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**“Impact Assessment of Vijaya Development
Resource Centre (VDRC-Nepal)’s
Microfinance Program in Nepal”**

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**This study was prepared in response to an impact assessment
request by the Vijaya Development Resource Centre (VDRC),
Gaidakot, Nepal of its nationwide microfinance program**

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ACRONYMS & ABBREVIATIONS

| | |
|---------------------|---|
| ADBN | Agricultural Development Bank of Nepal |
| AEPC | Alternative Energy Promotion Center |
| CB | Commercial Bank |
| DFID | Department for International Development |
| DSC | Deposit and Security Corporation |
| EOW | Employment Opportunities for Women |
| FNCSI Industries | Federation of Nepal Cottage and Small |
| GBB | Grameen Bikas Bank |
| GBR | Grameen Bank Replicator |
| HH | Household |
| IG | Income Generation |
| INGO | International Non Governmental Organization |
| LBL | Limited Banking License |
| MFDB | Microfinance Development Bank |
| MFI | Microfinance Institution |
| NEFSUN Nepal | National Federation of Savings and Credit Union |
| NGO | Non Governmental Organization |
| NLSS II | Nepal Living Standards Survey 2003/4 |
| NRB | Nepal Rastra Bank |
| RMDC | Rural Microfinance Development Center |
| ROSCA | Rotating Savings and Credit Association |
| SCC | Savings and Credit Cooperative |
| SCG | Savings and Credit Group |
| SHG | Self-Help Group |
| SHPP | Self-Help Promotion Project |
| SFCL | Small Farmer Cooperatives Limited |
| SNV | |
| SSDC | Siddhartha Social Development Center |
| VB | Village Bank |
| VDC | Village Development Committee |
| VDRC | Vijaya Development Resource Center |
| VICCoL | Vijaya Community Information and Communication Cooperative Limited |
| VICEC | Vijaya Community Education Cooperative Limited |
| VYCCU | VYCCU Savings and Credit Cooperative Limited |

EXECUTIVE SUMMARY

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

1.1.1 Overview of VDRC-Nepal

The Vijaya Development Resource Center (VDRC-Nepal) is a non-governmental, non-profit, member-based organization, dedicated to bringing positive social transformation in the rural and peri-urban areas of Nepal. VDRC was established in Gaindakot, Nawalarasi district with the broader objective of improving the socio-economic condition of its community members and achieves this through a wide range of programs in areas including, but not limited to, savings and credit, natural resource management, primary healthcare, water and sanitation, food security, capacity building, income generation, and advocacy.

VDRC evolved from a self-help group (SHG), established in 1979, into a national level NGO through primarily three key stages of development. The period of 1979-1987 is considered the initial or primary stage during which the institution was largely involved in two main program areas. The first was the promotion of extracurricular and social welfare activities that encouraged community cohesion such as sports events, cultural programs, and debate competitions. VDRC also provided disaster relief to its members in the form of fire fighting, flood rescue, and blood donation services.

As VDRC continued to expand its services into afforestation, water and sanitation, and community development through the support of donor

agencies, it entered into an institutional development stage, where its human resources and physical infrastructures were established to support larger and lengthier programs. By 1993, VDRC had entered into its professional development stage and had begun to function as a full-fledged national NGO. Program interventions now extended to the realms of women's empowerment, self-help promotion, HIV/AIDS awareness raising, primary and maternal healthcare, food security and education in close collaboration with various international and national donor agencies.

In addition to these programs, VDRC is credited with establishing three cooperatives in the Nawalparasi district, namely, VYCCU Savings and Credit Cooperative Limited, Vijaya Community Education Cooperative Limited (VICEC), and Vijaya Community Information and Communication Cooperative (VICCoL).

1.1.2 VDRC's Microfinance Program

In August 1991, VDRC established a daily savings program under the motto, "saving is the seed of development," with the aim to eradicate poverty and illiteracy in their areas of operation. These savings were then mobilized among the shareholders to support the development of micro and small enterprises. This savings-led microfinance model served as the foundations for establishing VYCCU Savings and Credit Cooperative Limited.

Based on its experience in establishing VYCCU, VDRC began working with VDCs¹ beyond its geographic areas of operation and mobilized communities to form their own SCGs and SCCs. VDRC provided technical support to these groups through capacity building and trainings in the areas of cooperative start-up and management, cooperative finance, leadership,

¹ VDC (Village Development Committee) is the lowest level organization of people in Nepal. Its geographical area is divided into 9 wards. There are approximately 4,000 VDCs in the country (Microfinance Industry Report Nepal, 2009).

information management, internal auditing, accounting, cooperative rules and regulations, and strategy development. VDRC also introduced various microfinance models and products to the SCCs and assisted them in institutionalizing the most appropriate of these for its client base. To date, VDRC has promoted the establishment of seventy (70) savings and credit cooperatives (SCCs) and one thousand one hundred and eight (1,108) savings and credit groups (SCGs) in nine (9) districts of Nepal.

1.2 RATIONALE

VDRC has been working in community development for the last three decades. It has been promoting microfinance institutions, particularly savings and credit cooperatives, in its program areas, however, an impact assessment of these initiatives has never been conducted. This study provides a quantitative and qualitative assessment, detailing the degree of success of VDRC's microfinance programs with regard to meeting its objective of promoting socio-economic empowerment among cooperative members. It also provides insight on how to improve its program to more effectively meet clients' needs and institutional objectives.

VYCCU Savings and Credit Cooperative is one of the leading microfinance institutions promoted by VDRC. It has been in operation for nearly two decades. Generally, there has been a positive response from the clients in its locale, Gaidakot, however, there is no empirical evidence to demonstrate how VYCCU is impacting the social and economic wellbeing of the community.

VDRC has promoted other microfinance institutions based on the savings and credit model. This assessment will also serve as a comparative study and

relay whether this model has propelled operations that have promoted socio-economic development in other rural and peri-urban communities in Nepal.

This study intends to provide practical insight into the effectiveness of microfinance operations and products established and promoted by VDRC in Nepal. The lessons learned and best practices taken from this study may also be applied to similar operations in the South Asian context to further promote socio-economic empowerment in disadvantaged communities.

1.3 RESEARCH OBJECTIVE

The purpose of this research is to assess the situation and impact on communities of select microfinance institutions promoted by VDRC, including VYCCU Savings and Credit Cooperative Limited, over the period 1999-2009. Because the objective of VDRC's microfinance program, "to promote the socio-economic empowerment of cooperative members," remains broad, this assessment will define impact proxies for social and economic gains that are a direct result of income generation activities and micro-enterprises supported by credit services.

The specific objectives of the research are:

- To review the operational situation of VDRC-promoted microfinance institutions, especially savings and credit cooperatives (SCCs),
- To assess the economic impact of the microfinance program,
 - o Increased household/individual income
 - o Increased asset ownership (land, cattle, etc.)
 - o Increased employment via IG activity or enterprise
 - o Increased household/individual savings
- To assess the social impact, especially women's empowerment, of the microfinance program,

- Increased sense of self worth and empowerment
 - Shift in household balance of power and decision-making from men to women
 - Increased access to financial services²
 - Increased community contact and harmony
- To assess the value of financial products and services currently offered
 - To make recommendations and suggestions for improvement of the microfinance program moving forward.

1.4 SCOPE OF THE STUDY

This impact assessment primarily focuses on the socio-economic change at the individual and household levels (such as income, assets, savings, leadership, empowerment/confidence levels, etc.); however, some analysis has been done on the social impact of increased economic activity at the community level. This narrowed the study to review the performance of clients who sought income generation loans as either seed capital for starting up a micro-enterprise or added capital for supporting an existing micro-enterprise.

1.5 METHODOLOGY

1.5.1 Sources of information

As stated in the objective, the purpose of this study is to assess the impact of VDRC's microfinance programs on communities in Nepal over the ten-year period 1999-2009. This period has been significant in the development of the three target cooperatives into mature deposit and lending institutions.

² Though the MFI is not specifically targeting minority ethnic groups, in the areas of study, caste and ethnicity have deterred access to financial services. Since access to financial services, in this instance, is affected by socio-political prejudices, this proxy has been categorized under social impact.

For this study, both primary and secondary sources of information were collected. Primary data was gathered through interviews with clients that had secured income generation loans during the researched period, using a semi-structured questionnaire. Data was also gathered from meetings with senior management and staff of several savings and credit cooperatives and apex microfinance institutions. Field observations by the researcher and informal interviews/interactions with other development professionals are other sources of information used for this study.

Secondary sources of data comprise a wide range of publications and literature. These include annual reports, industry reports, handbooks, institutional profiles, research papers, and various other academic publications from the World Bank, the SEEP Network, Banking with the Poor Network, and other microfinance research, donor, and implementing agencies.

