FINAL REPORT

MICROFINANCE SERVICES FOR THE URBAN POOR

A CASE STUDY OF

LUMANTI PROMOTED MICROFINANCE PROGRAMME IN SLUMS AND INFORMAL SETTLEMENTS WITHIN KATHMANDU VALLEY

By
Nara Hari Dhakal

Submitted to
Lumanti Support Group for Shelter
P. O. Box 10456
Kathmandu, Nepal
Tel.: 977-1-5523822, Fax: 977-1-5520480
Email: shelter@lumanti.wlink.com.np
Website: http://www.lumanti.com.np

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EXECUTIVE SUMMARY

Access to microfinance services for urban poor has received less than adequate academic and professional focus in Nepal. This study is an attempt to analyse access to microfinance services for the urban poor based on the experiences of the Lumanti in slums and informal settlements within Kathmandu valley. Lumanti promoted three Savings and Credit Cooperatives (SCCs) has opened new dimensions in Nepalese microfinance circumstances, especially on addressing financial needs of urban poor. The initiatives have been instrumental to expend outreach of microfinance services to low income urban women.

Performances of these SCCs are mixed owing to deficiencies on diverse aspects of their operation such as relatively fewer number of shareholders, introducing market led approach on product (savings and loan) development, low clients to shareholders ratio, low capital mobilisation rate, more than required amount of idle cash and bank balance, inefficiency on accruing interest income to a tune on effective interest rate charged and relatively low return on performing asset, strong and effective Board of Director (BoD), operation in isolation and virtually no linkages with other institutions. They are characterised by simple operation and perfect accounting system but significant reporting inaccuracies in areas such as non-performing loans, aging of overdue loan and loan loss provisioning. Financial management and analysis is yet to be started and both staff and BoD lack basic skills and competencies on financial management.

Relative instability and limited skills on entrepreneurship, marketing, and distribution process are the characteristics features of the shareholders of the SCCs, requiring loans on consumption and consumer durables rather than enterprise development. Enterprise development has been constrained to factors encompassing technology, finance, raw materials, price/marketing and scale of production/services. SCCs services are mainly focused on meeting capital need which is not enough promoting complex trade/IGAs. There is absence of efforts towards creating enabling environment under holistic perspective encompassing aspects such as entrepreneurship development, new technology, business consultancy and marketing.

Women shareholders were more empowered than average Nepalese women and the work provides ideal example of empowerment framework. They feel their contribution to family livelihood, speaking in public, acquisition of enterprise management and marking skills, responsible roles and positions in family on financial decision making, support from husband/other family members to pursue self-development opportunities, etc. as most crucial elements of their lives which are sources of power and well-being (empowerment). They have acquired some senses of well-being and power through their participation in SCC in the form of confidence, social status, family financial security and individual financial security. Availability and use of financial services on trade/IGAs has promoted wage and self-employment opportunities, provided incremental income and promoted livelihood options to participating women and their families. Economic empowerment has been instrumental on poverty reduction of participating women shareholders of these SCCs.

Despite that Lumanti has promoted these SCCs with sufficient home works and clear vision; these SCCs are presently operating at efficiency level that is significantly higher than other SCCs of similar years of operation and they have either attained viability or are in the process to attain so; in order to sustain the progress already achieved as well as to provide continuity to foundation created, this study has identified areas requiring immediate action on expanding length, breadth, depth, cost, variety and scale of outreach, improving

operating and financial performance, governance improvement, financial management, management information system, linkages and networking, enterprise development, empowerment and poverty reduction etc. The study has recommended Lumanti's support to these SCCs in short and medium term needs to focus on identifying best practices as well as cost-effective technologies to improve their performance on above areas.

Efforts should be made to direct loan disbursement more on income generating activities (IGAs) and shareholders should be encouraged to invest on education and health care out of revenue from these IGAs rather than borrowing. In addition, the study recommends that the promotion of IGAs must be backed by access to (i) required production inputs; (ii) new skills on business improvement - increasing productivity, and reducing production costs or accessing more profitable market; (iii) up-to-date and reliable information in various forms - business consultancy services or special events such as exhibitions and trade fairs; and (iv) support for establishing and operating an enterprises such as legal services (e.g. registration of enterprises), training of owners and workers and intermediation to establish contracts with larger firms through networking and linkages for efficiency and effectiveness. Finally, the study recommends that building sustainable SCCs requires a long term efforts, some patience, and outside support. Having long-term business plan that outline type of outside supports on institution development covering aspects such as training, information and sensitizing, capacity enhancement of the BOD, etc. of each SCC can act a road-map for their future is a pre-requisite to guide them in this endeavour.

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ACRONYMS AND ABBREVIATIONS

AGMs	Annual General Meetings
APA	Average Performing Asset
BDS	Business Development Services
BoD	Board of Directors
CBS	Central Bureau of Statistics
CECI	Canadian Centre for International Studies and Cooperation
CMF	Centre for Microfinance
CGAP	Consultative Group to Assist the Poorest
FSS	Financial Self Sufficiency
GDP	Gross Domestic Product
IDPs	Internally Displaced Persons
MDGR	Millennium Development Goals Report
MIS	Management Information System
NPC	National Planning Commission
NGO	Non Government Organisation
NEFSCUN	National Federation of Savings and Credit Cooperative Unions Ltd
OSS	Operating Self Sufficiency
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self Reliance Fund
SCC	Savings and Credit Cooperatives
SCO	Savings and Credit Organisation
SDI	Subsidy Dependence Index
UNDP	United Nations Development Programme
VDC	Village Development Committee
WOCCU	World Council of Credit Unions

1. INTRODUCTION

1.1 Context

Nepal is facing high levels of poverty both in rural and urban areas. The majority of development interventions have focused primarily on rural areas due to relatively unequal distribution of economic resources between rural and urban areas with corresponding poverty incidence of 38% and 23% respectively (NPC 2002). The sectoral allocation of development assistance has been less successful in enhancing financial and social benefits on improving linkages between rural and urban areas despite ample evidence from other countries that an increase in income level and demand from rural towns, regional centres and urban areas and vice versa is the single most important factor promoting rural growth.

Urbanisation is rapidly growing in Nepal in the recent years. The present conflict has had profound impact on Nepal's urban areas. During early 1990s (prior to escalation of present national conflict) annual population growth in urban areas was 5.2% compared to an overall national growth rate of 2.4% per annum (CBS 2001). If the trend continues half of the Nepalese population will be living in urban areas in 2035, totalling 30 million people (UNDP 2001). The recent influx of Internally Displaced Persons (IDPs) have exacerbated this trend leading to a growth rate of up to 10% in some severely affected municipalities, increasing number of urban poor and creating an immense pressure to deliver basic services to citizens of these municipalities. Further, destruction of a wide range of municipal offices, ward offices and related infrastructure, conflict has resulted in a massive influx of IDPs[1]. This influx is exacerbating unemployment level and laying a heavy burden on municipalities to provide needed basic services and promote income generation activities. A recent study estimated IDPs in Nepal to be around 150,000 with an influx resulting in an urbanization trend of between 7-10 percent per annum in the most affected municipalities including Kathmandu valley (UNDP 2001). With the limited financial and human resources at their disposal, municipalities have overwhelming challenges in meeting basic needs of their citizen. The mechanisms adapted to deliver services and target development are insufficient to meet such demands. The capacity to address demands of urban citizens varies greatly across municipalities and it is directly linked to unequal urbanization.

Settlement issues are quite serious in urban centres. There has been astronomical increase in land and rent-prices in the bigger urban centres and this has forced more and more people to settle illegally on public land. Already 7% of total population in Nepal lives in informal or "squatter" settlements. In Kathmandu alone, the number of people living in informal settlements swelled from about 2,130 in 1985 to 14,500 in 2004 (Lumanti 2004). Addressing issues related to informal settlements has remained the issues of great concern among different institutions in Nepal. Lumani Support Group for Shelter (Lumanti, hereafter) is a Kathmandu based non-government organization (NGO) dedicated on addressing urban poverty through improved shelter conditions and working slum and informal settlements throughout Kathmandu, Lalitpur and Thimi either directly or in partnership with local governments and concerned organizations towards improving quality of life of urban poor and marginalized people through packages of services encompassing shelter programmes, microfinance, education, advocacy and establishment of the urban resource centre.

[1]The reasons for people of flee the conflict are varied, but a wide range of those who migrate to the Tarai towns are found to be more vulnerable than average migrant from rural areas due to lack of social network and qualification to take up non-agricultural employment and as is demanded in urban areas.

Lumanti has identified housing to be a main issue in the slum and squatter settlements. Secured housing and better living condition with a self dignity is a common dream shared by thousands of people in these settlements. The other important issues identified include marginalization of some caste groups, gender issues, child education, water and sanitation, health and environmental degradation, etc. The role of government, municipality and Village Development Committees (VDCs) in addressing issues in urban slums and squatter settlements particularly towards providing safe housing is often questioned. Besides solving shelter problems, these households should be support by providing livelihood options for improved livelihood. At this juncture, Lumanti has been involved in extending microfinance services to people living in these slums and informal settlements.

1.2 Lumanti Promoted Microfinance Programme

Lumanti initiated microfinance programmes in 1996 with the formation of eight women savings and credit groups in the slums and informal settlements of Kathmandu and Lalitpur to provide them livelihood opportunities with the believes that saving money is a key tool in empowering and developing poor urban communities. Without reliable means of saving, many people have to sell their possessions or borrow at high interest rates to meet their expenses. Lumanti interacted with these communities and encouraged at least one woman from each household to join in a savings and credit group. It has also extended ongoing technical support and organise exposure visits and information sharing to these groups. On an average, one group consist of 18 members. Each group consist of an executive committee, decide on their own rules and regulations, develop their own saving and loan products, determine their interest rates, meet once a month to collect payments, grant loans to members and report on their progress. The group's funding consists of cash transfer from Lumanti, as well as members' own savings. These groups are managing funds and granting small loans of Rs. 500 – 40,000 to individual members without collateral. Loans are used for income generating activities, education, housing, debt clearance, medical treatment or other expenses. The groups collect repayments each month from members and in turn make repayments to Lumanti. They also collect savings from members for housing, emergencies, and other causes.

By 2004, the programme had grown over 122 groups, with more than 2039 members from at least 53 communities. In 2002, some of these groups decided to combine their resources into a formal cooperative to ensure their sustainability. Due to legal restrictions, three different savings and credit cooperatives (SCCs), one each in Balaju, Boudha and Baneshwor, were promoted representing people from five no more than five adjoining wards/Village Development Committees (VDCs). These SCCs represent the first women cooperatives registered in Nepal from informal settlements. Lumanti has encourages other savings groups it has promoted to join these SCCs, while still operating independently within their communities. By June 2004, 63 groups had joined these SCCs and they had demonstrated great success in building savings and maintaining loan payments.

Promotion women managed SCCs in the urban areas involving peoples from communities in slums and informal settlements are the latest innovations in Nepalese microfinance circumstances. Nepal lacks best practices norms and standards to promote microfinance under credit union methodologies. In view of this and with over two years of supporting to promote women SCCs, Lumanti has undertaken an assessment of its microfinance operation under credit union methodology implemented in slums and informal settlements. This report documents micro-lending and enterprise development process and makes some recommendation to guide its future.

1.3 Objectives

In this report, the microfinance services promoted by Lumanti within Kathmandu valley under credit union methodology have been reviewed. The specific objectives of this study are the following.

- To document and analyse state of the art of microfinance programme implemented by Lumanti under credit union methodology within Kathmandu valley;
- To assess the impact of the microfinance services on poverty reduction;
- To provide recommendations for continuity and future sustainability of microfinance operation.

1.4 Methodology

The information used in this report were collected through a review of literature such as books, journals, discussion papers, published and unpublished reports and three SCCs' outreach report, audited balance sheet and income statement. An analytical framework for studying performance of MFIs in general and SCCs in particular was developed through a review of works done elsewhere on assessing SCCs' performance. This framework has been used for assessing performance of three SCCs. Ratios showing outreach, operating and financial performance, portfolio, efficiency and productivity have been used to make assessment on financial health and overall performance of the SCCs. Personal observations of researcher both as a promoter and practitioners in Nepalese microfinance sector over last 20 years have been used as appropriate to analyze various dimensions of SCCs performance.

Further, a survey of 30 shareholders using microfinance services from SCCs was undertaken using simple client and enterprise survey questionnaire to gather information on their state of operation and contribution on income and employment generation. Survey information was processed, analysed and used to assess the impact of access to financial services on economic and financial dynamism from the enterprise as well as effect of enterprise promotion and development on empowerment of these households.

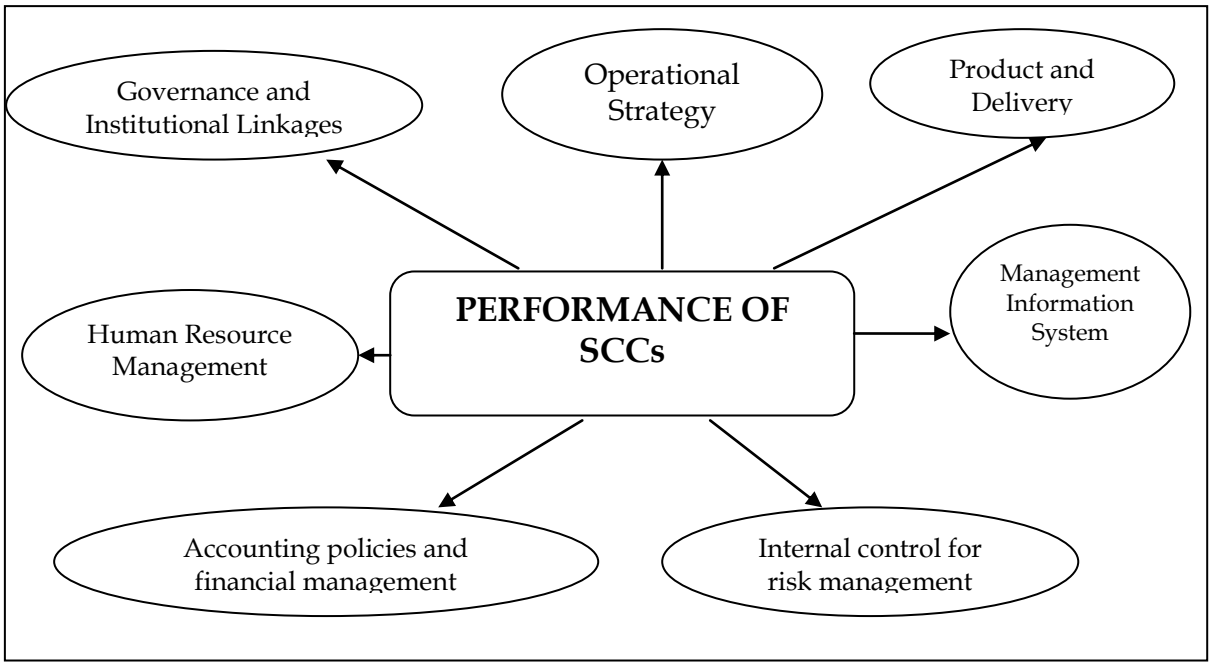
1.5 Report Organisation

This paper includes five sections. Section one provide context, objectives and methodology of the study, followed by an analytical framework of the study in section two. Section three documents the state of the art on microfinance operation while section four assesses impact of microfinance services on poverty reduction and empowerment. Section five provides a summary of conclusion and recommendations that emerged from the analysis in this report.

2. ANALYTICAL FRAMEWORK

Lumanti has promoted three SCCs and their viability is commonly considered as the proxy of their performance[2] in undertaking micro-lending effectively and efficiently and is the function of different constituents affecting their operations viz. governance and institutional linkages; operational strategy; product and delivery; management information system; internal control for risk management, accounting policies and financial management; and human resource management (Figure 1). Practices adopted by SCCs on these aspects enable them to tailor their service delivery within local conditions and attain viability and sustainability. Within this framework, analytical technique adopted in this study encompasses performance criteria introduced by Yaron (1992b, 1997) and those instituted by CGAP (1996). Yaron and CGAP suggest four key criteria such as outreach, operational and financial performance, sustainable interest, and subsidy dependence index (SDI) to evaluate performance of the MFIs including SCCs. Most of the studies in microfinance are based on these criteria (Gurgand *et al.* 1996; Larrivière and Martin 1998) and the analytical approach adopted in this paper is centered on these four key criteria.

