MICRO FINANCE SERVICES IN INSURGENCY AND CONFLICT SITUATION: CASE STUDY OF NEPAL

By

Nara Hari Dhakal
Jyoti Prasad Kanel

A Study Conducted for International Network of Alternative Financial Institutions (INAFI) Nepal and South Asia Partnership, Kathmandu, Nepal

July 2004

EXECUTIVE SUMMARY

The insurgency, which was started in Nepal on 13 February 1996, has claimed over 13,000 lives. The cost of the conflict has been around 8-10% of the GDP. The banking sector, with its exposed network of branches in the rural areas has become a prime target of the insurgency. The Maoists have vandalized an estimated 25-30% of the branch networks of the three largest banks namely, the Agriculture Development Bank, Nepal (ADB/N), the Nepal Bank Limited (NBL) and the Rastriya Banijya Bank (RBB). The immediate result of this has been the withdrawal of banking services from affected areas. Even "pro-poor" providers of rural financial services such as the Small Farmer Cooperatives Ltd. (SFCLs) or Grameen Bank Replicators (GBR) have become targets of the Maoists. The secondary effect has been a weakening of the outreach to customers because of a diminished branch network and the high cost to financial institutions due to reconstruction efforts. The branch staff is always in a state of fear and tension.

This study analyzes the state of the microfinance services in insurgency affected Nepal, especially in relation to the expansion of institutions and branch network, the emergence of new Microfinance Institutions (MFIs), outreach, operational and financial performance, portfolio quality and staff productivity. It also uses the experiences of the Savings and Credit Cooperative and the Grameen Bikas Bank to analyze the strategies of Nepali MFIs on documentation of fund management, portfolio management, office security, pricing, etc. The information used in this study was obtained mainly from secondary sources complemented by some information collected from primary sources.

This study has uncovered that the conflict has changed people's lives considerably. Many people have lost their families, homes and jobs. Women have faced an additional challenge; many have lost their husbands, and are now forced to make a living for themselves and their children; others have left to reside in refugee camps abroad. Although the banking sector has been heavily affected by the insurgency and conflict, there has been some recent significant developments. NGOs have been transformed into financial intermediary and development banks. The second tier refinance institutions such as the Rural Self Reliance Fund, the Rural Microfinance Development Centre and the Sana Kisan Bikas Bank have been established.

The study has revealed that income generating activities and micro-enterprises are the main sources of household income during conflict. Although microfinance cannot be regarded as panacea, it can contribute to supporting income-generating activities, rebuilding societies and creating new hope for a better future even in an insurgency and conflict situation. Given the opportunity, people with an entrepreneurial spirit, experience and skills can create employment for themselves and others. This has great potential for promoting development and building peace. Because microfinance aims at both short-term and long-term impacts, it offers a suitable field for cooperation between humanitarian and development organizations. By cooperating in microfinance households are gradually reversing their unfortunate state of affairs. What is required is early collaborative planning between the government, humanitarian organizations, development organizations and the civil society.
Obstacles for the sustainability of MFIs exist especially during insurgency and conflict as they face more expenses for security issues, low human resource capacity, trauma and displacement. Without question, there is a direct trade-off between reducing security risks and increasing costs of operations. Because of this difficult trade-off, certain areas cannot

become economically serviceable until commercial banks and/or other factors reduce the costs needed for security. During conflict, rural people prefer to save in productive assets as trading is an important survival strategy. In urban and peri-urban areas, the most common mechanisms used are low risk, low investment and quick return activities. Exploitation of natural resources and household labour are important survival strategies during conflict. The use of land for agricultural production is an important coping mechanism and becomes more so as the security situation improves. Later, it is a divisive factor between the wealthy and the poor.

Nepalese MFIs have experienced both the direct and indirect impacts of insurgency in their operation. The Maoists have rated microfinance operations of most formal institutions such as the RBB, the NBL and the ADBN as anti-poor, that of the SCCs and the SCOs as pro-poor; and the MDB, GBBs, FI-NGOs and the SFCLs as in between the two. The anti-poor institutions have been the most affected by the insurgency while the pro-poor institutions have been the least affected. The effect of the insurgency has been mixed and selective among institutions in between. The conflict has had an indirect but critical impact on microfinance operations in the expansion of branch networks. Outreach and financial performance have been reduced, portfolio quality has deteriorated and operating efficiency reduced. In order to cope with the direct and indirect impacts of the armed conflict, Nepalese MFIs have devised security guidelines; mechanisms for fund management for maintaining portfolio quality, branch and head office security, etc. The reduction in prices of products and services and productivity management have produced mixed successes and ensured the continuity of their existence.

Based on the findings, the study has recommended that only those MFIs providing microfinance products and services that are attractive and useful to their clients can survive and operate during an insurgency or conflict. In this context, the MFI should increase its focus on delivering appropriate microfinance services and reaching the poor and socially excluded. Flexible microfinance interventions that can operate effectively during conflict are more likely to develop a market in which high quality financial services are offered to support the nation's efforts for peace. Pro-poor MFIs such as grassroots SCOs, SCCs and savings and credit groups have been least affected least by the present insurgency and conflict. There should be increased focus on promoting MFIs of this category and involving them on providing required technical and financial support to these institutions.

The education of clients and their great value to MFIs' services are pre-requisites for the continued operation of microfinance services during conflict. Hence, the MFI should focus more on client education to ensure their continued involvement in microfinance operations during such situation. If the MFIs are to work in the present situation of conflict they must be transparent among the local Maoist cadre about the microfinance services including outreach, operation, financial performance and management. They should demonstrate that their services are essentially pro-poor and that they are serving the socially disadvantaged group. The MFI should also hold regular dialogue with the local Maoist cadre.

TABLE OF CONTENT

EXECUTIVE SUMMARY ..... **I**

TABLE OF CONTENT ..... **III**

LIST OF TABLES ..... **IV**

ACRONYMS AND ABBREVIATIONS ..... **IV**

1. INTRODUCTION **1**

1.1 Overview of Insurgency and Conflict 1
1.2 Rationale and Objectives of the Study 2
1.3 Scope and Methodology of the Study 2
1.4 Report Organisation 3

2. CONCEPTUAL AND ANALYTICAL FRAMEWORK **4**

2.1 Effect of Insurgency and Conflict vis-a-vis Microfinance Operation 4
2.2 Demand Side Effect of Insurgency and Conflict 5
2.3 Supply Side Effect of Insurgency and Conflict 5
2.4 Indicators for Assessment 6

3. INSURGEYCY, CONFLICT AND MICROFINANCE OPERATION **8**

3.1 Environmental Conditions Impacting Microfinance Operation 8
3.1.1. Scale and Intensity of Effect *8*
3.1.2. Civilian Disturbance and Disruption on Mobility *8*
3.1.3. Disrespect of Rule of Law *9*
3.1.4. Damage to Physical and Financial Infrastructure *10*
3.2 Managing Household Finance and Implications on Microfinance Operations 11
3.2.1. Effect on Household Entitlements *11*
3.2.2. Households Coping Strategies During Insurgency and Conflict *13*
3.3 Impact on Microfinance Operation 15
3.3.1. Physical Damage of the Branch Networks *15*
3.3.2. Outreach *16*
3.3.3. Operational Performance *19*
3.3.4. Financial Performance *21*
3.3.5. Portfolio Quality *23*

4. MICROFINANCE INSTITUTIONS' STRATEGIES TO COPE WITH INSURGECY AND CONFLICT **24**

4.1 Security Guidelines 24
4.2 Fund management 24
4.3 Maintaining portfolio quality 25
4.4 Branch and head office security 26
4.5 Pricing of products and services 27
4.6 Productivity management 27

5. CONCLUSIONS AND RECOMMENDATIOS **28**

5.1 Conclusions of the Study 28
5.2 Recommendations of the Study 29

6. BIBLIOGRAPHY **30**

ANNEX **33**

APPENDIX A: OVERVIEW OF NEPALESE MICROFINANCE SECTOR **33**

APPENDIX 2: OUTREACH REPORT, INCOME STATEMENT AND BALANCE SHEET OF THE MFIS STUDIED **36**

LIST OF TABLES

Table 1: Typology of MFIs covered in this Study 3
Table 2: Variables and Indicators for Analysis 7
Table 3: Characteristics of Different Categories of Households 12
Table 4: Minimising Vulnerability to Future Risks 14
Table 5: Coping with Loss 14
Table 6: Growth in Branch Networks 1994-2003 in MFIs 17
Table 7: Growth in Active Clients 17
Table 8: Growth in Outstanding Savings Balance 18
Table 9: Growth in Outstanding Loan Balance 19
Table 10: Average Clients per Staff 20
Table 11: Average Outstanding Loan Balance per Staff 21
Table 12: Financial Indicators 22
Table 13: Portfolio Quality of Nirdhan Uthan Bank (2000-2003) 23

Acronyms and Abbreviations

ADBN	Agricultural Development Bank, Nepal
CB	Commercial Bank
CPN	Community Party of Nepal
DB	Development Bank
GBB	Grameen Bikas Bank
GBR	Grameen Bank Replicators
GDP	Gross Domestic Product
FI-NGO	Financial Intermediary Non Government Organization
HMGN	His Majesty Government of Nepal
MDB	Microfinance Development Bank
MFI	Microfinance Institution
MPC	Multi-purpose Cooperative
MCPW	Microcredit Project for Women
NBL	Nepal Bank Limited
NEFSCUN	National Federation of Savings and Credit Cooperative Union
NGO	Non Government Organization
NUB	Nirdhan Uthan Bank
PW	People's War
RBB	Rastriya Banijya Bank
RRDB	Regional Rural Development Bank
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self-Reliance Fund
SCC	Savings and Credit Cooperative
SCO	Savings and Credit Organization
SFCL	Small Farmer's Cooperative Ltd.
SFDB	Small Farmer Development Bank
SFDP	Small Farmer Development Project
VDC	Village Development Committee

1. INTRODUCTION

1.1 Overview of Insurgency and Conflict

The Communist Party of Nepal (CPN) Maoist declared a People's War (PW) in Nepal on 13 February 1996 with the objectives of overthrowing the bureaucratic-capitalist class and state system, uprooting semi-feudalism and driving out imperialism in order to establish a new democratic republic with a view to building a new socialist society. The CPN (Maoist) adopted the tactics of a protracted PW, with the ultimate goal of establishing base areas in rural and remote areas, so as to surround urban areas and seize state power. The genesis of the conflict lies in the failure of development and governance, resulting in poverty, inequality, social discrimination and lack of social justice and democracy. Not only has the government been ineffective in addressing the needs of the poor, it has also been corrupt, repressive and working against the interests of ordinary people. International and national development agencies have also failed to strengthen the capacity and commitment of state structures or to change practices at the local level.

The conflict in Nepal has been steadily escalating since 1996. For instance, in the initial four years (1996-2000) of the Maoist insurgency, HMGN attempted to let the police deal with the deal with matter. Foreign development agencies were little affected by the conflict. After 2001, areas under the influence of insurgency intensified and spread to most parts of the country, with a direct impact on the lives and livelihoods of over 15 million of Nepal's 24 million inhabitants. The violent clashes between Maoists and the police/military have so far claimed more than 13,000 lives, among which are at least 9,000 Maoists and 4,000 security personnel.

The main causes of conflict are attributed by observers to bad governance and corruption, inequitable socio-economic and political access and widespread poverty. These issues have been used by the Maoists to justify their challenge to the government, and they have motivated certain sectors of the society to openly join or at least silently support their movement and cause. The major economic sectors affected by the conflict are: tourism, carpets, textiles and alcohol industry (manufacturing and sales). Some agricultural exports have also been affected (cardamom, for example). Increasingly, the whole country is suffering from insecurity and the resulting economic paralysis. As a result, Nepal has registered a negative per capita GDP growth rate for the fiscal year ending July 2002[1], for the first time in 19 years. Farmers have experienced increasing difficulties to market their products in the headquarters of many districts since footbridges and basic infrastructure facilities have been damaged. With difficult access to markets, they are forced to sell their products at very low prices in their localities or to even exchange their products in kind. Due to this difficult environment, migration to urban centers, India and abroad increased for safety and improved livelihood. The banking sector became one of the targets of the insurgency for economic and social reasons. Many financial institutions moved or consolidated their services from rural areas to safe places, leaving people devoid of access to financial services.

[1]Kathmandu Post, 21 July 2004.

1.2 Rationale and Objectives of the Study

The DFID (2002) has estimated the cost of the conflict to be around 8-10% of Nepal's Gross Domestic Product[2]. The conflict has clearly had an effect on the development of the financial market. For instance, over one-third of the branch networks of the three largest banks, namely the Rastriya Banijya Bank (RBB), the Nepal Bank Ltd. (NBL) and the Agricultural Development Bank of Nepal (ADBN) were vandalized by the insurgents[3] during this period and even the branches in the prime areas became the target of the insurgency. The immediate impact of this has been the withdrawal of banking services from the affected areas. Even "pro-poor" providers of rural financial services such as the Small Farmer Cooperatives Ltd. (SFCLs) or the Grameen Bank Replicators (GBR) have become targets of the Maoists. The secondary effect of the conflict has been a weakening of the outreach to customers because of a diminished branch network and the high cost to financial institutions due to reconstruction efforts. The branch staff is always in a state of fear and tension. At present, consolidating or moving towards institutional sustainability has been a challenge for all financial institution*s.*

In the past years, literature on microfinance in post conflict situations e.g. in countries like Rwanda, Mozambique or Cambodia has increased rapidly[4]. Guiding principles have been proposed on how to start microfinance in a post conflict situation[5]. However, relatively little research has been done to document the state of microfinance services during any conflict. Even in situation of conflict, some MFIs have been working undisturbed in rural areas, demonstrating their ability to attain financial self-sufficiency, while others have either closed their transactions or transferred to more accessible and safe locations. Proper documentation of the practices and coping strategies adopted by these institutions provide information to guide microfinance operation during an insurgency. In view of this, this study documents the state of microfinance operation and assesses the impact of conflict on microfinance institutions (MFIs) and the coping strategies adopted by Nepalese MFIs.

1.3 Scope and Methodology of the Study

This study tries to document the state of microfinance operation, assess the impact of insurgency on the expansion of institutions and network of branches, the emergence of new MFIs, outreach, operational and financial performance, portfolio quality and staff productivity. The study also looks at the strategies adopted by MFIs to cope with the insurgency for fund management, the maintenance of portfolio quality, the security of the offices, the pricing of products and services and productivity management.

There are five types of Nepalese MFIs, (See Appendix 1 in the Annex for details) the Grameen Bikas Banks (GBBs), the Microfinance Development Banks (MDBs), the Financial

[2]DFID: Economic Aspects of the Insurgency in Nepal, Report 57/02, 2002.

[3]Until July 2004, over 200 offices of ADBN have been vandalized and looted, including over 90 bank offices and over 110 Sub Project Offices. These incidents caused physical damage valued over NRs 12.6 million (USD 168,000). In terms of cash, NRs 32.8 million (USD 437,000) were looted.

[4]See Wilson, Tamsin: Microfinance during and after armed conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda, Concern Worldwide & The Springfield Centre for Business in Development, Durham, 2001 and Doyle, Kareen: Microfinance in the Wake of Conflict: Challenges and Opportunities, Microenterprise Best Practices Project, Development Associates, Bethesda, 1998.

[5]Nagarajan, Geetha: Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action, ILO/UNHCR Technical Workshop on Microfinance in Post-Conflict Countries, 15-17 September 1999, ILO, Geneva.

Intermediary NGOs (FI-NGOs), the Savings and Credit Cooperatives (SCCs) and the Small Farmers' Cooperatives Limited (SFCL). Only four types of MFIs have been covered in this study in order to have fair representation of the institutions involved in this sector[6]. The data required for this study has been used both from primary and secondary sources. The primary sources of information include data collected from semi-structured interviews and discussions with clients and staff of the MFIs selected, while information generated through the review of the outreach report, income statement and balance sheet of these MFIs before and after the conflict period constitute the secondary sources of information (see Appendix 2 in the Annex). In addition, a review of relevant literature on microfinance during conflicts constituted secondary sources of information for getting relevant experience regionally and globally. The MFIs for the study was selected representing four out of five typologies for in-depth assessment (Table 1).