1.5.2 Sample and sampling procedure

Three (3) savings and credit cooperatives serving clientele in different districts were selected as a representative sample of savings and credit cooperatives promoted by VDRC. Selections were made based on the terrain and regions of Nepal in which the SCCs are operating, ensuring a diverse range of clients and contexts. This selection process provided a research sample that was more conducive for a comparative study.

Respondents were selected using stratified random sampling based on geography, loan size, sex, ethnic group, type of enterprise, and loan period. Because VYCCU was the primary SCC of study, two thirds of the respondents were selected from here, while the remaining one third of

respondents were selected from the other two cooperatives that participated in the assessment.

1.5.3 Data collection and analysis

Some of the primary data for this assessment was exclusively collected by the researcher through meetings and interviews held with various institutions and practitioners engaged in microfinance programs in Nepal. A significant set of the data for the impact analysis was collected through interviews with fifty (50) SCC clients, conducted in their respective homes and/or places of business during fieldwork conducted from December 9, 2009 – February 9, 2010. A semi-structured questionnaire was used for this second set of interviews (annex- 1). Interviews were conducted in the local language and translated into English for the data analysis. The duration of interviews was typically 45-90 minutes.

The data collected from the client interviews has been analyzed and tabulated to reflect the change in economic and social gains at the individual, household, and to an extent, community levels within the geographic coverage of VDRC's microfinance program.

1.6 OUTLINE OF THE REPORT

The assessment report begins with a general overview of VDRC and its microfinance initiatives through VYCCU and other savings and credit cooperatives in Nepal. This is followed by the rationale, objectives, and methodology for carrying out this research and concludes with a summary of the scope and limitations of the study.

Chapter 2 provides an overview of the microfinance sector and the context in which the microfinance industry has developed and expanded in Nepal. A summary of the country's savings and credit cooperatives is provided before proceeding to *Chapter 3*, which describes three VDRC-promoted savings and credit cooperatives' backgrounds, cooperative structures, and financial and non-financial services and products. Special attention is given to each cooperative's income generation loan product, methodology, and loan application and repayment process.

Chapter 4 provides a detailed impact assessment of the income generation loan's effects on clients and households, both economically and socially. Proxies considered for economic impact include household income, household economic condition, and microenterprise development, with additional analysis made by caste, sex, and cooperative. Social impact proxies considered include perceptions of the clients by the community and themselves with regard to respect, self-esteem, and leadership. An analysis of disadvantaged groups also considers changes in decision-making and leadership roles and access to resources. Finally, *Chapter 5* concludes the study, highlighting major findings drawn from the research and includes policy recommendations for VDRC and its promoted SCCs for improved management, coordination, and microfinance services.

1.7 LIMITATIONS OF THE STUDY

Due to the widespread coverage of VDRC's microfinance program and the limited time and resources available to conduct the study, only three (3) of the seventy (70) VDRC-promoted SCCs in Nepal were selected for data collection and analysis. However, selection of SCCs and clients took into

consideration cooperative structures, sex, caste, and microenterprises, ensuring a diverse and representative sample.

Baseline data was collected during the interview period, as it was not available at the start of the program. While clients strived to provide the most accurate 'before' figures and statuses, a $\pm 10\%$ margin of error should be taken into account. Interviews were limited to ninety (90) minutes, and given the complex and volatile nature of savings and credit among the poor, additional time to gain clients' trust and in-depth observations would have been beneficial. Nevertheless, sufficient data was collected in order to provide a holistic assessment of income generation loan impact among the client sample.

CHAPTER 2

OVERVIEW OF MICROFINANCE IN NEPAL

2.1 MICROFINANCE INDUSTRY IN NEPAL

2.1.1 Microfinance Environment in Nepal

Nepal's vibrant microfinance landscape reflects the variation characterizing its terrain and population density. In the Terai region (flatlands), the denser population and transportation infrastructure is conducive for traditional financial institutions, such as commercial and development banks, to operate. Many MFIs serving these areas tend to adapt the Grameen microfinance model, whereas in the hilly and mountainous regions of the country, self help groups (SHGs) and savings and credit cooperatives (SCCs), adopting first and second tier models of microfinancing, are best suited to reach isolated and remote communities (Asia Resource Center for Microfinance, 2004). Over the past decade, Nepal's microfinance sector has grown rapidly and become more diversified as a result of commercialization of microfinance NGOs and their transformation into microfinance development banks (Microfinance Industry Report, 2009).

Microfinance institutions and services generally fall under three distinct categories: formal, semi-formal, and informal. The formal sector is characterized by high levels of regulation and supervision that enforces degrees of recourse to borrowers and savers. In Nepal, institutions that fall within this category include Grameen Bikas Banks (GBBs), Grameen Bank Replicators (GBRs), Small Farmer Cooperatives Limited (SFCL), Rural Microfinance Development Center (RMDC), and microfinance development banks (MFDBs). (Serafini 2005)

Semi-formal MFIs are neither formally regulated nor supervised by the NRB, though they are privy to certain licensing. Village banks (VBs), NGOs, and SCCs that have evolved from SHGs and savings and credit groups (SCGs) tend to fall under this category.

Informal financial service providers include moneylenders, traders, shopkeepers, friends, and Dhikuti³. Many institutions progressing towards semi-formal and formal MFIs, such as SHGs and SCGs also tend to fall within the informal sector. Individuals falling within the lowest economic strata primarily borrow from this category of microfinance service providers, and most tend to borrow from relatives and friends, which is the largest source of informal loans in Nepal (Microfinance Industry Report, 2009).

Box 2 - 1

Access to Financial Services in Nepal

Only 28% of Nepalese households have an account with a bank or have taken a loan from a bank. Another 25% have an account or loan from a formal financial institution other than a bank. Some 28% rely solely on informal financial sources while 20% are financially excluded and receive no service from the formal or informal sectors. Total rural credit requirement in the country is estimated at Rs 23.3 billion, while the total supply from the formal and semi-formal sectors is only Rs 9.6 billion. Of the approximately 2.1 million households living below the national poverty line, nearly half are deprived of services from the formal microfinance sector.

(Microfinance Industry Report Nepal, 2009: 10)

2.2 SAVINGS AND CREDIT COOPERATIVES IN NEPAL

2.2.1 Background

The cooperative model was first introduced to Nepal in 1956 when the Government of Nepal established thirteen (13) cooperatives in the Chitwan

³ Dhikuti is a traditional form of Rotating Savings and Credit Association (ROSCA) in Nepal.

district to provide access to financial services to flood victims as part of a recovery effort. Subsequently, rural financial institutions such as the Agricultural Development Bank of Nepal (ADB) were established and began implementing credit programs focused on group-based lending. In the early 1980s, certain programs began emphasizing project viability rather than collateral, supporting the development of financial services and products that specifically catered to the poor and marginalized.

SCCs provide a wide range of microfinance and non-financial services to households in peri-urban, urban, and rural areas. Nearly all Nepali SCCs are self-funded through shareholder savings and equity. They are regulated by the Department of Cooperatives, Ministry of Agriculture and Cooperatives under the 'Cooperative Act, 1991,' which states that a group of twenty-five (25) persons from a community can form a cooperative by applying to the District Cooperative Office for registration of an SCC. SCCs are not regulated by the NRB and are only required to complete both an internal and external audit and submit the final audit reports to the Department of Cooperatives. Only those SCCs with Limited Banking Licenses (LBLs) from the previous regulatory framework are required to operate within the regulatory framework set forth by the NRB, as LBL-holding SCCs are permitted to serve both members and non-members. The majority of SCCs are rural-based and target community members irrespective of their social status and on average, have a membership of one hundred (100) per institution. In 2009, there were 2,692 SCCs serving 358,312 people in Nepal (Microfinance Industry Report Nepal, 2009).

Loans provided by SCCs have a minimum duration of three months and can be extended for up to an additional eighteen months. Loans may be applied towards a range of activities, as per the products offered by the SCC, and

often include agriculture, microenterprise, housing, emergency, and social purposes.

2.2.2 National Federation of Savings and Credit Union Nepal

The National Federation of Savings and Credit Union Nepal (NEFSUN) was established in 1988 as an apex institution for savings and credit cooperatives in Nepal. It has approximately three hundred and fifty (350) member cooperatives in forty-six (46) districts with an average membership of one hundred and ten (110) per cooperative (Microfinance Industry Report Nepal, 2009). NEFSUN provides capacity building and training support and funding to select members, but its primary purpose is to provide a discussion and arena for collaborative advocacy efforts of its cooperative members.