Figure 1: Determinants of SCCs Performance



Source: Dhakal (2004b)

2.1 Outreach

Outreach is defined as SCCs' ability to provide high quality financial services to a large number of clients and this concept addresses fundamental difference between SCCs and normal commercial finance institutions - most SCCs are established to accomplish a mission that is partly or wholly socially motivated and not simply to maximize shareholder's return. Although these missions differ, most SCCs are involved in extending financial services to the poor and excluded and commonly used outreach indicators[3] captures combination of

[2]The word "performance" possesses broad notion covering social, economic, institutional, ecological and financial dimensions.
[3]These are the indicators recommended by CGAP for assessing SCCs' performance.

quality, cost, depth, breadth, length and variety of their services in terms of scale of savings services, lending services and services to women.

Indicators such as number of savings accounts and average savings balance measures scale of saving services. The former indicator measures extent of saving services and appropriate targets vary according to location and size of SCCs' investments, while later is computed dividing total saving by total individual savings accounts. Where savings are voluntary, a positive trend would be an increase in average savings balance. Given same clients group and voluntary saving policies, a higher average savings balance indicates a SCC's greater comparative success at mobilizing savings. On the other hand, number of active loan clients, outstanding portfolio, average outstanding loan balance and average loan size to average per capita GNP are indicators measuring scale of lending services.

Active loan clients refer to clients who currently hold loan. Number of active clients measures scale of lending services and for efficiency at least 95% of SCCs clients must be active loan client. Outstanding portfolio refers to a total current value of loans not paid at specific date. It is a standard measure of size of lending services. In general, an increasing portfolio is a positive trend if it is supported by a growth in a number of active clients and growth in loan size of existing clients. Average loan size is computed dividing outstanding loan balance with active loan clients that measures depth of outreach with small average loan size signifying that loan has been extended to more poor. Average per capita Gross National Product (GNP) is estimated value of per capita annual productivity and provides a measure of average per capita national annual wealth. Average loan size could be compared to this figure to provide cross-national comparison of SCCs' relative outreach to lower income population. Lower figure for this ratio indicates that a SCC is reaching a relatively lower income segment of the population.

Number of women clients and total savings and outstanding loan balance with women clients are commonly used indicators to measure outreach to women. In Lumanti promoted SCCs, women has identified as an underserved and disadvantaged group with likelihood to channel additional income to children's needs, and exclusively targeted their services.

2.2 Operational and Financial Performance

Close scrutiny of operational and financial performance is instrumental to assess SCCs sustainability. Conceptually, for sustainability a typical SCC requires that they cover all transaction (loan losses, financial costs, administrative costs, etc.) costs with return on equity (net of any subsidy), and consequently function without subsidies. Typical financial and operational performance indicators are financial performance ratios, operational performance ratios and portfolio quality ratios that provide extent at which SCCs are making best use of resources and providing services at least cost.

Financial Performance Ratios

Financial performance of the SCCs can be assessed analyzing their income, expenses and self-sufficiency level. Performing assets constitute most important asset used by the SCC for generating income. In view of prevailing stock (asset) and flow (income and expenses) concept in SCC's financial statement, concept of average performing asset (APA) has been used taking average of bank deposits, investments, and performing portfolio (exclusive of reserve) of two periods. Return on APA is the main indicator to analyze SCC's income which measures financial productivity of credit services and investment activities and is computed dividing financial income by APA. An increasing return on this ratio is a positive trend.

Analysis of this ratio provided useful information that determines the impact of lending policy changes that might affect SCC's return and commissions.

Expenses are analyzed using ratios such as financial cost, operating cost, loan loss provision, and imputed cost of capital. First, financial cost ratio shows average cost of funding SCC's assets with debts, and derived by dividing financial cost by APA. It is sensitive to a number of factors such as changes in mix between debt and net worth, between commercial and concessional loans, and in size of the loan portfolio being financed; hence, interpretation of the trend in this indicator depends on framework conditions under which SCC operates. Second, operating cost ratio is measured by dividing operating cost by APA. As a key indicator of financial efficiency, the operating cost ratio shows how much an institution can spend on operating cost to keep a unit of money loaned out for one year. This ratio decreases if SCC reduces its costs while increasing its portfolio. Third, the loan loss provision ratio is computed dividing loan loss provision for a given period by APA and indicates provisioning requirements on loan portfolio for current period. Finally, imputed cost of capital ratio relates to cost of maintaining purchasing power of organization's net worth and calculated dividing imputed cost by the APA. Inflation erodes value of an organization's equity and quasi-equity (concessionary loans); it is therefore necessary for organization to earn a surplus to keep pace with inflation. The imputed cost of capital qualifies impact of inflation on an institution's net worth. Decreasing trend on all the costs discussed indicates organization's increasing efficiency over time.

Income and expenses analysis should ultimately translated towards assessing self-sufficiency level of the SCCs. The SCCs current state of self-sufficiency can be computed by analyzing operating and financial self-sufficiency ratios. Operating self-sufficiency (OSS) ratio is computed by dividing financial income by sum of financial cost, operating costs and loan loss provision and indicates whether SCC is earning enough revenue to cover its transaction costs. On the other hand, financial self-sufficiency (FSS) ratio is calculated by dividing financial income by the sum of financial and operational costs, loan loss provision, and imputed cost of capital and indicates the degree to which an organization is earning enough revenue to cover all its transaction cost while maintaining value of its equity and quasi-equity relative to inflation. One hundred percent FSS is necessary for institution to provide credit services over long run without being reliant on donor funds. An increasing trend in OSS and FSS is considered a positive development.

Operating Performance Ratios

Operating performance relates to relative performance and efficiency of SCC to minimise their transaction cost. Commonly used SCCs operating performance indicators include ratios such as administrative cost to transaction cost, average client per staff and outstanding portfolio per staff. Administrative cost to transaction cost ratio is the simple division of administrative cost by total transaction cost and indicates SCCs' transaction efficiency. Active clients per staff ratio are obtained by dividing number of active clients by number of field staff and signify productivity of key SCC's staff. Productive SCC may have active clients per field staff ratio of 300-400. A positive trend would be an increase in this ratio, if it were not accompanied by an increase in portfolio in arrears and loan loss ratio. Finally, outstanding portfolio per field staff ratio obtained by dividing outstanding portfolio by number of field staff indicates field staff's productivity. In combination with lower staff costs, this ratio determines level of financial viability. The portfolio per field staff ratio monitors financial productivity of field staffs that determines level of loan revenues.

Portfolio Quality Ratios

SCCs are essentially credit-driven. Loan portfolio is by far the largest asset that they manage and if it is not managed well, un-recovered loans may well become an institution's largest expense. Good portfolio management is the basic feature of a sustainable institution. Bad portfolio quality saps energy of an institution as staff attention need to divert to loan recovery that lead to escalate cost with additional effort, while income begins to fall as a result of missed interest payments. There are four commonly used portfolio quality ratios. First, portfolio in arrears ratio is defined as payments in arrears divided by outstanding loan balance. As such, it indicates proportion of loan payment past due. It considers only those payments of a loan that are currently past due. Second, portfolio at risk ratio is defined as value of outstanding balance of loan arrears divided by outstanding portfolio. It measures amount of default risk in portfolio. This ratio is better reflection of risk of a delinquency problem because it considers value of loans to be at risk when it is arrears. An aging analysis of portfolio at risk is a key element of a portfolio report. This ratio is critical to a careful monitoring of portfolio quality and to evaluate policies implemented to control delinquency. A portfolio at risk ratio of more than 10% is considered to be an indicator of low quality portfolio. Third, loan loss ratio is defined as amount written off this period divided by average loan outstanding. It indicates extent of un-collectable loans over previous period. A decreasing trend in both these ratios is a positive development. Finally, reserve ratio is defined as loan loss reserve divided by loan outstanding. This indicates what percentage of loans outstanding is expected to be unrecoverable. As a safety net, reserve ratio should be equal to loan loss ratio.

2.3 Sustainable Interest Rate and Subsidy Dependence Index

The rate that SCCs need to realize on mobilizing its APA in order to fund its growth primarily with commercial funds at some point in the future is known as *sustainable interest rate*. In this paper, sustainable interest rate of three SCCs is estimated using following formula suggested by CGAP (1996), each variable in the formula being divided by average outstanding loans and expressed as a decimal fraction.

$$R = [(AE + LL + CF + K)/(1 - LL)] - II$$

where;

R	=	Annualized effective (or viable) interest rate
AE	=	Administrative costs
LL	=	Loan losses
CF	=	Financial costs
K	=	Desired capitalization rate
II	=	Investment income.

On the other hand, the subsidy dependence index (SDI) is defined as ratio which measures percentage increase in average on-lending interest rate required to compensate an SCC for elimination of subsidies in a given year while keeping return on equity equal to approximate non-concessional borrowing cost (Yaron 1992 and 1994). In this paper three SCCs dependence to subsidies is measured by using SDI developed by Yaron (1992, 1997) as under.

$$SDI = \frac{S}{LP * i} = \frac{A(m-c) + [(E * m) - P] + K}{LP * i}$$

Where;
SDI = Subsidy Dependence Index;
S = Total subsidy;
A = Subsidy on concessional rate borrowing;
m = Market (reference) interest rate;
c = Concessional interest rate;
E = Annual average equity;
P = Profit (losses);
K = Miscellaneous grants and benefits;
LP = Annual average loan portfolio and
i = Lending interest rate.

2.4 Microfinance, Women's Economic Empowerment and Poverty Reduction

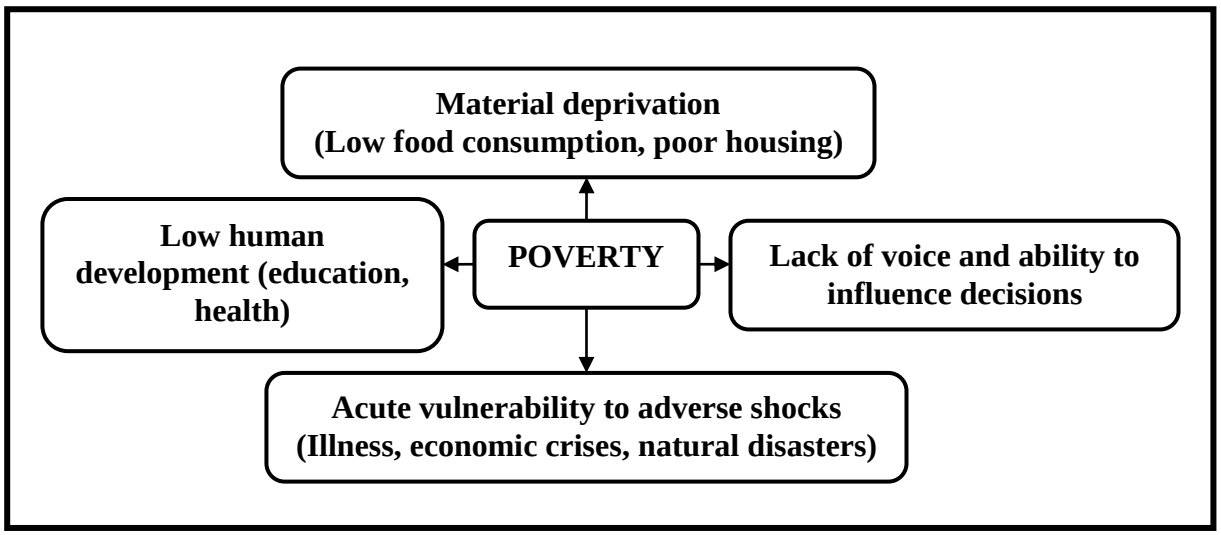
Microfinance programs are currently being promoted as a key strategy for simultaneously addressing both poverty reduction and women's empowerment. Women make up 52% of Nepal's population and have a life expectancy of 55 years (2001 figures). Less than 40% Nepali women are literate. Women work on average 3-4 hours more per day than males, but their access to land is marginal and income levels as well as formal labour force participation are 20% lower than males. Women are predominantly confined to agriculture, account for a majority of unpaid family workers, and are heavily concentrated in un-paid jobs. The aggregate data depict women's contribution to be heavily focused: 80% of all domestic work and 57% of subsistence agricultural activities. Women work mostly as semi-skilled or unskilled general wage workers. Less than 8% of civil servants, elected leaders and judiciary are females. In addition, Nepalese women can't inherit property, have little access to education, information or credit and have less control than males in their households over economic activities (Dhakal 2001a).

Microfinance services for the poor is one of the many interventions to reduce poverty and relate to a wide range of flexible, appropriate services tailored to preference and needs of the poor provided successfully by a variety of institutions. Such services can contribute to ongoing social returns only when providers are sustainable. Beyond micro-credit, poor requires a broad variety of financial services. These services are neither a magic bullet in war against poverty nor a short-term or one-time exercise to solve multidimensional poverty problem. Further microfinance can not be a substitute for investment in education, health or infrastructure. As such poor has limited access to formal financial services. Their informal alternatives, such as family loans, and moneylenders are usually limited by amount, rigidly administered or available only at exorbitant interest rates. The challenge ahead is to ensure access to financial services for poor majority. Microfinance is unique among development interventions as many well-managed SCCs provide financial services to the poor and destitute in a sustainable way. Microfinance offers potential for a self-propelling cycle of sustainability and massive growth, while providing a powerful impact on lives of poor, even extremely poor. Evidence shows that the impact intensifies as the clients remain with SCC longer thereby deepening their power towards virtuous cycle.

Providing immediate and sustained microfinance services to women is key factor to facilitate economic upliftment and empowerment (Wilkinson 1996). Empowerment refers broadly to expansion of freedom of choice and action. For poor people, that freedom is severely curtailed by their voicelessness and powerlessness in relation particularly to the state and markets. Since powerlessness is embedded in the nature of institutional relations,

World Bank (2002) defines empowerment as the "*expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives*". Since poverty is multidimensional, poor people need a range of assets and capabilities at individual (such as health, education, and housing) as well as collective (such as ability to organize and mobilize to take collective action to solve their problems) level. Empowering people requires removal of formal and informal institutional barriers that prevent them from taking action to improve their wellbeing - individually or collectively - and limit their choices. The key formal institutions are the state, markets, civil society, and international agencies and that of informal institutions are norms of social exclusion, exploitative relations, and corruption. Where financial services provision leads to setting up or expansion of micro-enterprises, there are a range of potential impacts including increasing women's income levels and control over income leading to greater levels of economic independence; access to networks and markets giving wider experiences of world outside home; increased access to information, and greater possibilities for developing other social and political roles; changing perception of women's contribution to household income and family welfare, increasing women's participation in household decisions about expenditure and other issues and leading greater expenditure on women's welfare; and more general improvement in attitudes to women's role in household and community (Linda 1997, and HMGN/UNCT 2002).

Figure 2: Dimensions of Poverty

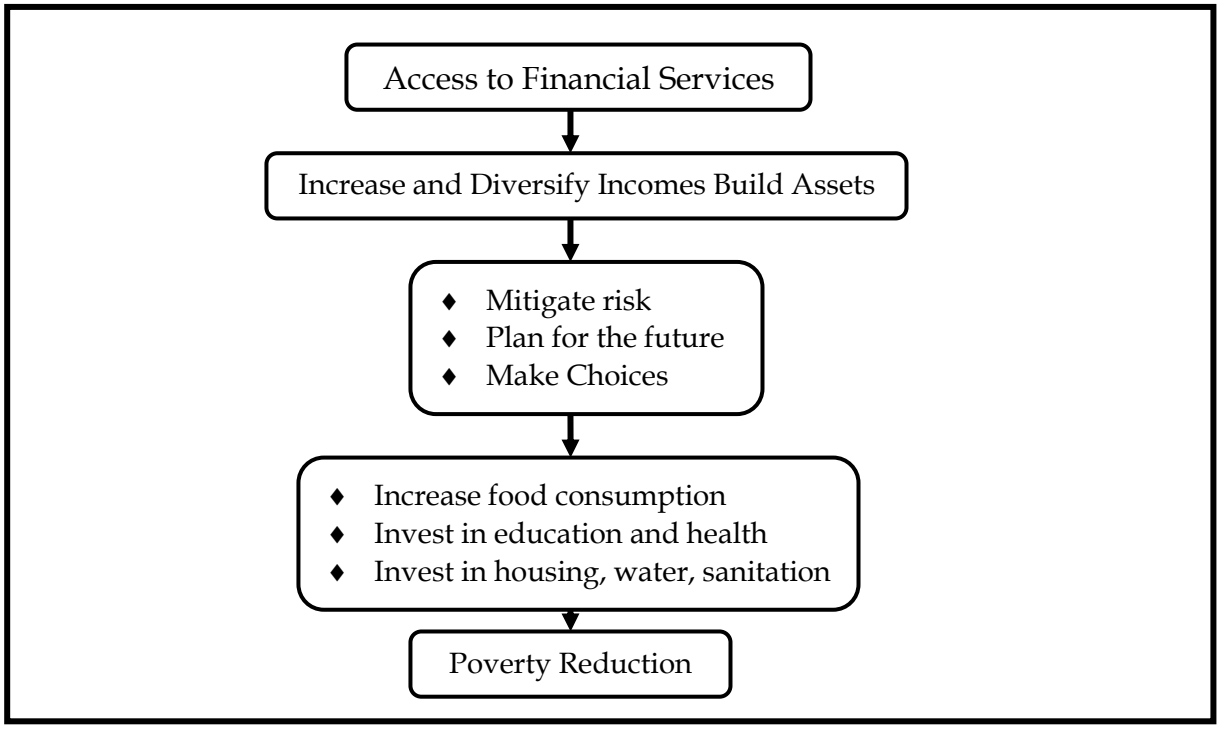


Source: Dhakal (2004)

Microfinance has largely developed outside realm of formal financial sector. Governments and donors addressing financial sector issues talk about banking reform, averting or coping with financial crises, and capital markets - not microfinance. For its part, the microfinance community has insisted that it is highly specialized with separate standards, techniques, and/or legal frameworks. These arguments have contributed towards marginalization of microfinance as a sector isolated from broader financial systems. Large-scale sustainable microfinance can be achieved only if financial services for the poor are integrated into overall financial systems. This integration allows more access to capital, better protection of poor people's savings, and increased legitimacy and professionalization. The result is opening markets to increasingly poor and geographically remote clients. The challenge is to achieve this integration without compromising social mission.

