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CARE Nepal,
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STRATEGY TO WORK WITH VILLAGE SAVINGS AND LOAN GROUPS

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EXECUTIVE SUMMARY

This study proposes the strategies for CARE-Nepal to work with village savings and loan groups (VSLGs) in its working areas in four districts (Bajhang, Bajura, Doti and Syangja) of Nepal. In view that group approaches to savings mobilisation and internal lending is not new and there are thousands of savings and credit groups (SCGs) promoted in rural areas without clear vision, the concept of VSLGs approach to microfinance resembles many features of typical SCGs approaches to microfinance in Nepalese context[1].

Several thousand SCGs/VSLGs and hundreds of Savings and Credit Cooperatives (SCCs) have emerged in the CARE Nepal's working areas in the past over a decade or so, largely in response to promotional efforts of local and international NGOs and government organizations. These organizations are quite diverse in terms of size, level of operation and financial status. A majority of them are young (< 5 years), smaller (< 40) and informal except SCCs. These SCGs/VSLGs and SCCs are community based organizations in so much as they are owned and controlled by local citizens. Their governance is characterized by participatory and democratic decision making.

Experiences elsewhere has shown that community based SCGs/VSLGs and SCCs can provide an effective institutional framework for mobilizing small savings and meeting credit needs of their members through internally generated funds. Despite many constraints currently faced by SCGs/VSLGs and SCCs in these districts, the early success of a number of these organisations indicates their potential for maturing into community based financial institutions. This however requires design and implementation of an institutional support program for SCGs/VSLGs and SCCs sector. A particular rural settlement is characterized by multiple SCGs/VSLGs and multiple membership. Further, low savings, poor governance, in adequate book keeping and accounting system, in appropriate operational risk, loan and financial management is the characteristics features of the SCGs/VSLGs and SCCs in these areas.

Under these context and realities, CARE should document existence and capacity of existing SCGs/VSLGs and amalgamate them into one SCG/VSLG at settlement level, reconcile the savings collected so far and support the SCGs/VSLGs to prepare the consolidate outreach, portfolio quality and financial statements. It should not insist on new group formation. It should support a typical SCG/VSLG to develop a vision as community based financial institutions with mandate and capacity to respond financial needs of their members through mobilisation and management of local resources as well as support to their "institutionalization" which should include the critical assessment of their capacities to provide accessible and effective financial services to their members, risk inherent in subsidy based growth, terms and conditions for use of non-member funds from banks or PAF for example for on-lending and internal control procedures that will foster member, government and general public's confidence. Owing to the fact that much of the growth and development potential of SCG/VSLG lies in its own sprit, leadership and resources, process must begin through a support to SCG/VSLG as aspects such as inclusion, benchmarking, upgrading booking and accounting system, preparation of operation policy such as written code of conduct, savings policy, loan policy and financial management policy, financial management, transparent decision-making, improvement on portfolio quality, rating and auditing by external auditor.

CARE-Nepal should recognize the potentials of the SCCs on enhancing access to finance to the community and document their current status. Considering that most of the SCCs are operating on ad-hoc basis without clear vision, these SCCs should be assisted to develop the business plan of their own through an articulation of the vision to develop them as community based financial institutions with mandate and capacity to respond the financial needs of their members through local resources mobilisation and

[1]In view of this the term SCGs/ VSLGs has been used in this report to represent either SCGs or VSLGs.

management. They should be assisted for increased outreach, improved governance, equity and access, savings mobilization, loan operation, income and expenses, book keeping and accounting, and enhanced capacity on book keeping and accounting, financial management, management information system, operational risk management and human resource management. These SCCs should be assisted to institute the self regulation system that encompasses aspects such as code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management and devise mechanism to ensure that these policies and procedures are fully complied. In view that much of the growth and development potential of SCC lies in its own sprit, leadership and resources. As such, primary SCCs are urged to pro-actively pursue the issues such as identifying mechanisms by which to expand their membership while retaining solidarity and discipline, building their long-term capital base, developing management systems that include documented policies and procedures appropriate for a community-based financial institution, upgrading analytical capacity by introducing a system of PEARLS rating, improvement on portfolio quality and strengthening the operational risk management system.

In view of the uniqueness of the approach adopted for expanding frontier of microfinance services, CARE Nepal should take a lead role in its working district to develop a coherent strategy that will foster the development of financially sustainable and organizationally autonomous SCGs/VSLGs and SCCs. This will require elaboration of a process and tools by which these agencies engage in a performance review process, elaborate an institutional strengthening strategy which will involve a systematic assessment of the training needs of SCGs/VSLGs and SCCs, ensure that institutional strengthening strategy is collaborative in nature, involving structured exchange of ideas and methods between PAs, and acknowledge that there is no single method of SCG/VSLG and SCC promotion but the recognition that SCGs/VSLGs and SCCs require different types of support in different stages of their development.

Based on above the study reinforce that, to start with, CARE-Nepal should facilitate, but not dictate, consolidation and amalgamation of existing SCGs/VSLGs and SCCs through mass sensitization, group meetings, discussions and generation of demand for credit, help to identify and prioritize economic opportunities to be undertaken by a large proportion of the population in specific rural areas identifying comparative advantages for specific commodities and arrange appropriate training such as account keeping, loan management, operational risk management, financial management, leadership and vocational skill etc. both to the SCGs/VSLGs and SCCs. Further, it should facilitate institutionalization of the SCGs/VSLGs as SCCs, help establish business linkage between (i) SCGs/VSLGs and SCCs/financial institutions, (ii) SCCs and apex institutions and (iii) SCCs and their secondary and tertiary unions and arrange interaction and exchange of experience and ideas among PAs themselves and adopt a uniform strategy for promoting SCGs/VSLGs and SCCs.

Finally, there is a need to refrain from providing any financial support to individual group members, foster interaction, communication and collaboration between SCGs/VSLGs and SCCs and relevant regulatory bodies (i.e. Department of Cooperative and NRB) and support to District Unions wherever exist and/or facilitate for the emergence and growth of district unions and enhance their technical and managerial capabilities.

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ACRONYMS AND ABBREVIATION

ADB	Asian Development Bank
ADBL	Agriculture Development Bank Ltd.
BCU	Biogas Credit Unit
CED/N	Centre for Empowerment and Development, Nepal
CB	Commercial Bank
DB	Development Bank
DDC	District Development Committee
DSL	Deprived Sector Lending
FC	Finance Company
FI-NGOs	Financial Intermediary NGOs
FGD	Focus Group Discussion
FSPs	Financial Service Providers
MDB	Microfinance Development Bank
MFI	Microfinance Institutions
NBL	Nepal Bank Ltd.
NGOs	Non Government Organization
NRB	Nepal Rastra Bank
PA	Promoting Agency
PAF	Poverty Alleviation Fund
PCRW	Production Credit for Rural Women
PVSEs	Poor, vulnerable and socially excluded
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self Reliance Fund
SBB	Sawalamban Bikas Bank
SCCs	Savings and Credit Cooperatives
SCG	Savings and Credit Groups
SFCLs	Small Farmers' Cooperatives Ltd
SFDP	Small Farmers Development Project
SHG	Self-Help Groups
SKBB	Sana Kisan Bikas Bank
SWOT	Strengths, Weaknesses, Opportunities and Threats
VDC	Village Development Committee
VSLA	Village Savings and Loan Association
VSLG	Village Savings and Loan Groups

1. INTRODUCTION

1.1 Background

Access to financial services, whether in the form of savings, credit, money transfers or insurance, is a fundamental tool for improving a family's well-being and productive capacity. Access to financial services empowers the poor by reducing their vulnerability, and offering them opportunities to improve their lives. Microfinance offers poor people access to basic financial services and these people like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks.

Poor people usually address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market. Different types of financial services providers for poor people have emerged: non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale that are offering new possibilities.

These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans and their desire to save. In many institutions, there are multiple loan products providing working capital for small businesses, larger loans for durable goods, loans for children's education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients. Remittances and money transfers are used by many poor people as a safe way to send money home. Banking through mobile phones (mobile banking) makes financial services even more convenient and safer, and enables greater outreach to more people living in isolated areas. Financial services for poor people have proven to be a powerful instrument for reducing poverty, enabling them to build assets, increase incomes and reduce their vulnerability to economic stress.

History of microfinance movement in Nepal can be traced back to mid seventies and the sector has gained momentum after the restoration of democracy in 1990s. Growth and development of microfinance sector has been supported by government, non-government, bilateral and multilateral institutions working in Nepal. CARE International Nepal is one of the international non-government organizations (INGOs) supporting Nepalese poor to enhance the access to financial services. Nepal has tried different models of microfinance operation such as individual lending, grameen system, solidarity group lending, credit unions and village banks, with mixed success. Various agencies are involved on promoting microfinance operation in Nepal and these operations can be broadly grouped into two: i.e. commercial oriented and community based. The former encompasses microfinance actors such as microfinance development banks (MDBs) and financial intermediary NGOs (FI-NGOs) while the later includes savings and credit cooperatives (SCCs), and small farmer cooperatives limited (SFCLs). In addition there are thousands of SCGs (SCGs) / Self Help Groups (SHGs) promoted under different projects/programmes implemented by government, non-government, bilateral and multilateral institutions. However, the outreach of financial services has been concentrated in plain and accessible hills and large number of people living in high hills and mountains lack access to financial services. In general, ensuring access to financial services in high hills and mountains is a challenge in Nepalese financial market. Further, financial service has been meet the only a fraction of the potential clients and various

researches and studies has uncovered that only a small segment of population (< 35% of potential clients) requiring microfinance services have access to financial services.

Though thousand of SCGs exist in Nepal, most of them lack clear vision for expanding their outreach and increase access to financial services for poor and excluded especially in the remote hills and mountains due to lack of policy commitments, strategies, associated factors and mechanism to build their linkages with financial service providers.

CARE International Nepal is one of the international NGOs supporting the growth and development of Nepalese microfinance sector by promoting different Village Saving and Loan (VS&L) Program in Bajhang, Bajura, Syangja and Doti districts of Nepal with special focus on livelihoods improvement of poor, vulnerable and socially excluded (PVSEs) groups in deprived communities through adjusted Village Saving and Loan model. Supports are provided in the form of capacity development, resource centre management, advocacy initiatives, pro-poor support revolving fund and business development services.

In order to expand its involvement on enhancing access to finance for PVSEs, CARE International Nepal has felt the need to develop the strategy to work with Village Savings and Loan Groups (VSLGs) and entrusted Centre for Empowerment and Development Nepal (CED Nepal)[2] to undertake this assignment. This is the report prepared by CED-Nepal.

1.2 Rationale

CARE Nepal has also been working with SCGs in Bajhang, Bajura, Doti and Syangja districts. Recently, a CARE Nepal team reviewed and conducted an assessment of six SCGs supported by CARE Nepal and had made a number of recommendations on the potentials of SCGs on expanding the frontier of microfinance services in these districts. The review uncovered that that there is a broad scope of working with SCGs as PVSEs have dire need of access sustainable financial services and other broad range of financial products such as insurance, money transfer and leasing, etc. The study also revealed that there is feasibility of linkage SCGs with financial service providers working in rural areas for the flow of easy credit to PVSE. Studies by other agencies have also come-up with similar findings. One of the major recommendations has been developing CARE Nepal's working model/strategies to work with SCGs for making them effective and viable financial institutions. CARE Nepal has also realized the need of an operational strategy to work with SCGs promoted under programs and develops a mechanism to establish linkage with FSPs for enhancing access to financial and non-financial services. Within above context and realities, CARE International Nepal has been commissioning a study on developing the strategies to work with Village Savings and Loan Groups (VS&LGs)[3].

1.3 Objectives of the Study

This study is aimed at developing the strategy for CARE International Nepal to work with VSLGs. The specific objectives of this study are the following.

- Assess the status of the SCGs/VSLGs promoted by CARE International Nepal in Bajhang, Bajura, Doti and Syangja district.
- Identify and suggest the SCG/VSLG model suitable in CARE International Nepal's VSL project districts where adjusted VSLG model has been implemented.

[2]CED Nepal is a non-profit organization established in 23 February 2007 (16-11-2063 B.S) under Nepal Government's Society Registration Act 2034 in District Administration Office, Lalitpur. It is also affiliated with Social Welfare Council. Its head office is located in Saibu-8, Lalitpur, Nepal. Related detail on CED Nepal is provided in Annex 1.

[3]VS&LG are similar to typical SCGs promoted by different by government, non-government, bilateral and multilateral institutions working in Nepal.

- Suggest the strategy for CARE International Nepal to work with SCGs/VSLGs and SCCs incorporating the best practices on enhancing access to financial services at national, regional and global level.

1.4 Scope of Work

SCGs/VSLGs promoted by CARE Nepal are at the different positions and capacities in terms of operation of loan portfolio, seed grant fund, and the use of matching fund, etc. The capacity of these groups largely depends upon operational modality, functional strategy, management capacity, availability and effective mobilization of resources. This depends on existing working modalities and strategies for increased effectiveness, efficiency and integration. In cognizance to this, the scope of work of this assignment was, among other, the following.

- Provide the overview of Nepalese financial market and state of the art of community based banking in Nepal,
- Review the process followed on formation and capacity enhancement of the SCGs/VSLGs by leading promoters/programs
- Undertake field study in Bajhang, Bajura, Doti and Syangja districts to
  - document the context and realities in enhancing financial services,
  - analyze the landscape of financial sector services,
  - study the current status of SCGs/VLSG and SCCs
  - identify the promoting agencies (PAs) such as government organization, non-government organization and private sector involved to enhance access to financial services,
  - undertake detailed situation analysis of SCGs/VLSG and SCCs including the documentation of the status and capacity gap in the SCGs/VSLGs[4] and SCCs,
  - assess the constraints inherent to SCGs/VSLGs led banking system,
  - suggest the mechanism to identify and record the existence of the SCGs/VSLGs and enhance their capacity on self regulation[5] and support to build-up local capital by regular savings,
- Define the scope of work of CARE Nepal in the area of enhancing access to financial services,
- Develop an appropriate strategy to work with SCGs/VSLGs and share with and obtain feedback from concerned stakeholders.
- Finalize and develop CARE Nepal's strategy for enhancing access to financial services incorporating the feedback from the stakeholders.

1.5 Approach and Methodology

1.5.1. Approach

This study was undertaken within a strategic analysis framework encompassing steps such as articulating vision and mission statement; situation (both internal and external environment) analysis and developing strategies. These steps are outlined hereunder.

1.5.1.1. Articulating the Vision and Mission Statement

CARE International Nepal's vision and mission was articulated with its guiding principles and overall direction. Vision and mission statement generally addresses the key questions such as type of issues to be addressed, state of art on addressing these issues, identification of intended clients, core values, etc. Vision and mission statement

[4]This includes among other the outreach, governance, equity and access, savings mobilization, loan operation, income and expenses, book keeping and accounting, etc.
[5]Self regulation encompasses the aspects such as code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management.

also underlie and inform the activities to be undertaken and act as a source of motivation. The strategy chosen hence reflects vision and mission statement.

1.5.1.2. Situation Analysis

Situation analysis focuses on understanding clients and markets as well as review of the process followed on the formation and capacity enhancement of the SCGs by leading promoters/programs, undertake field study in some selected districts to prepare poverty profile of the study districts, access an overview of traditional financial transaction scenario with focus on products, sources, methodologies, interest rates and their relationship with economic activities, identify extent of involvement of other organizations to provide microfinance services, undertake the strengths, weaknesses, opportunities and threat (SWOT) analysis, document status and capacity gap in SCGs, assess the constraints inherent to SCGs led banking system, ways to identify and record existence of SCGs and enhance their capacity on self regulation and support to build-up local capital by regular savings under the SWOT Analysis framework. The overall focus lies at assessing context in which the program has to be implemented to gauge how foreseeable external challenges affect its capacity to achieve the vision and mission.

1.5.1.3. Identifying the Strategies

Strategies to work with SCGs was identified based on the information and perspectives developed in articulating vision and mission and situation analysis provided basis to suggest right products considering market and service delivery methodologies in a cost and time efficient manner. The process of identifying the strategies encompasses three parts: choosing type of product suitable in the given market, deciding areas in which institution need to be strengthened to ensure that it can provide chosen product in the selected markets and determining clear objectives and activities for implementing product, market and institutional development goals. Further, objectives are articulated in various areas of operational planning such as product and services, marketing channels, institutional resources and capacity, financing and financial management.

1.5.1.4. Integration with CARE Nepal Supported Other Livelihood Initiatives

CARE Nepal has realized that improvement on rural livelihood requires access to financial and non-financial services. So far, several CARE Nepal supported livelihood initiatives have focused on providing access to non-financial services and these initiatives failed to produce intended results due to lack of access to financial services. In this study, salient features of the CARE Nepal supported other livelihood initiatives was reviewed and a suggestion on integrating the microfinance component in the CARE Nepal supported livelihood initiatives are explored.

1.5.2. Methodology

The following methodologies were adopted in order to undertake this assignment in a systematic way.

1.5.2.1. Data sources

The data required for conducting this assignment was obtained both from secondary and primary sources. The secondary sources include the review of relevant documents, project document, progress reports and other published and unpublished documents related to the microfinance program, SCGs/SCG operation and various review reports that exist in CARE International Nepal Country and Doti Cluster Office. The primary information was gathered by conducting the field surveys in Bajhang, Bajura, Doti, and Syangja districts. Field studies were done in September 2009.

1.5.2.2. Data collection methods

Review of relevant documents: that leads to support further investigations to accomplish the objectives of the study. The study of documents include project document, progress reports, among others.

Focus group discussions: was conducted with SCGs, bank and financial institutions working in the district and other relevant stakeholders.

Performance Review: was conducted for the SCGs and SCCs promoted by CARE Nepal during the project period.

Organizational assessment: was done covering aspects such as outreach, governance, equity and access, savings mobilization, loan operation, income and expenses, book keeping and accounting, etc. and code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management that exist in SCGs and SCCs.

Individual interviews: was conducted with the SCGs members especially their office bearers and members in selected sites.

Key informant interviews: was conducted with CARE staff, SCGs chairperson and others who are working in the issue.

1.5.3.Study Sites

This study was conducted in Bajura, Bajhang, Doti and Syangja district where CARE has implemented the microfinance project. Field study was conducted in 17 VDCs of four districts (Table 1).

Table 1: VDCs Covered by the Study

S.N.	Districts	VDCs	
		No	Name
1	Bajhang	3	Chainpur, Masta, and Bhatkhola
2	Bajura	4	Kolti, Martadi, Atichour and Pandusen
3	Doti	3	Kapalekhi, Chhitiwan and Khatiwada
4	Syangja	7	Bhatkhola, Bangsing Deureli, Bange Phadke, Bichari Chautara, Thuladihi, Pauwagaude and Phedikhola
	Total	17	

1.5.3.1. Sample Size

During field studies, it has been uncovered that both SCGs/VSLGs and SCCs co-exist in VDCs selected for studies. In view of this, both SCGs/VSLGs and SCCs were surveyed during field study. A total of 26 SCGs/VSLGs and 13 SCCs were surveyed (Table 2).

Table 2: Number of SCGs/VSLGs and SCCs Surveyed in this Study

S.N.	Districts	Number of		
		SCGs/VSLGs	SCCs	Total
1	Bajhang	2	4	6
2	Bajura	5	5	10
3	Doti	9	2	11
4	Syangja	10	2	12
	Total	26	13	39

The SCGs/VSLGs and SCCs were purposively selected for in-depth assessment covering aspects such as outreach, governance, equity and access, savings mobilization, loan operation, income and expenses, book keeping and accounting, operational code of

conduct, savings policy, loan policy, book keeping/accounting and financial management. More specifically, organisational and institutional dynamics of SCGs/VSLGs and SCCs were analyzed to assess their operational and financial performance and viability.

Further, series of focus group discussions with key informants, staff of the partner NGOs, district level stakeholders such as government organisations, non-government organisations, and financial institutions on various aspects related to developing the SCGs/VSLGs as a viable financial intermediary at grass-roots level and strengthening the existing SCCs for expanding the frontier of microfinance services in the district.

1.5.3.2. Data Collection Tools

Three sets of checklist one each to administer with (i) SCGs/VSLGs and SCCs, (ii) CARE Nepal staff; and (iii) during focus group discussion with key stakeholders including government organisations, non-government organisations, and financial institutions in the districts was developed for gathering different information. The checklists used during the field studies are provided in Annex I.

1.5.3.3. Information Processing and Analysis

The information collected from different sources were compiled, consolidated and analyzed. Analysis was done under both quantitative and qualitative assessment framework. The information gathered from different sources was used to prepare poverty profile, access an overview of financial transaction in these districts with focus on products, sources, methodologies, interest rates and their relationship with economic activities, document type of institutions involved to provide financial services in these districts, undertake the SWOT analysis of current situation, document the status and capacity gap in SCGs/VSLGs and SCCs, assess the constraints inherent to SCGs/VSLGs and SCCs promoted banking system, ways to identify and record their existence and enhance their capacity on self regulation and support to build-up local capital.

1.5.4.Sharing and Building Ownership

The preliminary findings of the study was shared among the field staff of CARE Nepal, staff of the partner NGOs and project staff to build common consensus on study findings. The strategy was finalized incorporating invaluable comments and feedback provided by the concerned stakeholders on different aspects of the study findings.

1.6 Report Organization

The report is organized into six chapters. After this introductory chapter, overview of microfinance circumstances in Nepal is provided in Chapter two. Chapter three provides an account of the state of the art on community based banking in Nepal while chapter four analyse current status of SCGs/VSLGs and SCCs in CARE-Nepal's working areas in four districts. Chapter five outlines strategies to work with SCGs/VSLGs and SCCs to ensure their continuity and sustainability while report concludes with conclusions and recommendations in chapter six.

2. OVERVIEW OF NEPALESE FINANCIAL MARKET

2.1 Overview

Nepal has developed considerable history in the provision of financial services that has been evidenced by emergence and growth of a large number of financial institutions as well as design and implementation of programmes to support financial sector development over time. Along with the development of financial sector, there has been corresponding growth in microfinance sector as one of the interventions to address poverty problems in rural areas. History of microfinance movement in Nepal can be traced back to 1956 which started with the emergence of cooperatives that started providing savings and microcredit services to their shareholders. Government recognised the potential role of support to expand microfinance services on addressing poverty problems and this has been very effective for expanding Nepalese microfinance sector from mid-seventies[6]. Government officially recognised the potential roles of microfinance sector on poverty reduction only in the Sixth Plan (1980/81 - 1984/85) and since early 1980's both government and non-governmental sector developed and implemented number of programs to enhance access to financial services to poor; women and disadvantaged group. The microfinance sector gained momentum after 1990s wherein number of financial service providers (FSPs) increased exponentially with the entry of local NGOs and microfinance development banks (MDBs) and transformation of SCGs/VSLGs into SCCs as local MFIs with an increased support for the growth and development of the sector.

At present, six major types of FSPs namely commercial banks (CBs), development banks (DBs), SCCs, SFCLs, FI-NGOs and MDBs are active in Nepalese financial market. In addition to these MFIs, over dozen of rural development programmes implemented by the government and non-government sector are promoting large numbers of SCGs/VSLGs under their credit component to provide financial service to the poor. Despite significant efforts and innovations to expand financial services to the poor and excluded, access to financial services has still been confined to a small and relatively less poor segment of rural population living in Tarai and accessible hill districts. But large number of poor and vulnerable poor living in remote hills and mountain districts are still outside the ambit of the financial services extended by FSPs.

2.2 Landscape of Financial Service Providers in Nepal

Landscape of financial service providers in Nepal comprises of informal financial sector, semi-formal sector and formal financial sector as they pertains to provision of microfinance services. The 'snap-shot' of landscape of financial sector are discussed hereunder.

2.2.1. Informal Financial Sector

Informal lenders provide credit without procedural complexities and are flexible regarding repayments and collaterals, which does not exist in formal sector[7]. Nepalese informal financial sector comprises of individual lenders or informal groups / institutions.

Individual lenders comprise of landlords, merchants, farmer-lenders, goldsmiths, pawnbrokers, friends and relatives and exist in almost all the villages. They lend money

[6] In 1974 Nepal Rastra Bank, the central bank, directed the then two state-owned commercial banks to invest at least five percent (which later increased several times reaching to 12% in early 1990s) of their total deposits in small-scale finance. In 1975, the Agriculture Development Bank of Nepal launched Small Farmers Development Project (SFDP), as a first project to introduce the concept of group guarantee as a substitute to physical collateral for microlending (AsDB and NRB. 1994).