CHAPTER 3

COOPERATIVE PROFILES AND PRODUCTS

3.1 VYCCU SAVINGS AND CREDIT COOPERATIVE LTD.

3.1.1 Background

VYCCU Savings and Credit Cooperative Ltd. is a sole-purpose cooperative established in August 1991 under the initiative of the Vijaya Development Resource Center, which evolved into a full fledged SCC in 1992 after registering under the Cooperative Act 2048 and Cooperative Regulation 2049 in the Nawalparasi district cooperative office. As discussed in the introduction of the report, VYCCU began as a small savings mobilization initiative with the active participation of twenty-six (26) members with the aim of supporting micro and small enterprises in the form of loans to members of the Gaidakot VDC. VYCCU has grown into one of the largest primary level SCCs in Nepal, serving five thousand one hundred and seventy-one (5171) clients in six (6) VDCs, namely, Gaidakot, Mukundapur, Amarapuri, Rajahar, Pragathinagar, and Kavasothi, as of December 15, 2009. Seventy-seven (77) clients are institutional, while two thousand six hundred and thirty-nine (2639) are female and two thousand four hundred and fifty-five (2455) are male clients.

Box 3 - 1

VYCCU Savings and Credit Cooperative: Client Success Story

One of the first clients of VYCCU was Khag Raj Sapkota. Khag initially sought a loan of Rs. 5,000 for the purchase of a milk-producing buffalo in order to generate a profit from its milk sales. The loan was approved at a 10% annual interest rate. The loan plus interest was required to be repaid within a 12 month period starting 6 months after the loan disbursement. This resulted in a total repayment amount of Rs. 5,500.

The buffalo produced approximately 5 liters of milk per day, and Khag was able to sell each liter for Rs. 15, resulting in a daily income of Rs. 75. His monthly income was Rs. 2,250 of which approximately Rs. 560 was spent on repayment of the loan.

Over 5 years, Khag took out additional loans to purchase 5 more buffaloes. The price of a buffalo at this time had increased to Rs. 20,000 each, resulting in Khag taking out Rs. 100,000 in loans plus Rs. 10,000 in interest. At this point, Khag was selling 25 liters of milk a day at a rate of Rs. 20 per liter, resulting in daily sales of Rs. 500. His monthly income on these sales, resulted in Rs. 15,000.

This income generation loan allowed Khag to start a business and multiply his earnings in a relatively short period of time. He was aware at all times how much would be owed over a specific period of time, allowing him to plan.

3.1.2 VYCCU Cooperative Structure

VYCCU is structured as a single-tier cooperative that directly services individual clients, including companies and institutions. The benefits of adhering to such a model include allowing the institution to directly transact with its clients and vice versa with a central office controlling all loan applications and disbursements, while branch offices oversee loan repayments and savings collections.

Each target VDC contains a VYCCU branch, where clients can make savings deposits and loan installment payments, however, all loan submissions and disbursements occur from VYCCU's central office in Gaidakot. VYCCU has encouraged the formation of informal self-help groups, particularly among female clients, to garner peer support amongst and for its members in the face of social challenges as well as those with regard to individual membership. The group facilitates training and community works. When payments are due, the group serves as a healthy source of encouragement for individuals to be timely and regular. However, the groups have no formal authority to engage in financial transactions on behalf of VYCCU.

3.1.3 VYCCU Financial Services and Products

VYCCU ventured into savings and credit services with a vision to “emerge as a strong and self-sustainable microfinance institution for the socio-economic

development of communities, built on the principles of social justice.” Its mission is to “provide quality, efficient, and cost-effective financial and related services, giving priority to low-income households for livelihood, self-employment, microenterprise, and income generating activities by building an institution with a strong capital base on the principles of cooperation to provide need-based financial services.”

3.1.3.1 Savings

Though VYCCU has obtained loans from the NRB to support the provision of credit services, a large part of its lending capital has been derived from savings mobilization within its client base. All members/shareholders of VYCCU are required to participate in a **monthly savings** program, whereby a minimum of Rs. 50 must be deposited into the client’s savings account. In addition to this, members may also opt to participate in supplemental savings programs.

VYCCU began offering a **daily savings** option in response to a demand from clients earning a daily income from either a microenterprise or cottage industry. This option encourages business owners to save excess income on a daily basis rather than risk unnecessary spending before monthly saving deposits are due. The minimum daily savings amount is Rs. 10 and can only be withdrawn at the end of a six month period.

The Khutruke or **piggy bank savings** product is uniquely designed as a method for turning spare change into savings. VYCCU provides interested clients with a piggy bank into which they can place any excess funds. At the end of each month, a VYCCU employee visits the clients’ homes to collect the funds and transfer them into the clients’ savings accounts.

The **optional savings** product is similar in that a client can choose to deposit and withdraw funds in any amount and at any time from their savings account. To meet the contrary demand of a consistent savings schedule, the **fixed account savings** option allows clients to determine a fixed amount of savings that they would like to deposit over a fixed period in regular installments. The **provident fund savings** is a product for companies choosing to withdraw and deposit a fixed amount of employees' monthly salaries into a provident fund.

The Jeevan Suraksha or **life security savings** product is a new product of VYCCU's. Once an amount is decided upon to be put away, it is broken down into fixed monthly installments over a sixteen year period, and the client is paid interest on this amount. Once he/she dies, his/her rightholder receives the cumulative amount of that sum. This product assures the client that his/her family will be provided for in the long term.

3.1.3.2 Credit

VYCCU offers primarily five loan products to its members. The first is the **inter-lending loan**, which allows VYCCU to provide loans to other institutions at a 9% annual interest rate. The major requisite for eligibility of this product is membership.

The **emergency loan** allows members to borrow credit from VYCCU in support of unanticipated expenses in the case of an emergency (e.g., death/injury in the family, pregnancy, natural calamity, etc.). Verification of such a situation is typically done by an executive committee member. The interest rate of the loan is 8%, which is the lowest rate on a VYCCU loan product.

Hire/purchase loans are designed to assist members seeking to purchase land, building/home, or a vehicle and is typically attached to a 13% interest rate. **Social loans** are similar in concept and cater to other common expenses of members such as education, health, marriage, and other cultural ceremonies. Such loans are approved at a 12.5% interest rate.

The final loan product VYCCU offers is the **income generation loan**, which is provided with an interest rate ranging from 10% to 12%. This loan is tied directly to income generation activities and must be used towards the purchase of agriculture inputs, livestock, and the start-up of any microenterprise. This assessment specifically focuses on the impact of income generation loans on clients' social and economic wellbeing.

3.1.3.3 Income Generation Loan

3.1.3.3.1 Methodology

Based on the market research conducted by VYCCU, it was observed that most clients typically required Rs. 50,000 or less in order to start-up a new or revive an existing business. Loans of Rs. 50,000 or less are held to a 10% annual interest rate. Loans between Rs. 50,000 and up to Rs. 1,000,000 are held to a 12% annual interest rate.

Once a loan application is submitted for review, the evaluation method is contingent on the loan amount requested:

- Up to Rs. 50,000, the application is reviewed by full time office staff (a committee consisting of the office chief, loan assistant, and cashier)
- > Rs. 50,000 and up to Rs. 300,000, the application is reviewed by a loan committee (comprised of 3 members: 1 from executive board and 2 are nominated by the board)

- > Rs. 300,000 and up to Rs. 1,000,000, the application is reviewed by an executive committee (comprised of 11 individuals, elected by the General Assembly every third year)

To be considered for the first tier loan of up to Rs. 50,000, the applicant must be recommended by an existing member. Loan applications are reviewed on the basis of the viability of the business plan. If there is no business plan, then VYCCU will assist the client in developing one. An application is approved on the basis of the plan's feasibility to be sustainable and generate a clear profit.

For a loan of up to Rs. 50,000, members are required to provide collateral that can be in the form of their shares and/or savings in VYCCU. If the loan amount is greater than Rs. 50,000, then collateral will be required in the form of fixed assets, such as land or property owned by the client.

This methodology reduces risk to VYCCU because in the case that the client defaults on the loan, some form of collateral is there to recover the loss for VYCCU. Even if the loan is repaid, a certain amount of profit on each transaction is transferred into a security fund, and through a loan loss provision, money from the security fund can be used to cover any loss as a result of delinquency.

The income generation loan product is valued by the client because there is a cost attached to it. If no collateral of any sort were attached to the service, there is less incentive on the part of the client to consider loan servicing seriously. VYCCU provides many non-financial services and benefits to its members and assists them in various ways throughout the loan process. Because a business plan is reviewed before approving a loan, clients are able to approximate the cost-profit analysis over a period of time for taking out a

loan and can plan how much they are realistically able to pay in fixed amounts throughout the duration of the loan.

