

A STUDY OF THE IMPACT OF NIRDHAN UTTHAN BANK ON POVERTY REDUCTION

Submitted to:

**Nirdhan Utthan Bank Ltd
Kathmandu Office
Anamnagar, Kathmandu**

Submitted by:

**Centre for Policy Studies and Rural Development
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ABBREVIATIONS

ADB		Asian Development Bank
ASARRD	:	Asian Survey on Agrarian Reforms and Rural Development
CBB	:	Chimmek Bikas Bank
CBO	:	Community Based Organization
CBS	:	Central Bureau Statistics
CDR	:	Central Development Region
CECI	:	Canadian Center for International Studies and Cooperation
CEPRUD	:	Center for Policy Studies and Rural Development
CGBB	:	Central Grameen Bikas Bank
CO	:	Community Organization
CPI	:	Consumer Price Index
CWD	:	Center for Women and Development
DBB	:	DEPROSC Bikas Bank
EDR	:	Eastern Development Region
EGBB	:	Eastern Grameen Bikas Bank
EPS	:	Earning per Share
FAO	:	Food and Agriculture Organization
FAP	:	Food and Agriculture Program
FINGOs	:	Financial non-government Organization
FWDR	:	Far-western Development Region
FWGBB	:	Far-western Grameen Bikas Bank
GBBs	:	Grameen Bikas Banks
GBFS	:	Grameen Bikas financial system
Ha	:	Hectare
HHs	:	Households
IBP	:	Intensive Banking Program
ILO	:	International Labour Organization
IRDP	:	Integrated Rural Development Program
MCB	:	Micro-credit Bank
MCDBs	:	Micro-credit Development Banks

MCPW	:	Micro Credit Project for Women
MFIs	:	Micro-finance Institutions
MOWCSW	:	Ministry of Women Children Social Welfare
MWDR	:	Mid-western Development Region
MWGBB	:	Mid-western Grameen Bikas Bank
N	:	Number
NABARD	:	National Bank for Rural and Agricultural Development of India
NDMP	:	Nepal Development Market Place
NGO	:	Non-governmental Organization
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank
NUB	:	Nirdhan Utthan Bank
PAF	:	Poverty Alleviation Fund
PCRW	:	Production Credit for Rural Women
POs	:	Partner Organizations
RMDC	:	Rural Microfinance Development Centre
RSRF	:	Rural Self Reliance Fund
SBB	:	Swabalamban Bikas Bank
SCCs	:	Saving and Credit Cooperatives
SFDP	:	Small Farmers Development Program
SRG	:	Self Reliant Group
TV	:	Television
UN	:	United Nations
UNICEF	:	United Nations Children Fund
UNIFEM	:	United Nations Development Fund for Women
VDC	:	Village Development Committee
WDR	:	Western Development Region
WGBB	:	Western Grameen Bikas Bank

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Summary

Study Objectives

1. The major objectives of the study are to assess the contributions made by Nirdhan Utthan Bank towards improving the socio-economic conditions of the clients and empowering the women within the family and the society.

Study Methodology

2. The study is based on secondary as well as primary data and information. Secondary data and information were obtained from the NUB Central as well as Branch Offices. Primary data were collected by conducting household survey of the clients selected by using multi-stage sampling procedure that involved selection of NUB Area Offices, Branch Offices, credit operating Centers/Groups, and finally the clients.
3. The sample size of the study was 400 loan clients determined on the basis of sampling technique with known population of 99336 clients and assumption of 95 percent level of confidence.
4. The sample was allocated to four Area Offices (Bhairahawa, Bharatpur, Birgunj and Nepalgunj) in proportion to the size of the clients of each area office.
5. Twelve out of 44 Branches from the four Area Offices were selected for the study. The identification of the specific branches for field survey was made by the concerned Area Office. A total of 38 Centres were covered by the survey. The identification of the Centres was made by the officials of the concerned Branch. The selection of clients from the selected Centres was made randomly.
6. The data were analyzed by using descriptive as well as inductive statistics. The estimation of growth trend was made by using exponential trend equation of the form $y = b_0 e^{b_1 t}$ on annual data from 1998 to 2009.

Geographical Coverage

7. Nirdhan Utthan Bank has been expanding its organizational structure in order to expand its geographical coverage and loan operations over the years. Starting from two area offices and 12 branches in 1998, it has, as of mid-July 2010, 5 area offices and 77 branches.
8. Along with the growth of its organizational structure, the Bank has also expanded the geographical coverage of its credit program over the years. The Bank started its activities from 4 districts covering 118 VDCs in 1998, and by mid-July 2010 the coverage has been expanded to 27 districts and 717 VDCs. Excepting a couple of years, the number of additional districts and VDCs covered has increased every year.

9. The districts in which the Bank started its operation in the early years have almost a total coverage of VDCs. These are Bara (99.0 percent), Rupandehi (95.8 percent) and Chitwan (84.2 percent). In districts where the program has been recently expanded, the coverage of VDCs is low.
10. Bharatpur, Bhairahawa and Birgunj regional offices have almost reached saturation level in the areas currently covered. This has happened because of almost total coverage of the target households within the VDCs/Municipalities and prevalence of other Branches in the adjoining areas. While Bharatpur and Bhairahawa offices have scope of expansion towards the hill districts, Birgunj office has feasibility of expansion towards the eastern terai districts. In the case of Nepalgunj office there is a high feasibility of expansion within the currently covered areas and to other districts in the region.

Coverage of Households

11. The membership of the Bank, represented by the number of active clients, shows a steady growth excepting a small decrease in 2003, which may be due to intense conflict situation in the country. Starting from 11,717 in 1998, the number of active clients has increased to 126,787 in 2010. The results of the estimation of exponential trend equation show a growth rate of 17.8 percent, which is statistically significant at 99 percent level of significance.
12. The growth of loan clients is also steady with the exception of a moderate decrease in 2002 and 2003. The number was 8,987 in 1998 and reached to 85,323 in 2010. The results of the estimation of exponential trend equation show a growth rate of 16.0 percent, which is statistically significant at 99 percent level of significance.
13. The dropouts of clients have increased from 1,461 in 1999 to 50,367 in 2010.
14. The number of clients is relatively large in those districts in which the Bank started its operation in early years. These are Bara (45604), Rupandehi (16034), Banke (14209), Nawalparasi (9606) and Chitwan (9299).
15. These districts also have relatively large coverage of poor households by the credit program. The coverage is more than hundred percent in Bara (159.5 percent), which is followed by Chitwan (66.9 percent), Banke (40.3 percent), Parsa (37.3 percent) and Rupandehi (35.5 percent).
16. As data in terms of 'Dalit' or 'non-Dalit' clients of the Bank are not readily available, it has not been possible to draw a total picture of social inclusion in the NUB credit program. In the 12 Branches covered by the field survey, 27.3 percent of the total 28,958 loan clients are Dalit households.

Credit Operation

17. Clients' Groups formed for the purpose of credit operation shows nearly a nine fold growth in 11 years from 2394 in 1998 to 23,075 in 2010. However, the growth does not show a steady trend as the increase ranges from a minimum of 162 in 2002 to a maximum of 3943 Groups in 2009. The growth was

relatively high in the early years and following a slowdown in a couple of years, it has again speeded up.

18. The number of Centers also increased from 550 in 1998 to 4,930 in 2010, showing a growth of about ten times. The growth in the number of Centres follows the same pattern as the growth in the number of Groups.
19. Annual disbursement of loan increased significantly between 1998 and 2010. The disbursement was Rs. 113.6 million in 1998 and increasing steadily in the subsequent years reached Rs. 9175.6 million, reflecting nearly 81 fold increase. The average annual growth rate is 34.5 percent.
20. Loan repayment has also followed the same pattern as loan disbursement, showing 101.3 fold increases during the same period. Loan repayment as proportion of the disbursement was in the range of about 67.0 percent to 80.0 percent up to 2002, and over 80.0 percent thereafter. The average annual growth rate of repayment is 35.2 percent.
21. Loan outstanding, as of mid-July 2010, was Rs. 1478.3 million. Compared to the level of 1998 (Rs. 37.7 million) this shows nearly 40 fold increase. The average annual growth rate of loan outstanding is 27.6 percent.
22. In terms of districts, the amount of loan disbursement in 2009 was highest in Bara (Rs. 1660.9 million), followed by Rupandehi (Rs.1277.3 million), Parsa (Rs.688.0 million), Nawalparasi (Rs.661.9 million), Chitwan (Rs.656.7 million), Rautahat (Rs.616.0 million) and Banke (Rs.601.6 million).
23. In terms of loan amount disbursed per VDC, Parsa has the highest per VDC loan disbursement (Rs 20847.4 thousand), followed by Chitwan (Rs 20521.2 thousand), Banke (Rs 20054.3 thousand), Rupandehi (Rs 18784.3 thousand) and Bara (Rs 16947.7 thousand).
24. With regard to per client loan disbursement, Tanahu ranks first (Rs. 84.3 thousand), seconded by Rupandehi (Rs. 79.7 thousand), Parsa (Rs. 78.4 thousand), Chitwan (Rs. 70.6 thousand) and Nawalparasi and Rautahat (Rs. 68.9 thousand each).
25. The total savings of the Group members has increased steadily from Rs. 9.4 million in 1998 to Rs. 435.2 million in 2010, which is more than 46 fold higher over the level of 1998. Savings show an average annual growth rate of 28.2 percent.
26. Total savings mostly consists of Group savings, ranging from 69.4 percent in 2010 to 86.7 percent in 2004. The next major form of saving is the personal savings that account for 9.8 percent to 23.0 percent of total savings. The proportion of other savings is quite low, ranging from 1.6 percent to 6.8 percent. The relative share of Group saving has been declining from 2005, whereas the proportion of personal and other savings have been increasing.
27. The results of the estimation of exponential trend equation show growth rates of 28.2 percent, 27.2 percent, 30.1 percent and 38.8 percent respectively for total savings, Group fund savings, personal saving and other savings, which are statistically significant at 99 percent level of significance.

Access of the Poor

28. Judged from the criterion of land holding size (less than 0.2543 ha of land in the terai and 0.5085 ha of land in the hill), 63.3 percent of the total clients fall in the category of poor. This proportion is 88.5 percent in the hills and 61.5 percent in the terai.
29. The average income of the clients is Rs 15,668 per month per household. By district, Banke has the highest amount of monthly income per household (Rs.19,371), followed by Rupandehi (Rs.18,604). On the other hand, Nawalparasi (Rs. 10,235) and Rautahat (Rs.11,999) have the lowest amount of monthly income per household.
30. The average number of earning members per household is 1.73 persons. By sex, the average number of males is larger than that of females (1.235 as against 0.495). In terms of districts the average number of earning members varies from 1.31 persons (Chitwan) to 2.15 persons (Bara).
31. The average earning per person is Rs. 9061, with females earning far less than the males (Rs. 6915.0. as against Rs 9921.3). Females contribute only one fifth (21.8 percent) to the total household income.
32. A majority of family members of the clients derive their income from business (53.3 percent), followed by wage labour (37.5 percent), employment in formal sector (29.3 percent) and foreign employment (21.8 percent). It is also the business which has the highest contribution (33.5 percent) to household income. However, average income per person involved is highest in foreign employment because of employment of few persons earning high income.

Access of Disadvantaged Groups

33. The loan clients are predominantly from the socially disadvantaged groups comprising Dalits, Muslims and ethnics. These groups constitute 69.2 percent of the total sample clients.
34. Female-headed households constitute 42.5 percent of the sample households. Widows constitute 6.5 percent of the total sample clients.
35. Nearly one half of the clients are illiterate (46.5 percent), while 9.0 percent are just literate and 44.5 percent have formal education. Of those with formal education, 78.7 percent have under SLC level of education.

Participation in Micro-Credit Program

36. A large proportion of the clients (60.0 percent) participated in the credit program during the last three years (2004-2006), while those participating in the earlier one decade (1994–2003) constitute 40.0 percent.

37. Both the number of borrowers and the average amount of loan per client has increased markedly in the recent years (2004-2006). The loan size increases in each successive borrowing. The amount of last loan (Rs. 33,679) is almost three times larger than the first loan (Rs. 11,484).
38. The maximum number of borrowings is 13 times, with relatively higher concentration in 2 to 5 times borrowings (54.0 percent). The average size of loan increases with the frequency of borrowings. The average loan size of 2 times borrowing is Rs. 25,336, while that of 13 times borrowing is Rs. 232,000.
39. Total amount of loan per client ranges from below Rs. 50,000 to above Rs. 300,000, with larger concentration in the intervals of Rs. 50,001 to Rs. 100,000 (30.0 percent) and Rs. 100,001 to Rs. 150,000 (28.8 percent). The average amount of loan per client is Rs. 128,465.
40. For a large majority (more than 70 percent) the loan amount is sufficient for the purpose. In the case of insufficiency, the deficient amount was arranged mainly from the contribution of the family members. Other sources were money lenders, neighbors, friends and other credit institutions.
41. More than 90 percent of the clients considered loan repayment installments as convenient to them and had no problem in meeting the repayment schedule. Partial operation or failure of the activities and use of credit for consumption purpose were the main reasons for a few clients facing repayment problem. Such clients met the repayment cycles by borrowing from various formal as well as informal sources.
42. A majority (53 percent) of the clients considered the interest rate on micro-credit 'high', while 34 percent considered it 'reasonable' and the remaining 13 percent 'concessionary'. Most of the clients saying high rate belong to the SHG model, as they currently pay higher rate than that those belonging to the Grameen model.
43. A very small number of clients (43 persons) have received skill training and even to this NUB contribution is very low.
44. The skills learned from the training included tailoring (13 persons), vegetables and mushroom farming (8 persons), livestock raising (7 persons), making candle, incense stick, paper flowers, etc (7 persons), information education, computer and accountancy (4 persons) and social work and group management (4 persons). The duration of skill training ranged from one day to 90 days.
45. Half of those receiving training (51.2 percent) have not used the skills in income generation activities due to family reasons, engagement in some other activities, lack of experience and lack of market.

Economic Impact

46. A large majority of clients felt increase in family income as the top most advantage of micro-credit. Next to this was increase in food self-sufficiency, followed by employment for family members and increase in assets.

47. Income generating activities undertaken with micro-credit mainly included raising livestock, poultry farming, agriculture farming and trade/business.
48. In each successive loan there is increase in both the number of investments and the average amount of investment. The number of investments increased from 393 in the case of first loan to 399 in the case of second loan and to 410 in the case of the last loan. The amount of investment increased from Rs.11, 583.9 in the first loan to Rs. 16,746.6 in the second loan, and to Rs. 33,539.9 in the last loan.
49. By type of activity, average amount of investment was highest in milching animals (Rs. 14,040.4) in the first loan, trading activities (Rs.18, 888.9) in the second loan and poultry farming (Rs.40, 000.0) in the last loan.
50. More than 80 percent of the clients have undertaken activities generating income within 6 months. The requirement of paying installments within a short repayment cycle might have prompted them to undertake quick yielding activities.
51. Clients have mainly used micro-credit for continuing the previously carried out activities (51.0 percent) and starting new activities (47.5 percent). Only 1.5 percent has revived the stopped activities that were previously undertaken.
52. One to three activities are undertaken fully or partially with the micro-credit. Nearly one half (48.3 percent) have undertaken only one activity, while those 20.8 percent have undertaken two activities and 31.0 percent have undertaken three activities.
53. New activities are mostly concentrated on retail business/petty trading, such as retail shops, house construction contract, tea shops, vending business, etc (35.6 percent). Next to this are buffalo/cow raising (28.9 percent), goat/pig raising (17.8 percent), and farming of cash crops, vegetables and fruits (10.3 percent).
54. Of those starting new activities, a large majority (58.9 percent) had financial problem for not undertaking such activities in the past. Other reasons were 'no need to work', 'no family tradition of doing such works', 'no helping hand', and 'no knowledge'.
55. Activities carried out with micro-credit have created employment opportunities for full as well as part time engagement of family members of the clients. Of the 1837 economically active age population of 400 households, 42.8 percent have been employed fully or partially in such activities. Full time employment (26.9 percent) is higher than the part time employment (15.9 percent).
56. The creation of employment is 1.97 persons in average per household. By sex, the proportion of females (48.7 percent) is larger than that of males (37.6 percent) in both full time as well as part time employment.
57. Clients undertaking larger number of activities earn higher additional income, which is Rs. 6,101 in the case of single activity, Rs. 10,463 in the case of two activities and Rs. 15,178 in the case of three activities.
58. A large majority (89.0 percent) use additional income for household consumption, followed by schooling of children (77.5 percent), expansion of business (59.0 percent), and repayment of loan installments (56.5 percent), group saving (54.8 percent) and starting new business (53.0 percent).

Additional income is also used for the purchase of TV, telephone, land, building, gold, ornaments, cows, buffaloes and goats, celebration of marriage and festivals, construction of latrine and biogas, installation of hand pumps, acquiring foreign job, and construction and repair of house.

59. Some households (20.5 percent) have added homestead as well as farming land after participation in the credit program. The average size of land added is 0.1353 hectares per household.
60. Food as well as income self-sufficiency status of the clients have improved, as there has been a decrease in the proportion of households having sufficiency for a shorter period and increase in the proportion of those for a longer period and surplus.
61. Participation in micro-credit program has reduced the dependency on informal sources for borrowing, as a large majority of the clients (81.2 percent) has relied solely on Nirdhan bank credit, while the remaining 18.8 percent has also borrowed from other formal and informal sources for supplementing Nirdhan credit for the proposed activity.
62. A large majority (61.0 percent) are able to continue the currently undertaken income generating activities in future without needing further loan. Those not able to continue (39.0 percent) prefer Nirdhan bank credit because of its availability at the doorstep, non-requirement of collateral, relatively low rate of interest, and longer repayment cycle.
63. A small number of clients (10.8 percent) have faced different problems in operating the income generating activities. The problems faced are related to inputs, knowledge/skill and market. While inputs related problems are mostly activity specific, knowledge/skill and marketed related problems are common to all.

Social Impact

64. Schooling of children has improved as over 94 percent of boys and girls of school going-age are attending school. The improvement is also indicated by the shift away of both boys and girls from government to private schools at each higher level. The level of educational performance has also scaled up from 'average' and 'poor' to 'very good' and 'good'.
65. A majority of clients (54.8 percent) have been able to increase the consumption of nutrient food, such as milk, meat, fish, egg, green vegetables and fruits as a result of increase in income. And, one half of the clients (50.8 percent) have full meals a day, which was not possible prior to taking the micro-credit loan
66. The housing conditions of the clients have improved as judged by the type of materials used for the wall and the roof, and the number of rooms and storeys. There has been a reduction in the thatched and clay tiles roofed houses and an increase in corrugated sheets and concrete roofed houses.
67. Household sanitation has also improved as 65.5 percent possessed toilets compared to 50.0 percent before participation in micro-credit program. The quality of toilets has also improved as indicated by the increase in the number of permanent latrines with septic tanks.

68. There is an increase in the possession of various types of consumer durables and means transportation and communication both in terms of the proportion of households using these items as well the number of items possessed per household. The increase is relatively large in the case of items, which were not common until recent past, such as mobile, telephone, television, refrigerator and motorcycle.

Empowerment of Women

69. A large number of women previously confined to household chores are now undertaking various income generating activities as full time work. There has been a significant increase in the proportion of women undertaking business/retail shops (51.0 percent as against 21.5), and livestock rearing (47.0 percent as against 21.5 percent).
70. The number of women involved in farming has remained almost unchanged, which means that women can manage other activities too, irrespective of their involvement in agriculture.
71. The proportion of women not earning income at all or earning low income has declined, whereas the proportion of those earning higher income has increased. The increase is concentrated in the monthly income ranging between Rs. 3000 and Rs.6000.
72. A large majority of women is in a position to retain the income earned from the activities operated with micro-credit. While 38.3 percent have full control, and 45.4 percent have partial control, only 16.2 percent have no control over their income.
73. Small number of women (6.0 percent) have also purchased land for homestead and farming registered in their own name, leading to an increase in their economic empowerment.
74. The program has increased the reading, writing and arithmetic calculation ability of women. Women previously putting thumb print in legal document can now write their initials. Some women have also enhanced their reading ability. Women undertaking business/ retail shops have also been able to perform basic arithmetic calculation.
75. The increase in mobility of women and their interactions with other fellow women in the regular Group meetings have increased their awareness towards various health and hygiene related issues. A large majority of women are now aware of the need of immunization of children, personal hygiene, safe motherhood, mother child health, family planning, prevention of diseases, and use of toilet. Along with the increase in knowledge, there has also been change in attitude and practice.
76. Clients' association with social organizations and political parties has increased in terms of membership, holding of executive posts and attending meetings.
77. Most of the family decisions are taken jointly by husband and wife, occasionally in consultation with senior members. Even in the case of selling produces of micro-credit operated activities, joint decision prevails in majority of the households (58. 8 percent). It is only in 25.3 percent households women exclusively decide this.

78. Participation in the micro-credit program has further increased women's confidence to put their personal as well as general matters in the family. Frequent Group meetings have made them more and more confident to speak in the meetings and other public gatherings.
79. Women have now become more inquisitive about social, political and economic issues and problems, as indicated by the decrease in the proportion of women having no interest/knowledge and increase in the proportion of those desiring to know more.

Impact on Poverty Reduction

80. Judged in terms of per capita expenditure, a large proportion of clients of the NUB micro-credit program have been able to upgrade themselves above the poverty line. The average per capita expenditure of the NUB clients has increased from Rs. 12,002.5 to Rs. 19,450.7, reflecting an increase by 62.1 percent.
81. The number of households having per capita expenditure above the poverty line when compared with the pre-credit situation shows that about two thirds clients have upgraded from poverty level after participation in the program.

Major Issues

82. Despite the encouraging achievement in terms of growth and impact, the implementation of the micro-credit program has given rise to some pertinent issues which, if not given due attention, may affect future performance of NUB in poverty reduction. These issues are as follows:
 - Lack of prevalence of NUB branch in the mountains and remote hill districts
 - Low coverage of the program in the hill districts and interior parts of the terai districts
 - Heavy concentration of the program in accessible areas, particularly municipalities and accessible VDCs
 - Overlapping of the program in terms of geographical space and clients
 - Coverage of the program not being strictly confined to the poor
 - Selection of relatively credit worthy clients bypassing the target groups
 - Limited information to the households on the availability of micro-credit, particularly in the remote and inaccessible areas
 - Supply based approach of the program on the presumption that supply creates its own demand
 - Inadequacy of skill training and support activities for generating demand for credit and its productive use
 - Lack of entrepreneurship for undertaking income generating activities on commercial scale

The Way Forward

83. The way forward has been suggested as follows:
- Extension of program to inaccessible and remote areas
 - Expansion of coverage in the program districts
 - Streamlining the program in saturated areas
 - Generation of demand for micro-credit
 - Survey of target districts and households
 - Skill training
 - Enterprise development

CHAPTER I: INTRODUCTION

1. 1 Background

The introduction of commercial banking system with branches spread in different parts of the country to mobilize deposits and extend credits has virtually failed to cater to the needs of the poor or to reach them at all because of the conventional banking practices. It has been well recognized that formal lending agencies often leave the poor un-banked because of the problems of targeting, absence of any collateral with the poor, and high transactions costs involved in lending to the poor. Even the state delivery of subsidized credit to the poor farmers, often supported with donor fund, has also been a failure because most programs accumulated large loan losses and required frequent recapitalization for their continuity (Pant, 2009). The search for a new approach based on market principles led to the development of micro-finance scheme as a potent credit program for reaching the poor. The first of its type and the most successful micro-credit program is the Grameen Bank of Bangladesh. The Grameen Bank was initiated in 1976 as an action research project in a village near Chittagong University by Professor Muhammad Yunus to test the hypothesis that if financial resources are made available to the poor at reasonable terms and conditions, they can generate productive self-employment without external assistance. A government ordinance in 1983 transformed the project into Grameen Bank, a specialized financial institution for the rural poor.

Many developing countries have now started micro-finance programs to provide credit for poverty alleviation, replicating the Grameen Bank of Bangladesh. In Nepal government as well as private sector development banks and non-governmental organizations run such programs. Nirdhan as an NGO, was the first organization to replicate Grameen Bikas financial system (GBFS). Later on five Grameen Bikas Banks (GBBs) were established by the government replicating the Grameen model between 1992 and 1996 in each of the five development regions.

1.2 Definition of Micro-Finance

Micro-finance means extension of small amounts of credit to small entrepreneurs particularly to the poor to ease financial constraints in productivity, production, and the incomes raising activities. However, as quoted by Shrestha (2001) different organizations have defined micro-finance in different ways. The Asian Development Bank defines micro-finance as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income

households, and micro-enterprises. The World Bank defines the term 'micro-finance' as "the provision of financial services to low-income clients including self-employed. It includes both financial intermediation and social intermediation. It is not simply banking, it is a development tool". The National Bank for Rural and Agricultural Development (NABARD) of India has defined micro-finance as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards." According to Grameen Bank, Bangladesh micro-credit symbolizes small loans extended to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families. The Nepal Rastra Bank defines "micro-finance" as financial services such as micro-savings, micro-credits transfer payment services, and micro-insurance system provided to farmers and entrepreneurs of low income groups". The Directives issued by Nepal Rastra Bank to the micro-finance development banks in 2003 defines micro-credit as the loan of up to Rs. 30,000 per Group member/ individual for operating micro-enterprise. The directives also states that MFIs can lend up to Rs 1,00,000 to individual group member against collateral. Furthermore, the Bank defines "micro-finance institutions" as the "providers of micro-finance services such as banks, financial institutions, and financial intermediary cooperatives and non-government organizations".