Table 1: Typology of MFIs covered in this Study

S.N.	Typologies of MFIs	Name of the MFIs
1	Grameen Bikas Bank	♦ Purbanchal Grameen Bikas Bank ♦ Madhayamanchal Grameen Bikas Bank ♦ Paschimanchal Grameen Bikas Bank ♦ Madhaya Paschimanchal Grameen Bikas Bank ♦ Sudur Paschimanchal Grameen Bikas Bank
2	Microfinance Development Bank	♦ Nirdhan Development Bank
3	Small Farmer's Cooperative Limited	♦ Anandaban, Rupandehi, ♦ Kumpur, Dhading ♦ Dumarvana, Bara ♦ Malakheti, Attariya ♦ Narapani, Argahkhanchi
4	Savings and Credit Cooperatives	♦ Bindabasini, Kavre, ♦ Janakalyan, Malakhu ♦ Upakar, Walling

The information collected from different sources was analyzed using qualitative and quantitative techniques. The strategies adopted by these MFIs to cope with the were qualitatively analyzed while the balance sheet and income statement of selected MFIs were analyzed covering aspects such as outreach and financial ration analysis. Practices adopted by these MFIs to safeguard against conflict were identified using qualitative and quantitative basis and facts.

1.4 Report Organisation

This report is organized into five sections. After the introductory section, section two provides an explanation of the Nepalese microfinance sector while section three makes an assessment of the impact of the insurgency on microfinance operation. Section four provides an outline of strategies adopted by Nepalese MFIs to cope with conflict while conclusions and recommendations of the study have been provided in Section five.

[6]Considering that FI-NGOs are lately came into existence in 2001, these MFIs were excluded in this study.

2. CONCEPTUAL AND ANALYTICAL FRAMEWORK

2.1 Effect of Insurgency and Conflict vis-a-vis Microfinance Operation

Around the universe, microfinance has helped millions of the poor people access to capital to manage the income generating/micro-enterprise activities for their survival. This requires an enabling environment encompassing raw materials availability, technology and market. The insurgency and conflict situation is evident in term of civilian disruption, disruption of mobility, damages of physical and financial infrastructure, and disrespect to the rules of law. On the other hand, microfinance operation requires stabile clients, frequent staff mobility, established communication, transport and financial infrastructure, and respect to the rules of law. Increased intensity of insurgency and conflicts in general disturb the environment for microfinance operation. On the part of the clients, the growth of a climate of fear and insecurity drive towards subsistence rather than on competitive orientation.

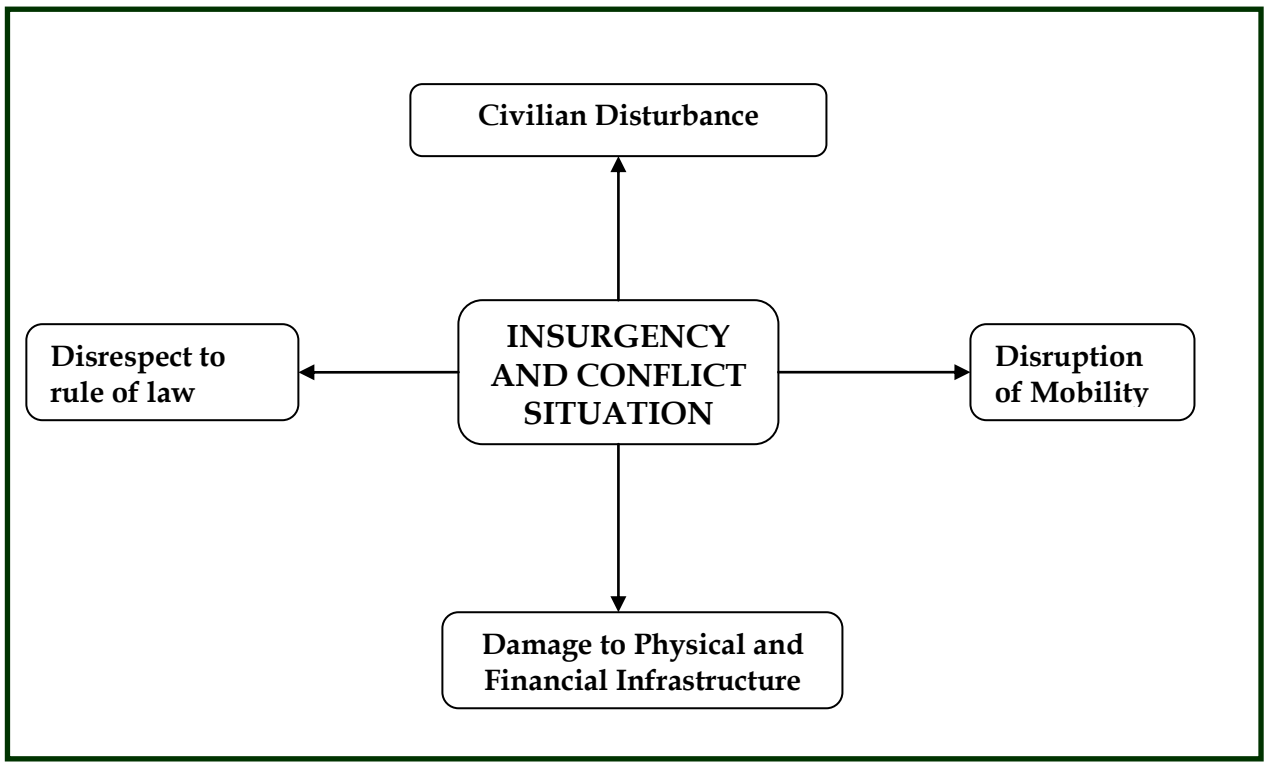

Figure 1: Effect of insurgency and conflict on local economy
Source: Author's own design

Immediate effect of insurgency and conflict situation on microfinance operation will be reduced outreach of the services to remote hills and mountains. Damages to physical and financial infrastructure add cost on communication, transport and alternative safety arrangement to financial intermediation. Staff is often in a state of fear and continuous tension due to security concerns. Disrespect to rule of law facilitates fraud. Civilian disturbance is evident in terms of loss of markets, human resources, assets, equipments etc. are detrimental on financial intermediation. Conflicts have also decreased choices to the poor due to reduced intensities of MFIs in the areas.

2.2 Demand Side Effect of Insurgency and Conflict

Insurgency and conflict has effect in households. Direct effect of the insurgency and conflicts will be in household entitlements in the form of reduced livelihood entitlements (land, labour, capital, markets, etc.); reduced provision of public entitlements (maintenance of law and orders, communication, power supplies, bridges, drinking waters, education, health, etc.); weakened social entitlements (social capital and citizenship) and reduced economic activities (enterprise development, marketing, technology, skill acquisition, etc.).

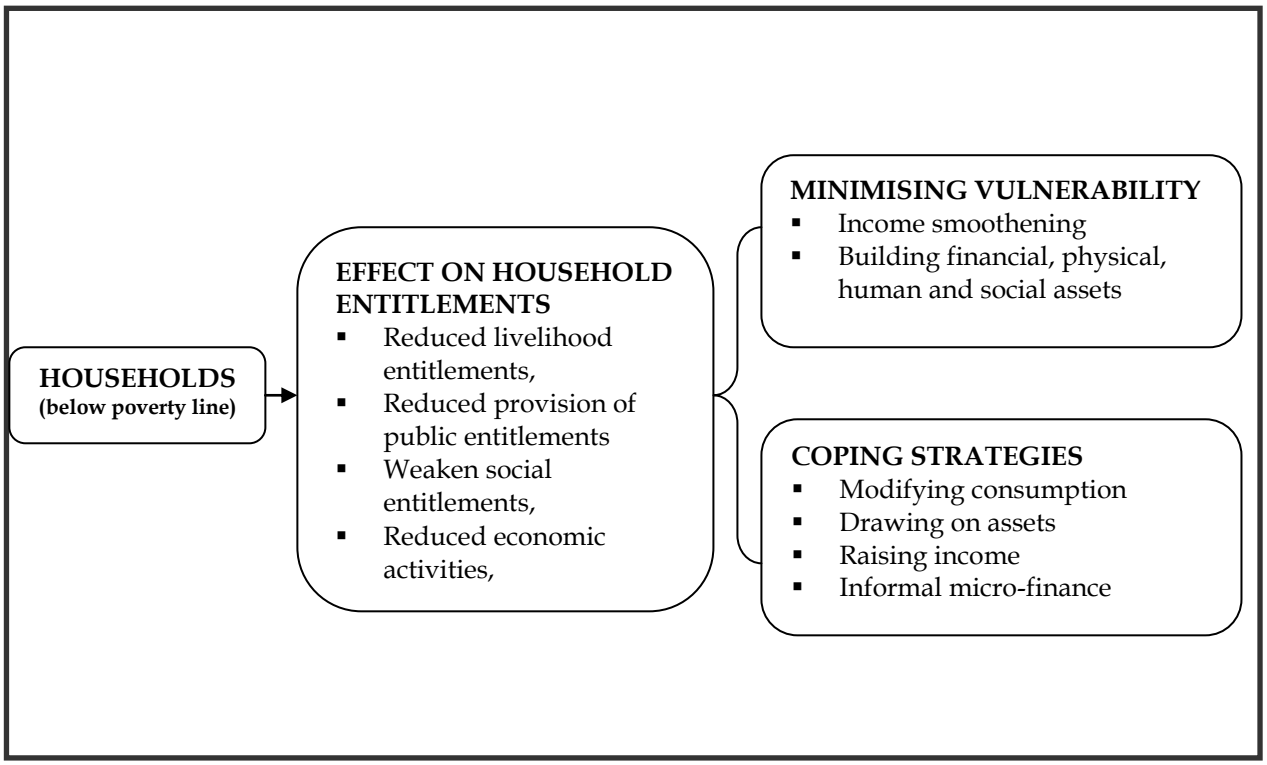

Figure 2: Effect of insurgency and conflict situation on HHs
Source: Author's own design

Households alter their behavior during insurgency in order to cope with changed entitlements. Their immediate response during insurgency and conflict situation will be geared towards minimizing vulnerability through income smoothing and building financial, physical, human and social assets using the opportunities at their disposal. At the time of losses or likely risk of losses, households cope with the situation adopting one or combinations of coping strategies such as modifying consumption, drawing/selling assets, raising income and exploring the flexible informal sources of financial intermediation.

2.3 Supply Side Effect of Insurgency and Conflict

Immediate effect of the insurgency and conflict situation has been observed in the form of the physical damage of head offices and branches and properties; raiding of the cash and properties and reduced staff morale, of the MFIs that has affected their smooth operation. This has greatly affected the operation of the MFIs as envisaged and visualized, both directly and indirectly as discussed below.

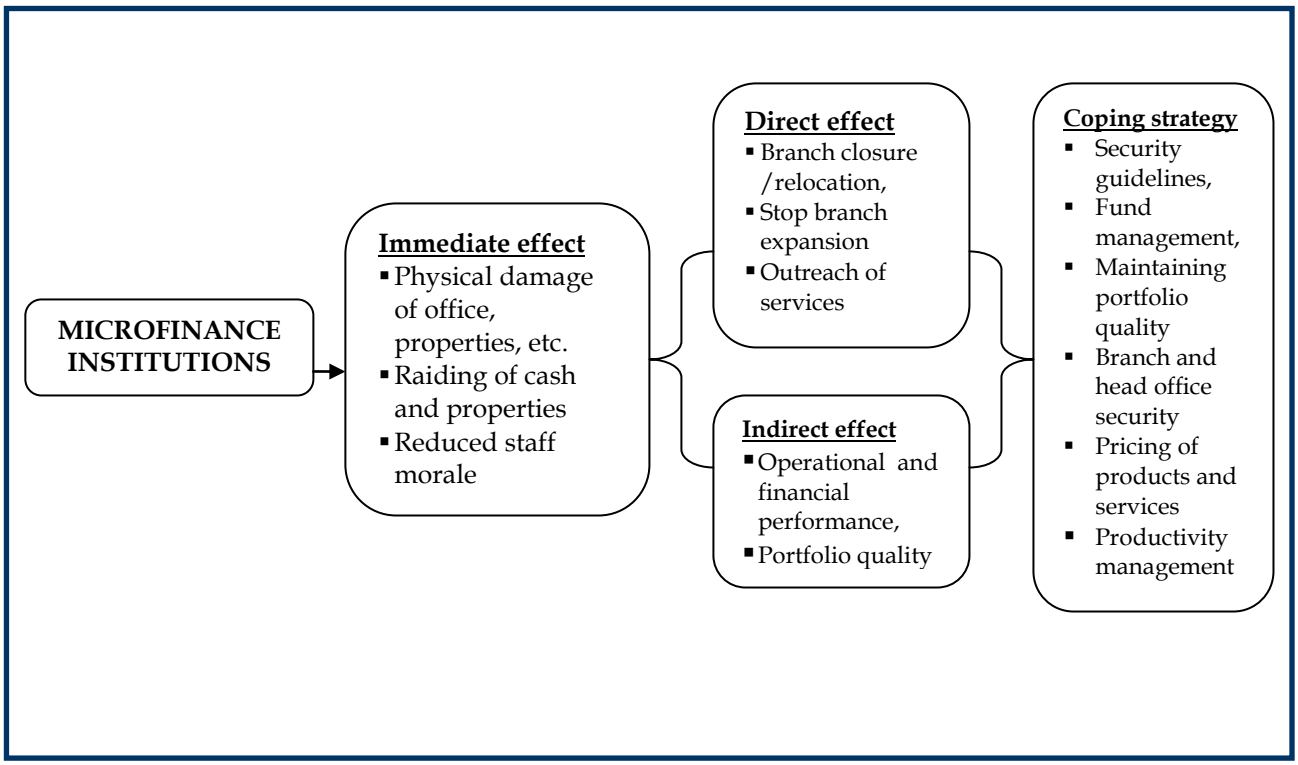

Figure 3: Effect of insurgency and conflict situation on Microfinance Institutions
Source: Author's own design

Direct effect of insurgency and conflict situation will be in terms of branch closure or relocation from the area and cease to expand branch branches. MFI focuses to continue to provide services to existing clients rather than expanding the services to new clients. The indirect effect of insurgency on microfinance operation could be on operational and financial performance and portfolio quality. In view of the stable nature of MFIs, instead of choosing to withdraw from financial market with is practically not possible, they gradually develop coping strategies to provide continuity to microfinance services started by them prior to conflict or during the initial years of the conflict. Some of these strategies are: issuing security guidelines, prudent fund management, maintaining portfolio quality, ensuring branch and head office security, revisiting pricing of products and services and productivity management.

2.4 Indicators for Assessment

Based on the framework discussed in this section, different variables and indicators related to various impact areas of insurgency and conflict on microfinance operation has been identified (Table 2).

Table 2: Variables and Indicators for Analysis

Impact Areas	Variables	Indicators
Branch operation	▪ Closure/relocation of existing branches,	▪ No. of branches closed
	▪ Opening new branches;	▪ Growth in branches (%)
Outreach	▪ Active clients	▪ Growth in active clients (%)
	▪ Savings balance	▪ Growth in savings balance (%)
	▪ Outstanding loan balance	▪ Growth in outstanding loan balance (%)
Operational performance	▪ Average clients per staff	▪ Change in clients to staff ratio (%)
	▪ Average outstanding loan balance per staff	▪ Change in clients to outstanding loan balance ratio (%)
	▪ Client retention rate	▪ Client exit ratio, drop-out rate (%)
Financial performance	▪ Average performing assets (APA)	▪ Growth in APA (%)
	▪ Return on average performing assets	▪ Growth in return on APA (%)
	▪ Financial cost ratio	▪ Growth in financial cost ratio (%)
	▪ Loan loss provision ratio	▪ Growth in loan loss provision ratio (%)
	▪ Operating cost ratio	▪ Growth in operating cost ratio (%)
	▪ Imputed cost of capital ratio	▪ Growth in imputed cost of capital ratio (%)
	▪ Operating self-sufficiency	▪ Growth in operating self-sufficiency (%)
	▪ Financial self-sufficiency	▪ Growth in financial self-sufficiency (%)
Portfolio quality	▪ Portfolio at risk ratio	▪ Growth in portfolio at risk ratio (%)
	▪ Loan loss reserve ratio	▪ Growth in loan loss reserve ratio (%)

3. INSURGEYCY, CONFLICT AND MICROFINANCE OPERATION

The main grassroots effects of the conflict have been: a rural exodus of those most fearful of the Maoists (local elites, local government officials and activists of other political parties) from remote areas, a significant reduction in travel and the transport of goods; a disruption of many economic activities with possible implications on food security in some areas; the destruction of local infrastructure (particularly those with government intervention and control); and the growth of a climate of fear and insecurity in which the Maoists are probably feared for human rights abuse the security forces (Seddon and Hussein 2002). This section attempts to further elaborate the general characteristics of conflict and provide an overview of the environment that will have implication on microfinance operation.