There is extensive evidence that microfinance has a positive impact on reducing extreme poverty. There is no doubt that strong demand exists for microfinance services among poor. In general, impact of microfinance goes beyond business loans. Poor use financial services to invest in micro-enterprises, health, education, and household emergencies in addition to meet wide variety of other cash needs that they encounter. The financial services enable clients to increase their household incomes, build assets, and reduce their vulnerability to crises, besides translating these services into better nutrition and improved health outcomes including higher immunization rates.

Figure 3: Relationship between Poverty and Financial Services



Source: Dhakal (2004)

Income earned from mobilizing financial services allows poor people to plan for their future, send their children to school for longer, enables them to be more confident, assertive and better able to confront gender inequities. Clients manage their cash flows and allocate them into household priority and their own welfare. Access to flexible, convenient, and affordable financial services empowers and equips them to make their own choices and build their way out of poverty in a sustained and self-determined way.

Because state actions create conditions in which poor people and other actors make decisions, primary focus of the World Bank (2002) is on state reform. Since social, cultural, political, and economic conditions vary and institutions are context-specific, reform strategies varies. There is no single model for empowerment, experience shows that certain elements are almost always present when empowerment efforts are successful. In view of this, World Bank (2002) underlies four key elements of empowerment that must encompass institutional reform such as access to information, inclusion/participation, accountability and local organizational capacity (see **Annex 1**).

3. STATE OF THE ART ON MICROFINANCE OPERATION

All three (Navadeep, Pragati and Gyanjyoti) Lumanti promoted SCCs represents an innovative approach to organize communities in slums and informal settlements as a self-help effort to manage provision of microfinance services. Emergence and growth of these SCCs has supported expansion of the institutional outreach of microfinance services to those sections of the society which are still neglected through government efforts. These SCCs covers 11 wards within Kathmandu municipality and 4 VDCs nearby. Total number of shareholders in these SCCs as of July 2004 was 838 representing 63 self-help groups. Number of shareholders is higher (391) in Pragati followed by Gyanjyoti (224 shareholders) and Navadeep (223 shareholders).

Table 1: Characteristics of SCCs

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Date of establishment (year)	5/17/02	5/17/02	5/16/02	
2	Ward covered (No)	2	4	5	11
3	VDC covered (No)	3	1	-	4
4	Groups (No)	18	28	17	63
5	Shareholders (No)	223	391	224	838

Source: Lumanti, 2004

3.1 Governance, Linkages and Networking

These SCCs started their operation after framing a well elaborated written constitution and set of documented policies. Rather than keeping procedures informal and dealing with issues as they arise (for instance, favoured strategy of many promoting agencies), they have made a concerted efforts on their initial formative phase to agree-on a set of rules before operations scaled-up. This approach has provided a clear framework for decision making from day one and ensured informed members consent, in sense that all members have clear understanding of policies and procedures before they make any decision to establish their own SCC. In other words, all three SCCs recognized a need to have a legal identity distinct from both promoting agency (Lumanti) and individuals concerned.

These SCCs are governed by General Assembly of members which makes major policy decisions and elects a Board of Directors (BoD) of 7-9 members to observe on-going affairs and make required operational decisions within policy framework provided by General Assembly. In some Annual General Meetings (AGMs), authorities are delegated to BoD on conditions that major decisions are reported back to General Assembly. In general, decisions and activities of these SCCs are relatively autonomous of external pressure or interests from government, NGOs or political parties. Most decisions are taken on consensus, rather than counting votes in "*favour*" versus "*against*". Furthermore, they broaden base of participatory decision-making by forming sub-committees (loan, accounts, education, etc.) with clearly defined roles and responsibilities. Leadership is considered a key determinant of SCC success. For instance, elected representatives, who are strong and capable, have generated confidence among members. This sense of service to members is re-enforced by maintenance of a voluntary spirit on SCC operation. This sprit is seen as having a strong financial benefit to society by keeping operating costs to a minimum. Furthermore, it undermines the community-based nature of SCC, as an organisation that people contribute to "*for the greater good*" rather than for narrow personal interests.

The setting up and maintenance of adequate record keeping systems (with specific reference to cash and loan management) is particularly important for efficient operation of these SCCs. However, these SCCs continue to experience difficulties in this regard and are susceptible to a range of problems related to accounting and financial management. Clear and periodic reporting of financial accounts (savings and credit balances) of individual members and the SCCs' financial position as a whole is considered important to foster truth and confidence through transparency. As a consequences, these SCCs are constantly exploring alternative to configure their personnel cost to a minimum in relation to loan portfolio, membership and asset base. Most of the works are based on their volunteer labour. One modestly paid staff manages entire transactions including accounts and book keeping. Considering the increasing work load on loan management and accounting, one SCC (Pragati) has latterly used the services of two part-time volunteers with token honorarium.

3.2 Operational Strategy, Products and Delivery

Primary reasons to facilitate emergence and growth of these SCCs lie at sustainable delivery of financial services to low income clients living in slums and informal settlements. These SCCs include two tier systems of operations. Lumanti facilitated savings credit groups willing to join in the SCCs as shareholders. Group coordinator of the savings and credit group acts as an intermediary between shareholders and SCCs. Only member of the women savings and credit groups promoted by Lumanti can be eligible for SCC membership. Interested member must regularly participate in introductory workshop related to cooperatives organised in their/nearby settlements, after which members willing to acquire share of the SCC share must complete the membership form with introduction by at least one shareholder. Hence, membership of these SCCs is confined among women members of the savings and credit groups living in slums and informal settlements. Along with application, members should include copy of the citizenship certificate, three copies photos (two pass-port size and one auto size); cash deposits of Rs. 25 as entry fee; and Rs. 10 as membership fee, Rs. 10 for pass-book fee. One shareholder must purchase five shares each with Rs. 100 and she must deposit minimum regular savings of Rs. 50 for the first month.

They operate from fixed place; an office established to undertake transactions and provides forum for their operations. One staff recruited by BoD undertakes day to day operation. Their operations involve delivery of financial products (savings and loans) that provides fundamental basis for revenue generation. Group coordinators mainly act as a link between SCCs and shareholders as well as savings collection and lending activities in groups. They regularly deposit the amount in SCCs. Three sub-committees (account, education and loan) within each SCC oversee, undertake in-depth assessment of different activities and recommend to BoD for final action. The BoD makes final decisions on all transactions under the recommendation of sub-committees and group coordinator. In general, such arrangements are cost and time effective though few minor cases of fraud and mis-use by group coordinator has been evident.

Outreach

As of July 2004, these SCCs had 838 shareholders, all participating savings services and 465 (56%) receiving lending services. Proportion of loan clients was highest (62%) in Gyanjyoti and lowest (50%) in Navadeep. These SCCs are characterised by significant growth (43%) in shareholders over last two years (2002-2004) with variation across SCCs. Pragati has more number of shareholders almost double of the Navadeep and Gyanjyoti (Table 2). They provide financial services to women members to undertake income generating activities (IGAs) thereby assisting on their fight against poverty.

Table 2: Shareholders and Loan Clients of the SCCs as of July 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Shareholders (No)	223	391	224	838
2	Regular savings (No)	223	391	224	838
3	Voluntary (No)	12	16	12	40
4	Housing (No)	0	55	0	55
5	Children (No)	22	85	40	147
6	Loan clients (No)	111	216	138	465
7	% of loan clients	50	55	62	56
8	Growth in shareholders last year	58	33	46	43
9	Share on shareholders	27	46	27	100

Source: Respective SCCs, 2004

Savings Products

These SCCs has almost identical savings policy. Shareholders must participate in monthly savings schemes. At present these SCCs provides four types of saving services: regular savings, voluntary savings, housing and children. All the shareholders have participated in regular savings schemes and their savings activity is strongly influenced by philosophical approach that focuses on mobilising local savings for on-lending activity. In last year, growth in savings balance in these SCCs was 82% (181% in Navadeep, 84% in Gyanjyoti and 54% in Pragati). Savings in Pragati accounts highest (49%), followed by Gyanjyoti (28%) and Navadeep (23%). Average savings balance is Rs. 4510 (Rs. 4720 in Pragati, Rs. 4683 in Gyanjyoti and Rs. 3969 in Navadeep), which is considerably high in less than three years of their operation.

Table 3: Value of Total Savings (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Savings as of July 2004	885170	1845522	1048962	3779654
2	Savings account (No)	223	391	224	838
3	Growth in savings last year (%)	181	54	84	82
4	Share on total savings (%)	23	49	28	100
5	Average personal savings balance (Rs)	3969	4720	4683	4510

Source: Respective SCCs 2004

Regular savings balance: Shareholders are required to make monthly contribution of at least Rs. 50 and more can be contributed to a multiple of 10 as regular savings. Savings should be contributed on regular basis within 15th day of each month. Penalties are charged to late contributors at the rate of Rs. 10. Shareholders can not make savings contribution of current month without regularising contribution of previous months. Advance contribution can be made for a period of six months. Regular savings can be withdrawn only after three years according to the then savings policy. Savings can't be withdrawn if member drop-outs from SCCs. Interest on saving are 8% calculated every six months. Savings contribution can be deposited in their own savings and credit groups or in group meeting to group coordinator or visiting SCC offices and not through door to door visit. As of July 2004, three SCCs has mobilised combined personal savings of 3.37 million - *See Table 4*. In last year, average growth in personal savings was 69% (159% in Navadeep, 77% in Gyanjyoti and 42% in Pragati). Total personal savings balance in Pragati accounts about 50% and almost equal in Navadeep and Gyanjyoti (25% each). Average personal savings balance per member is

quite encouraging which ranges between Rs. 3561 (in Navadeep) and Rs. 4336 (Pragati) with an average of Rs. 4032.

Table 4: Value of Regular Savings (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Savings as of July 2004	794006	1695215	889725	3378946
2	Savings accounts	223	391	224	838
3	Growth in savings last year(%)	159	42	77	69
4	Share on total savings (%)	24	50	26	100
5	Average regular savings balance (Rs)	3561	4336	3972	4032

Source: Respective SCCs 2004

Voluntary Savings: Under voluntary savings schemes introduced by these SCCs shareholders can deposit accumulated surplus based on their normal family cash flow. As of July 2004, only 40 shareholders have participated in voluntary savings with savings balance of Rs. 181,489 million - *See Table 5*. Share on total voluntary savings was highest (42%) in Pragati, followed by Gyanjyoti (33%) and Navadeep (25%). Average voluntary savings balance was Rs. 4537 (Rs. 5050 in Gyanjyoti, Rs. 4733 in Pragati and Rs. 3764 in Navadeep).

Table 5: Value of Voluntary Savings Balance (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Savings as of July 2004	45163	75732	60594	181489
2	Savings accounts	12	16	12	40
3	Share on total savings (%)	25	42	33	100
4	Average voluntary savings balance (Rs)	3764	4733	5050	4537

Source: Respective SCCs, 2004

Housing Savings: These SCCs has lately introducing housing savings schemes wherein shareholders can deposit money based on their commitment on house construction in their attempt to respond shareholders immediate demand and concern for constructing house of their own. As of July 2004, only Pragati has introduced housing savings scheme and about 55 shareholders are participating on housing savings scheme with an accumulated savings balance of Rs. 35712. - *See Table 5*. Average housing saving balance is Rs. 649.

Table 6: Value of Housing Savings Balance (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Savings as of July 2004	0	35712	0	35712
2	Savings accounts	0	55	0	55
3	Share on total savings (%)	0	100	0	100.0
4	Average housing savings balance (Rs)	-	649	-	649

Source: Respective SCCs, 2004

Children Savings: In order to respond the need of the shareholders to finance future career development of their children, these SCCs has lately introduced children savings schemes wherein shareholders can deposit part of their accumulated surplus on this account. As of July 2004, a total of 147 shareholders have participated in children savings with savings balance of Rs. 183,507 - *See Table 5*. In these SCCs, growth in voluntary savings balance compared to last year has an impressive trend owing to small savings base last year.

Average children savings balance is Rs. 1248, highest in Gyanjyoti (Rs. 2466), followed by Navadeep (Rs. 2091) and Pragati (Rs. 457).

Table 7: Value of Children Savings Balance (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Savings as of July 2004	46001	38863	98643	183507
2	Savings accounts	22	85	40	147
3	Growth in savings last year (%)	435	3370	50	143
4	Share on total savings (%)	25	21	54	100
5	Average children savings balance (Rs)	2091	457	2466	1248

Source: Respective SCCs, 2004

Given semi-voluntary nature of these SCCs, collection of savings takes place at a fixed place at a fixed time and day. Group coordinators are involved on savings collection. Only voluntary savings can be withdrawn. Interest is paid in members' savings that range between 7% and 8%.

Loan Products

These SCCs follow individual lending approach and has a highly *organised delivery system*. All lending take place from their offices. Loan is extended without physical collateral to individual under guarantee of co-signers, peer pressure, persuasion, and support from group to ensure loan repayment. To be eligible for borrowing, there should be at least two co-signers for each loan application. Loan defaulters can't be eligible to be co-signers. In case loan client fails to repay loans, co-signers must repay their loans. One member can be co-signers for only one member. Loan deeds will be signed after loan approval specifying due dates and repayment schedule. Four percent panel interest will be charged on due loan from date of maturity/due date. Service charge is 0.5% which should be paid prior to borrowing. They follow a *monthly repayment system,* through which interest and principal payments are due in general on a monthly basis and cleared within 12 months. During repayment, accrued interest is deducted first and principle from the balance. In general, 10 percent principle and interest balance should be repaid every month.

Table 8: Value of Outstanding Loan Balance (Rs. '000)

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Outstanding loan balance as of July 2004	681545	1598652	1157000	3437197
2	Loan clients	111	216	138	465
3	Growth in lending last year	90	18	96	49
4	Share on total outstanding loan balance (%)	20	47	33	100.0
5	Average loan size (Rs.)	6140	7401	8384	7392

Source: Respective SCCs, 2004

Interested shareholders must apply for loan for a maximum duration of one year. Interest rate on loan will be 24%. Loan application must be made in the meeting of their savings and credit groups and should be forwarded in SCC with recommendation from concerned groups. In the SCC, loan committee review the loan application. Appraisal generally takes within 7 days. Loan appraisal is based on various criteria. Most commonly cited were project feasibility, client's income, character, loan duration and urgency of loan need. The *size of the loans is small.* The maximum size of the loan is usually fixed by the SCCs in terms of member's savings and/or a fixed ceiling based on purpose of loan. When loan amounts are

tied to member's savings, observed ratio (loan to savings) is almost one to one. Loan terms tend to be negotiated on a case by case basis, within broader framework of maximum allowable term. Loan repayment has been fairly standardized. The initial loan size increased based on credit history of the clients. Individual savings are sometimes tapped to ensure repayment. SCC has made special provision for emergency loans what were more flexible in their appraisal process and terms of repayment.