1.3 Evolution of Micro-Finance Programs in Nepal

Micro-finance programs have grown rapidly in Nepal during the last two decades. Though the program of micro-finance for the poor was first initiated in 1950s through cooperatives, but the use of micro-finance in its true sense was started with the establishment of Nirdhan NGO in 1991 and Grameen Bikas Banks in 1992. Prior to adoption of liberal financial policies starting from 1991 and intensified in later years, micro finance program was exclusively under the government control. However, with the initiation of liberal financial policies after 1991, private sector and NGOs have also been involved in micro-finance programs, following Bangladesh Grameen model. Micro-finance programs are implemented by government, semi-government and non-government finance institutions such as commercial banks, micro-finance development banks, NGOs and savings and credit cooperatives.

Micro-finance programs that have evolved in Nepal over the years can be categorized into nine groups as follows.

- Cooperative programs
- Priority sector lending program
- Intensive banking program
- Specific target group programs
- Microfinance NGOs
- Micro finance development banks

- Micro-finance wholesale lending institutions
- Projects/programs with micro-credit as one component
- Savings and credit cooperatives

The earliest initiatives in micro-finance in Nepal were in the forms of cooperatives, which can be traced back to the 1950s, when first credit cooperatives were established for providing rural financial services, particularly to the agricultural sector.

In 1974, Nepal Rastra Bank directed the two commercial banks of the country (Nepal Bank Limited and Rastriya Banijya Bank) to invest at least 5 percent of their total deposits in the 'small sector', which in 1976 was termed 'priority sector' to include small-scale agriculture, cottage industries and the service sectors. Apart from this, there was no national policy requiring a commercial bank to extend small loans to the poor and deprived people.

In 1981, Nepal Rastra Bank introduced the Intensive Banking Program (IBP) under which the commercial banks were required to lend a certain percentage of their priority sector loan to the people below the poverty line on group guarantee basis without any physical collateral. IBP was undertaken by Nepal Bank Limited and Rastriya Banijaya Bank initially and later by Nabil Bank.

Small Farmers Development Program (SFDP), Production Credit for Rural Women (PCRW) and Micro-Credit Project for Women (MCPW) are the target group micro-finance programs. The SFDP was implemented by the Agricultural Development Bank in 1975. The SFDP was implemented under the auspices of UN/FAO/FAP/ASARRD Project which was implemented in Bangladesh and Philippines also. This was the first experiment of group approach program addressing the small farmers and rural poor landless in the country. The PCRW was the first women focused micro – finance program introduced in 1982. The Program was managed by the Women Development Department of the Ministry of Local Development and involved NGOs to act as social mobilizers and credit agents for the poor women. The MCPW was started in 1994 as a follow on program to PCRW. Funded by Asian Development Bank and implemented by Ministry of Local Development, the project involved organization of women into groups and assistance to them to gain access to the share of the deprived sector credit through providing linkages with the rural branches of commercial banks.

Between 1992 and 1996 five regional Grameen Bikas Banks were established in the public sector as a replication of the well known model of Bangladesh Grameen Bank in each of the five development regions of the country. The Eastern and Far western Grameen Bikas Banks were set up in 1992, followed by the Central and Mid-Western Grameen Bikas Banks in 1995 and finally the Western Grameen Bikas Bank in late 1996.

Following the open and private sector-led growth strategy since 1990, a few micro-finance development banks have come into existence in the private sector. There are four private sector owned micro-credit development banks, namely Nirdhan Utthan Bank (1998), DEPROSC Bank (2001), Swabalamban Bikas Bank (2002) and Chhimek Bikas Bank (2001), established as replicas of Grameen model, Bangladesh.

There are two micro-finance wholesale lending agencies, namely Rural Self Reliance Fund (RSRF) and Rural Microfinance Development Centre (RMDC). The RSRF was established by Nepal Rastra in 1990 to provide bulk fund to cooperatives and NGOs registered with the Bank to operate micro-credit programs. The RMDC was established by the government in 1995 under the Companies Act to act as the apex institution to provide wholesale credit to NGOs/ MFIs for on lending to the poor.

In addition to the above micro-finance programs/institutions, various government programs concerned with specific sector development have incorporated micro-credit into their portfolio of activities. The main projects/programs with micro-credit as one component are Third Livestock Development Project, 1996, Poverty Alleviation Project for Western Terai, 1997, Community Ground Water Irrigation Sector Project, 1998, Bisheshwar Among the Poor, 1999. The micro credit components of these programs are implemented through Nepal Rastra Bank, Commercial Banks, NGOs and SCCs. In 2004 the government set up Poverty Alleviation Fund with the financial support from the World Bank to operate credit programs to the poor on countrywide basis. In these projects/programs, credit is meant to be disbursed to the rural poor under the respective scheme.

Besides these, several saving and credit cooperatives (SCCs) and NGOs are operating micro-credit programs in various parts of the country. As of 2004, there are 34 SCCs and 44 FINGOs.

1.4 Review of Previous Studies

Micro credit programs were introduced to provide credit to the poor or low income people for the purpose of improving their economic condition and helping them get out of the poverty trap. The importance of micro-finance for poverty reduction of poorest section of the society has long been recognized. Various Studies (Ghai, 1984, Hossain, 1988, Khandekar, 1998) made to assess the impact of Grameen Bank, Bangladesh have shown that the Bank has made a positive contribution to poverty reduction in the program area. It has successfully reached its target group with credit, and has ensured both productive utilization of loans and their recovery in due time, thus helping to improve the living standard of more than 90 percent of the participants. The major innovative financial practices in the micro-credit scheme are specifying the member's eligibility requirement on the basis of small or landlessness asset ownership, making the loan amount small and laying down other conditions, such as group formation, treating group liability as a collateral and attendance at the periodic group meetings, etc.

The study by Rooij and Puri (1999) for International Labour Organization (ILO) makes a comparative assessment of the impact of micro-credit grants and loans in Nepal and Uganda. The impact is examined in terms of output, asset accumulation, employment, income, enterprise performance and socio-economic characteristics (e.g. impact of expenditure on education, nutrition, and health care services). Baseline survey was conducted in 1996 followed by mid-term survey in 1997 and final survey in early 1999.

Findings of the survey show an increase in recipients' income in both countries. In case of Nepal, recipients' income increased by 58 percent in a little over two years compared to the control group in the area, which witnessed an income growth of some 24 percent during the same period. In Uganda also both the grant and credit recipients saw their income increase more than two fold (227 percent and 233 percent respectively). In case of assets, borrowers in Nepal were able to double (203 percent) their capital base in two years as compared to the baseline period and, as for the control group the figure was 210 percent. In case of conditional grant the value of asset increased by 159 percent and 154 percent for the control group. Findings were similar in case of Uganda also. Both credit recipients' and grant recipients' asset increased by 194 percent and 169 percent respectively. In terms of the performance of income generating activities, after more than 2 years, 80 percent of the income generating activities in Nepal that started with grants continued to exist while 95 percent of the businesses financed by loans continued to do so. The socio-economic impact on the households was less visible due to the limited time-period of the study. In both countries, the transaction costs of administering the grants and the loans were in the range of 10-20 percent of the value of the capital provided

A study conducted by Canadian Center for International Studies and Cooperation (CECI, 1999) evaluates the impact of micro-credit project on women empowerment. On the basis of three case studies in Pokhara, Dang and Lalitpur districts, the study shows an improvement in women's confidence in raising their voices in the public and carrying out social reform activities. Collectively, there was also an improvement in women's decision making power both in household and community. Proportion of women undertaking income generating activities such as poultry raising, petty shops, etc. also increased significantly. The women also had greater control over the household expenditure. About 82 percent in Pokhara and 57.7 percent in Dang reported control over household expenditure. The study, however, does not assess the impact of Micro Credit Project for Women (MCPW) on poverty reduction, increase in household income and increase in employment.

The study made by Center for Women and Development (CWD)/UNICEF (1989), based on survey of 252 women respondents of Sindhupalchowk (mountain), Tanahu and Ilam (hill), Nawalparasi and Kailali (terai) found that PCRW program has made a positive impact in integrating rural women into the mainstream of economic development, helped to alleviate poverty and raise awareness of rural women.

After participation in PCRW program, the households were able to increase the production of food grains and thereby improve their food self-sufficiency status. Some 124 households were able to sell surplus food grains and earn additional cash income. There was also an increase in average household income from livestock and cottage industries as compared to the pre-program situation. Other sources of income like wage and small retail business also showed an increase in income. The loans were mainly taken for livestock projects followed by service sector and agricultural sector. Besides income generating program, community development works were also carried out to bring women together in community drinking water, works such as sanitation. As a result of the project, there was increase in women's awareness, education and training; and the women felt more confident than before.

Similarly, a study made by Ministry of Women Children Social Welfare (MOWCSW) and United Nations Development Fund for Women (UNIFEM) in 1999 based on field survey of a sample of 144 beneficiaries in Siraha, Chitwan, Dang, Kathmandu, Pokhara and Nepalgunj found the micro credit programs effective in inciting the women to start income generating activities and mobilize savings for different purposes.

A study by Sharma (2003) attempts to analyze the extent of the access provided, and the generation of employment opportunities by the formal and semi-formal micro-finance institutions on the basis of secondary data. The study shows that as of mid –January 2003, a total of Rs.20,366 million micro credit was disbursed to 716 thousands micro entrepreneurs for agricultural activities, micro-enterprises, petty trade and service activities. The outreach of micro-finance program is estimated to be 44.3 percent using the poverty figure of 38 percent. The author is of the view that the number of MFIs in Nepal is not adequate to cater to the financial needs of the poor households.

A study by Pokharel and Joshi (1997) about Nirdhan activities shows that the participating households have started sending their children to school and spending increased income on welfare of children and family. The study report also shows an increase in the bargaining power of the respondents due to the increased awareness and improved economic status. As a result, wages of both male and female laborers in project area have increased by 15 percent and 21 percent, respectively. Positive social changes have also occurred in the community as well as family. Clients have also increased their assets. Eleven percent of households were able to purchase land, about 11 percent household purchased black and white TV and nearly 28 percent clients purchased ornaments. Households possessing radio also increased from 38.7 percent to 62.3 percent. Many households were found purchasing consumer durable goods like bicycle, cart, watches, etc.

In 2004, a study on “Impact Evaluation of Micro-finance Programs on Poverty Reduction” was conducted by Center for Policy Studies and Rural Development (CEPRUD)/ National Planning Commission (NPC). The study examined the outreach of micro-finance programs and coverage of poor, socio-economic impact on beneficiary households, gender empowerment and sustainability of micro-finance institutions and

groups. These issues were examined in terms of government and non-government programs as well as in terms of hills and terai. Sustainability of MFIs was analyzed with reference to five GBBs and Nirdhan Utthan Bank.

The study was based on secondary as well as primary data and information. Primary data were collected from a sample of 479 micro-finance clients from 12 VDCs/Municipalities of 6 districts, 3 from hills (Nuwakot, Baglung and Dadelhdhura) and 3 from terai (Saptari, Nawalparasi and Dang). Of the total sample respondents, 194 belonged to government programs and 285 belonged to non-government programs.

The total outreach of MFIs was estimated to be 20.3 percent, meaning that only one-fifth of the total poor population has access to micro-credit. The outreach of MFIs in 6 districts covered by the study was 36.8 percent. By type of MFI, government programs showed a relatively larger coverage than the non-government programs. In terms of ecological belt, the outreach was twice higher in terai (43.5 percent) than in hills (22.2 percent).

The study showed a positive impact on the socio-economic condition of the beneficiary households. Out of 479 respondents, 77.9 percent started income generating activities through micro-credit. The activities undertaken were mainly related to agricultural sector (59.9 percent), particularly livestock raising (50.4 percent) while those in non-agricultural sector (40.2 percent) were mainly retail shop/petty trade (36.2 percent), other activities such as rickshaw purchase, repair workshops (transistor, watch, TV bicycle), etc were quite insignificant. Activities undertaken through micro-credit led to absorption of family labor, mostly males; while employment generation outside the family was virtually nil. Besides, the non-formal education program run by the concerned MFIs to make the potential clients capable of writing at least their names instead of using thumbprints in the papers resulted in higher literacy rate of the women.

In 2007, an impact study of Rural Self Reliance Fund (RSRF) credit program was conducted by Center for Policy Studies and Rural Development (CEPRUD)/ Nepal Rastra Bank (NRB). The study evaluated the impact of the RSRF fund credit on poverty reduction.

The study was based on secondary as well as primary data and information. Primary data were collected from a sample of 38 cooperatives and NGOs that received credit from the Fund, and 200 clients from 13 VDCs/Municipalities of 7 districts, 1 from the mountains (Sindhupalchok), 2 from the hills (Lalitpur and Surkhet) and 4 from the terai (Morang, Nawalparasi, Kailali and Bardiya).

According to the study, the outreach of RSRF credit was limited to 12228 households of 48 districts. An overwhelming majority (85 percent) of the clients felt an improvement in their overall socio-economic conditions after participation in RSRF program. All the clients used credit for starting income generating activities with some using it for other purposes as well. The main activity was buffalo/cow raising (43 percent), followed by

retail shop (26.5 percent) and vegetable farming (14 percent). One-third of the clients (33.5 percent) diversified their occupation by undertaking non-traditional activities after receiving the credit. The investment made by the borrowers has contributed to generate full time and part employment opportunities to 2 persons each per household. The activities resulted in additional monthly income varying between up to Rs 1000 to more than Rs 5000. The credit has increased the food self-sufficiency as well as income sufficiency. A large majority (92 percent) used the additional income for meeting household consumption expenditure. Apart from the household consumption, the clients also used additional income for schooling of their children (82.5 percent), expansion of business (35 percent), and purchase of T.V. telephone etc. Some clients also used additional income for the purchases of jewelry, establishment of new business, and foreign job.

A large proportion of the clients reported improvement in sons' schooling (86.5 percent), daughters' education (43 percent), increase in their awareness and knowledge of health and hygiene, such as safe drinking water (70 percent), use of toilet (53.5 percent), diseases (87.5 percent), maternal and child health (79 percent) and vaccination (88 percent) and increase in the consumption of nutrient food, such as meat (80 percent), milk (86.5 percent) and fruits (64.0 percent) after participation in credit program.

There was also increase in the proportion of women taking membership of different social organizations and in the practice of joint decision making both by male and female members on the family issues such as schooling of children, treatment of family members in case of illness and sale of goat and cattle.

Similarly, there was a decrease in the proportion of women reporting their compulsion to handover the income earned by them to the husband and in-laws; while proportion of women enjoying freedom to spend the income earned by them increased appreciably. The women reported an increase in their self-confidence; and also became more interested in knowing about social issues and problems.

Again in 2008, another study was conducted by CEPRUD/ NRB to assess the role of micro-credit banks in poverty reduction. Micro-credit banks taken for the assessment included five Grameen Bikas Banks (GBBs) and four Micro-credit Development Banks (MCDBs), namely Chimmek Bikas Bank, Deprosc Bikas Bank, Nirdhan Utthan Bank and Swabalamban Bikas Bank.

The study was based on secondary as well as primary data and information. Primary data were collected from a sample of branch offices, micro-credit groups and 300 clients of the micro-finance banks in 7 districts, 1 from the mountains (Darchula), 3 from the hills (Udaypur, Kavre and Syangja) and 3 from the terai (Chitwan, Rapandehi and Banke).

As revealed by the study, the outreach of micro-credit banks is limited to 52 districts. By ecological belt, all 20 districts in the terai, 19 out of 39 districts in the hills and 3 out of

16 districts in the mountains have access to micro-credit banks. While GBBs are spread in all ecological belts, MCDBs are mostly concentrated in the terai with limited coverage of the hill districts. The micro-credit banks have, so far, covered 430098 households, out of which 168985 have been covered by GBBs and 261113 by MCDBs.

The outreach of micro-credit was not strictly confined to the poor and the socially disadvantaged households, as defined by the micro-credit banks. Proportion of the borrowers qualifying as poor was 94 percent, 88.7 percent and 80.3 percent judged from the landholding, food self-sufficiency and income sufficiency criteria, respectively. As regards the access of the socially disadvantaged people to micro-credit, 56.7 percent borrowers belonged to the category of dalits and ethnics.

The major advantages of participating in micro-credit program as perceived by the borrowers were employment for family members (93.3 percent), increase in family income (84.7 percent), increase in food self-sufficiency (69.7 percent) and increase in assets (4 percent). Socio-economic condition of a large majority of the borrowers (79 percent) has been better than before.

The major activities undertaken with micro-credit were tailoring, retail shop, and tika, candle, shoe, etc making, buffalo/cow/pig/goat raising. Of the total activities carried with micro-credit, 60.8 percent were previously carried out activities and the remaining 39.2 percent were newly started with micro-credit.

The income generating activities undertaken by the borrowers of micro-credit have contributed to the generation of full time (1.8 person per household) as well as part time employment (1.4 person per household) for the family members. The activities carried with micro-credit have resulted in additional monthly income, which has been used for a variety of purposes, such as household consumption, schooling of children and expansion of the income generating activities. The credit has increased the food self-sufficiency as well as income sufficiency of the households.

Borrowers of micro-credit have reported a considerable improvement in the schooling of their children; increase in their awareness toward health and hygiene, such as safe drinking water, use of toilet, personal hygiene, disease, maternal and child health and immunization of children; and increase in the consumption of nutrient food items like meat, milk and fruits.

The study also showed a positive impact of micro-credit on women's empowerment by increasing their social participation, roles in making decision on family affairs, control over their own income, self confidence and interest in knowing about social issues and problems.

1.5 Rationale of the Study

Studies conducted so far have been cross sectional in nature and hence provide only a general picture of the impact made by micro-credit programs on poverty reduction. Individual institution wise study would be required to find out the role of each institution in poverty alleviation. Such studies would not only corroborate or contradict the cross-sectional findings but also provide insights to the concerned bank authorities for future orientation of Bank's lending policy towards the desired direction. Nirdhan Utthan Bank is the oldest of the four micro-credit development banks operated by the private sector and has been in operation since 1993 as a micro finance NGO and later on since 1999 as a micro finance bank. As of mid-July 2010, the bank has disbursed micro credit totaling to Rs. 9,175.6 million to 85,325 clients in 27 districts. The flow of micro-credit from the Bank might have contributed to improve the socio-economic conditions of the borrowers in terms of housing, education of the children, intake of food and nutrition, health, hygiene and sanitation, and empowerment of women. However, this requires to be verified on the basis empirical data and information to arrive at the conclusion. Hence, it would be timely and relevant to carry out a study to assess the contribution of the Bank's micro-credit program towards improving the socio-economic condition of the clients. Such study will also provide valuable lessons for making the Bank's credit programs more effective towards reaching the poor and enhancing their quality of life. It was precisely for this purpose that the Bank has commissioned this study.

1.6 Objectives of the Study

The overall objective of the study is to assess the contribution made by the NUB towards improving the socio-economic conditions of the clients. The specific objectives of the study are set as follows:

- i. To analyze the coverage, credit operation and skill enhancement and supportive activities of the NUB;
- ii. To assess the access of poor and socially disadvantaged people to micro-credit program of the bank;
- iii. To examine the impact of the credit on improving the social and economic conditions of the clients;
- iv. To assess the contribution of the program towards empowering the women within the family and society at large;
- v. To assess the impact of NUB credit program on poverty reduction; and
- vi. To identify the major issues and suggest the way forward.

1.7 Study Approach

Impact assessment of micro-finance program requires measurement of the difference under the project and what would have happened without it. This is a complicated task

and generally either (i) 'before' and 'after' comparison or (ii) 'with' and 'without' comparison is used.

'Before' and 'after' comparison requires baseline information about the socio-economic condition of program beneficiary households. In the absence of baseline information, beneficiaries are asked to report their pre-program socio-economic condition. 'With' and 'without' comparison involves assessment of current socio-economic condition of participating and non-participating or controlled households.

There are problems with either approach. It is very hard to isolate the effect of particular program because several non-program factors, such as wealth possession, education, and location of households and level of developmental activities in the area, which cannot be controlled, also influence the program outcome. In the case of 'with' and 'without' approach, the controlled group needs to have similar social, economic and cultural characteristics as those of beneficiary group.

In this study 'before' and 'after' comparison will be used. The sample clients will be asked to describe their socio-economic condition before and after participation in the micro-finance program. Besides, baseline information about the socio-economic condition of the clients made available by the bank will also be used for assessing the impact of micro-credits.

1.8 Study Methodology

The study is based on data and information collected from secondary as well as primary sources. The secondary data and information were obtained from the NUB Central as well as Branch Offices. Primary data were collected by conducting household survey of representative sample of NUB loan clients. determined for 95 percent level of confidence for the known population. Given the population of 99,336 clients as of mid-July 2006 and desired level of confidence of 95 percent, the sample size was determined to be 400 loan clients.

A multi-stage sampling procedure was adopted to select the clients as the ultimate sampling units. The primary sampling unit was NUB Area Office, while the intermediary sampling units were Branch Office and credit operating Center/Group. The total sample of 400 loan clients was allocated to different Area Offices in proportion to the size of the clients of each Area Office. As Birtamod Area Office had not opened any Branch Office by mid-July 2006, Bhairahawa, Bharatpur, Birgunj and Nepalgunj Area Offices were included in the study. In total 12 Branches were selected to cover 25 percent of the total 44 Branches. From these 12 Branches, 38 Credit Operating Centres were selected covering 2 to 5 Centres from a Branch. The final selection of clients allocated to each branch was made randomly from the selected Centres. The survey instruments consisted of household interviews and interviews with officials of Area and Branch Offices.

Data processing was carried out using SPSS computer software package. The analysis of data was made using both descriptive as well inductive statistics and by fitting exponential trend equation of the form $y = b_0 e^{b_1 t}$. The main limitation of the study is recall bias as before situation was established as per information recalled by the respondents. A detailed account of study methodology is given in Annex 1.

CHAPTER II: COVERAGE AND CREDIT OPERATION

2.1 Nirdhan as a Micro-Credit Institution

Nirdhan Utthan Bank has evolved from Nirdhan Non-governmental Organization established in 1991 with the objective of working as a development catalyst through a combination of small credit and awareness programs in the rural areas, particularly focusing on rural poor women.

Nirdhan, registered as an NGO in 1991, started operating microfinance program since March 14, 1993. Later in June 1998, Nirdhan formed a development bank called Nirdhan Utthan Bank under the Development Bank Act. In July 1999, all the micro credit activities of Nirdhan NGO were transformed to the Bank while carrying on the non-financial services by the NGO.

The bank works as an institution for the poorest of the poor in order to uplift their socio-economic condition by providing micro-credit facilities and banking services. The micro-finance program run by the bank recognizes that “access to credit is a right of the poor.” The program is designed to focus on the poorest of the poor.

As the NUB has been functioning as replica of the Grameen Bikas Financial System (GBFS), Bangladesh, it is guided by the theory that “People won't go to bank but bank itself goes to the people”. It means that the program of the bank goes directly to people. The bank organizes various banking operation centers in the areas covered by it. The role of the centers is to provide connection or contact between the people and the bank. Centre holds a weekly/bi-weekly meeting on a fixed date. Every banking transaction is carried out in the meeting. In other words, entire banking transaction is held in the courtyard of the people.

2.2 Operational Mechanism

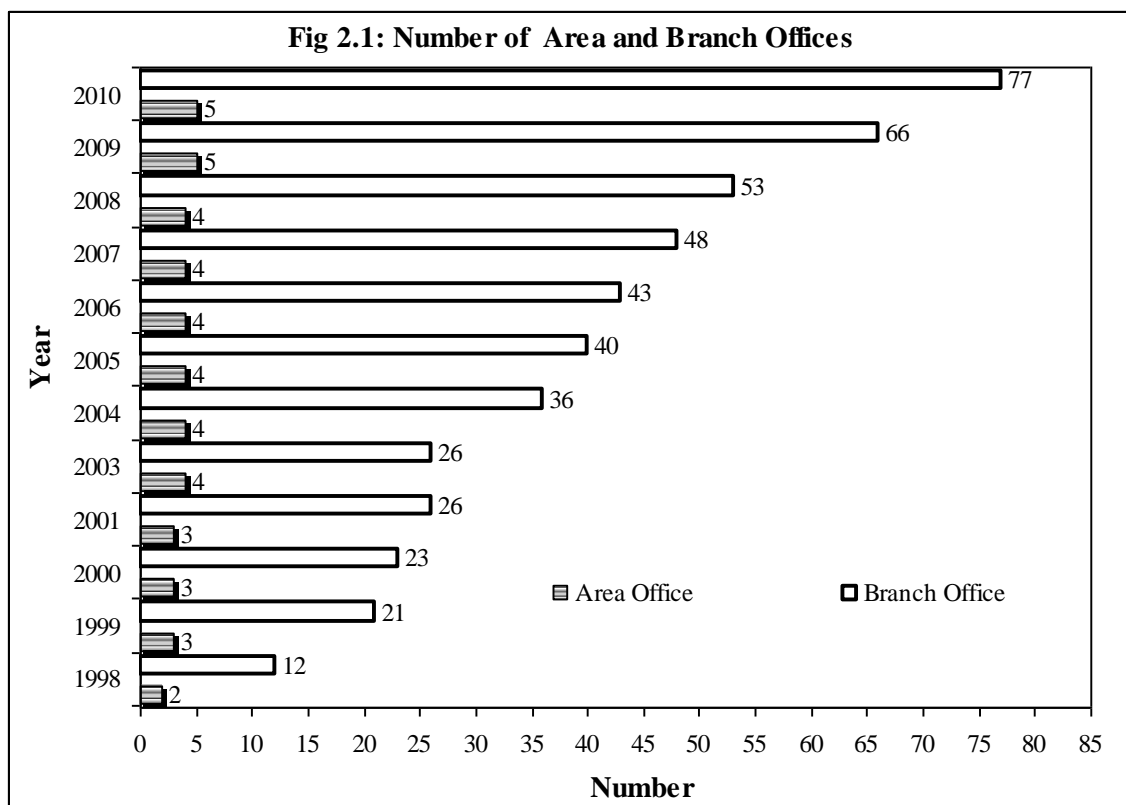
As a micro-credit institution, NUB approaches the poor households by taking the bank to their doorsteps in order to provide them tiny credit to start or expand small income generating activities. As such, the credit program of the Bank involves a series of steps starting from the identification of target groups to timely realization of loan. These steps are basically designed towards sustaining the credit-led income generation activity and thereby enable the poor to graduate out of poverty. In this regard, the credit operation

mechanism of the Bank encompasses a series of mutually interconnected procedures, which may be listed as follows:

- Identification and selection of the 'poor households' through household surveys and PRA techniques;
- Orientation training to the potential participants;
- Formation of Groups and Centers;
- Regular Group fund saving;
- Credit to the members without collateral;
- Small amount of loan as per the need, condition and repayment capacity of the borrowers;
- Loans for income generating activities such as micro-trading, micro-enterprise, agricultural farming and livestock development;
- Built-in pressure on group members to keep up the regular payment;
- Loan repayment cycle of weekly/fortnightly/monthly installments;
- Flat rate of interest of 10 percent for the fortnightly installment of the loan, which is equivalent to interest rate of declining 20 percent per year; and
- Simple and transparent credit transactions.