3.1 Environmental Conditions Impacting Microfinance Operation

3.1.1. Scale and Intensity of Effect

The impact of the insurgency has varied significantly over time and place as it spread and intensified. Different categorizations of the areas affected by the Maoists have been put forward by the government, by the specific agencies and by the Maoist themselves. In the late 1990s, the government considered 24 districts (out of the total 75) to be specifically affected and by 2000, it was generally accepted that Maoists had a significant presence in 45 districts (i.e. over half). Since 2000/01, as the conflict began to deepen and widen, there are really no Maoist free areas any more. Some districts still remain relatively little affected, however, and these include the extremely remote and sparsely populated mountain areas of the north and northwest: Bajhang and Bajjura, Humla, Mugu and Dolpa, Mustang and Manang. Even these districts are not free from insurgency and conflict.

3.1.2. Civilian Disturbance and Disruption on Mobility

The conflict has not only disrupted production and capital but it has also caused public services to be neglected as the state finance is primarily devoted to military expenditure. The loss (death and migration) of human resources has changed the morphology of households. The number of women headed households has increased and the ratio of productive members to dependent members in the community have decreased. Households have been forced to accept the orphans of close relatives and elderly widows. Women are compelled to assume larger productive and reproductive roles. The social capital[7], a foundation for microfinance operation has been gradually damaged through increased movement of large numbers out of the community. In the place of refuge (especially in urban areas) a population of near strangers initially exists and it takes time for cooperation to become normal between individuals[8].

The conflict has had great implications on microfinance operations because of the marked reduction in the mobility of civilians and financial workers. This is a direct result of insecurity, the actions of both the Maoists and the security forces and the relocation of

[7]Social capital, an instantiated informal norm that promotes cooperation between two or more individuals, gives rise to such phenomenon as trust, networks and civil society. In the economic sphere, social capital reduces transaction costs associated with contracts and rule enforcement.

[8]Damaged social capital can have two effects. Either client prefer to transact on an individual basis because groups are perceived to cause a variety of problems or else people freely submit to the creation of groups in order to recreate some of the social norms that existed before the armed conflict began.

banking networks from remote rural areas to relatively secure towns. This has resulted in a rural to urban exodus - the scale and amplitude of which is difficult to measure. In general, the transport of goods in remote hills and mountains has been reduced. This has affected the lower castes the hardest, as they are dependant on such jobs.

Households with few income earners and many dependents have very little extra cash or motivation to access microfinance services. Those that are particularly risk prone actually attempt to minimize the risks over which they have some control. Microfinance, commonly considered a means to avoid risk has become unresponsive due to the absence of demand. The loan portfolio performance of the MFI has been impaired by a large concentration of 'distressed borrowers'. Microfinance operations by design and nature demand frequent contacts with clients and the periodic interactions have been greatly affected by the disruption in travel and transport. This drastic disruption has led to a general slow-down in economic activity not only at the local level but also at the national level. This has large implications on the buying and selling of services by microfinance institutions.

The Youth in rural areas have been forced to choose between joining the Maoists or fleeing to avoid conscription. As a result the livelihood of most able-bodied household members have been directly affected. This has further been compounded by the general slow down in economic activity, the loss of opportunities in construction work, road building and transportation. The informal sector has been growing as people resort to income generating activities and micro-enterprise to raise household income, while the formal sector exhibits sluggish growth. Agricultural production has been impeded by the unpredictability of local security, the low number of surviving livestock and the inequitable redistribution of land. Tourism has been seriously affected, with opportunities for work as porters and guides dwindling.

Many people rely upon the informal business sector for self-employment during conflict when unemployment is high and there is little choice on hope of other employment. The informal business sector has grown disproportionately. People prefer uncomplicated, adaptable business, requiring common sense but no priori knowledge or skill. Because of limited opportunities for investment it must be possible withdraw assets quickly as and when the conditions demand. On the other hand, richer people have a tendency to slide below the poverty line during conflict and this hinders economic development due to reduced economic activities and little demand for high values or large volumes of products or traded goods. Market activity returns first to urban areas, where there tends to be less conflict and a more monetized economy. Conversely, in remote areas demonetization is apparent. Despite the high associated costs, in-kind transactions are preferred. People are extremely dependent upon informal microfinance and loans and repayment involve cash, labour and goods in kind. In urban areas local markets stimulate demand for microfinance, but in rural areas there are often no market and demand for microfinance develops more slowly.

3.1.3. Disrespect of Rule of Law

The pronounced threats of insecurity, organized crime, banditry and corruption have increased disrespect to rule of law. There are cases that the most powerful are finding it easy to appropriate property of those with less power. Corruption is one of the biggest consequences of poor governance, unemployment and political instability resulting in loss of assets. Households are becoming increasingly vulnerable to risk and informal lenders are

rightfully cautious about lending money for consumption or investment purposes to households without assets. Fear of risk causes asset-poor households to forgo potentially profitable production choices. Lost assets change client's attitudes to financial services. As Morduch (1999) concludes "inflation, recession, drought, flood, illness and civil war hit hardest those households that are least well equipped to handle shocks.

Poverty is a source of vulnerability and repeated exposure to downturns reinforces poverty. Under such circumstances, borrowing becomes unattractive to such households. Increased corruption and other sorts of market distortions have reduced what little profit an enterprise creates with the overall effect of depressed actual demand for microfinance. The MFI has a challenge to carefully guard against fraud and theft among staff and clients as well as maximize employee safety which demands significant increases in fixed and variable costs which are caused by the use of more sturdy vehicles for the transportation of cash between safe locations.

3.1.4. Damage to Physical and Financial Infrastructure

The destruction of local infrastructure, particularly that which is identified with government intervention and control such as telecommunication centers, power supplies, bridges, etc., have had more widespread impact. Damages of development assets such as drinking water systems, micro-hydro stations, communication towers, rural airports, suspension bridges, VDC building, etc. have had a really catastrophic effect on rural livelihood and microfinance finance operation. The infrastructure damage is becoming significant and may indeed be more serious than this in specific localities, affecting particular local communities and their livelihoods. In most cases, the infrastructure targeted has been those immediately affecting the lives and livelihoods of the better-off in rural areas to a greater extent than the mass of the rural population including the poor. Insurgency has served to extend the period of under-investment in public services, in particular, health and education. Damages to physical infrastructure has the increased direct cost of microfinance service provision and reduced profits made by small business. Poor health services has negatively affected the health of the local population and bad health is one of the most commonly stated reasons for loan default with strong demand for savings and insurance services.

The destruction of physical infrastructure such as bridges means that travel times have increased. Movement has been severely restricted, as there are many check-posts where the authorities want to know why people are moving around and anyone found in the forest is liable to be treated as a Maoist. Traditional livelihood opportunities such as going into the forest to collect non-timber forest produce and marketing it elsewhere have been therefore seriously disrupted.

Rural banking infrastructure has been severely destroyed by the insurgency. Over 30-25% of the branch networks of the three largest banks (RBB, NBL and ADBN)[9] have been vandalized by insurgents. Banking services has been withdrawn from affected areas. Even "pro-poor" providers of rural financial services such as SFCLs or the GBR have become targets of the Maoists. Outreach to remote hills and mountains have been severely reduced through a diminished branch network. The financial institutions are facing higher costs due to reconstruction efforts, and last but not the least, branch office staff members are often in a state of fear and continuous tension due to security concerns. The weakened regulatory

[9]Op cit foot note: 3 pp. 2

influence has facilitated fraud and insider lending within formal banks. Abuse of unregulated semi-formal and informal microfinance has also been occurring. This has distressed borrowers among previously sound enterprises. The loss of markets, human resources, assets that can be used as collateral, equipment for production and the negation of insurance policies cause significant problems to business owners and to lenders. Conflicts have also decreased choice of semi-formal and informal finance available to poor people, so lenders that remain are adopting opportunistic behavior.

3.2 Managing Household Finance and Implications on Microfinance Operations

Sebstad and Cohen (2000) state that poorer households with limited options may have to resort to negative coping mechanisms[10] like selling productive assets. In contract, those with more options prefer mobilizing labour, reducing consumption or finding a new source of income. This section discusses the effect of insurgency and conflict on household entitlements as well as coping mechanisms.

3.2.1. Effect on Household Entitlements

In this paper, the entitlement framework discussed by Luckham (2001) has been used to make an assessment of conflict upon household entitlements and to bring a sense to the wide variety of ways in which conflict affects people's lives. This framework categorizes entitlements into livelihood, public and civil/social reverses as discussed hereunder.

Reduced livelihood entitlement is the most common effect of conflict upon households, which includes land, labour, capital, infrastructure and communication systems. This implies a reduction on means to earn an income in the aftermath of insurgency. Household livelihoods are affected by the destruction or loss of capital and productive assets, such as cattle, vehicles and buildings. This is particularly so among households that have been forced to flee to urban areas leaving bulky, productive assets behind, thereby changing their livelihoods. Similarly, the destruction of infrastructure has reduced their ability to maintain production and to access markets. Employment in both formal and informal systems has been shrinking during this period due to reduced economic activities. State-owned enterprises have collapsed further with few civil service jobs available. One of the few employment opportunities during crisis is with NGOs and a number of people have been able to get work with international agencies. The withdrawal of labour due to death, injury or displacement has further damaged livelihoods.

There has been a gradual reduction in the provision of public entitlements that people expect from the government in areas such as the maintenance of law of order, an efficient legal system and in services such as water and sanitation, education, health services and welfare, etc. In general, public entitlements are weak in remote hills and mountains and has further deteriorated due to the insurgency. The government has been unable to protect rural areas because of difficulties in maintaining law and order in the relatively remote areas. Banditry and corruption has become a threat to most people. The weakened legal system and civil society allow people to break the law with relative impunity.

[10]Coping mechanism is the term used to describe strategies that are used by households to manage the effects of shock.

The effect of the collapse of public entitlements is immense and effectively weakens social entitlements that comprise social capital and citizenship, owing to prolonged and spontaneous conflicts. This has increased the vulnerability of households, especially those living in remote hills and mountains. Divide and rule strategies adopted by both parties in the conflict have caused great damage to the civil society and gradually eroded social capital.

Table 3: Characteristics of Different Categories of Households

Characteristics	Categories of HHs		
	Poorest	Poor	Rich
Access to land	< 0.5 ha.	0.5 - 1.0 ha.	> 1.0 ha.
House	Small and thatched roof	Own house but no other major assets	Own house with stable roof
Assets	Few	Moderate	
Livestock	small animals like pig and poultry	Few head of cow and/or buffalo, goat, poultry	Cow, buffalo, goat, poultry.
Livelihood means	Selling labour, firewood, thatch materials	Surplus production of crops and vegetables	Surplus production and supplementary sources of income
Earning	< Rs. 3,000 per month	Diverse source of income; Rs. 3000 - 5000 per month	Diverse source and > Rs. 5000; receive remittance from relatives from overseas; lend money to poorer people
Primary expenditure	Food, not have enough money to buy medicine	Food and can meet expenses on medicine	Both consumption and production expansion
Dependents	High	Normal	Few

Source: Quick Community Survey, 2004

The adverse effects of the insurgency has been the promotion of an increased accumulation of extra-legal entitlements by some sections of society through theft or threats and the power to control markets. These reverse entitlements have shown an increasing trend in rural and even in the peri-urban areas. They are common survival mechanisms for people in the most desperate situations. However, one person's benefit is another's loss and the flip-side of reverse entitlements is that others must suffer. There has been an increasing trend in the occupation of land and houses and the theft/looting of food from fields. People who have left their homes in a hurry have also found that they had been looted in their absence.

Thus, there has been a significant effect of insurgency on household entitlements and reduced entitlements greatly affect microfinance operation. The livelihood status of households has been changed more easily and more frequently. There is likelihood that visible and movable assets have been lost or stolen thereby substantially reducing the ability of households to cope with emergencies and to generate income. Within households access to resources can differ considerably, depending upon gender, age and category of household. It is quite obvious that the living conditions of the poor households are measurable and require immediate support. These are the categories of households that require microfinance services (see Table 3).

3.2.2. Households Coping Strategies During Insurgency and Conflict

Households alter their behavior during insurgency in order to cope with changed entitlements. An understanding of state of the practices on household survival during such circumstances will be instrumental in devising an assistance mechanism to support people exposed to such situations. Typical coping mechanisms adopted by conflict victims include reducing consumption, maximizing income, diversifying risk, liquidating assets, avoiding liabilities and using informal financial services.

Due to the conflict, the income of the rural and peri-urban population has been significantly reduced and the corresponding cut in household expenditures is the most common coping strategy that a typical poor household adopts. Reducing expenditures on food consumption (selecting the cheapest food, consuming wild food, etc.), education and health services are quite common in rural areas during conflict. Because of collapse of most businesses and employment opportunities, households have been compelled to generate income using whatever means available. Activities based upon daily unskilled labour and the exploitation of natural resources have been the most essential sources for resuming economic activity. The poor people have generally sought income-generating activities that can be characterized as "*low risk, low investment and with quick return*". This is the area where microfinance services can support such households.

Households that have a low labour to dependent ratio are often the poorest, comprising of widows, disabled people and large families with many young children, sick, disabled and elderly people. Wealthier people can afford to pay cash for hired labour, but this is normally not an option for the poorest. Exploitation of natural resources is attractive because it requires little or no up front investment and households can be sure of rapidly selling small quantities of primary commodities. In many rural areas, chopping wood from natural forests has been an important source of cash for poor people. Linkages between rich and poor, urban and rural, buyer and seller, and lenders and borrowers have been extremely important for household livelihoods under insurgency. There is an important linkage between the rural wood sellers and the urban wood buyers. Richer urban people have a relationship with poor rural villages and the market traders have developed trade relationships with poorer rural people. Due to damage the insurgency has done to the civil society, these linkages have been threatened by the destruction of cooperation, goodwill and trust underpinning such relationships.

Poor people strive to diversify risks associated with household income. They achieve this by maximizing the number and type of business activities undertaken, by finding paid employment for members of the household and having members of the households working in different locations. There are increasing instances of avoiding liabilities (such as a loan) from a source serious about a formal, structured repayment schedule by the poor. This has reduced the number of active loan clients in most MFIs. In most far-west and mid-west Tarai districts, the people's preference to reduce consumption rather than take a loan has changed, where some people prefer to work for the money to pay for their children's education rather than take a loan for initiating uncertain income generating activities.

The use of informal financial services is a very important mechanism as it enables smooth consumption by using small consumer loans or savings. Loans are taken frequently and repaid rapidly through frequent installments. This practice has been threatened due to increased insurgency and migration of personal financial intermediaries (money lenders)

from the hills to the Tarai and from rural to urban areas. Saving propensities of the people have not been changed even during conflict, but they are experiencing difficulties in finding a reliable place to deposit money. Contrary to perceived wisdom, households were not keen to liquidate assets during conflict but did so to be able to cope with the unpredictable environment. There appeared to be a general feeling that liquid assets were subject to risk from theft, flooding, fire or further conflict. Therefore, only the minimum amounts appeared to be kept as cash. There exist evidences of increased demand for the reliable, safe and accountable MFIs that provide savings services to people seriously affected by conflict.

Households adopt different mechanisms to cope against the effect of insurgency on their entitlements. Such mechanisms can be broadly divided into two groups: (i) those used to minimize a household's vulnerability in the future and (ii) those coping mechanisms that are employed in reaction to the loss of assets (Sebstad and Cohen 2000).

Minimizing household's vulnerability in the future

Households adopt diverse means for income smoothening and building financial, physical, human and social assets to protect themselves against future shocks. Table 4 outlines some of the methods adopted on income smoothing and building physical, financial, human and social assets by the households to minimize vulnerability to future risks.

Table 4: Minimising Vulnerability to Future Risks

S.N.	Strategies	Mechanisms
1	Income smoothing	♦ Create diverse sources of income, some low and some high risk; ♦ Accept remittances from abroad;
2	Building financial assets	♦ Save cash in the house; ♦ Very small savings in local MFIs;
3	Building physical assets	♦ Contract farming; ♦ Accumulating assets in gold, rice, cattle and pigs and other durables;
4	Building human assets	♦ Flee to places where households is not in physical danger; ♦ Send children to school, even if fees not paid; ♦ Collect traditional medicines for sick children;
5	Building social assets	♦ Cultivate linkages with richer people; ♦ Siblings or extended family take care of dependent or orphaned children; ♦ Join association that provide support during emergencies;

Source: Quick community survey 2004

Mechanisms employed in reaction to the loss of assets

Households are quite serious about managing loss, using consumption modifying strategies, income raising strategies and personal financial intermediation (Table 5). The mechanisms employed by the households in reaction to the losses include modifying consumption, drawing assets, raising income and using personal financial intermediation that households use to respond to disaster when it strikes.