Average nominal growth of SCCs outstanding loan balance last year was 49%, highest in Gyanjyoti (96%), followed by Navadeep (90%) and Pragati (18%) - *See Table 8*. As of July 2004, share on total outstanding loan balance is highest in Pragati (47%), followed by Gyanjyoti (33%) and Navadeep (20%). Average outstanding loan balance per member is Rs. 7392 [highest (Rs. 8384) in Gyanjyoti and lowest in Navadeep (Rs. 6140)]. SCCs are characterised by high degree of flexibility *about economic activities undertaken with loan proceeds* and in general they do not strictly monitor funds and mis-use. Very low rates of mis-use of loan funds have been reported and they have yet to introduce penalties in loan misuse. Interest on loan is 24% calculated on declining balance.

3.3 Management Information System, Internal Control and Risk Management

These SCCs possess basic information system to ensure two way data flow from shareholders to SCC management. The system is very simple, manual, ad-hoc and prone to errors. Recording at field level comprises of client passbooks and a loan register that are consolidated, generally with a significant time lag at SCC office. Accounting is very basic but perfect and monthly financial statements are prepared within 15 days after the end of accounting period. Reports for staff are very few in numbers and tend to focus more on meeting legal requirements. Management Information System (MIS) is manual and almost identical across SCCs. While manual system is very cost effective and requires low operator's skills, it does not correct potential entry errors. Inability to generate information on portfolio quality, delinquent portfolio, aging, provisioning as per NRB's directives, are some of the shortcomings of existing MIS system. They have procedures built into their operations that act as control measures for frauds and fund mis-use; however, these are quite informal to recognize their relevance as risk mitigating elements. These procedures are designed to facilitate proper targeting, credit appraisal, smooth flow of funds, mitigate credit risks and provide critical points for monitoring. In general, SCCs acknowledged need for a formal control mechanism only after a significant event of serious mis-appropriation of funds or if there is a serious malfunction in their operations (case of diverting loan recovery amount by group coordinator in Pragati SCC).

Internal control and risk management initiatives adopted by SCCs have three features such as loan products, internal audit and portfolio quality monitoring. Since SCCs are mainly members owned under cooperative act 1992, mechanisms for internal control are almost identical with minor differences across them which are the function of vision, background and experiences of BoD.

Loan Portfolio

Since loan portfolio is the SCCs' largest asset, tracking portfolio is the most basic preventive measures adopted by these SCCs. All these SCCs do not have systematic portfolio control and tracking systems. The present tracking system of these SCCs provide information on volume of loan portfolios and repayments; but usually unable to provide accurate information on portfolio at risk, portfolio in arrears and aging information. Lumanti staff still provides required technical backstopping support on managing loan portfolio. Close

scrutiny internal control system in these SCCs on loan products exhibit three features. First, prevention of portfolio begins with client appraisal process wherein efforts are made to include poor and needy women from squarer family only after thorough preparation. The BoD appraises individual loan applications and corroborates data with other group members who act as guarantors with further discussion in group meeting. Second, besides client appraisal, BoD follows on loan utilisation within one month of loan disbursement. They insist on immediate use of loan as a delay would mean a loss of income resulting reduced clients' ability to pay monthly instalment. Repayment is based on peer pressure of co-signers. Third, group coordinator detects overdue of their groups and this is the first lien of defence against default risk. Group coordinator cancels out any payments that are not been received.

Internal Audit

These SCCs are legally obliged to undertake an internal audit by account committee before employing an external auditor. These committees are required to oversee the extent of conduction of their operations according to agreed policy on financial management and internal control. They, however, lack capacity and expertise for internal auditing. Besides being a detective process, their audit is expected to function as a corrective means; however, these functions have not been very effective. In these SCCs, internal audit is a secondary level of internal control, which builds on primary control activities that are part of their procedures. The purpose of audit is simply to check whether control procedure embedded in operations are actually functioning or not. As an additional indicator for management, a standardized report format priorities risk and allows for horizontal and longitudinal comparisons between branches.

Portfolio Quality

These SCCs have accorded high priority on portfolio quality and realised that their concerted efforts on maintaining loan portfolio quality affects their efficiency. Despite their enormous efforts of maintaining portfolio quality, they were not been able to undertake their transaction at 100% repayment rate.

Table 9: Portfolio Quality of the SCCs in 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Portfolio in arrears ratio (%)	4.4	6.5	2.3	4.9
2	Portfolio at risk ratio (%)	16.2	24.5	9.2	17.8
3	Loan loss provision ratio (%)	-	-	-	-
4	Reserve ratio (%)	24.8	20.3	22.1	21.7

Source: Respective SCCs, 2004

As of July 2004, average portfolio at arrear ratio was 4.9% (high in Pragati 6.5%, followed by Navadeep 4.4% and Gyanjyoti 2.3%). On the other hand, portfolio at arrear ratio is estimated to be 17.8% (24.5% in Pragati, 16.2% in Navadeep and 9.2% in Gyanjyoti). These SCCs has yet to make loan loss provision according to directives of the NRB. The loan loss provision has been sufficiently backed by corresponding reserve ratio of 21.7% (24.8% in Navadeep, 22.1% in Gyanjyoti and 20.3% in Pragati). Equation of reserve ratio to corresponding portfolio quality and SCCs profitability status is difficult to establish. The tendency on portfolio in arrear and portfolio at risk ratio indicate evidence of deteriorating financial discipline in these SCCs. The reasons for overdue build-up have been primarily attributable to moral hazard among borrowing members and some degree of fraud among group coordinator. The existing MIS of these SCCs need to be tailored enabling staff to neither

monitor their portfolios and provide better services to increasing number of clients nor enable loan committee to better monitor their areas of responsibility, pinpointing priority areas requiring immediate attention. Further, the system was not very much useful to BoD to better orchestrate work of entire organisation and make well-informed operational and strategic decisions through regular monitoring of their financial health with a set of well-chosen reports and indicators.

3.4 Accounting Policies and Financial Management

These SCCs follow accounting policies laid down by cooperative act 1992 for recording and accounting of their operation. In all SCCs, revenue recognition and cost are accounted on cash basis adopting double entry accounting system. They prepare trial balance every month to ensure consistency on accounting and statement of accounts on annual basis. Annual statements of account contain comparative figure on asset, liability, capital, income and expenses along with narrative section indicating basis for preparing these statements; revenue recognition; fixed asset costing and depreciation; and share capital. Financial statements are regularly audited from registered auditors. These statements are questioned on provision for loan losses and asset quality monitoring on the absence of systematic MIS system.

Financial management is merged with other functional areas that are the responsibility of BoD and this function is not separated from operational management. Mechanisms that enable good financial analysis are also, often, not in place. Undertaking common size analysis or examining financial statements for decision making are rare because of lack of capacity to do so. For instance, simple common-size analysis exercise of income statement and balance sheet (see Table 10 and 11) provided interesting information on inter and intra SCC level differences on efficiency on fund management and productivity. Share of cash and bank balance on total assets at the end of 2060/61 ranges between 17.1 (Gyanjyoti) and 35% (Pragati) with an average of 27%, implying significant difficulties on fund management and mobilisation. The lack of appreciation on significance for financial management skills in SCCs is a matter of concern. With increasing scales of operation and gradual effort to diversify products and services, SCCs need to place greater emphasis on enhancing technical capabilities to undertake financial management. With regard to the financing of their fast growing portfolio, SCCs strategy incorporates several elements. First, they rely on entirely on members' savings as a sole source of funds as they believe that this is the only way to manage resources necessary to fuel its loan demand growth. Second, they adopt simple manual sheet based cash planning for debt servicing that consolidates information savings mobilization and lending. Finally, loans are linked with members' savings balance to provide stability structure and reduce liquidity pressure. These elements need immediate attention as they are insufficient for addressing future needs of the SCCs.

3.5 Human Resource Management

Recruitment, Orientation and Training

In these SCCs, one paid staff recruited by BoD in consultation with Lumanti undertake entire transactions such as savings and loan management, accounting and book keeping, information management etc. Considering increased work load, Pragati has started services of two modestly paid volunteers. These SCCs has yet to devise human resource policy to manage their transactions. The staff is exposed to field level operations and learn cooperative principles and philosophy, rules and procedures, targeting, credit discipline, financial management and accounting.

Table 10: Common Size Analysis of the Income Statement

S.N.	Particulars	Unit	Navadeep		Pragati		Gyan Jyoti		Total	
			2059/60	2060/61	2059/60	2060/61	2059/60	2060/61	2059/60	2060/61
1	Operating income	Rs.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Interest income	Rs.	78.2	88.9	84.9	92.1	86.5	92.2	84.5	91.5
	Other income	Rs.	21.8	11.1	15.1	7.9	13.5	7.8	15.5	8.5
2	Operating expenses	Rs.	201.1	108.3	76.4	59.1	101.3	78.2	100.7	73.8
	Interest expenses	Rs.	30.5	32.3	29.0	28.8	29.3	30.1	29.3	29.8
	Staff expenses	Rs.	98.7	29.3	23.5	11.4	42.4	19.4	39.3	17.0
	Office operating expenses	Rs.	71.9	24.1	6.0	17.4	29.6	28.5	22.1	21.8
	Loan loss provision	Rs.	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
	Other expenses	Rs.	0.0	22.6	17.9	1.5	0.0	0.0	10.0	5.1
3	Net income	Rs.	-101.1	-8.3	23.6	40.9	-1.3	21.8	-0.7	26.2

Table 11: Common Size Analysis of the Balance Sheet

S.N.	Particulars	Unit	Navadeep		Pragati		Gyan Jyoti		Total	
			2059/60	2060/61	2059/60	2060/61	2059/60	2060/61	2059/60	2060/61
1	Asset	Rs.	6.5	1.8	1.2	0.6	2.4	2.0	2.4	1.3
	Cash balance	Rs.	6.4	22.2	10.6	34.4	17.1	15.1	11.6	26.2
	Bank balance	Rs.	75.9	69.9	87.6	64.2	79.3	82.1	83.4	70.5
	Loans and advances	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Investment	Rs.	1.5	0.9	0.5	0.5	0.9	0.8	0.8	0.7
	Net fixed assets	Rs.	0.2	0.6	0.1	0.3	0.1	0.0	0.1	0.3
	Other assets	Rs.	9.5	4.6	0.0	0.0	0.2	0.0	1.7	1.1
	Accumulated losses	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Liabilities	Rs.	67.4	73.5	77.8	74.3	77.7	75.6	76.0	74.5
	External borrowing	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Deposits/savings	Rs.	66.8	73.1	77.4	73.8	77.2	75.1	75.6	74.0
	Other liabilities	Rs.	0.6	0.4	0.3	0.5	0.5	0.5	0.4	0.5
	Accumulated profits	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Capital	Rs.	32.6	26.5	22.2	25.7	22.3	24.4	24.0	25.5
	Share capital	Rs.	13.5	10.5	12.7	9.4	10.5	7.6	12.2	9.2
	Reserve	Rs.	19.1	16.0	9.6	16.3	11.8	16.7	11.8	16.4
	Capital grants	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Other	Rs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Liabilities + Capital	Rs.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Staff training is regarded as an ongoing process. Series of personal/professional learning process was organised and coached to identify personal and professional learning needs of staff on performance improvement. Lumanti has supported identify suitable training sources and programme for staff. Training programmes utilised can be grouped into two - internal and external. While internal programmes are mainly on the job as well as class room based, external training are coordinated with microfinance training providers such as Centre for Microfinance (CMF); South Asia Partnership, Nepal; and National Federation for Savings and Credit Cooperative Union (NEFSCUN). SCCs use training as a staff retention mechanism to address human resource maintenance function.

Staff Performance

SCCs' performance appraisal is developed to maintain both productivity and quality. Performance assessment provides indication on SCCs' ability to maintain their non-financial cost to a reasonable level (Table 12 and 13). They minimize transactions costs, especially administrative expenses to attain viability. Despite having almost similar human resource recruitment, orientation and training policy, there exists significant difference on administrative efficiency across these SCCs. First, average ratio of administrative cost to total transaction cost is 60%, highest in Navadeep (70%) and lowest in Pragati (51%) indicating that administrative cost constitute over half of the transaction cost of these SCCs. Second, personal cost to administrative cost ratio among SCCs range between 38% (Pragati) and 41% (Gyanjyoti) with an average of 39% implying that personal (salary cost) is not dominating in administrative cost, signifies non-staff cost to have dominating role on their overall performance and ample scope for efficiency gain. Personal cost to transaction cost ratio ranges between 19% (Pragati) and 27% (Navadeep) with an average of 23%. Third, administrative cost to APA ranges between 6% (Pragati) and 13% (Navadeep) with an average of 8%. This ratio indicates rupees that SCC spends for managing Rs. 100 loan. In true sense, overall viability of these SCCs depends on extent at which it can manage fund at the lowest cost. Considering effective interest rate (24%) charged and corresponding realisation rate (18%), administrative cost to APA ratio is quite high.

Table 12: Administrative Expenses Analysis of SCCs as of July 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Admin. cost/transaction cost (%)	70	51	61	60
2	Personal cost /admin. cost (%)	39	38	41	39
3	Personal cost/ transaction cost (%)	27	19	25	23
4	Admin. cost to APA (%)	13	6	9	8

Source: Annex 3

The personal cost is one of the important parts of administrative cost in SCCs, ranging between 38% and 41% of total amount of administrative expenses and likely to increase in future as transaction increases and management become more complex. In this context, it is essential that these SCCs should control their staff efficiency. Shareholders and loan clients per staff are the highest in Gyanjyoti (230 and 138) followed by Gyanjyoti (224 and 111) and the lowest in Pragati (130 and 42). Since, client and loan clients per motivator ratio by and large depend on lending methodology and clients are one of the most valuable agents in SCCs operation, with their similar lending methodologies, clients and active loan clients per motivator ratio is quite low especially in Pragati. Income of SCCs depends on clients' willingness to receive financial services on continuous basis. Loan client to shareholders ratio, therefore, has special significance in SCCs operation. Loan client to shareholders ratio

fluctuates widely across SCCs, between 32% (Pragati) and 60% (Gyanjyoti) and average 44%. Low loan client to shareholders ratio should target to exceed 80% for efficiency.

Table 13: Staff Efficiency Analysis of SCCs as of July 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Clients/staff (No)	224	130	230	169
2	Loan clients/staff (No)	111	42	138	75
3	Loan clients/shareholders (%)	50	32	60	44
4	Outstanding loan per staff (Rs. '000)	846135	534904	1157376	721645
5	Salary cost to APA	5	2	4	3

Source: Annex 3

Outstanding loan portfolio per staff also depends on lending methodology, level of clientele's poverty, economic environment, etc. and provides indication on staff's financial productivity. This ratio is highest in Gyanjyoti, followed by Navadeep and Pragati. This ratio is the determinant of loan revenues of SCCs and has implications for viability. Salary Cost to APA is high in Navadeep (5%), followed by Gyanjyoti (4%) and Pragati (2%), which is a modest ratio having implication on attaining OSS and FSS.

3.6 Financial Performance

Financial performance relates to assessment of extent to which SCCs possess prospects to serve large number of clients over long term. An assessment on SCCs' financial performance and their ability to maintain their primary assets, i.e. loan portfolio assessed using the framework discussed in section two measures SCCs ability to attain operating and financial self-sufficiency. This follows an analysis of their income, expenses and self-sufficiency level as discussed hereunder - *See Table 12*.

Income analysis

Interest income earned by mobilising performing assets constitute the primary sources of income of these SCCs. Return on APA in these SCCs ranges between 17.1 % (Navadeep) and 18.9% (Gyanjyoti) with an average of 18.3%. Return on APA is more in Gyanjyoti, followed by Pragati and Navadeep. The return on APA is significantly lower than effective interest rate charged (24%) by these SCCs, indicating problems on fund mobilisation and signifies prevalence of one or combination of situation such as borrowers' inability to repay loans on-time, misappropriation of loan recovered, reporting inaccuracy, low capital mobilization rate and use of performing assets on low yielding portfolio.

Expenses analysis

The financial cost ratio of SCCs ranged between 5.3% and 5.7% with an average of 5.5% (5.7% in Gyanjyoti and 4.3% Pragati). This indicates a relative perfection and efficiency on fund management by the SCCs. Administrative cost ratio among them ranges between 5.6% (Pragati) and 13.0% (Navadeep) with an average of 8.0%. This indicates quite fluctuating and relatively high cost on fund administration in these SCCs if compared to their transaction level. Among SCCs, Pragati has made some innovations that have contributed to manage activities effectively. Administratively, Pragati is most efficient, followed by Gyanjyoti. Navadeep is relatively inefficient on managing administrative costs. These SCCs have yet to make loan loss provision adhering to loan loss provisioning directive of NRB. This is an area that requires immediate attention. The imputed cost of capital is estimated using prevailing inflation rate of 8% that indicate implication of maintaining purchasing

power of SCCs' net-worth (capital). Imputed cost of capital ratio among SCCs ranges between 2.6% (in Pragati and Gyanjyoti) and 3.3% (Navadeep) with an average of 2.7%. Cost of maintaining purchasing power of the net worth of these SCCs significantly large compared to the size of their APA or operation.