2.3 Organizational Structure

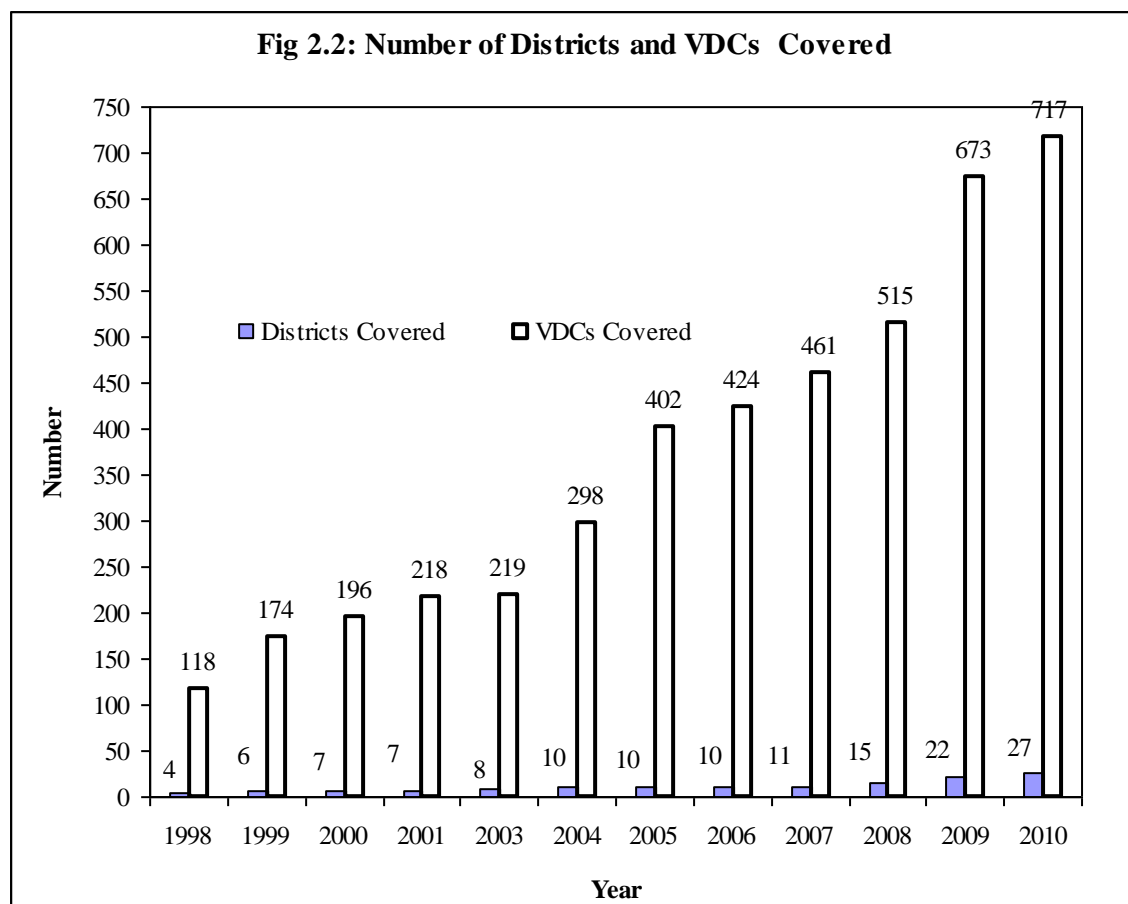
Nirdhan Utthan `Bank has been expanding its organizational structure in order to expand its geographical coverage and loan operations over the years. Starting from two area offices and 12 branches in 1998, it has, as of mid-July 2010, 5 area offices and 77 branch offices. One additional area office was opened in 1999, 2003 and 2009 each. New branches have been opened every successive year except in 2002 and 2003 (Fig.2.1).



Source: Annex Table 1.

2.4 Geographical Coverage

Along with the growth of its organizational structure, the Bank has also expanded the geographical coverage of its credit program over the years. According to data stated by NUB under ‘growth trend’, the Bank started its activities from 4 districts covering 118 VDCs in 1999, and by mid-July 2010 the coverage has been expanded to 27 districts and 717 VDCs. Excepting a couple of years, the number of additional districts covered has increased every year with a maximum of 7 districts in 2009 (Annex Table 1). The number of VDCs covered has also increased with the increase in the number of districts (Fig. 2.2).



Source: Annex Table 1.

The spatial coverage of NUB shows its operation in 27 out of 75 districts in overall and by ecological belt, the coverage is 12 out of 39 districts in the hills, 15 out of 20 districts in the terai and none of 12 district in the mountains. The coverage of VDCs as of mid-July 2010 is 717. The districts in which the Bank started its operation in the early years have almost a total coverage of VDCs. These are Bara (99.0 percent), Rupandehi (95.8 percent) and Chitwan (84.2 percent). In districts where the program has been recently expanded, the coverage of VDCs is low.

Table 2.1: Coverage of Districts and VDCs

S.N	District	No of VDCs and Municipalities		Coverage (%)
		Total	Covered	
1	Rupandehi	71	69	97.2
2	Nawalparasi	74	54	73.0
3	Kapilbastu	78	24	30.8
4	Palpa	66	18	27.3
5	Syangja	62	31	50.0
6	Chitwan	38	33	86.8
7	Kaski	45	10	22.2
8	Tanahu	47	12	25.5
9	Bara	99	98	99.0
10	Rautahat	97	88	90.7
11	Parsa	83	59	71.1
12	Sarlahi	100	15	15.0
13	Banke	47	37	78.7
14	Dang	41	20	48.8
15	Bardiya	32	28	87.5
16	Dadeldhura	21	2	9.5
17	Pyuthan	49	6	12.2
18	Kailali	44	15	34.1
19	Jhapa	50	33	66.0
20	Ilam	49	14	28.6
21	Panchthar	41	10	24.4
22	Dhankuta	36	7	19.4
23	Makawanpur	44	5	11.4
24	Morang	66	22	33.3
25	Sunsari	52	5	9.6
26	Surkhet	51	0	0.0
27	Sankhuwasabha	34	2	5.9
	Overall	1517	717	47.3

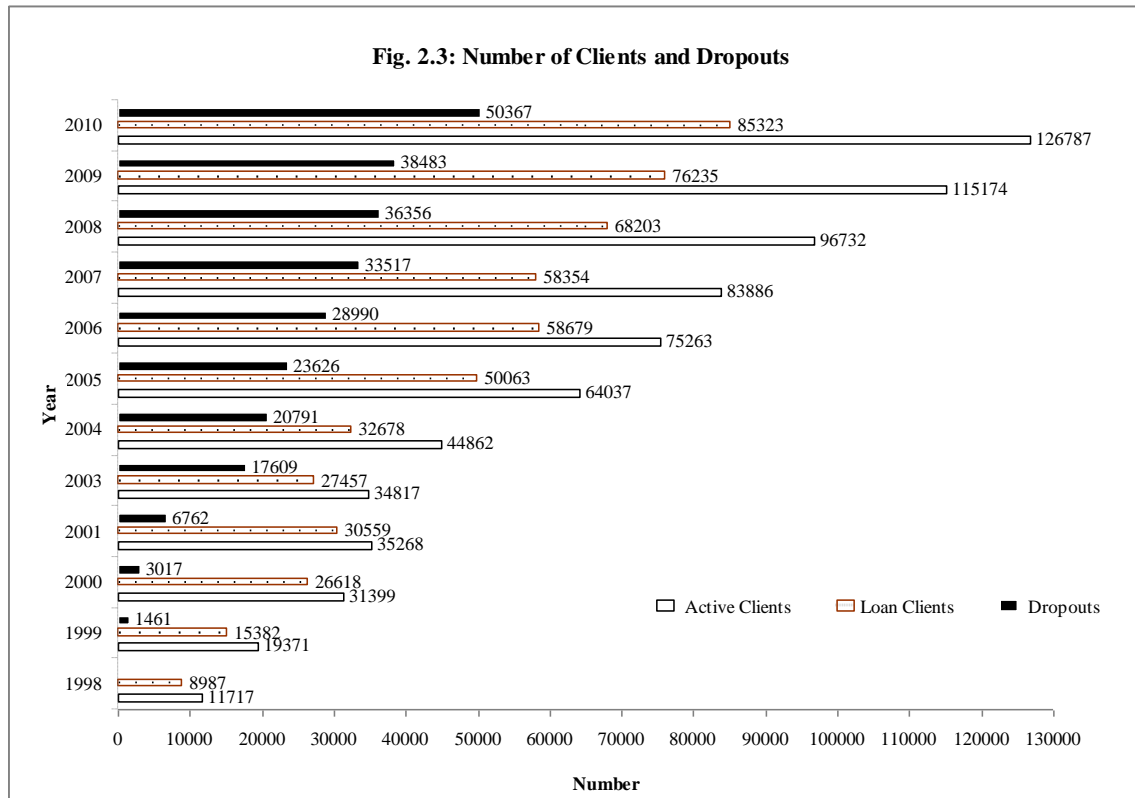
Source: NUB Central Office, 2010

2.5 Coverage of Households

The clients of the Bank represent the households participating in the credit program. Households become eligible for bank credit only after membership of the group formed for operating credit program. The members of all the Groups formed for micro-credit operation under the NUB are called as 'active clients', which include both the borrowers and the non-borrowers. The members borrowing credit are called 'loan clients'.

2.5.1 Growth of Clients

Membership is the best indicator of a program's outreach. The membership of NUB, represented by the number of active clients, shows a steady growth excepting a small decrease in 2003, which may be due to intense conflict situation in the country. Starting from 11,717 in 1998, the number of active clients has increased to 126,787 in 2010. The growth of loan clients is also steady with the exception of a moderate decrease in 2002 and 2003. The number was 8,987 in 1998 and reached to 85,323 in 2010. The dropouts of clients have increased from 1,461 in 1999 to 50,367 in 2010 (Fig.2.3).



Source: Annex Table 1.

The results of the estimation of exponential trend equation ($y = b_0 e^{b_1 t}$) for active clients and loan clients are presented in Table 2.2. The coefficient of trend variable is positive and statistically significant at 99 percent level of significance and the overall goodness of

fit is also quite high. The results show a trend growth rate of 17.8 percent for active clients 16.0 percent for loan clients.

Table 2.2: Results of Estimation of Trend Equation

Dependent Variable	b₀	b₁	R²	F
Number of Active Clients	13900.50 (10.14)*	0.178 (14.33)*	0.945	205.47
Number of Loan Clients	11978.92 (7.98)*	0.160 (10.150)*	0.895	103.02

*Note: Figures in parentheses show t - values and * means significance at 1% level.*

Source: Annex Table 1.

2.5.2 Clients by District and Coverage of Poor HHs

The number of clients is relatively large in those districts in which the Bank started its operation in early years. These are Bara (45604), Rupandehi (16034), Banke (14209), Nawalparasi (9606) and Chitwan (9299). These districts also have relatively large coverage of poor households by the credit program. As shown in Table 2.3, the coverage is more than hundred percent in Bara (159.5 percent), which is followed by Chitwan (66.9 percent), Banke (40.3 percent), Parsa (37.3 percent) and Rupandehi (35.5 percent) (Table 2.3).

Table 2.3: Coverage of Households below Poverty Line

SN	District	Clients (No)	Population Estimated for 2009 [#]	Households Estimated for 2009 [#]	HHs below Poverty Line (%)@	HHs below poverty Line (No)	Coverage of Poor HHs (%)
1	Rupandehi	16034	904187	150447	30.0	45134	35.5
2	Nawalparasi	9606	690246	120672	36.3	43804	21.9
3	Kapilbastu	1980	593415	89775	40.1	36000	5.5
4	Palpa	2453	297516	55300	42.9	23724	10.3
5	Syangja	3248	337752	68929	35.1	24194	13.4
6	Chitwan	9299	593407	116812	11.9	13901	66.9
7	Kaski	1200	469260	104980	11.1	11653	10.3
8	Tanahu	1616	358857	71628	34.6	24783	6.5
9	Bara	45604	678030	106274	26.9	28588	159.5
10	Rautahat	8946	679276	109915	30.2	33194	27.0
11	Parsa	8773	626551	100088	23.5	23521	37.3
12	Sarlahi	855	779559	136287	46.4	63237	1.4
13	Banke	14209	490891	85521	41.2	35235	40.3
14	Dang	6799	572027	102148	42.9	43821	15.5
15	Bardiya	2027	477192	74329	44.9	33374	6.1
16	Dadeldhura	194	146521	25526	40.3	10287	1.9
17	Pyuthan	730	247563	46798	51.5	24101	3.0
18	Kailali	458	841830	128917	50.4	64974	0.7
19	Jhapa	1483	712612	141672	13.4	18984	7.8
20	Ilam	1130	334542	64583	39.7	25640	4.4
21	Panchthar	501	226545	41798	52.5	21944	2.3
22	Dhankuta	225	184577	36121	46.0	16616	1.4
23	Makawanpur	877	468906	84947	43.0	36527	2.4
24	Gorkha	255	320226	65486	38.2	25016	1.0
25	Dhading	144	396466	73420	43.3	31791	0.5
26	Morang	81	1007904	200778	17.2	34534	0.2
	Total	138727			na	na	na

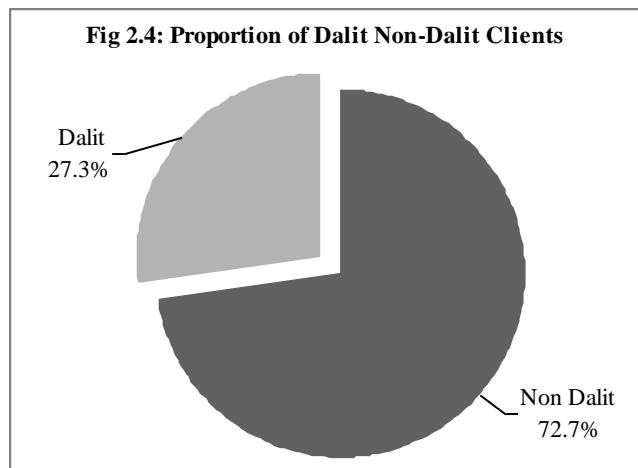
Source: Annex Table 21.

Note: * Estimation of household number for 2009 is made on the basis of population figure estimated for 2009 by using exponential growth formula and the household size as given in Census 2001.

@ CBS, Small Area Estimation of Poverty, Calorie Intake and Malnutrition in Nepal, 2006

2.5.3 Proportion of *Dalit* Clients

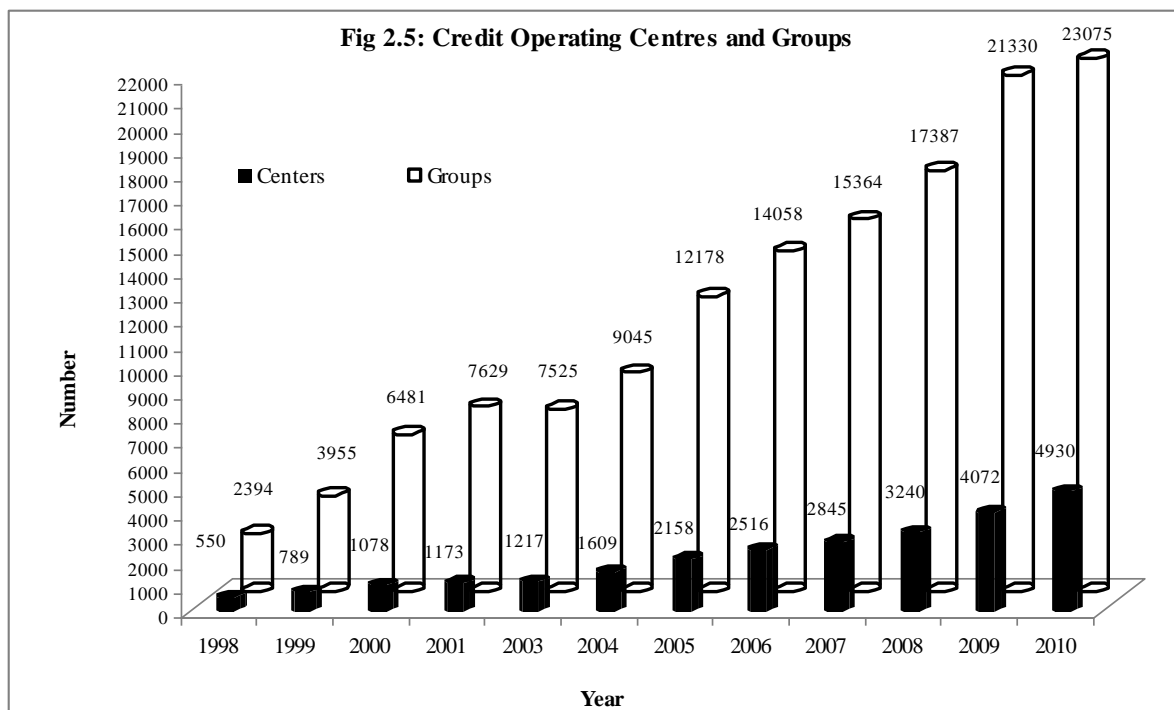
As the annual progress report of the Bank lacks information by caste/ethnicity of the borrowers, it has not been possible to draw an aggregate picture of social inclusion in the NUB credit program. However, an attempt has been made to provide such information by tabulating the data sheet of clients maintained by 12 branches visited by the study team for survey. The clients were categorized into *dalit* and *non-dalit* on the basis of their surnames. This exercise showed that of 28,958 clients of 12 branches, 27.3 percent appear to be *dalit* households (Fig. 2.4).



2.6 Credit Operation

2.6.1 Formation of Groups and Centres

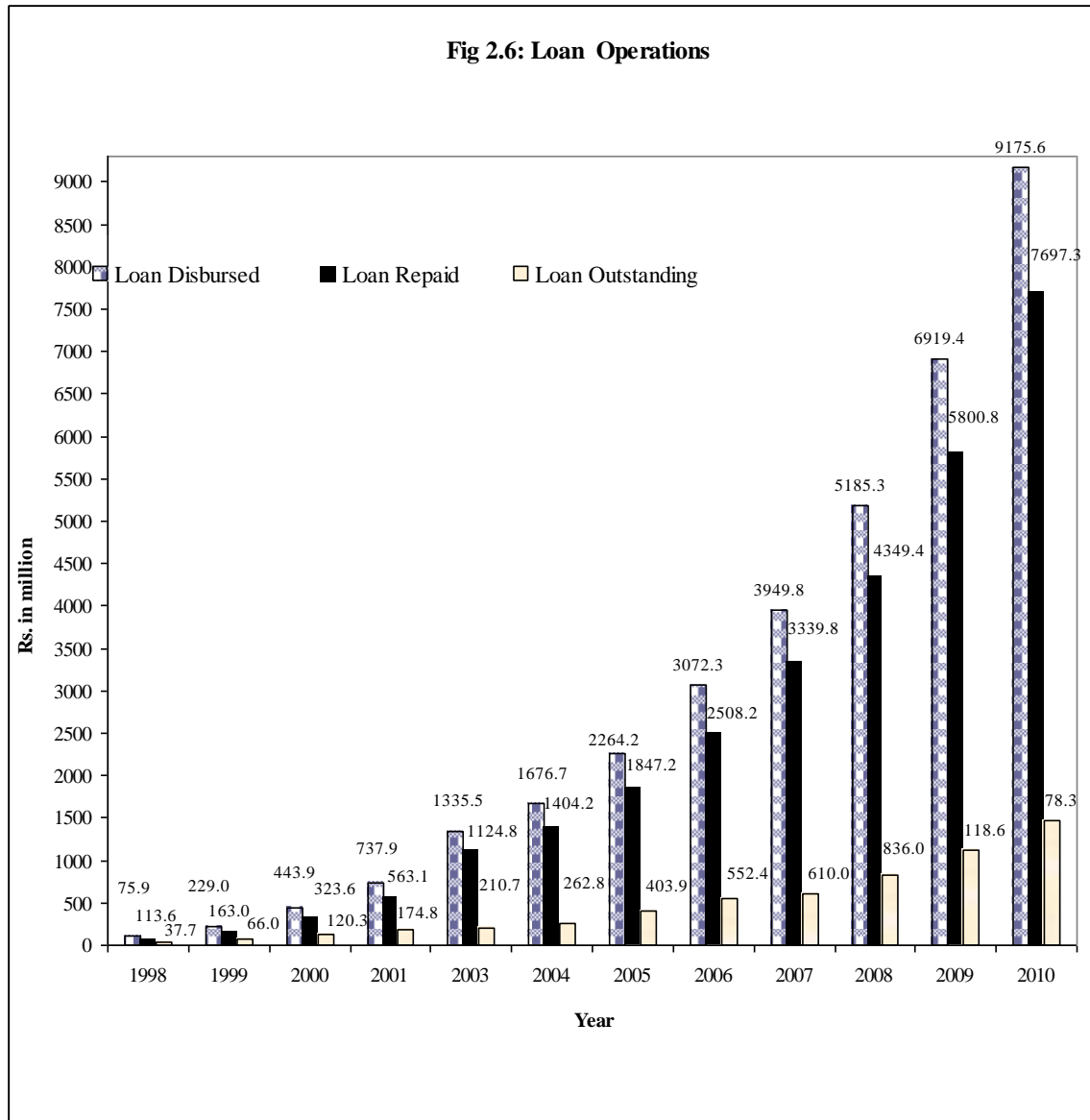
Clients' Groups formed for the purpose of credit operation shows nearly a nine fold growth in 11 years from 2394 in 1998 to 21323 in 2009. However, the growth does not show a steady trend as the increase ranges from a minimum of 162 in 2002 to a maximum of 3943 Groups in 2009. The growth was relatively high in the early years and following a slowdown in a couple of years, it has again speeded up. The slowdown during 2001 and 2003 may be attributed to the intense conflict situation in the country which negatively affected expansion of Bank activities. The number of Centers also increased from 550 in 1998 to 4072 in 2009, showing a growth of about seven and half times. The growth in the number of Centres follows the same pattern as the growth in the number of Groups (Fig.2.5).



Source: Annex Table 1.

2.6.2 Loan Disbursement, Repayment and Outstanding

Annual disbursement increased significantly between 1998 and 2009, growing at an average annual rate of 47.3 percent. The disbursement was Rs. 113.6 million in 1998 and increasing steadily in the subsequent years reached Rs. 6919.4 million, reflecting nearly 61 fold increase. Loan repayment has also followed the same pattern as loan disbursement, showing 76.5 fold increase during the same period. Loan repayment as proportion of the disbursement was in the range of about 67.0 percent to 80.0 percent up to 2002, and over 80.0 percent thereafter. Loan outstanding, as of mid-July 2009, was Rs. 1118.6 million. Compared to the level of 1998 (Rs. 37.7 million) this shows nearly 30 fold increase (Fig. 2.6).



Source: Annex Table 1.

The results of the estimation of exponential trend equation ($y = b_0 e^{b_1 t}$) for loan disbursement, loan repayment and loan outstanding are presented in Table 2.4. In each of the cases, the coefficient of trend variable is positive and statistically significant at 99 percent level of significance and the overall goodness of fit is also quite high. The results show a trend growth rate of 33.5 percent in the case of loan disbursement, 35.2 percent in the case of loan repayment and 27.6 percent in the case of loan outstanding.

Table 2.4: Results of Estimation of Trend Equation

Dependent Variable	b₀	b₁	R²	F
Loan Disbursed	143126.1 (6.70)*	0.335 (17.82)*	0.963	317.42
Loan Repaid	100942.1 (5.88)*	0.352 (16.41)*	0.957	269.12
Loan Outstanding	42364.71 (8.916)*	0.276 (19.51)*	0.969	381.63

Source: Annex Table 1.

Note: Figures in parentheses show *t* - values and * means significance at 1% level.