[7] ADB and NRB (1994) estimate proportion of households borrowing from informal sources at 34% and there is no latest updates.

with or without interest or collateral. It is only the moneylenders who charge interest and loan is highly secured. They lend either with collateral (gold or silver) or without collateral albeit linked with labor and/or land transaction as security. The interest charged by moneylenders is generally very high, ranging between 36% and over 100% per annum. In addition, they often receive either labor services or other small gifts as part of the loan request. Owing to high effective interest rate, loans from moneylenders are generally used mainly for emergency purposes such as medical crises or socio-cultural obligations like weddings and funerals.

Money lending informal groups/institutions comprises of traditional rotating credit groups such as dhikuties, dharam, bhakari, guthies, etc. and they are well established and widespread in Nepal and represent a truly local and indigenous response to credit needs. Savings mobilized and credit delivered through informal rotating credit mechanisms like dhikuties represent an enormous level of financial activity[8], indicating that the resources are not yet fully tapped by formal and semi-formal sectors[9].

Dhikuties are groups formed within villages for the purposes of savings and credit activities. Members are mainly business communities. They are particularly popular amongst Nepal's ethnic trading communities or in urban areas. They are based upon the collection of equal amounts of savings collected each month (or other period) which are then lent out to each member in a rotating sequence. The rotation is generally determined by a bidding process where the bid with the highest interest rate receives the loan. Dhikuties have an average membership of 20 to 30 people with individual savings amounts ranging from Rs. 100 to Rs. 1,000[10]. At the end of the rotation, the surplus from interest paid is distributed equally to the members. The main risks are that those who borrow will not repay principal or interest due to business setbacks, or that a contributing member will drop out once he or she has received the group collection.

Dharam bhakari (literally, "religious storage") are group grain associations. Each member provides an equal contribution of grain at harvest. He may then "borrow" it in the off-season, repaying at rates between 1.25 and 1.5 times the borrowed amount at the next harvest. These exist among small to medium farmers, and are a good safeguard against starvation.

Guthi are cultural heritage associations, common amongst the Newari and some tribal groups. They are like dhikuti in their form of standard collections of amounts from the group members, but accumulated funds are largely used for funerals or community welfare activities such as festivals. The group decides whether the user pays interest or not on the funds, and whether they are a loan or grant, based on the relative wealth and situation of the person requesting funds.

2.2.2. Formal Financial Sector

The formal financial sector in Nepal includes the following institutions: NRB, commercial banks, development banks, finance companies, SCCs and financial intermediary (FI) NGOs. The NRB is Nepal's central bank established in 1956 and is responsible for regulating and supervising country's formal financial sector. NRB also mandated commercial banks (CBs) to lend directly to microentrepreneurs through the Intensive Banking Programme (IBP) and Deprived Sector Lending (DSL).

[8]For details, please refer Development Project Service Center, Nepal and J. Ledgerwood. 1997. "Critical Issues in Nepalese Microfinance Circumstances" IRIS Center, Maryland and CMF. 2003. "A Directory of MFIs in Nepal" Kathmandu, Nepal..
[9]CECI. 1996. "Community Based Savings and Credit Organizations in Nepal: Current Status and Future Prospects", Kathmandu.
[10]Ibid

As of Sept. 2009, there are 25 commercial banks (A grade) of which two (two state-owned) namely Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) were involved in microfinance sector since 1974 under priority sector lending programme, renamed as IBP in 1981. They were also implementers of large government microfinance programmes[11]. Initially NRB imposed lending requirement to commercial banks on priority sector at 5% in 1974, which increased to 7% in 1976 and to 12% in 1990. Also NRB directed commercial banks to allocate at least 25% of these priority sector loans or 3% of the total portfolio to hardcore poor under DSL. These schemes were undertaken by all the commercial banks as mandatory requirements or pay the penalties for non-compliance. Recently, NRB has decided to phase out priority sector credit policy withholding 3% investment in deprived sectors. The outreach of microfinance services through IBP/DSL once reached in almost all the 75 districts of Nepal decreased gradually owing to poor portfolio quality, deteriorating security situation and management problems.

Table 3: Banks and Non-financial Institutions in Nepal as of July 16, 2009

S.N.	Type of institutions	Number of institutions by location		
		Kathmandu	Outside	Total
1	Commercial Banks (A grade)	20	5	25
2	Financial Institutions (B grade)	9	49	58
3	Financial Institutions (C grade) – Finance Companies	53	25	78
4	Financial Institutions (D grade) – MDBs	2	10	12
5	Savings and Credit Cooperatives – limited Banking operation	5	11	16
6	NGOs – involved in microfinance operation	15	31	46
	Total	104	131	235

Source: Nepal Rastra Bank, Nepal Sept. 2009

There are 58 and 78 financial institutions respectively of B grade and C grade with limited role to provide microfinance services.

There are 12 financial institutions (D grade) working as MDBs, of which two are wholesale lenders and 10 are retail lenders. Of the 13 retail lending MDBs, five are Regional Grameen Bikas Bank (RGBB)[12] promoted by government in each of the development regions to replicate the Grameen Bank model of Bangladesh to provide microfinance services to rural poor (mainly women) and other five are the outcome of transformation of microfinance operation of leading NGOs into MFIs.

There are thousands of NGOs active in the microfinance sector both as promoters and practitioners. In their roles as promoters, these NGOs facilitate to group formation of poor and disadvantaged people that generate internal resources through members' savings and use the fund for on-lending to members. NGOs occasionally provide seed money to groups. The groups often disintegrate when the programs implemented by the NGOs come to an end and cease to provide technical support. NGOs have also supported to transform some promising groups into SCCs. Beginning from 2000, some NGOs transformed into FI after obtaining license from NRB to involve as practitioners MSPs. As of Sept. 2009 there are 46 FI-NGOs active in Nepalese microfinance sector.

There are over 3,300 savings and credit cooperatives that operate in different parts of the Nepal. They exist in all the 72 out of 75 districts of the country. Sixteen savings and credit cooperatives have received limited banking license from NRB and are involved on deposit mobilisation from general public.

Most of the activities in formal financial sector are commercial in nature, characterized by large loan sizes and lending concentrated in industrial productive activities. In

[11]These programmes are Production Credit for Rural Women (PCRW) and Microcredit Project for Women (MCPW).
[12]GON established two RRDBs in 1992, two more in 1995 and fifth one in 1996.

general, formal financial sector provide majority of loans to men, as women are not normally involved in larger businesses[13].

2.2.3. Microfinance Sector

Microfinance sector generally targets poor and excluded groups and focuses to address poverty problems. The sector comprises of MFIs and microfinance programmes.

2.2.3.1. Microfinance Institutions

Nepalese MFIs comprise of MDBs, FI-NGOs, SCCs, and SFCLs. In addition, there are five refinancing organizations supporting the MFIs.

1. The Rural Self Reliance Fund (RSRF) established in 1991 by the government with secretariat in NRB to provide wholesale loan to SCCs and NGOs.
2. The Rural Microfinance Development Centre Ltd (RMDC) established in 1998 to provide wholesale funding to regulated MFIs.
3. The Sana Kisan Bikas Bank (SKBB) established in 2001 to outsource the wholesale funding to SFCLs and similar institutions.
4. The Cooperative Bank providing wholesale loans to member cooperatives.
5. Biogas Credit Unit (BCU) under AEPC that provides wholesale loans to member MFIs to provide access to financial services to MFIs.

Based on their ownership and nature of operations, these MSPs can be broadly grouped into two categories: commercial oriented and community based. The former includes CBs, MDBs and FI-NGOs while SCCs, SFCLs and SCGs falls on later category. There are 13 MDBs, 45 FI-NGOs, more than 4500 SCCs and 229 SFCLs in Nepal (Table 4).

Table 4: Number of MFIs in Nepal

S.N.	MFI Type	Number of MFI as of 15 of		
		July 2006	July 2009	Growth
1	MDBs	9	13	1
2	FI-NGOs	47	45	-2
3	SCCs	2957	4500	1543
4	SFCLs	205	228	23
	Total	3218	3593	375

CBs are involved in providing microfinance service through their obligation to meet DSL requirements. In general, CBs meet the DSL requirements of NRB by providing block loans or investment as share capital to MFIs or pay penalties or a combination of all three. There exist instances where majority of the MFIs have parked such fund in the commercial banks. The effectiveness of entire deprived sector lending on increasing access to finance for the poor is therefore questionable. Some CBs like ADBN, RBB and NBL have extended microfinance services through their branches in all 75 districts. In cognizance to emerging distortions, NRB has phased out priority sector credit policy in 2007 while continuing DSL requirements.

The ten MDBs providing microfinance services are replicating grameen model exactly or through some modification. Five of the government owned RRDBs were established during 1992-1997. The remaining five are private MDBs with operational history back to early 1990. These private achieved MDB status between 1998 and 2007 (one in 1998, two in 2001, one in 2002 and last in 2007). All these MDBs share basic objectives to

[13]ADB and NRB (1994) estimates proportion of rural households reporting borrowing from formal sources during 1991/92 at 8%. Across regions, proportions are 4%, 8% and 9% for the Mountains, the Hills and the Terai regions respectively."

improve access to microfinance services among women for promoting income-generating activities (IGAs).

First FI-NGO was registered in 2001 and of the 45 of them are FI-NGOs as of Sept. 2009. At present only 27 FI-NGOs are involved as practitioner to provide financial services to their target clients. FI-NGOs mobilize savings and borrow loanable fund from three apexes - RSRF, RMDC[14] and BCU - and the DSL window of the commercial banks.

Cooperatives are formal body characterized by democratic and highly participatory decision-making process. The SCCs are community based organizations either self emerged or promoted by I/NGOs and have a history back to 1954. The cooperative sector gained momentum in 1990s with the enactment of a new Cooperative Act 1991 that focused on capturing the spirit of cooperative norms and values. SCCs have the largest presence in Nepalese financial markets. In contrast, SFCLs are member-owned and controlled multi-service cooperative agency promoted under external influence to deliver both financial and non-financial services. It consists of three-tiered organization[15] and plays an important role in the rural civil society, by pooling joint resources to meet basic needs and to defend members' interests. Formation of SFCLs started in 1993 and compared to SCCs, SFCLs are characterised by improved cohesion and communication within shareholders. Establishment of the SKBB, as an **apex body** has been instrumental to strengthen the linkages of the SFCLs for wholesale funds required for retail lending.

2.2.3.2. Microfinance Programmes

Since mid 1970s Government and NRB implemented at least 17 rural development programmes with credit component to extend group approach to financial services delivery to un-served poor and dis-advantaged communities. These programmes focus to organize target people into SCGs/VSLGs with savings collection and loan operation as one of the key activities and are highly deep-rooted with hardly any clusters or villages in rural areas without SCGs/VSLGs. There are cases where member of the households have participated in more than one SCGs/VSLGs supported by different programmes.

Table 5: SCGs/VSLGs in Nepal as of July 2009

S.N.	Particulars	Unit	Value
1	Rural Development Programmes	No	16
2	SCGs	No	55,742
	Male only	No	15,681
	Female only	No	21,705
	Mixed	No	18,356
3	Members	No	1261,309
	Male	No	602,049
	Female	No	659,260
4	Savings mobilization	Rs. '000	1,203,951

Sources: Institutional Survey, September 2009.

SCGs/VSLGs are promoted either by involving households below poverty line or using holistic approaches covering over 80% HHs in a particular settlement. Mainly SCGs/VSLGs are promoted adopting homogeneity and joint liability principles at village or settlement level. Numbers of member per SCGs/VSLGs ranges between 9 and 60 with

[14]RSRF was established in 1991 and managed by NRB that provides wholesale loans up to NRs. 2.0 millions to SCCs/FI-NGOs while RMDC was established in 1998, owned by NRB and Nepalese banking sector that can on-lend up to NRs. 200.0 millions to MFIs.

[15]This includes solidarity groups at village level, inter-groups at ward level and main committees at VDC level. Main committee is registered as cooperatives under Cooperative Act 1990.

an average of 23 members. SCGs/VSLGs act as financial and non-financial Service Delivery Unit (SDU) of most rural development programme. In most cases, SCGs/VSLGs are viewed as the body for the members to start their loan application process, pool monthly individual and other compulsory savings and carry out other activities viz. marketing, farming and community development.

World Bank (2006) has estimated over 400,000 informal groups active in rural areas that are involved on savings mobilisation in some form. Number of SCGs promoted by 17 rural development programmes implemented by the government was 55,742 with over 1261,309 members. These SCGs mobilize members' financial savings and use them for lending to promote income generation, asset creation and social/economic development. In general, thousands of SCGs/VSLGs that exist in rural Nepal are under-utilized.

2.3 Demand of Financial Services

The findings of the 2006 Access to Financial Services Survey confirm that use of banks by low income households is limited, financial NGOs and cooperatives play a large role in providing both deposit accounts and loans, and informal borrowing far exceeds formal borrowing.

Only 26 percent of Nepalese households have bank accounts and banks' procedures are perceived as being the most cumbersome among institutions. Accordingly, clients prefer not to save in them. Banks are dominated in urban areas and among the wealthiest.

Financial NGOs and cooperatives run a close second as largest provider of deposit accounts, serving 18 percent of households. These institutions are the preferred provider for low-income households, but are close to banks even for wealthier households. Microfinance and regional rural development banks are a distant third provider of deposit accounts, serving only 4 percent of households, mainly poor in rural areas.

About 38 percent of Nepalese households have an outstanding loan exclusively from the informal sector, 16 percent from both the informal and formal sector, and 15 percent from only the formal sector (that is, a bank, finance company, financial NGO or cooperative, or microfinance or rural regional development bank). Family and friends are by far the largest informal providers of loans to households and, contrary to common belief, family and friends often charge interest on borrowed fund close to the market rate. Most households who borrow from informal providers do not bother trying to borrow from financial institutions, mainly because formal institutions cannot meet their financial needs on time. Informal providers also require less physical collateral. Even among the wealthiest households, half of those with a bank account prefer informal lenders because of their rapid delivery. Similarly, informal lenders are the preferred providers of working capital for small businesses, again because they are faster at sanctioning loans than the formal financial institutions.

Of households that borrow from the formal sector, financial NGOs and cooperatives are the largest provider of loans (except for the wealthiest households). They dominate the market for loans under NRs 50,000, even for households with a bank account. Banks are the second largest provider mainly in urban areas and for loans larger than NRs 50,000. MDBs are the third largest providers, serving mainly in rural areas in the Tarai and accessible hills. Finance companies are the least preferred formal lenders, and operate mainly in the Kathmandu valley and few urban centers outside Kathmandu valley.

Nepal's payment system is virtually unused for retail domestic transactions and little used for international ones. An estimated 69 percent of foreign remittances come through informal channels usually family and friends even among households with a bank account. Just 6 percent of remittances are saved in financial institutions. The bulk

of foreign remittances are used for consumption and to repay loans that was borrowed by the workers to migrate to other countries.

In sum, the demand indicators show that, despite government efforts, formal financial institutions do not serve the needs of most of the Nepalese population. And while access to and use of formal financial services are limited in general, the problem is more acute for small businesses and low-income households. Indeed, both access and use are closely correlated with business loan size and household income.

2.4 Wholesale Lending Modalities

The five wholesale lending modalities currently effective in Nepal are: RSRF, RMDC, SKBB, Cooperative Bank and BCU. All these apexes follow almost the same lending methodologies and they are partnering with MFIs currently active in rural areas. The wholesale lending modalities have some common and contracting features (Table 6).

Table 6: Basic Features of Wholesale Lending Institutions

Particulars	RSRF	RMDC	SKBB	Cooperative Bank	BCU
Target Clients	SCCs and FI-NGOs	SCCs, FI-NGOs, MDBs and GBBs	SFCLs	SCCs and multipurpose cooperatives	SCCs, FI-NGOs, MDBs and GBBs
Sector	Rural and microfinance	Microfinance	Rural and microfinance	Rural and microfinance	Biogas
Interest rate	8% and 2% if timely paid	6.5%	9.5%	9%	6%
Service charge	No	1%	No	No	No
Number of client MFIs	115	62	228	151	177
Loan size (Max. in million Rs.)	2.00 millions	160.0 millions	30.0 millions	2.0 millions	30.0 millions
Repayment rate (%)	76	99.8	91	89	86
Portfolio at Risk (%)	33	2	25	22	36
Overdue rate (%)	23	0.3	12	11	14
Service delivery	Kathmandu office	Kathmandu Office	Eight Regional offices	-	Kathmandu Office
Operating self sufficiency	NA	128%	104%	NA	NA
Financial self-sufficiency	NA	112%	89%	NA	NA
Coverage by partner MFIs (No of clients)	83,500	462,500	139500	36400	10860
Loan terms (years)	3	3	3-5	2	3-5
Main problems	Poor management	Inability to work small and young MFIs, services concentrated in Tarai and accessible hills	Lack of loanable fund at market rate and independence on operation	Poor management	Low capacity

Source: Survey of Wholesale Lending Institutions in Nepal, August 2009

3. STATE OF THE ART ON COMMUNITY BASED BANKING IN NEPAL

3.1 Concept of Community based Banking

Community based/linkage banking is a scheme that helps to promote financial transactions between formal rural banking systems[16] with informal SCGs/VSLGs as clients. A SCG/VSLG is a voluntary association of persons with common interest, formed democratically without any political applications. The main objective of the SCG/VSLG is to improve economic and social status of the members in terms of their needs and interests. While the SCG/VSLG activities are multi-purpose, quite often have a special focus on savings and credit management. Although unregistered, they function within the framework of an informal set of by-laws framed by members themselves. These groups distinctly differ from the existing cooperatives where heterogeneity is a common and some times a divisive factor. SCG/VSLG formation lacks standardization and various process involved on their operation are guided by awareness and education level of the members. Number of members in a SCG/VSLG ranges between 15 and 65 people and on an average typical SCGs/VSLGs have about 25 members. In terms of gender, the SCGs/VSLGs are either men only or women only or mixed.

As a savings mobilization initiative, members of the SCGs/VSLGs are encouraged to save on regular basis and their capacity is enhanced to use the savings thus pooled on making small interest bearing loans to their members. This process helps them absorb essentials of financial intermediation including prioritization of needs, setting lending terms and conditions, book keeping, accounting and financial management. This gradually builds financial discipline and credit history for themselves, as the money involved in the lending operations is their own hard earned money so called "warm (hot) money", saved over time with great difficulty. They also learn to handle resources of a size that is much beyond their individual capacities. In course of operation, the SCG/VSLG members begin to appreciate that resources are limited and have a cost.

In community based banking scheme, SCGs/VSLGs act as a financial intermediaries owned by the poor. Once SCGs/VSLGs demonstrate mature financial behavior, banks are encouraged to make loans to SCG/VSLGs in certain multiples of their accumulated savings. The bank loans are given without any collateral and at market interest rates. Only SCGs/VSLGs demonstrating proven credit history and set standards are eligible for borrowing and banks find it easier to lend these SCGs/VSLGs as their members have developed a credit history.

In the operational term, "cold (outside) money" borrowed from the banks is added to SCGs/VSLGs' own "warm (hot) money" and used as a loanable fund to extend interest bearing loans. In most cases mixing of "cold and hot money" enforce credit discipline among SCG/VSLG members. Bank loan provides additional liquidity to SCG/VSLGs on meeting the financial needs of their members on production, investment or consumption activities. The members have experienced the benefits of credit discipline by being able to save and borrow regularly without many hassles. The SCGs/VSLGs continue to decide terms of loans to their own members. The peer pressure ensures timely repayments and replaces the "collateral" for bank loans. In India, the SCG/VSLG banking scheme is quite effective to extend outreach of microfinance services in areas where formal sector is reluctant to operate.

[16]Under Nepalese context, rural banking systems comprises of public and private sector commercial banks (CBs), development banks (DBs) and microfinance development banks (MDBs) as well as savings and credit cooperatives (SCCs) and financial intermediary NGOs (FI-NGOs).

3.2 Savings and Credit Groups/Village Savings and Loan Groups in Nepal

History of group approach to poverty reduction in Nepal dates back to mid 1970s wherein about 9-25 people below poverty line and living in a settlement are organized into groups (male only, female only or mixed) under the technical backstopping support of the government promoted programmes such as Small Farmer Development Programme (SFDP) and Intensive Banking Programme (IBP) to work together for addressing their common problems. Other programmes such as Production Credit for Rural Women (PCRW), Banking with the Poor (BWTP), Micro-credit Project for Women (MCPW), etc. also attempted to address poverty problem using group approach. Success of programme implementation using group approach led to its expansion among different government organizations (GOs) and Non-Government Organizations (NGOs) in the recent years with the idea that people living in a settlement shares an environment and common needs together and they are bound to take up activities jointly which are meant for the welfare of the whole group. In most cases, these groups exhibit features of SCGs/VSLGs with savings collection and loan operation as one of their key activities.

At present there are hardly any clusters or villages in Nepal without SCGs/VSLGs. There are cases where member of the households have participated in more than one groups promoted by different organizations. Since mid 1990's UNDP in close collaboration with Ministry of Local Development, Ministry of Forest and Environment, Ministry of Tourism and Civil Aviation, Ministry of Industries, Supplies and Commerce and Ministry of Women, Children and Social Welfare has been implementing rural development and poverty reduction programme organizing the beneficiaries into SCGs/VSLGs. The number of SCGs formed by different government and non-government programmes in Nepal is estimated to be at least 55,742 with 1261,309 members (Table 7).

Table 7: Number of Savings and Credit Groups/Village Savings and Loan Groups and Members in Nepal

S.N.	Name of projects / programmes	SCGs/VSLGs (No)				Members (No)		
		Male only	Female only	Mixed	Total	Male	Female	Total
1	DLGSP	6736	7171	7823	21730	262403	267705	530108
2	RUPP	735	626	3912	5273	112596	107703	220299
3	MEDEP	892	1556	0	2448	6872	12764	19636
4	REDP	715	925	3421	5061	55235	60842	116077
5	MGEP	0	35	270	305	1611	7338	8949
6	PCP	1771	1698	162	3631	64334	58988	123322
7	TRPAP	165	265	351	781	7625	7940	15565
8	Other projects/ programmes[17]	4667	9429	2417	16513	91373	135980	227353
	Total	15681	21705	18356	55742	602049	659260	1261309

Source: Institutional Survey, September 2009

Note: DLGSP = Decentralized Local Governance Support Programme, RUPP = Rural Urban Partnership Programme, REDP = Rural Energy Development Programme, TRPAP = Tourism for Rural Poverty Alleviation Programme, MEDEP = Micro-enterprise Development Programme, PCP = Participatory Conservation Programme, and MGEP = Mainstreaming Gender Equity Programme.

Most of the SCGs/VSLGs are promoted under social mobilization process and these groups possess potential for poverty reduction. Mostly these SCGs/VSLGs are involved on mobilizing members' financial savings for income generation and asset creation, and implementing activities for social and economic development. As far as savings mobilization is concerned, members of the SCGs/VSLGs save every week or fortnight or month on regular basis and use the savings thus collected for making small interest

[17]Other government-promoted programmes are SFDP, PCRW, BWTP, MCPW, and IBP.

bearing loans to their members. Interest charged by most SCGs/VSLGs on such loans ranges between 24% and 36%, which is higher than the interest charges by most FSPs. Quality of loan portfolio managed by most SCGs/VSLGs are better than the portfolio quality of FSPs, which exceed more than 90%. There are large numbers of SCGs/VSLGs demonstrating their competency to act as efficient financial intermediary; to set efficient lending terms and conditions; to maintain proper book of accounts and financial management systems; to build financial discipline and credit history for themselves. These SCGs/VSLGs have also learned to handle resources of a size that is much beyond their individual capacities. Most SCGs/VSLGs have appreciated their capacity to properly handle more financial resources to address their poverty problems.

These SCGs/VSLGs are invaluable resources for poverty reduction endeavors and the prime need of the time is to ensure that poor would live with dignity, sufficiency and responsibility; and to recognize that poor are bankable and they themselves are likely to have better appreciation of their socio economic situations than larger official and private institutions.