Table 14: Financial Performance of the SCCs as of July 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	**Income analysis**				
	APA (Rs. '000)	778,496	2,011,684	1,066,474	3,856,655
	Return on APA (%)	17.1	18.5	18.9	18.3
2	**Expenses analysis**				
	Financial cost ratio (%)	5.5	5.3	5.7	5.5
	Administrative cost ratio (%)	13.0	5.6	9.0	8.0
	Loan loss ratio (%)	0.0	0.0	0.0	0.0
	Imputed cost of capital ratio (%)	3.3	2.6	2.6	2.7
3	**Self-sufficiency analysis**				
	Operating self-sufficiency (%)	92.3	169.1	127.9	135.5
	Financial self-sufficiency (%)	78.4	137.1	109.1	112.9

Source: Annex 3

Self-sufficiency analysis

The OSS of SCCs ranges between 92.3% (Navadeep) and 169.1% (Pragati) with an average of 135.5%. Except Navadeep, both Pragati (169.1%) and Gyanjyoti (127.9) are operationally self-sufficient. Even Navadeep possess potential of acquiring OSS. There is almost one to one relationship on OSS and FSS in these SCCs. In these SCCs, the FSS ranges between 78.4% (Navadeep) and 137.1% (Pragati) with an average of 112.9%. Navadeep also possess potentials of acquiring FSS.

3.7 Sustainable Interest Rates and Subsidy Dependence Index

Viability of SCCs, and consequently their sustainability, is closely linked to their financial spread. SCCs' lending interest rates (24% at declining balance) are obviously higher than prevailing rate around 15% in formal market – Table 15. In effect, SCC mostly operates in urban and semi-urban areas, where risks and transaction costs are relatively low.

Table 15: Interest Rate (%) in 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Lending interest rate (%)	24	24	24	24
2	Effective interest rate (%)	24	24	24	24
3	Return on APA (%)	17.1	18.5	18.9	18.3
4	Inefficiencies (%)	40.5	29.8	27.2	31.1
5	Sustainable interest rate (%) - theoretical	18.5	11.0	14.8	13.5
6	Sustainable interest rate (%) - practical	26.0	14.2	18.8	17.8

Note: Interest rate is charged on declining balance
Source: NRB, 2004

At the present level of transaction, interest rate charged by Pragati and Gyanjyoti is viable while reverse is the case in Navadeep. Coupled with prevailing inefficiencies (40.5%) while Navadeep requires increasing their lending rates to 26% to cover costs and attain self-sufficiency. The sustainable interest rate (adjusted to inefficiencies) that SCCs should charge ranges between 14.2% (Pragati) and 26% (Navadeep) with an average of 18%. Even under current level of transaction, Pragati and Gyanjyoti have possibility of reducing interest rate currently charged while Navadeep has to increase interest rate slightly. However, this issue should be carefully handled in the context of increasing efficiency on return on APA.

The analysis on SDI shows that these SCCs still depend on subsidy (Table 16). Subsidy dependence level of Navadeep is high (0.76%) followed by Gyanjyoti (0.71%) and Pragati (0.55%). This analysis implies the need to raise current interest rate by Navadeep, Pragati and Gyanjyoti respectively to a level of 0.76%, 0.55% and 0.71% to continue their transaction without subsidy.

Table 16: Subsidy Dependence Index in 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	2003	2.30	0.76	0.97	1.03
2	2004	0.76	0.55	0.71	0.67

Source: Annex 3

The results of SDI analysis in these SCCs are consistent with finding of sustainable interest rates analysis. It is necessary to raise lending interest rate in hopes of covering all transaction costs, and even more, to suppress subsidies. Further, it is evident that there is a correlation between SDI and other performance. It supports the theory that SCCs must be allowed time to become self-sustainable in addition to consideration on other management aspects.

3.8 Comparative Assessment of SCCs

Close scrutiny of the indicators showing comparative status of SCCs reveals that they differ in terms of their outreach, financial and operational performance, sustainable interest rate and SDI (Table 15). In order to come-up into a common and representing index reflecting overall performance of these institutions, rating technique was developed covering all relevant aspects discussed above to a maximum score of 100[4] - See **Annex 4**.

The SCCs demonstrated uniform and logical recital in all these aspects converging to reflect their performance at par to reality. Based on rating exercise, score acquired by SCCs were: Navadeep (48), Pragati (62) and Gyanjyoti (61) which is consistent to real world situation where these SCCs work. Differences on performance in these SCCs are primarily attributable to their outreach, operational and financial productivity. Difference on OSS and FSS level and return on APA are the most crucial factors that contributed on performance differences. Other factors to cite with are differences on staff productivity mainly shareholders and active loan clients to field staff as well as active loan clients to shareholder ratio. The active loan clients and active clients ratio below 90% has been crucial for determining level of operation of these SCCs. The relatively poor performance in Navadeep is primarily to high administrative cost ratio compared to Pragati and Gyanjyoti.

[4]While rating SCCs, various aspects of outreach was weighted to a score of 21, financial performance on 45, operating performance on 28 and portfolio quality on 6.

Table 17: Indicators Showing Comparative Status of the SCCs

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
A	**Outreach**				
1	Active loan clients /shareholders (%)	48	32	90	48
2	Growth in shareholders in last years (%)	60.8	33.0	0.0	31.2
3	Growth in loan client in last years (%)	-3.5	-57.0	-9.8	-33.2
4	Growth in personal savings (%)	158.9	41.9	76.5	68.5
5	Growth in total savings (%)	179.8	53.5	82.6	80.6
6	Average savings balance (Rs.)	3849	4720	6856	4883
7	Average loan size (Rs.)	7623	12736	8387	9622
B	**Financial performance**				
1	Return on APA (%)	17.1	18.5	18.9	18.3
2	Financial cost ratio (%)	5.5	5.3	5.7	5.5
3	Admin. cost ratio (%)	13.0	5.6	9.0	8.0
4	Loan loss ratio (%)	0.0	0.0	0.0	0.0
5	Imputed cost of capital (%)	3.3	2.6	2.6	2.7
6	OSS (%)	92.3	169.1	127.9	135.5
7	FSS (%)	78.4	137.1	109.1	112.9
C	**Operating performance**				
1	Admin. cost to transaction cost (%)	70	51	61	60
2	Personal cost to admin. cost (%)	39	38	40	39
3	Personal cost to transaction cost (%)	27	19	25	23
4	Client per motivator (No)	230	130	153	155
5	Loan client per motivator (No)	111	42	138	75
6	Outstanding loan portfolio per staff (Rs. '000)	846,135	534,904	1,157,376	721,645
7	Salary cost to APA (%)	5	2	4	3
D	**Portfolio quality**				
1	Reserve ratio (%)	24.8	20.3	22.1	21.7

Source: Various Tables presented in this section.

4. IMPACT OF MICROFINANCE SERVICES

Experiences elsewhere indicates that poor clients use financial services to invest in microenterprises, health, education, and household emergencies in addition to meet wide variety of other cash needs that they encounter. The financial services provided by SCCs enables them to increase their household incomes, build assets, and reduce their vulnerability to crises and translate these services into better nutrition and improved health outcomes including higher immunization rates. Income earned from mobilizing financial services allows them to plan for their future and send their children to school for longer and enable them to be more confident, assertive and better able to confront gender inequities. Clients manage their cash flows and allocate them into household priority and their own welfare. Access to flexible, convenient, and affordable financial services empowers and equips them to make their own choices and build their way out of poverty in a sustained and self-determined way. In this section these hypothesises are tested using the information gathered from the survey of 30 enterprises managed by 30 entrepreneurs.

4.1 Loan Transaction

Members can borrow for consumption (health/treatment, education, loan repayment, etc.), consumer durables (house repair) and production/IGAs (agro-based, cottage industries, manufacturing, petty trade and services) from these SCCs. Loans has been disbursed more on consumptions (43% in 2059/60 and 49% in 2060/61) followed by production/IGAs (39% in 2059/60 and 35% in 2060/61) and consumer durables (18% in 2059/60 and 16% in 2060/61). This implies that promotion of production/IGAs have not received adequate focus in the lending programme of three SCCs promoted by Lumanti. A total of 617 and 465 shareholders received lending services in 2059/60 and 2060/61 respectively a reduction of the borrowing members by 25% in 2060/61 compared to 2059/60.

Table 18: Composition of Loan Disbursement in three SCCs

S.N.	Type of loan	Total					
		2059/60			2060/61		
		No	Amount	Percent	No	Amount	Percent
1	Health/Treatment	54	310600	6.0	39	366700	6.1
2	House repair	97	934250	18.1	67	936700	15.6
3	Education	85	316500	6.1	40	292500	4.9
4	Trade/Income generating activities	188	2008370	38.8	140	2098762	35.0
5	Loan repayment	104	1010720	19.5	109	1421720	23.7
6	Other	89	594200	11.5	70	872200	14.6
	Total	617	5174640	100.0	465	5988582	100.0

Source: Information obtained from three SCCs

Though impact of the access of the lending services for consumption and consumer durables on poverty reduction can not be overruled, in this study impact has been assessed among those shareholders borrowing for trade/IGAs. There were a total of 188 shareholders borrowing for trade/IGAs, of which 30 shareholders (16%) were surveyed in order to make an in-depth assessment of lending support on poverty reduction.

4.2 Enterprise and Client characteristics

The enterprises managed by 30 entrepreneurs were mainly family operated and managed either in homestead (18) or outside the home (12) be it in rented space or in foot path. However, not all the family members of the entrepreneurs were involved equally in managing enterprises. The enterprises surveyed are broadly grouped into five: 9 agro-based (6 pig farming, 2 ducks/hen raising; and 1 cow farming); 4 cottage industries (1 dairy processing, 2 tailoring and 1 thanka painting), one manufacturing (aran/iron works); 12 trade related (2 tea shop, 1 cloth store, 4 small multipurpose grocery store, one gold shop, two hotel/restaurant, one vegetable shop and one electric shop); and 4 service related (3 transport and one bicycle repair and renting). This implies that about 30% IGAs were agro-based. In view those borrowers are mainly involved full-time and took major responsibility in running enterprises; they are termed as "*clients*' for the purpose of this study.

The average age of the clients was 37 years. The age of the clients varies a minimum 22 years in cottage industry (tailoring) to a maximum of 65 years in agro-based industries (ducks raising). Average age of the clients managing agro-based activities are highest (44.8 years), followed by those managing services activities (37.8). Those managing cottage industries related enterprises are the youngest (28.3 years). The data suggests that agro-based activity is being undertaken by matured persons with ages of 16 years higher than those involved in cottage industries related activities. Those managing home-based enterprises (39.5%) were older than that of clients managing enterprise outside the home (33.3 years). Education level of the clients surveyed was relatively high: six clients (20%) were illiterate and average year of education was 4.2, with more educated clients managing enterprise outside home (6.5 years) than clients managing home based enterprises (2.5 years). Family size of these clients ranges between 3 and 12 persons with an average of 5.4 persons per family. Male female ratio is almost 50%, slightly more number of male family members than female members. Family size of the clients managing home-based enterprise was slightly higher (5.6 persons) that those managing enterprises outside home (4.8 years).

While, one forth clients had started their enterprise from scratch, other one-forth had inherited the enterprises and remaining half had purchased enterprise as an on-going concern. About 75% entrepreneurs had chosen enterprises as it appeared profitable while remaining 25% had chosen because they had past experiences on them as these enterprises were the best fit to their family constraint and resources at their disposal. Only 15% clients had received required training for managing the enterprises and in general, these clients had constrained on access to opportunity for skill development enhancement. More than half of the clients made decisions about investment and utilisation of enterprise income on their own, while about one-fourth made joint decision with their husband. Slightly less than one-forth made decisions jointly with other family members. These enterprises are located in urban and peri-urban areas. Sources of income of these clients include income from enterprises (41%), service (6%), driving (16%) and others (38%).

4.3 Economic and financial dynamics

Economic and financial dynamics of these enterprises was quite encouraging as 29 enterprises out of 30 enterprises surveyed had made 100% contribution to their household income. Nevertheless these enterprises combine other activities for supplementing income from other activities as well. Amount borrowed had been used to finance the establishment of these enterprises. Loans have taken to a tune of four lending cycles: 3 have received loans for four cycles, 9 on three cycles, 15 on two cycles and all have received at least one cycle

loans. A total of 28 clients surveyed have outstanding loan balances (2 forth cycle, 5 third cycle, 7 second cycle and 13 first cycles). Clients clearing loans borrowed under earlier cycle can be eligible for borrowing in subsequent cycle.

These enterprises managed by the clients were in general capital intensive. Average fixed investment was Rs. 109,300 (highest Rs. 297,500 in service related enterprises and lowest Rs. 7,000 in manufacturing enterprise). As expected home based enterprises (Rs. 96,100) was less capital intensive than enterprise established outside home (Rs. 136,500). Average fixed cost was Rs. 89,700 (highest Rs. 176,500 in service related enterprises and lowest Rs. 6,000 in manufacturing enterprise) and that of annual variable cost was Rs. 74,800 (highest Rs. 176,500 in service related enterprises and lowest Rs. 600 in manufacturing enterprise). Average gross revenue was Rs. 272,200 (highest Rs. 547,000 in service related enterprises and lowest Rs. 61,300 in manufacturing enterprise). Thus, net revenue per enterprise was Rs. 107,700 (highest Rs. 229,500 in service related enterprises and lowest Rs. 8,800 in agro-based enterprises). In general agro-based enterprises were less profitable compared to other enterprises.

At the time of survey, number of employment generated by 30 sample enterprises surveyed was 48 full-time and 18 part-time. Average employment generated was 1.6 full-time and 0.6 part-time employments. Petty trade activities are generating more (1.8 persons) full time employment, followed by agro-based enterprises (1.6 persons), cottage industries and services (1.5 persons) and manufacturing (1.0 person). Manufacturing related enterprise is generating more (1.0 person) part-time employment, followed by petty trade (0.9 persons), cottage industries (0.8 persons), services (0.3 persons) and agro-based (0.2 persons) enterprises.

All 30 entrepreneurs have borrowed from their SCCs for establishing enterprises. Ten entrepreneurs had supplemented investment capital from other sources including borrowing from money lenders and 18 have complemented their accumulated savings for enterprise establishment. Thus about one third clients had used two sources for financing their enterprises (SCCs and informal sources). About 18 have topped SCC and/or informal sector borrowing to start-up their business. Survey data revealed that most of the clients (70%) have reinvested sales proceeds of their on-going enterprise to meet working capital needs. But as they had to meet household consumption needs from enterprise income, amount reinvested in present business was a small portion of working capital requirement and therefore had to borrow repeatedly. As a consequence, 24 entrepreneurs had borrowed more than one time over slightly less than two years. Had they not utilised their enterprise income for consumption purpose, income generated would have been sufficient to meet working capital needs of on-going enterprises.

All the entrepreneurs expressed that their dependence with informal sources have reduced drastically as lending services from SCCs had been instrumental to work as their informal sector counterparts. The survey figures indicate that these clients prefer to use sales proceeds and borrowing from formal sources to finance their on-going enterprises. Mostly these enterprises were livelihood type; hence, they were bound to spend enterprise income on household consumption needs. In case they reinvest a significant portion of their enterprise income, they would be short of fund to meet consumption needs and therefore, would have to divert borrowed amounts towards consumption.

