According to the table below, "convenience" is the majority (68.75%) among the reasons why the respondents choose the institution to deposit, but we have to understand that some people have saving accounts in Nirdhan just to get loans. In either way, Nirdhan gives good opportunities to save money for the members.

Table No. 16

Reason to choose the institution		%
Compulsory for credit	1	3.13%
Trustworthy	1	3.13%
Convenience	22	68.75%
Good service	1	3.12%
Not answered	7	21.87%

5.3- Participation in RoSCAs

Rotating Savings and Credit Associations (*Dhukuti*) is a traditional institution practiced by some ethnic groups but now it is practiced beyond the ethnic boundary. Even in this research, three persons were found involved. RoSCAs may become alternative institutions for Nirdhan members. The average income of these participants is as low as other Nirdhan members. But it also reveals that there are participants who can afford monthly payment of Rs. 5,000. RoSCAs is normally encouraging regular saving. However, monthly payment for the RoSCAs may make the weekly payment to Nirdhan difficult it has potential to collapse when discounts become very high.

Table No. 17

	Monthly payment	Size of Group	Maximum Receivable Amount	Income Level of Participants
Range	Rs. 2,000 - Rs. 5,000	16-22	176,000	235,150
Average	Rs. 3,333	18-33	58,667	78,383

5.4- Borrowing from Nirdhan:

5.4.1- Frequency and Amounts

We could not find any respondents who had experiences of borrowing from formal banking institutions, even from SFDP office near by. The reasons for this may be that many of them are relatively new settlers and do not have enough land worth as a collateral.

About one third of the respondents have taken loans from Nirdhan more than three times, thus many members are likely to be repeaters. Those who joined the group from the beginning steadily expanded their loan size from Rs. 5,000 in the first year to Rs. 2,000 in the latest. They have taken loans five times at most and over Rs. 70,000 in total in the last five years.

Table No. 18

	With loans more than 3 times	3 times or less	Average of Total Amount	Borrowing experiences from other banks	Total
Cases	21	11	59,643	0	32
%	66%	33%	-	0%	100%

Table No. 19

Total Amount	< Rs. 40,000	Rs. 40,000 - Rs. 70,000	Rs. 70,000 <
Cases	14	9	9
%	43.75%	28.1%	28.1%

5.4.2- Loan Purposes

The loan from Nirdhan is supposed to use for the production purposes. Most clients seems to use their loan for productive purpose and only 8 cases (7%) were found being for consumption. Working capital and start-up capital for small business have the largest share (51%) of loan purposes followed by live stock (41%).

Table No. 20

Purpose	Times of disbursement	%
Small Business	62	51
Livestock	50	41
Vegetable Farming	2	2
Household Expenditure	5	4
School Fee	2	1
Treatment	1	2
Total	122	100%

5.5- Borrowing form informal lenders

About 40% of respondents have experiences of taking credits from informal lenders. This does not include the loans from RoSCAs. Majority of lenders are friends or relatives but paying interest at 2% - 3% to them is commonly practiced. The interest charge from money lenders are from 3% to 5%. 42% of informal loans are short terms loans of one year or less but 5 cases are found without specified duration which means the implicit agreement on the repayment when loan takers can afford.

Table No. 21

< 6 months	6 months-1 year	1 year-2 years	2 years-3years	Not specified	Total
2	3	1	1	5	12
17%	25%	8%	8%	42%	100%