Table 5: Coping with Loss

S.N.	Strategies	Mechanisms
1	Modifying consumption	♦ Change diet to cheaper food and naturally occurring food. ♦ Reduce food consumption.

S.N.	Strategies	Mechanisms
2	Drawing on assets	♦ Ask for richer friends and relatives including loans, food and accommodation; ♦ Accept relief assistance; ♦ Take support from extended families including capital, shelter and food.
3	Raising income	♦ Exploitation of natural resources (thatch, collecting leaves, fishing, making charcoal, fetching firewood, etc.) ♦ Improved farming; ♦ Gain employment with NGO; ♦ Do wage labour; ♦ Trade or exchange relief goods for other products; ♦ Traditional production activities possible for those not displaced.
4	Personal Financial Intermediation	♦ Take loans from richer friends and relatives; ♦ Borrow in cash and in kind from contemporaries;

Source: Quick community survey 2004

3.3 Impact on Microfinance Operation

In general, particularly where the Maoist have control or significant presence, the direct impact of the conflict on microfinance operation is differentiated in a large part according to their ownership vis-à-vis rating of the MFIs' services by the insurgents. Both direct and indirect impacts of the insurgency on microfinance operation are evident.

3.3.1. Physical Damage of the Branch Networks

A close scrutiny of the Maoist attack on the financial institutions as well as their perceptions of these institutions enables their categorization into three divisions (i) anti-poor institutions; (ii) pro-poor institutions and (iii) those institutions that lie between these two major categories.

The Maoists have tended to attack commercial/development banks including their microfinance operations in rural areas. They see them essentially as instruments of exploitation that charge high rates of interest and refuse cheap loans to poor people (so called anti-poor institutions). On the first day of the people's war, people's commandos in Gorkha district captured the Small Farmers Development Programme Office, seized land ownership documents kept as collateral by the ADBN, distributed them to their owners and destroyed the official loan documents and records. Other banks have been captured and taken over by Maoist guerrillas, who have then confiscated cash and collateral (as in the case of ADBN, mentioned above). Between 30 and 35% branch networks of the three largest banks, i.e. RBB, NBL, and the ADBN[11] have been vandalized by insurgents. Even the branches in the prime areas have become targets of the insurgents. As a result, most of the banks based in the rural areas have withdrawn to their district headquarters, thereby jeopardizing access to the financial services. Local money-lenders have been even more specifically targeted by a combination of coercion and provision of alternatives. More recently, however, rather than simply attacking moneylenders per se, the Maoist have attempted to moderate the terms and conditions by allowing moneylenders only to charge a certain percentage of interest on loans.

[11]Op cit foot note: 3 pp. 2

The Maoists have tended to have a soft corner for institutions like the SCCs, the SCOs and women savings groups that specifically target to women and disadvantaged people and rate them as "pro-poor" providers of rural financial services. Since these institutions are mostly owned and managed by the poor and the disadvantaged, do not charge exploitative interest rates and provide financial services to the poorest of the poor on a priority basis, the Maoists have not rated these institutions as instruments of exploitation. These types of institutions have never become targets of the Maoists. There are instances of regret from Maoists when there have been some incidental attacks by their cadres on these institutions. In Parbat, the Maoists even returned the savings balance of the Janakalyan women SCC looted by their cadres once they realized that the operational mechanism of this SCC was pro-poor and non-exploitative. In Rolpa at least, the Maoists established a rural cooperative bank (the *Jaljala* Financial Cooperative Fund - *Jaljala Bittya Kosh*) in 2000, which offers loans to the poor and needy at 15% a year, including a 5% contribution to the Party (Karki, 2001: 201); it also lends out at 8% (Sharma, 2001:5). According to another source, the Maoists have established a rural cooperative bank which lends out at an interest rate of 2% a year (Bhandari, 1999: 11) which sounds hard to credit! (Seddon and Hussein, 2002).

There is some ambiguity on the Maoist regarding the operation of MFIs such as the GBBs, MDBs, SFCLs and FI-NGOs and these institutions have became the target of the Maoists on a case by case basis. For instance, the question of attacking SFCLs by the Maoists has often been raised. There is one obvious reason why the SFCLs have become the targets of the Maoists. This is a perceived close link of the SFCLs to the ADBN, an institution, which has always been a prime target of the Maoists since the beginning of the war in 1996. By destroying the loan records of ADBN's branches, the Maoists assume that the farmers will not have to repay the loans. According to the SFCL officials involved in the incidents, it appears that the Maoists are also looking for the sympathy of those SFCL members, who have past due loans and who presumably would benefit most from the destruction of an SFCL office. It appears that the Maoists in general do not have a consistent policy towards community development activities. In many cases it depends on local commanders and their perceptions of these institutions in the areas under their control. Maoists are rather tolerant to MFIs conducting their operations in a transparent manner and delivering pro-poor results. Despite the inherent pro-poor features on the operation of most GBBs, MDBs and FI-NGOs, these institutions are under close observation under Maoist cadres especially on their pro-poor features including service delivery mechanisms, interest rate, staff behavior s and perceptions on the quality of services of these institutions to the poor. FI-NGOs and branches of GBBs and MDBs are subject to Maoist attack on case-by-case basis. These institutions require rigorous efforts to make their services client friendly and more pro-poor to protect them from Maoist attacks.

3.3.2. Outreach

Insurgency has affected the outreach of the microfinance institutions, which can be evidenced by their effect on the emergence of new MFIs, the expansion of clients, savings services and lending services to their clients. The impact of the insurgency on the outreach has been assessed.

Even after the start of the armed conflict and civil war, some NGO MFIs have transformed themselves into development banks as part of their commercialization strategy under the Development Bank Act of 1996. According to reports from the NRB, there are 16 privately

owned development banks as of February 2003. Some of the MDBs are the Nirdhan Uthan Bank, DEPROSC Development Bank, the Swabalamban Bikas Bank, the Chhimek Bikas Bank that emerged during 1997-2001. During this period some second tier refinance institutions such as the RMDC, and SKBB also emerged. These institutions are meant to provide wholesale loans to MFIs. After the enactment of the Financial Intermediary Act 1999 and its first amendment of 2001, some 44 microfinance NGOs have been transformed into FI-NGOs during 2000-2002 under the technical and financial support of the ADB-HMG Microcredit Project for Women (MCPW). Thus, there has been an increasing trend in the emergence and development of the MDBs, SFCLs, SCCs and SFCLs during 1995-2003.

The conflict has impacted on the expansion of the branch networks (Table 6). There has been a noticeable decrease in the rate of expansion of branch networks during the late 1990s and early 2000s implying that there has been some impact of insurgency on the expansion of branch network. There has been instances of destruction of bank branches which has the affected the ability of the banks and customers to cope with the weakened outreach of the diminished branch network. The MFIs are facing higher costs due to reconstruction efforts, and branch staff is often in a state of fear and continuous tension due to security concerns.

Table 6: Growth in Branch Networks 1994-2003 in MFIs

S.N.	Name and Type of MFIs	Growth in Branches (%)		Deviation
		1990s	2000s	
1	Grameen Bikas Bank	22	4	-18
	♦ Prubanchal	27	4	-23
	♦ Madhayamanchal	42	9	-33
	♦ Paschimanchal	19	6	-13
	♦ Madhya Paschimanchal	16	1	-15
	♦ Sudur Paschimanchal	2	-1	-3
2	Nirdhan Uthan Bank	39	6	-33

Source: Tables in the Annex

Clients of the MFIs are still relying on and effectively using their services as much as possible. There has been an increase in the number of active clients in these MFIs, however, there exists a significant difference on the rate of growth of active clients during the late 1990s compared to the early 2000s (Table 7). All the MFIs except the SFCLs have experienced a decreased growth in the number of active clients. This implies a strong member commitment and trust in the institutional capacities of the grassroots institutions like the SFCLs. Even within the categories of credit unions, differences have been observed between the SFCLs and the SCCs, with the SFCLs performing better than the SCCs, indicating that the formation of credit unions matters for membership growth and overall development.

Table 7: Growth in Active Clients

S.N.	Name and Type of MFIs	Growth in Active Clients (%)		Deviation
		1990s	2000s	
1	Grameen Bikas Bank	60	13	-47
	□ Purbanchal	48	7	-41
	□ Madhayamanchal	74	29	-45
	□ Paschimanchal	90	18	-72
	□ Madhya Paschimanchal	23	8	-15
	□ Sudur Paschimanchal	37	6	-31

S.N.	Name and Type of MFIs	Growth in Active Clients (%)		Deviation
		1990s	2000s	
2	Small Farmer Cooperatives Limited	39	13	-26
	Anandaban	18	50	32
	Kumpur	9	5	-4
	Dumarvana	5	13	8
	Malakheti	1	4	3
	Narapani	0	3	3
3	Nirdhan Uthan Bank	147	18	-129
4	Savings and Credit Cooperatives	36	20	-16
	Bindabasini	12	10	-2
	Janakalyan	44	34	-10
	Upakar Bachat	46	32	-14

Source: Tables in the Annex

The mobilization of the savings is an important activity of the MFIs covered in this study. There has been some impact on the growth in outstanding savings balance in these MFIs due to conflicts (Table 8). Except one GBB and one SFCL, all MFIs have experienced more decreased growth in savings balance in the early 2000s than in the late 1990s. On an average, the record of overall savings balance growth can be considered impressive leading to the capability of introducing new savings products by the MFIs that have caught the attention of the rural people partly due to the attractive interest rates on savings provided by them.

Table 8: Growth in Outstanding Savings Balance

S.N.	Name and Type of MFIs	Growth in Savings Balance (%)		Deviation
		1990s	2000s	
1	Grameen Bikas Bank	64	30	-34
	Prubanchal	2	82	80
	Madhayamanchal	130	53	-77
	Paschimanchal	68	26	-42
	Madhya Paschimanchal	82	3	-79
	Sudur Paschimanchal	36	-8	-44
2	Small Farmer Cooperatives Limited	94	61	-33
	Anandaban	153	102	-51
	Kumpur	58	34	-24
	Dumarvana	193	100	-93
	Malakheti	37	38	1
	Narapani	31	29	-2
3	Nirdhan Uthan Bank	490	36	-454
4	Savings and Credit Cooperatives	67	57	-10
	Bindabasini	74	48	-26
	Janakalyan	69	45	-24
	Upakar Bachat	57	82	25

Source: Tables in the Annex

Loan disbursement and loan recovery have been the integral activities of the MFIs. There has been a notable impact of the insurgency on the growth in outstanding loan balance in these MFIs (Table 9). Except for two SFCLs and one SCC, all remaining MFIs have experienced a decrease in the growth in outstanding loan balance in the early 2000s when compared to the late 1990s. Such average growth in overall loan balance is quite impressive

due to the increased credit absorptive capacity of the clients of these MFIs. The interest on loans charged by these MFIs is significantly lower than the interest rate charged by the informal sector and the availability of substitutes for the formal sector borrowing for clients of these MFIs. The decreased outstanding loan balance during the conflict is understandable because of a lack of investment environment for the promotion of micro and small enterprises.

Table 9: Growth in Outstanding Loan Balance

S.N.	Name and Type of MFIs	Growth in Outstanding Loan Balance (%)		Deviation
		1990s	2000s	
1	Grameen Bikas Bank	94	25	-69
	Prubanchal	82	22	-60
	Madhayamanchal	140	51	-89
	Paschimanchal	53	34	-19
	Madhya Paschimanchal	96	16	-80
	Sudur Paschimanchal	70	6	-64
2	Small Farmer Cooperatives Limited	38	26	-12
	Anandaban	13	34	21
	Kumpur	26	24	-2
	Dumarvana	5	31	26
	Malakheti	0	25	25
	Narapani	40	23	-17
3	Nirdhan Uthan Bank	208	37	-171
4	Savings and Credit Cooperatives	62	50	-12
	Bindabasini	60	46	-14
	Janakalyan	58	39	-19
	Upakar Bachat	65	66	1

Source: Tables in the Annex

3.3.3. Operational Performance

In general, insurgency has an impact on the operating efficiency of the MFIs. The operating efficiency of MFIs covered in this study was assessed using standard operating efficiency indicators such as average clients per staff, average outstanding loan balance per staff and client retention rate as discussed hereunder.

Average Clients per Staff

Active clients per staff ratio measures the staff productivity of the MFIs. Productive microfinance programs may have active clients per staff ratio that range between 200 and 300. A positive trend in active clients per staff would be an increase in this ratio if the increase were not accompanied by an increase in the portfolio in arrears and loan loss ratio. The average clients per staff have increased in the early 2000s compared to the late 1990s , except in two SFCLs and one SCCs covered by this study (Table 10). In general an average clients per staff ratio of less than 200 is considered to be inefficient on staff mobilisation. Average clients per staff ratio is the function of lending methodology adopted by the MFIs and it is high in the case of SFCLs and SCCs compared to NUB and GBBs. This is one of the fundamental factors to be considered for achieving operating and financial self-sufficiency of microfinance operation.

Table 10: Average Clients per Staff

S.N.	Name and Type of MFIs	Average Clients per Staff (No)		Deviation
		1990s	2000s	
1	Grameen Bikas Bank	89	138	49
	Prubanchal	144	147	3
	Madhayamanchal	48	124	76
	Paschimanchal	56	155	99
	Madhya Paschimanchal	47	136	89
	Sudur Paschimanchal	108	120	12
2	Small Farmer Cooperatives Limited	153	168	15
	Anandaban	132	205	73
	Kumpur	190	203	13
	Dumarvana	142	129	-13
	Malakheti	195	178	-17
	Narapani	121	129	8
3	Nirdhan Uthan Bank	76	165	89
4	Savings and Credit Cooperatives	74	195	121
	Bindabasini	425	250	-175
	Janakalyan	250	351	101
	Upakar Bachat	38	68	30

Source: Tables in the Annex

Average Outstanding Loan Balance per Staff

The average outstanding loan balance per staff ratio is another indicator of staff productivity. In combination with lower staff costs, this ratio is a key indicator of financial viability. The outstanding loan portfolio per staff ratio monitors the financial productivity of the field staff, which is an important determination of loan revenues. In all the MFIs covered by this study, the average outstanding loan balance per staff has increased more in the early 2000s than in the late 1990s, implying improved operating efficiency in these MFIs (Table 11).

In view that outstanding loan balance is the main earning asset of most of the MFIs, this ratio provided a primary basis for determining salary and benefits level of the MFI staff. The higher the outstanding loan balance per staff, the higher can be the salary level of the MFI staff if the same effective interest rate has been charged. The average outstanding loan depends on average clients per staff ratio and loan size, hence, the function of a loan product and lending methodology of the MFIs under study. The efficiency of acquiring a higher outstanding loan balance per staff combined with the ability of MFIs to maintain satisfactory portfolio quality determines the efficiency of the MFIs on achieving operating and financial self-sufficiency through micro-lending.

Client Retention Ratio

The client retention ratio and the number of repeat clients during a given period to the clients in the previous period, indicate the organization's efficiency in maintaining clientele. The increase in the client retention ratio is a positive development. A client retention ration of less than 80% is a cause of concern depending on the context and type of lending services. The MFIs under study have not accurately reported the retention rate. Considering the importance of the client retention ratio of MFIs' operating efficiency, the interviewed staff and the CEO of the MFI expressed the ratio to be more than 90% during late 1990s. There

has been a decreasing trend in the early 2000s owing to the direct effect of armed conflict and civil war on taking repeat loans and the lack of an environment for enterprise promotion and development.

Table 11: Average Outstanding Loan Balance per Staff

S.N.	Name and Type of MFIs	Outstanding Loan per Staff (Rs. '000)		% Growth
		1990s	2000s	
1	Grameen Bikas Bank	360	941	161
	Prubanchal	601	1079	80
	Madhayamanchal	148	716	384
	Paschimanchal	215	1194	455
	Madhya Paschimanchal	202	830	311
	Sudur Paschimanchal	453	684	51
2	Small Farmer Cooperatives Limited	1584	2266	43
	Anandaban	2648	2882	9
	Kumpur	1594	2445	53
	Dumarvana	1730	2271	31
	Malakheti	1496	2050	37
	Narapani	827	1464	77
3	Nirdhan Uthan Bank	227	872	284
4	Savings and Credit Cooperatives	2230	2915	31
	Bindabasini	2336	2942	26
	Janakalyan	4250	5487	29
	Upakar Bachat	103	359	249

Source: Tables in the Annex

3.3.4. Financial Performance

Financial performance has special significance for MFIs that aim to serve large numbers of clients in the present as well as over a long term. Financial sustainability has thus a special significance. Critical assessment of the financial performance of selected MFIs indicates the mixed impact of the insurgency on their financial sustainability (Table 12).