Table 19: Basic Features of the Income Generating Activities/Enterprises Surveyed in this Study

S.N.	Particulars	Unit	Information by Enterprise Type																	
			Agro-based			Cottage Industries			Manufacturing			Petty Trade			Service			Total		
			Home	Outside	Total	Home	Outside	Total	Home	Outside	Total	Home	Outside	Total	Home	Outside	Total	Home	Outside	Total
1	Enterprises	No.	8	1	9	1	3	4	1	0	1	4	8	12	4	0	4	18	12	30
2	Age	Year	45.4	40.0	44.8	33.0	26.7	28.3	35.0	-	35.0	32.3	34.1	34.1	37.8	-	37.8	39.5	33.3	37.0
3	Education	Year	2.1	0.0	1.9	2.0	8.0	6.5	0.0	-	0.0	5.8	6.8	6.4	1.5	-	1.5	2.5	6.5	4.2
4	Family size	No.	5.9	3.0	5.6	4.0	6.7	6.0	6.0	-	6.0	6.8	4.4	5.2	5.0	-	5.0	5.6	4.8	5.4
5	Borrowing	Rs. '000	30.6	25.0	29.9	20.0	16.7	17.5	15.0	0.0	15.0	37.5	38.7	38.3	30.0	0.0	30.0	30.8	32.1	31.2
	First	Rs. '000	13.3	5.0	12.4	20.0	10.0	12.5	15.0	-	15.0	21.2	15.0	17.1	25.0	-	25.0	18.9	12.9	16.1
	Second	Rs. '000	8.1	20.0	9.4	0.0	6.7	5.0	0.0	-	0.0	5.0	11.9	9.6	5.0	-	5.0	5.6	11.3	8.0
	Third	Rs. '000	5.4	0.0	4.8	0.0	0.0	0.0	0.0	-	0.0	6.3	9.4	8.3	0.0	-	0.0	3.4	6.3	4.8
	Forth	Rs. '000	3.8	0.0	3.3	0.0	0.0	0.0	0.0	-	0.0	5.0	2.5	3.3	0.0	-	0.0	2.9	1.7	2.3
6	Loan balance	Rs. '000	13.3	23.5	14.4	20.0	15.0	16.2	9.0	0.0	9.0	10.8	9.8	10.1	18.5	0.0	18.5	13.3	11.8	13.1
	First	Rs. '000	6.9	5.0	6.7	20.0	8.3	11.2	9.0	-	9.0	1.3	3.3	2.6	15.3	-	15.3	8.5	4.3	6.7
	Second	Rs. '000	2.9	18.5	4.6	0.0	6.7	5.0	0.0	-	0.0	2.5	3.1	2.9	3.3	-	3.3	2.1	5.3	3.7
	Third	Rs. '000	3.5	0.0	3.1	0.0	0.0	0.0	0.0	-	0.0	2.5	3.1	2.9	0.0	-	0.0	1.6	2.1	2.1
	Forth	Rs. '000	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	4.5	0.3	1.7	0.0	-	0.0	1.1	0.2	0.7
7	Fixed investment	Rs. '000	41.9	21.9	39.7	21.0	31.7	29.0	7.0	-	7.0	22.0	190.1	134.1	297.5	-	297.5	96.1	136.5	109.3
8	Annual fixed cost	Rs. '000	48.9	16.0	45.2	0.0	62.4	46.8	6.0	-	6.0	34.3	156.0	115.5	176.5	-	176.5	69.7	121.0	89.7
9	Annual variable cost	Rs. '000	22.3	0.5	19.9	3.2	16.0	13.0	0.6	-	0.6	105.0	128.6	120.7	141.0	-	141.0	63.3	89.8	74.8
10	Gross revenue	Rs. '000	77.9	42.0	73.9	39.2	172.7	139.3	61.3	-	61.3	237.3	468.2	391.2	547.0	-	547.0	212.1	358.8	272.2
11	Net revenue	Rs. '000	6.7	25.5	8.8	36.0	94.3	79.5	54.7	-	54.7	98.0	183.6	155.0	229.5	-	229.5	79.1	148.0	107.7
12	Employment									-						-				
	Full-time	No.	1.5	2.0	1.6	0.0	2.0	1.5	1.0	-	1.0	1.5	1.9	1.8	1.5	-	1.5	1.4	1.9	1.6
	Part-time	No.	0.3	0.0	0.2	1.0	0.7	0.8	1.0	-	1.0	1.0	0.9	0.9	0.3	-	0.3	0.5	0.8	0.6
13	Sources of finance	Rs. '000	49.3	23.0	46.1	22.0	31.6	28.9	16.0	-	16.0	22.5	191.2	135.0	145.0	-	145.0	59.3	137.1	89.8
	SCC borrowing	Rs. '000	20.3	20.0	20.3	20.0	15.0	16.2	15.0	-	15.0	20.0	21.2	20.8	25.0	-	25.0	21.6	19.6	20.4
	Borrowing from other source	Rs. '000	9.8	0.0	8.7	0.0	3.3	2.5	0.0	-	0.0	0.0	139.4	92.9	86.7	-	86.7	21.1	93.8	50.5
	Equity	Rs. '000	19.2	3.0	17.1	2.0	13.3	10.2	1.0	-	1.0	2.5	30.6	21.3	33.3	-	33.3	16.6	23.8	19.0
14	Debt equity ratio	%	1.6	6.7	1.7	10.0	1.4	1.8	15.0	-	15.0	8.0	5.2	5.4	3.3	-	3.3	2.6	4.8	3.7
15	Breakeven point	%	87.9	38.6	83.7	0.0	39.8	37.1	9.9	-	9.9	25.9	45.9	42.7	43.5	-	43.5	46.8	45.0	45.5

Average debt equity ratio was 3.7% (highest 15% in manufacturing enterprises, 1.7% in agro-based enterprises, 2.6% on home-based enterprises and 4.8% on enterprises managed outside home. Break-even point of these enterprises was 45.5% (highest 83.7% in agro-based enterprises and lowest 9.9% in manufacturing enterprises, 46.8% in home-based enterprises and 45% in enterprises managed outside home.

Analysis of the economic and financial dynamism of the enterprises discussed above reveals quite an interesting experience on enterprise promotion and development. Despite that the lending services has been extended to disadvantaged section (squatters) of the society living in the urban slums and informal settlements, information on scale of business managed by these clients is relatively high and raise basic questions pro-poor feature of these services.

4.4 Contribution to Economic Empowerment

During series of focus group discussions and individual interactions, many women shareholders of the SCCs were not easily able to identify what it was that made them feel good about themselves and gave them power. This initially appeared to be a matter of shyness and a lack of recognition of their skills. Most women defined themselves to be empowered as: *one that has choices, similar to those available to men, and actively decides to develop both individual and family well-being. Empowering experiences are those which widen a woman's choices and help her to achieve her well-being goals.* Women has defined some important elements of empowerment that are sources of their power and well-being as: contributing to family livelihood; speaking in public; some marketable skills; responsible roles in family and money decision-making, some husband/family support to pursue self-development opportunities as these relates wholly or partially as discussed hereunder.

First, women contribute to family livelihood which is a crucial for families to survive and thrive. In the areas where SCCs were based, majority of families were engaged in trade and business to earn for purchase of food for consumption or for a combination of sale and family use. In these families, without exception, shareholders along with other women and sometimes their male counterparts have managed the enterprises. While at certain time of the year, men in the household are expected to participate, women are consistently involved throughout the year. Second, speaking in public is something that a few women had experience with i.e. approximately 10% and 20%. Although only a majority indicated that they were confident enough to speak publicly, and did so occasionally, it was recognized as an important way for families, SCCs to become aware of women's opinions and knowledge. Third, appropriate half of women possessed skills, on managing IGAs such as sewing, knitting and marketing. Learning and applying non-traditional skills were described as a concrete way for women to contribute to an improved livelihood and quality of life for themselves and their families. Forth, over 70 percent of women described themselves as having a responsible role in family decision making – being joint participants with family members in discussions about money was to be saved and spent in home and in its management. Shareholders described joint family decision-making as ideal – those that engaged in this process at home stated with few exceptions, that they perceived their input to discussions and in the safeguarding of cash and assets as being valued. Fifth, all of the shareholders acknowledged importance of a husband/family support in order for women to pursue self-development opportunities. The women who have been able to take part in self-development activities have been supported in many cases by family. Child care, household and agricultural chores, money for training and travel, and a chance to apply new knowledge to activities at home are among the types of support offered by families.

When women examined benefits that they felt they received from savings and from being a member of SCC, they determined that there were five main areas which have contributed to improved personal well-being or to their role in facilitating family well-being: improved confidence, positive change in social status, greater financial security for family, greater financial security for individual due to savings opportunities provided by the SCCs as elaborated hereunder.

First, women mentioned that they have benefited socially from being a member of the SCC summarised here as *improved confidence*. Women described feeling confident because of a positive change in way their neighbours treated then; happy because their children's future expenses are likely to be paid at least partially by savings, and a greater sense of independence. Second, positive change in social status was described by the shareholder in three main ways as: greater respect from neighbours; admiration from female neighbours / friends because of her independent savings; and jealousy from neighbours due to a perception of growing wealth. Note that these shareholders did not associate later item, jealousy, as negative for them. Third, contribution to family's financial security was repeatedly mentioned by women as important to them. The family's financial situation was described as a constant concern by many shareholders and of great importance to family. Being unable to save small amounts of money due to its easy accessibility at home was described as a major barrier to planning for future expenses. The SCC account adds to a sense of security which majority believe is valued by family and in turn makes then feel appreciated. Fourth, contribution to individual financial security was raised by shareholders as significant positive and empowering change in their lives. Although under normal conditions most women would not use their savings exclusively for their needs, the cash represents an important security net if her life situation changes and leaves her without a support system.

The role of microfinance services for life and overall living standard of women shareholders reveals that microfinance services provided by SCCs has been instrumental and effective on increasing access to and control over productive resources and ultimately supporting in their endeavours towards social and economic empowerment. The services have been instrumental to address practical and strategic need of the women shareholders.

4.5 Constraints on Enterprise Development

Operations of these SCCs have been confined on providing financial services to women living in slums and informal settlements with unstable characteristics and limited skill on entrepreneurship, marketing, and distribution process. Main problems on microfinance led enterprises development initiatives of these SCCs emerge out of these basic characteristics of these shareholders. Most shareholders have initial loan need on activities such as consumption (health, education, repayment of older loans) and consumer durables (house repairs) that gradually graduate on borrowing trade/IGAs only after their basic need on consumption and consumer durables are fulfilled. Hence, developing entrepreneurship of the shareholders is one of the key challenges among these SCCs for enterprise development.

These SCCs are characterised of having more cash and bank balance coupled with low level of borrowing demand by their shareholders on the lack of proven means to repay the loan. Low capital mobilisation rate was primarily due to lack of confidence and ability to manage borrowed fund on productive enterprises. These SCCs lack capacity to link their loan clients with local business development services (BDS) providers so that required entrepreneurship could be development. Creating enabling environment to build confident among

shareholders to borrow for promoting trade/IGAs is one of the most fundamental challenges for enterprise development in these SCCs.

The sample entrepreneurs were exposed to combination of problems encompassing technology, finance, raw materials, price/marketing and scale of production/services. SCCs have provided only one of the services required for enterprise development. It has been felt that promotion of trade/IGAs is a complex phenomenon and should focus on creating enabling environment viewing from holistic perspective encompassing aspects such as entrepreneurship development, new technology, finance (no under-financing). Over 50% entrepreneurs encountered under-financing problems and resort on exploring alternative financing arrangements.

Shareholders managing agro-based enterprises (cattle, pig and poultry) were exposed to technical and management problems as they started enterprise without adequate technical know-how and management expertise. For instance one pig raising entrepreneurs experiences death of all pigs due to feeding problems and is facing problem on loan repayment. Inability to establish linkages by such entrepreneurs with existing government and non-government BDS providers was main problem to achieve benefits at intended levels. This requires adequate coordination and networking with existing services providers for enterprise development.

5. CONCLUSION AND RECOMMEDNATIONS

Microfinance experiences of Lumanti has opened new dimensions in Nepalese microfinance circumstances, especially on addressing financial needs of urban poor living in the slums and informal settlements. The efforts have been instrumental to expend outreach of microfinance services to low income urban women using credit union methodology. This study made an assessment on the state of the art on microfinance promotion in these SCCs and indicative impact of microfinance services on economic and financial dynamics as well as economic empowerment of participating families. This section summarises the major conclusions and recommendations of this study.

5.1 Conclusion

Lumanti promoted three SCCs have ensured access to the poorest of the poor women from urban squarer families to bring them out to the formal money markets and provided them relief out of exorbitant interest rates charged by the informal money lenders or live in miserable and inhumane conditions. In other word, the initiatives have united most vulnerable and vastly neglected women and to a large extent created an environment wherein women create their own security.

SCCs Performance

The growth of membership, loan amounts, savings, etc. show that SCCs have successfully proliferated to the poor. Both group-based lending intertwined with credit union system is quite innovative and getting back of loans disbursed is quite impressive. Performances of these SCCs are mixed owing to deficiencies on diverse aspects of their operation. Given critical importance of outreach in achieving sustainability, operation of these SCCs are still guided by fewer shareholders than their potential. Attaining critical mass of shareholders to a tune of 500 requires these SCCs to provide greater focus on membership drive. Despite significant efforts to diversify savings services; members have yet to fully accept these products due to apparently lack of market-led approach to savings product design. Except regular savings, shareholders have yet to fully accept and participate on other types of savings products such as voluntary savings, housing savings and children savings. Diversity of savings services has made management more complex rather than contributing on increasing savings mobilisation. These SCCs are characterised by low loan clients to shareholders ratio. Individual lending secured by co-signers has indirectly worked as self-screening mechanism to maintain outstanding loan balance to the tune or lower than savings balance, forgetting the mobilisation of accumulated profit and share capital. This has implications on low capital mobilisation rate, more than required amount of idle cash and bank balance, in-efficiency on accruing interest income to a tune on effective interest rate charged and relatively low return on APA, which are quite serious for future development and viability of SCCs.

At the outset, it seems that there is no problem on overall governance and management of the SCCs. Effort has been made to make executive body and management separate through a built in mechanism for check and balance. Though the BoD is quite strong and effective, need and effectiveness of three sub-committees (account, education and loan) is either not justified or often doubtful. There is no doubt on the importance of the existence of these sub-committees, but some concrete measures must be started to involve them on addressing much of SCC management issues. These SCCs are working almost in isolation and their linkages (horizontal and vertical) with other institutions are almost non-existence, hence, highly dependent with Lumanti. This has jeopardised SCCs overall activities as they have

hardly benefited from mistakes of others and moved towards self-reliance. Thus, continuity of services and ultimate viability of these SCCs on the absence of support from Lumanti is still doubtful. In order to scale up activities, these SCCs must establish professional linkages with wholesale microfinance service providers such as Rural Microfinance Development Centre (RMDC) and Rural Self Reliance Fund (RSRF), as well as other BDS providers and cooperative promoters such as CMF, NEFSCUN. Such professional linkages will be instrumental to improve professionalism on managing these SCCs.

Despite promoted under Cooperative Act 1992, the operational strategy of working in group and providing greater responsibility to group coordinator has implications on overall operating efficiency of these SCCs. Number of coordinators working in these SCCs (ranges between 17 and 28) means that the SCC management must oversee operating performance of these coordinators for consistency and reconciliations. Enhancing the capacity of all coordinator to an equal footing and ensure them to work in similar sprit as well as management competencies requires huge management inputs and efforts at times beyond the capacity of these SCCs.

Reporting system of these SCCs are below standard. The reporting inaccuracies are more serious for factors such as non-performing loans, aging of overdue loan and loan loss provisioning. SCCs should improve reporting system as per standards suggested by international institutions such as CGAP or WOCCU that sets reporting standard of microfinance operation. For instance, as an immediate practice, loan loss provision should be sufficiently made as per directives provided by legal and regulatory authorities and a matching of loan loss provision with reserve requirement should be ensured. Establishing reserve fund is a noble practice adopted by SCCs, but it should have certain linkages with loan loss provision. Though they have simple internal control system, it is not enough in context of complexities involved on money management initiatives of these SCCs. Ensuring that savings and loan services are provided to shareholders involving 18-28 group coordinators requires careful internal control and supervision system so as to check fraud and mis-use.

Despite that accounting system of these SCCs are perfect, their financial management to start basic financial analysis is still weak. Staff and BoD lack basic skills and competencies on financial management. As a consequences aspects related to basic fund management is weak requiring immediate attention. They have kept the cost low, have modest operation and are able to cover most of transaction costs to be incurred on money management. They are administratively efficient with some chances of increased cost in future. Though interest rate charged is high, there are significant inefficiencies on realising return on APA. The results indicate that SCCs are still slightly dependent on subsidies. Nevertheless two out of three SCCs studied are viable and self-sustainable at present and the last one also possesses prospects of attaining the viability level.

Enterprise Development

Shareholders of the SCCs have characterised by their instability with limited skill on entrepreneurship, marketing, and distribution process which has far reaching implications on credit-led enterprises development. Mostly they have loan need on consumption (health, education, repayment of older loans) and consumer durables (house repairs) rather than trade/IGAs. Fulfilling immediate need and demand for consumption and consumer durables is their priority than financing establishment of the trade/IGAs. Hence, most shareholders have yet to graduate into entrepreneurs. Considering the fact that stability on living is their primary concern than establishing productive asset base for future economic

development among these HHs, existing phenomenon is quite justifiable. This has been partly attributable to more cash and bank balance as well as low capital mobilisation rate and lack of functional linkages with BDS providers.