3.1.3.3.2 Loan Process

After 6 months of being a member of VYCCU, an individual is eligible to apply for a loan. Once the loan is approved, VYCCU calls the individual into the office to secure collateral from the applicant. If the collateral is sufficient for the amount of the loan request, then a written agreement between the member and VYCCU is reviewed and signed. The full cash amount of the loan request is deposited into his/her account.

The duration of the loan varies on the income generation (IG) enterprise. The maximum duration is up to 3 years. During this period, the borrower has to pay fixed, regular principal and interest payments. Interest is calculated on a quarterly basis, and an additional 2% fine is also charged for late repayment.

For VYCCU's locale of service, the methodology for the income generation loan has the potential for great outreach. VYCCU started off with 26 members in 1991 and now has a membership of 4,251 with 6,555 account holders, of which approximately 4,000 have taken out an IG loan. The average rate of default on VYCCU's income generation loan portfolio is under 5%, which means that VYCCU has done the appropriate market research in designing a product that is reaching a high number of individuals in its locale with successful repayment performance.

4.1.3.4 VYCCU Non-Financial and Other Services and Products

To encourage education and further studies, VYCCU provides literacy classes for its illiterate members and VICEC scholarships for up to twenty (20) marginalized members' children each year. VYCCU has allocated funds to provide maternal support and family planning in the form of grants to

members with up to two (2) children. Finally, a Member Relief Fund contains additional allocated funds to support the cost of funeral rites to member families of up to Rs. 5000.

Certain products have also been designed to contribute to the local economy. VYCCU charges a fee to serve as an intermediary between money transfer companies and clients for remittance transfers. Companies include Western Union, Express Money, Samsara Money, Easy Cash, Cash Express, Turbo Cash, Axis Bank, Everest Bank, and Nabil Remit. Additionally, VYCCU has established contracts with local consumer goods merchants to participate in a discount card scheme, whereby members who are clients of participating outlets who present the discount card at checkout will receive merchandise at reduced prices. These products have generated business partnerships and local market linkages, enhancing economic growth on a small scale.

CHAPTER 4

DATA ANALYSIS AND IMPACT

4.1 BACKGROUND

4.1.1 The Caste System and the Context for Exclusion in Nepal

Nepal remained the last Hindu kingdom until 1991 when the monarchy was overruled by a multiparty democracy. Though democracy is a work in progress, with a deadline for finalizing and enforcing a new constitution long overdue, the laws deeply embedded within Hindu philosophy and social traditions are imprinted in the mentality of most Nepalese and are hence, incorporated into legal, social, and economic doctrine and practice. Though there have been some progress in reversing discrimination, this still naturally applies to perceptions of caste and sex, lending to discriminatory practices that require immense tact, coordination, and time to amend.

The Hindu caste structure is hierarchical with Brahmins or the priests at the top, followed by the Kshatriyas (warriors and kings) and the Vaishyas (merchants), 'cushioned' by the Sudras (laborers and peasants). Below these four layers are the 'untouchable' groups, who now title themselves as Dalits, meaning 'broken' or 'voiceless.' A consensus has still not been reached on which communities fall under the Dalit category, though there is a distinction made between the Hill Dalits and Terai Dalits. Individuals falling within the Hindu caste system comprise 57.5% of Nepals population, while 37.2% are considered Janajati and include Newari, Gurung, Tharu, Giri, and other groups. Janajatis are considered non-caste people and include indigenous groups within Nepal, though they are still considered socially inferior to Brahmins, Kshatriyas, and Vaishnavas. Finally, Muslim Nepalese, comprising 4.3% of the population, do not formally fall within the caste structure, however, they are viewed as low caste (DFID/World Bank 2007). The Nepali caste pyramid is further layered according to region and includes sub-castes within each layer, which often mirror the broader caste structure presented in this section.

According to the Nepal Living Standards Survey, 2003/4 (NLSS-II), an estimated 31% of Nepalese were living below the poverty line, which according to the study, means that they lived in households where the per capita expenditure on food and basic household expenses was beneath what was required to meet the minimum caloric intake and other basic needs (DFID/World Bank 2007). In 1995/1996, this figure was 42%, indicating a drop in poverty, which the study claims was across all ethnic/caste groups. However, while the Brahmin/Chhetri and Newari groups have the fewest households below the poverty line, almost half of all Dalits live below the poverty line (DFID/World Bank 2007).

Box 4 – 1
Caste and Ethnic Dimensions of Poverty: A Summary of NLSS II Findings

The All Nepal Poverty Incidence in 2004 was 31% but was greater amongst selected groups:

- Hill Dalits: 48%
- Terai Dalits: 46%
- Hill Janajatis: 44%
- Muslims: 41%

Poverty incidence dropped 11 points between 1996 and 2004 from 42% to 31%. It declined across all regions, quintiles, rural/urban and caste and ethnic groups; however:

- For Brahmin/Chhetri groups, it decreased most significantly, by 46%
- For Dalits, the decrease was close to the national average: 21%
- For Hill Janajatis: 10%; and
- For Muslims, it decreased least of all: 6%

Caste/ethnicity are powerful predictors of per capita consumption.

Even after the confounding factors are controlled, the per capita consumption levels in Dalit, Janajati, and Muslim households are still between 15 and 13 percent lower than in Brahmin/Chhetri households. This difference in consumption levels can be called the “penalty” that certain groups pay because of their caste, ethnic, or religious identity. For Dalit households, this “penalty” translates into NRs. 4,853 less annual per capita consumption than that enjoyed by similar Brahmin/Chhetri households.

Source: Taken directly from the World Bank-DFID study, Unequal Citizens: Gender, Caste, and Ethnic Exclusion in Nepal, 2007, pg. 20

This impact assessment gives special attention to how VDRC’s microfinance program has economically uplifted Dalit and female SCC members in the locale of operation.

4.1.2 Economic Profiles of Study Area

4.1.2.1 Nawalparasi District

Nawalparasi district is situated in south-central, inner-terai Nepal, bordering India, and is comprised of seventy-three (73) VDCs. The total population of 562,870, of which 278,257 are male and 284,613 are female, is contained within 98,340 households, averaging a household size of 5.72 (District Demographic Profile of Nepal, 2001). **Average HH income?**

Table 4 – 1: Client Sample Summary

| Caste | VYCCU SCC | | Percentage |
|--------------|-----------|-----------|-------------|
| | Male | Female | |
| Shudra* | 4 | 3 | 24% |
| Vaishya | 5 | 2 | 30% |
| Chhetri | 1 | 1 | 8% |
| Brahmin | 6 | 8 | 38% |
| Total | 16 | 14 | 100% |

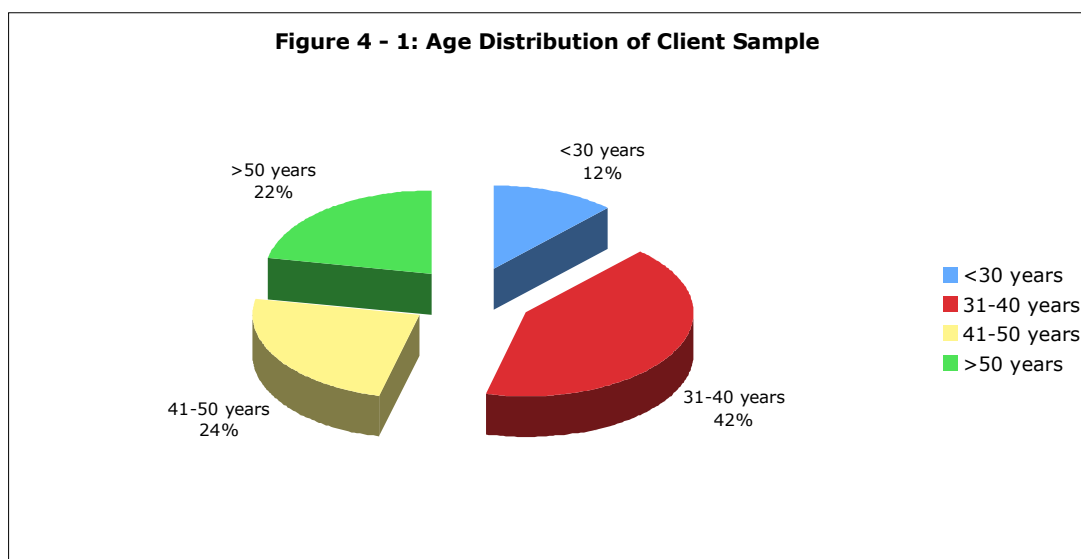
*Includes Dalit and Muslim clients

Source: Field survey, 2009/10

Of the 50 clients randomly selected, twenty (20) or 40% were male and thirty (30) or 60% were female. The reason for the unequal distribution in sex is due to Binai SCC, the third SCC of study, which has only female shareholders.