In terms of districts, the amount of loan disbursement in 2009 was highest in Bara (Rs. 1660.9 million), followed by Rupandehi (Rs.1277.3 million), Parsa (Rs.688.0 million), Nawalparasi (Rs.661.9 million), Chitwan (Rs.656.7 million), Rautahat (Rs.616.0 million) and Banke (Rs.601.6 million). The order of the districts, however, changes in terms of loan amount disbursed per VDC and per client. Parsa has the highest per VDC loan disbursement (Rs 20847.4 thousand), followed by Chitwan (Rs 20521.2 thousand), Banke (Rs 20054.3 thousand), Rupandehi (Rs 18784.3 thousand) and Bara (Rs 16947.7 thousand). With regard to per client loan disbursement, Tanahu ranks first (Rs. 84.3 thousand), seconded by Rupandehi (Rs. 79.7 thousand), Parsa (Rs. 78.4 thousand), Chitwan (Rs. 70.6 thousand) and Nawalparasi and Rautahat (Rs. 68.9 thousand each) (Table 2.5).

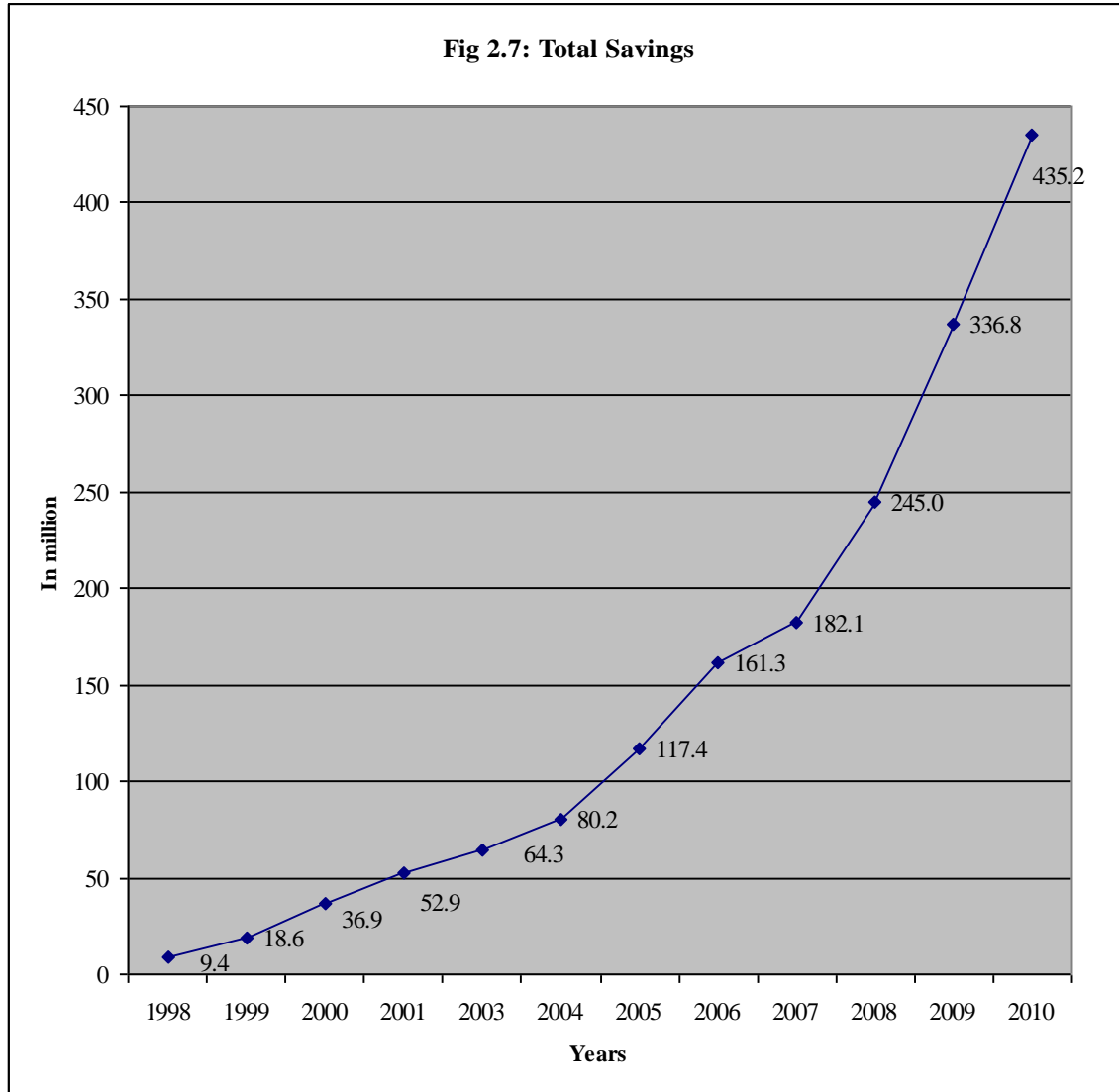
Table 2.5: Loan Disbursement by District, VDC/Municipality and Client*(As of mid-July, 2009)*

SN	Districts	VDCs Covered (No)	Clients (No)	Loan Disbursed		
				Total (Rs. in million)	Per VDC (Rs. in thousand)	Per Client (Rs. in thousand)
1	Rupandehi	68	16034	1277.3	18784.3	79.7
2	Nawalparasi	44	9606	661.9	15042.2	68.9
3	Kapilbastu	24	1980	68.9	2871.1	34.8
4	Palpa	18	2453	71.6	3975.2	29.2
5	Syangja	24	3248	87.9	3663.6	27.1
6	Chitwan	32	9299	656.7	20521.2	70.6
7	Kaski	10	1200	19.8	1975.9	16.5
8	Tanahu	9	1616	136.1	15127.6	84.3
9	Bara	98	45604	1660.9	16947.7	36.4
10	Rautahat	73	8946	616.0	8438.1	68.9
11	Parsa	33	8773	688.0	20847.4	78.4
12	Sarlahi	9	855	13.3	1474.9	15.5
13	Banke	30	14209	601.6	20054.3	42.3
14	Dang	18	6799	263.7	14650.6	38.8
15	Bardiya	10	2027	10.3	1034.8	5.1
16	Dadeldhura	2	194	-	-	-
17	Pyuthan	6	730	7.1	1182.7	9.7
18	Kailali	5	458	0.0	0.0	0.0
19	Jhapa	11	1483	22.1	2011.6	14.9
20	Ilam	8	1130	11.1	1392.3	9.9
21	Panchthar	1	501	2.1	2061.5	4.1
22	Dhankuta	1	225	-	-	-
23	Makawanpur	1	877	34.3	34312.3	39.1
24	Gorkha	3	255	4.2	1387.3	16.3
25	Dhading	1	144	2.8	2805.0	19.5
26	Morang	1	81	1.2	1195.0	14.8
Overall		540	138727	6918836.5	6918.8	49.9

Source: Annex Table 21.

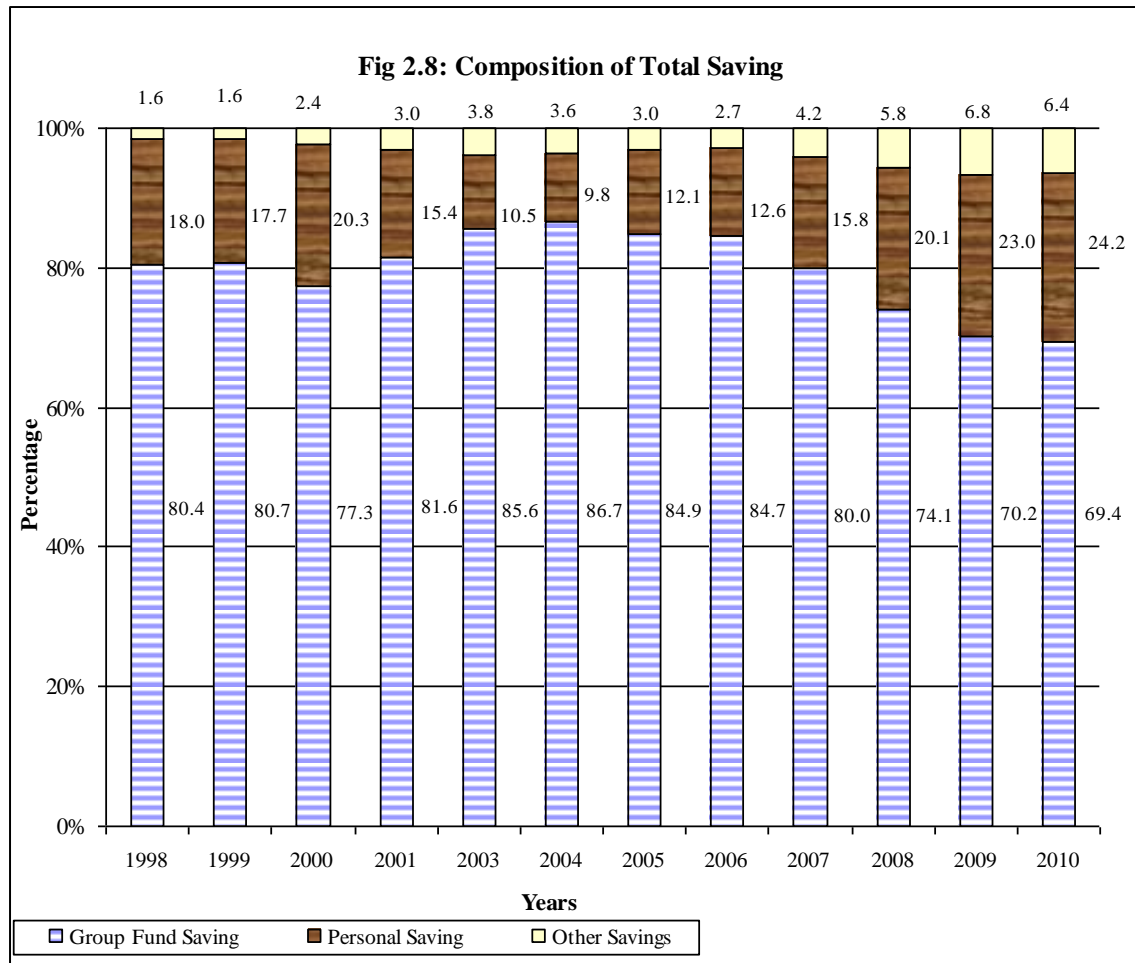
2.6.3 Savings Mobilization

The total savings of the Group members has increased steadily from Rs. 9.4 million in 1998 to Rs. 336.8 million in 2009, reflecting nearly 36 fold increase (Fig. 2.7). Total savings appear to be growing at an average rate of 45.5 percent per annum.



Source: Annex Table 1.

Total savings mostly consists of Group savings, ranging from 70.2 percent in 2009 to 86.7 percent in 2004. The next major form of saving is the personal savings that account for 9.8 percent to 23.0 percent of total savings. The proportion of other savings is quite low, ranging from 1.6 percent to 6.8 percent. The relative share of Group saving has been declining from 2005, whereas the proportion of personal and other savings have been increasing (Fig 2.8).



Source: Annex Table 1.

The results of the estimation of exponential trend equation ($y = b_0 e^{b_1 t}$) for total savings, Group fund savings, personal saving and other savings are presented in Table 2.6. In each of the cases, the coefficient of trend variable is positive and statistically significant at 99 percent level of significance and the overall goodness of fit is also quite high. The results show a trend growth rate of 28.2 percent for total savings, 27.2 percent for Group fund savings, 30.1 percent for personal saving and 38.8 percent for other savings.

Table 2.6: Results of Estimation of Trend Equation

Dependent Variable	b₀	b₁	R²	F
Total Savings	11912.05 (7.38)*	0.282 (16.51)*	0.958	272.56
Group Fund Saving	10207.20 (6.78)*	0.272 (14.63)*	0.947	214.01
Personal Saving	1618.78 (4.91)*	0.301 (11.73)*	0.919	137.66
Other Savings	192.29 (4.67)*	0.388 (14.37)*	0.945	206.44

Source: Annex Table 1.

Note: Figures in parentheses show *t* - values and * means significance at 1% level

2.7 Feasibility of Expansion

The four regional offices were asked about the feasibility of expansion of credit program in districts under their jurisdiction. Bharatpur and Bhairawa regional offices suggested feasibility of expansion towards the hill districts, whereas Birgunj office stated feasibility of expansion towards the eastern terai districts. Nepalgunj office reported a high feasibility of expansion, as the program has, so far, covered only 6 out of 24 districts of Mid –western and Far-western Regions. The details of the feasibility for expansion and the targets for opening the Branch offices are given in Table 2.7.

Table 2.7: Feasibility of Expansion under Area Office

SN	Area Office	Feasibility of Expansion	Targets for Opening Branch Offices
1.	Bharatpur	Parabat, Baglung and Gorkha	Targeted for opening Branch offices in Kushma of Parbat and Baglung of Baglung
2.	Bhairahawa	Arghakhanchi and Gulmi	Targeted for opening Branch offices in Bardaghat of Nawalparasi, Sandhikharka of Arghakhanchi, Tamghas of Gulmi by 2011
3.	Birgunj	Dhanusha (Janakpurdham and Mahendra Nagar), Mahottari (Gaushala), Siraha (Lahan), Udayapur (Gaighat) and Saptari (Rupani)	Planning for conducting survey for opening branch offices at the southern-west part of Parsa and Gaushala of Mohottari
4.	Nepalgunj	Various uncovered districts of Mid – western and Far-western Regions	Survey ongoing for opening branches in Birendra Nagar and Chhinchu of Surkhet, Lamki and Sukhad of Kailali, Mahendra Nagar, Jhalari and Belawri of Kanchanpur

The Chiefs of Branch offices covered by the study were inquired about the feasibility of the expansion of credit program within their areas of operation. Eight out of 12 branches reported no further scope for expansion because of two reasons. First, they have already covered almost all target households leaving no scope for further expansion. Secondly, other Branches have already been in operation in the VDCs/Municipalities adjacent to their command areas. The Branches reporting some scope for expansion pointed out the possibility of covering target households/communities still left out and extension to new VDCs within their command areas (Table 2.8).

Table 2.8: Feasibility of Expansion under Branch Office

SN	Branch Office	Feasibility of Expansion	Targets for Expansion
1.	Chanauli	No scope : coverage of almost all area under the branch because of operation since long time back	na
2.	Tandi	No scope : coverage of almost all area under the branch because of operation since long time back; other branches opened near its command area; and prevalence of other banks and cooperatives operating micro-credit program	na
3.	Bhairahawa	No scope : coverage of almost all area under the branch because of operation since long time back; other branches opened near its command area; and prevalence of other banks and cooperatives operating micro-credit program	na
4.	Harraiya	No scope for expansion in new VDCs : all VDCs covered by the program Some scope : Wards /villages of some VDCs	Suryapura -2 (Dhauti) and -5 (Chhetrapurwa) and Sundy-2 (Bangain)
5.	Banstari	Some scope: Some areas are still uncovered	Rupse VDC : inhabited by poor households
6.	Belatari	No scope : far location and border in the south Some scope : opening new Centres within the VDCs already covered	None
7.	Birgunj	No scope : Surrounded by four other Branches attached with the command area; No scope for inclusion of additional households because of almost total coverage	na
8.	Prasauni	No scope: Coverage of all the households within the perimeter of 10 Km from the Branch office.	na

9.	Chandranigahpur	Some scope: Some households of the program VDCs are still uncovered	Target for inclusion of uncovered households within the program VDCs
10.	Kohalpur	Some scope: Some settlements inhabited by poor, Dalit and disadvantaged communities are still uncovered	Target for expansion in Mahadevpuri VDC
11.	Ranjha	No scope: other Branches operating in the VDCs/Municipalities adjoined with the command area	na
12.	Tulsipur	Some scope: expansion in the VDCs adjoined with the command area	Target for expansion in Urahari and Hekuli VDCs

CHAPTER III

ACCESSIBILITY AND PARTICIPATION IN MICRO CREDIT

3.1 Eligibility Criteria

Women of poor and socially disadvantaged households are the target groups of the micro-credit program of NUB. The 'poor households' are defined mainly in terms of ownership of land and annual household income. The socially disadvantaged households include Dalits, ethnics and the households having no access to institutional credit. Other supplementary eligibility criteria to qualify for the credit include food self- sufficiency, type of house, employment of family members, residential status and access to credit. The eligibility criteria as used by the NUB for micro-credit are presented in Table 3.1.

Table 3.1: Eligibility Criteria for Micro-credit

Criteria	Definition
Social and economic deprivation	Socially disadvantaged and economically deprived households; economically vulnerable and low income; Dalits; female headed households
Landholding size	Landless; squatter; or ownership of land less than 10 Ropanis of irrigated land or 20 Ropanis of un-irrigated land in the hills; 7.5 Kathas of irrigated land or 15 Kathas of un-irrigated land in the terai;
Food self- sufficiency	Produce of food from own land not sufficient to meet the food requirements for the whole year;
Household income	Per capita annual household income of less than Rs 30395;
Type of house	<i>Kachcha</i> house with thatch roof, mud and bamboo/wood wall;
Employment	No family member employed in the formal sector;
Residence	Permanent resident of the locality;
Access to credit	Having no access to institutional credit.

Sources: Brochures of the Nirdhan Utthan Bank

Of these criteria, landholding size and income are quantifiable parameters. The criteria of socially disadvantaged, economically deprived, economically vulnerable and low income are qualitative and subjective.

3.2 Access of Poor

Accessibility of the poor to NUB micro-credit is assessed in terms of the characteristics of the clients with reference to landholding size, food and income sufficiency, earning members, and amount and sources of income.

3.2.1 Land Holding Size

As per the definition of NUB, the value of irrigated land in both the hill and the terai is twice the value of unirrigated land. Applying this norm, the land size of the sample households was standardized in terms of irrigated land. The Ropanis and Katthas of irrigated land respectively in the hill and the terai were then converted into hectares. This means households having less than 0.2543 ha of land in the terai and 0.5085 ha of land in the hill fall in the category of poor as per the land ownership criterion set by NUB.

As can be seen from Table 3.2, 63.3 percent of the total clients fall in the category of poor in terms of land holding. This means that 36.7 percent of the clients belong to non-poor category. The proportion of households falling in the category of poor is higher in the hills (88.5 percent) than in the terai (61.5 percent). Compared with the norms set for poverty status, the average land holding size of the clients in the hill (0.2593 ha) is almost half, whereas in the terai (0.4454 ha) it is nearly double.

Table 3.2: Size of Landholding

Landholding Size (Hectare)	Hill		Terai		Overall	
	No	Percent	No	Percent	No	Percent
No Land	2	7.7	38	10.2	40	10.0
< 0.2543*	17	65.4	192	51.3	209	52.3
0.2543 - 0.5085 [@]	4	15.4	66	17.6	70	17.5
0.5085 - 1.0170 [#]	1	3.8	47	12.6	48	12.0
> 1.0170	2	7.7	31	8.3	33	8.3
Total	26	100.0	374	100.0	400	100.0
Mean (hectare)	0.2593		0.4454		0.3898	

Source: Field Survey, 2010

Note: * 0.2543 ha = 7.5 Katthas in the terai; [@] 0.5085 ha = 10 Ropanis in the hill (i.e. 15 Katthas in the terai); [#] 1.0170 ha = 30 Katthas in the terai or 20 Ropanis in the hill

3.2.2 Earning Members and Amount of Income

The average number of earning members per household is 1.73 persons and the average earning per person is Rs. 9061.1. By sex, males are far above the females in terms of both the number of earning persons (1.235 as against 0.495) and the amount earned per person

(Rs. 9921.3 as against Rs.6915.0). The contribution of males to the total household income is 78.2 percent, which is more than three times than that of the females (21.8 percent).

Table 3.3: Household Income by Sex of Earning Members

Sex of Earning Members	Number of Earning Members		Earning Member per HH	Household Income Per Month		
	No	Percent		Average Earning per Person (Rs.)	Amount of Income (Rs.)	Percent
Female	198	28.6	0.495	6915.0	1369165.9	21.8
Male	494	71.4	1.235	9921.3	4901101.4	78.2
Overall	692	100.0	1.730	9061.1	6270267.3	100.0

Source: Field Survey, 2010

Among the sample districts, Bara has the largest number of earning member per household (2.15) followed by Rupandehi (2.04). On the other hand, Chitwan (1.31) and Nawalparasi (1.61) have smallest number of earning person per household.

Similarly, Banke has the highest amount of monthly income per household (Rs.19,371) followed by Rupandehi (Rs.18,604). On the other hand, Nawalparasi (Rs. 10,235) and Rautahat (Rs.11,999) have the lowest amount of monthly income per household. The details are given in Table 3.4.

Table 3.4: Earning Members and Household Income by District

Districts	No	Earning Members per HH	Income per Month per HH (Rs.)
Chitwan	59	1.31	13,741
Nawalparasi	26	1.61	10,235
Rupandehi	52	2.04	18,604
Palpa	26	1.65	14,486
Bara	48	2.15	15,023
Parsa	48	1.67	17,865
Rautahat	49	1.69	11,999
Banke	65	1.74	19,371
Dang	27	1.67	15,574
Overall	400	1.73	15,668

Source: Field Survey, 2010

3.2.3 Sources of Income

The clients of NUB and their family members are found engaged in one or more occupations for earning livelihood. In terms of proportion of persons engaged, business (53.3 percent) comes in the first, followed by wage labour (37.5 percent), employment in formal sector (29.3 percent) and foreign employment (21.8 percent). In terms of average income per person per month, foreign employment (Rs. 14982.8) ranks first, followed by business (Rs. 9849.9), employment in formal sector (Rs. 9762.4) and pension (Rs. 8875.0). In terms of source, business (33.5 percent) has the highest contribution to total household income, followed by foreign employment (20.8 percent), employment in formal sector (18.2 percent) and wage labour (15.2 percent). The details are given in Table 3.5.

Table 3.5: Sources of Household Income

Sources of Income	Number of Persons Involved		Household Income per Month		
	No	Percent	Average Income per Person (Rs.)	Amount of Income (Rs.)	Percent
Agricultural farming	75	18.8	5785.8	433,932.90	6.9
Business	213	53.3	9849.9	2,098,033.70	33.5
Livestock	42	10.5	6319.0	265,399.90	4.2
Employment in formal sector	117	29.3	9762.4	1,142,200.00	18.2
Wage labour	150	37.5	6374.7	956,199.70	15.2
Pension	8	2.0	8875.0	71,000.00	1.1
Foreign employment	87	21.8	14982.8	1,303,500.10	20.8
Overall	692	173.0	9061.1	6270266.3	100.0

Source: Field Survey, 2010

3.3 Access of Socially Disadvantaged Groups

Access of socially disadvantaged groups to NUB credit is examined in terms of social, family and personal characteristics of the clients, such as caste/ethnicity, family structure, marital status, age, literacy and education.

3.3.1 Caste/ Ethnicity

The loan clients are predominantly from the socially disadvantaged groups comprising Dalits, Muslims and ethnics. These groups constitute 69.2 percent of the total sample clients (Table 3.6).

Table 3.6: Ethnic Composition

Caste/Ethnicity	No	Percent
Brahmin and Chhetri	123	30.8
Gurung, Magar, Tamang and Bhujel	89	22.2
Newar	27	6.8
Tharu	36	9.0
Dalits	36	9.0
Terai ethnics	57	14.2
Muslim	32	8.0
Total	400	100.0

Source: Field Survey, 2010

3.3.2 Family Structure

Female-headed households constitute 42.5 percent of the sample households. A large majority (61.8 percent) of the clients belong to medium size family, while 28.0 percent belong to small family and the remaining 10.3 percent belong to large family. The clients have a total of 2329 family members, which means an average family size of 5.82 persons.

Table 3.7: Family Structure

Family Structure	No	Percent
Sex of Household Head		
Female	170	42.5
Male	230	57.5
Total	400	100
Family Size		
1 - 4	112	28.0
5 - 8	247	61.8
9 +	41	10.3
Total	400	100
Average family size (No)	5.82	na

Source: Field Survey, 2010

3.3.3 Personal Characteristics

A large majority (92.5 percent) of the sample clients are currently married. Widows constitute only 6.5 percent of the sample. Age-wise, a large proportion (88.3 percent)

belongs to the age group of 25 to 50 years. A majority (55.5 percent) is either illiterate (46.5 percent) or just literate (9 percent). The educated clients constitute 44.5 percent of the sample. Of the educated clients, 78.7 percent have under SLC level of education (Table 3.8).

Table 3.8: Personal Characteristics

Personal Characteristics	No	Percent
A. Marital Status		
Currently married	370	92.5
Widow	26	6.5
Separated	2	0.5
Unmarried	2	0.5
Total	400	100
B. Age Group		
20 - 24	13	3.3
25 - 29	63	15.8
30 -34	68	17.0
35 -39	84	21.0
40 - 44	62	15.5
45 - 49	50	12.5
50 - 54	26	6.5
55 - 59	17	4.3
60 +	17	4.3
Total	400	100.0
C. Literacy Status		
Illiterate	186	46.5
Just literate/no formal education	36	9.0
Literate/formal education	178	44.5
Total	400	100.0
D. Level of Education (Class Passed)		
Primary (1 - 5)	77	43.3
Lower Secondary (6 - 7)	23	12.9
Secondary (8 - 10)	40	22.5
SLC pass	22	12.4
Above SLC	16	9.0
Total	178	100.0

Source: Field Survey, 2010

3.4 Participation in Micro-Credit Program

3.4.1 Duration of Participation

Of the total sample clients, 11.8 percent had participated when Nirdhan NGO was in operation, while 88.3 percent participated after the formation of NUB (Table 3.9).