Enterprise development has been constrained to factors encompassing technology, finance, raw materials, price/marketing and scale of production/services. SCCs services is mainly focused on meeting capital need which is not enough promoting complex trade/IGAs. There is absence of efforts towards creating enabling environment under holistic perspective encompassing aspects such as entrepreneurship development, new technology, business consultancy and marketing. Financial services was also not sufficient in view of capital intensive nature of urban enterprises as evidenced by fact that over 50% entrepreneurs suffered under-financing and used alternative sources for financing required investment, annual fixed and variable cost. Further, technical problem is evident among entrepreneurs managing agro-based enterprises (cattle, pig and poultry). Entrepreneurship development should be started on coordinated efforts with existing government and non-government BDS providers for continuity and viability.

Economic Empowerment and Poverty Reduction
Women shareholders of these SCCs described empowerment as their own sources of power currently and elements that would develop their sense of power in future. In general, empowered women use her choices to further her own and her family's sense of well-being. Women shareholders were more empowered than average Nepalese women and the work provides ideal example of empowerment framework. They feel their contribution to family livelihood, speaking in public, acquisition of enterprise management and marking skills, responsible roles and positions in family on financial decision making, support from husband/other family members to pursue self-development opportunities, etc. as most crucial elements of their lives which are sources of power and well-being (empowerment). They have acquired some senses of well-being and power through their participation in SCC in the form of confidence, social status, family financial security and individual financial security. Availability and use of financial services on trade/IGAs has promoted wage and self-employment opportunities, provided incremental income and promoted livelihood options to participating women and their families. Economic empowerment has been instrumental on poverty reduction of participating women shareholders of these SCCs. There has been marginal role of loan disbursement on consumption and consumer durables on poverty reduction but this has been quite effective on increasing their stability.

5.2 Recommendations

Current performance of three Lumanti-promoted SCCs reveals that Lumanti had promoted these SCCs with sufficient home works and clear vision. These SCCs are operating at efficiency level that is significantly higher than other SCCs of similar years of operation. They have either attain viability or are in the process to attain so. In order to sustain the progress already achieved as well as to provide continuity to foundation created, this study has identified some areas requiring immediate action as recommendations.

In conformity with best practice experiences of SCCs in other parts of the country and relatively high operating cost in urban based SCCs compared to the rural ones, the SCCs membership should reach to a tune of 500 so as to attain their operations at a critical mass within shortest possible time frame. Membership expansion and new savings as well as loan products development should adopt market-led approach for greater efficiency and effectiveness. Ratio to loan clients should be maintained above 75% for expanded and

intense outreach of lending services and ensuring above 95% capital use and low idle capital rate. Capacity of the SCCs should be enhanced to realise return on APA at par with effective interest rate charged through increased capital use rate and on-time loan recovery rate, minimising fraud, mis-use and proper financial management.

The capacity of the BoD should be enhanced on different aspects such as accounting, financial management, internal control and supervision, etc. Need and effectiveness of three sub-committees (account, education and loan) should be revisited to enhance their roles on addressing management issues. These SCCs requires external support to establish both horizontal and vertical linkages with other institutions to learn from mistakes done by others and reduce their dependence with Lumanti. In the context of likely management problems and capacity constraints, there is a need to review the role of group coordinator. Also needed is to review the reporting system of these SCCs so as to make it as per standards suggested CGAP or WOCCU. There is a need to back the establishment of reserve fund in these SCCs with the loan loss provision exercises in addition to upgrading simple internal control system of these SCCs in context of their complex management structure primarily to check fraud and mis-use. External support need to gear towards strengthening financial management system as well as BoD's capacity on financial analysis, especially on fund management.

Despite operating at modest cost and staff inputs, administrative expenses constitute single largest components in the cost structure of the SCCs. Sustaining viability level already attained requires improvement on operating efficiency. Two SCCs (Pragati and Gyanjyoti) have attained OSS and FSS and Navadeep also possess prospects of attaining OSS and FSS. Maintaining efficiency level attained is a challenge to these SCCs for future which requires improved fund management and efficient cost control policies. Further, these SCCs have reached a level of operation that requires adequate MIS. Use of efficiency MIS as well as other innovative management and product development technologies can contribute to a reduction in administrative costs, an increase in staff productivity and improve credibility of accounting system. While using new technology can be strongly beneficial for SCCs in the long run, it introduces additional costs which can handicap their performance in immediate future should not be ignored in addition to the fact that using technology requires some capabilities. Lumanti's support to these SCCs in short and medium term need to focus on identifying best practices as well as cost-effective technologies to improve their outreach, efficiency and client satisfaction.

Loan disbursement should be directed more on trade/IGAs and shareholders should be encouraged to invest on education and health care out of revenue from IGAs, rather than borrowing. In order to motivate them to borrow on trade/IGAs, credit plus services should be provided through training on skill and entrepreneurship development, marketing networking and business consultancy services. Loan products should be diversified so as to promote business investment through proper linkages with government and non-government BDS providers and including features of investment finance rather than simply microfinance to facilitate emergence and growth of production oriented enterprises. Similarly, agro-based entrepreneurs will benefit greatly through a support to establish business linkages with government BDS providers (District Agriculture Office, District Livestock Service Offices) for ensuring access to required technical services.

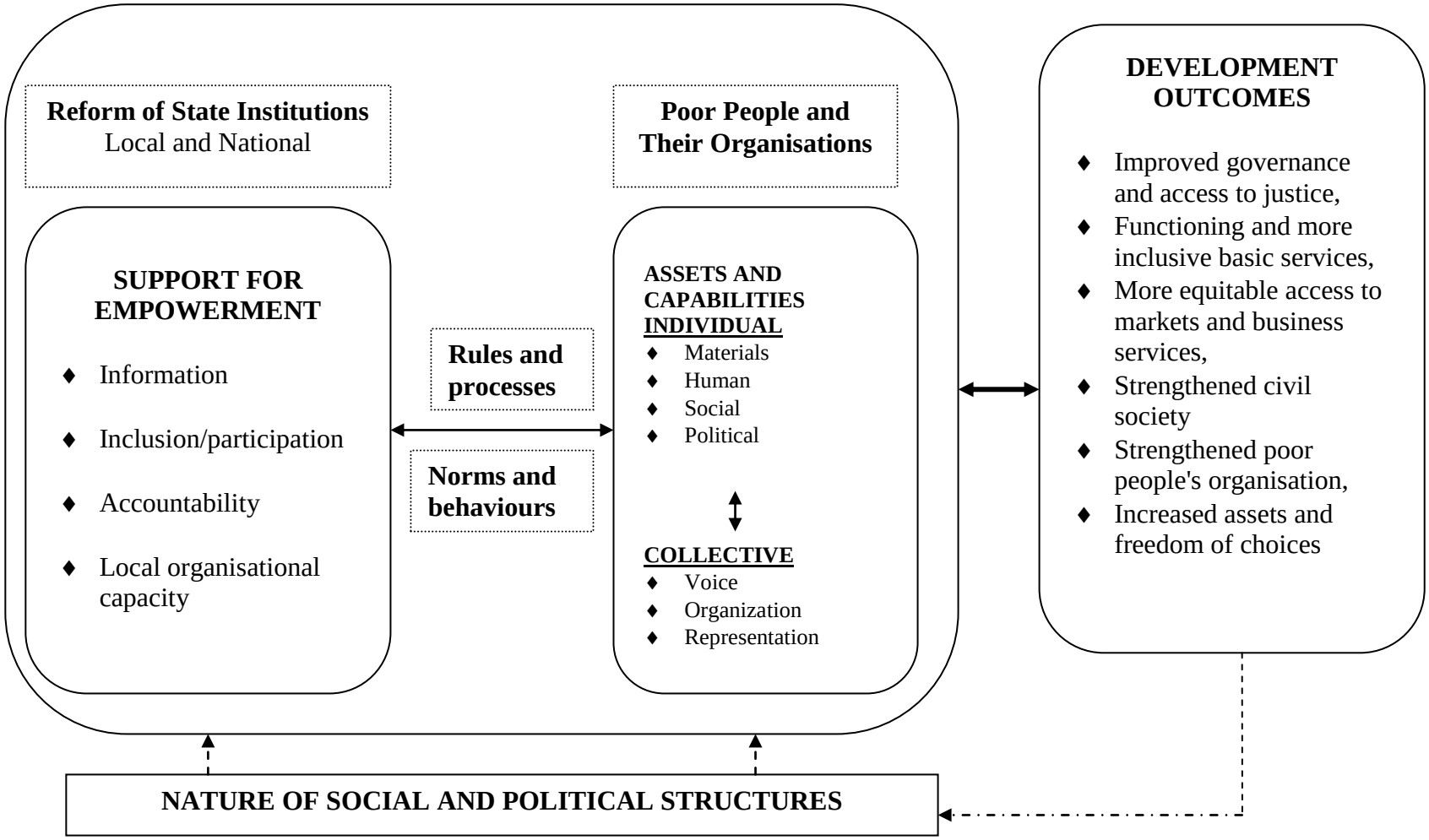
Promotion of trade/IGAs must be backed by access to (i) required production inputs; (ii) new skills on business improvement - increasing productivity, and reducing production costs or accessing more profitable market; (iii) up-to-date and reliable information in various

forms - business consultancy services or special events such as exhibitions and trade fairs; and (iv) support for establishing and operating an enterprises such as legal services (e.g. registration of enterprises), training of owners and workers, special laboratory services for testing goods produced by the enterprises, and intermediation to establish contracts with larger firms through networking and linkages for efficiency and effectiveness.

Concentrate the advance level support to these SCCs on setting standards on (i) return on APA, (ii) ratios such as financial cost and operating cost to APA, number of loan to field staff, outstanding portfolio to field staff, field staff to total staff ratio and loan size, (iii) amount of transactions to be carried out at a given level of expenditures and (iv) initiate a system to monitor and evaluate their status and performance based on these standards and institutionalize for improving their performance. Further, building sustainable SCCs requires a long term efforts, some patience, and outside support. Having long-term business plan of each SCC that act as a road-map for their future is a pre-requisite to guide them in this endeavours. The plan should outline type of outside supports on institution building covering aspects such as training, information and sensitizing, capacity enhancement of the BOD, etc.

Annex

Annex 1: Empowerment Framework



Annex 2: Status of the SCCs as of July 2004

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
1	Date of establishment (year)	5/17/02	5/17/02	5/16/02	
2	Ward covered (No)	2	4	5	11
3	VDC covered	3	1	0	4
4	Groups (No)	18	28	17	63
5	Shareholders (No)	223	391	224	838
6	Savings clients				
	Regular savings	223	391	224	838
	Voluntary	12	16	12	40
	Housing	0	55	0	55
	Children	22	85	40	147
7	Loan clients (No)	111	216	138	465
8	% of loan clients	49.8	55.2	61.6	55.5
9	Shareholder's growth during last 2 years	58.2	33.4	46.4	42.8
10	Share on total clients	26.6	46.7	26.7	100
11	Total Savings				
a	Savings as of July 2004	885170	1845522	1048962	3779654
b	Savings account	223	391	224	838
c	Growth in savings over last 2 years (%)	180.7	54.4	84.1	81.6
d	Share on total savings (%)	23.4	48.8	27.8	100.0
e	Average savings balance (Rs.)	3969.4	4720.0	4682.9	4510.3
12	Personal Savings				0
a	Savings as of July 2004	794006	1695215	889725	3378946
b	Savings accounts	223	391	224	838
c	Growth in savings over last 2 years (%)	158.9	41.9	76.5	68.5
d	Share on total savings (%)	23.5	50.2	26.3	100.0
e	Average personal savings balance (Rs)	3561	4336	3972	4032
13	Voluntary savings				
a	Savings as of July 2004	45163	75732	60594	181489
b	Savings accounts	12	16	12	40
c	Share on total savings (%)	24.9	41.7	33.4	100.0
d	Average personal savings balance (Rs)	3764	4733	5050	4537
14	Housing savings				
a	Savings as of July 2004	0	35712	0	35712
b	Savings accounts	0	55	0	55
c	Share on total savings (%)	0.0	100.0	0.0	100.0
d	Average personal savings balance (Rs)	-	649	-	649
15	Children saving				
a	Savings as of July 2004	46001	38863	98643	183507
b	Savings accounts	22	85	40	147
c	Growth in savings over last 2 years (%)	434.5	3369.9	49.6	142.6
d	Share on total savings (%)	25.1	21.2	53.8	100.0
e	Average personal savings balance (Rs)	2091	457	2466	1248
16	Loan balance				
a	Outstanding loan balance as of July 2004	681545	1598652	1157000	3437197
b	Loan clients	111	216	138	465
c	Growth in last 2 year	89.6	17.5	96.3	48.9
d	Share on total outstaying loan balance (%)	19.8	46.5	33.7	100.0
e	Average loan size (Rs.)	6140	7401	8384	7392

Sources: Progress report of Three SCCs, 2060/61

Annex 3: Operational and Financial Performance of the SCCs

S.N.	Particulars	Unit	Navadeep		Pragati		Gyanjyoti		Total	
			2059/60	2060/61	2059/60	2060/61	2059/60	2060/61	2059/60	2060/61
A	**Outreach Status**									
1	Shareholders	No	143.0	224.0	294.0	391.0	153.0	230.0	590.0	845.0
2	Group	No	13.0	-	21.0	-	10.0	-	44.0	-
3	**Savings services**									
a	Savings accounts									
	Compulsory	No	143.0	223.0	-	391.0	-	-	143.0	614.0
	Voluntary	No	-	12.0	-	16.0	-	-	-	28.0
	Children	No	6.0	22.0	-	85.0	-	-	6.0	107.0
	Housing	No	-		-	55.0	-	-	-	55.0
b	Savings balance	Rs.	**316,360.0**	**885,170.0**	**1,201,927.0**	**1,845,522.0**	**574,445.0**	**1,048,962.0**	**2,092,732.0**	**3,779,654.0**
	Compulsory	Rs.	306,735.0	794,006.0	1,194,542.0	1,695,215.0	503,986.0	889,725.0	2,005,263.0	3,378,946.0
	Voluntary	Rs.	1,018.0	45,163.0	6,265.0	75,732.0	4,535.0	60,594.0	11,818.0	181,489.0
	Children	Rs.	8,607.0	46,001.0	1,120.0	38,863.0	65,924.0	98,643.0	75,651.0	183,507.0
	Housing	Rs.	-	-	-	35,712.0	-	-	#VALUE!	35,712.0
4	**Lending services**									
a	Loan clients	No	**115.0**	**111.0**	**293.0**	**126.0**	**153.0**	**138.0**	**561.0**	**375.0**
b	Loan disbursement	Rs.	723,020.0	1,233,382.0	3,066,000.0	2,792,000.0	1,385,620.0	1,963,200.0	5,174,640.0	5,988,582.0
	Medical	Rs.	65,500.0	95,500.0	183,300.0	221,000.0	61,800.0	50,200.0	310,600.0	366,700.0
	House repair	Rs.	282,150.0	154,200.0	459,100.0	425,000.0	193,000.0	357,500.0	934,250.0	936,700.0
	Education	Rs.	60,400.0	106,500.0	225,100.0	144,000.0	31,000.0	42,000.0	316,500.0	292,500.0
	Trade	Rs.	116,570.0	253,762.0	1,208,000.0	832,500.0	683,800.0	1,012,500.0	2,008,370.0	2,098,762.0
	Loan repayment	Rs.	95,700.0	545,720.0	554,000.0	760,000.0	361,020.0	116,000.0	1,010,720.0	1,421,720.0
	Other	Rs.	102,700.0	77,700.0	436,500.0	409,500.0	55,000.0	385,000.0	594,200.0	872,200.0
5	**Staff structure**					-	-	-	**-**	**-**
	Paid staff	No	1.0	1.0	1.0	1.0	1.0	1.0	**3.0**	**3.0**
	Volunteers	No	-	-	2.0	2.0	-	-	**2.0**	**2.0**