3.3 Potentials of Savings and Credit Groups to Ensure Access to Sustainable Financial Services

The savings and lending procedures adopted by SCGs/VSLGs are very simple and are based on mutual trust and confidence of the members. As a democratic body, all members have equal opportunity to speak and express their opinions. Any decisions to be taken are to be made unanimously after through discussion among them. The purpose of loans provided is need based, prioritization among different purposes and members' collective decisions. The interest rate or service charge varies widely among different groups and for different purposes within same group. Even though in some SCGs/VSLGs interest rate charged is higher than formal credit systems, borrowers are willing to pay higher interest rate as this is still far less than the interest rate charged by local money lenders. At the same time, members can access services in time and benefit of the higher interest rate goes to the group itself. The terms and lending norms, such as cost, repayment, interest rates, etc., are often different from lending procedure followed by formal credit institutions. Thus, most of the SCGs/VSLGs are already engaged in informal banking operations i.e. savings and credit activities and there is death of mechanism to encourage efforts of SCGs/VSLGs that are already functioning with good financial discipline to scale up the provision of complete financial packages. The SCG/VSLG banking scheme could be one of the options to enable SCG/VSLGs to scale-up their financial services. Hence there is a need to ensure the linkage of SCGs/VSLGs with banks; preferably, banks can establish linkages with SCGs/VSLGs after some time of their formation.

SCG/VSLG members have received financial services at a varying degree, either through internal capital or linkages to external credit capital created under different programmes as Local Funds or revolving loan fund, but these funds are insufficient to meet credit need of most SCG/VSLG members. Credit rationing mechanism adopted by these programmes to allocate available resources aggravated the problem related to loan fund allocation thereby leading to significant inefficiencies and distortions in Nepalese rural financial market.

SCG/VSLG banking scheme has special significance to expand the outreach of financial services to poor living in inaccessible hills and mountains using the existing decentralized formal banking networks as well as several organizations in formal and non-formal sectors as banking partners. The scheme has potential to extend the financial services to meet poor people's needs at low cost. Providing SCGs/VSLGs access to external credit to a size justified by their capacity and potentiality may stimulate their self-help capacity and eventually appear as one of the most essential strategy to overcome poverty and address some of their crucial social concerns.

Ensuring access to sustainable financial services to these SCG/VSLG members is an arduous task in view of the fact that operation of existing service providers[18] is concentrated in Tarai and accessible hills with limited or no services in inaccessible hills and mountains and SCG/VSLG linkages scheme is yet to be formalized/institutionalized among key actor in the financial sector. However, SCG/VSLG banking scheme possess prospects of properly using SCGs/VSLG to ensure access to sustainable financial services to their members, expand the frontier of financial service, especially in inaccessible hills and mountains of Nepal.

As discussed already, SCG/VSLG banking is a new concept among Nepalese planners and policy makers through some leading FSPs (MDBs and FI-NGOs) have already felt the need to be part of this scheme to expand their services as well as attain operational and financial self-sufficiency. In the present context of Nepal, operation of SCG/VSLG banking scheme encompasses at least following four elements:

- Identify SCGs/VSLGs, devise mechanism to record their existence and enhance their capacity on self regulation (i.e. support to prepare code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management) and support to build-up capital by regular savings,

- In-depth study on different models of promoting SCG/VSLGs Banking[19]

- Legal and regulatory arrangements to enable FSPs extending a line of credit directly to mature SCGs (not through an intermediary) without determining the purpose for which the members could use the loans or any other norms like restricting loan size to tangible assets or determining unit costs for loans coverage. The SCGs/VSLGs could only lend to their members for any purpose including meeting various emergency expenses, consumption requirements and productive investment, without any prescribed ceiling on interest rate.

- Consultations with potential microfinance service providers to involve as partner to extent microfinance services to identified SCGs/VSLGs of the VDCs in the district.

SCG/VSLG banking scheme must revolve around initiating linkage processes in two dimensions:

- Institutional linkages between SCGs/VSLGs and FSPs either indirectly by involving NGOs and other SCGs/VSLGs promoting institutions as financial intermediaries or directly.

- Financial linkages between savings and credit in fixed ratios or in dynamic ratios of savings: credit which increases in repeat credit cycles.

The pre-requisites underpinning SCG/VSLG banking scheme includes the

- Finalization of the related financial acts/rules to enable existing FSPs provide wholesale loans to SCGs/VSLG; and

- Upgrading the capacity of the SCGs/VSLGs to be creditworthy with FSPs to receive and manage the wholesale loans.

[18]The FSPs are CBs, DBs, FCs, MDBs and FI-NGOs involved on microfinance operation.
[19]The model that prevails include: (i) Model I - SCGs/VSLGs formed and financed by banks, (ii) Model II: SCGs/VSLGs formed by NGOs and formal agencies, but directly financed by banks and (iii) Model III: SCGs/VSLGs financed by banks using NGOs and other agencies as financial intermediaries.

4. OVERVIEW OF FINANCIAL MARKET IN CARE-NEPAL'S WORKING AREA: SITUATION ANALYSIS

4.1 Overview

The four districts namely Bajhang, Bajura, Doti and Syangja differ significantly in terms of state of development of financial market. Financial market is relatively underdeveloped and system is yet to be monetized in Bajhang, Bajura and Doti compared to Syangja district. At present, seven major types of FSPs namely CBs, DBs, FCs, SCCs, SFCLs, FI-NGOs and MDBs are active in CARE Nepal's working areas. While all seven types of FSPs exist in Syangja district, there are CBs, DB, SCCs and MDB in Doti and only CBs and SCCs in Bajhang and Bajura districts. In addition, various rural development programmes implemented by government and non-government sector are promoting large numbers of SCGs/VSLGs under credit component to provide financial service to the poor. Despite significant efforts and innovations to expand financial services to the poor and excluded, access to financial services has still been confined among relatively accessible areas (district headquarters and along road corridor) in these districts.

4.2 Context and Realities for Microfinance Operation

Bajhang, Bajura and Doti are one of the underdeveloped districts of Nepal. Syangja is relatively developed compared to these districts. The difficult topology, the feudal history and inequality in income and human development by-passed rural populations of these districts and excluded indigenous and occupational groups from access to basic services and acted counterproductive to intended impact of poverty reduction efforts. Limited infrastructure and market access, remoteness, sparse population, climatic conditions, less arable land and limited but specialized economic potentialities have complicated provision of financial services in Bajhang, Bajura and Doti districts where demand is higher due to poverty and deprivation. The situation is fairly better in Syangja district.

Incidence of poverty in these districts is characterized by limited access to assets, education, health facilities, economic infrastructure, savings, paid employment and entitlements. These districts have predominately agrarian and rural economy, with over 80% population depending on agriculture sector for livelihood. Most people are subsistence farmers, managing to grow enough to feed their families and sell a small surplus, which buys a few necessities like salt, tea, and cloth. Rice, maize, mustard, wheat millet, barley and potatoes are grown in these districts. Cattle, buffalo, goat, sheep, pig and poultry are the typical livestock and birds raided in these districts. The economy of these districts is characterized by stranglehold of low income, low savings and low investment where the infusion of credit can be a major key to break this structure. However, provision of financial services embodied by different challenges such as scattered settlement, access, scale of operation, sustainability, limited credit absorptive capacity is not straightforward in inaccessible hills and mountain areas.

Bajhang, Bajura and Doti districts face considerable development problems and challenges. Agricultural productivity is low and declining due to population pressure on marginal land. Limited resource base, rapid population growth and environmental degradation, low level of social development and widespread poverty reinforces the development challenges in these districts. In the past, expansion on cultivable land for sustainable crop production in these districts was at the cost of forest resources and such possibilities have been gradually diminishing overtime. Opportunities in non-agricultural sector remain largely unexploited due to lack of resources. Access to financial services is limited, more so among women and further hindered by geographic limitations in remote areas of these districts. Improvements in infrastructure, markets, communication facilities, skills training, information and financial services are required to

increase the benefits of financial services, allowing microentrepreneurs, particularly women, to improve their economic status in those remote areas.

4.3 Landscape of Financial Service Providers in Study Districts

Landscape of financial service providers these districts comprise of informal financial sector, semi-formal sector and formal financial sector as they pertain to provision of microfinance services. The 'snap-shot' of landscape of financial sector are discussed hereunder.

4.3.1. Informal Financial Sector

Informal lenders provide credit without procedural complexities and are flexible regarding repayments and collaterals, which does not exist in formal sector. Individual lenders and informal groups / institutions are quite active in these districts.

Individual lenders in these districts comprise of landlords, merchants, farmer-lenders, goldsmiths, pawnbrokers, friends and relatives and these actors exist in almost all the villages in these districts. They lend money with or without interest or collateral. While moneylenders are the one who extend highly secured loans at relatively high interest rate ranging between 36% and over 100% per annum with loan secured with collateral (gold or silver) or without collateral albeit linked with labor and/or land transaction as security. They often receive either labor services or other small gifts as part of loan request. Loan from moneylenders are generally used for emergency purposes such as medical crises or socio-cultural obligations like weddings and funerals.

Money lending from informal groups/institutions comprises of traditional rotating credit groups such as dhikuties and guthies. In these districts, these informal groups / institutions exist in different form and they represent a truly local and indigenous response to credit needs. Close scrutiny of informal financial marker in these districts indicates that there exists enormous level of financial activity owing to very much limited network of financial service providers in these districts.

4.3.2. Formal Financial Sector

The formal financial sector in these districts includes CBs, DBs, FCs, MDBs, FI-NGOs, SCCs and SFCLs and there are 5 CBs, 4 DBs, 3 FCs, 4 MDBs, 2 FI-NGOs, 106 SCCs and 1 SFCL in these districts (Table 8). These FSPs have some roles to extend financial services to people of different socioeconomic strata in these districts.

Table 8: Banks and Non-financial Institutions in the Working District of August 31, 2008

S.N.	Type of institutions	Number of Institutions by Location				
		Bajhang	Bajura	Doti	Syangja	Total
1	Commercial Banks (A grade)	1	1	1	2	5
2	Financial Institutions (B grade)	0	0	1	2	4
3	Financial Institutions (C grade) – Finance Companies	0	0	1	2	3
4	Financial Institutions (D grade) – MDBs	1	0	1	2	4
5	Savings and Credit Cooperatives – limited Banking operation	0	0	0	0	0
6	NGOs – involved in microfinance operation	0	0	0	2	2
7	Savings and credit cooperatives	21	15	21	49	106
8	Small Farmers' Cooperatives Ltd.	0	0	0	1	1
	Total					

Source: Field Survey August-September, 2009

4.3.3. Microfinance Sector

Microfinance sector generally targets poor and excluded groups and focuses to address poverty problems and encompasses both microfinance institutions and programmes.

4.3.3.1. Microfinance Institutions

There are MDBs, FI-NGOs, SCCs, and SFCLs in these districts with or without linkages with wholesale or refinancing organizations like RSRF, RMDC, SKBB, Cooperative Bank and BCU. MFIs have relatively visible presence in Syangja and relatively little or no presence in Bajhang, Bajura and Doti districts. This indicates that both commercial oriented and community based MFIs co-exist in these districts. Concentration of SCCs is relatively higher in all the four districts. Again, SCCs in Syangja district are relatively stable with proven capability to expand the outreach of their services by diversifying their product and services compared to the SCCs in Bajhang, Bajura and Doti districts.

4.3.3.2. Microfinance Programmes

Since mid 1970s Government and NRB implemented at least seven rural development programmes (SFDP, PCRW, IBP, DLGSP, RUPP, WUPAP, LFLP) with credit component to extend group approach to financial services delivery to un-served poor and dis-advantaged communities in these districts. These programmes focused at organizing the target people into SCGs/VSLGs with savings collection and loan operation as one of the key activities and are highly deep-rooted with hardly any clusters or villages in rural areas without SCGs/VSLGs. During field studies it has been noticed that there are households that have participated in more than one SCGs/VSLGs supported by different programmes.

Table 9: Number of Savings and Credit Groups/Village Savings and Loan Groups and Members in Four Project Districts as of August 2009

S.N.	Particulars	Unit	Value
1	Rural Development Programmes	No	7
2	SCGs	No	2,855
	Male only	No	830
	Female only	No	1,115
	Mixed	No	910
3	Members	No	62,770
	Male	No	30,203
	Female	No	32,567
4	Savings mobilization	Rs. '000	61,375

Sources: Institutional Survey, September, 2009

Two approaches of group formation prevail in these districts. First, identifying the target groups and organizing the target group into SCGs/VSLGs (case of SFDP, PCRW, IBP, LFLP) and second, using holistic approaches covering over 80% HHs in a settlement (case of DLGSP, RUPP, WUPAP). These initiated attempted to institute homogeneity and joint liability principles at village or settlement level while supporting group formation and development. Numbers of member per SCGs/VSLGs ranges between 5 and 63 members with an average of 22 members. SCGs/VSLGs act as financial and social intermediaries for rural development service delivery.

Based on the information gathered from various primary and secondary sources during this study estimated that the above mentioned programmes have organized about 62,770 members into 2,855 SCGs/VSLGs in these four districts and these are male only, female only and mixed groups in these districts. Participation of female is higher in these

groups compared to male counterparts. Total amount of savings mobilized by these SCGs/VSLGs in these districts are Rs. 61.38 millions. Average savings balance per SCGs is Rs. 21,497 and average savings per member is Rs. 978. These SCGs use the savings mobilized for lending to promote income generating activities, asset creation and social / economic development.

Ensuring the access to sustainable microfinance services to these people is an arduous task in these districts in view of the fact that the operation of existing microfinance service providers[20] is concentrated mainly in accessible areas of these districts with limited or no services in inaccessible areas and SCG linkages scheme is yet to be formalized / institutionalized among them.

4.4 Status of Savings and Credit Groups/Village Savings and Loan Groups in the Working Areas

A total of 26 SCGs/VSLGs currently in existence in the CARE Nepal's working areas in Bajhang, Bajura, Doti and Syangja districts were surveyed during field studies to assess various aspects of their operation. Most of these groups are promoted by different PAs. CARE Nepal has hired four partner NGOs per districts to work with these groups and build their operational and management capacities. This section summarized the major findings of the field study.

4.4.1.Operation of SCGs/VSLGs

Operations of SCGs/VSLGs are very simple which is based on mutual trust and confidence of group members. As a democratic body, all members have equal opportunity to speak and express their opinions. Any decisions to be taken are to be made unanimously after through discussion among them. Financial transaction such as the purpose of loans provided is need based, prioritization among different purposes and members' collective decisions. The interest rate or service charge charged varies widely among different groups and for different purposes within same group. Even though in some SCGs/VSLGs interest rate charged is higher than formal credit systems, borrowers are willing to pay higher interest rate as this is still far less than the interest rate charged by local money lenders. At the same time, members can access services in time and benefit of the higher interest rate goes to the group itself. The terms and lending norms, such as cost, repayment, interest rates, etc., are often different from lending procedure followed by formal credit institutions.

Members of the SCGs/VSLGs have received financial services at a varying degree, either through the internal capital or linkages to external credit capital created under Local Funds by the PAs.

4.4.2.Area and Membership

In the targeted programme, one member of the households below the poverty line has participated in the SCGS/VSLGS. Most programs have provided special emphasis to include families that meet the following criteria: (i) if irrigated land, a holding of less than 5 ropani (0.25 Ha.) per household of five family members, (ii) if un-irrigated land, a holding of less than 10 ropani (0.5 Ha.) per household of five family members, (iii) permanently living in the area, (iv) has no member of family employed permanently in organized (formal) sector, (v) a per capita income of less than NRs. 4,404 (US$ 61.00, average per capita income in Nepal is US$ 210) at 1997/98 prices and (vi) no cement fixed and concrete ceiling house at the time of joining the group. In contrast, in the integrated programme, efforts have been made to include all the households in the settlement into the groups.

[20]They are MDB, FI-NGO, SCCs and SFCLs.

Under the targeted programme, SCGs/VSLGs are promoted exclusively for savings mobilisation and enhancing access to financial services for promoting income generating activities, while under the integrated programme, SCGs/VSLGs are promoted to implement component of integrated rural development initiatives such as governance, rural infrastructure development, cash crop promotion, natural resource management and participatory development. Due to lack of complete packages for engaging community people on development interventions, these programmes have included savings mobilisation and loan management as a part of the packages. Eventually, the community organizations (COs) promoted by these programmes have been transformed into SCGs/VSLGs with savings mobilisation and loan management as a primary focus and core activity.

During field study, a total of 26 SCGs/VSLGs were surveyed from 17 VDCs of the four project districts. Number of members in these SCGs/VSLGs ranges between 10 and 63 with an average of 29 members. Drop-out of existing members and joining of new members are common phenomenon in the SCGS/VSLGs and number of members entered in SCG/VSLG over the last one year range between 0 and 10 with an average of 1 member joining per SCG/VSLG. In general, they are the left-out members from the same community. With few exceptions, each SCG/VSLG has four executive committee members comprising of chairperson, secretary, treasurer and controller, all democratically elected to manage their day to day operation.

4.4.3. Equity and Access

The SCGs/VSLGs studied are either woman only or mixed and they represent all social groups (Dalit and Janajaties) in their locality. In general, these SCGs/VSLGs expressed their interest to include as many Dalits and Janajaties as possible, however, there was instances where some Dalits and Janajaties expressed their reluctance to be general member of SCGs/VSLGs. In all the 26 SCGs/VSLGs studied, on an average there are 11% Dalits, 31% Janajaties and 58% other ethnic groups. This is fairly good composition as far as ethnic composition of the communities where these SCGs/VSLGs exist.

Each SCG/VSLG has executive committee members. SCGs/VSLGs surveyed have attempted to elect relatively matured person with leadership quality as chairperson while they have provided special attempt to include more educated women as secretary, treasurer and controller. While chairperson chairs meeting and counts amount deposited as loan and interest payments and savings by members, secretary maintains minutes and treasurer make entry in the books of accounts and savings and loan ledgers, and make an entry in pass-book of members (wherever it exist) and controller oversees entire group operation and management process and assist to speed-up the process. Considering the important role to be played by executive committee members, SCGs/VSLGs have attempted to make women executive committee as inclusive as possible. Both Dalits and Janajaties have been represented in executive committee. In 26 SCGs/VSLGs surveyed, on an average there are ...% Dalits, ...% Janajaties and ...% other ethnic groups. This is fairly good representation and inclusive considering the ethnic composition of the communities in these districts.

4.4.4. Book Keeping and Accounting System

Most of the SCGs/VSLGs don't have good and systematic book keeping and accounting system. There are few SCGs/VSLGs with a very simple book keeping and accounting system. A typical SCG/VSLG in these districts has meeting register, main ledger, savings ledger, and loan ledger. They however neither has inventory register nor have a system of getting receipts or providing payments slip, chart of accounts of transactions and maintain voucher of their transaction. The best part of their operation is that some SCGs/VSLGs have even distributed pass-book to their members.

Quality of book keeping and accounting system in most SCGs/VSLGs was below standards. Of the 26 SCGs/VSLGs surveyed, less than ten can conduct group meeting on their own as they can calculate and collect amount to be recovered from members, make entry in savings and loan pass book while remaining 16 SCGs/VSLGs still require support from externals to conduct meeting, calculate and collect amount to be recovered from members, make entry in savings and long pass book. There are some SCGs/VSLGs involving Dalits and Janajaties that are less likely to perform their duties and responsibilities envisaged in the immediate future.

Irrespective of whether book keeping and accounting was done by SCGs/VSLGs executives and social mobilisers, book keeping and accounting is not upto date in most SCGs/VSLGs. The good part is that meeting register was up-to-date in all SCGS/VSLGs surveyed. While inventory register was not maintained in all SCGs/VSLGs surveyed, the situation of maintaining main ledger, savings ledger, loan ledger, savings and loan pass books was quite mixed. Strictly speaking none of the SCGs/VSLGs surveyed have maintained main ledger up-to date, however, savings and loan ledger have been up-to-date in 7 out of 26 SCGs/VSLGs surveyed during the field study.

Building the capacity is SCGs/VSLGs to maintain books of account are one of the challenges that CARE-Nepal should address in immediate future. There are three issues to be addressed: first book keeping and accounting system is incomplete and unscientific; second even SCGS/VSLGS with relatively qualified executives (SLC or intermediate level education) have not maintained books of account up-to-date due to inadequate training and lack of motivation to do so and finally most of the promoting programme has formed SCGs/VSLGs involving members who are less likely to enhance their capacity to maintain book of accounts in immediate future. These are the areas where CARE has to draw its attention immediately considering that SCGs/VSLGs are the foundation under which success of the entire programme lies.

4.4.5.Governance and Responsibilities

In the context of governance and responsibilities of the SCGs/VSLGs, review of the following standard definition of the SCGs/VSLGs is relevant.

> *SCGs/VSLGs are voluntary, small group structures for mutual aid and the accomplishment of a special purpose. They are usually formed by peers who have come together for mutual assistance in satisfying a common need, overcoming a common handicap or life-disrupting problem and bringing about desired social and/or personal change. The initiators of such groups emphasize face-to-face social interactions and assumption of personal responsibility by members. They often provide material assistance, as well as emotional support; they are frequently "cause" oriented, and promulgate an ideology or values through which members may attain an enhanced sense of personal identity.*

Hence, the key components to be included in the definition of SCGs/VSLGs are: voluntary, small group structures, mutual assistance and accomplishment of special purposes, formed by peers, satisfying a common need, overcoming a handicap or life-disrupting problem, bringing about social and/or personal change, emphasis on face-to-face interactions, assumption of personal responsibility by members, provide material assistance along with emotional support and frequently "cause" oriented and driven by an ideology. This implies that governance and responsibilities is the most fundamental basis of SCGs/VSLGs operation.

Field survey information revealed that most of the SCGs/VSLGs are operating on ad-hoc basis. They are operating based on simple operating rules and regulations agreed, decided and recorded in meeting register. All the SCGs/VSLGs surveyed lack operational policy such as code of conduct for SCGs/VSLGs operation, SCGs/VSLGs operational rules and regulation, savings policy, loan policy and financial management policy.

Executives of 9 out of 26 SCGs/VSLGs possess book keeping and accounting as well as loan management skill. Lack of education and technical capacity has constrained remaining SCGs/VSLGs to build capacity on book keeping and accounting as well as loan management skill. None of the SCGs/VSLGs have paid book keeper. They lack aptitude and interest to recruit a paid book keeper. CARE-Nepal should revisit its policy to enhance the capacity of SCGs/VSLGs, orient them to recruit paid book keeper for long term viability and enhance capacity of SCGs/VSLGs executives on monitoring duties performed by paid book keeper. Further, SCGs/VSLGs have made series of decisions in their meeting and recorded it in their meeting register. There are two issues regarding the ways in which SCGs/VSLGs meetings are conducted and decisions are concentrated. First, most of the decisions are focused on loan operation and management and second, in most SCGs/VSLGs meeting's decisions are not fully applied on operational management.

4.4.6.Savings Mobilisation

Savings mobilisation is one of the important activities undertaken by SCGs/VSLGs from their members. The promoters of these SCGs/VSLGs have motivated their members to participate in savings mobilisation activities. Members of the SCGs/VSLGs surveyed have participated in three types of savings scheme viz. compulsory savings, voluntary savings and other savings. Of the three types of savings products, voluntary savings and other savings was not very popular among SCGs/VSLGs members. Total savings balance of the SCGs/VSLGs surveyed ranges between Rs. 350 and Rs. 66,000 with an average of Rs. 21,661 per SCG/VSLG. Of the total savings collected, 98% constitute compulsory savings and 2% consist of other savings, implying that compulsory savings is the major form of savings services participated by SCG/VSLG members. Compulsory savings rate of the members in the SCGs/VSLGs ranges between Rs. 10 and Rs. 500 with an average of Rs. 50 per month. It is quite remarkable to note that SCGs/VSLGs members are quite regular on savings mobilisation.

4.4.7.Loan Transaction

Loan operation in SCGs/VSLGs starts with internal lending of savings collected from members. They pool the savings from members and use the savings thus pooled among members for meeting their emergency needs for capital and financing for income generating activities. Outstanding loan of the SCGs/VSLGs ranges between Rs. 1,000 and Rs. 291,000 with an average of Rs. 33,227. The very principles of hot money and cold money applies as evident by the high repayment rate in most in most SCGs/VSLGs. Frequent repayment system has been instrumental for high repayment rate in these SCGs/VSLGs.

4.4.8.Income and Expenses

In general SCGs/VSLGs on-lend the loanable fund (i.e. savings, interest income, other income, etc.) at interest rate ranging between 18% and 24% per annum. The interest thus earned is the operating income of SCGs/VSLGs. Operating expenses of SCGs/VSLGs is quite low as promoting institutions provides most of the stationeries and other supplies. Their income has been simply used for meeting some stationary cost and transportation cost while visiting to promoting institutions for logistic support. Further, all the worked related to group management and book keeping/accounting are done free of cost by SCGs/VSLGs executives. Thus, so far almost all SCGs/VSLGs surveyed were operating quite efficiently. Balance (i.e. net operating income) has been used to set aside loan loss provision, other reserve and distribute bonus to their members. So far bonus is distributed equally among SCGs/VSLGs members irrespective of loan size of SCGs/VSLGs members.