4.1.3.1 Age Distribution

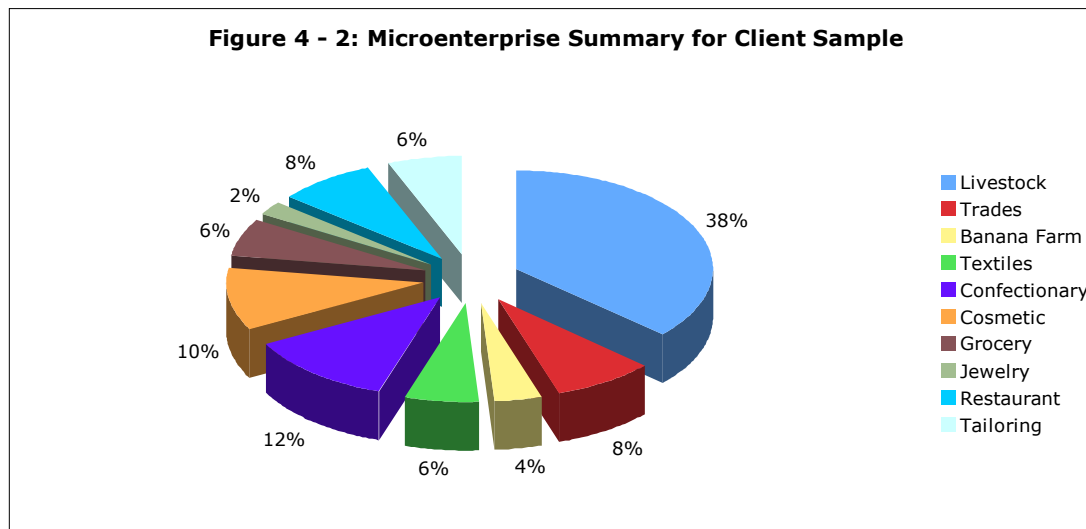
For the purposes of this study, age has been broken down into four (4) categories, namely, below 30 years, 30-40 years, 41-50, and greater than 50 years of age.



While age was not taken into consideration in the random selection process, the sample demonstrates that most clients that have taken out an income generation loan for the start-up or expansion of a micro enterprise tended to fall within the 31-40 years of age category, while clients in the 41-50 years of age category had the second largest number of clients to take out such a loan.

4.1.3.2 Micro enterprise Distribution

The impact assessment places specific focus on the income generation loan and the micro enterprises started up or expanded from this financing. While clients were randomly selected, the sample represents the full range of micro enterprises financed in each locale of study.



Nearly 38% of clients had financed a micro enterprise relating to livestock, while the least common enterprise was jewelry retail with only 2% of the client sample in this category. The 'livestock' category includes pig farming, cow, buffalo, and gate herding, and fisheries. 8% of clients fell within the 'trades' category, which includes construction, masonry, carpentry, and cycle repair shops. The remaining clients owned confectionary, grocery, cosmetic, and tailoring, textiles, and restaurant enterprises.

4.2 ECONOMIC IMPACT

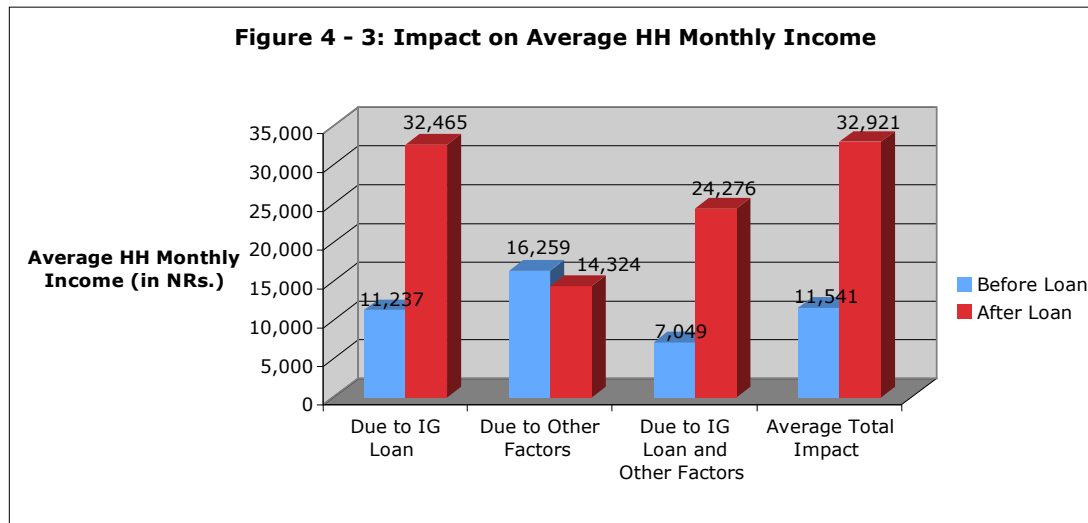
4.2.1 Household Income

Household income is an aggregate figure that takes into account the multiple sources of income generated by rural, poor, and/or disadvantaged households. Individual income from daily wage labor or a regular salaried job has solely comprised HH income in a minority of cases. Most clients in Nawalparasi districts cultivate land for agricultural production that is consumed by the HH and/or sold in the market. In both instances, the market price for the agricultural produce was used to attach a value to the production, which was also included in the HH income calculation. Similarly, most clients, regardless of their micro enterprise, generated an income from livestock production and by-products (e.g., meat, milk, ghee, etc.). A market price for the baseline year of production as well as the current year were obtained and used to calculate a value for all production and was also included in the HH income figure.

In measuring the impact of the income generation loan on monthly income, the focus was maintained at the HH level for two primary reasons. First, individuals tended to consider themselves as part of a larger community within the HH, and individual incomes were pooled together to collectively support HH expenses. When an income generation loan was sought by a client, most often this was pursued to economically uplift an entire HH, rather than a single individual. The second cause for this focus was that the start-up or expansion of an individual microenterprise tended to have spillover effects on other HH members' income generation capacity and vice versa. When another family member traveled overseas to gain employment, for example, another family member would seek out a loan to start-up a small enterprise to keep the collective HH income continuously fed to support

expenses. Monthly HH income provides a more holistic analysis of the income generation loan's economic impact.

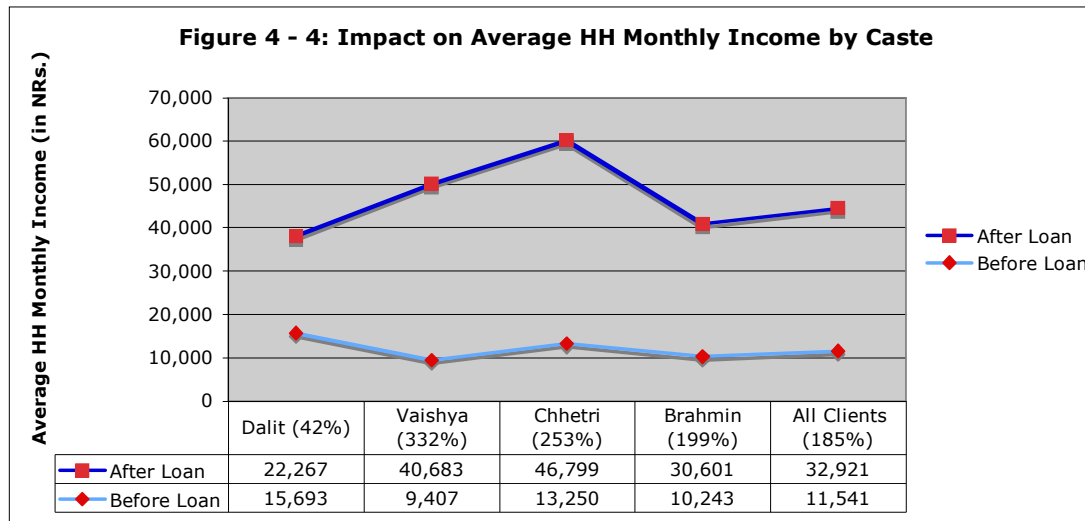
The client's individual income was used in determining whether the change in HH monthly income was a result of the microenterprise supported by the IG loan, other sources of HH income, or a combination of the two.



The study found that of the fifty (50) clients surveyed, the IG loan provided the sole positive contribution to the average HH monthly income of twenty-eight (28) or 56% of the total clients. The average HH monthly income increased by 188% for clients in this category. Four (4) clients or 8% of the total sample experienced a change in average HH income due to other income sources. While three (3) clients experienced an increase in income, one (1) client's income decreased by more than 50% resulting in an average 12% decrease in income for clients in this category. Finally, eighteen (18) or 36% of the client sample experienced a change in their average HH income as a result of both the IG loan and other income sources. In this instance, average monthly HH income increased by 244%. The average increase for the total client sample was 185%.