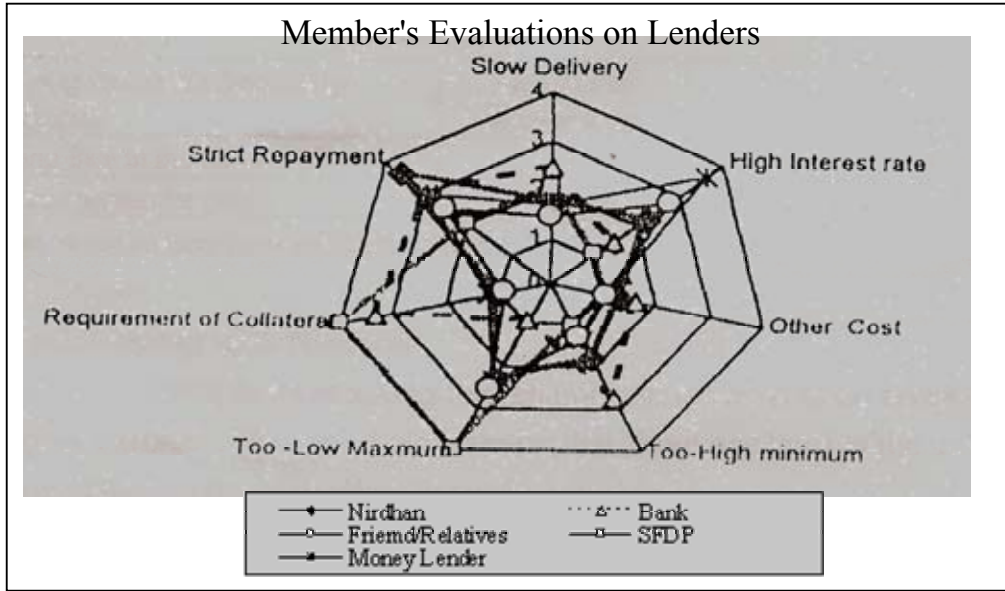
5.6- Member's Evaluation on Lenders

To obtain their real perception on different lenders, we have included measuring questions such as how fast they obtain a loan from lenders, how high the lenders charge rates, any other cost they bear to get loan, whether the maximum and minimum size of loan is satisfying, whether collateral requirement is required and how severe the repayment enforcement is. In each factor, we have given 4 grades over their perception.

Regarding the member's evaluation on Nirdhan, it is observed that delivery is faster than banks and SFDP, physical collateral is not required, maximum loan size is small but better than SFDP because the latter provides loans based on the land size and the maximum amount is acceptable. Strictness in terms of repayment is well recognized. Though the interest rate charged by Nirdhan is higher than SFDP and Banks but it is lower than even from friends/relatives. This shows that the interest rate is rightly understood.

According to this survey, though there are several lenders and some of them have borrowing experience with others, it does not necessarily mean that the market is under the perfect competition. It is most likely that Nirdhan is an alternative of private lenders for the most members and for some members who are engaged in business or a little better-off farmer, it is an alternative of banks.

Chart No. 20

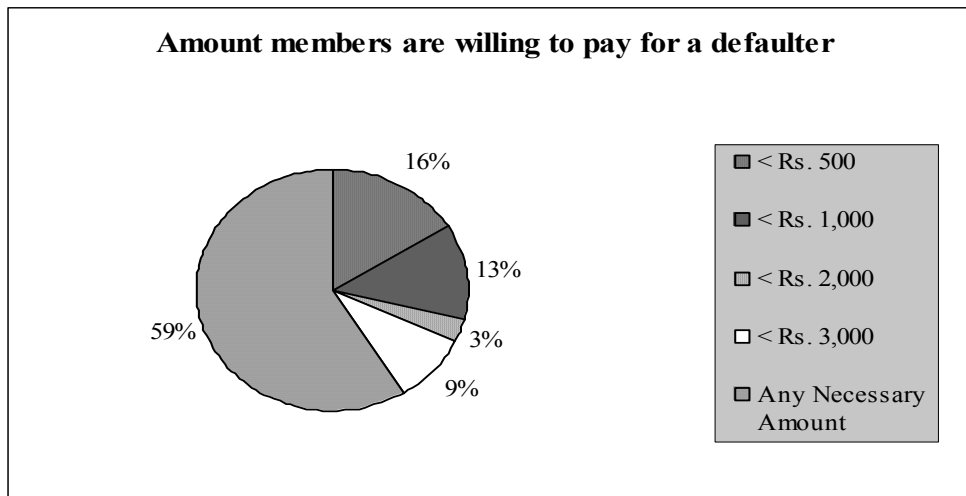


6- Loyalty for Nirdhan:

6.1- Strength of group liability

Stability of repayment from Nirdhan's clients is supposed partly to depend on joint collateral. To measure how much we can count on the scheme, we include a question about willingness of each respondent to pay money as a guarantor for a defaulter of a group. Most members are very positive about taking the responsibility, unless the burden for each member does not exceed Rs. 1,000 and 59% of the respondents seem to be ready to pay any amount as they are required to maintain the group's eligibility for future credit. As many respondents have never

Chart No. 21



met a serious case so far, we should not take this at the face value. However, this result implicates that it is important for a microfinance program to control the delinquency of repayment within a small amount by frequent installment and monitoring the clients through frequent collection.