Average performing asset: The concept of average performing asset is more important in the case of MFIs covered by this study. This average is calculated by taking the sum of bank deposits, investments, and outstanding loan balances (exclusive of the reserve) of two successive years and dividing the figure by two (number of years). The average performing assets of these MFIs showed an increasing trend in all the MFIs covered in this study.

Return on Performing Assets Ratio*:* The return on performing assets is an indicator of the financial productivity of credit services and investment activities undertaken by the MFIs. An increasing return on performing ratio can be considered to be a positive trend. An analysis of this ratio is useful for determining the impact of lending policy changes that might affect return on loans. There has been no serious effect on the financial productivity of the credit services and investment activities of these MFIs as expressed by return on performing assets. The return on performing asset is low in the case of the Madhyamanchal GBB considering the effective interest rates charged, primarily due to changes in non-performing loans, amount of idle funds, average loan terms, interest rates and fee levels.

Financial cost ratio: The financial cost ratio relates to the average cost of funding MFI's assets with debt. The financial cost ratio has been increased in the GBB and the SCCs, while it remained almost constant in case of the SFCLs. Since the financial cost is sensitive to a number of factors such as changes in mix between debt and net worth, between commercial and concessional loans and the size of the loan portfolio financed. Therefore, the interpretation of trends for this indicator depends on the situation. However, an increase in the financial cost ratio can be considered to be a result of the increased inefficiency in these MFIs in the provision of microfinance services.

Table 12: Financial Indicators

Financial Indicators	Unit	Madhyamanchal GBB		SFCLs		SCCs	
		1990s	2000s	1990s	2000s	1990s	2000s
Average performing asset	Rs. '000	177667	339022	4761	7765	194	2031
Return on performing asset	%	10.9	12.1	18.0	20.6	23.1	20.8
Financial cost ratio	%	4.7	6.0	10.1	10.1	3.3	8.8
Operating cost ratio	%	7.2	8.0	4.3	4.8	10.6	10.9
Loan loss provision	%	0.1	0.2	0.0	0.4	0.0	2.8
Imputed cost of capital	%	2.1	1.1	0.4	0.5	3.8	1.6
Operating self sufficiency	%	90.1	85.1	128.8	142.1	217.1	95.3
Financial self sufficiency	%	76.8	78.9	125.1	137.6	147.3	88.9

Source: Tables in the Annex

Loan loss Provision Ratio: The loan loss ratio indicates provisioning requirements of the MFIs on the loan portfolio for the current period. If standard reserve practices are followed, a decreasing trend on this ratio is a positive development. The accounting of the loan loss provision is a relatively new concept in Nepalese MFIs. However, where practiced available information revealed an increasing trend in the loan loss provision ratio in these MFIs. The loan loss provision ratio implies a somewhat deteriorating trend in the loan portfolio of these MFIs over time.

Operating Cost Ratio: The operating cost ratio shows how much an institution spends on operating cost to keep a unit of money loaned out for one year. The MFIs covered in this study have experienced a greater increase in operating cost ratio in early 2000 than in the late 1990s. This implies that the operating efficiency of these MFIs have decreased over time partly due to the insurgency. The operating cost ratio will decrease if the MFI contains its costs while increasing its loan portfolio but this is not in general the case in the MFIs covered by this study.

Imputed Cost of Capital Ratio: The imputed cost of capital that relates to the cost of maintaining the purchasing power of MFIs' net worth showed a fluctuating trend in the MFIs covered in this study. Inflation usually erodes the value of MFI equity and quasi-equity (concessionary loans); it is necessary for MFIs to earn a surplus to keep pace with inflation. Hence, the imputed cost of capital quantifies the impact of inflation on an institution's net worth. Since a decreasing trend in this ratio is a positive development, the overall performance of the MFIs on the imputed cost of capital shows some efficiency over time.

Operating Self-Sufficiency Ratio: The operating self-sufficiency ratio indicates whether the MFI has earned enough revenue to cover its cost. Except GBBs, both the SFCL and SCC has acquire operating self-sufficiency, however, except in SFCLs, the operating self-sufficiency has shown a decreasing trend in the early 2000s compared to the late 1990s. This indicator shows the impact of insurgency on the deteriorating operating self-sufficiency status of the

MFIs. This shows that the operation of these MFIs is not self-sustaining and is demonstrating a form of increased dependence.

Financial Self-Sufficiency Ratio: Financial self-sufficiency indicates the degree to which MFIs are earning revenue to cover all the operating, financial and loan loss expenses while maintaining the value of their equity and quasi-equity relative to inflation[12]. There has been marginal improvement on the financial self-sufficiency ratio in the case of the GBB and SFCLs while it has decreased in SCCs in the early 2000s compared to the late 1990s. An increasing trend in the financial self-sufficiency ratio in the GBB and SFCLs is considered to be a positive development.

3.3.5. Portfolio Quality

Portfolio is the primary revenue-earning asset of the MFIs. Managing the risk that some loans will not earn revenue and may not be paid back is important to the financial sustainability of MFIs. Reporting of portfolio quality has been emerging gradually in Nepalese MFIs. Information on the portfolio quality of the Nirdhan Utthan Bank (NUB) is provided in Table 11.

Table 13: Portfolio Quality of Nirdhan Uthan Bank (2000-2003)

Particulars	2000	2001	2002	2003
Portfolio at risk ratio (> 30 days)	0.4%	7.3%	8.8%	9.1%
Loan loss reserve ratio	3.9%	3.6%	3.3%	6.2%

Source: Report of the Fifth General Assembly, 2003.

Portfolio at risk ratio: The portfolio at risk ratio, the value of outstanding loan arrears to outstanding loan balance, measures the amount of default risk in loan portfolio. The portfolio at risk ratio considers the value of the loans to be at risk when it is in arrears and is a reflection of a delinquency problem. An aging analysis of portfolio at risk is the key element for generating the portfolio at risk ratio. This is critical to a careful monitoring of the portfolio quality, and to the evaluation of policies implemented by the MFIs to control delinquency. There has been an increasing trend in this ratio in the NUB and is a negative development. In the NUB, the portfolio at risk (> 30 days) has been continuously increasing from 2000 to 2003, implying that the portfolio quality has been deteriorating over time.

Loan loss reserve ratio: The loan loss reserve ratio, the loan loss reserve to outstanding loan balance, indicates the percentage of loan loss reserve set aside to cover the amount in portfolio at risk in case of default. Thus, this ratio indicates the ability of the MFI to cover the portfolio at risk through its reserve. There is a fluctuating trend on loan loss reserve ratio in the NUB and the loan loss reserve set aside is inadequate to cover the prevailing portfolio at risk.

[12]One hundred percent financial self-sufficiency is necessary on continued basis if an institution is to provide credit services over long run without being reliant on donor funds.

4. MICROFINANCE INSTITUTIONS' STRATEGIES TO COPE WITH INSURGECY AND CONFLICT

Nepalese MFIs have gradually developed coping strategies to provide continuity to microfinance services started by them prior to conflict or during the initial years of the conflict. This section documents some of the coping strategies followed by these MFIs to ensure their continued involvement in microfinance operations during the ongoing insurgency.

4.1 Security Guidelines

Nepalese MFIs have prepared security guidelines to cope the conflict that prevails in their working areas. They have trained field staff at different tiers on security measures to be followed. When there is suspicion of a problem, staff members are asked to immediately notify supportive bodies such as the police and others in the community. They need to discontinue a system of staff dress that can identify who might be carrying money and also must discontinue wearing objects with high value like jewelry. The staff must wear clothing and shoes that will allow easy movement and ability to run if necessary. When traveling during times of day known to be dangerous, such as at dusk staff members if walking should spread out rather than walk in a line so that even if one person is attacked, others can run for help.

The original microfinance strategies that MFIs have adopted during conflict have been wide-ranging and largely changing. Some of these strategies include changing the required size of solidarity groups in the face of extreme degrees of mistrust, targeting rural communities where levels of trust may be higher and lowering interest rates in the early stages of reconstruction. Other strategies include providing an interest-only grace period, halting deposits in serious conflict areas, adding new loan products such as agriculture loans, creating and training local partners and offering more training to identify, assess, and select self-employment activities.

4.2 Fund management

Strategies adopted by the MFIs on fund management will differ while working in situations where no commercial banks exist. Quite obviously, MFIs have fewer options when operating in areas where commercial financial structures do not exist, whether due to destruction from conflict or for other reasons. When banks are not available to store or move money, MFIs undertake these functions internally. Some MFIs have developed a system of "quasi-banks" at district or regional levels that are accessible to the clients and operate much like banks. These offices are equipped with safes, vaults, and guards. Since some MFIs practice "safety in numbers," loan officers travel in groups (2-4) from their offices to the communities. This can raise cost unless bank meetings can be grouped by location and time (which again may increase risks). This "safety-in-numbers" practice can also be used when clients are responsible for carrying payments. In some cases, clients can accompany loan officer(s) to the MFI offices, or to a reasonably safe location, where use of public transportation can be made to transfer the money. MFIs have tended to hire more male credit officers, considering them to be less vulnerable to attack. They ensure that loan officers travel by motorbikes or bicycles rather than on foot, especially for disbursements. At times, this can also provide a false sense of security.

These problems are more severe for MFIs with larger branch networks that need to transfer large amounts of cash between central locations and outlying offices. In such situations, they never allow personnel to travel alone, and to limit the possibility of "inside jobs," only thhe staff members who need to know must know are informed of the time of the transfers. If available, transit insurance policies and/or fidelity guarantee policies are purchased. In some cases, traditional informal structures are used to transfer money to branches. For example, money is given to a city-based family member, who in turn instructs a family member living near the branch office to deliver the amount (less a fee) to the local branches.

It is apparent that most of these strategies increase the cost of doing business, which has implications on the interest rates and on the length of time needed to achieve operating and financial self-sufficiency. Effectiveness may also be compromised by some of these measures. For example, hiring more male loan officers may reduce the program's effectiveness with a largely female clientele. And reduced program transparency - in terms of who has received loans and for how much - may reduce the peer pressure for repayments.

In areas where banks are at least moderately accessible, many MFIs try to avoid cash loan disbursements. Rather than having loan officers carry cash to distribute to clients, loan officers carry individual client checks. While this appears to shift the security risk to clients, they may have more knowledge and flexibility about the safest time to convert checks to cash, or may individually choose to use banks as a way to store their loan capital. They minimize risks during repayment and savings collections. In such cases, group members are given the responsibility to collect payments and then deposit them into a commercial account of the MFI. Clients make payments to the group treasurer outside of group meetings. Other members go to the bank with person responsible for depositing the money[13]. Repayments are broken down into smaller, less tempting amounts by dividing large groups into smaller sub-groups. These sub-groups can then designate a member to collect and deposit payments in the bank. Groups vary the days of the week and locations for repayment meetings or centre meeting. On the repayment day, groups randomly choose member who carries payments to the bank. This helps prevent "inside jobs," in which a member would collude in advance with an outsider to stage a theft. In still extreme cases, MFIs develop special arrangements with commercial banks to facilitate client payments in view of the small size and high frequency of deposits. Deposit slip copies may physically be sent to or collected directly by the MFI, or provided in electronic format.

4.3 Maintaining portfolio quality

In order to maintain portfolio quality, the most common strategy is that MFI motivates clients to repay loans. Most provides clients an inceptive to repay making it in their own best interest to pay their loans rather than to walk away from them. The strategies adopted by Nepalese MFIs to maintain portfolio quality in the context of insurgency and conflict include: First, promotion of repeat and "stepped lending". There may be no greater repayment inceptive than that of having continued access to financial services. Second, uses of mutual guarantee groups, which provide peer pressure and peer support to repay. Third,

[13]This also can be done when loan officers collect and carry payments.

discount for prompt and full repayment, penalties for delinquency, and other financial incentives and disincentives, providing an image of being a serious and permanent MFI[14].

4.4 Branch and head office security

All the MFIs have felt that their survival in conflict affected areas depends on effective communication with local Maoist cadres. A key strategy adopted by most of the MFIs in the present insurgency has been engaging in an informal dialogue with the local Maoist leaders and convincing them of the pro-poor stances of their services, the transparent conduct of operations and local ownership and management (case of SCCs and SFCLs). There are examples of SCCs and SFCLs that have even asked local Maoist cadres to provide advice and critical comments on the perceived gaps of their institutions, requesting for time to make adjustments. In view of this, MFIs have started information and awareness campaigns emphasizing the nature of their services, their autonomous status (case of grassroots institutions such as SFCLs and SCCs), ownership structure and strong savings mobilisation drives, etc. Important innovations have emerged from SFCLs that have provided two signboards[15], that provides information about the SFCLs to villagers and members.

In the beginning of the conflict, many MFIs lost important documents and files of their operations when the Maoists burnt them. For them it was very difficult to restart their operation after an attack since there was no back-up system. Gradually, they developed special arrangements on how to operate under the constant threat of an assault. Most MFIs have been adopting two most important strategies that are related to the safety of the available document and liquidity management. As part of the document management policy in response to the on-going insurgency these MFIs now prepare two copies of all important documents, which are kept in a safe place far from the village either at the head office or some other place not known to all. Similarly, MFIs have also developed a near zero cash balance strategy to avoid the loss of money in a possible incident. After 14:00 PM, the banks normally do not allow deposits money, so the MFIs transfer the money collected betwen 14:00 PM and 17:00 PM to an undisclosed safe place. Some MFIs like the Chemak Bikas Bank has also started to insure their cash vault for NRs. 500,000 (US$ 6,700). In some cases they have matched (almost 100%) savings and loan collection and loan disbursement in the community in the same day.

The described strategies worked well in most of the MFIs and this has helped to make monetary losses negligible. In some instances the document management and protection policy were instrumental in assisting attacked MFIs or their branches to effectively restart their operations in a few of months. In some cases, especially in SFCLs, there have been examples of operations restarting the very next day after an attack.

Some MFIs have shifted their branches (MDBs and GBBs) or head offices (SCCs and SFCLs) into places that are considered to be safe from Maoist attacks and to district headquarters in most cases. For instance, in Dhading almost all SFCLs have shifted after suffering the trauma of real and potential attacks. The adoption of such a policy is especially practiced by those

[14]There are instances that clients have seen temporary microfinance projects, which are not serious about loan collection, cost-containment, and even revenue earning, as relief organizations to which repayment is not needed.

[15]One board, to be fixed outside the SFCL building, contains a vision and mission statement while the other signboard is meant to be fixed inside SFCL offices providing information on the present status of membership and similar data.

MFIs whose open dialogue policies with the local Maoist cadres have not yielded clear signals if their branches would be safe from any attack. Shifting offices implies running the MFI operations from a location often far away from the clients. In most cases, this move has brought further hardships to the members, since they have to travel in some cases a half-day or more. This journey is also often interrupted by army and Maoist checkpoints where the travelers have to respond to many interrogations. Under these conditions, a regular service delivery of MFIs to their clients is hardly possible. The prime objective of moving office is thus, to safeguard the MFI office from an attack and to adopt a wait and see strategy. There is evidence that MFIs adopting such policies have experienced a significant drop in their client base, hence, this strategy has been operating at the cost a reduced breadth of the outreach of their services.

4.5 Pricing of products and services

A careful review of the pricing policies adopted by MFIs shows that their services have been none exploitative and their services have been essentially pro-poor. Some SFCLs, SCCs and the NUB have even lowered their lending rates over the last years in immediate response to Maoist pressure. Most MFIs have tried to diversify their products and services to show that their services are essential to their clients and to ensure that prices are uniform if compared with other MFIs. Most have tried to maintain the prices of the services at par with the interest charged by the Maoist operated MFIs (i.e. *Jaljala* Financial Cooperative Fund - *Jaljala Bittya Kosh*) in Rolpa.

4.6 Productivity management

MFIs are gradually streamlining operations to reduce unit cost through productivity management. MFIs are finding ways to deliver quality services in the most efficient manner at the lowest possible cost. In this endeavour, they have standardized and simplified processes for delivering credits and savings services; and opted to manage microfinance operations in modest buildings and vehicles. Just as MFIs don't act like banks, they don't look like them either. They have enhanced the efficiency of the front line staff (credit and savings officers) in terms of education and other services and recruited local staff and used them as far as possible in local level service delivery at local level.

5. CONCLUSIONS AND RECOMMENDATIOS

5.1 Conclusions of the Study

During a conflict, people's lives change considerably because many lose their families, homes and jobs. Women often face an additional challenge; many of whom having lost their husbands are forced to make a living for themselves and their children. Others have left their countries to reside in refugee camps abroad. Between 30 to 35% of the branch networks of the three largest banks (RBB, NBL and ADBN) have been vandalized by the insurgents after CPN (Maoist) declared a PW in 1996. Despite this, Nepalese microfinance sector has grown significantly even during insurgency. There has recently been a significant development in Nepalese microfinance sector mainly in terms of the transformation of NGOs into financial intermediary and development banks as well as in the establishment of second tier refinance institutions such as the RSRF, RMDC and SKBB.