4.2.1.1 HH Income by Caste

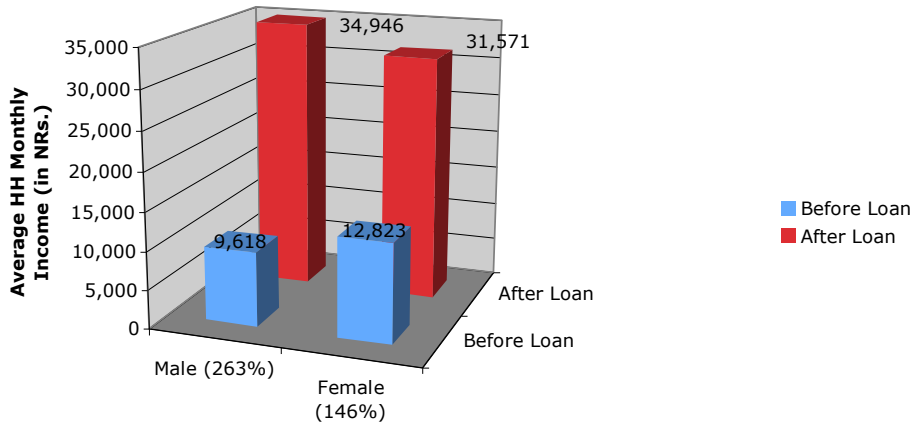
When analyzing the same data by caste, the Vaishya group experienced the largest increase in income (332%) after IG loan assistance, while the Dalit group saw the smallest climb, though positive, with an increase in average income of 42%. **What more analysis can be done?**



4.2.1.2 HH Income by Sex

Though male clients, on average, experienced a higher increase in income of 263% or NRs. 25,328 per month, the impact of the IG loan on the household income of female clients was 146% or NRs. 18,748. It is worth mentioning that prior to the IG loan, the households of female clients generated an average monthly income approximately 33% greater than those of male clients.

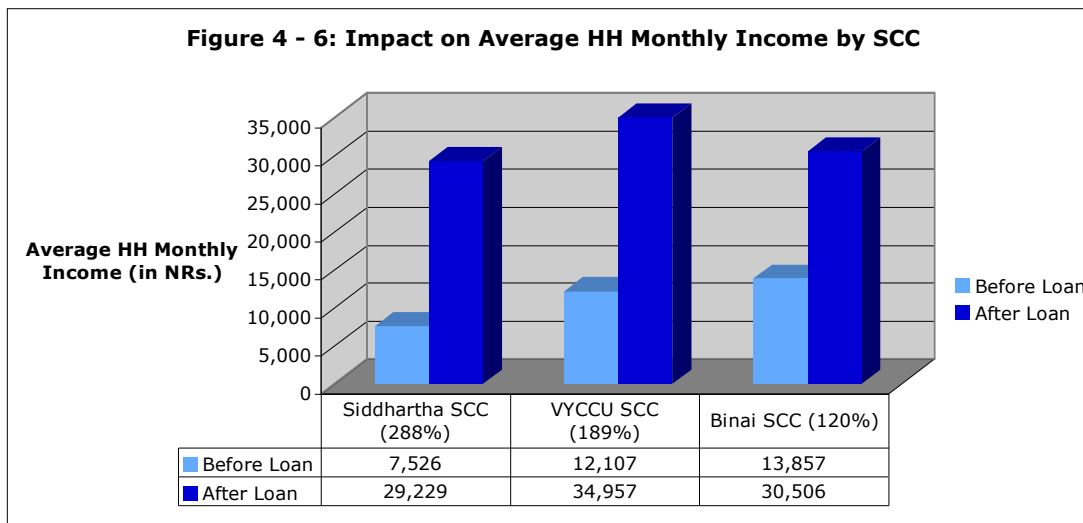
Figure 4 - 5: Impact on Average HH Monthly Income by Sex



4.2.1.3 HH Income by Cooperative

A comparison of average HH monthly income across SCCs revealed that all three experienced a positive impact after processing IG loans. Siddhartha SCC in Kapilvastu district demonstrated the greatest increase, which was by 288%, though the average monthly HH income was lower than those of VYCCU and Binai SCCs before and after loans.

Figure 4 - 6: Impact on Average HH Monthly Income by SCC

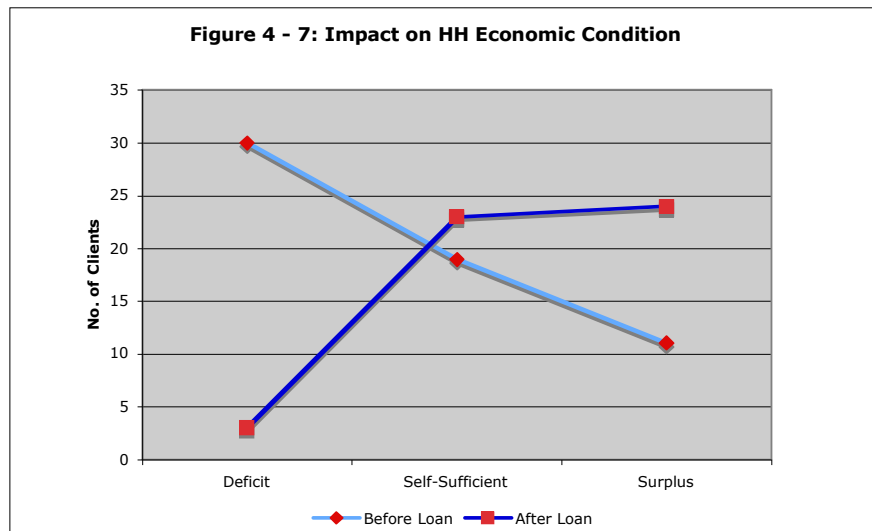


VYCCU's client households demonstrated a 189% increase in average monthly income and, as a whole, produce the highest incomes across all three

SCCs. This is partly due to the comparatively wealthier state of VYCCU's areas of operation.

4.2.2 Household Economic Condition

Prior to administration of the loan, the majority of clients claimed that their households were in deficit most of the year as a result of inability to generate the required income to cover basic household expenses such as adequate food, clothing, education, and medical treatment. Clients tended to borrow from neighbors, landlords, and moneylenders at interest rates as high as 60% in order to meet these expenses. In some instances, clients sold portions of their land as an alternative to borrowing from others. Of the twenty (20) clients in deficit, only three (3) remained in this condition after taking out an IG loan from their respective cooperative.



After administration of the IG loan, the number of clients that claimed to be self-sufficient increased from nineteen (19) to twenty-three (23), the number in surplus increased from eleven (11) to twenty-four (24). Clients in these two categories used their increased income to transfer their children from government to private schools, built new or made additions to their existing

homes, and in a few cases, began lending money to other community members, tremendously increasing their respect from within the community. One of the most important impacts of increased income was the building of a savings habit among clients. While a very small minority of clients nurtured the habit prior to seeking membership with their SCC, all clients were required to save on a monthly basis upon becoming a member, and in most instances, clients exceeded the minimum savings requirement of their SCCs.

4.2.3 Microenterprise Analysis

4.2.3.1 Microenterprise Profile

Most clients had either borrowed from other sources, sold land, or incurred adequate savings to start-up their microenterprise and had taken out an IG loan in order to expand the business. In one client’s case, an IG loan was taken out under the stated intent of starting a banana farming enterprise and instead used the money for other personal expenses including job application fees. In the case of female clients, in many instances, IG loans were taken out to finance spouses’ enterprises with the generated income the property of the household.