Table 3.9: Participation by Year

Year	No	Percent
1994-1998	47	11.8
1999-2003	113	28.3
2004-2006	240	60.0
Total	400	100.0

Source: Field Survey, 2010

3.4.2 Number of Borrowers and Amount of Loans

The number of clients borrowing the first loan and the average amount of the loan borrowed has increased in the later years. Of the total clients, the proportion borrowing the first loan has been higher in the successive years -- 8.7 percent in 1994-1998, 23.0 percent in 1999-2003 and 68.3 percent in 2004-2006. The average amount of loan per client has also been larger in each successive period ---Rs. 6,419, Rs. 8,134 and Rs. 13,194 respectively in 1994-1998, 1999-2003 and 2004-2006.

In case of second loan too, both the number of clients and the average amount of loan per client have been larger in the successive years. The proportion of clients borrowing the second loan was 4.8 percent in 1994-1998, 19.0 percent in 1999-2003 and 76.2 percent in 2004-2006. Average amount of second loan per client was Rs.9, 895 in 1994-1998, Rs.12, 039 in 1999-2003 and Rs. 18,235 in 2004-2006.

In aggregate, the average amount of loan per client is larger in each successive loan. The amount of last loan (Rs. 33,679) is almost three times higher than the first loan (Rs. 11,484). The number of borrowers and average amount of first, second and third loans are given in Table 3.10.

Table 3.10: Clients and Loan Amount by Year

Year	First Loan		Second Loan		Last Loan	
	Clients (%)	Amount (Rs.)	Clients (%)	Amount (Rs.)	Clients (%)	Amount (Rs.)
1994-1998	8.7	6,419	4.8	9,895	-	-
1999-2003	23.0	8,134	19.0	12,039	-	-
2004-2006	68.3	13,194	76.2	18,235	100.0	33,679
Total	100.0	11,484	100.0	16,642	100.0	33,679
N	400		400		400	

Source: Field Survey, 2010

3.4.3 Number of Loan and Loan Amount

The number of loans so far borrowed by the clients ranged from 2 to 13. Clients taking 4 to 6 loans constitute a large majority (56.5 percent) (Table 3.11).

The average amount of all the loans borrowed so far by a client turns out to be Rs. 128,465. The average amount of loan is higher at higher number of borrowings. The average amount of 2 loans is Rs. 25,336 per client, while that of 13 loans is Rs. 232,000.0 (Table 3.11).

Table 3.11: Number of Loan and Loan Amount

Number of Loans	No	Percent	Total Amount of Loan per Client (Rs.)
2	10	2.5	25,336.0
3	40	10.0	62,143.0
4	72	18.0	97,379.0
5	94	23.5	107,227.0
6	60	15.0	133,876.0
7	27	6.8	157,612.0
8	22	5.5	151,545.0
9	20	5.0	189,222.0
10	11	2.8	206,000.0
11	12	3.0	208,000.0
12	18	4.5	230,000.0
13	14	3.5	232,000.0
Total	400	100.0	128,465.0

Source: Field Survey, 2010

3.4.4 Loan Amount

The amount of loan borrowed from the NUB ranges from below Rs. 50,000 to above Rs. 300,000. The distribution of clients by loan interval of Rs.50,000 shows large concentration in the interval of Rs. 50,001 to Rs. 100,000 (30.0 percent) and Rs. 100,001 to Rs. 150,000 (28.8 percent). The loan size of a large majority of clients (68.3 percent) is less than Rs. 150,000 (Table 3.12).

Table 3.12: Number of Clients by Loan Amount

Amount of Loan	No	Percent	Cumulative Percent
Up to 50,000	38	9.5	9.5
50,001 -1,00,000	120	30.0	39.5
1,00,001 - 1,50,000	115	28.8	68.3
1,50,001 - 2,00,000	71	17.8	86.0
2,00,001 - 2,50,000	33	8.3	94.3
2,50,001 - 3,00,000	16	4.0	98.3
Above 3,00,000	7	1.8	100.0
Total	400	100.0	

Source: Field Survey, 2010

3.4.5 Sufficiency of Loan Amount

More than 70 percent of the clients borrowing successive loans reported sufficiency of amount in each borrowing for the purpose. The proportion reporting sufficiency was 71.5 percent in the case of first loan, 78.5 percent in the case of second loan and 77.3 percent in the case of last loan.

Those reporting insufficiency of loan amount arranged the deficient fund from the contribution of own family members -- 63.2 percent in the case of first loan, 65.1 percent in the case of second loan and 50.5 percent in the case of last loan. Some respondents also reported borrowing from money lenders, neighbors, friends and other credit institutions. Some did not seek any other source for meeting the deficient amount --- 29.8 percent in the case of first loan, 20.9 percent in the case of second loan and 26.4 percent in the case of last loan (Table 3.13).

Table 3.13: Sufficiency of Loan Amount

Sufficiency Status	First Loan		Second Loan		Last Loan	
	N	Percent	N	Percent	N	Percent
Sufficient	286	71.5	314	78.5	309	77.3
Not Sufficient	114	28.5	86	21.5	91	22.8
Total	400	100.0	400	100.0	400	100.0
Arrangement of additional fund	(n=114)		(n=86)		(n=91)	
Not managed	34	29.8	18	20.9	24	26.4
Help from family members	72	63.2	56	65.1	46	50.5
Borrowed from money lenders	5	4.4	2	2.3	2	2.2
Borrowed from neighbors/friends	11	9.6	11	12.8	12	13.2
Borrowed from other institutions	14	12.3	10	11.6	18	19.8

Source: Field Survey, 2010

3.4.6 Repayment of Loan

More than 90 percent of the clients considered loan repayment installments as convenient to them and had no problem in meeting the repayment schedule. The proportion of clients saying no problem in repayment was 94.8 percent, 95.8 percent and 96.3 percent respectively in the case of first, second and last loans. Those reporting difficulty in repayment of loan installments constituted only 5.3 percent in the case of first loan, 4.3 percent in the case of second loan and 3.8 percent in the case of last loan (Table 3.14).

The causes of the problems were reported to be partial operation or failure of the activities carried with micro-credit and use of credit for household consumption. This holds true in the case of each successive loan.

Table 3.14: Problems in Repayment of Loan

Problems in Repayment	First Loan		Second Loan		Last Loan	
	N	Percent	N	Percent	N	Percent
Difficulty in repayment of installments						
Yes	21	5.3	17	4.3	15	3.8
No	379	94.8	383	95.8	385	96.3
Total	400	100.0	400	100.0	400	100.0
Causes of the problems	(n=21)		(n=17)		(n=15)	
Partial operation of the business	10	47.6	8	47.1	11	73.3
Failure of the business	11	52.4	8	47.1	4	26.7
Use of loan for household consumption	6	28.6	9	52.9	15	100.0
Sources of fund arrangement	(n=21)		(n=17)		(n=15)	
Family members	4	19.0	4	23.5	5	33.3
Borrowing from money lender	3	14.3	2	11.8	-	-
Sale of livestock	7	33.3	5	29.4	3	20.0
Borrowing from other credit institutions	17	81.0	12	70.6	13	86.7

Source: Field Survey, 2010

A large majority of clients facing difficulty in loan repayment reported arranging necessary amount mainly by borrowing from various credit institutions such as micro-credit banks, saving and credit cooperatives, development banks, local NGOs, development programs, Poverty Alleviation Fund, etc. Other sources of fund arrangement were sale of livestock, contribution from own family members and borrowing from money lenders.

3.4.7 Opinion on Interest Rate

A majority (53 percent) of the clients considered the interest rate on micro-credit 'high', while 34 percent considered it 'reasonable' and the remaining 13 percent 'concessionary'.

Those who considered the interest rate as 'high' were further asked to suggest what could be the reasonable rate of interest. The responses ranged from less than 10 percent to 18 percent. The respondents belonging to the micro-credit groups organized under the SHG model desired that the rate of interest should be 16 percent to 18 percent, as they were currently paying 24 percent interest per annum. Under the SHG model the current practice of providing lump sum loan to the Group for on-lending to the members has increased the interest rate to the clients. It was learnt that the Group obtained NUB credit at 18 percent and charged 24 percent to the clients. These clients suggested that the credits should be made available to them at the interest rate of 18 percent or less (Table 3.15).

Table 3.15: Opinion on Interest Rate

Opinion on Interest Rate	N	Percent
Interest rate at present		
High	212	53.0
Reasonable	136	34.0
Concessionary	52	13.0
Total	400	100.0
Suggested rate of interest (%)		
Less than 10	21	9.9
10 - 12	145	68.4
13 - 15	33	15.6
16 - 18	13	6.1
Total	212	100.0

Source: Field Survey, 2010

3.4.8 Skill Training

As can be seen in Table 3.17, only 10.8 percent reported to have received skill training organized by NUB (13 persons) and other institutions (30 persons).

The skills learned from the training were reported as tailoring (13 persons), vegetables and mushroom farming (8 persons), livestock raising (7 persons), micro-enterprise such as making candle, incense stick, paper flowers, etc (7 persons), information education, computer and accountancy (4 persons) and social work and group management (4 persons).

Duration of skill training ranged from one day to 90 days. The duration of training was reported 1 week or less by 28 persons, about 2 weeks by 4 persons, 1 month by 3 persons and 3 months by 8 persons.

Of 43 clients receiving skill training, 51.2 percent reported skills learnt not being used in income generation activities. The reasons reported for this included 'no permission from the family' (7 persons), 'engaged in some other activities' (6 persons), 'lack of experience' (6 persons), 'lack of market' (6 persons), 'lack of help from the family' (5 persons) and 'rearing of infants' (2 persons).

Table 3.16: Skill Training

Skill Training	N	Percent
Having skill training		
Yes	43	10.8
No	357	89.3
Total	400	100.0
Organizer of training	(n=43)	
NUB	13	30.2
Others	30	69.8
Area of skill training	(n=43)	
Tailoring	13	30.2
Vegetables and mushroom farming	8	18.6
Livestock raising	7	16.3
Micro-enterprise (making candle, incense stick, flowers, etc)	7	16.3
Information education, computer and accountancy	4	9.3
Social work and group management	4	9.3
Duration of training	(n=43)	
1 day	4	9.3
2 - 3 days	11	25.6
4 - 5 days	5	11.6
6 - 7days	8	18.6
12- 14 days	4	9.3
30 days	3	7.0
90 days	8	18.6
Use of training	(n=43)	
Use	21	48.8
No use	22	51.2
Reasons for not using the skill	(n=22)	
No permission from family	7	31.8
No help from family	5	22.7
Rearing of infants	2	9.1
Engagement in other activities	6	27.3
Lack of experience	6	27.3
Lack of market	6	27.3

Source: Field Survey, 2010

CHAPTER IV

SOCIO-ECONOMIC IMPACT OF MICRO CREDIT

4.1 Economic Impact

4.1.1 Advantages of Micro-Credit

Poor households are expected to start new income generating activities or expand the existing ones with the micro-credit and thereby earn additional income. Additional income would enable them to fulfill basic needs and also to acquire new or increase the existing assets. In this regard the clients were asked to state what they perceived to be the advantages of participation in micro-credit program in order of their relative importance.

The perceived advantages of micro-credit were reported to be increase in family income, increase in food self-sufficiency, employment for family members and increase in assets in order of their relative importance. Increase in family income appears to be the top most advantage both in terms of the number of clients (374 persons) perceiving this as one of the advantages as well as the number of those (176 persons) ranking this as the number one advantage. Increase in food self-sufficiency is perceived as one of the advantages by the second largest number (318 persons), but in terms of ranking this advantage has the third position (88 persons). The third most important advantage comes out to be the employment for family members in terms of number of clients (309 persons) reporting the advantage but has the second position in terms of number of clients (116 persons) according it the first rank. Increase in assets appears as the least important advantage in terms of number of clients (175 persons) perceiving this as one of the advantages as well as those (6 persons) ranking it as the number one advantage. The details are given in Table 4.1.

Table 4.1: Perceived Advantages of Micro-credit

Perceived Advantages	Ranking of the advantages				Total	
	I	II	III	IV	No	Percent
Increase in family income	176	130	66	2	374	93.5
Increase in food self-sufficiency	88	127	97	6	318	79.5
Employment for family members	116	101	84	8	309	77.3
Increase in assets	6	6	28	135	175	43.7

Source: Field Survey, 2010

4.1.2 Activities Undertaken with Micro-credit

The micro-credit loans were mostly used for undertaking income generating activities, such as raising livestock (goats, pigs, buffaloes, cows and bulls), poultry farming, agriculture farming (cereal, vegetables, fruits and cash crops), trades/business and acquiring means of transportation. Some loans were also used for asset purchase, household consumption, Group saving/loan repayment and foreign employment. However, the borrowers of the first loan may or may not be using the second loan in the same activity and may have undertaken new ones and the same applies for the borrowers of last loan. Therefore, the same household was counted three times, if three loans were used for different purposes Moreover, clients may have used the amount of a single borrowing for more than one purpose. The details of investment of first, second and last loan by areas of investment are given in Table 4.2.

Table 4.2: Areas of Investment and Amount

Areas of Investment	First Loan		Second Loan		Last Loan	
	N	Amount (Rs.)	N	Amount (Rs.)	N	Amount (Rs.)
Rearing goat/pig	60	7,300.0	60	13,383.3	45	27,285.7
Rearing buffalo/cow	99	14,040.4	98	14,450.0	102	34,550.0
Poultry farming	6	9,166.7	5	11,600.0	5	40,000.0
Agriculture farming	35	9,896.6	39	18,379.3	36	27,689.7
Trade/business	184	12,114.6	189	18,888.9	210	35,538.8
Transport	9	10,444.4	8	14,750.0	12	28285.7
Purchase of land	1	12000.0	4	12,500.0	13	32,153.8
Household expenses	6	7,666.7	9	15,000.0	15	14,600.0
Group saving/ loan repayment	4	2,175.5	7	3,325.8	15	5,355.0
Foreign employment	-	-	-	-	12	36,500.0
Overall	404	11,526.2	419	16,667.2	465	32,947.5

Source: Field Survey, 2010

There is increase in both the number of activities undertaken and the average amount invested in the activities in every successive loan. The number of activities increased from 404 in the case of first loan to 419 in the case of second loan and to 465 in the case of the last loan. The average amount of investment made from the second loan (Rs. 16,667.2) was about one and half times larger than that from the first loan (Rs.11,526.2), while the investment made from the last loan (Rs. 32,947.5) was about twice higher than that from the second loan. Such a large scale increase in the amount of investment has been made possible due to the provision of the micro-credit program for larger amount of loan in every successive borrowing. By type of activity, average amount of investment was highest in milching animals (Rs. 14,040.4) in the first loan, trading activities (Rs.18,888.9) in the second loan and poultry farming (Rs.40,000.0) in the last loan.

The borrowings have also been invested for accumulation of real assets, particularly land, as shown by the increase in the number of clients (from 1 to 4 and to 13 persons) buying land and average amount of investment (from Rs. 12,000.0 to Rs. 12,500.0 and to Rs. 32,153.8).

Use of loan for household consumption has also increased in each successive borrowing except in the case of last borrowing. Some clients reported use of loan for Group saving and loan repayment. In the recent years some clients (12 persons) have used the borrowings for foreign employment.

Borrowers of micro-credit have largely undertaken quick yielding activities. An overwhelming majority of borrowers of each successive loan had opted for activities that yielded return within 1 month of operation --- 63.3 percent, 62 percent and 70 percent respectively in the case of first, second and last loan. Those reporting 2 to 6 months of gestation period were 21.3 percent, 21 percent and 20 percent in the case of the first, second and last loans respectively. Taken together the proportion of clients undertaking the activities that generated income within 6 months accounted for 84.6 percent, 83 percent and 90 percent in the successive loans. The small size of loan and the requirement of paying installments within a short repayment cycle appear to have prompted the clients to undertake short gestation activities (Table 4.3).

Table 4.3: Gestation Period of Activities

Gestation Period (months)	First Loan		Second Loan		Last Loan	
	No	Percent	No	Percent	No	Percent
1	253	63.3	248	62.0	280	70.0
2 - 6	85	21.3	84	21.0	80	20.0
7 - 12	47	11.8	45	11.3	24	6.0
12 +	15	3.8	23	5.8	16	4.0
Total	400	100.0	400	100.0	400	100.0

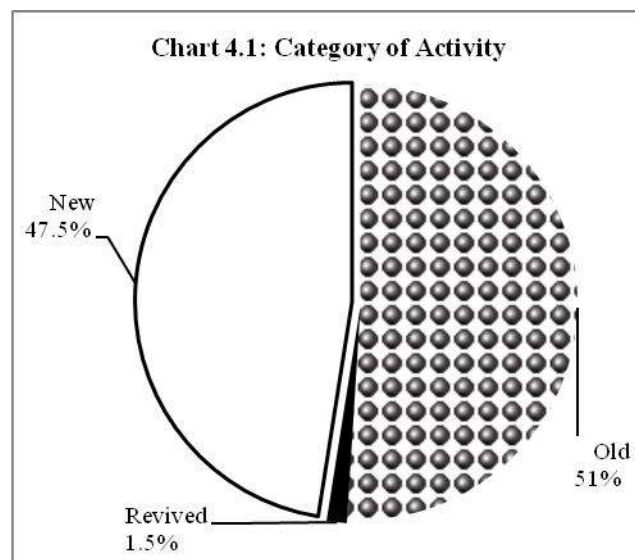
Source: Field Survey, 2010

4.1.3 Occupational Diversification

In order to assess the impact of micro-credit on occupational diversification, the clients were asked whether the activities undertaken with micro-credit were ‘old’ or ‘revived’ or ‘new’. ‘Old’ activities are those which the households have been carrying from the past, ‘revived’ activities are those which were started in the past but stopped later for some reasons and ‘new’ activities are the new ones not previously undertaken.

Out of 400 clients, 204 (51.0 percent) reported to have continued the previously carried out activities with micro-credit, while 190 clients (47.5 percent) had started new activities and only 6 clients (1.5 percent) reported to have revived the stopped activities that were previously undertaken (Fig. 4.1).

Clients have undertaken one to three activities fully or partially with the micro-credit. Those undertaking only one activity constituted 48.3



Source: Field Survey, 2010

percent, while those operating two activities constituted 20.8 percent and those having three activities constituted 31.0 percent. The total number of activities undertaken by the total 400 clients thus turns out to be 731, which means an average of 1.83 activities per household (Table 4.4).

Table 4.4: Number of Activities Undertaken with Micro-credit

Activities	No	Percent	Total Activities
One activity	193	48.3	193
Two activities	83	20.8	166
Three activities	124	31.0	372
Total	400	100.0	731
Average activities per household (number)	na	na	1.83

Source: Field Survey, 2010

Out of the total 731 activities undertaken, the ‘old’ and ‘new’ have almost the same proportion (49.1 percent and 49.2 percent respectively), while the proportion of revived is negligible (1.6 percent). This shows that micro-credit has helped a large number of clients to diversify their occupations by undertaking newer activities. The details of the ‘old’, ‘new’ and ‘revived’ income generating activities by their number and specific types are given in Table 4.5.

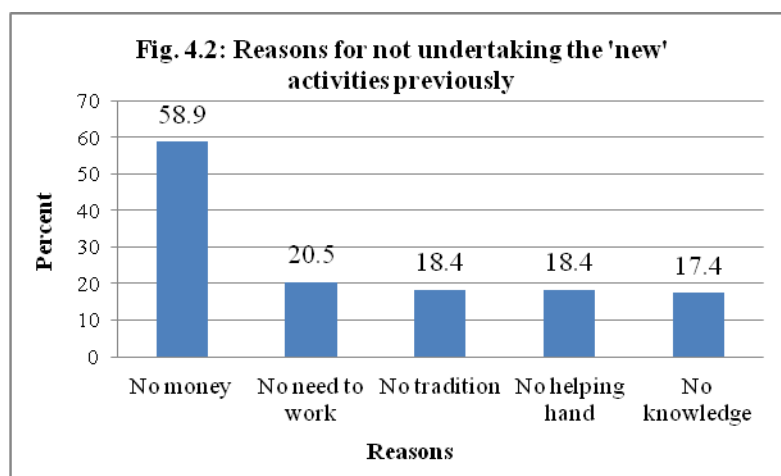
By type, 'new' activities are mostly concentrated on retail business/petty trading, such as retail shops, house construction contract, tea shops, vending business, etc (35.6 percent). Next to this are buffalo/cow raising (28.9 percent), goat/pig raising (17.8 percent), and farming of cash crops, vegetables and fruits (10.3 percent). Other activities undertaken in small number include poultry (1.9 percent), tailoring shops (1.4 percent) and micro-enterprises (1.1 percent). Activities, such as operation and maintenance of means of transportation, hardware shops, bicycle repairing, rickshaw and bullock carts each account for less than 1.0 percent of new activities (Table 4.4).

Table 4.5: Activities Undertaken with Micro-credit by Category

Income Generating Activities	Old		Revived		New		Total	
	No	Percent	No	Percent	No	Percent	No	Percent
Retail business/petty trading	152	42.3	7	58.3	128	35.6	287	79.7
Buffalo/cow keeping	86	24.0	2	16.7	104	28.9	192	53.3
Goat/pig raising	38	10.6	1	8.3	64	17.8	103	28.6
Farming: cash crops, vegetables and fruits	43	12.0	2	16.7	37	10.3	82	22.8
Tailoring shop	8	2.2	-	-	5	1.4	13	3.6
Poultry	5	1.4	-	-	7	1.9	12	3.3
Micro enterprise: furniture, printing press, grill making	6	1.7	-	-	4	1.1	10	2.8
Operation of bus/truck/tractor	6	1.7	-	-	2	0.6	8	2.2
Hardware shop	6	1.7	-	-	2	0.6	8	2.2
Bicycle repairing	3	0.8	-	-	3	0.8	6	1.7
Rickshaw	4	1.1	-	-	2	0.6	6	1.7
Bullock cart	2	0.6	-	-	2	0.6	4	1.1
Total	359	100.0	12	100.0	360	100.0	731	100.0
Percent		49.1		1.6		49.2		100.0

Source: Field Survey, 2010

Clients undertaking 'new' activities with micro-credit were asked as to why they did not take up these activities previously. Of the total 190 clients undertaking 'new' activities, 58.9 percent cited lack of money as the main reason. This shows that micro-credit has been instrumental in solving the money problem that had



Source: Field Survey, 2010

constrained the clients to undertake newer activities and thereby diversify their occupations. Other reasons cited by relatively smaller proportion of clients were ‘no need to work’, ‘no family tradition of doing such works’, ‘no helping hand’, and ‘no knowledge’ (Fig. 4.2).

4.1.4 Employment Creation

Activities undertaken with micro-credit have generated employment opportunities for full as well as part time engagement of family members of the clients. Employment generation is usually judged in terms of the proportion of employed persons to economically active age population. The economically active age population has been taken as those belonging to 10 years and above age as per the definition of Central Bureau of Statistics (CBS, 2009). Of the 1837 economically active age population of 400 households, 787 persons (42.8 percent) have been engaged fully or partially in the activities undertaken with micro-credit. By sex, the engagement of females is relatively larger than that of males -- 48.7 percent as against 37.6 percent. By nature of employment, full time engagement (26.9 percent) is relatively larger than part time engagement (15.9 percent). In overall, about 2 persons per household in average are employed in micro-credit operated activities (Table 4.6).

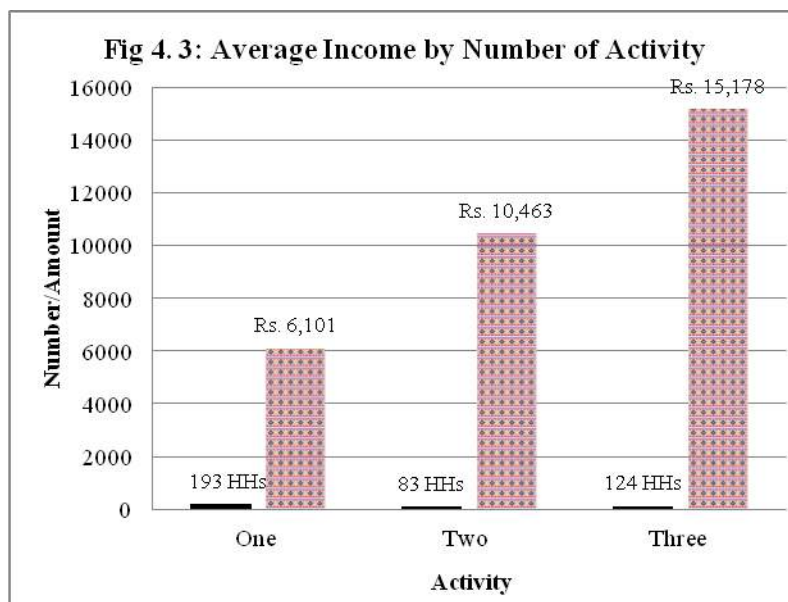
Table 4.6: Employment Generation

Category	Male	Female	Total
Economically active population	972	865	1837
Full time engagement			
Persons engaged	217	278	495
Percentage of active population	22.3	32.1	26.9
Part time engagement			
Persons engaged	149	143	292
Percentage of active population	15.3	16.5	15.9
Total			
Persons engaged	366	421	787
Percentage of active population	37.6	48.7	42.8
Average number engaged per household	0.92	1.05	1.97

Source: Field Survey, 2010

4.1.5 Income Generation

Activities undertaken with micro-credit have contributed to increase household income of the clients. The monthly income of the households increases with the increase in the number of activities undertaken. In average, households operating single activity earned monthly net income of Rs. 6,101, while those operating two activities earned Rs. 10,463 and those operating three activities earned Rs. 15,178 (Fig. 4.4).