Income generating activities and micro-enterprise are the most important sources of household income during insurgency. Although microfinance should not be regarded as a panacea, it can contribute to income-generating activities, rebuilding societies and creating new hopes for a better future even during conflict. Given the opportunity, people with an entrepreneurial spirit, experience and skills can create employment for themselves and others in a durable way. This has great potential for promoting development and building peace. Because microfinance aims for both short-term and long-term impact, it offers a suitable field for cooperation between humanitarian and development organizations. By cooperating in microfinance they can reverse this unfortunate state of affairs. What is required is early collaborative planning between government, humanitarian organizations, development organizations and the civil society.

There are obstacles for the sustainability of MFIs especially during an insurgency as a lot of expenditure is made in addressing security issues, low human resource capacity, trauma and displacement. Without question, there is a direct trade-off between reducing security risks and increasing cost of operations. Because of this difficult trade-off, decision-makers may conclude that certain areas are not economically serviceable until commercial banks are present and/or other factors arise to reduce the increased costs needed for security. In rural areas people prefer to save in productive assets during conflict. Trading is an important survival strategy in urban and peri-urban areas, the most common characteristics of coping mechanism are low risk, low investment and quick return activities. The exploitation of natural resources and household labour are important survival strategies during conflict. The use of land for agricultural production is an important coping mechanism and becomes more so as the security situation improves. Later it is a divisive factor between the wealthy and the poor.

The Maoists have rated the microfinance operations of institutions like the RBB, NBL and ADBN as anti-poor, that of SCCs and SCOs as pro-poor; while the microfinance operations of the MDB, GBBs, FI-NGOs and SFCLs have been rated to be in the middle. The anti-poor institutions are affected most by armed conflict and civil war while pro-poor institutions are lest affected. The effect of armed conflict and civil war has been mixed and selective among institutions in the middle. There have been losses of branch networks of anti-poor institutions and institutions in between due to insurgency. Other impacts of the insurgency on microfinance operation have been critical in the areas of the expansion of branch networks, the reduction of outreach (clients, savings and lending services), financial

performance (reduced income, increased expenses and delay on achieving operating and financial self-sufficiency), deteriorated portfolio quality and reduced operating efficiency (low average clients per staff, less outstanding loan balance per staff and increased client drop-out). In order to cope with the impact of the insurgency, Nepalese MFIs have framed strategies to cope with this situation by devising security guidelines, fund management, maintaining portfolio quality, branch and head office security, reducing prices of the products and services and productivity management. These strategies have worked with mixed success and contributed to ensuring the existence of their services.

5.2 Recommendations of the Study

Only those MFIs providing microfinance products and services that are attractive and useful to their clients can survive and operate during any conflict. Hence, MFIs should provide greater focus to delivering appropriate microfinance services and reaching the poorest and socially excluded. Flexible microfinance interventions that can operate effectively closer to conflict, both spatially and in time are more likely to develop a market in which high quality financial services are offered to support a nation to continue towards peace.

Pro-poor microfinance institutions like grassroots SCOs, SCCs and savings and credit groups have been least affected the present insurgency. There should be greater focus on the promotion of MFIs of this category and in providing required technical and financial support to these institutions. Client education and clients' greater valuation of the type of financial services offered by MFIs are pre-requisite for the continued operation of microfinance services during insurgency. Hence, MFIs should provide greater focus on client education for ensuring their continued involvement in microfinance operation

If MFIs are to work during the insurgency, they should be transparent among the local Maoist cadres about the type of microfinance services including outreach, operation and financial performance and management. They should demonstrate that their services are essentially pro-poor and that they are in a real serving socially disadvantaged group. Dialogue with local Maoist cadres should be a regular activity of the MFI at the local level.

6. BIBLIOGRAPHY

Department for International Development, 2002. "Economic Aspects of Insurgency in Nepal" Report 57/02.

Dhakal, N. H. 1999. "Expansion of Microfinance Services: The Development of Community Based Savings and Credit Cooperatives in Nepal", Agricultural Credit – Bi-anual Journal, Vol. 31.

Dhakal, N. H., 2000a. "Nepal: Poverty Alleviation Project in Western Tarai – A Study on Branch Viability of GBB" UNOPS, Kawalampur and PAPWT, Kathmandu.

Dhakal, N. H. 2000b. "A Case Study on Micro Life Insurance Scheme" Centre for Microfinance.

Dhakal, N. H. 2001a."A study on Microfinance, Micro-enterprise Development and the Contribution to Women's Economic Empowerment" ILO, Geneva.

Dhakal, N. H. 2001b. "Efficiency in Nepalese Microfinance Institutions", Agricultural Credit – Bi-anual Journal, Vol. 33.

Dhakal, N. H. 2002a. "Marketing in Nepalese Microfinance Institutions", Agricultural Credit – Bi-anual Journal, Vol. 34.

Dhakal, N. H. 2002b. "Project Completion Report of Micro Credit Project for Women" Asian Development Bank, Nepal Resident Mission in Kathmandu.

Development Project Service Center, Nepal and J. Ledgerwood. 1997. "Critical Issues in Nepalese Microfinance Circumstances" IRIS Center, Maryland.

Development Vision, Nepal. 2000. "Assessment of Microfinance Programs for the Hills of Nepal", PLAN International, Nepal Country Office, Kathmandu.

Doyle, Kareen. 1998. "Microfinance in the Wake of Conflict: Challenges and Opportunities" Microfinance Best Practices Project, Development Associates, Belthesda.

Hallberg, K., 2001. "A Market Oriented Strategy for Small and Medium Scale Enterprises" International Finance Corporation, The World Bank, Washington D.C.

Heen S. 2004. "The Role of Microcredit in Conflict and Displacement Mitigation: A Case Study in Cameroon" Working Paper No. 24.

International Labour Office. 2001. "Background Reader, Business Development Services - Developing Commercial Markets for BDS: Can this Give the Scale and Impact we Need" Turin, Italy.

Karki, A. 2001. "The Politics of Poverty and Movement from below in Nepal" Ph. D. Thesis, University of East Anglia, Norwich, UK (mimeo).

Lanjouw, P. and G. Feder. 2001. "Rural Non-farm Activities and Rural Development: From Experiences Towards Strategy" Rural development Strategy, Background Paper # 4, Washington D.C.

Luckham. 2001.

Microenterprise Best Practices. 1997. "Microenterprise Business Development Services: Defining Institutional Options and Indicators of Performance" New York, USA.

Morduch, J., and B. Haley. 2001. "*Analysis of the Effects of Microfinance on Poverty Reduction*", CIDA, Canada.

Morduch, J., 1999. "Between the State and the Market: Can Informal Insurance Patch the Safety Net?' The World Bank Research Observer, vol. 14. No. 2, IRDB/World Bank.

Nagarajan, Geetha. 1999. "Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action" ILO/UNHCR Technical Workshop on Microfinance in Post-Conflict Countries, 15-17 September 1999, ILO, Geneva

Nepal Rastra Bank. "Various Report Related to Operational and Financial Performance of Grameen Bikas Bank"

Nirdhan Uthan Bank. 2003. "Report of the Fifth General Assembly" Kathmandu.

Phansalkar, S. J. and M. S. Sriram, 2000. "Business Development Services for Small Enterprises: A Study of Hyderabad, Andhra Pradesh, India.

Seddon D. and K. Hussein, 2002. "The Consequences of Conflict: Livelihoods and Development in Nepal" Working Paper 185, Overseas Development Institute, 111 Westminster Bridge Road, London, SE 1 7JD, UK.

Sebstad and Cohen. 2000. "Microfinance, Risk Management and Poverty" AIMS, USAID.

Sharma, S. R. 2004. "Development of Formal Microfinance Institution and There Outreach on Poor Families in Nepal" Kathmandu.

Sharma, S. 2001. The Maoist Movement: An Evolutionary Perspective", Paper Presented at the Conference on the People's War, November 2001, London, UK: School of Oriental and African Studies.

Shrestha, B. K. 2001. "A Report on Outreach and Market Development Survey of Business Development Services, IEDI, Nepal", Kathmandu.

Sievers M. and P. Vandenberg. 2004. "Synergies through Linkages: Who Benefit from Linking Finance and Business Development Services" SEED Working Paper No. 64, International Labour Office, Geneva.

Ulrich W. and R. Shakya. 2001. "*Are Small Farmer Cooperatives Ltd. Sustainable Microfinance Organization? – A Second Viability Check*", Working Paper No. 1, Rural Finance Nepal – Partner for Sustainable Financial Services in the Countryside, Kathmandu.

Ulrich W. and R. Shakya. 2001. “Microfinance and Armed Conflict in Nepal: The Adverse Effects of the Insurgency on Small Farmer Cooperatives Ltd", Working Paper No. 3, Rural Finance Nepal – Partner for Sustainable Financial Services in the Countryside, Kathmandu.

Wilson, Tamsin. 2001. "Microfinance during and after Conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda" Concern Worldwide and the Springfield Centre for Business Development, Durham.

ANNEX

APPENDIX A: OVERVIEW OF NEPALESE MICROFINANCE SECTOR

The Financial Sector

As of July 2004, there are 17 commercial banks (CBs), 58 finance companies, 24 development banks (DBs) including the Agriculture Development Bank of Nepal (ADBN), the Nepal Industrial Development Corporation, five Regional Rural Development Banks (RRDBs), 34 SCCs and 44 FI-NGOs that have limited banking licenses issued by the Nepal Rastra Bank (NRB). Also providing further financial services are over 2,000 multi-purpose cooperative societies (MPCS), over 2300 SCCs of which over 350 are affiliated with the Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN) and over 145 SFCLs affiliated to Sana Kisan Bikas Bank (SKBB) and approximately 12,000 plus informal savings and credit organizations (SCOs) with 5 to 90 members. Seven separate Acts govern these financial institutions (AsDB and MOAC) [16].

Of particular relevance to rural credit are the state-owned CBs, the ADBN, DBs, GBRs, SFCLs, SCCs and SCOs and most of the NGOs. Prior to the restoration of democracy in 1990, there were no RRDBs, SFCLs, SCCs and NRB-licensed NGOs although services now provided by SFCLs were then provided directly by the ADBN. Although there has been a substantial growth in the number of diverse MFIs, the bulk of rural finance still comes through the older formal financial institutions.

Microfinance Sector

In Nepal, the government's attempt to promote microfinance services dates back to 1975[17]. The government recognized microfinance as an official poverty alleviation programme only in its Sixth Five Year Plan (1980/81-1984/85). Various programmes to ensure the poor, particularly poor women and disadvantaged groups' access to financial services from the organized sector were designed and implemented thereafter. The sector gained momentum after 1991 with the establishment and promotion of RRDBs and other forms of MFIs. Despite the growth in the microfinance sector, the performance of this sector is not encouraging. The Rural Credit Review Survey (1994) indicates that less than 10 percent of households borrow from the formal sector and that there is substantial unmet demand for credit, which is greater in the hills and the mountains than in the Tarai. Though there are large numbers of MFIs, there is an absence of equality. The MFIs in remote hills and mountain are in a more disadvantaged situation[18] than the ones in the accessible hills and the Tarai.

---

[16]These Acts are: Nepal Rastra Bank Act 1955, Agriculture Development Bank Act 1967, Commercial Bank Act 1993, Development Bank Act 1995, Finance Companies Act 1985, Cooperatives Act 1992, and the Financial Intermediaries Act 1998.

[17]This coincides with commencement of design and implementation of Small Farmer's Development Programme (SFDP) under Agricultural Development Bank, Nepal (ADB/N).

[18]Small loan sizes, small savings base and higher delivery costs, lack business linkages with higher levels financial institutions and access to prudential regulation and supervision are the characteristics of Nepalese MFIs in hills and mountains.

Microfinance Institutions

Within existing legal and regulatory provisions of Nepal, MFIs are those institutions established and operated under Cooperative Act 1992, Development Bank Act 1996, and Act for Non Government Organisation involving in Financial Intermediation 1999 (Dhakal 2002, pp. 13). Operating within this framework Nepalese MFIs consist of RRDBs, Microfinance Development Bank (MDB), FI-NGOs, SCCs; SFCLs and apex institutions that provide wholesale loans to MFIs to promote retail lending. The number of MFIs has been growing since its implementation of financial reforms and the creation of a legal and regulatory framework. Five RRDBs, four MDBs, 44 FI-NGOs, over 2000 SCCs and 132 SFCLs have been operating formally in the Nepalese microfinance sector (NRB 2004). Since February 2004 Nepal has three apex institutions, which are the Rural Microfinance Development Centre, Small Farmer Development Bank (SFDB), and Rural Self Reliance Fund (RSRF) in Nepal (Sharma 2003 pp. 36)

Over the last decade, Nepal's rural micro finance sector has expanded significantly as service providers and in the terms of clients served. All in all, the rural financial institutions providing micro finance services in the formal and semi-formal sectors are reaching out to an estimated 655,000 members[19] as of July 2004. The biggest players in terms of outreach are the RRDBs, which are modeled upon the Grameen Bank of Bangladesh. However, their viability very poor with the exception of the Western Grameen Bikas Bank.

Table A1: Key Actors in Nepal's Rural Micro Finance Sector as of July 2004

Financial Institution	Number	Members (No)	Percentage
RRDBs	5	146,000	22.3
MDBs	4	90,000	13.7
SCCs	27850	160,000	24.4
SFCLs	161	88,000	13.4
Government Supported microfinance programmes	1	76,000	11.6
ADBN (SFDP)	1	66,000	10.1
Microfinance NGOs	46	29,000	4.4
Total	28068	655,000	100.0

Source: Sharma S. R. (2004)

The above table indicates that the market is fairly well balanced between the "cooperatives", the "private and government-owned RRDBs and GBRs" and the "government supported microfinance programmes". Even if the clients of the ADBN, NBL and RBB are added to the above mentioned rural service providers, the final figure of clients/members reached stand at around 1.1 million only. This contrasts with the estimated demand of 3.6 million households in rural Nepal for financial services. Thus, the market for micro and rural financial services appears to be huge, if only the services could be delivered in a sustainable manner.

[19]This figure does not include the rural clients of ADBN's Development Banking segment and the clients of Nepal Bank Ltd. and Rastra Baniya Bank since all three banks are considered to serve the better off clients in the rural areas.

Recent Development in Nepalese Microfinance Sector

In the last few years, Many NGO MFIs have transformed themselves into development banks as part of a commercialization strategy. The NGOs are thus performing the difficult tasks of doing both social mobilization work as well as financial service delivery. Thus, they have started to outsource their microfinance activities from the NGOs into newly created financial institutions under the Development Bank Act of 1996. According to October 2003 reports of NRB, there are at present 16 privately owned MFIs. Some of the development banks are the Nirdhan Utthan Bank, DEPROSC Development Bank, the Swabalamban Bikas Bank and the Chhimek Bikas Bank.

Many non-bank financial institutions have been emerging since the late eighties as rural financial service providers in the form of NGOs, cooperatives or development banks. The main aim of these organizations is to tap local and other resources for the supply of credit to the rural poor. In addition, there are an estimated 26,000 savings and credit grassroots organizations, which provide financial services particularly to people in remote areas. The second tier refinance institutions consist of the Rural Self-Reliance Fund (RSRF), the Rural Micro Finance Development Centre (RMDC), and the Sana Kisan Bikas Bank (Small Farmer Development Bank). These institutions are meant to provide wholesale loans to MFIs.