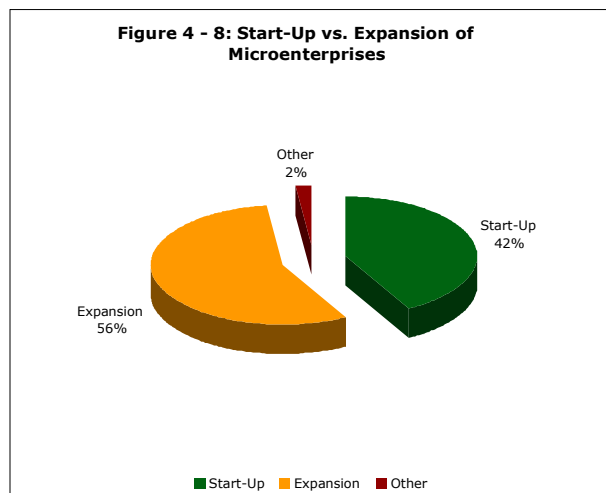
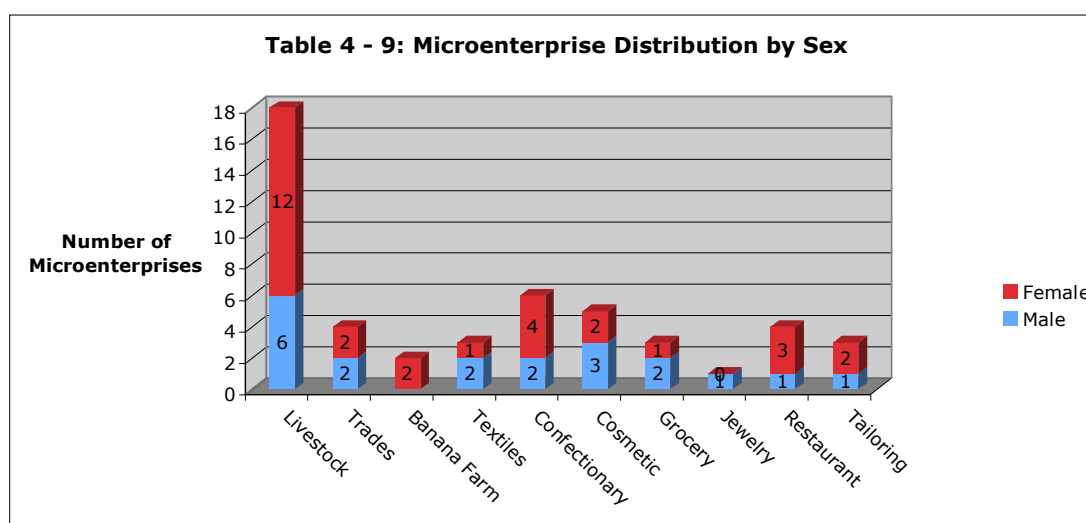


Table 4 – 3: Start-Up vs. Expansion of Enterprise by Sex

| | Start-Up | Expansion | Other |
|--|----------|-----------|-------|
|--|----------|-----------|-------|

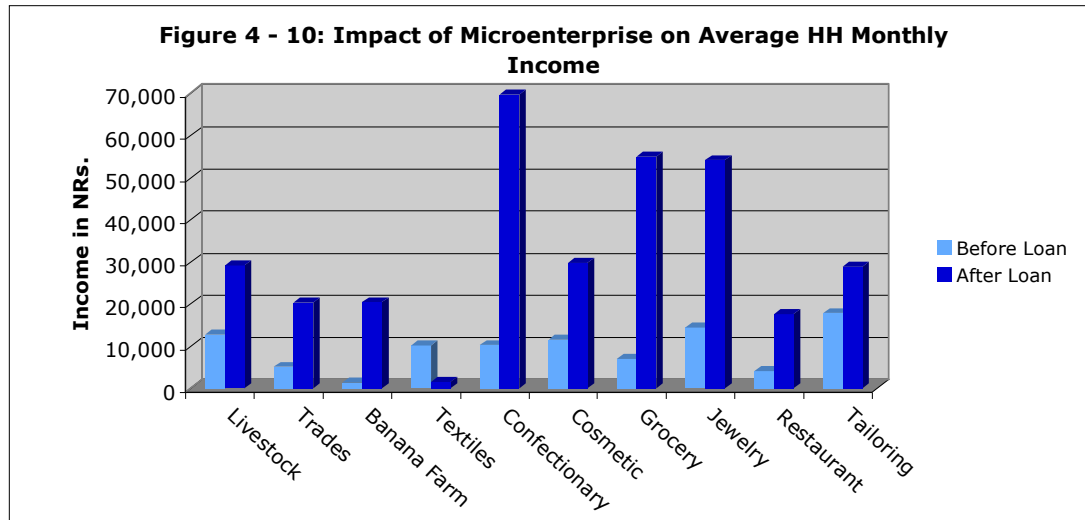
| | Number | % of Sex | Number | % of Sex | Number | % of Sex |
|----------------------------|-----------|------------|-----------|------------|----------|-----------|
| Male | 7 | 35% | 13 | 65% | 0 | 0% |
| Female | 14 | 47% | 15 | 50% | 1 | 3% |
| Total (50/100%) | 21 | 42% | 28 | 56% | 1 | 2% |

The majority of clients (36%), both male and female, engaged in livestock microenterprises, while the most uncommon enterprise was jewelry selling, in which only one client was engaged. The second most common enterprises were confectionary and grocery businesses, in which 22% of the sample was involved.



4.2.3.2 Impact of Microenterprise on Income

In measuring the impact of microenterprise on average HH monthly income, clients whose HH income was solely impacted by other sources were not included in the analysis.



According to Figure 4-10, clients in confectionary enterprises yielded the highest HH income, closely followed by clients in grocery and jewelry enterprises; however, in terms of percentage increase, clients in banana farming yielded average HH monthly incomes that increased by 1,454% after applying the IG loan to their enterprises. Clients with grocery and confectionary enterprises saw a 693% and 583% climb, respectively, in income, and the fourth largest percentage increase in average income, 335%, were in households of clients engaged in restaurant enterprises.

In four instances, clients experienced no benefit from their microenterprises and relied on other HH members' generated income. In all four cases, clients were engaged in livestock enterprises that had failed due to disease, poor meat quality, or lack of production.

4.3 SOCIAL IMPACT

4.3.1 Impact of Financial Services on Local Community

An assumption was made at the commencement of the study that increased financial activity would lead to increased community contact for clients and hence, harmony and cohesion. While this was certainly the case when

surveying clients on the frequency of interacting with other community members and visiting the local market (the higher the frequency, the stronger the impact), the frequency of their participation in community activities demonstrated varied results that were not always consistent with the stated hypothesis.

The general pattern for the first two categories indicated that after gaining membership with their respective SCCs, clients' interaction with their communities had strengthened and visits to the market had increased. With regard to the former, at the time of the assessment, not a single client responded 'never' after having gained SCC membership. One obvious explanation for this is the requirement of monthly savings depositing and repayment of IG loan installments, resulting in frequent interactions with SCC staff. At SCC offices and meetings, clients have the opportunity to meet each other, and in the case of Binai and Siddhartha, clients also are required to meet at least on a monthly basis in their SCGs as an additional membership requirement. Other reasons include increased business interactions as a result of improved/expanded microenterprises and increased informal contact with other members as a result of enhanced relations. The most important impact was the confidence and sense of ownership that clients developed for their community's wellbeing. Nearly all clients has become members, and in some cases, leaders of formal and informal community groups and associations such as the local drinking water committee, community forestry cooperative, women's self-help group, and farmer group.

Visits to the market had increased or remained the same for most clients, except in the case of one Dalit female client, who had taken a loan out under her name on behalf of her husband and had experienced no improvement in her own situation. Other clients' increased visits to the market were

primarily due to increased income and expanded businesses that required more frequent purchases of inputs.

Table 4 - 4: Changes in Community Cohesion

| | Interaction with Community | | Visit to Market | | Participation in Community Activities* | |
|-----------------|----------------------------|-------|-----------------|-------|--|-------|
| | Before | After | Before | After | Before | After |
| Never | 9 | 0 | 5 | 1 | 26 | 8 |
| 1-2 x day/month | 28 | 11 | 37 | 19 | 18 | 13 |
| 3-5 x day/month | 8 | 16 | 1 | 16 | 4 | 18 |
| >6 x day/month | 5 | 23 | 4 | 14 | 2 | 11 |

*Note: Unit is month for this category.

Source: Field survey, 2009/10

Clients' participation in community activities did not serve as a clear proxy for improved cohesion of community members because the impact varied depending on each client's situation. 14% of clients decreased their participation in activities as a result of increased business transactions, allowing for less leisure time than was previously available. The participation of 21% of clients engaged in activities five (5) times or less per month remained the same after SCC membership, but in some instances the participation was more significant. When clients were asked whether they felt the credit assistance and SCC membership had increased their overall sense of community linkage, 96% responded that it had, indicating that the financial services have, for the most part, strengthened community cohesion across all three cases for all clients, irrespective of caste and sex.

4.3.2 Impact of Financial Services on Client Esteem and Self-Worth

The change in perception of clients by fellow community members and themselves was significantly impacted by SCC membership and access to financial services. After gaining membership and having applied an IG loan towards microenterprise development, the respect clients felt from their community and family had shifted from ‘none’ and ‘poor’ to ‘good’ and very good.’ With increased community contact, and hence, linkage, community members have become more familiar with each other and replaced previous unfounded biases with respect. As a result, clients’ feeling of self-confidence mirrored this shift in perception.

In many instances, clients claimed that the change in respect from the community was strongly linked to their increased income and economic status within the community. As stated earlier in the report, some clients went from a state of deficit to becoming local moneylenders, which has garnered enormous respect. Clients’ ability to better provide for their families, especially for female clients, and save income for home construction/expansion has further boosted respect and decreased the frequency of internal financial disputes and tension in the HH.