S.N.	Particulars	Unit	Navadeep		Pragati		Gyanjyoti		Total	
			2059/60	2060/61	2059/60	2060/61	2059/60	2060/61	2059/60	2060/61
B	**Income statement**									
1	Operating income	Rs.	**44,566.0**	**132,992.0**	**187,251.0**	**372,040.0**	**103,849.5**	**201,144.0**	**335,666.5**	**706,176.0**
	Interest income	Rs.	34,844.0	118,253.0	159,058.0	342,664.0	89,791.0	185,429.0	**283,693.0**	**646,346.0**
	Other income	Rs.	9,722.0	14,739.0	28,193.0	29,376.0	14,058.5	15,715.0	**51,973.5**	**59,830.0**
2	Operating expenses	Rs.	**89,644.3**	**144,064.6**	**143,100.0**	**219,988.5**	**105,172.8**	**157,207.6**	**337,917.1**	**521,260.7**
	Interest expenses	Rs.	13,592.5	42,953.2	54,280.5	107,076.6	30,479.8	60,613.8	**98,352.8**	**210,643.6**
	Staff expenses	Rs.	44,000.0	39,000.0	44,000.0	42,400.0	44,000.0	39,000.0	**132,000.0**	**120,400.0**
	Office operating expenses	Rs.	32,051.8	32,023.4	11,318.0	64,848.2	30,693.0	57,340.8	**74,062.8**	**154,212.4**
	Loan loss provision	Rs.	-	-	-	-	-	253.0	**-**	**253.0**
	Other expenses	Rs.	-	30,088.0	33,501.5	5,663.7			**33,501.5**	**35,751.7**
3	Net income	Rs.	**- 45,078.3**	**- 11,072.6**	**44,151.0**	**152,051.5**	**- 1,323.3**	**43,936.4**	**- 2,250.6**	**184,915.3**
4	Non-operating income	Rs.	90,353.0	103,065.0	115,371.5	152,077.9	87,652.3	116,045.7	**293,376.7**	**371,188.6**
	Grant from Lumanti	Rs.	90,353.0	103,065.0	104,333.8	114,065.0	87,652.3	105,415.0	**282,339.0**	**322,545.0**
	Other	Rs.	-	-	11,037.7	38,012.9	-	10,630.7	**11,037.7**	**48,643.6**
5	Non-operating expenses	Rs.	-	-	-	-	-	-	**-**	**-**
	Training	Rs.	-	-	-	-	-	-	**-**	**-**
	Other	Rs.	-	-	-	-	-	-	**-**	**-**
6	Net income	Rs.	**45,274.7**	**91,992.4**	**159,522.4**	**304,129.4**	**86,329.0**	**159,982.1**	**291,126.1**	**556,103.9**
									-	**-**
C	**Balance Sheet**	**Rs.**							**-**	**-**
1	Asset	Rs.	**473,310.5**	**1,211,063.2**	**1,552,368.3**	**2,499,197.5**	**743,825.7**	**1,409,818.3**	**2,769,504.5**	**5,120,079.0**
	Cash balance	Rs.	30,554.0	22,008.5	18,416.0	14,804.0	17,539.5	27,614.5	**66,509.5**	**64,427.0**
	Bank balance	Rs.	30,321.0	268,574.0	164,724.0	860,672.0	127,489.5	213,412.8	**322,534.5**	**1,342,658.8**
	Loans and advances	Rs.	359,400.0	846,135.0	1,360,039.0	1,604,713.0	589,516.2	1,157,376.1	**2,308,955.2**	**3,608,224.1**
	Investment	Rs.	-	-	-	-	-	-	**-**	**-**
	Net fixed assets	Rs.	7,022.3	11,414.8	8,147.3	12,258.5	7,022.3	11,414.8	**22,191.8**	**35,088.1**
	Other assets	Rs.	935.0	6,750.0	1,042.0	6,750.0	935.0	-	**2,912.0**	**13,500.0**
	Accumulated losses	Rs.	45,078.3	56,180.9	-	-	1,323.3	-	**46,401.6**	**56,180.9**

S.N.	Particulars	Unit	Navadeep		Pragati		Gyanjyoti		Total	
			2059/60	2060/61	2059/60	2060/61	2059/60	2060/61	2059/60	2060/61
									-	-
2	Liabilities	Rs.	**319,157.5**	**890,545.2**	**1,207,183.8**	**1,857,204.6**	**578,273.8**	**1,066,428.1**	**2,104,615.2**	**3,814,177.9**
	External borrowing	Rs.	-	-	-	-			-	-
	Deposits/savings	Rs.	316,360.0	885,170.0	1,201,927.0	1,845,522.0	574,445.0	1,058,962.0	**2,092,732.0**	**3,789,654.0**
	Other liabilities	Rs.	2,797.5	5,375.2	5,256.8	11,682.6	3,828.8	7,466.1	**11,883.2**	**24,523.9**
	Accumulated profits	Rs.	-	-	-	-	-	-	-	-
									-	-
3	Capital	Rs.	**154,153.0**	**320,518.0**	**345,184.4**	**641,992.9**	**165,552.3**	**343,390.2**	**664,889.7**	**1,305,901.1**
	Share capital	Rs.	63,800.0	127,100.0	196,700.0	233,700.0	77,900.0	107,800.0	**338,400.0**	**468,600.0**
	Reserve	Rs.	90,353.0	193,418.0	148,484.4	408,292.9	87,652.3	235,590.2	**326,489.7**	**837,301.1**
	Capital grants	Rs.	-	-	-	-	-	-	-	-
	Other	Rs.	-	-	-	-	-	-	-	-
									-	-
4	Liabilities + Capital	Rs.	**473,310.5**	**1,211,063.2**	**1,552,368.3**	**2,499,197.5**	**743,826.0**	**1,409,818.3**	**2,769,504.8**	**5,120,079.0**

Source: Audit report of three SCCs, 2060/61

Annex 4: Framework for Comparative Assessment of the SCCs

Table A4.1: Basic for Rating SCCs

S.N.	Indicators	Scale	Score
1	**Outreach**		**21**
a	% of active client	▪ > 95% = 3 ▪ 90-95% = 2 ▪ 85-90% = 1 ▪ < 85% = 0	3
b	Growth in clients	▪ > 10 % = 3 ▪ 6-10% = 2 ▪ 2-6% = 1 ▪ < 2% = 0	3
c	Growth in loan clients	▪ > 10 % = 3 ▪ 6-10% = 2 ▪ 2-6% = 1 ▪ < 2% = 0	3
d	Growth in personnel savings	▪ > 10 % = 3 ▪ 6-10% = 2 ▪ 2-6% = 1 ▪ < 2% = 0	3
e	Growth in group fund	▪ > 10 % = 3 ▪ 6-10% = 2 ▪ 2-6% = 1 ▪ < 2% = 0	3
f	Growth in outstanding loans	▪ > 10 % = 3 ▪ 6-10% = 2 ▪ 2-6% = 1 ▪ < 2% = 0	3
g	Average loan size	▪ > Rs. 10,000 = 3 ▪ Rs. 8,000-10,000 = 2 ▪ Rs. 6,000-8,000 = 1 ▪ < Rs. 6,000 = 0	3
2	**Financial performance**		**45**
a	Return on APA (%)	▪ Equal to lending rate = 5 ▪ < 5% deviation to lending rate = 4 ▪ 5-10% deviation = 3 ▪ 10-15% = 2 ▪ 15-20% = 1 ▪ > 20% = 0	5
b	Financial cost ratio (%)	▪ < 20% of transaction cost = 5 ▪ 20-30% of transaction cost = 4 ▪ 30-40% of transaction cost = 3 ▪ 40-50% of transaction cost = 2 ▪ 50-60% of transaction cost = 1 ▪ > 60% of the transaction cost = 0	5
c	Admin. cost ratio	▪ < 20% of transaction cost = 5 ▪ 20-30% of transaction cost = 4 ▪ 30-40% of transaction cost = 3 ▪ 40-50% of transaction cost = 2 ▪ 50-60% of transaction cost = 1 ▪ > 60% of the transaction cost = 0	5
d	Loan loss ratio	▪ < 1% of outstanding loan = 5 ▪ 1-2% of outstanding loan = 4 ▪ 2-3% of outstanding loan = 3 ▪ 3-4 % of outstanding loan = 2 ▪ 4-5% of outstanding loan = 1 ▪ > 5% of outstanding loan	5

S.N.	Indicators	Scale	Score
e	Imputed cost of capital	▪ < 10% of transaction cost = 5 ▪ 10-20% of transaction cost = 4 ▪ 20-30% of transaction cost = 3 ▪ 30-40% of transaction cost = 2 ▪ 40-50% of transaction cost = 1 ▪ > 50% of the transaction cost = 0	5
f	OSS	▪ > 100% = 10 ▪ 95-100% = 8 ▪ 90-95% = 6 ▪ 85-90% = 4 ▪ 80-85% = 2 ▪ < 80% = 0	10
g	OSS	▪ > 100% = 10 ▪ 95-100% = 8 ▪ 90-95% = 6 ▪ 85-90% = 4 ▪ 80-85% = 2 ▪ < 80% = 0	10
3	**Operating performance**		**28**
a	Admin. cost to transaction cost	▪ < 30% = 4 ▪ 30-40% = 3 ▪ 40-50% = 2 ▪ 50-60% = 1 ▪ > 60% = 0	4
b	Personal cost to admin. cost	▪ < 50% = 4 ▪ 50-60% = 3 ▪ 60-70% = 2 ▪ 70-80% = 1 ▪ > 80% = 0	4
c	Personal cost to transaction cost	▪ < 20% = 4 ▪ 20-30% = 3 ▪ 30-40% = 2 ▪ 40-50% = 1 ▪ > 50% = 0	4
d	Clients per motivator	▪ < 400 = 4 ▪ 350-400 = 3 ▪ 300-350 = 2 ▪ 250-300 = 1 ▪ < 250 = 0	4
e	Loan clients per motivator	▪ < 350 = 4 ▪ 300-350 = 3 ▪ 250-300 = 2 ▪ 200-250 = 1 ▪ < 200% = 0	4
f	Outstanding loan per motivator	▪ > 2.5 million = 4 ▪ 2.0-2.5 million = 3 ▪ 1.5 – 2.0 million = 2 ▪ 1.0 – 1.5 million =1 ▪ < 1.0 million = 0	4
g	Salary cost to APA	▪ < 20% of return on APA = 4 ▪ 20-30% of return on APA = 3 ▪ 30-40% of return on APA = 2 ▪ 40-50% of return on APA = 1 ▪ < 50% of return on APA = 0	4
4	**Portfolio quality**		**6**
a	Reserve ratio	▪ equal to loan loss ratio = 6 ▪ 80-100% of loan loss ratio = 5 ▪ 60-80% of loan loss ratio = 4 ▪ 40-60% of loan loss ratio = 3	6

S.N.	Indicators	Scale	Score
		▪ 20-40% of loan loss ratio = 2 ▪ 0-20% of loan loss ratio = 1 ▪ None = 0	
	Total		100

Table A4.2: Ratings Results of three SCCs

S.N.	Particulars	Navadeep	Pragati	Gyanjyoti	Total
A	**Outreach**				
1	Active loan clients /shareholders (%)	0	0	0	0
2	Growth in shareholders in last years (%)	3	3	3	3
3	Growth in loan client in last years (%)	0	0	0	0
4	Growth in personal savings (%)	3	3	3	3
5	Growth in total savings (%)	3	3	3	3
6	Growth in outstanding loans	3	3	3	3
7	Average loan size (Rs.)	1	3	2	2
B	**Financial performance**				
1	Return on APA (%)	3	3	4	3
2	Financial cost ratio (%)	3	3	3	3
3	Admin. cost ratio (%)	1	1	0	1
4	Loan loss ratio (%)	0	0	0	0
5	Imputed cost of capital (%)	4	2	3	3
6	OSS (%)	8	10	10	10
7	FSS (%)	0	10	10	10
C	**Operating performance**				
1	Admin. cost to transaction cost (%)	0	1	0	1
2	Personal cost to admin. cost (%)	4	4	4	4
3	Personal cost to transaction cost (%)	3	3	3	3
4	Client per motivator (No)	0	0	0	0
5	Loan client per motivator (No)	0	0	0	0
6	Outstanding loan portfolio per staff (Rs. '000)	0	0	1	0
7	Salary cost to APA (%)	3	4	3	3
D	**Portfolio quality**				
1	Reserve ratio (%)	6	6	6	6
	Total	48	62	61	61

Source: Tables in Section Three.

Annex 5: Enterprise Survey Information

S. N.	Type of enterprise	Categories	Location	Age	Education	Family size	Borrowing	Loan Balance	Fixed investment	Annual fixed cost	Annual variable cost	Gross revenue	Net revenue	Employment		Source of Finance			
														Full time (No)	Part-time (No)	SCC borrowing	Borrowing from Other	Equity	Total
1	Pig farming	Agro-based	Home	40	5	3	51000	0	42000	36000	32000	96000	28000	2	0	30000	0	12000	42000
2	Ducks and hen	Agro-based	Home	57	0	4	45000	23000	21370	36500	14400	76700	25800	1	0	30000	0	0	30000
3	Cloth Shop	Petty Trade	Outside	33	12	4	45000	0	130000	37500	90000	163500	36000	1	0	20000	10000	100000	130000
4	Tea Shop	Petty Trade	Home	36	5	5	10000	0	40000	46100	182500	365000	136400	1	0	30000	0	10000	40000
5	Tailoring	Cottage Indus.	Outside	32	12	4	15000	12000	25000	18000	36000	108000	54000	2	0	15000	0	10000	25000
6	Small Shop	Petty Trade	Home	23	8	10	95000	18000	20000	6000	103500	146000	36500	1	2	20000	0	0	20000
7	Shop	Petty Trade	Foot path	46	2	5	50000	2000	30000	36000	12000	243000	195000	1	1	20000	0	10000	30000
8	Micro Bus	Service	Home	45	2	4	60000	54000	120000	294600	255500	878600	328500	2	0	60000	60000	0	120000
9	Gold Shop	Petty Trade	Outside	24	10	4	20000	8000	1000000	624000	2400	674400	48000	3	0	20000	965000	15000	1000000
10	Aaran	Manufacturing	Home	35	0	6	15000	9000	7000	6000	600	61350	54750	1	1	15000	0	0	15000
11	Pig farming	Agro-based	Home	30	5	4	24000	8000	62600	40600	10381	100000	49019	1	1	8000	4600	50000	62600
12	Dairy processing	Cottage Indus.	Home	33	2	4	20000	20000	21000	0	3240	39240	36000	0	1	20000	0	1000	21000
13	Fast Food Shoop	Petty Trade	Outside	48	5	6	60000	19000	80000	174000	12000	438000	252000	3	1	40000	20000	20000	80000
14	Tea Shop	Petty Trade	Outside	31	2	4	20000	18000	12000	111000	73000	292000	108000	3	1	20000	0	0	20000
15	Vegetable Shop	Service	Footpath	38	2	3	15000	5000	6000	600	584000	730000	145400	1	1	10000	0	0	10000
16	Ducks	Agro-based	Home	65	0	10	20000	20000	3000	17520	3650	46500	25330	1	0	20000	0	0	20000
17	Cow Farming	Agro-based	Home	36	2	5	50000	20000	26000	22400	500	54000	31100	2	0	20000	0	6000	26000
18	Vegetable + Kirana Shop	Petty Trade	Outside	32	12	4	40000	20000	63000	79200	149100	657000	428700	1	2	20000	0	40000	60000
19	Electric Shop	Service	Outside	28	9	5	60000	6000	200000	186000	106000	547500	255500	2	1	20000	120000	60000	200000
20	Pig farming	Agro-based	Home	39	5	4	20000	18000	80000	43200	49800	132000	39000	2	0	20000	54000	6000	80000
21	Pig farming	Agro-based	Outside	40	0	3	25000	18500	21900	16000	525	42000	25475	2	0	20000	0	0	20000
22	Pig farming	Agro-based	Home	44	0	12	15000	0	80000	157400	66400	0	-223800	2	1	15000	20000	80000	115000
23	Tailoring	Cottage Indus.	Outside	22	10	9	10000	8000	50000	57600	12000	249600	180000	1	1	10000	10000	30000	50000
24	Shop	Petty Trade	Home	35	5	4	20000	0	20000	28800	44200	182500	109500	2	1	20000	0	0	20000
25	Hotel	Service	Home	35	5	8	25000	25000	8000	56400	89600	255500	109500	2	1	10000	0	0	10000
26	Thanka Painting	Cottage Indus.	Outside	26	2	7	25000	25000	20000	111600	1000	160600	48000	3	1	20000	0	0	20000
27	Tampo	Service	Home	30	0	5	10000	0	250000	273750	8400	537650	255500	2	0	10000	200000	40000	250000
28	Taxi Repair	Service	Home	45	2	5	40000	13000	750000	120000	240000	600000	240000	1	0	20000			20000
29	Bicycle Repair/renting	Service	Home	31	2	6	10000	7000	70000	17500	60000	171550	94050	1	1	10000	0	60000	70000
30	Pig Farming	Agro-based	Home	52	0	5	20000	17000	20200	37680	1750	118300	78870	1	0	20000	0	200	20200

Source: Enterprise survey, 2004

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