Appendix 2**: Outreach Report, Income Statement and Balance Sheet of the MFIs Studied**

Table 1: Prubanchal and Madhayamanchal Grameen Bikas Bank

S.N.	Particulars	Unit	Prubanchal GBB, Biratnagar (As of July)										Madhayamanchal GBB, Janakpur (As of July)						
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
A	**Outreach Status**																		
1	Centre	No.	351	738	827	946	1007	1166	1293	1341	1363	1375	23	234	513	661	915	1112	1172
2	Group	No.	1671	4701	5797	6716	7194	8465	9474	10310	10860	11274	107	1197	2742	3772	5606	7062	7712
3	Members	No.	8349	23283	28953	33512	35662	40135	45135	49413	51697	53270	535	5985	13710	18846	27874	35105	37357
4	Loan clients	No.	7088	21538	28271	33018	35219	39236	44228	46256	47728	49233	177	5192	12656	18150	26048	33992	36274
5	Loan disbursement	Rs. '000	31006	148794	343844	629284	971111	1338315	1766863	2296205	3000433	3947861	787	25698	107402	253662	521220	918419	1328020
6	Loan collection	Rs. '000	12288	78540	227037	465423	777088	1120742	1516167	1974463	2588982	3473390	108	11096	57738	169472	357848	704180	1093339
7	Loan outstanding	Rs. '000	18718	70254	116807	163861	194023	217573	250696	321742	411451	474471	679	14602	49664	84190	163372	214239	234681
8	Loan overdue	Rs. '000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Personal savings balance	Rs. '000	2017	1643	1351	1068	1305	1897	2622	4252	10942	18704	9	669	1513	2831	6442	9886	4198
10	Group fund balance	Rs. '000	1841	8873	21119	38163	57287	74485	85178	95573	121965	14904	45	1511	6245	14398	27218	116822	22964
11	Group fund loan outstanding	Rs. '000	128	546	1674	20409	3860	3817	2774	2649	3110	3419	0	0	157	513	1243	1936	2836
12	Staff	No.				282	282	350	355	344	333	330	49	131	156	197	242	245	264
13	Branches	No.	13	16	29	32	32	38	47			44	1	19	27	30			38
14	VDC covered	No.	80	166	183	203	212	241	255	259	259	262	21	92	141	159	239	247	246
15	District covered	No.	4	5	5	5	5	5	6	8	8	9	4	9	10	10	12	12	12
B	**Income Statement**																		
1	**Income**	Rs. '000								50384	63720	79858	6227	15858	22670	29131	33551	46731	55308
	Interest income	Rs. '000								47553	62563	79174	5949	15482	22544	27683	33312	46300	53604
	Other income	Rs. '000								2831	1157	684	278	376	126	1448	239	431	1704
2	**Expenses**	Rs. '000								58522	65748	77025	4934	17671	25580	35591	40875	56550	58717
	Interest expenses	Rs. '000								20834	25049	25631	56	6660	10210	14578	17495	22313	27798
	Staff expenses	Rs. '000								29446	33986	33064	2347	7505	10734	13650	15699	26877	24172
	Office operating expenses	Rs. '000								7167	5213	5602	2249	2757	3648	5969	6355	6320	6302
	Loan loss provision	Rs. '000								1075	1500	9913	7	139	351	787	784	531	0
	Other expenses	Rs. '000								0	0	2815	275	610	637	607	542	509	445

S.N.	Particulars	Unit	Prubanchal GBB, Biratnagar (As of July)										Madhayamanchal GBB, Janakpur (As of July)						
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
3	**Net Income**	Rs. '000								-8138	-2028	2833	1293	-1813	-2910	-6460	-7324	-9819	-3409
C	**Balance Sheet**																		
1	**Asset**	Rs. '000								424420	475574	544599	97287	199965	237650	270439	363225	464020	488985
	Cash balance	Rs. '000								1853	2717	6188	96	90	183	1023	3912	2938	7554
	Bank balance	Rs. '000								11738	26330	29849	41190	48956	10839	64778	9364	15612	25919
	Loans and advances	Rs. '000								324397	414625	474620	683	14624	49833	83294	162455	216264	237416
	Investment	Rs. '000								800	800	800	51500	130900	167204	103315	159415	189415	189654
	Fixed assets	Rs. '000								4546	4063	3568	3436	3967	4047	3630	3450	3162	2795
	Other assets	Rs. '000								15909	23934	29574	382	431	1638	4488	7394	9474	10083
	Accumulated losses	Rs. '000								65177	3105	0	0	997	3906	9911	17235	27155	15564
2	**Liabilities**	Rs. '000								363759	414924	470717	37204	139965	177650	209850	302636	403431	428396
	External borrowing	Rs. '000								244301	257768	271691	35000	136900	168550	185636	255333	319427	331135
	Deposits	Rs. '000								102367	135856	171574	90	2227	7790	17227	34480	70456	72691
	Other liabilities	Rs. '000								17091	21300	27108	822	838	1310	6987	12823	13548	24570
	Accumulated profit	Rs. '000								0	0	344	1292	0	0	0	0	0	0
3	**Capital**	Rs. '000								60661	60650	73882	60083	60000	60000	60589	60589	60589	60589
	Paid-up capital	Rs. '000								60000	60000	60000	60000	60000	60000	60000	60000	60000	60000
	Reserve	Rs. '000								661	650	0	83	0	0	589	589	589	589
	Capital grants	Rs. '000								0	0	0	0	0	0	0	0	0	0
	Loan loss provision	Rs. '000								0	0	13882	0	0	0	0	0	0	0
4	**Liabilities + Capital**	Rs. '000								424420	475574	544599	97287	199965	237650	270439	363225	464020	488985

Table 2: Paschimanchal and Madhya Paschimanchal Grameen Bikas Bank

S.N.	Particulars	Unit	Paschimanchal GBB, Butwal (As of July)									Madhya Paschimanchal GBB, Nepalgunj (As of July)								
			1995	1996	1997	1998	1999	2000	2001	2002	2003	1995	1996	1997	1998	1999	2000	2001	2002	2003
A	**Outreach Status**																			
1	Centre	No	1	93	205	358	734	962	1050	1086	1111	8	94	239	424	487	527	530	538	551
2	Group	No	5	363	1000	1925	4263	6300	7193	7791	8038	24	336	1013	2216	2905	3313	3608	3754	3897
3	Members	No.	25	1817	5000	9721	21594	31543	37077	39694	40140	120	1678	5065	11080	14525	16575	18030	18770	19485
4	Loan clients	No.	10	1556	4394	9414	19787	30415	36055	39604	38942	68	1303	4207	9782	13363	14991	15854	16281	16515
5	Loan disbursement	Rs. '000	50	7306	31680	88989	277885	603477	1038869	1534546	2043858	356	6257	29313	102394	214925	362404	531983	703712	830971
6	Loan collection	Rs. '000	0	3273	16558	56788	162032	404628	768438	1205121	1694884	8	2337	13519	52846	145041	274432	425425	574283	709579
7	Loan outstanding	Rs. '000	50	4033	15122	32201	115853	198849	270431	329425	348974	348	3920	15794	49548	69884	87972	106558	129429	121392
8	Loan overdue	Rs. '000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Personal savings balance	Rs. '000	1	492	779	1970	5155	8075	7961	6885	11114	0	328	645	1509	2128	2720	2455	2119	2278
10	Group fund balance	Rs. '000	3	439	1885	5562	15559	35123	61708	77018	89872	20	339	1788	6501	13904	19881	33970	40873	58022
11	Group fund loan outstanding	Rs. '000	0	23	244	656	3817	1734	2254	1548	1230	0	41	183	812	1684	3082	4784	6196	5226
12	Staff	No.			84	94	231	246	219	253	244			121	143	141	141	141	138	121
13	Branches	No.	3	7	17	21	33	42			41	3	8	17	22	21	21			22
14	VDC covered	No.	3	33	71	105	185	227	230	262	273	3	31	56	89	93	94	99	102	102
15	District covered	No.	3	3	7	7	11	11	13	13	13	3	3	4	4	4	4	4	4	4
B	**Income Statement**																			
1	**Income**	Rs. '000							47266	66132	76127							18153	18606	16058
	Interest income	Rs. '000							45763	63420	72656							18153	17866	16058
	Other income	Rs. '000							1503	2712	3471							0	740	0
2	**Expenses**	Rs. '000							46292	65621	74983							18655	23604	47344
	Interest expenses	Rs. '000							19934	28676	32460							6062	7147	6744
	Staff expenses	Rs. '000							17985	22239	20707							12542	13176	12238
	Office operating expenses	Rs. '000							6948	9968	8988							0	3220	2777
	Loan loss provision	Rs. '000							853	4413	12100							51	61	25585
	Other expenses	Rs. '000							572	325	728							0	0	0

S.N.	Particulars	Unit	Paschimanchal GBB, Butwal (As of July)									Madhya Paschimanchal GBB, Nepalgunj (As of July)								
			1995	1996	1997	1998	1999	2000	2001	2002	2003	1995	1996	1997	1998	1999	2000	2001	2002	2003
3	**Net Income**	Rs. '000							974	511	1144							-502	-4998	-31286
C	**Balance Sheet**																			
1	**Asset**	Rs. '000							482172	599331	685558							189141	206358	231089
	Cash balance	Rs. '000							2048	4986	4733							469	543	896
	Bank balance	Rs. '000							49257	45873	82821							23099	17214	30473
	Loans and advances	Rs. '000							272245	330971	347851							110760	135625	127023
	Investment	Rs. '000							138815	191815	222815							25815	15815	5815
	Fixed assets	Rs. '000							2895	2876	2585							4046	3787	3616
	Other assets	Rs. '000							16912	22810	24753							6529	9901	8506
	Accumulated losses	Rs. '000							0	0	0							18423	23473	54760
2	**Liabilities**	Rs. '000							420461	537530	605661							129099	130655	126175
	External borrowing	Rs. '000							337774	426604	482585							86111	83022	73213
	Deposits	Rs. '000							67874	88454	104327							36222	44121	50132
	Other liabilities	Rs. '000							11689	19040	14516							6766	3512	2830
	Accomulated profit	Rs. '000							3124	3432	4233							0	0	0
3	**Capital**	Rs. '000							61711	61801	79897							60042	75703	104914
	Paid-up capital	Rs. '000							60000	60000	60000							60000	60000	60000
	Reserve	Rs. '000							1711	1801	2032							42	1003	990
	Capital grants	Rs. '000							0	0	0							0	14700	18000
	Loan loss provision	Rs. '000							0	0	17865							0	0	25924
4	**Liabilities + Capital**	Rs. '000							482172	599331	685558							189141	206358	231089

Table 3: Sudur Paschimanchal Grameen Bikas Bank and SFCL Anandaban

S.N.	Particulars	Unit	Sudur Paschimanchal GBB, Dhangadi (As of July)										SFCL Anandaban, Rupandehi (As of July)				
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002
A	**Outreach Status**																
1	Centre	No	168	319	408	448	473	497	548	565	583	594	-	-	-	-	-
2	Group	No	741	1569	2102	2337	2538	2763	3099	3233	3355	3419	-	-	-	-	-
3	Members	No.	3692	7848	10526	11796	13477	14985	16971	17876	18694	19198	242	286	578	834	861
4	Loan clients	No.	3293	7242	9174	10800	9916	10287	11895	13282	11944	11755	-	-	-	-	-
5	Loan disbursement	Rs. '000	16112	60887	134637	223602	320165	439884	550305	663305	683723	822070	-	-	-	-	-
6	Loan collection	Rs. '000	7438	33151	89434	169161	252905	355689	454540	560047	576177	714617	-	-	-	-	-
7	Loan outstanding	Rs. '000	8674	27736	45203	54441	67260	84195	95765	103258	107546	107453	4977	5616	8001	10396	13516
8	Loan overdue	Rs. '000	0	0	0	0	0	0	0	0	0	0	-	-	-	-	-
9	Personal savings balance	Rs. '000	572	1252	1876	1749	2039	2107	1826	1704	1445	1502	471	1190	2749	5575	9526
10	Group fund balance	Rs. '000	987	3637	8436	14203	20524	27745	34158	39472	45004	48921	-	-	-	-	-
11	Group fund loan outstanding	Rs. '000	78	564	1352	3081	4513	6299	7539	8471	9586	9900	-	-	-	-	-
12	Staff	No.				187	177	176	175	167	139	135	2	2	3	4	4
13	Branches	No.	19	19	21	21	22	21	23			20	-	-	-	-	-
14	VDC covered	No.		58	63	69	71	70	78	80	80	83	1	1	1	1	1
15	District covered	No.	4	4	4	4	4	4	5	5	5	5	-	-	-	-	-
B	**Income Statement**																
1	**Income**	Rs. '000								93	16564	19928	525	1098	1650	3719	2861
	Interest income	Rs. '000								0	16514	19388	524	1096	1587	1722	1974
	Other income	Rs. '000								93	50	540	1	2	63	1997	887
2	**Expenses**	Rs. '000								33077	33152	74573	546	686	829	3172	2293
	Interest expenses	Rs. '000								10806	11634	13632	483	582	617	895	1014
	Staff expenses	Rs. '000								17273	16324	15742	55	71	94	157	162
	Office operating expenses	Rs. '000								3926	3133	3405	7	19	35	122	89
	Loan loss provision	Rs. '000								1072	2061	41794	0	0	0	0	135
	Other expenses	Rs. '000								0	0	0	1	14	83	1998	893

S.N.	Particulars	Unit	Sudur Paschimanchal GBB, Dhangadi (As of July)										SFCL Anandaban, Rupandehi (As of July)				
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002
3	**Net Income**	Rs. '000								-32984	-16588	-54645	-21	412	821	547	568
C	**Balance Sheet**																
1	**Asset**	Rs. '000								285027	316509	393282	5405	6662	8252	10661	14992
	Cash balance	Rs. '000								2045	3468	3951	5	5	5	5	5
	Bank balance	Rs. '000								12817	36194	21909	75	656	50	126	496
	Loans and advances	Rs. '000								112489	117160	117508	4977	5615	8002	10396	13517
	Investment	Rs. '000								63300	98300	118300	0	0	0	0	0
	Fixed assets	Rs. '000								2865	2543	2233	4	9	75	105	818
	Other assets	Rs. '000								22939	39485	55376	326	377	120	29	156
	Accumulated losses	Rs. '000								68572	19359	74005	18	0	0	0	0
2	**Liabilities**	Rs. '000								226452	257934	292913	4870	6487	8169	9495	13078
	External borrowing	Rs. '000								147362	154958	166366	3869	4283	4118	3113	2697
	Deposits	Rs. '000								42213	47173	51563	471	1190	2749	5576	9526
	Other liabilities	Rs. '000								36877	55803	74984	530	600	29	22	54
	Accomulated profit	Rs. '000								0	0	0	0	414	1273	784	801
3	**Capital**	Rs. '000								58575	58575	100369	535	175	83	1166	1914
	Paid-up capital	Rs. '000								58500	58500	58500	20	24	70	168	148
	Reserve	Rs. '000								75	75	75	0	0	0	978	1457
	Capital grants	Rs. '000								0	0	0	515	151	13	20	174
	Loan loss provision	Rs. '000								0	0	41794	0	0	0	0	135
4	**Liabilities + Capital**	Rs. '000								285027	316509	393282	5405	6662	8252	10661	14992
5	**Asset - (liabilities + capital)**									0	0	0	0	0	0	0	0

Table 4: SFCL Kumpur, Dumarbana and Malakheti

S.N.	Particulars	Unit	SFCL Kumpur, Dhading (As of July)				SFCL Dumarvana, Bara (As of July)					SFCL Malakheti, Attariya, Kailali (As of July)				
			1999	2000	2001	2002	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
A	**Outreach Status**															
1	Centre	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Group	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Members	No.	570	631	666	666	477	500	566	652	724	582	590	625	631	670
4	Loan clients	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Loan disbursement	Rs. '000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Loan collection	Rs. '000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Loan outstanding	Rs. '000	4782	6503	7966	9073	5797	6109	9202	11500	13370	4478	4500	6236	7569	8717
8	Loan overdue	Rs. '000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Personal savings balance	Rs. '000	548	815	1087	1290	157	460	1109	2069	3591	507	696	1164	1470	1753
10	Group fund balance	Rs. '000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Group fund loan outstanding	Rs. '000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Staff	No.	3	3	3	3	3	4	5	5	5	3	3	3	4	4
13	Branches	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	VDC covered	No.	1	1	1	1	1	1	1	1	1	1	1	1	1	1
15	District covered	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B	**Income Statement**															
1	**Income**	Rs. '000	507	889	1061	1294	873	1179	1723	2145	2345	749	744	856	1314	1437
	Interest income	Rs. '000	483	886	1051	1275	837	1108	1688	2139	2341	749	737	856	1270	1321
	Other income	Rs. '000	24	3	10	19	36	71	35	6	4	0	7	0	44	116
2	**Expenses**	Rs. '000	640	773	948	1202	892	876	1117	1788	1843	888	585	615	1092	1306
	Interest expenses	Rs. '000	509	637	762	1003	715	672	877	1165	1303	530	449	469	816	856
	Staff expenses	Rs. '000	94	105	132	156	71	101	152	281	322	91	91	107	171	239
	Office operating expenses	Rs. '000	37	31	54	43	21	43	60	72	93	20	41	38	100	102
	Loan loss provision	Rs. '000	0	0	0	0	0	0	0	205	48	0	0	0	0	100
	Other expenses	Rs. '000	0	0	0	0	85	60	28	65	77	247	4	1	5	9