Table 4 – 5: Change in Perception of Clients

| | Respect from Community | | Respect from Family | | Feeling of Self-Confidence | |
|-----------|------------------------|-------|---------------------|-------|----------------------------|-------|
| | Before | After | Before | After | Before | After |
| None | 3 | 0 | 0 | 0 | 11 | 0 |
| Poor | 18 | 0 | 2 | 0 | 24 | 0 |
| Good | 23 | 17 | 19 | 8 | 12 | 11 |
| Very Good | 6 | 33 | 29 | 42 | 3 | 39 |

Source: Field survey, 2009/10

Clients' feeling of self-confidence, particularly for disadvantaged groups, was owed to many reasons. SCC membership, alone, granted clients a sense of self-worth and pride. The access to financial services, irrespective of caste, has facilitated clients to generate increased incomes and regular savings to provide improved lives for their HHs, which has led to an increased sense of empowerment. Prior to starting their own businesses, many clients worked as employees in others' businesses. To become self-employed and be their own boss certainly contributed to clients' self-confidence. Additional feedback affirmed enhanced entrepreneurial drive and optimism as clients declared ambitions of starting second businesses or expanding existing businesses to reach targeted profits once thought to be unachievable.

Female clients particularly benefited from the ability to gain SCC membership and take out IG loans, whether in support of their own, HH, or husband's enterprise. In all three cases, the family's respect of these women increased. In some instances, female clients admitted to physical or verbal abuse from their husbands that had completely halted after the economic condition of the HH improved with their contribution. Relations improved between wives and in-laws. Finally, many clients felt more aware of their rights as people and as women in both the HH and in their communities.

4.3.3 Additional Impact of Financial Services on Disadvantaged Groups

According to a World Bank/DFID study, exclusion and disempowerment are inter-related processes, where "one is within the individual and involves internalization of a negative definition of his or her own identity. To a large extent, the rules/norms/beliefs and behaviors laid down by the surrounding institutions define who the individual is, how individuals are valued by society, and what they can or cannot do" (DIFD/World Bank 2007). When men of the highest caste have defined these institutions, naturally women

and so-called low caste groups are tremendously discriminated against and disempowered by them. Because SCCs are perceived as noble community institutions of the people, it is important to emphasize the extent to which they have broken away from such structures by inviting members, irrespective of caste, ethnicity, sex, and religion.

4.3.3.1 Dalit Clients

During interviews with Dalit clients, 64% strongly felt that communities were gradually becoming more inclusive of them because of favorable changes in government policies and equal treatment displayed by SCCs and other community groups. The mentality that only those of the Brahmin caste are eligible to benefit from community resources has also transformed as Dalits become more aware of their rights as people and as equal citizens. While there are still remnants of discriminatory treatment of Dalits entering temples, traditionally a forbidden practice, many clients remarked this significant change as a positive step. The decision-making role of Dalit clients in their communities after engaging with their respective SCCs improved drastically with no clients feeling they had no or very little ability to influence key decisions. Stronger community relations have enhanced their participation in community activities, which, in turn, has given them a greater voice in decisions impacting their communities.

Table 4 – 6: Community-Level Impact on Dalit Clients

| | Decision-Making Role | | Access to Resources | | Feeling of Leadership | | Ability to Address Others | |
|-------------|----------------------|-------|---------------------|-------|-----------------------|-------|---------------------------|-------|
| | Before | After | Before | After | Before | After | Before | After |
| None | 3 | 0 | 5 | 0 | 6 | 1 | 6 | 0 |
| Very Little | 4 | 0 | 4 | 0 | 4 | 0 | 4 | 1 |
| Good | 3 | 9 | 2 | 9 | 0 | 7 | 1 | 8 |
| Very Good | 1 | 2 | 0 | 2 | 1 | 3 | 0 | 2 |

Source: Field survey, 2009/10

Some Dalit women had been required to cover their faces and were not able to leave the home and interact with community members. This practice was gradually eradicated among the client sample households after gaining membership with an SCC.

4.3.3.2 Female Clients

4.3.3.2.1 Community-Level Impact

The majority of female clients tended to play a role in decision-making within the home and in their communities prior to gaining membership with an SCC and taking out IG loans, however, when surveyed after having applied an IG loan to a new or existing enterprise, 100% of female clients felt that their role was good or very good. They attributed this change to their ability to contribute to HH income, either through their own business or through application of the loan, under their name, on the husband’s business.

Female clients’ increased access to resources after the loan was often interlinked with new leadership roles they had taken within their communities. For many, seeking membership with their SCC was only a first step. Subsequently, several clients became members of local community forestry cooperatives and other committees involved in key decisions affecting their entire communities. Some even took up leadership positions within these committees, demonstrating strong empowerment and leadership capacity that have impacted these women in other ways. Clients claimed they felt empowered to think for themselves, voice their opinions, and defend themselves when needed, rather than remaining silent, as they had been accustomed to doing.

Table 4 – 7: Community-Level Impact on Female Clients

| | Decision-Making Role | Access to Resources | Feeling of Leadership | Ability to Address Others |
|--|-----------------------------|----------------------------|------------------------------|----------------------------------|
|--|-----------------------------|----------------------------|------------------------------|----------------------------------|

| | Before | After | Before | After | Before | After | Before | After |
|-------------|--------|-------|--------|-------|--------|-------|--------|-------|
| None | 5 | 0 | 3 | 0 | 14 | 1 | 12 | 0 |
| Very Little | 8 | 0 | 13 | 0 | 11 | 0 | 10 | 1 |
| Good | 8 | 14 | 12 | 16 | 2 | 15 | 5 | 19 |
| Very Good | 9 | 16 | 2 | 14 | 3 | 14 | 3 | 10 |

Source: Field survey, 2009/10

4.3.3.2.2 Perceptions of Income and Savings

Generally speaking, women in the locales of study appeared to have reasonable levels of independence when it came to the management of HH finances. 90% of female clients spent HH income by their own decision and without having to take permission from their husbands or family heads. The majority felt more comfortable seeking advice from family members and/or husbands, particularly when spending in larger amounts.

When female clients were asked how they perceived their income, 3% claimed it was their own to spend only as they chose, while 30% viewed the income as theirs for them or their family members to spend. The majority of clients, 67%, viewed their income as family income to be spent on HH expenses.

Similarly, the majority of clients, 87%, viewed savings as family property, while only 13% viewed it as their own personal pewa. Consistent with this, 74% of clients claimed that accumulated savings was managed by both themselves and their husbands, and 3% claimed management was the responsibility of the family head.

The conclusions drawn were representative of the female client sample and did not reveal any significant patterns across the different caste groups. While the majority of women maintained a strong role in the management of HH finances, only in a few instances did women choose to manage and spend their own income and savings independent of their HHs. This was largely

due to the cultural perception of resources as communal within the HH, rather than placing focus on the individual self.

5.2.2 VYCCU Policy and Practice Recommendations

While VYCCU's clients were customarily satisfied with the financial services and products offered and the method in which these were delivered, however, analysis of interview discussions and a comparison of financial services and products that have worked in other districts have led to suggestions for revised policies and practice:

- **Formalize biogas loan.** Currently, VYCCU promotes the use of biogas as an alternative source of energy to its clients, however, its role is limited to liaising between clients and biogas companies. Through a partnership with the Alternative Energy Promotion Center (AEPC), funded by SNV and Winrock International, VYCCU can secure subsidies for its clients for the construction of biogas plants for domestic use of between Rs. 5,000-11,500. This also supports VDRC's goal of promoting an eco-friendly environment.
- **Explore a partnership with the Federation of Nepal Cottage and Small Industries (FNCSI).** There are also district-level associations, and membership provides access to FNCSI enterprise development trainings, trade fairs and exhibitions, and institutional strengthening. Through membership, SCCs can better link their clients to other much needed and desired opportunities.
- **Explore a partnership with the Government of Nepal's Animal Health.** Alongside the recommendation for insurance services, it would be an added benefit if the SCCs form a partnership with the X to provide free or heavily subsidized routine check ups and treatment for

livestock. This can pre-empt heavy losses to both the client and the SCC, particularly in areas where agriculture and livestock are the primary means of income.

- **Revise individual collateral requirement.** Several clients expressed the need to secure income generation loans in larger amounts but were limited by the existing policy of being able to secure Rs. 5,000 in loans for every individual willing to guarantee repayment of the loan. In a coil structure lacking savings and credit groups or sub-groups, clients found it challenging to meet this requirement. For first-time applicants, this may be the only feasible form of collateral, but subsequent loan requests in larger amounts might be considered based on repayment performance of the client.

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