Operating income of the SCGs/VSLGs ranges between Rs. 20 and Rs. 26,880 with an average of Rs. 7,613. On the other hand, operating expenses of SCGs/VSLGs surveyed ranges between Rs. 0 and Rs. 10,639 with an average of Rs. 2,266. Net operating income of the SCGs/VSLGs surveyed ranges between Rs. 20 and Rs. 26,340 with an average of 5,394. In general concerned SCGs/VSLGs distribute net operating income as bonus among their members. Distribution of bonus once a year has been quite effective to build feeling of ownership among SCGs/VSLGs members.

4.4.9. Assets and Liabilities

Main ledger maintained by the SCGs/VSLGs provides easy way to prepare balance sheet of their transaction. But this is an area that needs to be carefully reviewed. The balance sheet included in main ledger provides separation between assets and liabilities but not the income statement as well as equity. While doing analysis of the balance sheet of the SCGs/VSLGs from main ledger, an effort has been made to first separate components of the income statement as discussed in previous section and differentiates between assets, liabilities, and equity.

Assets of the SCGs/VSLGs include cash balance, bank balance, outstanding loan balance, receivables and others. Total assets of these SCGs/VSLGs range between Rs. 2,000 and Rs. 2,096,870 with an average of Rs. 177,967. Though some PAs have provided support in kind such as box, calculator etc. to SCGs/VSLGs, these assets are yet to be valuated and included as fixed asset in balance sheet. Further, some SCGs/VSLGs have constructed meeting building on their own and such buildings are yet to be valuated and included in as an asset in the balance sheet.

Liabilities of the SCGs/VSLGs include savings balance, external loan and other liabilities. Total liabilities of these SCGs/VSLGs range between Rs. 2,000 and Rs. 74,315 with an average of Rs. 26,251. Likewise, equity (net worth) of the SCGs/VSLGs includes loan loss reserve, other reserves, capital grants and other capital. Total equity of these SCGs/VSLGs ranges between Rs. 0 and Rs. 2,061,870 with an average of Rs. 151,716. It should be noted that none of the SCGs/VSLGs possess capability to prepare the balance sheet of their transaction.

4.4.10. Growth Plan for next year

During field study, SCGs/VSLGs surveyed were inquired if they have growth plan on aspects related to growth in membership, savings mobilisation, and external borrowing, increase in loan disbursement and diversification of products/services for next year. The inquiry uncovered that such a plan does not exist in all the SCGs/VSLGs surveyed. This is another area that the capacity building plan of CARE-Nepal should focus on if these groups are to be made self-reliant in their operation.

4.4.11. Overall Capacity of the SCGs/VSLGs

During field study, intensive focus group discussion has been conducted with the staff of the partner NGOs to classify SCGs/VSLGs based on their capacity to organize group meeting and manage group level book keeping and accounting system. The discussion revealed that only less than 10% SCGs/VSLGs are capable of managing group meeting independently while most of them require external support to conduct their meeting independently and some of them are less likely to manage their meeting independently in a foreseeable future. Even the capable SCGs/VSLGs possess simply the capacity to manage meeting but not confident to maintain savings and credit pass-book, savings ledger, loan ledger and main ledger. Most of these groups are not capable to undertaking closing of their transaction.

4.4.12. Issues on SCGs/VSLGs' Operational and Financial Performance

The findings on operational and financial performance of SCGs/VSLGs indicate that there should be renewed focus on strengthening their capacity. Such an strategy should focus on up-grading the current status of these SCGs/VSLGs towards their empowerment and ensuring that each possess a documented operational policy, transparent decision making process, double entry system of book-keeping and accounting, simple financial management and reporting system so as to make them creditworthy with formal financial services providers. Further, their capacity should be enhanced in implementing these activities.

Following are the measures to be followed to strengthen operational and financial performance of these SCGs/VSLGs.

- *SCGs/VSLGs benchmarking*: establishing current status and performance
- *Upgrading booking and accounting system*: introduce double entry accounting system and introducing (i) chart of accounts, (ii) journaling of transactions, (iii) main ledgers, (iv) side ledgers – savings and loans, (v) preparing financial statement (balance sheet and income statement) at least every six months.
- *SCGs/VSLGs operation policy*: introduce written code of conduct for SCGs/VSLGs operation, savings policy, loan policy and financial management policy,
- *Simple financial management system*: efficiency on loanable fund use need to be increased with capital utilization rate to exceed 90%,
- *Transparent decision-making process*: decision should be based on SCGs/VSLGs operational policy and a system of compliance audit need to be introduced every six months.
- *Improvement on portfolio quality*: There is tendency on overdue build-up in the mobilization of internal capital as well. Capacity of the SCGs/VSLGs to assess the portfolio quality using simple but effecting portfolio tracking system should be enhanced at SCGs/VSLGs level.
- *SCGs/VSLGs rating*: Rating of SCGs/VSLGs should be done using rating tool to assess their status, and support packages to strengthen capacity of SCGs/VSLGs at different rating standard will be developed and implemented.
- *Auditing of SCGs/VSLGs operation by external auditor*: There is no system of auditing the transaction of the SCGs/VSLGs by external auditors. This system need to be instituted for the capacity enhancement of the SCGs/VSLGs.

4.5 Status of Savings and Credit Cooperatives in the Working Areas

A total of 13 SCCs currently working in the CARE Nepal's working areas in Bajhang, Bajura, Doti and Syangja districts were surveyed during field studies to assess various aspects of their operation. These SCCs are either self-emerged or are promoted by other rural development programmes either federating SCGs/VSLGs that exist in these areas or through one-to-one membership (shareholders) under prevailing cooperative acts and rules. CARE Nepal has yet to devise its strategy to work with these SCCs. This section summarized the major findings of the field study.

4.5.1. Initiation, Intensity, Membership and Age

In its simplest form, the information collected from the SCCs surveyed indicates that the initiation of a SCC is associated with (i) starting off with 25 members or more, (ii) instilling a flexibility to accept new members, (iii) building loan capital through member savings, (iv) ensuring that the members are responsible for (and capable of) keeping the books of accounts and (v) training/learning on-the-job for human resource management.

There are SCCs in all the four project districts. As per the record of the Division Cooperative Office in Doti and Syangja, a total of 15, 20, 20 and 49 SCCs are registered respectively in Bajhang, Bajura, Doti and Syangja districts. With respect to the area and

scope of operation, a majority of them are located in relatively accessible areas of the districts and in those areas where rural development programmes like SFDP and PCRW were implemented in the past.

The size of the SCCs surveyed varies with the smallest SCCs being composed of the 27 members and largest having 746 shareholders, with an overall average membership of 321. About 56% of the total shareholders are women and on an average there are 181 women shareholders per SCC. Some SCCs are exclusively women managed. Given the critical importance of outreach in the achievement of sustainability, outreach in SCCs is best achieved through starting large and gradually scaling up. Those SCCs that started smaller have tended to remain smaller, even though a number of them are amongst the oldest in the sample.

The oldest SCCs surveyed are 12 year old and some are relatively younger, registered three years back. In general, older SCCs have more number of members than younger SCCs and relatively well developed system. Some SCCs have demonstrated proven ability to operate as financial intermediary at local level.

4.5.2. Equity and Access

The SCCs studied are either woman only or mixed and they represent all social groups (Dalit and Janajaties) in their locality. In general, these SCCs expressed their interest to include as many Dalits and Janajaties as possible, however, there was instances where some Dalits and Janajaties expressed their reluctance to be shareholder of the SCCs nearby. In all the 13 SCCs studied, on an average there are 19% Dalits, 14% Janajaties and 67% other ethnic groups. This is fairly good composition as far as ethnic composition of the communities where these SCGs/VSLGs exist.

Each SCC has executive committee members. The general assembly of the SCCs elects the executive committee from among the shareholders. Women, Dalits and Janajaties have been represented in executive committee. In 13 SCCs surveyed, on an average there are 22% Dalits, 6% Janajaties and 73% other ethnic groups. This is fairly good representation and inclusive considering the ethnic composition of the communities in these districts.

4.5.3. Book Keeping and Accounting System

Most of the SCCs have fairly good and systematic book keeping and accounting system and this is consistent to cooperative act 2049. Like in other parts of the country, a typical SCC in these districts maintain Asset and Expenses Ledger, Liabilities and Income Ledger, Savings Ledger, Loan Ledger, Shareholders' Register and meeting minute register. The best part of their operation is that almost all the SCCs have distributed savings and loan pass-book to their members.

Quality of book keeping and accounting system in most SCCs was upto the standard. Most of these SCCs are able to operate and manage their transaction. In most SCCs book keeping and accounting was upto date. They also prepare the financial statements and undertake auditing of their transactions. But most of them lack capacity to analyse their financial statement. Building the capacity of the SCCs maintain books of account and financial analysis and management is one of the challenges that CARE-Nepal should address in immediate future to properly use these SCCs on microfinance operation.

4.5.4. Governance and Responsibilities

Field survey information revealed that most of the SCCs are operating based on operating rules and regulations agreed, decided and recorded. Most SCCs elaborated a written constitution and set of documented policies very early in their operation. They

have made a concerted effort in their initial, formative phase to elaborate a set of rules before operation is scaled up, rather than keeping the procedures informal and deal with issues as they arises. Such an approach provided a clear framework for decision making from day one, and ensured informed member consent, in the sense that all members have clear understanding of the SCC, its policies and procedures, before they join. Hence, most of the SCCs surveyed have operational policy such as code of conduct for operation, operational rules and regulation, savings policy, loan policy and financial management policy.

In terms of decision making, SCCs are governed by the Annual General Assembly (AGM) of shareholders which makes major policy decisions and elects an Executive Committee (Board) to oversee on-going affairs of the SCC. Operational decisions are made by the Executive Committee within the policy framework provided by the AGMs. In all the SCCs surveyed, AGMs are held on regular basis and some AGMs have begun to delegate significant authority to their elected representatives, on the condition that major decisions are reported back to the AGM. In general, decisions and activities of most SCCs are relatively autonomous of external pressures or interest. Most decisions are taken on the basis of consensus, rather than counting votes in "favors" vs "against". Furthermore, most SCCs broaden base of participatory decision making by forming sub-committees with clearly defined roles and responsibilities for specific tasks (e.g. supervising accounts, loan approval, maintaining portfolio quality, educating members, etc.).

Capable leadership is considered a key determinant of SCC success. Elected representatives who are strong and capable have generated confidence amongst the members. This sense of service to the member is reinforces by maintenance of a voluntary sprit throughout the SCC. This sprit is seen as having a strong financial benefit tot eh society by keeping operating costs to a minimum. Furthermore, it underlines the community based nature of the SCC, as an organization that people contribute to "for the greater good" rather than for narrow personal interests. The setting up and maintenance of adequate record keeping system, with special reference to cash and loan management, is recognized as being particularly important for SCC success. However, SCCs continue to experience difficulties in this regard and as a result, even the most successful SCCs are susceptible to a range of problems related to accounting and financial management. Clear and periodic reporting of financial accounts of individual members (savings and credit balance) and the SCC's financial position as a whole is considered important by most of SCCs in order to foster trust and confidence through transparency.

In order to develop the skills required to manage an SCC effectively requires more than classroom-based workshops. Most SCC staff (elected and staff) considered that most of their learning was done "on-the-job". This highlights the need for SCC promoters to consider alternative mechanisms for SCC training. At best, some revision is required of current training-workshop process and content. More significant changes in strategy should also be considered, namely increasing access to field based technical assistance as well as other field-based learning opportunities such as exchange visits, institutional mentoring and self-study materials.

Given that staff costs are a key cost items in most SCCs, there is a need to configure their personnel so that these costs can be kept minimum in relation to the loan portfolio, membership and asset base. One strategy in this regard is to provide performance based incentives to personnel, in which their remuneration is linked to measurable indicators such as number of clients served, rate of loan repayment, amount of savings mobilized, etc. In the context of SCCs in Nepal, though, this concept was generally irrelevant as most SCCs rely on volunteer labor to manage their operations.

Thus, in terms of SCC governance and management, it has been found that success is mostly associated with the characteristics such as (i) a written constitution and

documented policies, (ii) clarity of roles and responsibilities, (iii) autonomous structure, (iv) good record keeping, (v) democratic decision making process based upon an informed membership and (vi) a spirit of volunteerism when rendering the services.

4.5.5.Savings Mobilisation

Savings mobilisation is the primary activity undertaken by SCC from shareholders. The most successful SCCs indicate a proven commitment to and capacity for savings mobilisation from shareholders. This most usually takes the form of equal amounts of contractual savings (e.g. Rs. 100 per month), which is generally non-withdrawable and effectively serves as the member's long-term share capital.

In general, these SCCs motivate their shareholders to participate in savings mobilisation. As the SCCs grow and mature, they are more inclined to develop other savings instruments such as interest bearing and time bound deposits. For most SCCs, these funds are then readily applied to inter-lending amongst members.

Shareholders of the SCCs surveyed have participated in three types of savings scheme viz. compulsory savings, voluntary savings and other savings. Of the three types of savings products, voluntary savings and other savings was not very popular among SCCs surveyed. Total savings balance of the SCCs surveyed ranged between Rs. 13,290 and Rs. 4,747,850 with an average of Rs. 968,877 per SCC. Of the total savings collected, 90% constitute compulsory savings, 6% voluntary savings and 4% other savings, implying that compulsory savings is the major form of savings services participated by shareholders of the SCCs. Compulsory savings rate of the members in the SCGs/VSLGs ranges between Rs. 10 and Rs. 1,000 with an average of Rs. 207 per month per SCC. Findings of the field study reveal that shareholders of these SCCs are not very much regular on savings mobilization.

4.5.6.Loan Transaction

Loan operation in most SCCs starts with internal lending of its loanable funds (savings, retained earning and reserves) among the shareholders within the framework of the approved loan policies. The loan is made for consumption and production purposes. The most successful SCCs usually give priority in their lending policies and practices to productive loans. In assessing the credit worthiness of an applicant, most SCCs rely heavily upon the character of the borrower, loan security and an intuitive sense about the investment plans of members. In order to maximize the number of members getting loans, SCC loan policies tend to favor smaller and shorter term loans. Prompt processing and a transparent loan process are seen as critical to building member confidence. Most SCCs do require some form of tangible security for loans, most usually the savings of the applicants and co-makers, although intangible security (members' character or group guarantee) is also applied in some cases. Outstanding loan of these SCCs ranges between Rs. 45,000 and Rs. 6,157,456 with an average of Rs. 1,194,223.

The very principles of hot money and cold money applies as evident by the high repayment rate in most in most SCCs. Frequent repayment system and peer pressures has been instrumental for high repayment rate in these SCCs.

4.5.7.Income and Expenses

In general SCCs on-lend the loanable fund at interest rate ranging between 12% and 18% per annum. The interest thus earned is the operating income of SCCs. Operating expenses of most SCCs is relatively low compared to their transaction. This is partly due to the fact that most of the works related to SCC operation and management are done free of cost by their executives. Thus, so far all the SCCs studies are operating quite

efficiently. Balance (i.e. net operating income) has been used to set aside loan loss provision, other reserve and distribute bonus to their members. So far bonus is distributed equally among shareholders.

Operating income of the SCCs ranges between Rs. 7,200 and Rs. 611,469 with an average of Rs. 192,300. On the other hand, operating expenses of these SCCs ranged between Rs. 1,063 and Rs. 497,325 with an average of Rs. 119,803. Net operating income of the SCCs surveyed ranged between Rs. 2,650 and Rs. 380,250 with an average of 74,506. In general concerned SCC distributes net operating income as bonus among their members. Distribution of bonus once a year has been quite effective to build feeling of ownership among SCC members.

4.5.8. Assets and Liabilities

Existing book keeping and account system of the SCCs enable them to prepare balance sheet of their transaction and in general they prepare SCCs at least once a year.

Assets of the SCCs include cash balance, bank balance, outstanding loan balance, receivables and others. Total assets of these SCCs range between Rs. 53,516 and Rs. 6,912,547 with an average of Rs. 1,577,001. Liabilities of the SCCs include savings balance, external loan and other liabilities. Total liabilities of these SCCs range between Rs. 13,290 and Rs. 5,567,081 with an average of Rs. 1,087,727. Likewise, equity (net worth) of the SCCs includes loan loss reserve, other reserves, capital grants and other capital. Total equity of these SCCs ranged between Rs. 3,516 and Rs. 2,347,071 with an average of Rs. 489,274.

4.5.9. Growth Plan for next year

During field study, SCCs surveyed were inquired if they have growth plan on aspects related to growth in membership, savings mobilisation, and external borrowing, increase in loan disbursement and diversification of products/services for next year. The inquiry uncovered that such a plan does not exist in all the SCCs surveyed. This is an area that any capacity building plan for these SCCs should focus on if they are to be made self-reliant in their operation.

4.5.10. Issues on SCCs' Operational and Financial Performance

The findings on operational and financial performance of SCCs indicate that there should be renewed focus on strengthening their capacity. Such an strategy should focus on up-grading the current status of these SCCs towards their operational and financial self-sufficiency and ensuring that they follow the best practices for microfinance operation. Following are the measures to be followed to strengthen operational and financial performance of these SCGs/VSLGs.

- *SCC benchmarking*: establishing current status and performance
- *Upgrading analytical capacity*: introduce a system of PEARLS rating among the SCCs that are working in these areas that will enable them to understand and realize their areas of weaknesses.
- *SCCs operation policy*: introduce written code of conduct for SCCs operation, savings policy, loan policy and financial management policy,
- *Simple financial management system*: efficiency on loanable fund use need to be increased with capital utilization rate to exceed 90%,
- *Transparent decision-making process*: decision should be based on SCCs operational policy and a system of compliance audit need to be introduced every six months.
- *Improvement on portfolio quality*: There is tendency on overdue build-up in the mobilization of internal capital as well. Capacity of the SCCs to assess the portfolio

quality using simple but effecting portfolio tracking system should be enhanced at SCCs level.

- *SCCs rating*: Rating of SCCs should be done using rating tool to assess their status, and support packages to strengthen capacity of SCCs at different rating standard will be developed and implemented.
- *Strengthening the operational risk management system:* There is a need to introduce operational risk management system to enable the SCCs to prevent, detect and control the risk that is prevalent in the SCC system.

4.6 Promotional Agencies and Strategies

The SCGs/VSLGs and SCCs are promoted by different agencies namely (i) government organizations (District Agriculture Development Office, District Livestock Service Office, District Forest Office, District Women Development Office, SFDP, PCRW, IBP, District Irrigation Office, etc.), (ii) non-government organizations (local, national and international NGOs), and (iii) multilateral organizations such as UNDP assisted rural development programs implemented through District Development Committees (DDCs) under their economic development and community development programmes. A key element of any community based development program is the role, vision and capacities of the PAs. For this study management staff of a number of PAs was interviewed on the savings and credit activities. The representatives of SCGs/VSLGs and SCCs were also questioned about the past and future role of PAs in this sector.

4.6.1.General Findings

Though the data generated from field studies is not easily presented in statistical form, following broad conclusions can be extracted from the information.

- Almost all the SCGs/VSLGs and SCCs in these districts were promoted by a development agency that, in most cases, was external to the host community.

- Approximately 60% of the promoted SCGs/VSLGs and SCCs were promoted by INGOs and national level NGOs while the remaining 40% was promoted by indigenous local NGOs.
- A majority of INGOs active in Nepal and a minority of Nepali NGOs and government institutions at local level are actively involved in the promotion of community-based SCGs/VSLGs and SCCs activities amongst disadvantaged groups.

- Although the nature of these promotional activities varies widely between PAs, the INGO/NGO and GO distinction is not an explanatory variable in this regard.

- By contrast, the differences between self-promoted and externally promoted SCGs/VSLGs and SCCs are quite significant, though the former are very limited in number and include the following set of characteristics. SCGs/VSLGs and SCCs promoted by PAs (i) had twice as many women than self-emerged SCGs/VSLGs and SCCs; (ii) has accumulated 50% less deposits (savings) and extended 50% less loans than self emerged SCGs/VSLGs and SCCs; (iii) are much less likely to registered as legal entities; (iv) are much less likely than self-emerged SCGs/VSLGs and SCCs to access external funds from the formal financial sector; and (v) are much less likely to be member of the existing national apex.

4.6.2.Similarities between Promoting Agencies

Despite a wide range of development activities, certain common characteristics of PAs engaged in savings and credit promotion could be identified from the survey, interviews and observations.

Economic Orientation:

In general terms, those PAs engaged in promotion of savings and credit activities shared a commitment to supporting community based economic activities. Although many PAs had applied an initial development strategy that was not explicitly economic in focus, for example, literacy or health care, the savings and credit represented a commitment to strengthening local income generation.

SCGs/VSLGs and SCCs as Means not Ends:
Few PAs viewed the institutional development of SCGs/VSLGs and SCCs as a significant program outcome in its own rights. Instead, SCGs/VSLGs and SCCs were seen as a "means to an end". The desired end was stated in different terms, for example improved access to credit, or a conduit for future PA program/service delivery. The minority of PAs that expressed a commitment to the institutional development of SCOs usually did so in terms of building viable community based multipurpose NGOs, rather than community based financial institutions (SCGs/VSLGs and SCCs).

Priority Beneficiaries/Members:
Agencies engaged in promotion of savings and credit activities through SCGs/VSLGs and SCCs generally focused their development activities upon the poorest sector of the population. There was frequently a strong preferential option stated for the participation of women.

Financial Services:
Only basic savings and credit services are promoted. Savings tended to be small, regular, compulsory and uniform. Credit from external sources tended to be form productive purposes only; credit from members own savings tended to be for a variety of purposes.

Technical Skills and Resources:
Most PAs are at or near the starting point on the savings and credit learning curve. Field and training staff has only a rudimentary understanding of SCGs/VSLGs and SCCs operations and available materials are quite elementary.

4.6.3. Differences between Promoting Agencies

A number of significance differences were observed between PAs engaged in savings and credit activities. These differences are outlined hereunder.

Model of SCGs/VSLGs and SCCs:
There was wide range of organizational models observed in the savings and credit sector. These can be broadly clustered into three basic categories.

- **Multi-purpose Community Development Organization**: in which savings and credit is one of many activities of a community organization (COs) that is being fostered into emerging either multipurpose cooperatives or a local NGO.

- **The Lending Group Approach**: in which SFDP, PCRW, IBP or Grameen Bank type small scale solidarity groups are promoted.

- **The Savings and Credit Cooperatives Approach**: in which the primary purpose of the promoter is the development of formal, community based financial institutions.

Size of SCGs/VSLGs and SCCs:
This variable is linked to the issue noted above of the SCGs/VSLGs and SCCs model being promoted by the respective PA. As such membership in SCGs/VSLGs and SCCs ranged from 10 (in SCGs/VSLGs) to over 650 (in SCCs).

Defining Viability:

There was no consensus between promoters upon what constitutes a "viable" SCGs/VSLGs and SCCs. A majority of PAs seemed to accept a minimalist approach wherein a SCG/VSLG and SCC that cover its own operating costs is effectively viable. In these terms, small solidarity lending groups such as SCGs/VSLGs are considered viable. Other PAs has more rigorous definition of "viable" that addressed issues of sustained SCG/VSLG and SCC growth and development in the face of diminishing external subsidies (i.e. soft loans, training, technical assistance, etc.).

Level of Support:
PAs provided widely different levels and standards of support services to their affiliated SCGs/VSLGs and SCCs as discussed hereunder.

- Financial support: Direct financial support to SCGs/VSLGs and SCCs can take various forms: soft loans or grants for on-lending or grants to cover operating expenses and purchase of equipments are more common. The survey indicated that some PAs provided very limited financial support to SCGs/VSLGs and SCCs, while others are much more "generous". The major rationale given for substantive support was enabling SCGs/VSLGs and SCCs to build lending poor larger and quicker that that generated from member savings. The rationale given for providing limited or no financial support was twofold: in terms of both principle (not wishing to create undue dependency) and circumstances (no available resources).