S.N.	Particulars	Unit	SFCL Kumpur, Dhading (As of July)				SFCL Dumarvana, Bara (As of July)					SFCL Malakheti, Attariya, Kailali (As of July)				
			1999	2000	2001	2002	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
3	**Net Income**	Rs. '000	-133	116	113	92	-19	303	606	357	502	-139	159	241	222	131
C	**Balance Sheet**															
1	**Asset**	Rs. '000	5512	7499	9126	10730	6494	7245	10168	12473	15928	5505	5378	7273	8978	10432
	Cash balance	Rs. '000	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	Bank balance	Rs. '000	187	237	177	372	92	199	214	109	399	334	160	46	269	226
	Loans and advances	Rs. '000	4782	6503	7966	9073	5797	6109	9203	11500	13370	4478	4500	6236	7569	8717
	Investment	Rs. '000	0	1	1	2	0	0	0	0	404	0	0	0	0	0
	Fixed assets	Rs. '000	41	58	48	47	77	315	360	453	425	77	105	220	261	286
	Other assets	Rs. '000	394	695	929	1231	504	617	386	406	1325	611	608	766	874	1198
	Accumulated losses	Rs. '000	103	0	0	0	19	0	0	0	0	0	0	0	0	0
2	**Liabilities**	Rs. '000	4765	6732	8671	10159	5929	6725	9704	11206	14226	5096	5125	6814	8153	9040
	External borrowing	Rs. '000	3659	4927	6028	7087	5018	5303	7560	8271	9361	3610	3398	4429	5314	5601
	Deposits	Rs. '000	548	815	1087	1290	157	460	1109	2069	3591	507	696	1164	1470	1753
	Other liabilities	Rs. '000	558	976	1442	1689	754	962	456	479	726	959	862	979	1146	1608
	Accumulated profit	Rs. '000	0	14	114	93	0	0	579	387	548	20	169	242	223	78
3	**Capital**	Rs. '000	747	767	455	571	565	520	464	1267	1702	409	253	459	825	1392
	Paid-up capital	Rs. '000	27	42	54	62	42	45	131	252	357	98	125	179	226	258
	Reserve	Rs. '000	0	0	0	108	0	286	304	793	1084	0	128	280	599	871
	Capital grants	Rs. '000	720	725	401	401	523	189	29	17	8	311	0	0	0	163
	Loan loss provision	Rs. '000	0	0	0	0	0	0	0	205	253	0	0	0	0	100
4	**Liabilities + Capital**	Rs. '000	5512	7499	9126	10730	6494	7245	10168	12473	15928	5505	5378	7273	8978	10432

Table 5: SFCL Narapani and Nirdhan Uthan Bank

S.N.	Particulars	Unit	SFCL Narapani, Argakhanchi (As of July)					Nirdhan Uthan Bank										
			1998	1999	2000	2001	2002	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
A	**Outreach Status**																	
1	Centre	No	-	-	-	-	-	6	30	99	187	323	550	789	1078	1173	1213	1217
2	Group	No	-	-	-	-	-	25	105	340	645	1213	2394	3955	6481	7629	7791	7525
3	Members	No.	362	362	379	396	390	125	521	1700	3220	5836	11717	19371	31399	35268	35388	34817
4	Loan clients	No.	-	-	-	-	-	69	458	1486	2811	4481	8987	15382	26618	30559	29589	27457
5	Loan disbursement	Rs. '000	-	-	-	-	-	239	2090	11118	26237	52977	113560	228962	443925	737904	1047612	1335506
6	Loan collection	Rs. '000	-	-	-	-	-	31	881	4574	16828	36858	75859	162987	323576	563058	836500	1124820
7	Loan outstanding	Rs. '000	2070	2890	3526	4335	5316	208	1209	6544	9409	16119	37701	65975	120349	174846	211112	210686
8	Loan overdue	Rs. '000	-	-	-	-	-					13862	18096	46183	46936	697636	1617118	1910922
9	Personal savings balance	Rs. '000	390	509	669	877	1088	3	72	228	481	1341	1841	3593	8374	9748	9079	9238
10	Group fund balance	Rs. '000	-	-	-	-	-	13	125	621	1583	3294	7541	15036	28519	43177	52551	55046
11	Group fund loan outstanding	Rs. '000	-	-	-	-	-	0	12	127	345	600	1177	2130	3261	4745	4541	5061
12	Staff	No.	3	3	3	3	3	2	9	23	47	79	139	170	221	211	203	196
13	Branches	No.	-	-	-	-	-	1	3	6	7	8	12	21	23	26	26	26
14	VDC covered	No.	1	1	1	1	1	3	12	25	47	77	118	174	196	218	219	219
15	District covered	No.	-	-	-	-	-								7	7	7	8
B	**Income Statement**																	
1	**Income**	Rs. '000	414	444	504	692	827	32	67	308	2340	4343	8898	16715	20852	32276	42876	54919
	Interest income	Rs. '000	400	442	504	692	827	0	21	202	1286	2179	4860	10550	20076	28850	36802	37803
	Other income	Rs. '000	14	2	0	0	0	32	46	106	1054	2164	4038	6165	776	3426	6074	17116
2	**Expenses**	Rs. '000	483	337	460	593	750	116	580	1792	4039	8384	15552	24135	28557	40272	42259	57960
	Interest expenses	Rs. '000	393	243	317	433	582	0	10	245	1294	2494	4897	8724	8371	13477	15104	22876
	Staff expenses	Rs. '000	57	80	92	122	125	66	418	1102	1955	2962	5293	10627	14174	19310	20241	20511
	Office operating expenses	Rs. '000	32	14	50	37	32	50	152	445	790	2106	3559	4476	4877	5253	5254	7411
	Loan loss provision	Rs. '000	0	0	0	0	0	0	0	0	0	822	1598	0	642	1635	1088	6668
	Other expenses	Rs. '000	1	0	1	1	11	0	0	0	0	0	205	308	493	597	572	494

S.N.	Particulars	Unit	SFCL Narapani, Argakhanchi (As of July)					Nirdhan Uthan Bank										
			1998	1999	2000	2001	2002	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
3	**Net Income**	Rs. '000	-69	107	44	99	77	-84	-513	-1484	-1699	-4041	-6654	-7420	-7705	-7996	617	-3041
C	**Balance Sheet**																	
1	**Asset**	Rs. '000	2435	3185	3925	4853	6011								251250	306267	356203	475055
	Cash balance	Rs. '000	5	5	5	5	5								109	595	490	1176
	Bank balance	Rs. '000	70	28	67	116	71								121030	120104	99992	122082
	Loans and advances	Rs. '000	2070	2890	3526	4335	5316								120544	175052	210751	204218
	Investment	Rs. '000	0	0	0	0	31								0	0	31564	132388
	Fixed assets	Rs. '000	14	19	26	33	35								8880	8557	8527	9177
	Other assets	Rs. '000	237	243	301	364	553								636	1915	4850	5644
	Accumulated losses	Rs. '000	39	0	0	0	0								51	44	29	370
2	**Liabilities**	Rs. '000	1896	2901	3894	4825	5982								245741	299524	349231	464700
	External borrowing	Rs. '000	1142	1947	2619	3315	4013								200706	227072	250740	342021
	Deposits	Rs. '000	390	509	669	877	1088								36893	52925	61630	64284
	Other liabilities	Rs. '000	364	372	458	371	531								8106	19488	35904	56086
	Accomulated profit	Rs. '000	0	73	148	262	350								36	39	957	2309
3	**Capital**	Rs. '000	539	284	31	28	29								5509	6743	6972	10355
	Paid-up capital	Rs. '000	24	24	26	28	29								5500	6700	6700	9745
	Reserve	Rs. '000	0	0	0	0	0								9	43	272	610
	Capital grants	Rs. '000	515	260	5	0	0								0	0	0	0
	Loan loss provision	Rs. '000	0	0	0	0	0								0	0	0	0
4	**Liabilities + Capital**	Rs. '000	2435	3185	3925	4853	6011								251250	306267	356203	475055

Table 5: SFCL Bindabasini and Janakalyan SCCs

S.N.	Particulars	Unit	Bindabasini SCC, Kavre					Janakalyan SCC, Malakhu, Dhading		
			1999	2000	2001	2002	2003	2001	2002	2003
A	**Outreach Status**									
1	Centre	No	-	-	-	-	-	-	-	-
2	Group	No	120	120	130	134	140	-	-	-
3	Members	No.	1700	2000	2174	2370	2500	511	681	912
4	Loan clients	No.	600	800	1200	1600	2000	-	-	-
5	Loan disbursement	Rs. '000	18611	34760	56562	67531	85852	-	-	-
6	Loan collection	Rs. '000	9259	18436	29583	36248	45120	-	-	-
7	Loan outstanding	Rs. '000	9352	16324	26979	31283	40732	7398	11470	14051
8	Loan overdue	Rs. '000	99	262	387	699	1270	-	-	-
9	Personal savings balance	Rs. '000	9238	15791	25991	27511	41142	5653	7478	11815
10	Group fund balance	Rs. '000	12932	21812	35060	40161	51566	-	-	-
11	Group fund loan outstanding	Rs. '000	-	-	-	-	-	-	-	-
12	Staff	No.	4	6	8	10	16	-	-	-
13	Branches	No.	1	1	4	4	4	-	-	-
14	VDC covered	No.	5	10	15	20	25	9	9	9
15	District covered	No.	1	1	1	1	1	1	1	1
B	**Income Statement**									
1	**Income**	Rs. '000	1596	2919	4717	6047	6334	0	1880	2195
	Interest income	Rs. '000	1460	2679	4651	5939	6261	0	1851	2117
	Other income	Rs. '000	136	240	66	108	73	0	29	78
2	**Expenses**	Rs. '000	1015	1864	4202	5866	7185	0	936	1285
	Interest expenses	Rs. '000	625	1067	2909	3932	4315		598	846
	Staff expenses	Rs. '000	181	333	614	865	834		208	207
	Office operating expenses	Rs. '000	63	142	197	235	355		73	133
	Loan loss provision	Rs. '000	94	262	387	700	1439		0	0
	Other expenses	Rs. '000	52	60	95	134	242		57	99

S.N.	Particulars	Unit	Bindabasini SCC, Kavre					Janakalyan SCC, Malakhu, Dhading		
			1999	2000	2001	2002	2003	2001	2002	2003
3	**Net Income**	Rs. '000	581	1055	515	181	-851	0	944	910
C	**Balance Sheet**									
1	**Asset**	Rs. '000	13613	23129	36342	41612	52382	9135	12363	17318
	Cash balance	Rs. '000	462	1091	338	943	369	340	183	803
	Bank balance	Rs. '000	3388	4952	6948	7417	8257	1354	189	1893
	Loans and advances	Rs. '000	9352	16324	26978	31283	40732	7398	11470	14052
	Investment	Rs. '000	180	185	188	149	151	16	27	28
	Fixed assets	Rs. '000	66	139	254	344	431	27	494	542
	Other assets	Rs. '000	165	438	1636	1476	2442	0	0	0
	Accumulated losses	Rs. '000	0	0	0	0	0	0	0	0
2	**Liabilities**	Rs. '000	10194	16923	27670	28559	45296	5880	7486	11839
	External borrowing	Rs. '000	0	0	500	600	0	0	0	0
	Deposits	Rs. '000	9027	15791	25991	27511	41142	5783	7478	11815
	Other liabilities	Rs. '000	585	77	664	267	4154	97	8	24
	Accomulated profit	Rs. '000	582	1055	515	181	0	0	0	0
3	**Capital**	Rs. '000	3419	6206	8672	13053	7086	3255	4877	5479
	Paid-up capital	Rs. '000	2199	3841	4834	6026	6244	2401	2829	3097
	Reserve	Rs. '000	1121	2103	3451	5757	840	854	2048	2382
	Capital grants	Rs. '000	0	0	0	0	2	0	0	0
	Loan loss provision	Rs. '000	99	262	387	1270		0	0	0
4	**Liabilities + Capital**	Rs. '000	13613	23129	36342	41612	52382	9135	12363	17318
5	**Asset - (liabilities + capital)**		0	0	0	0	0	0	0	0

Table 7: Janakalyan SCC and Chhimeki Bikas Bank

S.N.	Particulars	Unit	Janakalyan SCC, Walling, Syangja										Chhimeki	
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		
A	**Outreach Status**													
1	Centre	No	-	-	-	-	-	-	-	-	-	-	182	381
2	Group	No	-	-	-	-	-	-	-	-	-	-	670	1394
3	Members	No.	27	28	33	60	125	148	302	349	375	380	3346	7327
4	Loan clients	No.	-	-	-	-	-	-	-	-	-	-	2414	5158
5	Loan disbursement	Rs. '000	80	93	146	169	360	351	1088	1639	1761	1963	27085	97461
6	Loan collection	Rs. '000	36	77	101	127	131	282	375	1027	1557	1156	7997	52036
7	Loan outstanding	Rs. '000	44	60	105	147	376	445	1158	1770	1974	2781	19088	45425
8	Loan overdue	Rs. '000	-	-	-	-	-	-	-	-	-	-	0	1420
9	Personal savings balance	Rs. '000	41	64	96	124	227	374	1216	2196	2222	2666	1014	2484
10	Group fund balance	Rs. '000	-	-	-	-	-	-	-	-	-	-	2404	9153
11	Group fund loan outstanding	Rs. '000	-	-	-	-	-	-	-	-	-	-	0	0
12	Staff	No.	-	1	1	2	2	3	4	5	6	6	29	42
13	Branches	No.	-	-	-	-	-	-	-	-	-	-	5	8
14	VDC covered	No.	1	2	2	3	8	8	8	8	8	8	30	63
15	District covered	No.	1	1	1	1	1	1	1	1	1	1	4	7
B	**Income Statement**													
1	**Income**	Rs. '000	6	6	29	37	66	99	215	383	486	567	4239	10706
	Interest income	Rs. '000	6	5	28	33	44	80	145	323	449	540	1277	10072
	Other income	Rs. '000	0	1	1	4	22	19	70	60	37	27	2962	634
2	**Expenses**	Rs. '000	3	2	11	37	51	87	181	383	486	830	4232	10424
	Interest expenses	Rs. '000	0	0	0	0	18	39	74	172	221	255	1721	4564
	Staff expenses	Rs. '000	1	1	1	2	11	22	44	92	117	131	1481	2784
	Office operating expenses	Rs. '000	2	1	8	11	14	15	60	119	148	130	721	1677
	Loan loss provision	Rs. '000	0	0	0	0	0	0	0	0	0	314	191	1084
	Other expenses	Rs. '000	0	0	2	24	8	11	3	0	0	0	118	315

S.N.	Particulars	Unit	Janakalyan SCC, Walling, Syangja										Chhimeki	
			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		
3	**Net Income**	Rs. '000	3	4	18	0	15	12	34	0	0	-263	7	282
C	**Balance Sheet**													
1	**Asset**	Rs. '000	49	88	124	189	387	594	1554	2629	2861	3765	69962	132750
	Cash balance	Rs. '000	3	3	3	1	4	53	207	664	199	332	92	1009
	Bank balance	Rs. '000	0	2	3	1	2	7	8	13	405	30	48612	35428
	Loans and advances	Rs. '000	43	69	104	146	326	395	1108	1720	1924	2732	19089	45425
	Investment	Rs. '000	0	13	2	10	21	22	37	15	25	27	0	47000
	Fixed assets	Rs. '000	2	1	3	7	14	73	0	100	107	101	631	2387
	Other assets	Rs. '000	1	0	9	24	20	44	161	90	178	257	1538	1501
	Accumulated losses	Rs. '000	0	0	0	0	0	0	33	27	23	286	0	0
2	**Liabilities**	Rs. '000	43	68	23	60	259	429	1310	2215	2276	2708	62769	124176
	External borrowing	Rs. '000	0	0	0	0	0	0	66	0	0	0	53649	109856
	Deposits	Rs. '000	43	67	3	42	227	374	1216	2196	2222	2668	3418	11637
	Other liabilities	Rs. '000	0	1	8	18	32	55	28	19	54	40	5697	2451
	Accomulated profit	Rs. '000	0	0	12	0	0	0	0	0	0	0	5	232
3	**Capital**	Rs. '000	6	20	101	129	128	165	244	414	585	1057	7193	8574
	Paid-up capital	Rs. '000	6	20	75	90	108	135	213	414	555	667	7000	7000
	Reserve	Rs. '000			26	39	20	30	31	0	30	76	1	58
	Capital grants	Rs. '000					0	0	0		0	0	0	0
	Loan loss provision	Rs. '000					0	0	0		0	314	192	1516
4	**Liabilities + Capital**	Rs. '000	49	88	124	189	387	594	1554	2629	2861	3765	69962	132750