Source: Field Survey, 2010

4.1.6 Use of Additional Income

The clients reported using additional income for a variety of purposes. A large majority (89.0 percent) reported use of income on household consumption. Next to it was schooling of children (77.5 percent), followed by expansion of business (59.0 percent), repayment of loan installments (56.5 percent), group saving (54.8 percent) and starting new business (53.0 percent).

Other items of expenditure reported included purchase of durable goods and electrical appliances (TV, telephone etc), purchase of real assets (land and building), purchase of gold and ornaments, marriage and festivals, and purchase of livestock (cows, buffaloes and goats). Few households also spent income for the construction of latrine and biogas, installation of hand pumps, acquiring foreign job, and construction and repair of house (Table 4.7).

Table 4.7: Items of Expenditure

Items	No	Percent
Household consumption	356	89.0
Education of children	310	77.5
Expansion of business	236	59.0
Payment of loan installments	226	56.5
Group saving	219	54.8
Starting new business	212	53.0
Purchase of durable goods (TV, telephone , etc)	133	33.3
Purchase of real assets (land, building)	85	21.3
Purchase of gold, ornaments	71	17.8
Marriage and festivals	53	13.3
Purchase of livestock (cow, buffalo, goat)	45	11.3
Hand pump, latrine, biogas construction	23	5.8
Foreign job	18	4.5
House construction/repair	12	3.0

Source: Field Survey, 2010

4.1.7 Purchase of Land

Some households (20.5 percent) reported purchase of land for homestead as well as farming after participation in credit program. The average size of land added is 0.1353 hectares per household. Of the total 82 households, 71.9 percent reported purchase for farming land and 41.5 percent reported for homestead. Purchase of farm land consists of both irrigated (34.1 percent) and un-irrigated (37.8 percent) land. The average size of irrigated land (0.3119 ha) is larger than that of un-irrigated land (0.0644 ha) and homestead (0.0305 ha). A large proportion of clients (70.7 percent) reported registration of the purchased land in the name of family members and the rest (29.3 percent) reported registration in their own name (Table 4.8).

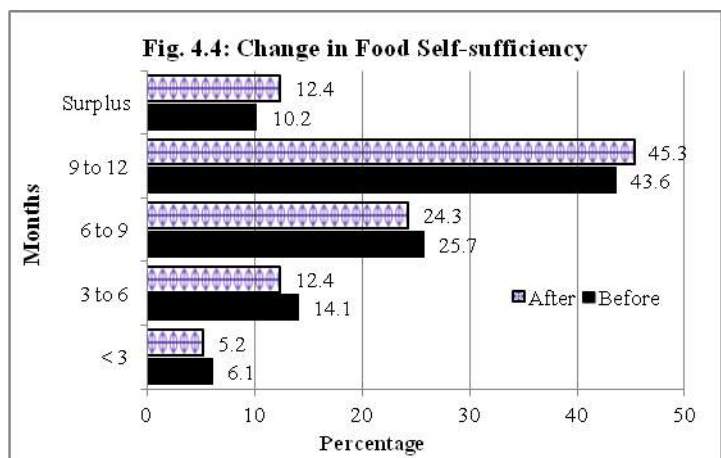
Table 4.8: Purchase of Land

Increase in Landholding Size	No	Percent
Purchase of land		
Purchased	82	20.5
Not purchased	318	79.5
Total	400	100.0
Type of land purchased	(n=82)	
Irrigated land	28	34.1
Un-irrigated land	31	37.8
Homestead	34	41.5
Ownership of land	(n=82)	
Self	24	29.3
Other members of the family	58	70.7
Size of land purchased	HHs	Average size of land (ha)
Irrigated land	28	0.3119
Un-irrigated land	31	0.0644
Homestead	34	0.0305
Overall	82	0.1353

Source: Field Survey, 2010

4.1.8 Change in Food Self-sufficiency

An important impact of participation in micro-credit program has been improvement in food self-sufficiency status of the clients who have some land (360 households). Participation in NUB micro-credit program has helped the clients to improve their food self-sufficiency status. This is evident from the decrease in the proportion of those reporting food sufficiency for shorter period and increase the proportion of those reporting sufficiency for longer period. The proportion of clients reporting food self-sufficiency for less than 3 months has decreased from 6.1 percent to 5.2 percent, those reporting sufficiency for

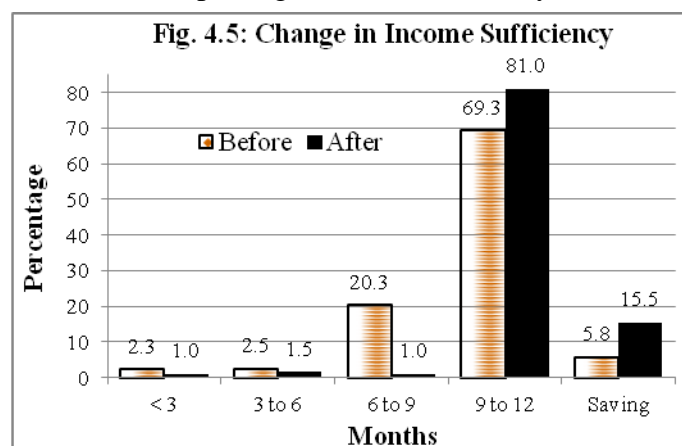


Source: Field Survey, 2010

3 to 6 months has decreased from 14.1 percent to 12.4 percent, and those reporting sufficiency for 6 to 9 months has decreased from 25.7 percent to 24.3 percent. These decreases show up in the increase in the proportion of clients reporting sufficing for 9 to 12 months and surplus (Fig. 4.5).

4.1.9 Change in Income Sufficiency

There has been a considerable increase in income sufficiency status of the households borrowing micro-credit. The proportion of the clients reporting income sufficiency for less than 3 months and 3 to 6 months has declined marginally, while those reporting 6 to 9 months has decreased significantly. This decrease has been added up to the proportion of those reporting 9 to 12 months income sufficiency and saving after borrowing the credit (Fig. 4.6).



Source: Field Survey, 2010

4. 1.10 Change in Dependency on Informal Sources of Loan

Of the total 400 households, an overwhelming proportion (81.2 percent) has relied solely on Nirdhan bank credit, while the rest (18.8 percent) has also borrowed from other sources. Had there been no access to Nirdhan Bank micro-credit, all the households would have been forced to depend on informal sources of borrowings for meeting their financial requirements. Because of access to such credit, only 15 out of 400 household (3.8 percent) also borrowed from neighbors and local money lenders, who provide credit at high interest rate ranging from 12 percent to 60 percent. Those borrowing credit from other formal sources (15.0 percent) have resorted to other micro-credit banks, saving and credit cooperatives, women's saving credit groups and commercial banks (Agricultural Development Bank, Rastriya Banijya Bank, Nepal SBI Bank, etc.) and Poverty Alleviation Fund.

The main purpose of borrowing from other sources was for supplementing Nirdhan credit for undertaking the proposed activity. Other reasons were house construction, paying loan installments, buying cows/buffaloes, purchasing land, buying tractors, carts and rickshaws, schooling of children, festivals, treatment of family members, agricultural farming, seeking foreign employment, and opening tailoring shops (Table 4.9).

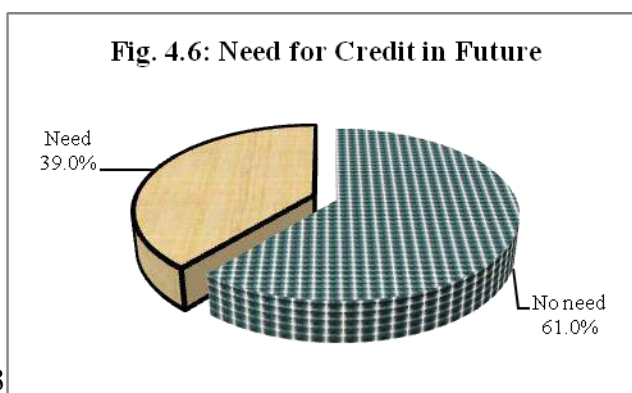
Table 4.9: Borrowing of Loan from Other Sources

Borrowing	No	Percent
Yes	75	18.8
No	325	81.3
Total	400	100.0
Sources		
Formal sources	60	15.0
Neighbors and moneylenders	15	3.8
Reasons for borrowing	(n=75)	
Insufficiency of NUB credit for the proposed activity	40	53.3
House construction	15	20.0
Paying installment of NUB loan	12	16.0
Buying cows/buffaloes	9	12.0
Purchasing land	8	10.7
Buying tractor, carts, rickshaw	8	10.7
Schooling of Children	6	8.0
Festivals	5	6.7
Treatment	4	5.3
Agricultural farming	4	5.3
Foreign employment	4	5.3
Tailoring shops	1	1.3

Source: Field Survey, 2010

4. 1.11 Sustainability of the Activity

A large proportion of the clients (61.0 percent) reported that they would be able to continue the currently undertaken income generating activities in future without needing further loan and the remaining 39.0 percent reported their inability to do so (Fig.4.7). Those needing further loan expressed preference for Nirdhan bank credit because of its availability at the



doorstep, non-requirement of collateral, relatively low rate of interest, and longer repayment cycle.

4. 1.12 Problems in Operating the Activity

Forty-three out of 400 clients (10.8 percent) have reported problems in operating the income generating activities undertaken with micro-credit. These problems can be broadly categorized as inputs related, knowledge/skill related and market related. The inputs related problems are mostly activity specific. In the case of vegetable farming the main problems faced are lack of irrigation, and lack of timely availability of quality seeds, chemical fertilizer, and pesticides/insecticides. In the case of livestock raising and poultry farming the problems are high price of factory made feed, straw and other agricultural residues which are used as animal feed. Prevalence of disease and lack of knowledge about the disease are common problems in each of the above activities. The credit amount borrowed from NUB has been reported to be small to meet the requirement of purchasing livestock, particularly milking animals, opening retail shops and operating micro-enterprises. Micro-enterprises also face the problem of load shedding and unavailability of skilled workers. Market related problems basically relate to low price fetched by the products produced by the clients. The frequent 'strikes', 'closures' and 'no wheels' in the survey year and the years preceding to it totally obstructed the selling of vegetables and milk. This problem was also faced by retail shops and micro-enterprises but not as acute as in the case of vegetables and milk, which are highly perishable products.

4.2 Social Impact

4.2.1 Change in Education of Children

The change in education of children is assessed in terms of the proportion of children currently attending school, types of educational institutions at different levels of schooling of children and parent's perceptions on the level of performance. Of the total school going-age children in family, 95.7 percent in overall and by sex, 94.8 percent among the girls and 96.6 percent among the boys were found to be currently going to school (Table 4.10).

Table 4.10: Schooling of Children

Sex	School going-age children					
	Attending school		Not attending school		Total	
	N	%	N	%	N	%
Female	307	94.8	17	5.2	324	100.0
Male	316	96.6	11	3.4	327	100.0

Total	623	95.7	28	4.3	651	100.0
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The change in the types of schooling is assessed by tracing back the type of schools at various educational levels of the children currently studying at higher secondary/intermediate level. The number of children currently studying at higher secondary/intermediate level is 106, of which 50 are in the campuses/higher secondary schools run by the government and 56 are in private sector institutions. The tracing back of these students' school type for earlier level of education shows some shift away from government to private schools at each higher level. This pattern holds true for both boys and girls except for boys at the lower secondary level which shows the same number as primary level as between government and private institution (Table 4.11).

Table 4.11: Schooling of Children by Type of School

Level/Type of School	Boys (n=60)	Girls (n=46)	Total (n=106)
Higher Secondary			
Government	28	22	50
Private	32	24	56
Secondary			
Government	36	27	63
Private	24	19	43
Lower Secondary			
Government	40	31	71
Private	20	15	35
Primary			
Government	40	34	74
Private	20	12	32

Source: Field Survey, 2010

Parents' perception of the educational performance of their children shows a better picture than before participation in the credit program. The proportion of clients rating performance 'very good' and 'good' has increased, while the proportion of those saying 'average' and 'poor' has decreased (Table 4.12).

Table 4.12: Educational Performance of Children

Level of Performance	Before		After	
	Frequency	%	Frequency	%
Very Good [1 st - 3 rd position]	56	14.0	81	20.3

Good [4 th - 10 th position]	27	6.8	34	8.5
Average [Just Pass]	306	76.5	284	71.0
Poor [Fail]	11	2.8	1	0.3

Source: Field Survey, 2010

4.2.2 Change in Awareness towards Health and Hygiene

The increase in mobility of women and their interactions with other fellow women in the regular Group meetings have increased their awareness towards various health and hygiene related issues. This has led to an increase in knowledge, change in attitude and subsequently adoption of these into practice. Of total 400 clients, almost two-thirds reported an increase in their awareness of various health and hygiene related issues. In terms of issues, increase in awareness was highest with regard to immunization of children (71.3 percent), followed by personal hygiene (69.5 percent), and safe motherhood (69.3 percent), mother child health (68.8 percent), family planning (67.3 percent), knowledge about diseases (64.3 percent), use of toilet (63.0 percent) and drinking water (41.3 percent).

Table 4.13: Change in Awareness toward Health and Hygiene
(in percent)

Issues of Health and Hygienic	Awareness		
	Same	Improved	Total
Immunization of children	28.8	71.3	100.0
Personal hygiene	30.5	69.5	100.0
Safe motherhood	30.8	69.3	100.0
Mother child health	31.3	68.8	100.0
Family planning	32.8	67.3	100.0
Knowledge about diseases	35.8	64.3	100.0
Use of toilet	37.0	63.0	100.0
Drinking water	58.8	41.3	100.0
Overall	35.7	64.3	100.0

Source: Field Survey, 2010

4.2.3 Change in Intake of Nutrient Food Items

The increase in the income of the clients has enabled them to increase consumption of quality food. There has been discernable improvement in the intake of nutrient food items like milk, meat, fish, egg, green vegetables and fruits. A majority (54.8 percent) reported an increase in the intake of nutrient food items as well as full meals a day. Judged in

terms of two males a day, the food status of the households has improved, as one half of the clients reported having full meals, which was not possible before. By type of nutrient food item, change is highest in the case of meat and fish consumption (62.0 percent), followed by milk and curd (59.0 percent), egg (55.3 percent), green vegetables (54.5 percent) and fruits (47.3 percent) (Table 4.14).

Table 4.14: Change in Intake of Nutrient Food Items

(in percent)

Nutrient Items	Intake of Nutrient Food Items		
	Same	Increased	Total
Meat-fish	38.0	62.0	100.0
Milk-curd	41.0	59.0	100.0
Egg	44.8	55.3	100.0
Green vegetables	45.5	54.5	100.0
Fruits	52.8	47.3	100.0
Full meals	49.3	50.8	100.0
Overall	45.2	54.8	100.0

Source: Field Survey, 2010

4.2.4 Change in House Types

There has been an improvement in the housing conditions of the clients after participation in micro-credit program as judged by the type of materials used for the wall and the roof, and number of rooms and storeys. Proportion of clients who had thatched and clay tiles roof earlier has now declined while those having corrugated sheets and concrete roof have increased.

With regard to wall type, proportion of clients having lower quality materials has decreased, while those using better quality materials has increased. Likewise, there has been a decrease in the proportion of clients having 1-3 rooms, and an increase in the proportion having 4- 6 rooms, and 7 and more rooms. The improvement in housing is also reflected in the increase in the proportion of clients having houses with relatively large number of storeys (Table 4.15).

Table 4.15: Change in House Types

House Types by Construction Materials	Before		After	
	No	Percent	No	Percent
A. Roof types				
Thatched	79	19.8	32	8.0

Clay tiles (<i>khapada</i>)	96	24.0	67	16.8
Cement tiles (<i>tiles</i>)	62	15.5	61	15.3
Corrugated sheets	83	20.8	118	29.5
Concrete	80	20.0	122	30.5
Total	400	100.0	400	100.0
B. Walls types				
Wood/bamboo/ <i>khadai/tati</i> (canes)	136	34.0	81	20.3
Mud bonded bricks/stones/cement blocks	127	31.8	126	31.5
Cement bonded bricks/stones/cement blocks/concrete	137	34.3	193	48.3
Total	400	100.0	400	100.0
C. No. of rooms				
1 - 3	258	64.5	213	53.3
4 - 6	114	28.5	141	35.3
7 +	28	7.0	46	11.5
Total	400	100.0	400	100.0
D. No. of storeys				
Ground floor	314	78.5	295	73.8
1 Storey	59	14.8	60	15.0
2 and more storeys	27	6.8	45	11.3
Total	400	100.0	400	100.0

Source: Field Survey, 2010

4.2.5 Change in Possession of Latrines

The proportion of clients possessing toilets and better type toilets has increased after participation in micro-credit program. Before participation in the program, one half of the clients (200 households) had toilets and this has now increased to 65.5 percent (262 households). Of those possessing toilets, 76.7 percent have now permanent latrines with septic tanks, as compared to 58.5 percent before the program. There has also been some increase in the proportion of households having water facility fitted inside the toilet from 28.5 percent to 30.2 percent (Table 4.16).

Table 4.16: Change in Possession of Latrines

Possession Latrines	Before		After	
	Frequency	%	Frequency	%
1. Having Latrine				
Having	200	50.0	262	65.5
Not having	200	50.0	138	35.5
Total	400	100.0	400	100.0

2. Type of Latrines	(n=200)		(n=262)	
Pit latrine (temporary)	50	25.0	16	6.1
Pit latrine with bricks/stones wall	33	16.5	45	17.2
Permanent latrine with septic tank	117	58.5	201	76.7
3. Water facility in Latrine	(n=200)		(n=262)	
Carried from outside	143	71.5	183	69.8
Fitted inside	57	28.5	79	30.2

Source: Field Survey, 2010

4.2.6 Change in Possession of Durable Items

The proportion of households possessing various types of consumer durables and means transportation and communication has increased as compared to before situation. In terms of percentage change, there has been a large increase in the possession of items which were not commonly used until recent past, such as mobile, telephone, television and motorcycle. The increase in the possession of items that were commonly used even in the past, such as electricity, bicycle, sewing machine, hand pump and radio has been relatively small. Only a small number of households possessed bio-gas in the past, but now the number has tripled. There is not only an increase in the percentage of households using these items, but also an increase in terms of the number of items possessed per household (Table 4. 17).

Table 4.17: Change in Possession of Durable Items

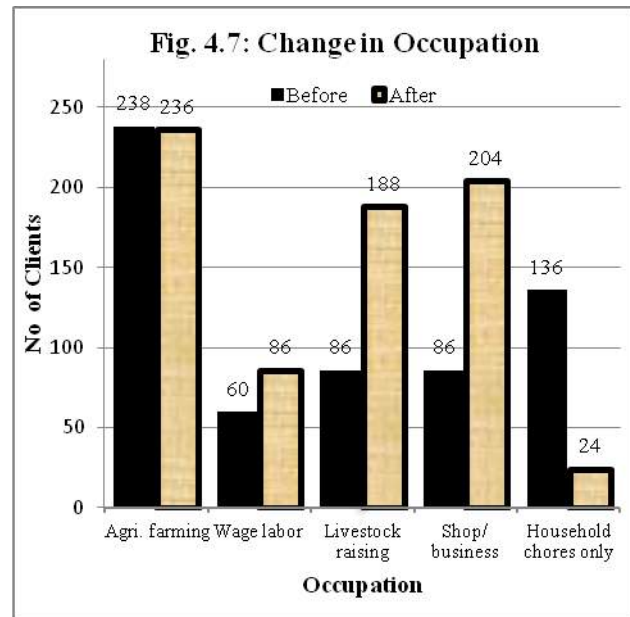
Durable Items	Before			After			Change (%)
	HHs		No of Items	HHs		No of Items	
	No	Percent		No	Percent		
Electricity	247	61.8	na	337	84.3	na	36.4
Bi-cycle	187	46.8	207	271	67.8	331	44.9
Motor-cycle	24	6.0	29	57	14.3	65	137.5
Sewing machine	36	9.0	36	68	17.0	68	88.9
Hand pump	152	38.0	152	225	56.3	225	48.0
Television	131	32.8	131	255	63.8	258	94.7
Radio	127	31.8	127	202	50.5	202	59.1
Telephone	25	6.3	26	62	15.5	64	148.0
Mobile phone	47	1.1	58	252	63.0	337	436.2
Biogas	13	3.3	14	39	9.8	41	200.0

Source: Field Survey, 2010

4.3 Empowerment of Women

4.3.1 Change in Occupation

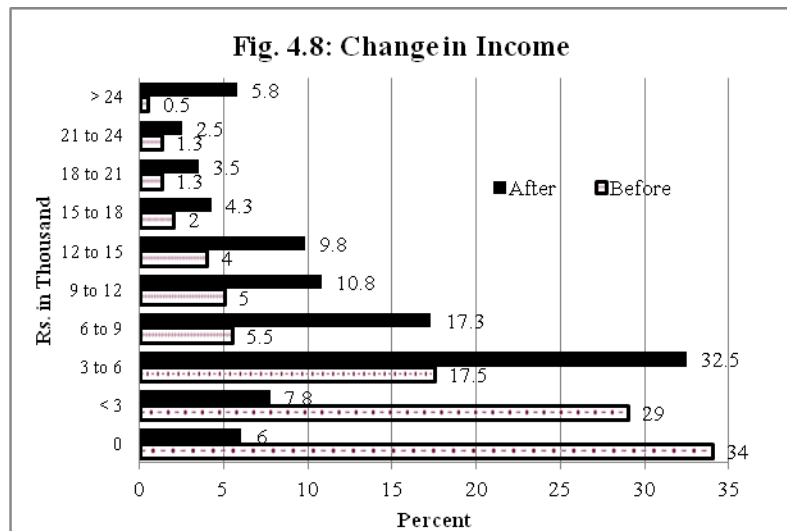
A large number of women participating in micro-credit were exclusively confined to household chores previously but now this number has been significantly reduced. This has happened because of the increase in the number of women undertaking various income generating activities as full time work. By type of occupation, the largest increase is observed in business/retail shops (from 86 to 204 women), followed by livestock rearing and wage labour. The number of women involved in farming has remained almost unchanged, which means that women can manage other activities too, irrespective of their involvement in agriculture. This proves the fact that women are disguisedly employed in agriculture and hence if their labour time is partly withdrawn, there is no effect in agricultural production (Fig. 4. 8)



Source: Field Survey, 2010

4.3.2 Change in Income

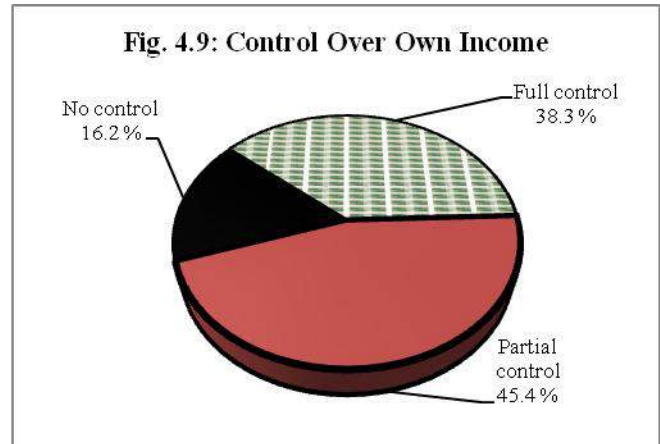
Women participating in micro-credit program have earned additional income by undertaking various economic activities. Proportion of women not earning any income and having income at lower bracket has declined, whereas those having income at higher bracket has increased. The increase is concentrated in the income bracket of Rs.3 to 6 thousand per month. The proportion of women earning income at higher brackets is relatively small but the percentage increase is quite high compared to the pre-credit situation (Fig. 4.9).



Source: Field Survey, 2010

4.3.3 Control Over Own Income

Self control over income earned by women is an important factor in their economic empowerment in the family and the community at large. Women earning income through micro-credit financed activities were asked whether they had full control, partial control or no control over the income earned by them. Full control meant self-keeping and spending the income, while partial control meant either self-keeping but spending with consent or self-keeping but spending by husband, no control meant handing over all income to husband/in laws. Of the total 376 women, 38.3 percent had full control, 45.4 percent had partial control and 16.2 percent had no control over their income (Fig. 4. 10).



Source: Field Survey, 2010

4.3.4 Change in Reading, Writing and Arithmetic Ability

The program has increased the reading, writing and arithmetic calculation ability of women as these constituted the prerequisites for participation in the program. Women previously putting thumb print in any legal document can now write their names. Some women have also enhanced their reading ability. Women undertaking business/ retail shops have also been able to perform basic arithmetic calculation.

4.3.5 Change in Social Participation

Change in social participation of clients is examined in terms of their association with social organizations, political parties and local bodies. Association with social organizations has increased as shown by the increase in the membership, holding of executive posts and attending meetings. With regard to political participation, the percentage of women obtaining membership as well as holding of executive post has increased compared to before position. Representation in local bodies has not changed because there has been no election of local bodies in the last 5 years.

Table 4.18: Change in Social Participation

Social Participation	Before		After	
	No	Percent	No	Percent
Social organizations				
Membership	45	11.3	83	20.8
Holding executive post	11	2.8	17	4.3
Attending Meetings	38	9.5	80	20.0
Political parties				
Membership	29	7.3	35	8.8
Holding executive post	8	2.0	12	3.0
Local bodies				
Elected	6	1.5	6	1.5
Nominated	7	1.8	7	1.8

Source: Field Survey, 2010

4.3.6 Change in Decision Making Roles in the Family

In rural setting most of the family decisions are taken jointly by husband and wife in consultation with senior members. This is also reflected in the families of the micro-credit clients. There is no noticeable change in the persons making decisions on issues relating to schooling of children, sale of goat, cattle, chicken, treatment of family members, and purchase and sale of land. Even in the case of selling produces of micro-credit operated activities, joint decision prevails in majority of the households (58.8 percent), while only 25.3 percent women decide by themselves (Table 4.19).