- Training and Technical Assistance: Training and technical assistance is the second form of input widely provided by PAs. Currently in four study districts, the content and process of such inputs varies greatly. Generally speaking, SCGs/VSLGs and SCCs specific training and technical assistance focus upon core operational areas such as savings and credit procedures and basic book keeping. However, in many cases, these inputs are only one, small component of a much broader training program that includes other areas of PAs programming such as literacy, health care, leadership development, etc. For those PAs that are focused upon promotion of economic development activities, the training and technical assistance focus tends to be more upon application of productive credit, for example strengthening skills in income generation, diffusion of appropriate technologies, etc. As noted above, PA training and technical assistance programs tend to be very rudimentary in nature with limited exposure to issues of SCGs/VSLGs and SCCs financial management and institutional development. This is more so in government promoted SCGs/VSLGs and SCCs. Similarly training packages or manuals related to savings and credit are basic in content and not widely available. This remains true despite a wealth of material developed in Nepal as well as elsewhere where some of the PAs (INGOs) also operate.

4.6.4.Constraints to SCGs/VSLGs and SCCs Development: the PA Perspective

When asked to identify the major problems and constraints facing their affiliated SCGs/VSLGs and SCCs, the staff of the PAs focused upon following.

- Problems internal to the SCGs/VSLGs and SCCs such as "awareness" of the members, limited savings capacity, capacity and commitment of SCGs/VSLGs and SCCs leadership, lack of vision, subsidy dependent, etc. In general, PA staff considered these problems resolvable through further training and techncial assistance.

- Problems related to the external environment in which SCGs/VSLGs and SCCs operate. Although some spoke of a difficult economic and geographic environment, most comments spoke to short-comings in the national legal and policy environment i.e. referring to the issue of registration, formation of apex organizations, promotion of SCGs/VSLGs linkage banking scheme, access to wholesale fund and obstacles to accessing government programs.

It is noteworthy that there were almost no critical comments made regarding the activities of the PAs themselves. As stated earlier, a majority of SCGs/VSLGs and SCCs in the study districts are promoted. In general, PAs expressed satisfaction and are proud to their own performance on savings and credit sector.

4.7 Village Savings and Loan System and Justification for Modification

The basic principle of the VSL system is that members of a self-selected group voluntarily form a VSLA and save money, through purchasing shares[21]. The savings are invested in a loan fund from which members can borrow, repaying with a service charge added. VSLAs are a form of accumulating savings and credit association (ASCA), a generic term that describes this type of small-scale community-managed financial institution. The primary purpose of a VSLA is to provide simple savings and loan facilities, in a community that does not have access to formal financial services. Loans can also provide a form of self-insurance to members, supplemented by a social fund which provides small but important grants to members in distress. Associations are autonomous and self-managing. This is fundamental because a VSLA's goal is institutional and financial independence*. Promoting institutions should never seek to manage a VSLA's affairs on behalf of its members.*

All transactions are carried out at meetings in front of all the members of the Association, to ensure transparency and accountability. To ensure that transactions do not take place outside the regular meetings, a lockable cash box is used, to prevent unauthorised cash movement and the risk that records might be tampered with. The cycle of savings and lending is time bound. At the end of an agreed period (the 'cycle'), the accumulated savings and service charge earnings are shared out amongst the membership in proportion to the amount that each member has saved throughout the cycle. This is critical for resolving outstanding issues; for transparency and for maintaining the confidence of the members. A cycle must not last for more than one year prior to share-out. All members have an individual passbook. This is necessary to permit varying rates of savings and to track member loan liabilities, *but there is no Association record-keeping ledger*. Only the starting and closing balances of the Association social fund and the loan fund are recorded, mainly through memorization, at each meeting.

VSLAs are made up of 10 - 25 members. This strikes a balance between being big enough to create a useful pool of capital and small enough to keep meetings manageable. The members are self-selected, usually from amongst the adult population. Membership is open both to women and to men, but at least three of the five Committee members elected are normally female in the case of mixed Associations. Members who hold public office should not be eligible for Committee positions. Associations meet at regular intervals, weekly, fortnightly or every four weeks during the first cycle, as the members agree. In future cycles, once VSLAs are independent, meetings may reduce in frequency Associations are comprised of a General Assembly and a Management Committee. Members of the Management Committee are elected by the General Assembly. Each member of the General Assembly has one vote. The Management Committee consists of five people: a Chairperson, Record-keeper, Box-keeper and two Money-counters. The Management Committee must be re-elected at the start of each cycle. Each Association develops a written constitution that is signed by every member. A Constitution performs two functions: first to provide a framework for governance, dispute resolution and disciplinary action and secondly to specify the conditions for share purchase/savings, access to benefits payable from the social fund. Each member of the General Assembly may be assigned one or more rules to remember, on which they are

[21]This section is extracted from " VSL Programme Guide - Field Operations Manual" Version 3.1, November 2007.

likely to be questioned at meetings. This has the effect that after some months everyone knows the regulations by heart.

Associations agree on the length of the operating cycle and this is recorded in the constitution. A cycle should not be less than nine months, or longer than a year. All members of the Association save through Share-purchase. This is the core activity of the VSLA and regularity in saving is the key to mutual confidence and success. Between 1 - 5 shares can be purchased at each meeting. The value of a share is set by the Association. It is set at a level that allows the poorest members reliably and regularly to buy at least one share per meeting. However it should not be set so low that five shares will not satisfy the savings objectives of the majority. At the start of a new cycle, and with the agreement of all members of the Association, the value of a share can be increased or decreased.

An Association may allow a member who is experiencing financial difficulties to stop saving (buying shares), but only for a limited period. At certain times of the year it may be hard to save, or there may be no time to attend meetings. While it is important to ensure financial discipline and regular share-purchase, it is a reality that rural incomes are unstable and variable. Even if an Association has suspended share-purchase/ savings, loans must continue to be repaid and can continue to be disbursed. Associations may provide a daily savings service to members through use of a slot savings system. This system is optional. It makes savings easier because it allows the regular deposit of small amounts. This enables members to meet the minimum share-purchase/savings requirements.

Loans are made every four weeks. All members of the Association have the same right to borrow from the loan fund, which is comprised of the members' share purchase money, loan service charges and fines. The Association sets the length of the loan repayment term, which should never be more than six months and, during the first cycle, no longer than 12 weeks. The size of a loan available to a member may not be more than three times the total value of all the shares they have bought. This ensures a fair distribution of capital and prevents the risk that any one member will be overwhelmed by too much credit. The Association decides the percentage rate of the service charge for loans, and notes it in the constitution. Service charges on loans are due at four-week intervals. The service charge is applied to the balance of the loan every four weeks until fully repaid. It must be paid when due, regardless of whether or not the member repays loan principal. Loan principal repayments are made at four-week intervals. The period of loan repayment is agreed when the loan is taken, but the borrower may repay early, to avoid further service charges if (s)he wishes. When a borrower pays part of the balance due, the remaining balance is treated as a new loan, with the service charge percentage applied to the new amount and due at the end of the next four-week period.

The Association does not fine borrowers for late loan repayment. This aggravates any underlying economic crisis the household may be facing. The embarrassment of being late is sufficient penalty.

Associations may wish to create a social fund. Associations agree on a regular, equal contribution by all the members to this fund. This provides small grants for specific purposes such as emergency assistance, funeral expenses and educational costs for orphans. The fund is not intended to grow, but is set at a level that covers the minimum insurance needs of the Association's members. Anyone needing a grant from the social fund makes the request publicly to the General Assembly. Approval rests with the General Assembly and may be immediately disbursed. The social fund is kept separate from the loan fund, and is not included in the end of cycle share-out.

When the operating cycle comes to an end, the Association shares out the total value of its financial assets amongst the members (except for the social fund). As the end of the cycle approaches, no new loans are issued and all outstanding loans are repaid. This is mingled with any money remaining on hand and is shared out amongst the members in proportion to the number of each person's shares. After the share-out, members who do not want to stay in the Association may leave and new members may be invited to join. At the end of the share-out meeting, members who plan to continue to the next cycle may consider making a lump-sum starting contribution to the loan fund in order to initiate lending activities with a useful amount of money on hand. If they decide to do this, all members should agree to contribute the same amount at the first meeting of the next cycle, which should take place immediately. The amount of the contribution on this one occasion is not limited to the normal five-share ceiling. Once the start-up shares are stamped into all passbooks, deposit shares will be bought as normal, subject to the normal five-share ceiling. When a new cycle begins, members can agree to change the value of the standard share. The price of a share cannot be changed during the cycle.

The foregoing discussion indicates that VSLA system is very much suitable in areas without formal microfinance system where savings mobilisation and use of accumulated savings is a challenge. In the VSL project areas, group approaches to enhance microfinance services has been implemented since last one decades and people has already experienced the basis for savings mobilisation and use of accumulated savings for consumption and productive activities and build the lump-sum at households level. In view of that VSLA model in the original form can't be implemented. There are thousands of SCGs/VSLGs and hundreds of SCCs in these districts. People has mobilized sizable amount of savings and used such savings for promoting for inter-lending among members. What is missing is the lack of professionalism, sustainable system and more inclusive approach to enhance access to financial services for the excluded people. This demands that the original VSLA system needs to be modified to match with the local context and realities.

The study team feels that the modifications introduced by the VSL Project team on implementing the project is justifiable and the modified approach is consistent to the findings and recommendation provided in this report.

5. STRATEGIES TO WORK WITH SAVINGS AND CREDIT GROUPS/VILLAGE SAVINGS AND LOAN GROUPS AND SAVINGS AND CREDIT COOPERATIVES IN CARE-NEPAL'S WORKING AREA

Several thousand SCGs/VSLGs and SCCs have emerged in the CARE Nepal's working areas in the past over a decade or so, largely in response to the promotional efforts of local and international NGOs and government organizations. There exists diversity across these organizations in terms of size, level of operation and financial status. The survey of a selected sample of SCGs/VSLGs and SCCs indicates that a majority of them are young (less than 5 years old), smaller (under 40 members) and unregistered organizations. Only SCCs are registered. These SCGs/VSLGs and SCCs are community based organizations in so much as they are owned and controlled by local citizens. Their governance is characterized by participatory and democratic decision making. Considering the current state of financial market in VSLA Project districts, adopting mix of strategies rather than single uniform strategy is a necessity rather than luxury to ensure access to sustainable microfinance services to SCG members promoted by different programmes in Nepal.

5.1 Articulating the Vision, Mission, Goal and Purpose

Vision:
Sustainable access to microfinance services for the poor.

Mission:
Provides poor, rural men and women with the economic opportunities to transform the quality of their lives and their communities through the provision of effective and sustainable, client-empowering financial services.

Goal:
Reduce poverty and improve the standard of living and quality of life for the poor, provide men and women with reliable access to microfinance services that address their needs, build their capacity, and engender mutual guarantees and group cohesion.

Purpose:
- Strengthen VSLGs of the poor especially focused on women and excluded groups.
- Enhance service delivery capacity of rural and community based financial service providers for enhancing the access to the financial services.
- Improve the living conditions of the rural population by filling the financing gap in the rural areas.

5.2 Situation Analysis

The in-depth assessment of the SCG/VSLGs and SCCs presented in last section provide various invaluable conclusions as far as their current situation is concerned. A discussion on some of these assessments follows hereunder.

5.2.1.Strategic Concern

There are certain features that have relevance at strategic level for building consensus and clear understanding among concerned stakeholders of the financial sector in these districts. Some of these concerns are outlined hereunder.

Multiple SCGs/VSLGs and Savings in More than One Group
There is either one or more than one SCG/VSLG in a particular settlement in the project districts. These groups are either commodity specific (livestock, vegetable, fruits, cereals, etc.) or natural resources specific (leasehold forestry, community forestry, irrigation, drinking water, road users, etc.) or community development (integrated

groups or peace action, etc.) or finance specific (savings and credit groups or savings and credit cooperatives, etc.). One typical member in a particular settlement is involved on pooling of savings in different groups that exist in their settlement. For instance, a typical member in Kapalekhi VDC has saved in as high as seven groups in their settlement. In context of low propensity to save of the local people in these districts, having more number of SCGs/VSLGs and compulsion that regular savings is a prerequisite to receive services from PAs has created added burden to local communities rather than a support to improve their livelihood. Especially time required to participate in the group meetings and other formalities are very high for people of these communities.

Existence of SCG/VSLG in Almost all the Settlements
Information gathered during field studies revealed that there are groups (be it SCG/VSLG or other form) in every settlement either self-emerged in the form of mothers' group or promoted by the PAs. The agencies involved in promoting these groups or SCGs/VSLGs are (i) government organizations such as District Agriculture Development Office, District Livestock Service Office, District Forest Office, District Women Development Office, SFDP, PCRW, IBP, District Irrigation Office, etc., (ii) local, national and international non-government organizations and (iii) multilateral organizations such as UNDP assisted rural development programs implemented through District Development Committees (DDCs). SCGs/VSLGs or groups promoted by these agencies varies in term of size, type of support received and understanding on complexities involved on savings mobilisation and loan management and other aspects of money management.

Vision and Strategies
Many SCGs/VSLGs and SCCs are seemed to have emerged without clear sense of long-term vision, in which direction they want to head and what they aspire to become. Instead, they focused on day-to-day operations, i.e. mobilizing savings and collecting loans, and have little sense of themselves as "financial institution" at community level. In many cases, the lack of vision is reflected within their respective PA, many of which are unclear about major issues related to targeting, capitalization, sustainability, and the need for, and timing of, phasing out support to SCGs/VSLGs and SCCs.

Scaling-up
The study findings highlight the importance of SCGs/VSLGs and SCCs addressing the issue of expanding outreach both in terms of breadth (greater numbers) and depth (poverty focus). The SCGs/VSLGs and SCCs and their promoters must be able to assess the costs and benefits of growth from within versus opening the door for new members.

Sustainability
The study indicates that in most cases, SCGs/VSLGs and SCCs tend to equate the notion of sustainability with that of "breaking even". In other words, as long as the income received on loans exceed the accumulated expenses, the SCGs/VSLGs and SCCs is making a profit and is effectively "sustainable". The study findings suggests however that in management practice, sustainability means more than simply managing the spread between interest received on loans and interest paid on savings. Instead, sustainability is a more dynamic concept, the parameters of which change over time as an SCG/VSLG and SCC grows and matures. A key factor in this assessment is growing member expectations for improved services. Simply stated, while a small SCG/VSLG and a SCC may cover its cost at a very low level of activity and development, it is not likely to be sustainable over the long term. Members will simply drift away in search of other investment opportunities (for their time and money) that will generate better returns.

Networking
International best practices implies that most successful SCGs/VSLGs and SCCs would be linked to financial service providers as well as their district and national federation for

the provision of support services. In fact that was not true: the lack of business linkages of SCGs/VSLGs and SCCs with financial service providers and strong federative structures in the study districts meant that those SCGs/VSLGs and SCCs that had emerged as successful had largely done it on their own, or through the support of their respective PA.

Non-financial Services
There is a clear distinction within SCGs/VSLGs and SCCs movement in Nepal and elsewhere between those SCGs/VSLGs and SCCs that limits themselves to financial services (usually savings and credit) and those which offer other, non-financial services. The former tend to have men-majority membership and are not exclusively targeted at the poor and are generally more financially effective and efficient. The later tend to be women-majority SCGs/VSLGs and SCCs and have greater proportion of poor members, and perform less satisfactorily in financial terms. The findings of this study therefore tend to reinforce findings elsewhere that high performance SCGs/VSLGs and SCCs focus exclusively upon financial intermediation activities and leave other development interventions to other agencies or other CBOs.

Targeting the Poor
A long standing critique of community based model for microfinance operation is that it primarily responds to the needs of the working poor (i.e. un-bankable poor) rather than the poorest of the poor. This study reinforces this general impression, although the fact that almost a third of the small SCGs/VSLGs and SCCs claim to target exclusively the poor underlines the fact that many SCGs/VSLGs and SCCs in Nepal are formed with a very explicit poverty reduction purpose. But the general weakness of these SCGs/VSLGs and SCCs indicate that the conventional community based mode of a self-financed and self-managed organization is more difficult to apply successfully with the very poor.

Linkages to the Formal Sector
With few notable exceptions, a major constraints to SCGs/VSLGs and SCCs expansion is the movement's lack of access to institutional credit. There is no indication in the study that such funds need to be subsidized: to the contrary, this study suggests that "soft funds" actually have negative effect on recipient SCGs/VSLGs and SCCs by diminishing rates of savings mobilization. As such there is both a need and an opportunity for SCGs/VSLGs and SCCs to link with formal banking sector. There are very selective cases wherein SCGs/VSLGs and SCCs has established linkages with formal sector.

5.2.2. Operational Concern

There are certain features that have direct relevance at operational level for improved efficiency for the building healthy financial sector and ensuring sustainable operation of SCGs/VSLGs and SCCs led banking operation. Some of these concerns are outlined hereunder.

SCGs/VSLGs and SCCs Co-exists
In all the four districts SCGs/VSLGs and SCCs co-exist. In other-words, there are SCGs/VSLGs in areas where there is SCCs, wherein in majority of the cases, a particular member of the SCGs/VSLGs is also the shareholders of SCCs. Such a member deposits savings both on SCGs/VSLGs and SCCs. While savings mobilized at SCGs/VSLGs are used for emergency and immediate consumption purpose, the savings mobilized in SCCs are in general used for promoting income generating activities. As discussed above, in terms of operational and financial performance, neither SCGs/VSLGs nor SCCs are competent to provide the sustained access to financial services.

SCGs/VSLGs and Financial Market
SCGs/VSLGs, either self evolved or agency promoted exists in all the VDCs of the four project districts. Mapping of the existence of these SCGs and other financial actors

indicates a direct linkages between existence of SCGs/VSLGs and financial service providers. These VDCs can be broadly grouped into three such as VDCs where (i) SCGs/VSLGs, SCCs and other FSPs (CBs, DBs, FCs and MFDB) operates and members of the SCGs/VSLGs are also shareholders in SCCs and are also receiving services from FSPs that operates in their vicinity, (ii) SCGs/VSLGs and SCCs only exist and members of the SCGs/VSLGs are also shareholders in SCCs and (iii) only SCGs/VSLGs exist. Such a relationship of local people to is automatic and exists in response to their efforts to operate in the local financial market.

Professional Management
As indicated in this study, human resource development is a major bottleneck in the expansion and upgrading of SCGs/VSLGs and SCCs. Currently most SCGs/VSLGs and SCCs leaders are volunteers who have received only limited training (if at all) and are mainly learning "on-the-job" in their SCG/VSLG and SCC. As such, these leaders have limited technical competence to guide their SCG/VSLG and SCC beyond the small saving group approach. This study underlines the fact that classroom-based training is of only limited use for the staff development of the SCGs/VSLGs and SCCs.

Field-level Follow-up of SCGs/VSLGs and SCCs
While the study indicates that basic savings and credit groups can be promoted at relatively low cost, the need for regular and on-going field level support actually increase with time, rather than decreases. This tends to run against development practice of large up-front investments followed by a process of phasing-out. In the savings and credit sector, the basic start-up is relatively simple, the complications come later as the groups grow and mature into veritable village banks. It is irrespective of PAs to help initiate SCGs/VSLGs and SCCs and then walk away from them just as they require up-graded technical assistance.

Accounting and Record Keeping
As observed in the study, the level of accounting in SCG/VSLG and SCC tends to be very low, both in terms of the adequacy of the management information system in place as well as capacities of the concerned parties to maintain that system.

5.3 Identifying the Strategies

Strategies to work with SCGs/VSLGs and SCCs has been identified on the basis of the information and perspectives developed in articulating the vision and mission as well as situation analysis that provided basis for suggesting right products considering the market and service delivery methodology in a cost and time efficient manner.

5.3.1.Strategic Level

There are certain strategies that need to be uniformly followed by building consensus and understanding among concerned stakeholders of the financial sector in these districts.

Mechanism to Identify and Record the Existence of SCGs/VSLGs
Both demand and supply side strategies should be adopted in order to identify and record the existence of SCGs/VSLGs. To start with all the information regarding SCGs/VSLGs that exist in the working VDCs of CARE-Nepal VSL Project should be obtained from the PAs (i.e. GOs, NGOs, INGOs and multilateral organizations) and a verification checks should be undertaken along with the approaches and methodology of SCGs/VSLGs formation and type and amount of supports provided to these groups. This information will provides basis for identifying and recording existence of SCGs/VSLGs. This information should be verified in the field along with assessment of current situation (governance, decision making, book keeping and accounting, financial management, savings mobilisation, loan operation and management etc.) of SCGs/VSLGs. The

information collected from different PAs and field verification should be compiled and triangulated to prepare the up-to-date information on existence of SCGs/VSLGs.

One Window System for Savings Mobilisation
Considering the complexities created to the local people due to the requirement to save in different SCGs/VSLGs promoted various GOs and NGOs working in the districts, and urgent need to reduce the transaction cost required for attending meetings, there is a need to devise and agree-up a system to introduce one window system of savings mobilisation wherein a competent SCGs/VSLGs will be formed at settlement level that will be responsible to address all the social, economic and legal issues to local development at the community level, i.e. only one SCGs/VSLGs per settlement and savings in this SCGs/VSLGs. Such SCGs/VSLGs could be empowered by supporting them on preparing settlement level community development plan and enhancing their capacities to influence PAs to support the implementation of their community development plans. This strategy will be tedious in the initial phase as it requires reconciliation of the savings and credit operation undertaken in different group in the community and design of mechanism to pool the savings collected in different groups into one more representative group and consolidating the accounts.

Vision and Strategies
In order to enhance clear vision and strategies to support for SCGs/VSLGs and SCCs strengthening, there is a need for two levels of interventions as follows.

- Technical support to PAs including the four partner NGOs of the project to enable them to strategically plan their savings and credit promotional activities and to articulate their respective vision of why and how to promote SCGs/VSLGs and SCCs as per their development program;

- Training of trainers for PA staff including the four partner NGOs of the project in the skills required to facilitate a process by which SCGs/VSLGs and SCC members elaborate a strategic vision for their respective SCGs/VSLGs and SCCs.

Out of this last process, it is anticipated that a set of specific and sometimes technical learning need will emerge. From what has been observed in the study exercise, the team has anticipated that several issues will emerge for strengthening these SCGs/VSLGs and SCCs within this broader strategic framework.

Scaling Up
There is a need for greater awareness of the issue of expanding outreach both in terms of breadth and depth as well as federating and amalgamating smaller SCGs/VSLGs and SCCs into larger SCGs/VSLGs and SCCs among the PAs including the four partner NGOs of the project.

Sustainability
The project needs to work with both PAs including the four partner NGOs of the project and leaders to enhance their understanding of the link between SCGs/VSLGs and SCCs sustainability and institutional development.

Networking
Lack of business linkages with financial service providers and a strong federative/apex body has been a significant constraint to the emergence of a broad-based SCG/VSLG and SCC sector and that therefore, the project need focus its effort to supporting SCGs/VSLGs and SCCs to establish business linkages with financial service providers and strengthening the existing networks, as well as supporting the emergence of new networks in working districts as and when appropriate.

Non-financial Services
Given the general orientation of most PAs including four partner NGOs of the project in those districts to a integrated, multi-purpose approach to community development, the further training and technical assistance work of the project should focus upon identifying which non-financial services (if any) "fit" most commonly within the portfolio of an SCG/VSLG and SCC and how these activities should be financed and managed.

Targeting the Poor
In view of the limitation of the SCGs/VSLG and SCCs model to reach the poor and excluded, there is a need to re-orient most PAs including four partner NGOs of the project in those districts through targeting training and technical assistance to the specific needs of the poor.

Linkages with Formal Sector
While there are a few individual examples of SCGs/VSLGs and SCCs establishing links with the banks, future training and technical assistance would do well to elaborate standard methodology that has the approval of the bankers and could be applied by SCGs/VSLGs and SCCs in negotiating a loan (perhaps even line of credit) with their local bank managers. At the same time, the training should strengthen SCGs/VSLGs and SCCs capacities to make informed choices about their financial options, and in particular to weigh the respective costs and benefits related to external borrowing.

5.3.2. Operational Level

There are certain strategies that need to be followed at the operational level in order to promote the community based banking system in these districts.

Working with Existing SCGs/VSLGs and SCCs
CARE Nepal has paramount role to enhance the operational and financial performance of existing SCGs/VSLGs and SCCs. In any circumstances, it should not move forward on forming new SCGs/VSLGs or registering new SCCs while such SCGs/VSLGs and SCCs of any form exist. It should continue working and enhancing the capacity of existing SCGs/VSLGs and SCCs on microfinance operation. Role of the SCGs/VSLGs should be limited as social intermediary and that of SCCs as financial intermediary.