It should also be noted that the group liability scheme is reinforced by another factor. Members are self-restrained from becoming a defaulter by the fear of loosing face in their community as shown in the table below.

Table No. 22

Worrying factors for becoming a defaulter	Number of Respondents	%
Loosing face in the commodity	31	97%
No more access for credit	10	31%

Note: - 9 respondents have multiple answers

6.2- Future relationship with Nirdhan

Whether clients are willing to have a long-run relationship or not is to be taken into consideration for the strategy of Nirdhan. The table below shows that about one third of the sample members are thinking to leave Nirdhan program while the rest has no plan to leave it appreciating the services. The sample size is too small to identify the main reason for leaving the program. However, we can understand that the compulsory participation in the weekly meeting does not suitable for some people whose opportunity cost is relatively high.

Table No. 23

Leaving in future	11 (34%)	Not Leaving	21 (66%)
Reason		Reason	
Participation in Nirdhan is time consuming	4	Useful for saving and small loan	18
Can't pay weekly	2	Multiple answer	3
Interest rate is high	2		
Multiple answer	3		

7- Conclusion and Recommendation

The findings from this study are as follows:

First of all, Nirdhan successfully reached to the poor households though some of their clients are not in the category. The largest group of the clients is so-called the active poor engaging in small business and small scale farming. Nirdhan's services are most suitable to their needs. Most clients have never been benefited from the government lending programs which is mainly targeting farmers with own land and provide loans based on the size of land.

Secondary, the share of repeaters among the samples indicates and their evaluations on different lenders suggest that Nirdhan provides appropriate financial services to their clients. It is also found that the income structure of farmers in their household has changed and many of them have cash income in some ways, they can accept the scheme with weekly payment.

Tertiary, Nirdhan has contributed in mobilizing the savings. The average of personal savings has grown but yet less than one third of average annual income. However, the scheme of weekly payment means encouraging savings effectively after providing loans, thus filling the potential needs for savings.

However, Nirdhan is not free from the difficulty of running a microfinance institution. The cost of providing financial services special to the low-income group is still quite high. Increasing the number of clients covered by one unit of staff can be improved to some extent but it also raises the risk with less monitoring by the staff. Therefore, expansion of the average loan size is an alternative way, and recent achievement of Nirdhan's positive net profit was brought mainly by this policy. However if the clients are limited to those who are engaged in small business and small farming in the same operational level, expansion of loan size as well as repeat of taking loans in long term is not expected so much. Observing their earning capacity, it is most likely that they will take loans several times until obtaining a housing loan and losing the motive to have new loans.

A solution for this dilemma is to throw the policy of narrow targeting to the poor and have a wider range of clients. Though, it goes without saying that Nirdhan has to keep providing their financial services to the poor households with the scheme applied now. Thinking of the role played by Nirdhan in the regional economy in which even the shop owners with stable cash flow have no access to the formal banking system, a few leakage from the target is not a problem. It is more plausible that accepting the wider range of clients will make financial business stable and contribute to the regional economy.

Another way is to introduce income-generating activities, or further more, lift up the level of agricultural production and small business promoting such as poultry and food processing industry in a large scale. It means nurturing of regional industry and the tusk was originally supposed to be carried by ADB. Taking this tusk by Nirdhan itself may invite instability of its management temporally.

It depends on the Nirdhan's capacity to choose which way. But it is clear that Nirdhan, as an independent bank, has to think of its future with the regional economy of operation area and the roles Nirdhan can play. The development of the economy through the development of local industries will give more opportunities for employment and finally the poorest who are not able to self-employed will get benefit from it.

Nirdhan has showed that a financial institution can be sustainable providing basic financial services to the targeted low-income clients such as small scale business and farmers. However, for the development of the regional economy, it will be necessary to respond various needs for financial services from broader clients without neglecting the poor, though it is a challenging task.

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