Table 4.19: Change in Decision Making Roles in the Family

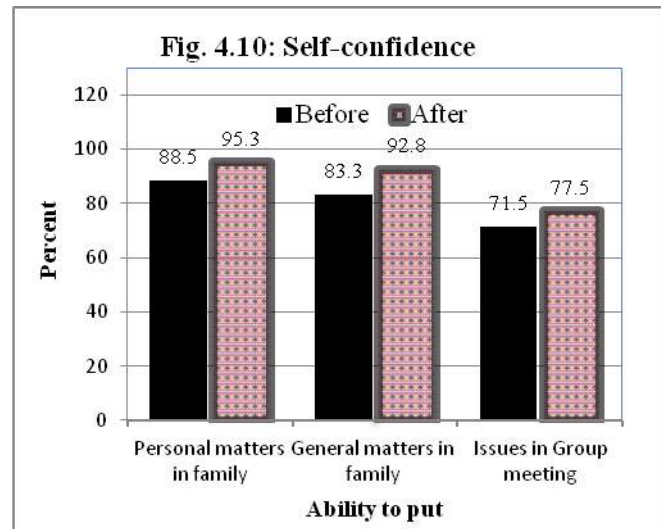
(in percent)

Issues of Making Decision	Persons Making Decision									
	Before					After				
	Self	Husband	Joint	Others	Total	Self	Husband	Joint	Others	Total
Schooling of children	17.8	22.8	54.5	5.0	100.0	17.8	19.0	58.8	4.5	100.0
Sale of goat, chicken	24.0	13.3	59.0	3.8	100.0	21.3	11.5	63.3	4.0	100.0
Sale of cattle	18.0	20.5	56.0	5.5	100.0	18.5	18.0	59.3	4.3	100.0
Treatment of family members	15.0	17.5	59.5	8.0	100.0	16.8	18.0	59.8	5.5	100.0
Purchase/sale of land	14.8	20.3	59.0	6.0	100.0	15.8	20.8	59.5	4.0	100.0
Sale of produces of micro-credit operated activities	na	na	na	na	na	25.3	12.8	58.8	3.3	100.0

Source: Field Survey, 2010

4.3.8 Change in Self-Confidence

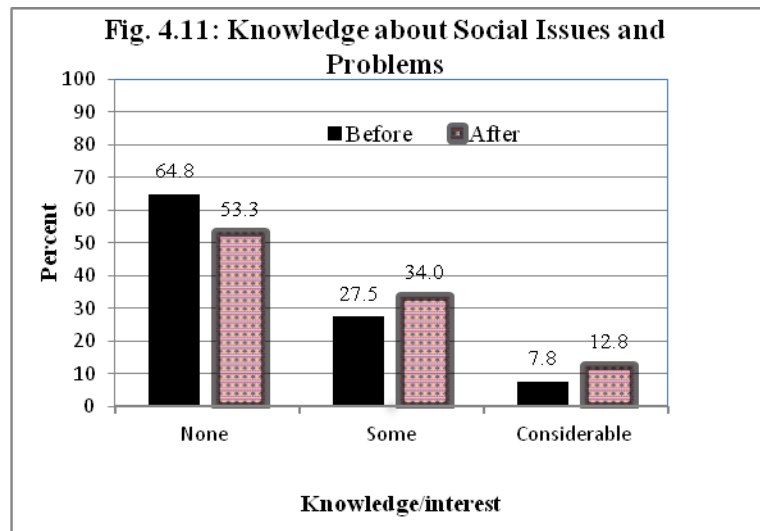
Proportion of women able to put their personal as well as general matters in the family was already high before participation in micro-credit program. Participation in the program has further increased the proportion of such women. Similarly, their confidence to put issues in the Group meetings has increased compared to early years of participation (Fig. 4.11).



Source: Field Survey, 2010

4.3.9 Change in Knowledge about Social Issues and Problems

There is a perceptible increase in women's interest in and knowledge about social issues and problems. Proportion of women having no interest/knowledge has decreased from 64.8 percent to 53.3 percent, while the proportion of those having some interest/knowledge has increased from 27.5 percent to 34.0 percent, and that having considerable interest/knowledge has increased from 7.8 percent to 12.8 percent (Fig. 4.12).



Source: Field Survey, 2010

4.4 Impact on Poverty Reduction

Income and expenditure figures are the commonly used monetary indicators of people's living condition. However, expenditure figure may be a better indicator than income because of two reasons. Firstly, actual expenditure may reflect the extent of the fulfillment of basic needs, whereas income is just an element that allows the expenditure. Secondly, expenditure figures are more reliable than income because of general tendency of people to understate the latter. In the case of NUB clients, additional income earned from undertaking NUB supported income generating activities has increased ranging between Rs. 6,101 and Rs. 15,178 per month depending on the number of activities undertaken. A large majority of households have mostly used the additional income for household consumption, education of children and purchase of durable goods, while very few households have used it for purchase of real assets (land, house, etc.). This means that a large majority of clients spend their income in improving their living standard rather than investing in real assets for earning future stream of income. There could be two reasons for this. Firstly, meeting consumption requirement was their urgent need because of low level of consumption. Secondly, the additional income earned was not high enough to enable them to purchase real assets after meeting consumption requirements. This shows that the additional income is totally reflected in the level of expenditure which could be taken as an indicator of poverty status of the clients.

4.4.1 Per Capita Expenditure

There has been a considerable increase in per capita expenditure of the NUB clients after participation in the credit program. The average per capita expenditure has increased from Rs. 12,002.5 to Rs. 19,450.7, reflecting an increase by 62.1 percent. The minimum as well as the maximum per capita expenditure has also increased significantly after participation in the program. Likewise, the average per capita expenditure of the clients of each quartile has also increased considerably (Table 4.20).

Table 4.20: Per capita expenditure

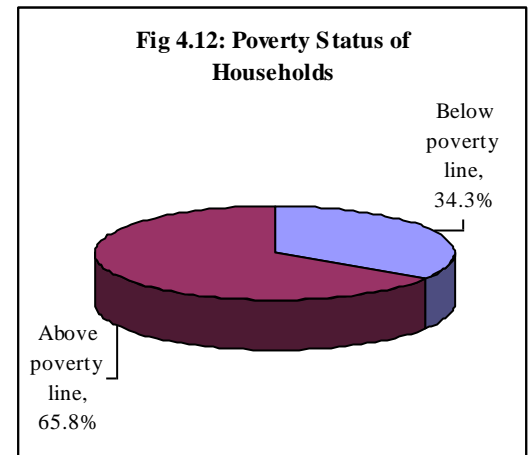
Per capita expenditure	Amount (Rs.)	
	Before	After
Range		
Minimum	416.7	833.3
Maximum	60,000.0	1,68,000.0
Average in overall		
Mean	12,002.5	19,450.7
Median	10,000.0	16,000.0
Average within quartiles		
Lowest quartile (mean)	2,923.7	4,615.6
Lower middle quartile (mean)	8,361.5	12,192.9
Upper middle quartile (mean)	13,085.6	19,787.7
Highest quartile (mean)	23,821.0	41,206.7

Source: Field Survey, 2010

4.4.2 Reduction in Poverty

The reduction in poverty is assessed in terms of proportion of clients having per capita expenditure above the poverty line. As this requires definition of per capita poverty line expenditure, the expenditure level of Rs. 7418.4 determined by Nepal Living Standard Survey II for the rural area of Nepal for the year 2003/04 has been taken as the base (CBS, 2005). This figure has been updated by the inflation factor to derive the figure for 2008/09. This gives the per capita poverty line expenditure of Rs. 10,864.0 for 2008/09.

The assessment of change in poverty status of clients requires poverty line expenditure prior to taking credit. However, this has not been possible owing to the participation of clients in the credit program in different years and lack of officially defined norm for the respective years. Given this problem it would be quite logical to assume all the NUB clients to be poor prior to participation in the program, as the NUB credit policy is exclusively intended for poor families. Comparison of this pre-credit situation with the number of households crossing the threshold poverty expenditure level (Rs. 10,864.0) shows that about two thirds clients have upgraded from poverty level after participation in the program. The NUB micro-credit program has thus enabled a large proportion of clients to upgrade themselves above the poverty line.



Source: Field Survey, 2010

CHAPTER V

CONCLUSIONS, MAJOR ISSUES AND WAY FORWARD

5.1 Conclusions

Nirdhan Utthan Bank has been expanding its organizational structure commensurate with the expansion in its lending activities both in terms of volume of credit and geographical area. Starting from two area offices and 12 branches in 1998 when it started its business, it has, as of mid-July 2010, 5 area offices and 77 branches. The geographical coverage, in terms of number of districts and VDCs, has increased from 118 VDCs of 4 districts in 1998 to 717 VDCs of 27 districts by mid-July 2010. Judged in the context of 12 years of operation, the expansion in geographical coverage appears to be quite encouraging.

By ecological belt, the bank's lending activities show relatively higher concentration in the terai districts. Of the total 27 districts covered, 15 are in terai and the remaining 12 districts are in the hills with mountains virtually left unattended. The coverage in the terai represents 75.0 percent (15 out of 20 districts), whereas in the hills it is only 30.8 percent (12 out of 39 districts). None of 16 districts in the mountains have prevalence of NUB activity.

Even in the districts reached by the bank, the coverage of the VDCs is not even. The districts in which the Bank started its operation in the early years have almost a total coverage of VDCs. These are Bara (99.0 percent), Rupandehi (95.8 percent) and Chitwan (84.2 percent). In districts where the program has been recently expanded, the coverage of VDCs is low, such as Dhankuta (2.8 percent) and Panchthar (2.4 percent). In terms of ecological belt, coverage of VDCs is high in the terai districts and very low in the hills. Even in the terai districts, the coverage is concentrated in municipalities and accessible VDCs.

The clients of the Bank have increased steadily excepting a small decrease in 2003, which may be due to intense conflict in the country. During the period between 1998 and 2010, the clients of the bank increased by nearly eleven fold from 11,717 to 126,787 reflecting an average annual growth rate of 17.8 percent. Along with the increase in the number of clients, the number of loan clients has also increased steadily during the same period from 8,987 to 85,323, showing an annual average growth rate of 16.0 percent.

In terms of ecological belt, terai districts (Bara, Nawalparasi Chitwan, Rupandehi and Banke) have relatively larger number of clients as these were the districts chosen by the bank to start its credit program. These districts also have relatively large coverage of poor households by the credit program. While the coverage is more than hundred percent in

Bara (159.5 percent), the coverage in other districts is between 35.3 percent (Rupandehi) to 66.9 percent (Chitwan).

The expansion of the bank credit program is, however, uneven in terms coverage of VDCs/municipalities within the districts and also households within the VDCs/municipalities. There is high concentration in the accessible VDCs/Municipalities with the coverage of almost all target households, and some of these appear to be saturated for further expansion. Such a heavy concentration of program in some areas is likely to lead to the duplication and overlapping of micro-credit program both in terms of geographical space and clients, while a huge population in other geographical areas has no access to micro-credit.

Bank branches operating in VDCs/ Municipalities having heavy concentration are also constrained to expand the program in the adjacent VDCs/ Municipalities because of prevalence of other branches of the bank. Instead of covering interior and remote parts of the same districts, these branches have opted to expand the program to accessible areas of other districts.

Owing to lack of scope for further expansion of the program in the terai districts, the regional offices at Bharatpur and Bhairawa have moved towards the hill districts (Parbat, Baglung, Tanahu, Kaski, Gorkha, Arghakhanchi, Gulmi), while the regional office at Birgunj has planned to move towards the eastern terai districts (Dhanusha, Mahottari, Siraha, Udayapur and Saptari). In the case of Nepalgunj regional office, the accessible VDCs/Municipalities have not yet been saturated for further expansion.

The loan operation of the bank judged in terms of number of credit operating groups/ centres, and volume of credit and savings mobilization have expanded over the years. In the period of 12 years, the number of Groups has increased nearly ten times (from 2,394 in 1998 to 23,075 in 2010) and the number of Centers increased by about nine times (from 550 in 1998 to 4,930 in 2010).

With regard to lending operation, loan disbursement, loan repayment and loan outstanding have increased significantly. Loan disbursement in 2010 amounted to Rs. 9175.6 million, showing nearly 81-fold increase over the level of 1998. The average annual growth rate is 34.5 percent. Loan repayment, as proportion of loan disbursement, is over 83.9 percent, compared to about 67.0 percent in the beginning. The average annual growth rate of repayment is 35.2 percent. Loan outstanding was Rs. 1478.3 million, as of mid-July 2010. The average annual growth rate of loan outstanding is 27.6 percent.

Total savings of the Group members is Rs. 435.2 million in 2010, which is more than 46 fold higher over the level of 1998. Savings show an average annual rate of growth of 28.2 percent.

A large majority of sample clients are economically poor and socially disadvantaged households. From the criterion of landholding, 63.3 percent of the clients qualify as poor. In terms of caste/ethnicity, 69.2 percent are from socially disadvantaged communities

comprising, Dalits, Muslims and ethnics. The clients are largely illiterate (46.5 percent) and are from female-headed households (42.5 percent). According to record of 12 branches of the bank covered by the study, Dalits constitute 27.3 percent of the total loan clients (28,958).

Family members of the clients are engaged in diverse occupations for their livelihood. The major occupations in terms of number of persons employed are business, wage labour, employment in formal sector and foreign employment. Of these occupations, while business also contributes highest proportion to the total household income, wage labour has the lowest contribution.

The average household income of the clients is Rs 15,668 per month. The earning members per household are 1.73, mostly males (1.235 males as against 0.495 females). The average earning per person is Rs. 9061.1 per month. By sex, earning per person is relatively large among the males as compared to the females (Rs. 9921.3 as against Rs. 6915.0). The contribution of males to the total household income is 78.2 percent, which is nearly four times of the females (21.8 percent).

The foregoing socio-economic characteristics of the loan clients show that even the non-poor as well as socially advantaged households are included in the credit program. This may be attributed to supply as well as demand related factors. On the supply side, the reason could be the absence of credit program in poverty pockets or errors in the selection of target clients. It could also be due to purposive selection of credit worthy clients even among the poor households so as to reduce the risk of loan default. On the demand side, the lack of knowledge and awareness among the poor households, particularly in the remote and inaccessible areas, about the availability of micro-credit might have led to low demand for such credit. This may again be due to lack of knowledge on operating income generating activities with small amount of capital.

Participation of clients in the credit program has increased significantly after 2004, even though some of them had started borrowing loans as early as 1994 even before the formation of NUB. The average amount of loan per client is larger than the first one in each successive loan. The average size of last loan is Rs. 33,679, which is almost three times higher than the first loan (Rs. 11,484).

The frequency of borrowings ranges from 2 to 13 times with a large proportion (54.0 percent) borrowing 2 to 5 times. The proportion of clients borrowing 7 times and more is very small.

The amount of loan borrowed by the clients ranges from below Rs. 50,000 to above Rs. 300,000 with the average of Rs. 128,465. A large majority (58.8 percent) has loan amount ranging between Rs. 50,000.0 to Rs. 150,000.0. For most of the clients (70 percent), the loan amount is sufficient to meet the requirement. In the case of insufficiency, the gap is met from the contribution of own family members and by borrowing from money lenders, neighbors, friends and other credit institutions.

Repayment of loan installments is not a problem (95.0 percent). In the case of problem in meeting the repayment schedule, the major causes were the partial operation or failure of the business/enterprise and use of credit for household consumption. In such situations the fund for repayment was arranged by borrowing from various sources, both formal and informal.

The bank does not seem to have given much attention to capability building of the clients through skill enhancement, as only a very small proportion of the clients have received skill training organized by the bank. Of those who have learnt skills from the trainings organized by the bank and other institutions a large proportion has not used the skills in income generation activities due mainly to family reason and problems associated with marketing.

As felt by the borrowers, increase in family income, increase in food self-sufficiency, employment for family members and increase in assets are the major advantages of participating in micro-credit programs.

The micro-credit loans have contributed to the initiation and expansion of livestock raising, vegetable farming and poultry farming and petty trading. Besides, loans have also been used for asset purchase, household consumption, Group saving/loan repayment and foreign employment. The clients mostly undertake quick yielding activities, mostly yielding returns in less than six months. The small size of the loan and the requirement of paying installments within a short repayment cycle appear to have induced them to undertake short gestation activities.

Micro-credit has been instrumental in solving the money problem that had constrained the clients to undertake newer activities and thereby diversify their occupations. Clients borrowing successive loans have either expanded the same activity or invested in additional activities. They have undertaken up to three activities fully or partially with the successive credit. As each successive credit offered them larger and larger amount, they have been able to invest more in the previously carried out activities or start new ones. While one half of the clients have expanded the previously undertaken activities, the other half has started new ones including a few reviving the old ones. Even though micro-credit has led to the expansion of income generating activities, the clients are still facing some problems relating to inputs, knowledge/skill and marketing.

More than half of the clients undertaking new activities have been able to do so because of the availability of micro-credit. Most of the clients seem to be in a position to continue the activities without needing further loan. Those not in such position have preference for Nirdhan credit because of its availability at the doorstep, non-requirement of collateral, relatively low rate of interest, and longer repayment cycle.

Activities carried out with micro-credit have created employment opportunities for the family members, particularly females and have increased the income of the family. The increase in income is higher for families undertaking larger number of activities. This has contributed to improve the food self-sufficiency as well as income sufficiency status of

the clients. The increase in income has also significantly reduced the borrowings from informal sources for meeting household expenses.

The additional income is mainly spent on consumption, schooling of children, expansion of business, and repayment of loan installments, group saving and starting new business. The expenditure in consumption is mainly concentrated in increasing family intake of nutrient food items, such as milk, meat, fish, egg, green vegetables and fruits. There is also significant increase in the possession of various types of consumer durables, such as TV sets, refrigerators, bicycles and motorcycles, and mobile phones. Besides, a few clients have also been able to purchase land for homestead as well as farming.

There has also been an improvement in the housing conditions in terms of roofing materials, walls, rooms and storey. Likewise, household sanitation has also improved, as nearly two-thirds of the families have toilets, mostly of permanent types, as compared to one half before participation in the micro-credit program.

Micro-credit from the bank has contributed to improve the quality of schooling of children by shifting them from government to private schools and enhancing their performance.

One of the most discernible impacts of the credit program is the economic empowerment of the women. A large number of women, who were exclusively confined to household chores previously, have undertaken various income generating activities. There is significant increase in the proportion of women engaged in business/retail shops and livestock rearing, while there is decrease in the proportion of women working as wage labor. Women undertaking the economic activities have earned additional income, mostly Rs. 3 to 6 thousand per month. Proportion of women previously not earning at all or earning relatively low income has declined, which means increase in their income level. Besides, there has also been an increase in women's ownership of property, as some women have homestead and farming land registered in their names.

A large proportion of the women are in a position to retain and use their earnings by themselves. Most of them have either full or partial control over their income earned from micro-credit financed activities. Most of the family decisions are taken jointly by husband and wife occasionally in consultation with senior members.

Women's association with social organizations and political parties has increased after participation in micro-credit program. This is indicated by the increase in the number of women taking membership, holding executive posts and attending meetings of such organizations.

The program has enhanced the reading, writing and arithmetic calculation ability of women. Women previously putting thumb print in the legal documents can now write their initials. Majority of them can read papers and those engaged in business/retail shops can perform basic arithmetic calculation.

Higher mobility of women out of the homes and interaction in the regular Group meetings have increased their knowledge, attitude and practice with regard to various health and hygiene related issues. They are now more aware of the importance of safe drinking water, use of toilet, personal hygiene, disease prevention, maternal and child health and immunization of children. All these have also contributed to increase their self- confidence, as indicated by the increase in their active participation in the family discussions and Group meetings. They have also become more and more inquisitive about various social, economic and political issues and problems of their community and society at large.

Participation in micro-credit program has enabled the clients to reduce poverty by increasing per capita expenditure of their families. The per capita expenditure of nearly two thirds of 400 clients is above the poverty line per capita expenditure, which implies that a large proportion of clients have upgraded themselves from the poverty level after participation in the program.

5.2 Major Issues

The findings of the study show a perceptible impact of micro-credit program of NUB on improving the economic and social condition of the clients and upgrading them from the poverty level. This has happened because of fast growth of the program in terms both coverage and credit operation. The expansion of the program, however, has given rise to certain issues, which seem to have sidelined its objective of providing access to credit to the poor people in remote and inaccessible hill districts and enabling them to undertake economically viable income generating activities. The NUB need to address these issues for reaching the most vulnerable and deprived people on the one hand and enabling the clients to scale up the activity by providing the needed support and facilities. These issues are presented below:

- Lack of prevalence of NUB branch in the mountains and remote hill districts
- Low coverage of the program in the hill districts and interior parts of the terai districts
- Heavy concentration of the program in accessible areas, particularly municipalities and accessible VDCs
- Overlapping of the program in terms of geographical space and clients
- Coverage of the program not being strictly confined to the poor
- Selection of relatively credit worthy clients bypassing the target groups
- Limited information to the households on the availability of micro-credit, particularly in the remote and inaccessible areas

- Supply based approach of the program on the presumption that supply creates its own demand
- Inadequacy of skill training and support activities for generating demand for credit and its productive use
- Lack of entrepreneurship for undertaking income generating activities on commercial scale

5.3 The Way Forward

1. Extension of Program to Inaccessible and Remote Areas

The NUB should extend its program towards far off and remote mountain and hill districts. As none of the mountain districts and only limited number of hill districts have been reached by the NUB program, it is necessary to extend the program in these districts. This will not only portray NUB as a bank exclusively meant for the poor but also render it the image of having nationwide coverage.

2. Expansion of Coverage in the Program Districts

The coverage of VDC even within the districts covered by the NUB is highly uneven. There is not only sparse coverage in the hill districts in general, but also nominal presence in some of the districts. On the other hand, the coverage in terai is relatively dense, but it is lopsided because of concentration in the municipalities and accessible VDCs. Therefore, it is suggested that NUB program should be directed towards covering larger number of VDCs in the hills and moving into the interior and inaccessible parts of the terai.

3. Streamlining the Program in Saturated Areas

The coverage of households within the VDCs/municipalities of the districts covered by the NUB is also uneven. In some accessible VDCs/Municipalities, two branches are operating almost parallel, covering almost all households irrespective of their poverty status and even overlapping the clients. Such practices may divert the credit away from the poor to the non-poor and also carry the risk of loan defaults. The NUB should streamline the credit program in the saturated areas and extend it to new areas.

4. Generation of Demand for Micro-credit

NUB credit program seems to be guided by the philosophy that supply of credit would automatically create demand for it. Although this may be true in urban areas, a different scenario prevails in inaccessible and remote areas because of relatively low level of awareness and education of the people. It is, therefore, important to make the people aware of the availability of micro-credit facility so that they would come forward to demand credit for undertaking small scale income generating activities that are viable in

their locality. Besides, skill training and entrepreneurship development are also equally important factors for motivating the poor people to demand credit and operate income generating activities. The awareness raising programs and promotional activities can be carried through local NGOs, CBOs and clubs.

5. Survey of Target Districts and Households

As the basic objective of NUB credit program is to increase the access of the poor to finance, it is necessary to identify poverty pockets as well as poor households in the target districts, and assess the viability of micro-enterprises prior to extending the program. This would require baseline survey of the target area and the households. The baseline survey undertaken prior to initiation of the program would also serve as a basis for monitoring the progress of the program and assessing the impact at a later stage.

6. Skill Training

NUB does not seem to have given much attention towards linking up its credit program with skill enhancement, as only small proportion of the clients were found to have received skill training. It was found that the NUB credit program and training activities of governmental and non-governmental organizations are being run independently of each other rather than being supportive to each other. This could be one of the reasons for the use of micro credit exclusively in traditional activities rather than in newer enterprises. Such a mismatch between credit supply and skill training may discourage the clients from exploring newer activities and venturing into them. NUB can solve this problem by establishing relation with the district line agencies, such as District Agriculture Development Office, District Livestock Services Office, District Office of Department of Cottage and Small Industry, District Forest Office which conduct training programs in their respective fields. Given such relation, NUB would be in a position to facilitate inclusion of NUB clients in the training programs organized by these line agencies. Furthermore, this would also help to increase the access of the clients to production inputs as well as marketing and extension services provided by these line agencies.

7. Enterprise Development

The findings of the study show that a large majority of clients have crossed the poverty level, and hence they should be motivated towards expanding the current activities or starting newer activities on commercial scale. Operation of activities on commercial scale requires possession of skills and entrepreneurship, and easy access to finance, services and infrastructural facilities. It would not be sensible to start such business enterprise without a well prepared business scheme. However, preparation of such scheme requires certain technical and business skills which the clients may simply not possess. Such technical assistance and even the business scheme may be available at district level line agencies and the NGOs involved in promoting business enterprises in their respective fields. In this context, NUB can act as a facilitator to establish the relation between the prospective clients and the line agencies. In addition to this, the NUB credit policy should

also have the provision for larger loan and longer repayment period depending upon the turnover period of the investment.

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Annex -1

STUDY METHODOLOGY

The study is based on secondary as well as primary data and information. The secondary data and information were obtained from the NUB Central as well as Branch Offices. Primary data were collected by conducting interactions with the chief/concerned officials of the Area and Branch offices selected for survey and carrying out household interviews with a representative sample of clients in the sample districts.