SCGs/VSLGs and Financial Market
Considering the current status of SCGs/VSLGs and financial market, the strategy to ensure access to sustainable microfinance services to existing member of SCGs/VSLGs ranges from federations of SCGs into Savings and Credit Cooperatives (SCCs) to SCGs' linkages with existing SCG nearby their vicinity and/or FSPs with prudent technical support provided by PAs. Thus there could be three different strategies for enhancing access to finance through proper use of the potentials of SCGs/VSLGs.

Sub-strategy 1: Savings and Credit Group/Village Savings and Loan Group Banking
This strategy promotes financial transactions between FSPs and SCGs/VSLGs. SCG/VLSG Banking through SCGs/VSLGs and existing decentralized formal banking network including several organizations in formal and non-formal sectors as banking partners allow for large-scale outreach of financial services to the poor. These banking services (depositing savings, taking loans) made available at low cost are easily accessible and flexible enough to meet poor people's needs. This scheme helps to promote financial transactions between formal rural banking systems[22] with informal SCGs/VSLGs as clients. In this scheme, SCGs/VSLGs act as financial intermediaries that are owned by the poor. As discussed above, once SCGs demonstrate mature financial behavior, banks are encouraged to make loans to SCG in certain multiples of their accumulated savings.

[22]Rural banking systems comprises of public and private sector commercial banks, development banks and MDBs as well as SCCs and FI-NGOs.

Sub-strategy 2: Linkages of SCGs/VSLGs with SCCs
There are districts or areas within a district where sub-strategy 1 can't be applied due to access and lack of basic infrastructures. However, by virtue of cooperative movements started with the enactment of Cooperative Act 1991, there are VDCs/areas with self-emerged and/or agency pursued SCCs in which most SCGs members are also shareholders. The case of one member depositing savings in 2-3 informal or formal places[23] is quite common in most areas. In those areas, strategies to be pursued will be ensuring linkages of SCG/VSLG members with existing SCCs[24]. CARE Nepal should recognize these SCCs as its partner and assist them to enhance their capacity on aspects such as promotion and management, loan operation, accounting/book keeping, financial management and linkages with apex[25] institutions. This strategy requires close scrutiny and assessment of SCCs that exist within a VDC where SCGs exist. Further, the strategy is to enhance the capacity of SCCs that co-exist in areas where SCCs exist using the packages of services that ensures upgrading of them to a level where apex institutions will find them credit worthy to provide wholesale loans.

Sub-strategy 3: Promotion of Savings and Credit Cooperatives
There are VDCs within a district where existing FSPs are reluctant to extend their services and/or SCCs do not exist, but there exist proven local capacity (education level and leadership) to promote SCCs. In such areas strategy will be to support the promotion of SCCs. In those areas, SCGs will be assisted to promote SCCs either through (i) federation of the COs within a VDC or (ii) using on lead SCGs/VSLGs to register the SCC with responsibility to increase shareholders over time and keeping the status of the COs intact. This strategy demands complete packaging of services to support emergence and growth of SCCs as well as enhance their capacity on aspects such as promotion and management, loan operation, accounting/book keeping, financial management and linkages with apex institutions[26]. Support packages should be flexible that assists their graduation to a level where they will be creditworthy to the apex body for wholesale loans.

Sub-strategy 4: Strengthening of SCGs/VSLGs
There are districts or VDCs within a district where (i) FSPs are less likely to extend their services over next 5-6 years due to technology and market constraints, (ii) SCCs do not exist and (iii) local capacity limits the emergence, growth and development of new SCCs. Such areas lack options to ensure access of existing clients to sustainable micro-finance services except refining the existing arrangements. In these areas emphasis will be towards promoting original VSLA concept initially and later federating SCGs/VSLGs into VLSA and enhancing their capacity of on aspects such as promotion and management, loan operation, accounting/book keeping, financial management, etc. In such areas, possibilities of providing revolving loan funds needs to be explored.

Professional Management
Considering the paramount need of the professional management on promoting SCG/VSLG and SCC level banking, clearly there is a need for a broad based, multi-agency response to the challenges of "professionalizing" SCG/VSLG and SCC management. This must cover the ranges of training needs, from minute-keeping skills for semi-literate secretaries of emerging SCGs/VSLGs and SCCs to the computerization of accounts for managers of the larger SCCs. PAs and SCCs federations must elaborate mechanisms by which training can be brought closer to the SCG/VSLG and SCC, through field based technical assistance, exchange visits, etc.

[23]These organizations are SCGs, SCCs, producer's groups, forest users' groups or women's group.
[24]There are five SCCs in Dhungkharka, three in Dulari, one in Jyamirgadi, one in Ramche and 11 in Jiri VDCs Kavre district, Morang, Jhapa, Sindhupalchok and Dolakha districts.
[25]The apex institutions providing wholesale loans to SCCs are RSRF, RMDC, Cooperative Banks and SKDB.
[26]Ibid

Field-level Follow-up of SCGs/VSLGs and SCCs
Considering the paramount role of field level follow-up for enhanced capacity of the SCG/VSLG and SCC, agencies engaged in SCG/VSLG and SCC promotion need to be prepared to provide directly at least a minimal level of on-going field –based technical support to their affiliated SCGs/VSLGs and SCCs and/or to support those agencies that provide such support. Given the difficult geography of the project district and the related high costs of outreach services, PAs and SCCs federations need to experiment with local cost, sustainable mechanisms to provide such services, such as lead trainers, peer-based capacity building, etc.

Accounting and Record Keeping
Given the wide range of the problem on accounting and book keeping cutting across all level of SCGs/VSLGs and SCCs, there is a need to address this issue properly. However, addressing this issue seriously will require a concerted and collaborative effort by all parties, including GON and most notably the Department of Cooperative. There is also need to identify mechanisms to improve the SCG/VSLG and SCC auditing system.

5.4 Integration with CARE Nepal Supported Other Livelihood Initiatives

CARE Nepal is implementing a number of livelihood supports and other poverty reduction programs with component to enhance income and employment opportunities through assistance to promote income generating and enterprise development activities. These projects, in general works under group approaches and these groups in general demonstrate the features of SCGs/VSLGs as most of them mobilize savings and use the accumulated savings to promote the income generating activities. This requires that SCGs/VSLGs or any other groups managing savings have proven capacity on money management. This implies that approaches and strategies adopted by VSL project could be applied by all these projects with livelihood component and seeking to assist a transition of a particular household for food security management to adoption of income generating activities to micro-enterprise promote income generating activities and micro-enterprises promotion and growth. In order to ensure that integration is taking place, the project team needs to be oriented on the strategies suggested in this study.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

As discussed already, there is tremendous prospects and potentialities for the CARE Nepal to work with SCGs/VSLGs and SCCs to ensure access to financial services to people in these districts. Major conclusions of this study follow hereunder.

6.1.1. Regarding SCGs/VSLGs

Over 80% of the SCGs/VSLGs in four project districts are promoted by PAs to address the felt economic need of enhanced access to financial services to their members. While operational emphasis of these SCGs/VSLGs is generally stated in terms of responding local credit needs, they are mobilizing significant amounts of local savings. A strong sense of ownership and belonging exists among members and this contributes to group cohesion and organizational viability. The lack written savings and credit policies and procedures, book keeping and accounting system, code of conduct for operation, etc. is quite common and ad-hoc operation is the characteristics features of these SCGs/VSLGs.

Members' savings is the primary sources of capital for these SCGs/VSLGs. The rate of savings varies widely between SCGs/VSLGs, but most are characterized by compulsory monthly contributions. The size of loans varies according to size of loanable fund with stated loan recovery rates close to 100 percent. Majority of the SCGs/VSLGs do not have a clear vision or plan for future and their constraints are characterized by lack of leadership, inadequate training and development support.

6.1.2. Regarding SCCs

In general, the SCCs are responding to a felt economic need within many communities for improved access to financial services. They are assisting the members to enhance their access to savings and credit services. The savings and credit policies and procedures adopted by SCCs have been generally perceived by members to be effective and responsive to their local needs and problems.

The primary sources of capital for these SCCs are members' savings although a minority has assessed external funds for on-lending. The rate of savings varies widely between SCCs, but most are characterized by compulsory monthly contributions. The size of loans varies according to available loanable fund and loan recovery rate is fairly high exceeding 90%. All SCCs surveyed breakeven in financial terms, in the sense that they earn income in excess of their expenses. Efficiency, volunteer labor underwrites most of the costs of SCCs management, and physical facilities and furnishings are very basic. In general, the present volume of business in most SCCs is insufficient to meet minimum salary, rent or other expenses, if properly priced.

The majority of SCCs lack a clear vision or plan for future. While officers and members speak favorably on their prospects for financial growth, particularly in terms of the desire for improved access to credit, there is widespread concern about risks inherent to open the SCCs membership to broader population. Given the limited savings capacity of existing shareholders, this is a major constraint to their future growth. Consequently, leadership of most SCCs has identified improved access to external funds as a major constraint for their continued growth. Other constraints to their development identified by SCCs' leadership include inadequate training and institutional support, unclear role of apex organizations, and supportive legal environment, including lack of an appropriate legal identity.

6.1.3. Regarding Promotional Agencies and Strategies

Most of the SCGs/VSLGs and SCCs in these districts are promoted by PAs external to their host communities. Strategies and activities applied in SCGs/VSLGs and SCCs promotion is varies across PAs, close scrutiny of their operation indicates the existence of three common models namely the multipurpose community development organization; lending group approach and savings and credit cooperative approach. The key issues to be addressed in these different promotional strategies include the following dimensions.

- Savings and Credit as a Supporting Activity: Many PAs introduce savings and credit activities as a follow-up to their primary program (community health, literacy, enterprise promotion, etc.). As such, SCG/VSLG and SCC is often allocated responsibilities that do not always fit with promoting viable community-based financial institutions. In general, international experiences suggests that the success rate is higher in single purpose SCGs/VSLGs and SCCs rather than multi-purpose organizations.
- Financial Subsidies: In contravention of most contemporary development thinking, most PAs continue to provide direct financial subsidies i.e. capital grants or subsidized loans to SCGs/VSLGs and SCCs. Studies elsewhere have proven convincingly that such subsidies undermine their long term viability.
- Size of Membership: A large number of PAs have tended to favor small, solidarity mode of credit delivery projects, with savings component added such as lending group of SFDP, PCRW, IBP, etc. As such, many SCGs/VSLGs find it difficult to envisage themselves as financial institutions. They are more likely to define themselves as small-scale delivery agents of external programs/credit.

The study findings indicate that all promoters engage in some form of training and institutional support. In general, these PAs are proficient in the skills required for SCGs/VSLGs and SCCs initiation such as awareness creation, group formation, initial savings mobilisation, and loan management, etc. and less proficient in responding to post-emergence issues of organizational development and financial management.

Effectively, many SCGs/VSLGs and SCCs have grown beyond technical capacities of their sponsoring PAs to provide adequate support and a very large number of SCGs/VSLGs and SCCs are currently blocked from moving beyond a very basic level of operations.

6.1.4. Summary of Conclusions

Experiences elsewhere has shown that community based SCGs/VSLGs and SCCs can provide an effective institutional framework for mobilizing small savings and meeting credit needs of their members through internally generated funds. Despite many constraints currently faced by SCGs/VSLGs and SCCs in these districts, the early success of a number of these organisations indicates their potential for maturing into community based financial institutions. This however requires design and implementation of an institutional support program for SCGs/VSLGs and SCCs sector. CARE-Nepal implemented program on VSL strengthening has potential to meet this demand, which should be more demand driven, responding to their desire to improve their services to members and secure their own long-term futures as viable financial institutions.

Such a program would comprise of four key elements.
- Elaboration of appropriate promotional strategies and capacity amongst PAs
- Strengthening of primary level SCGs/VSLGs and SCCs,
- consolidation of the SCGs/VSLGs and SCCs system through emergence of effective apex organization; and
- Business linkages of SCGs/VSLGs and SCCs with local financial services providers and wholesale financial services providers i.e. apex microfinance institutions respectively.

6.2 Recommendations

In keeping with the above conclusions, the study recommends the following set for CARE-Nepal to initiate in immediate future.

6.2.1. For SCGs/VSLGs

CARE should document existence and capacity of existing SCGs/VSLGs and amalgamate them into one SCGs/VSLGs, reconcile the savings collected so far and support the SCGs/VSLGs to prepare the consolidate outreach, portfolio quality and financial statements. It should not insist on new group formation.

A typical SCG/VSLG should be supported to develop a vision as community based financial institutions with mandate and capacity to respond financial needs of their members through mobilisation and management of local resources. To develop this "sense of possible", local SCG/VSLG should be assisted to up-grade their operations. This process, which is referred as "institutionalization" would include the critical assessment of (i) their capacities to provide accessible and effective financial services to their members, (ii) the risk inherent in subsidy based growth, (iii) the terms and conditions for use of non-member funds from banks or PAF for example for on-lending and (iv) internal control procedures that will foster the confidence of the member, government and general public confidence.

Further, much of the growth and development potential of SCG/VSLG lies in its own sprit, leadership and resources. Hence, the process of development must begin from within the SCG/VSLG. As such, SCGs/VSLGs are urged to pro-actively pursue the issues such as (i) including all excluded groups (Dalit, Janajaties and marginalized people including women) in their settlement while retaining solidarity and discipline, (ii) SCGs/VSLGs benchmarking, (ii) upgrading booking and accounting system by introducing double entry accounting system and introducing chart of accounts, journaling of transactions, main ledgers, side ledgers – savings and loans, preparing financial statement (balance sheet and income statement) at least once a year, (iii) SCGs/VSLGs operation policy such as written code of conduct, savings policy, loan policy and financial management policy, (iv) simple financial management system, (v) transparent decision-making process based on operational policy and introducing a system of compliance audit, (vi) improvement on portfolio quality, (vii) SCGs/VSLGs rating at least once a year to assess their status, and support packages to strengthen capacity of SCGs/VSLGs at different rating standard and (viii) auditing of SCGs/VSLGs operation by external auditor.

6.2.2. For SCCs

CARE-Nepal should document the current status of the SCCs that exist in its working areas in four districts and acknowledge them as a partner for this project. Considering that most of the SCCs are operating on ad-hoc basis without clear vision, these SCCs should be assisted to develop the business plan of their own through an articulation of the vision to develop them as community based financial institutions with mandate and capacity to respond the financial needs of their members through local resources mobilisation and management. They should be assisted for increased outreach, improved governance, equity and access, savings mobilization, loan operation, income and expenses, book keeping and accounting, and enhanced capacity on book keeping and accounting, financial management, management information system, operational risk management and human resource management to foster the confidence of shareholders, government and general public. Further, these SCCs should be assisted to institute the self regulation system that encompasses aspects such as code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management and devise mechanism to ensure that these policies and procedures are fully complied.

Further, much of the growth and development potential of SCC lies in its own sprit, leadership and resources. As such, primary SCCs are urged to pro-actively pursue the issues such as (i) identifying mechanisms by which to expand their membership while retaining solidarity and discipline, (ii) building their long-term capital base, (iii) developing management systems that include documented policies and procedures appropriate for a community-based financial institution, (iv) assessing educational needs in terms of informed and skilled members, officers and staff, (v) upgrading of office facilities, (vi) upgrading analytical capacity by introducing a system of PEARLS rating, (vii) improvement on portfolio quality (viii) ratings of SCCs using standard rating tool and strengthening the operational risk management system.

6.2.3. For Promoting Agencies

In cognizance to the uniqueness of the approach adopted for expanding the frontier of microfinance services, CARE Nepal should take a lead role in its working district to develop a coherent strategy that will foster the development of financially sustainable and organizationally autonomous SCGs/VSLGs and SCCs. This will require elaboration of a process and tools by which these agencies (i) engage in a performance review process that will enable them to clarify their vision in terms of savings and credit activities[27], (ii) elaborate an institutional strengthening strategy which will involve a systematic assessment of the training needs of SCGs/VSLGs and SCCs and their own staff including design and implementation of required training and encourage emergence of member-led federations of SCGs/VSLGs and SCCs, (iii) ensure that institutional strengthening strategy is collaborative in nature, involving structured exchange of ideas and methods between PAs, and (iv) acknowledge that there is no single method of SCG/VSLG and SCC promotion but the recognition that SCGs/VSLGs and SCCs require different types of support in different stages of their development.

To start with CARE-Nepal should consider the following recommendations concerning the promotion and development of SCGs/VSLGs and SCCs in the project districts.

- Facilitate, but not dictate, consolidation and amalgamation of existing SCGs/VSLGs and SCCs through mass sensitization, group meetings, discussions and generation of demand for credit.
- Help to identify and prioritize economic opportunities to be undertaken by a large proportion of the population in specific rural areas identifying comparative advantages for specific commodities.
- Arrange appropriate training such as account keeping, loan management, operational risk management, financial management, leadership and vocational skill etc. both to the SCGs/VSLGs and SCCs.
- Facilitate institutionalization of the SCGs/VSLGs as SCCs.
- Help establish business linkage between (i) SCGs/VSLGs and SCCs/financial institutions, (ii) SCCs and apex institutions and (iii) SCCs and their secondary and tertiary unions.
- Arrange interaction and exchange of experience and ideas among PAs themselves and adopt a uniform strategy for promoting SCGs/VSLGs and SCCs.
- Refrain from providing any financial support to individual group members.
- Foster interaction, communication and collaboration between SCGs/VSLGs and SCCs and relevant regulatory bodies (i.e. Department of Cooperative and NRB).
- Support to District Unions wherever exist and/or facilitate for the emergence and growth of district unions and enhance their technical and managerial capabilities.

[27]This review need to focus on assessing the extent to which PAs are contributing towards the emergence if viable and sustainable community based SCGs/VSLGs and SCCs. This assessment will in turn require elaboration of a framework for identifying steps involved in an SCG/VSLG and SCC achieving financial viability. Primary concern in this regard are the issue of group size, savings capacities of members, and the role and application of financial subsidies in the promotion of SCGs/VSLGs and SCCs.

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ANNEX I: CHECKLIST TO BE USED IN THE STUDY

Checklist 1: Savings and Credit Group Level Checklist

(to be completed for Selected SCGs)

Name of the SCGs:.....

Address: District: .....VDC .....Ward No:.....Tole: .....

Date of SCG formation: ...../...../..... Date of Reporting: ...../...../.....

Name of the surveyor: .....

S.N.	Particulars	Unit	Amount
1	**Area/Membership**		
	Households in SCG	No	
	Members in SCG	No	
	New member entered over the last one year in SCG	No	
	Executive committee members	No	
2	**Equity and Access**		
	Women general members in SCG	No	
	.....Dalits members	No	
	.....Janajati members	No	
	Women executive committee members in SCG	No	
	.....Dalits members	No	
	.....Janajati members	No	
3	**Governance and responsibilities**		
	SCG have meeting register	Y/N	
	.....main ledger	Y/N	
	..... Savings ledger	Y/N	
	..... Loan ledger	Y/N	
	..... Inventory register	Y/N	
	SCG distribute savings and credit pass-book to members	Y/N	
	Meeting register up-to date	Y/N	
	Main ledger up-to-date	Y/N	
	Savings ledger up-to-date	Y/N	
	Loan ledger up-to-date	Y/N	
	Inventory register up-to-date	Y/N	
	Members' pass-book up-to-date	Y/N	
	SCG have written code of conduct of operation	Y/N	
	SCG have written SCG operation rules and regulations	Y/N	
	SCG have written savings, loan and financial management policy	Y/N	
	SCG executives have book keeping and accounting skill	Y/N	
	SCG executives have loan management skill	Y/N	
	SCG has paid book keeper	Y/N	
	If yes, amount of salary to the paid book keeper	NRs.	
	Extent of application of SCG's meetings decision in operational management	Degree	
4	**Savings mobilisation**		
	Total savings mobilized		

S.N.	Particulars	Unit	Amount
	..... Compulsory savings	Rs.	
	..... Voluntary savings	Rs.	
	..... Other savings	Rs.	
	Savings rate	Rs.	
	Savings intervals	Time	
5	**Loan transactions by SCG to members**		
	Total loan disbursement	Rs.	
	Total loan collection	Rs.	
	Total loan outstanding	No.	
	Total loan outstanding	Rs.	
	Total loan overdue	Rs.	
6	**Income Statement**		
6.1	**Operating Income**	**Rs.**	
	Interest income	Rs.	
	Other income	Rs.	
6.2	**Operating expenses**	**Rs.**	
	Interest expenses - borrowed fund	Rs.	
	Interest expenses - deposits/savings	Rs.	
	Salary and allowances	Rs.	
	Administrative expenses	Rs.	
	Loan loss provisions	Rs.	
	Other expenses	Rs.	
6.3	**Net operating income**	**Rs.**	
6.4	**Non-operating income**	**Rs.**	
6.5	**Non-operating expenses**	**Rs.**	
6.6	**Net income**	**Rs.**	
7	**Balance sheet**		
7.1	**Assets**	**Rs.**	
	Cash balance	Rs.	
	Bank balance	Rs.	
	Outstanding loan	Rs.	
	Receivables	Rs.	
	Fixed assets	Rs.	
	Other	Rs.	
7.2	**Liabilities**	**Rs.**	
	Savings balance	Rs.	
	Loan from outside	Rs.	
	Other payables	Rs.	
	Other liabilities	Rs.	
7.3	**Equity**	**Rs.**	
	Capital grant	Rs.	
	Undistributed profit	Rs.	
	Loan loss reserves	Rs.	
	Other reserves	Rs.	

S.N.	Particulars	Unit	Amount
	Other capital	Rs.	
7.4	**Liabilities + Equity**	**Rs.**	
8	**Growth plan for next year**		
	Do you have growth plan for next year	Y/N	
	If yes,		
	..... Plan for membership growth	No	
	..... Plan for savings mobilisation	Rs.	
	..... Plan for increase on loan disbursement	No.	
	..... Plan for increase on loan disbursement	Rs.	

Checklist 2: Checklist for Care Nepal Staff

1. Purpose of forming SCGs in the project districts
2. Number of SCGs in project districts
3. Type of support provided to the SCGs for their growth and development
4. Key features and characteristics of the SCGs promoted in the area
5. Appropriateness of SCGs to deal with the issue of increasing access to microfinance services
6. Relevance of the modality in present socio-political context
7. Problems/constraints on SCGs operation
8. Opportunities that emerged due to SCGs strengthening
9. Financial sustainability of SCGs
10. Capacity of the SCGs in maintaining their accounts and managing their operation independently
11. Possibility of fostering the linkage of the SCGs with other micro finance institutions in long run.
12. Gender equity and equality in SCGs
13. Involvement of Dalits, differently able, women headed HHs and economically disadvantaged households in SCGs.
14. Type of economic activities undertaken by Dalits, differently able, women headed HHs and economically disadvantaged households in the program.
15. Impact of savings and credit operation by SCGs in relation to the socio-economic empowerment of the target groups especially women.
16. Mechanism to identify and record that SCGs exist:
17. Mechanism to enhance the capacity on DCGs on self regulation
18. Areas of support to build-up their capital,, enhance their capacity on self regulation and areas of support to build-up their capital,
19. Is there feasibility of establishing the linkages of the SCG with MFIs,
20. What could be the best modality for promoting SCG and their linkages with financial service providers and business development service providers,
21. Strategy to work with SCG and steps CARE should follow to formulate a policy on promoting SCG and establishing SCG linkages with MFIs.
22. Any other remarks

Checklist 3: Checklist for Key Informants

1. Key features and characteristics of the SCGs promoted by CARE in the area
2. Appropriateness of SCGs on enhancing access to microfinance services
3. Problems/constraints on SCGs operation
4. Likely opportunities through SCGs strengthening
5. Financial sustainability of SCGs
6. Gender equity and equality in SCGs
7. Involvement of Dalits, differently able, women headed HHs and economically disadvantaged households in SCGs.
8. Type of economic activities undertaken by Dalits, differently able, women headed HHs and economically disadvantaged households in the program.
9. Impact of savings and credit operation by SCGs for socio-economic empowerment of the target groups especially women.
10. Mechanism to identify and record that SCGs exist
11. Mechanism to enhance the capacity on DCGs on self regulation
12. Areas in which SCGs requires external support
13. Potential of using the SCGs on enhancing access to finance to poor and disadvantaged group.
14. What could be the strategy to work with SCG
15. What are the steps to be followed on formulating a policy on promoting SCG and establishing SCG linkages with MFIs
16. Any other remarks

ANNEX II: SUPPLIMENTARY TABLES

Table 1: Name, Address and Year of Formation of SCCs and SCGs/VSLGs Surveyed

S.N.	Name of SCCs/VSLGs	Address				Year of Formation
		District	VDC	Ward	Tole	
A	**SCCs**					
1	Mahila Kalyan	Bajhang	Chainpur	1	Chainpur	2063
2	Pragatishil Mahila	Bajhang	Masta	5	Khikala	2063
3	Grameen Jana Bikash	Bajhang	Masta	7	Bandigoun	2057
4	Akbar	Bajhang	Bhatkhola	7	Kheti	2064
5	Pragatishil Mahila	Bajura	Kolti	2	Kolti bazaqr	2063
6	Malika Krishi Vyhbasayi	Bajura	Martadi	5	Rithgada	2057
7	Naula Grameen	Bajura	Atichar	8	Maina	2066
8	JeevanJyoti	Bajura	Atichar	4	Oligoun	2055
9	Laxmi	Bajura	Martadi	8	Rajali	2057
10	Samati Samaj	Doti	Kapalekhi	8	School Tole	2063
11	Chahara	Doti	Chhatiwan	4	Budar	2061
12	Pragatishil	Syangja	Bhatkhola	5	Bhatkhola	2054
13	Panchase	Syangja	Bangsingh Deurali	7	Deurali	2058
B	**SCGs/VSLGs**					
1	Bhimsen	Bajhang	Chainpur	1	Chainpur	2060
2	FDSCCL	Bajhang	Chainpur	1	Chainpur	2065
3	Paribatanshil	Bajura	Atichar	7	Moti tole	2060
4	Saileswori	Bajura	Pandusen	6	Guidanda	2057
5	Shree Bhagawati	Bajura	Martadi	8	Ghogali	2054
6	Ghattala	Bajura	Martadi	8	Khadga Rawal	2062
7	Kailash Kaliba	Bajura	Atichar	5	Dani goun	2064
8	Saral	Doti	Chatiwan	5	Dhodeni	2065
9	Mahelkhola	Doti	Chatiwan	2	Mahel Khola	2064
10	Lali Guras	Doti	Chatiwan	2	Mahel Khola	2063
11	Markhola	Doti	Chatiwan	4	Markhola	2065
12	Mahila Bikas	Doti	Khatiwada	5	Punebata, Pantola	2060
13	Lali Guras	Doti	Khatiwada	6	Jharala	2062
14	Jaya Kalika	Doti	Khatiwada	6	Gyani	2063
15	Lali Guras	Doti	Kapalekhi	9	Tallo Seri	2064
16	Bhagawati Samuha	Doti	Kapalekhi	6	Mathura Sain	2065
17	Siludanda Ama Samuha	Syangja	Bange Phadke	7	Gurunggoun	2063
18	Pragatishil Krishak Samuha	Syangja	Bange Phadke	8	Bahunthar	2063
19	Bahundanda	Syangja	Bangsingh Deurali	5	Bahundanda	2064
20	Naba deep	Syangja	Bangsingh Deurali	6	Tallo goun	2063
21	Saradi Khola	Syangja	Bichari Chautara	1	Saunetari, Majh Kateri	2066
22	Punarmilan Goun Sudar	Syangja	Thuladihi	9	Arbakuna	2065
23	Parbati	Syangja	Pauwagaude	3	Pauwe	2066
24	Dhunge Deureli	Syangja	Pauwagaude	4	Deureli	2066
25	Jai Laxmi	Syangja	Phedi Khola	2	Sarki goun	2064
26	Chandi danda	Syangja	Phedi Khola	5	Chandidanda (matikhana)	2065

Source: Field Survey, September 2009

Table 2: Membership in the SCCs and SCGs/VSLGs

S.N.	Name of the SCCs/VSLGs	Households (No)	Membership (No)	New member entered over the last one year (No)	Executive committee members (No)
A	SCCs				
1	Mahila Kalyan	650	525	51	11
2	Pragatishil Mahila	55	22	2	9
3	Grameen Jana Bikash	225	164	31	11
4	Akbar	50	27	1	11
5	Pragatishil Mahila	310	217	0	11
6	Malika Krishi Vyhbasayi	260	159	0	1
7	Naula Grameen	50	25	3	7
8	JeevanJyoti	700	595	22	9
9	Laxmi	645	422	27	11
10	Samati Samaj	95	42	0	7
11	Chahara	976	623	14	7
12	Pragatishil	1550	746	17	7
13	Panchase	1250	604	36	7
	Total	6816	4171	204	109
	Average	524	321	16	8
	STD	492	271	17	3
B	SCGs/VSLGs				
1	Bhimsen	31	26	2	31
2	FDSCCL	23	10	2	7
3	Paribatanshil	45	35	10	4
4	Saileswori	62	31	1	11
5	Shree Bhagawati	36	26	0	11
6	Ghattala	41	21	0	5
7	Kailash Kaliba	56	45	0	4
8	Saral	21	15	0	4
9	Mahelkhola	35	23	0	4
10	Lali Guras	37	22	0	4
11	Markhola	45	32	0	4
12	Mahila Bikas	32	28	0	4
13	Lali Guras	23	20	0	4
14	Jaya Kalika	34	27	0	4
15	Lali Guras	45	31	0	4
16	Bhagawati Samuha	34	23	0	4
17	Siludanda Ama Samuha	29	20	0	4
18	Pragatishil Krishak Samuha	45	38	0	4
19	Bahundanda	29	20	0	4
20	Naba deep	49	43	0	4
21	Saradi Khola	51	31	0	4
22	Punarmilan Goun Sudar	35	29	0	4
23	Parbati	45	37	0	4
24	Dhunge Deureli	75	63	0	4
25	Jai Laxmi	29	20	0	4
26	Chandi danda	56	43	0	4

S.N.	Name of the SCCs/VSLGs	Households (No)	Membership (No)	New member entered over the last one year (No)	Executive committee members (No)
	Total	1043	759	15	149
	Average	40	29	1	6
	STD	13	11	2	6
	Grand Total	7859	4930	219	258
	Average	202	126	6	7
	STD	361	207	12	5

Source: Field Survey, Sept. 2009

Table 3: Equity and Access in the SCCs and SCGs/VSLGs Surveyed

S.N.	Name of the SCCs/VSLGs	General Members				Executive Committee Members			
		Women	Dalits	Janajaties	Others	Dalit	Janajaties	Others	Others
A	SCCs								
1	Mahila Kalyan	525	126	0	399	11	2	0	9
2	Pragatishil Mahila	22	20	0	2	9	7	0	2
3	Grameen Jana Bikash	53	7	0	157	3	1	0	10
4	Akbar	9	5	0	22	4	0	0	11
5	Pragatishil Mahila	217	39	1	177	11	3	0	8
6	Malika Krishi Vyhbasayi	21	11	0	148	3	1	0	0
7	Naula Grameen	25	5	0	20	4	2	0	5
8	JeevanJyoti	170	71	0	524	2	0	0	9
9	Laxmi	116	16	0	406	3	1	0	10
10	Samati Samaj	26	22	0	20	3	2	1	4
11	Chahara	396	160	123	340	3	1	1	5
12	Pragatishil	450	112	215	419	4	2	2	3
13	Panchase	319	196	259	149	3	2	2	3
	Total	2349	790	598	2783	63	24	6	79
	Average	181	61	46	214	5	2	0	6
	STD	184	66	92	182	3	2	1	4
B	SCGs/VSLGs								
1	Bhimsen	31	20	0	6	31	20	0	11
2	FDSCCL	1	2	0	8	1	2	0	5
3	Paribatanshil	8	0	0	35	2	0	0	4
4	Saileswori	31	5	0	26	11	2	0	9
5	Shree Bhagawati	3	0	0	26	2	0	0	11
6	Ghattala	15	0	0	21	3	0	0	5
7	Kailash Kaliba	23	5	0	40	2	1	0	3
8	Saral	13	11	4	0	3	2	1	1
9	Mahelkhola	19	13	2	8	3	2	1	1
10	Lali Guras	20	16	5	1	3	2	0	2
11	Markhola	25	19	2	11	3	2	0	2
12	Mahila Bikas	22	17	5	6	3	2	1	1
13	Lali Guras	17	12	3	5	3	2	1	1
14	Jaya Kalika	21	17	2	8	3	2	0	2
15	Lali Guras	23	16	1	14	3	2	0	2
16	Bhagawati Samuha	17	8	7	8	3	2	1	1
17	Siludanda Ama Samuha	18	0	20	0	4	0	4	0

S.N.	Name of the SCCs/VSLGs	General Members				Executive Committee Members			
		Women	Dalits	Janajaties	Others	Dalit	Janajaties	Others	Others
18	Pragatishil Krishak Samuha	19	9	17	12	2	1	1	2
19	Bahundanda	15	3	5	12	3	1	1	2
20	Naba deep	39	33	5	5	3	1	0	3
21	Saradi Khola	27	9	8	14	3	1	1	2
22	Punarmilan Goun Sudar	24	6	14	9	4	1	1	2
23	Parbati	22	5	2	30	4	0	0	4
24	Dhunge Deureli	63	35	22	6	4	1	1	2
25	Jai Laxmi	16	20	0	0	3	4	0	0
26	Chandi danda	43	9	12	22	4	1	1	2
	Total	575	290	136	333	113	54	15	80
	Average	22	11	5	13	4	2	1	3
	STD	13	9	7	11	6	4	1	3
	Grand Total	2924	1080	734	3116	176	78	21	159
	Average	75	28	19	80	5	2	1	4
	STD	129	45	55	140	5	3	1	3

Source: Field Survey, Sept. 2009

Table 4: Book Keeping and Accounting System in SCCs and SCGs/VSLGs

S.N.	Name of the SCCs/VSLGs	SCCs/VSLGS possesses					
		Meeting register	Main ledger	Savings ledger	Loan ledger	Inventory register	Distribution of pass-book to members
A	SCCs						
1	Mahila Kalyan	1	0	1	1	0	1
2	Pragatishil Mahila	1	0	1	1	0	1
3	Grameen Jana Bikash	1	0	1	1	1	1
4	Akbar	1	0	1	1	0	1
5	Pragatishil Mahila	1	0	1	1	0	1
6	Malika Krishi Vyhbasayi	1	1	1	0	1	1
7	Naula Grameen	1	0	1	1	0	0
8	JeevanJyoti	1	1	1	1	1	1
9	Laxmi	1	1	1	1	1	1
10	Samati Samaj	1	1	1	0	0	1
11	Chahara	1	1	1	1	1	1
12	Pragatishil	1	1	1	1	1	1
13	Panchase	1	1	1	1	1	1
B	SCGs/VSLGs						
1	Bhimsen	1	1	1	1	1	1
2	FDSCCL	1	0	1	1	1	1
3	Paribatanshil	1	0	1	1	0	1
4	Saileswori	1	0	1	1	0	1
5	Shree Bhagawati	1	0	1	0	0	0
6	Ghattala	1	0	1	0	0	0
7	Kailash Kaliba	1	0	1	0	0	1
8	Saral	1	0	1	0	0	0
9	Mahelkhola	1	0	1	0	0	0
10	Lali Guras	1	0	1	0	0	1

S.N.	Name of the SCCs/VSLGs	SCCs/VSLGS possesses					
		Meeting register	Main ledger	Savings ledger	Loan ledger	Inventory register	Distribution of pass-book to members
11	Markhola	1	0	1	0	0	1
12	Mahila Bikas	1	0	1	0	0	0
13	Lali Guras	1	0	1	0	0	0
14	Jaya Kalika	1	0	1	0	0	0
15	Lali Guras	1	0	1	0	0	1
16	Bhagawati Samuha	1	0	1	0	0	0
17	Siludanda Ama Samuha	1	0	1	0	0	0
18	Pragatishil Krishak Samuha	1	0	1	0	0	0
19	Bahundanda	1	0	1	0	0	0
20	Naba deep	1	0	1	0	0	0
21	Saradi Khola	1	0	1	0	0	0
22	Punarmilan Goun Sudar	1	0	1	0	0	0
23	Parbati	1	0	1	0	0	0
24	Dhunge Deureli	1	0	1	0	0	0
25	Jai Laxmi	1	0	1	0	0	0
26	Chandi danda	1	0	1	0	0	0

Source: Field Survey, Sept. 2009

Table 5: Status of Book Keeping and Accounting System in SCCs and SCGs/VSLGs

S.N.	Name of the SCGS/VSLGS	Status of System Up-to-date					
		Meeting register	Main ledger	Savings ledger	Loan ledger	Inventory register	Members pass-book
A	SCCs						
1	Mahila Kalyan	1	0	1	1	1	1
2	Pragatishil Mahila	1	0	1	1	0	1
3	Grameen Jana Bikash	1	0	1	1	1	1
4	Akbar	1	0	1	1	1	1
5	Pragatishil Mahila	1	0	1	1	0	1
6	Malika Krishi Vyhbasayi	1	1	1	0	1	1
7	Naula Grameen	1	0	1	1	0	0
8	JeevanJyoti	1	1	1	1	1	1
9	Laxmi	1	1	1	1	1	1
10	Samati Samaj	1	0	1	0	0	1
11	Chahara	1	1	1	1	1	1
12	Pragatishil	1	1	1	1	1	1
13	Panchase	1	1	1	1	1	1
B	SCGs/VSLGs						
1	Bhimsen	1	1	1	1	1	1
2	FDSCCL	1	0	1	1	1	1
3	Paribatanshil	1	1	1	1	0	1
4	Saileswori	1	0	1	1	0	1
5	Shree Bhagawati	1	0	0	0	0	0
6	Ghattala	1	0	0	0	0	0
7	Kailash Kaliba	1	0	1	0	0	1
8	Saral	1	0	1	0	0	0

S.N.	Name of the SCGS/VSLGS	Status of System Up-to-date					
		Meeting register	Main ledger	Savings ledger	Loan ledger	Inventory register	Members pass-book
9	Mahelkhola	1	0	1	0	0	0
10	Lali Guras	1	0	1	0	0	1
11	Markhola	1	0	1	0	0	1
12	Mahila Bikas	1	0	1	0	0	0
13	Lali Guras	1	0	1	0	0	0
14	Jaya Kalika	1	0	1	0	0	0
15	Lali Guras	1	0	1	0	0	0
16	Bhagawati Samuha	1	0	1	0	0	0
17	Siludanda Ama Samuha	1	0	1	0	0	0
18	Pragatishil Krishak Samuha	1	0	1	0	0	0
19	Bahundanda	1	0	1	0	0	0
20	Naba deep	1	0	1	0	0	0
21	Saradi Khola	1	0	1	0	0	0
22	Punarmilan Goun Sudar	1	0	1	0	0	0
23	Parbati	1	0	1	0	0	0
24	Dhunge Deureli	1	0	1	0	0	0
25	Jai Laxmi	1	0	1	0	0	0
26	Chandi danda	1	0	1	0	0	0

Source: Field Survey, Sept. 2009

Table 6: Governance and Accountability in SCCs and SCGs/VSLGs

S.N.	Name of the SCGS/VSLGS	Status in the SCCs/VSLGs						
		Written			Capacity of the executives		Paid book keeper	Application of meetings decision in operational management
		Operational Code of conduct	Rules and regulations	Savings, loan and financial management policy	Book keeping and accounting	Loan manage-ment		
A	SCCs							
1	Mahila Kalyan	1	1	1	1	1	1	1
2	Pragatishil Mahila	0	1	0	0	0	0	2
3	Grameen Jana Bikash	1	1	1	0	1	0	1
4	Akbar	0	0	0	0	0	0	1
5	Pragatishil Mahila	0	1	0	1	1	1	0
6	Malika Krishi Vyhbasayi	1	1	1	1	1	1	2
7	Naula Grameen	0	1	0	1	1	0	2
8	JeevanJyoti	1	1	1	1	1	1	2
9	Laxmi	1	1	1	1	1	1	2
10	Samati Samaj	0	0	0	0	0	0	1
11	Chahara	1	1	1	1	1	1	1
12	Pragatishil	1	1	1	1	1	1	1
13	Panchase	1	1	1	1	1	1	1
B	SCGs/VSLGs							
1	Bhimsen	1	1	1	1	1	1	1

S.N.	Name of the SCGS/VSLGS	Status in the SCCs/VSLGs						
		Written			Capacity of the executives		Paid book keeper	Application of meetings decision in operational management
		Operational Code of conduct	Rules and regulations	Savings, loan and financial management policy	Book keeping and accounting	Loan manage-ment		
2	FDSCCL	0	1	1	0	1	1	2
3	Paribatanshil	0	0	0	1	0	0	2
4	Saileswori	0	1	1	1	1	0	5
5	Shree Bhagawati	0	0	0	0	0	0	5
6	Ghattala	0	1	0	0	1	0	6
7	Kailash Kaliba	1	1	1	0	1	0	2
8	Saral	0	0	0	0	0	0	1
9	Mahelkhola	0	0	0	0	0	0	1
10	Lali Guras	0	0	0	0	0	0	1
11	Markhola	0	0	0	0	0	0	1
12	Mahila Bikas	0	0	0	0	0	0	1
13	Lali Guras	0	0	0	0	0	0	1
14	Jaya Kalika	0	0	0	0	0	0	1
15	Lali Guras	0	0	0	0	0	0	1
16	Bhagawati Samuha	0	0	0	0	0	0	1
17	Siludanda Ama Samuha	0	0	0	0	0	0	1
18	Pragatishil Krishak Samuha	0	0	0	0	0	0	1
19	Bahundanda	0	0	0	0	0	0	1
20	Naba deep	0	0	0	0	0	0	1
21	Saradi Khola	0	0	0	0	0	0	1
22	Punarmilan Goun Sudar	0	0	0	0	0	0	1
23	Parbati	0	0	0	0	0	0	1
24	Dhunge Deureli	0	0	0	0	0	0	1
25	Jai Laxmi	0	0	0	0	0	0	1
26	Chandi danda	0	0	0	0	0	0	1

Source: Field Survey, Sept. 2009

Table 7: Savings Mobilisation in the SCCs and SCGs/VSLGs

S.N.	Name of the SCGS/VSLGS	Savings Mobilisation					
		Compulsory savings	Voluntary savings	Other savings	Total	Savings rate	Savings intervals
A	SCCs						
1	Mahila Kalyan	146620	0	0	146620	75	Monthly
2	Pragatishil Mahila	11000	0	2290	13290	15	Monthly
3	Grameen Jana Bikash	212000	9000	16250	237250	20	Monthly
4	Akbar	24252	0	0	24252	10	Monthly
5	Pragatishil Mahila	64500	0	0	64500	2500	Monthly
6	Malika Krishi Vyhbasayi	245204	0	0	245204	100	Monthly
7	Naula Grameen	50000	0	0	50000	20	Monthly

S.N.	Name of the SCGS/VSLGS	Savings Mobilisation					
		Compulsory savings	Voluntary savings	Other savings	Total	Savings rate	Savings intervals
8	JeevanJyoti	1117215	398369	281351	1796935	10-100	Monthly
9	Laxmi	751402	308078	176140	1235620	2000	Monthly
10	Samati Samaj	75623	0	0	75623	50	Monthly
11	Chahara	150656	0	0	150656	50	Monthly
12	Pragatishil	4747850	0	0	4747850	200	Monthly
13	Panchase	3807597	0	0	3807597	100	Monthly
	Total	11403919	715447	476031	12595397		
	Average	877225	55034	36618	968877		
	STD	1554863	133640	88044	1574960		
B	SCGs/VSLGs						
1	Bhimsen	32000	0	10900	42900	20	Monthly
2	FDSCCL	4000	0	0	4000	500	Monthly
3	Paribatanshil	350	0	0	350	10	Monthly
4	Saileswori	29760	0	0	29760	10	Monthly
5	Shree Bhagawati	16000	0	0	16000	5	Monthly
6	Ghattala	105	0	0	105	5	Monthly
7	Kailash Kaliba	9000	0	0	9000	10	Monthly
8	Saral	4500	0	0	4500	20	Monthly
9	Mahelkhola	27082	0	0	27082	10	Monthly
10	Lali Guras	42510	0	0	42510	10	Monthly
11	Markhola	19700	0	0	19700	20	Monthly
12	Mahila Bikas	48523	0	0	48523	25	Monthly
13	Lali Guras	23610	0	0	23610	25	Monthly
14	Jaya Kalika	36510	0	0	36510	10	Monthly
15	Lali Guras	56723	0	0	56723	25	Monthly
16	Bhagawati Samuha	49410	0	0	49410	25	Monthly
17	Siludanda Ama Samuha	2000	0	0	2000	50	Monthly
18	Pragatishil Krishak Samuha	66000	0	0	66000	100	Monthly
19	Bahundanda	5950	0	0	5950	50	Monthly
20	Naba deep	4300	0	0	4300	20	Monthly
21	Saradi Khola	7750	0	0	7750	50	Monthly
22	Punarmilan Goun Sudar	45188	0	0	45188	100	Monthly
23	Parbati	7435	0	0	7435	50	Monthly
24	Dhunge Deureli	7950	0	0	7950	50	Monthly
25	Jai Laxmi	3550	0	0	3550	50	Monthly
26	Chandi danda	13290	0	0	13290	50	Monthly
	Total	563196	0	10900	574096		
	Average	21661	0	419	22081		
	STD	19738	0	2138	20079		
	Grand Total	11967115	715447	486931	13169493		
	Average	306849	18345	12485	337679		
	STD	964704	79566	52438	993996		

Source: Field Survey, Sept. 2009

Table 8: SCCs and SCGs/VSLGs' Loan Transaction to Members as of August 2009

S.N.	Name of SCCs/VSLGs	Loan Disbursement (Rs.)	Loan collection (Rs.)	Loan Outstanding (No)	Loan Outstanding (Rs.)	Loan Overdue (Rs.)	Overdue Rate (%)
A	SCCs						
1	Mahila Kalyan	1734317	0	7	1734317	35000	2.02
2	Pragatishil Mahila	161000	0	13	161000	0	0.00
3	Grameen Jana Bikash	323000	210000	6	123000	54000	43.90
4	Akbar	83571	1440	17	82131	0	0.00
5	Pragatishil Mahila	4921700	652700	26	160000	0	0.00
6	Malika Krishi Vyhbasayi	375900	135400	200	240500	12500	5.20
7	Naula Grameen	72100	27100	32	45000	0	0.00
8	JeevanJyoti	2340705	438718	100	1901987	198505	10.44
9	Laxmi	184112	727393	41	1114293	0	0.00
10	Samati Samaj	95000	19800	24	75200	19510	25.94
11	Chahara	259000	91100	24	167900	8759	5.22
12	Pragatishil	8524510	2367054	202	6157456	23478	0.38
13	Panchase	6023459	2461343	205	3562116	25348	0.71
	Total	25098374	7132048	897	15524900	377100	2.43
	Average	1930644	548619	69	1194223	29008	
	STD	2792802	864476	80	1827952	53552	
B	SCGs/VSLGs						
1	Bhimsen	32550	15830	7	16520	0	0.00
2	FDSCCL	6500	2500	3	4000	0	0.00
3	Paribatanshil	88830	50000	14	45000	0	0.00
4	Saileswori	17500	3500	31	14000	0	0.00
5	Shree Bhagawati	10000	0	2	10000	0	0.00
6	Ghattala	1300	3000	2	1000	0	0.00
7	Kailash Kaliba	249000	0	0	291000	0	0.00
8	Saral	9000	4540	9	4460	700	15.70
9	Mahelkhola	37000	10500	15	26500	6250	23.58
10	Lali Guras	61000	19500	11	41500	12400	29.88
11	Markhola	34000	15000	21	19000	4300	22.63
12	Mahila Bikas	67000	19100	19	47900	11560	24.13
13	Lali Guras	35000	11400	17	23600	2600	11.02
14	Jaya Kalika	49000	13020	19	35980	9025	25.08
15	Lali Guras	76000	19500	23	56500	14200	25.13
16	Bhagawati Samuha	71000	21700	17	49300	11356	23.03
17	Siludanda Ama Samuha	2000	0	2	2000	0	0.00
18	Pragatishil Krishak Samuha	119200	54700	14	64500	6123	9.49
19	Bahundanda	6310	770	205	5540	0	0.00
20	Naba deep	5000	1000	4	4000	0	0.00
21	Saradi Khola	11500	4000	7	7500	0	0.00
22	Punarmilan Goun Sudar	70459	23795	12	46664	4690	10.05
23	Parbati	12490	5090	5	7400	0	0.00
24	Dhunge Deureli	13469	5351	7	8118	0	0.00
25	Jai Laxmi	25437	7836	13	17601	1430	8.12
26	Chandi danda	20127	5807	12	14320	0	0.00
	Total	1130672	317439	491	863903	84634	9.80