1. Universe and Sample

1.1 Universe

Universe of the study was the total number of clients of NUB branches established by mid-July 2006. Table 1 gives the distribution of the bank clients by branches established by mid-July 2006.

Table 1: Number of Active Clients by Branches

Area Office	Branches		Date of Establishment	Number of Active Clients
	Branches Office	District		
Bhairahawa	Dhakdhai	Rupandehi	1993/03/14	2150
	Sitalnagar	Rupandehi	1994/07/01	1693
	Majhgawa	Rupandehi	1994/12/18	1805
	Rampur	Rupandehi	1995/01/28	1448
	Mahajidiya	Rupandehi	1997/08/05	1853
	Kotihawa	Rupandehi	1998/04/29	2006
	Harraiya	Rupandehi	1998/09/11	1284
	Bhairahawa	Rupandehi	2004/04/02	1436
	Butwal	Rupandehi	2005/08/12	2181
	Parasi	Nawalparasi	1995/08/23	3128

	Belatari	Nawalparasi	1998/07/26	2522
	Taulihawa	Kapilbastu	1998/09/20	1840
	Aryabhanjyang	Palpa	2004/01/21	984
	Bastari	Palpa	2004/12/15	1469
	Total = 14			Total = 25799
Bharatpur	Madi	Chitwan	1996/12/28	598
	Bharatpur	Chitwan	1997/12/30	2502
	Bhandara	Chitwan	1997/12/08	2230
	Tandi	Chitwan	1997/12/15	2899
	Chanauli Parsadhap	Chitwan	2000/09/17	2031
	Mugling	Chitwan	2004/10/05	2021
	Daldale	Nawalparasi	2004/04/32	2407
	Total = 7			Total = 14688
Birgunj	Parsauni	Bara	1998/12/31	3588
	Kolbhi	Bara	1999/01/05	3503
	Gunjbhawanipur	Bara	1998/12/31	3065
	Kalaiya	Bara	2000/02/22	3202
	Simraungadh	Bara	2000/11/16	3064
	Telkuwa	Bara	2004/01/21	2869
	Gadahar	Bara	2005/08/09	1746
	Parwanipur	Parsa	1999/03/24	3559
	Birgunj	Parsa	2000/11/23	3532
	Basantapatti	Rautahat	1999/01/11	2637
	Gaur	Rautahat	1999/05/04	1730
	Chandranigahapur	Rautahat	1999/09/06	1824
	Garuda	Rautahat	2004/01/21	1768
	Total = 13			Total = 36087
Nepalgunj	Kohalpur	Banke	2003/11/04	3605
	Udaypur	Banke	2003/08/30	2872
	Ranjha	Banke	2003/09/17	2864
	Paraspur	Banke	2004/09/24	2416
	Khajura	Banke	2005/05/19	2452
	Sisahaniya	Dang	2004/04/25	1831
	Tulsipur	Dang	2005/04/31	2175
	Gadhwa	Dang	2005/05/19	1058

	Ghorahi	Dang	2006/02/01	1735
	Gulariya	Bardiya	2006/02/01	1754
	Total = 10			Total = 22762
Overall	Branches = 44			Clients= 99,336

Hence, the universe of the study population is 99,336 active clients of the bank.

1.2 Sample Size

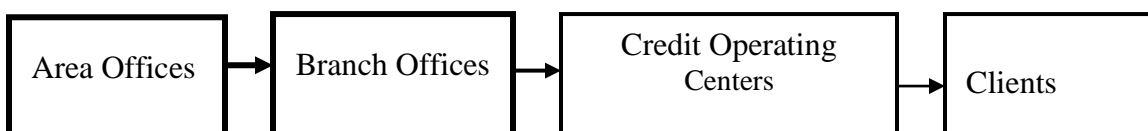
With known size of study population, the required sample size for 95 percent level of confidence was determined as follows:

$$\begin{aligned}
 n &= \frac{N}{1 + N(e)^2} \\
 &= \frac{99336}{1 + 99336(0.05)^2} \\
 &= \frac{99336}{1 + 99336 \times 0.0025} \\
 &= \frac{99336}{1 + 248.34} \\
 &= \frac{99336}{249.34} \\
 &= 398.3958 \approx 399 \approx 400
 \end{aligned}$$

Hence, the number of loan clients determined as sample size for the study was 400.

2. Sampling Procedure

A multi-stage sampling procedure was adopted to select NUB Area Offices, Branch Offices, credit operating Centers/Groups and clients.



3. Allocation of Sample

The total sample of 400 loan clients was allocated to different Area Offices in proportion to the size of the clients of each area office. Table 2 gives the allocation of sample by Area Office.

Table 2: Allocation of Sample by Area Office

Area office	Population Size		Sample Size	
	(N)	(%)	(n)	(%)
Bhairahawa	25799	25.97	104	26.00
Bharatpur	14688	14.79	59	14.75
Birgunj	36087	36.33	145	36.25
Nepalgunj	22762	22.91	92	23.00
Total	99336	100.00	400	100.00

In the second step the sample assigned to each area office was to be allocated to the branches of the concerned area office. This required selection of branches to be sampled from each area office. The number of branches to be selected was determined so as to represent 25 percent of NUB branches in aggregate. Accordingly, 12 out of 44 branches were to be selected from 4 area offices. The sample of 12 branches was allocated to the area offices in proportion to the number of branches of the concerned area office. The total number of clients to be selected from each area office was equally distributed to the selected branches. Depending upon the number of clients to be covered from each branch, the number of credit operating centres to be sampled was decided so as to cover 13 to 16 clients from each centre. For the selection of Centres a minimum of three years operation was set as the criterion. The details are given in Table 3.

Table 3: Allocation of Sample by Area Office and Branch

Area Office	Number of Branches	Sample Branches	Sample Centres	Allocation of Sample Size	Sample size of Clients
Bhairahawa	14	4	4 x 2 = 8	8 Centres x 13 clients	104

Bharatpur	7	2	$2 \times 2 = 4$	4 Centres x 15 clients	59
Birgunj	13	3	$3 \times 3 = 9$	9 Centres x 16 clients	145
Nepalgunj	10	3	$3 \times 2 = 6$	6 Centres x 16 clients	92
Total	44	12	27		400

4. Selection of Sample Units

4.1 Selection of Area Offices

Area Offices of NUB which had Branch Offices opened by mid-July 2006 were taken as the universe. Table 4 presents the distribution of the Branch Offices by Area Office opened by mid-July 2006.

Table 4: Branch Offices Opened by Mid-July 2006 by Area Office

Area Office	Branches Opened by Mid-July 2006	No of Branches
Bhairahawa	Dhakdhai, Sitalnagar, Majhgawa, Rampur, Mahajidiya, Kotihawa, Harraiya, Bhairahawa, Butwal, Parasi, Belatari, Taulihawa, Aryabhanjyang and Bastari;	14
Bharatpur	Madi, Bharatpur, Bhandara, Tandi, Chanauli Parsadhap, Mugling and Daldale;	7
Birgunj	Parsauni, Kolbhi, Gunjbhawanipur, Kalaiya, Simraungadh, Telkuwa, Gadahal, Parwanipur, Birgunj, Basantapatti, Gaur, Chandranigahapur and Garuda;	13
Nepalgunj	Kohalpur, Udaypur, Ranjha, Paraspur, Khajura, Sisahaniya, Tulsipur, Gadhma, Ghorahi and Gulariya;	10
Birtamod	None	-
Total		44

As can be seen from Table 4, Birtamod Area Office had not opened any Branch Office by mid-July 2006. Hence, Bhairahawa, Bharatpur, Birgunj and Nepalgunj Area Offices were included in the study.

4.2 Selection of Branch Offices

In accordance with the norm of selecting 25 percent of total Branches, 4 out of 14 branches from Bhairawa office, 2 out of 7 from Bharatpur Office, 3 out of 13 from Birgunj office and 3 out of 10 from Nepalgunj office were selected. The identification of

the specific branches for field survey was made in consultation with the concerned Area Office. The list of the Branches identified for survey and the reasons given for this are presented in Table 5.

Table 5: List of the Selected Branches

Area Office	Number of Branches		Name of the Branch	Reasons for Selection
	Total	Selected		
Bharatpur	7	2	Chanauli/Chitwan	Operation since 2000; coverage of poor, ethnics, Dalits and indigenous Darais; interior part of the district (19 km far from highway / district headquarter).
			Tandi/Chitwan	Operation since 1997; close to Highway; large number of clients; indigenous Tharus and hill migrants.
Bhairahawa	14	4	Bhairahawa/ Rupandehi	Relatively new (operation since 2004); multi ethnics (Pahade and Madeshi); urban and accessible area with clients largely operating petty trading business.
			Harraiya/ Rupandehi	Clients since 1998; conflict-affected branch; prevalence of Tharu and Pahadi community; interior part of the district.
			Banstari/ Palpa	Relatively new (operation since 2004); hill area, low level of economic activities; SRG model.
			Belatari/ Nawalparasi	Operation since 1998, interior and most inaccessible part of the district; predominance of Madhesi ethnics; No other micro-credit bank.
Birgunj	13	3	Prasauni/Bara	Operation since 1998; interior, inaccessible, rural and remote part of the district bordered with India; exclusively Madhesi Community; cereal production, vegetable growing and livestock raising constituting the main occupation.
			Birgunj/ Parsa	Operation since 2000; industrial, urban area ; mixed ethnics; large number of clients mostly operating petty trading business.
			Chandranigahpur/ Rautahat	Operation since 1999; lying along the East-West highway; conflict affected area; mixed community; predominance of cereal crops and

				vegetable farming.
Nepalgunj	10	3	Kohalpur/Banke	Operation since 2003; large number of clients; exposed to highway; semi-urban area with mixed community; SRG model.
			Ranjha/Banke	Operation since 2003; exposed to high way; semi-urban area; mixed community ; SRG model.
			Tulsipur/Dang	Operation since 2005; interior terai; mostly ethnics and Dalits; GBB model.

4.3 Selection of Credit Operating Centers

In order to cover the required number of clients allocated to each branch, two to five credit operating Centres were selected from the sample Branches. The identification of the Centres was made in consultation with the concerned Branch Office. In total, 38 Centres were selected for survey .The list of the selected Centres is presented in Table 6.

Table 6: List of the Selected Centres

Branch Office	Selected Centres	
	Number	Name
Chanauli	2	Krishna Chowk
		Shanti Chowk
Tandi	2	Bhokaha 'Ka'
		Madhavpur
Bhairahawa	5	Gallamandi
		Khajahana
		Kthautiya 'Ka'
		Haat Bazer 'K'
		Jhandi Bazer
Harraiya	5	Bankasiya 'Kha'
		Asidhawa
		Pratappur
		Hanuman Nagar
		Haraiya 'Kha'
Banstari	3	Naya Gaun
		Chlap Devisthan
		Pakluwa

Belatari	2	Ghodaha
		Shreenagar 'Ka'
Prasauni	3	Motisar 'Ga'
		Prastoka
		Inarwa
Birgunj	5	Jail road
		Murali 'Gha'
		Nagawa 'Nga'
		Naawa 'Gha'
		Nagawa 'Cha'
Chandranigahpur	4	Gairigaum
		Chapur 'Gha'
		Chapur 'Ga'
		Chidiyadaha 'Ka'
Kohalpur	2	Chappargaudi 'Ga'
		Chappargaudi 'Ka'
Ranjha	3	Bhujeigaun
		Shantinagar
		Ranjha
Tulsipur	2	Saraswati Tole
		Prabhat Tole

4.4 Selection of Clients

The final selection of clients allocated to each branch was made from the selected Centres. The selection was made randomly using the list of clients of the respective Centre as the sampling frame. The number of clients selected and interviewed from each Centre is presented in Table 7.

Table 7: Sample Clients by Centre, Branch and Area Office

Area Office	Branch/District	Centre	Sample Clients
Bharatpur	Chanauli/Chitwan	Krishna Chowk	14
		Shanti Chowk 'Kha'	15
	Tandi/Chitwan	Bhokaha 'Ka'	15

		Madhavpur	15
Sub-Total			59
Bhairahawa	Bhairahawa/ Rupandehi	Gallamandi	12
		Khajahana	7
		Kthautiya 'Ka'	3
		Haat Bazar 'Ka'	2
		Jhandi Bazar	2
	Harraiya/ Rupandehi	Bankasiya 'Kha'	15
		Asidhawa	7
		Pratappur	2
		Haraiya 'Ka'	1
		Haraiya 'Kha'	1
	Banstari/Palpa	Naya Gaun	5
		Chhap Devasthan	11
		Pakluwa	10
	Belatari/ Nawalparasi	Ghodaha	15
		Shreenagar 'Ka'	11
Sub-Total			104
Birgunj	Prasauni/Bara	Motisar 'Ga'	10
		Prastoka	20
		Inarwa	18
	Birgunj/Parsa	Jail road	15
		Murali 'Gha'	13
		Nagawa 'Gha'	6
		Nagawa 'Gna'	12
		Nagawa 'Cha'	2
	Chandranigahpur/Rautahat	Gairigaun	21
		Chapur 'Ga'	5
		Chapur 'Gha'	14
		Chidiyadaha 'Ka'	9
Sub-Total			145
Nepalgunj	Kohalpur/Banke	Chappargaudi 'Ka'	14
		Chappargaudi 'Ga'	18
	Ranjha/banke	Bhujigaun 'Ka'	16

		Shantinagar	7
		Ranjha	10
	Tulsipur/Dang	Saraswati Tole	12
		Prabhat Tole	15
Sub-Total			92
Overall			400

5. Survey Instruments

5.1 Household Interviews

Interviews were conducted with the sample households by using a structured questionnaire designed to obtain information on household characteristics, participation in loan programmes, use of loans, activities operated from the loans, and the impact of loans on improving the socio-economic condition of the family (Annex 1).

5.2 Interviews with Officials of Area and Branch Offices

The officials of the Area and Branch offices of the bank were interviewed for obtaining information on the activities undertaken to enhancing skills and imparting business knowledge on the clients, and official views and perceptions regarding the use of credit by the clients, impact of credit on socio-economic conditions of the family, emerging issues in loan administration and suggestions for future. The interviews were carried out by using a checklist.

6. Data Processing and Analysis

Both the primary and secondary data were processed and analyzed by using SPSS computer software package. In addition to descriptive statistics, such as ratio and mean, inductive statistics were used to draw inferences on the growth trend in the number of clients, credit operations and savings mobilization that portray the coverage of the Bank. The estimation of growth trend was made by using exponential trend equation of the form $y = b_0 e^{b_1 t}$ on annual data from 1998 to 2010. Similarly, estimation of poverty line expenditure for 2008/09 was made in form of: *poverty line (2003/04) X CPI (2008/09)/ CPI (2003/04)*.

7. Limitations of the Study

Recall bias: In the absence of baseline data, the before situation was established as per the information provided by the clients. Some clients had a long time span of involvement in the NUB credit program and it was difficult for them to exactly recall the situations at that time. This meant that the study could not avoid the limitation of recall bias.

Annex - 2

List of Persons Met and Interviewed

SN	Name	Position	Office
1.	Bishnu Prasad Parajuli	Regional Chief	Regional Office, Bharatpur
2.	Narayan Bahadur Karki	Regional Chief	Regional Office, Bhairahawa
3.	Raj Naryan Das	Regional Chief	Regional Office, Birgunj
4.	Narayan Prasad Panthi	Program Manager	Regional Office, Nepalgunj
5.	Jamuna Kandel	Branch Manager	Branch Office, Chanauli, Chitwan
6.	Shanker Prasad Neupane	Branch Manager	Branch Office, Tandi, Chitwan
7.	Sudha Rani Srivastav	Branch Manager	Branch Office, Bhairahawa, Rupandehi
8.	Lekh Nath Kafle	Branch Manager	Branch Office, Haraiya, Rupandehi
9.	Arjun Prasad Khanal	Branch Manager	Branch Office, Banstari, Palpa
10.	Purna Bahadur Khadka	Branch Manager	Branch Office, Belatari, Nawalparasi
11.	Laxmi Prasad Sharma	Branch Manager	Branch Office, Birgunj, Parsa
12.	Manoj Kumar Yadav	Branch Manager	Branch Office, Prasauni, Bara
13.	Hari Chandra Paudel	Branch Manager	Branch Office, Chandranigahapur, Rautahat
14.	Lal Bahadur Rawal	Branch Manager	Branch Office, Kohalpur, Banke
15.	Bishnu Bahadur Kunwar	Branch Manager	Branch Office, Ranjha, Banke
16.	Dilip Sharma	Accountant	Branch Office, Tulsipur, Dang

Annex - 3

Annex Tables

Annex Table 1: Growth Trend in the Coverage of NUB

Items of Information	1998	1999	2000	2001	2002	2003	2004
No. of Area Office	2	3	3	3	3	4	4
No. of Branch Office	12	21	23	26	26	26	36
No. of Districts Covered	4	6	7	7	7	8	10
No. of VDCs Covered	118	174	196	218	219	219	298
Loan Disbursed	113560	228962	443925	737904.1	1047612	1335506	1676703
Loan Repaid	75859	162987	323576	563058.5	836499.9	1124819	1404246
Loan Outstanding	37701	65975	120349	174845.6	211112	210687.5	262819.8
Group Fund Saving	7541	15036	28519	43177.03	52551.08	55055.68	69514.2
Personal Saving	1688	3298	7496	8135.734	6907.549	6780.714	7844.973
Other Savings	153	295	878	1612.254	2171.491	2444.881	2852.434
Total Savings	9382	18629	36893	52925.02	61630.12	64281.28	80211.6
No. of Group Based Clients Enrolled					46818	51148	65010
No. of Micro enterprise Loan Clients					1171	1278	643
No. of Clients Dropped Out, during the period							
No. of Clients Dropped Out, Cumulative		1461	3017	6762	12601	17609	20791
No. of Active Clients	11717	19371	31399	35268	35388	34817	44862
No. of Loan Clients	8987	15382	26618	30559	29589	27457	32678
No. of Centers	550	789	1078	1173	1213	1217	1609
No. of Groups	2394	3955	6481	7629	7791	7525	9045
No. of Money							

Transfer Service Received							
No. of Micro Security Fund Service Received							
No. of Live Stock Insurance Service Received							
IEC Completed Centers							

Annex Table 1: Growth Trend in the Coverage of NUB (Continued.....)

Items of Information	2005	2006	2007	2008	2009	2010 (as of mid-July)
No. of Area Office	4	4	4	4	5	5
No. of Branch Office	40	43	48	53	66	77
No. of Districts Covered	10	10	11	15	22	27
No. of VDCs Covered	402	424	461	515	673	717
Loan Disbursed	2264173	3072289	3949804	5185331	6919414.43	9175603.964
Loan Repaid	1847172	2508219	3339768	4349368	5800775.27	7697292.054
Loan Outstanding	403907	552397.1	610035.5	835963	1118639.16	1478311.91
Group Fund Saving	99732	136601.1	145630.5	181650.6	236509.051	301874.1846
Personal Saving	14155	20299.17	28814.26	49199.36	77398.1067	105335.5749
Other Savings	3562	4426.382	7609.552	14170.28	22917.772	28037.99142
Total Savings	117449	161326.7	182054.3	245020.3	336824.929	435247.7509
No. of Group Based Clients Enrolled	87070	103519	116772	132734	153109	176085
No. of Micro enterprise Loan Clients	593	734	631	354	548	1069
No. of Clients Dropped Out, during the period		5364	4527	2839	2127	11884
No. of Clients Dropped Out, Cumulative	23626	28990	33517	36356	38483	50367
No. of Active Clients	64037	75263	83886	96732	115174	126787
No. of Loan Clients	50063	58679	58354	68203	76235	85323
No. of Centers	2158	2516	2845	3240	4072	4930
No. of Groups	12178	14058	15364	17387	21330	23075
No. of Money					25516	

Transfer Service Received						
No. of Micro Security Fund Service Received					185441	
No. of Live Stock Insurance Service Received					1449	
IEC Completed Centers					1744	

Source: NUB Central Office, 2010

Annex Table 2: Spatial Coverage of NUB

District	Coverage of the Bank		Total VDCs/ Muni	HHs in 2001**	Population in 2001**	Population Growth rate in 2001**	Family Size in 2001**
	VDCs/Muni	Clients					
1. Rupandehi	69	16034	71	117856	708419	3.05	6.01
2. Nawalparasi	54	9606	74	98340	562870	2.55	5.72
3. Kapilbastu	24	1980	78	72932	481976	2.6	6.61
4. Palpa	18	2453	66	49942	268558	1.28	5.38
5. Syangja	31	3248	62	64746	317320	0.78	4.9
6. Chitwan	33	9299	38	92863	472048	2.86	5.08
7. Kaski	10	1200	45	85075	380527	2.62	4.47
8. Tanahu	12	1616	47	62898	315237	1.62	5.01
9. Bara	98	45604	99	87706	559135	2.41	6.38
10. Rautahat	88	8946	97	88162	545132	2.75	6.18
11. Parsa	59	8773	83	79456	497219	2.89	6.26
12. Sarlahi	15	855	100	111076	635701	2.55	5.72
13. Banke	37	14209	47	67269	385840	3.01	5.74
14. Dang	20	6799	41	82495	462380	2.66	5.6
15. Bardiya	28	2027	32	59569	382649	2.76	6.42
16. Dadeldhura	2	194	21	21980	126162	1.87	5.74
17. Pyuthan	6	730	49	40183	212484	1.91	5.29
18. Kailali	15	458	44	94430	616697	3.89	6.53
19. Jhapa	33	1483	50	125947	633042	1.48	5.03
20. Ilam	14	1130	49	54565	282806	2.1	5.18
21. Panchthar	10	501	41	37260	202056	1.43	5.42
22. Dhankuta	7	225	36	32571	166479	1.29	5.11
23. Makawanpur	5	877	44	71112	392604	2.22	5.52
24. Morang*	22	-	66	-	-	-	-
25. Sunsari*	5	-	52	-	-	-	-
26. Surkhet*	0	-	51	-	-	-	-
27. Shankhuwasabha*	2	-	34	-	-	-	-
Total	717	-	1517	-	-	-	-

Continued.....

Annex Table 2: Spatial Coverage of NUB (Continued.....)

District	Population Estimated for 2009 [#]	Households Estimated for 2009 [#]	HHs below Poverty Line (%)@	HHs below poverty Line (No)	Coverage of Poor HHs (%)	Loan Disbursed		
						Total (Rs. in million)	Per VDC (Rs. in thousand)	Per Client (Rs. in thousand)
1. Rupandehi	904187	150447	30.0	45134	35.5	1277.3	18784.3	79.7
2. Nawalparasi	690246	120672	36.3	43804	21.9	661.9	15042.2	68.9
3. Kapilbastu	593415	89775	40.1	36000	5.5	68.9	2871.1	34.8
4. Palpa	297516	55300	42.9	23724	10.3	71.6	3975.2	29.2
5. Syangja	337752	68929	35.1	24194	13.4	87.9	3663.6	27.1
6. Chitwan	593407	116812	11.9	13901	66.9	656.7	20521.2	70.6
7. Kaski	469260	104980	11.1	11653	10.3	19.8	1975.9	16.5
8. Tanahu	358857	71628	34.6	24783	6.5	136.1	15127.6	84.3
9. Bara	678030	106274	26.9	28588	159.5	1660.9	16947.7	36.4
10. Rautahat	679276	109915	30.2	33194	27.0	616.0	8438.1	68.9
11. Parsa	626551	100088	23.5	23521	37.3	688.0	20847.4	78.4
12. Sarlahi	779559	136287	46.4	63237	1.4	13.3	1474.9	15.5
13. Banke	490891	85521	41.2	35235	40.3	601.6	20054.3	42.3
14. Dang	572027	102148	42.9	43821	15.5	263.7	14650.6	38.8
15. Bardiya	477192	74329	44.9	33374	6.1	10.3	1034.8	5.1
16. Dadeldhura	146521	25526	40.3	10287	1.9	-	-	-
17. Pyuthan	247563	46798	51.5	24101	3.0	7.1	1182.7	9.7
18. Kailali	841830	128917	50.4	64974	0.7	0.0	0.0	0.0
19. Jhapa	712612	141672	13.4	18984	7.8	22.1	2011.6	14.9
20. Ilam	334542	64583	39.7	25640	4.4	11.1	1392.3	9.9
21. Panchthar	226545	41798	52.5	21944	2.3	2.1	2061.5	4.1
22. Dhankuta	184577	36121	46.0	16616	1.4	-	-	-
23. Makawanpur	468906	84947	43.0	36527	2.4	34.3	34312.3	39.1
24. Morang*	-	-	-	-	-	-	-	-
25. Sunsari*	-	-	-	-	-	-	-	-
26. Surkhet*	-	-	-	-	-	-	-	-
Shankhuwasabha*	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Source: NUB Central Office, 2010

Notes: *Data and information of NUB clients collected from the NUB Central Office during the survey period do not show the number of clients of these districts disaggregated by VDCs. Therefore, it has not been possible to compute coverage of poor households and average amount of loan disbursement per VDC and per client in these districts. Because of these data limitations it was considered irrelevant to compute district level demographic features, such as projection of population, number of households and number of households below poverty line.

** CBS, Population Census 2001.

Estimation of Population for 2009 is made by using exponential growth formula $[P_t = P_o * e^{rt}]$, where P_t = estimated population for 2009, P_o = population of 2001, r = growth rate of population and t = time (8 years)]. Household number is estimated by dividing the estimated population by family size, given in Census 2001.

@ CBS, Small Area Estimation of Poverty, Calorie Intake and Malnutrition in Nepal, 2006.

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