	Average	43487	12209	19	33227	3255	
	STD	52251	13971	39	55943	4692	
	Grand Total	26229046	7449487	1388	16388803	461734	2.82
	Average	672540	191012	36	420226	11839	
	STD	1810280	549316	60	1168186	32732	

Source: Field Survey, Sept. 2009

Table 9: Operating Income and Expenses of the SCCs and SCGs/VSLGs to Members

S.N.	Name of the SCGS/VSLGS	Operating income	Operating Expenses	Net Operating Income
A	SCCs			
1	Mahila Kalyan	207671	151911	55760
2	Pragatishil Mahila	36240	1063	35177
3	Grameen Jana Bikash	433250	53000	380250
4	Akbar	46111	32846	13265
5	Pragatishil Mahila	136725	37836	98889
6	Malika Krishi Vyhbasayi	43290	34326	8964
7	Naula Grameen	7200	4550	2650
8	JeevanJyoti	241561	214942	52732
9	Laxmi	194136	176557	17579
10	Samati Samaj	18280	5237	13043
11	Chahara	35885	9246	26639
12	Pragatishil	488088	338606	149482
13	Panchase	611469	497325	114144
	Total	2499906	1557445	968574
	Average	192300	119803	74506
	STD	200820	153428	102534
B	SCGs/VSLGs			
1	Bhimsen	5465	1000	4465
2	FDSCCL	23060	5530	17530
3	Paribatanshil	11300	10639	661
4	Saileswori	2416	1416	1000
5	Shree Bhagawati	1232	0	1232
6	Ghattala	990	370	620
7	Kailash Kaliba	26880	540	26340
8	Saral	1020	350	670
9	Mahelkhola	6150	1535	4615
10	Lali Guras	9460	2326	7134
11	Markhola	4635	1239	3396
12	Mahila Bikas	11770	2529	9241
13	Lali Guras	5512	1328	4184
14	Jaya Kalika	8713	2274	6439
15	Lali Guras	14860	3061	11799
16	Bhagawati Samuha	12685	3121	9564
17	Siludanda Ama Samuha	20	0	20
18	Pragatishil Krishak Samuha	16714	10221	6493
19	Bahundanda	1329	714	615
20	Naba deep	960	516	444
21	Saradi Khola	1800	930	870
22	Punarmilan Goun Sudar	11199	5423	5777
23	Parbati	1776	892	884

S.N.	Name of the SCGS/VSLGS	Operating income	Operating Expenses	Net Operating Income
24	Dhunge Deureli	1948	954	994
25	Jai Laxmi	14831	426	14405
26	Chandi danda	3437	1595	1842
	Total	197930	58929	140234
	Average	7613	2266	5394
	STD	7304	2796	6374
	Grand Total	2697836	1616373	1108807
	Average	69175	41445	28431
	STD	143352	102906	66604

Source: Field Survey, Sept. 2009

Table 10: Balance Sheet of the SCCs and SCGs/VSLGs

S.N.	Name of the SCGS/VSLGS	Assets							Liabilities				Equity				
		Cash balance	Bank balance	Outstan-ding oan	Receiv-ables	Fixed assets	Other	Total	Savings balance	External Loan	Other liabilities	Total	Loan loss reserves	Other reserves	Capital grants	Other capital	Total
A	SCCs																
1	Mahila Kalyan	38800	605456	1734317	0	50000	102500	2531073	146620	0	37382	184002	20185	997020	1092849	237017	2347071
2	Pragatishil Mahila	0	3700	161000	0	0	20000	184700	13290	0	0	13290	0	66177	94823	10410	171410
3	Grameen Jana Bikash	224250	89312	123000	0	23000	100400	559962	237250	0	0	237250	0	80985	125400	116327	322712
4	Akbar	9080	1272	82131	0	0	40000	132483	24252	0	0	24252	0	53265	40000	14966	108231
5	Pragatishil Mahila	1494	0	160000	0	63800	5000	230294	64500	0	115296	179796	0	889	29800	19809	50498
6	Malika Krishi Vyhbasayi	5000	231259	240500	0	0	460959	937718	245204	0	187810	433014	26980	27724	200000	250000	504704
7	Naula Grameen	8516	0	45000	0	0	0	53516	50000	0	0	50000	0	2650	0	866	3516
8	JeevanJyoti	237158	119539	1901987	0	0	123122	2381805	1796935	0	132567	1929502	74665	202271	144637	30730	452303
9	Laxmi	324598	103245	1114293	0	0	124999	1667135	1235620	0	0	1235620	59724	153406	15853	202532	431515
10	Samati Samaj	13466	0	75200	0	0	0	88666	75623	0	0	75623	0	13043	0	0	13043
11	Chahara	9395	0	167900	0	0	0	177295	150656	0	0	150656	0	26639	0	0	26639
12	Pragatishil	132685	104689	6157456	0	495388	22329	6912547	4747850	819231	0	5567081	0	322441	248605	774420	1345466
13	Panchase	891805	128000	3562116	0	37663	24233	4643817	3807597	200000	52763	4060360	0	231437	38140	313880	583457
	Total	1896247	1386471	15524900	0	669851	1023542	20501011	12595397	1019231	525818	14140446	181554	2177947	2030107	1970957	6360565
	Average	145865	106652	1194223	0	51527	78734	1577001	968877	78402	40448	1087727	13966	167534	156162	151612	489274
	STD	250030	166451	1827952	0	135220	124625	2105877	1574960	229352	63936	1772225	25400	268728	292821	218770	667181
B	SCGs/VSLGs																
1	Bhimsen	3200	6300	16520	0	0	59680	85700	0	30000	12800	42800	0	0	0	42900	42900
2	FDSCCL	34000	493700	617700	903470	0	48000	2096870	4000	0	31000	35000	0	0	2031340	30530	2061870
3	Paribatanshil	0	0	45000	9319	0	32529	86848	14315	60000	0	74315	300	0	0	12233	12533
4	Saileswori	4108	0	14000	0	0	11652	29760	29760	0	0	29760	0	0	0	0	0
5	Shree Bhagawati	0	6000	10000	7232	0	14404	37636	16000	0	0	16000	0	306	21330	0	21636
6	Ghattala	1055	3000	1000	0	0	10	5065	3675	0	0	3675	0	370	1000	20	1390
7	Kailash Kaliba	248000	488000	224000	162000	0	632312	1754312	9000	0	0	9000	0	0	811312	934000	1745312
8	Saral	520	0	4460	0	0	0	4980	4500	0	0	4500	0	480	0	0	480
9	Mahelkhola	3567	0	26500	0	0	0	30067	27082	0	0	27082	0	2985	0	0	2985
10	Lali Guras	5669	0	41500	0	0	0	47169	42510	0	0	42510	0	4659	0	0	4659
11	Markhola	2671	0	19000	0	0	0	21671	19700	0	0	19700	0	1971	0	0	1971

S.N.	Name of the SCGS/VSLGS	Assets							Liabilities				Equity				
		Cash balance	Bank balance	Outstan-ding oan	Receiv-ables	Fixed assets	Other	Total	Savings balance	External Loan	Other liabilities	Total	Loan loss reserves	Other reserves	Capital grants	Other capital	Total
12	Mahila Bikas	6346	0	47900	0	0	0	54246	48523	0	0	48523	0	5723	0	0	5723
13	Lali Guras	2691	0	23600	0	0	0	26291	23610	0	0	23610	0	2681	0	0	2681
14	Jaya Kalika	4334	0	35980	0	0	0	40314	36510	0	0	36510	0	3804	0	0	3804
15	Lali Guras	7996	0	56500	0	0	0	64496	56723	0	0	56723	0	7773	0	0	7773
16	Bhagawati Samuha	6508	0	49300	0	0	0	55808	49410	0	0	49410	0	6398	0	0	6398
17	Siludanda Ama Samuha	0	0	2000	0	0	0	2000	2000	0	0	2000	0	0	0	0	0
18	Pragatishil Krishak Samuha	7993	0	64500	0	0	0	72493	66000	0	0	66000	0	6493	0	0	6493
19	Bahundanda	1026	0	5540	0	0	0	6566	5950	0	0	5950	0	616	0	0	616
20	Naba deep	744	0	4000	0	0	0	4744	4300	0	0	4300	0	444	0	0	444
21	Saradi Khola	1120	0	7500	0	0	0	8620	7750	0	0	7750	0	870	0	0	870
22	Punarmilan Goun Sudar	4301	0	46664	0	0	0	50965	45188	0	0	45188	0	5777	0	0	5777
23	Parbati	919	0	7400	0	0	0	8319	7435	0	0	7435	0	884	0	0	884
24	Dhunge Deureli	826	0	8118	0	0	0	8944	7950	0	0	7950	0	994	0	0	994
25	Jai Laxmi	-9473	0	17601	0	0	0	8128	3550	0	0	3550	0	4578	0	0	4578
26	Chandi danda	812	0	14320	0	0	0	15132	13290	0	0	13290	0	1842	0	0	1842
	Total	338933	997000	1410603	1082021	0	798587	4627144	548731	90000	43800	682531	300	59648	2864982	1019683	3944613
	Average	13036	38346	54254	41616	0	30715	177967	21105	3462	1685	26251	12	2294	110192	39219	151716
	STD	48445	133227	122874	178618	0	123702	517409	19547	12944	6484	21517	59	2505	422816	182788	517754
	Grand Total	2235180	2383471	16935503	1082021	669851	1822129	25128155	13144128	1109231	569618	14822977	181854	2237595	4895089	2990640	10305178
	Average	57312	61115	434244	27744	17176	46721	644312	337029	28442	14606	380076	4663	57374	125515	76683	264235
	STD	159090	146597	1166833	146235	79872	124490	1422310	994201	134173	40758	1117633	15752	170400	381016	199940	585591

Source: Field Survey, Sept. 2009

ANNEX III: LIST OF SAVINGS AND CREDIT COOPERATIVES IN BAJHANG, BAJURA, DOTI AND SYANGJA DISTRICTS

S. N.	Name of SCCs	Address			Registration No.	Registration Date	Working Area	Shareholder No			Share Capital (Rs.)	Contact Person
		VDC/Municipality	Tole	Ward				Female	Male	Total		
	Bajhang											
1	District Credit Union	Chainpur		1	02/065/66	065/08/16	Whole district	0	0	8	8,000	Sunita Rasayali
2	Khaptad	Kotvairav			17/056/57	056/8/16	Whole district	1	235	236	14,000	Bal B. Rokaya
3	Tribeni	Kalukheti		8	227/244	063/2/29	Majhigau and Kalukheti	6	22	28	5,600	Devraj Joshi
4	Mahila Kalayan				244/261	063/3/14	Chainpur, Hemantadada, Rithapata and Kotdebal	508	0	508	50,800	Manju Joshi
5	Vhabani				278/063/64	063/6/1	Korailkot	0	25	25	2,500	Tikaram Joshi
6	Kalika	Dantola		8	314/063/64	063/8/4	Dantola	2	28	30	3,000	Lal B. Jethara
7	Malika	Rilu	Daya	1	317/063/64	063/8/4	Rilu	5	25	30	3,750	Dabal Jathara
8	Gramin Janasewa Bikas	Masta		1	360/063/64	063/9/11	Masta	1	30	31	3,875	Karna B. Kathayet
9	Chirangibi	Sunikot		4	379/063/64	063/9/17	Sunikot	22	6	28	3,920	Khadaka B. Dhami
10	Jivan Joyati	Melbishouna		7	390/063/64	063/9/26	Melbishouna	1	27	28	2,800	Nandu B.Ka.
11	Seti Saipal	Malumela		5	444/063/64	063/11/12	Malumela, Matela and Subeda	3	34	37	18,500	Man B. Khattri
12	Gramin Bikas Ekkikrit	Hemantadada		3	02/064/65	064/4/14	Hemntadad and Lupata	25	7	32	4,000	Bam B. Nepali
13	Dalit Uthan	Lekgau		7	53/065/66	065/4/26	Lekgau	21	24	45	4,500	Deepak K. Sunar
14	Nabin Bikas	Hemantadada		7	54/065/66	065/05/24	Hemantadada	6	19	25	2,500	Bishnu B. Khadka
15	Vhageshor	Vatekhola		9	165/065/066	066/03/10	Vatekhola	15	15	30	3,000	Nandaraj Uppadhaya
	Doti											
1	Laligurans	Khatiwada	Punepata	5	100/118	057/11/19	Khatiwada	3	27	30	3,000	Bir B. Khathayet
2	Ramashram	Jijoudamandau	Uchhakot		15/056/57	056/5/27	Jijoudamandau	220	0	220	22,200	Kamala Pant
3	Goddabari	Basudevi	-	6	102/120	057/11/19	Basudevi	10	30	40	4,000	Khadkashi Kubar
4	Soysthakarmi	Dipayal Silgadi	Nachanthali	1	45/064/65	065/3/16	Municipality	8	23	31	37,200	Mahendra P. Shrestha
5	Mahila	Banlek	Bandugrishain	1	113/131	058/1/28	Banlek, 1	32	0	32	3,200	Jaumati Bhattarai
6	Latobanthadi	Latamandu	-	-	127/145	058/5/2	Latamandu	163	0	163	15,800	Kumari Devu Kubar
7	Kafali	Tijali	-	-	128/146	058/5/3	Tijali	181	0	181	18,100	Indra Devi Ojha
8	Pashupati	Banlek	-	-	129/147	058/5/3	Bannlek	46	0	46	4,600	Kalabati Balayar

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		VDC/Municipality	Tole	Ward				Female	Male	Total		
9	Mahila	Ranagau	-	-	139/157	058/11/3	Ranagau	41	0	41	4,100	Kalawati Malla
10	Pragatishil	Laxminagar	Khaigad	3	142/159	058/11/17	Laxminagar 3	28	23	51	35,700	Vajhan Singh Madai
11	Jibanupayogi	Mudegau	-	7	40/1	058/12/16	Mudegau	20	90	110	12,400	Pusparaj Joshi
12	Jorayal	Laxminagar	-	4	145/162	059/1/13	Laxminagar 1,2,4,5,6,7,8 and 9	7	36	43	4,300	Mahendra Thapa
13	Charra	Chhathiban	Budar	4	211/228	063/2/1	Chhathiban	3	23	26	2,600	Lokraj Bhattarai
14	Barpipal	Ghanteshor	Madipur	5	239/256	063/3/9	Ghantrshor	4	24	28	2,800	Bhakta B. Alemagar
15	Ganga Jamuna	Kandamandu	-	9	281/063/64	063/6/3	Kandamandu	6	23	29	2,900	Dharmavakta Kathayat
16	Puspamala	Gairagau	-	6	310/063/64	063/7/12	Gairagau	4	27	31	3,100	Padamshi Rawat
17	Jaya Vairav	Banjkakani	-	6	335/063/64	063/9/3	Banjkakani	28	0	28	2,800	Bhagirathi Khadka
18	Bayal	Durgamandu	-	1	336/063/64	063/9/3	Durgamandu	4	24	28	2,800	Bhataraj Joshi
19	Latamashani	Banlek	-	1	20/064/65	064/9/12	Banlek	26	4	30	3,000	Dirdha B. Mahara
20	Vhageshor	Mudegau	Kathali	3	24/064/65	064/9/19	Mudegau 3	19	11	30	3,000	Hukumashi Bogati
	Bajura											
1	Shideshori	Pandusainai	-		110/128	057/12/20	Pandusain	0	0	196	20,060	Man B. Bohara
2	Jiban Joyati	Aarichaur	-	4	25/43	054/11/21	Aarichaur, Gudukhaati and Dogadhi	0	0	552	55,200	Lal Bir Nath
3	Laxmi	Jugada	Rajali	8	92/110	057/7/1	Jugada, Martadi	0	0	302	35,312	Nar B. Rawal
4	Gramin Uthhan	Wai	-	3	122	058/11/6	Wai	0	0	30	3,000	Ranga B. Sahi
5	Janaklayan	Kolti	Klolti	2	134/152	058/7/28	Korila, Wai, Pandusainai,Kolti and Jagannath	0	0	74	17,100	Balaram Karki
6	Janajoyati	Gudukhhati	-		148/158	058/11/6	Gudukhhati	0	0	126	15,900	Harkha B. Rawat
7	Nabajiban	Manakot	-		125/143	058/5/4	Manakot	0	0	186	18,600	Rana B. Rokaya
8	Kailash	Rughin	-	1	109/127	058/1/20	Rughin	0	0	200	20,000	Govinda B. Mallha
9	Manakamana	Budhiganga	-	4	249	059/3/30	Budhiganga	35	134	169	16,900	Ram B. Nepali
10	Tribeni	Martadhi	-	5	114/261	059/1/12	Marthadhi, Dhakot, Manakot, Jugada and Budhiganga	140	236	376	1,33,642	Ram Chandra Yadav
11	Janaklayan	Chhatara	-	8	477	064/1/4	Chatara	2	24	26	2,600	Prabhu Raj Joshi
12	New Vision	Kailashmandu	-	8	485	064/1/30	Kailamandu	21	48	69	6,900	Man B. Thapa
13	Sundar Nepal	Kailashmandu	-	9	486	064/2/2	Kailashmandu	0	26	26	2,600	Birka B. Khatri
14	Janasewa	Kurila	-	5	510	064/3/28	Korila and Kolti 1,2	0	25	25	2,500	Nanda B. Shahi

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		VDC/Municipality	Tole	Ward				Female	Male	Total		
15	Easadabi	Budhiganga	-	9	36	064/11/20	Budhiganga	4	24	28	2,800	Sher B. Dabhi
16	Gramin Janabikash	-	-		37	065/11/27	Dogadi	7	20	27	2,700	Harkha B. Rawal
17	Debal	Barabishe	-	7	109	065/11/28	Barabishe	5	20	25	2,500	Karna B. Rawal
18	Badymastha	Barabishe	-	8	169	066/3/21	Barabishe	9	21	30	15,000	Prakash B. Bistha
19	Pragatishil	Kolti	-	2	403	063/10/12	Kolti	218	0	218	21,800	Panca Karki
	Syangja											
1	Upakar	Waling, Sangja	-	-	3/2/32/1/050/51	050/6/26	Waling, Jagatbhanjayng,kebare, Tindobato, Thumpokhara					
2	Mahila	Waling, Sangja	-	-	20/51/52	051/4/26/	Waling					
3	Pragati Mahila Bikas	Karendada, Sangja	-	-	44/52/53	053/4/18	Hal, Putalibazzar 13					
4	Sitadevi Mahila Bikas	Putalibazzar, Sangja	-	12	48/52/53	053/6/11	Hal, Putalibazzar 12					
5	Jayalaxmi Mahila Bikas	Sumrekholla,Sangja	-	13	49/53/54	053/6/11	Hal, Putalibazzar 13					
6	Palichaur Gramid Bikas	Krishnagandaki, Sangja	-	8	53/53/54	053/9/8	Shree Krishnagandaki, 8					
7	Taradevi Mahila Bikas	Waling, Sangja	-	6	54/53/54	053/11/2	Hal, Waling 8					
8	Sana Kishan SFCL	Fedhikhola, Sangja	-	2	078/54/55	054/5/31	Fedhikhola					
9	Sana Kishan SFCL	Darshing, Sangja	Dahathum	9	79/054/55	054/5/31	Darshing Dahathum					
10	Nari Jajarand	Waling	Rambachha	8	63/054/55	055/5/31	Waling 8 Municipality					
11	Pragatishil	Vatkhola	-	6	65/056/57	056/4/17	Vatkhola, Arukharkha, Wangshing, Chilaunewash, Bicharichautara, Fapharthum, Thuladhihi, Putalibazzar Municipality Some Ward No.					
12	Krishak	Putalibazzar	Wadkhola	4	69/056/57	056/10/14	Putalibazzar Municipality 1,4 and 5					
13	Sangja Rara	Putalibazzar	-	1	72/56/57	056/2/30	Wangshing, Aruchawer, Changchangdi, Dahathum, Putalibazzar and Waling					

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		VDC/Municipality	Tole	Ward				Female	Male	Total		
14	Chandikalika	Putalibazzar	Wadkhola	4	76/56/57	057/5/19	Putalibazzar					
15	Kalavairav	Fedhikhola	Khadketari	1	78/56/57	057/7/30	Fedikhola, Vatkhola, Arukharkha, Setidovan					
16	Taradi	Thuladihi	Taradi	9	134/57/58	058/2/3	Thuladihi					
17	Panchace	Wangshing	Rimalshowara	6	139/057/58	058/3/26	Wangshing, Chilkaunewash, Bicharichautara, Wagefadke, Setdovan					
18	Paropakar	Vatkhola	-	2	144/57/58	058/4/5	vatkhola, Arukharkha, Fedhikhola					
19	Janakalyan	Alamdevi	-	5	137/057/58	058/3/11	Alamdevi					
20	Royal	Putalibazzar	-	1	88/058/59	059/2/5	Putalibazzar					
21	Waling	Waling	-	-	89/058/59	059/3/27	Waling					
22	Indredni	Wangshing	Kamere	3	365/62/63	062/11/29	Wangshing, Bicharichautara, Fhaparathu, Chilaunewash					
23	Ramchedevi	Fedhikhola	-	2	370/062/63	062/12/10	Fedhikhola, Vatkhola, Bagephadke, Arukharkha					
24	Janasewa	Arukharkha	Share Bazzar	6	385/62/63	063/1/15	Arukharkha, Fedhikhola and Vatkhola					
25	Vairavkalika	Pobai	-	2	395/62/63	063/2/10	Pobaigaude					
26	Melmilap	Khilung	-	3	413/062/63	063/3/14	Khilngdeurali					
27	Nabajyoti Mahila	Pakkwodhi	Amilthum	4	424/062/63	063/3/23	Pakkwadhi					
28	Narikalyan	Sakhar	Milanchowk	6	427/062/63	063/3/30	Sakhar					
29	Pragatishil Mahila	Sekham	Ramdada	5	428/062/63	063/3/32	Sekham					
30	Arati Mahila	Thuladiharbe	-	8	432/062/63	063/4/14	Thuladihi					
31	Kaligandaki	Jagatradevi	-	8	437/063/64	063/5/27	Jagatradevi, Tulshibhanjayang, Krishnagandaki, Pelakot and Malunga					
32	Adhikhola	Waling	-	3	439/063/64	063/5/29	Whole District					
33	Gallyang	Jagatradevi	Gallyang	8	440/063/64	063/6/1	Jagatradevi, Pelakot, Tulshibhanjayang, Pakkwadhi and Nibuwakharkha					
34	Ramkrishna	Fedhikhola	-		487/63/64	063/11/25	Fedhikhola, Arukharkha, Vatkhola					

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		VDC/Municipality	Tole	Ward				Female	Male	Total		
35	Laxmi Mahila	Mallyangkot	-	1	489/063/064	063/11/25	Mallyangkot					
36	Kalika	Khilung	-	9	493/063/64	063/12/6	Khilungdeurali, Arjunchoupari, Darshing and Sowarek					
37	Shrijansil	Fedhikhola, Sangja	-	1	502/62/64	064/2/9	Fedhikhola, Vatkhola, Arukharkha 9 and Setidovan 1					
38	Addhikhola	Dahathum	-	3	503/63/64	064/3/4	Darshing, Sowarek, Chhangchhandi, Khilung, Dhapuk					
39	Machhapuchre	Dahathum	-	3	505/63/64	064/3/10	Dahathum, Sawarek, Chhangchhandi, Khilung, and Dhapuk Si.Va.					
40	Janahit	Jagatradevi	-	8	507/063/64	064/3/31	Jagatradevi, Tulshibhanjayang, Pelakot, Tindobate					
41	Puuja	Birgha	-	4	143/064/65	064/8/17	Birgha					
42	Chapakot	Chapakot	-		144/64/65	064/8/17	Chapakot, Kuwakot and Ratnapur					
43	Biswash	Putalibazzar	-	6	046/064/65	064/10/6	Putalibazzar Municipality					
44	Saffal	Fedhikhola	-	2	159/064/65	65/3/31	Arukharkha,Vatkhola and Fedhikhola					
45	Suryodaya	Putalibazzar	Wadkhola	4	-	57/5/23						
46	Saptarishi	Putalibazzar	-	9	-	65/4/21						
47	Riddhisidhi	Waling	Mirdhi	5	-	65/7/24						
48	Kanchan	Shree Krishnagandaki	Chap	7	-	065/10/27						
49	Milan	Dhunpokhara	Jhulunjrpull	2	-	066/1/20						
50	Milijuli	Putalibazzar		1	-	066/2/29						