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Microenterprise  
Services in  
Nepal:

Recommendations  
for USAID  
Involvement

*GEMINI Technical Report No. 97*

# GEMINI

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS**  
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# Microenterprise Services in Nepal: Recommendations for USAID Involvement

by

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## EXECUTIVE SUMMARY

This report contains the findings of a team of consultants from the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project. The team examined the microenterprise sector and the existing service system for that sector in Nepal to assist the U.S. Agency for International Development in Nepal as it prepares to implement its new Country Program Strategic Plan. The team was specifically asked to investigate the potential role of financial intermediaries (including banks, credit unions, international nongovernmental organizations (INGOs), and local nongovernmental organizations (NGOs) to service the microenterprise sector. The survey of institutions serving microenterprise, although not exhaustive, includes the majority of programs and methodologies implemented to date in Nepal.

The promotion of microenterprise activities will contribute directly to two and indirectly to one of USAID's strategic objectives as outlined in its Country Program Strategic Plan FY 1995-2003. The first objective directly affected by expansion in the microenterprise sector is a sustainable increase in the sales of high-value agricultural products (SO1). The second objective that will be directly affected by the creation of microenterprise opportunities is the empowerment of women (SO3). USAID's second strategic objective, to reduce fertility and improve maternal and child health (SO2), will be indirectly affected as women become empowered through greater economic activity, providing them with the resources to buy food to improve the household diet. Access to information through savings groups and marketing networks will also enable women to make choices about health and family planning that will benefit themselves and their households.

## EXISTING SERVICE SYSTEM

Nepal is blessed with many programs run by a plethora of agencies and organizations. USAID, for example, is involved in programs in women in development, capacity building, literacy training, business training, economic liberalization, rural development, poverty alleviation, small business development, primary health care, savings groups, and credit programs. Some of these programs have a direct impact on microenterprise development; others (the majority) have a marginal impact. The specific activities of donors, government agencies, the formal financial sector, NGOs, and associations to assist the microenterprise sector are outlined in Part Three.

In addition to programming diversity, many donors (bilateral and multilateral), organizations (international and local), and Nepalese government agencies are involved, together and separately, in attempts to alleviate poverty, develop capacity, and alter the status of women, in particular, in Nepal.<sup>1</sup> The programs each take a piece of the pie; although many overlap, emphases vary.

Generalizations about services in Nepal are possible, although the nature of this survey investigation makes it impossible to present more than impressionistic findings. The emphasis on women's programs is striking. Many programs funded by donors and implemented by NGOs and INGOs target women beneficiaries. The main thrust of United Nations Development Programme and Asian Development Bank funding seems to be programs for women. And, another example, of the 9 local nongovernmental

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<sup>1</sup> Including U.N. programs as separate entities, 19 donors were counted as active in Nepal. We also counted 9 INGOs. Others were surely missed in this accounting.

organizations (NGOs) discussed in this report, 6 provide services specifically to women, 2 have programs for both women and men, and 1 lacks any gender focus.

Many organizations are also involved in the formation of women's savings groups. One of the greatest benefits from the formation of savings groups is that households will have some way to "smooth" their income over the spare periods throughout the year. This benefit is particularly important in light of several previous studies that have pointed to the heavy amounts of debt Nepali households carry as a result of income shortfalls.

## NEEDS OF MICROENTERPRISE SECTOR

The microenterprise sector in Nepal is growing rapidly, and many new programs targeting microenterprise entrepreneurs are in development stages or have been implemented, particularly in the urban areas. Several methodologies have been piloted, although most are in the early stages of implementation and hence cannot be evaluated.

With the exception of the Small Farmers Development Program and Production Credit for Rural Women, *efforts to promote rural microenterprise activities are limited*. In the case of these two, both of which have been plagued by low repayment rates, there is some evidence that they have not catered to the needs of the extreme poor or to the needs of rural women.

*The greatest need of existing rural enterprises is a market for their products*. But to meet the changing demands of these markets, some guidance is necessary related to product design and quality control. Several NGOs have taken on this role for handicraft products but there is tremendous opportunity for private entrepreneurs in this area as well. Business consultancies to existing businesses and producer groups are one means of providing market guidelines to rural enterprises. Another approach would be to provide training to local NGOs in marketing concepts. Training of trainers could be provided on a broader scale and would help to introduce some basic business principles to the local NGOs. These local NGOs could then better assist the producer groups in marketing their products or act as intermediaries themselves throughout the rural areas.

*There is a pressing need for increasing the management capacity of those NGOs that have established themselves and have shown that they are committed to becoming self-reliant institutions*. This is an area where USAID could provide critical assistance to help bring a generation of NGOs to the next plateau of institutional development. There is no doubt that this can be achieved because there are several examples of NGOs that have become completely self-sustaining, such as the Association for Craft Producers and Mahaguthi.

Due to high operating costs in the rural areas, *the formal financial institutions are not committed to servicing microenterprises*. Several specialized credit programs are undertaking this, however. Two NGOs, Nirdhan and the Center for Self-help Development, have the potential to extend their operations after an initial period of strengthening. The key to success for these two institutions will be in their ability to monitor their own progress and their improved efficiency by using key financial indicators. Through self-monitoring and closer supervision by the Nepal Rastra Bank, these institutions could achieve operational self-sufficiency in three to five years.

*The single most important improvement in the financial sector would be the use of positive real interest rates by microfinance institutions*. There is a widespread belief among many NGOs, government officials, and rural inhabitants that loans to the poor should be partially or fully subsidized so that interest rates do not reflect the cost of the money lent. Government-funded loans under Rs. 5,000 (\$100) are subsidized up

to 80 percent and loans of Rs. 15,000 (\$300) are subsidized up to 33 percent. Although the Regional Rural Development Banks (RRDBs) are using these subsidies, the NGOs are not yet doing so. RRDBs and NGOs are already competing for market share and this will likely continue as both expand their services. The subsidies have a negative impact by undermining the profitability and operations of institutions while reducing the incentive for groups to mobilize their own savings.

To promote alternative financial institutions, *there is a need for further differentiation of institutions, especially among those registered as NGOs.* The Development Banking Act, currently under consideration, would provide institutions such as Nirdhan with additional legal authority, including the right to hold outside deposits in order to leverage more loan funds. The Savings and Credit Act, also under consideration, would further differentiate those savings groups that would like to establish themselves as village banks.

In sum, the study identified several needs for Nepal's micro and small enterprise sector and for the NGOs serving this sector: gaps in both financial and nonfinancial services to the rural areas, to the extreme poor, and to women; need for training in marketing concepts and to enhance management capacity; and the need to carefully select those NGOs to be groomed for a financial intermediation role.

## POTENTIAL USAID INTERVENTIONS

*USAID's proposed strategy of providing technical support to microenterprise lending institutions is timely* in that these organizations need to expand their management capacity. This is an area where USAID could provide critical assistance to help bring a generation of NGOs to the next plateau of institutional development. However, USAID has focused its attention on promoting one methodology — that of the Grameen Bank in Bangladesh — and would benefit from the lessons of other donors who have funded several different approaches.

Because of the proliferation of NGOs in Nepal, *USAID needs to set clear criteria for those with which it will work.* It also needs to recognize the varying capabilities of NGOs. Some of the newer local NGOs have been found to do a good job in literacy training, for example, but should not necessarily be expected to handle income generation as well. One of the primary problems with NGOs occurs when they are recognized as doing something well, and donors begin requesting them to do other things, thus tempting them away from their main objectives and their main areas of expertise.

In areas where many NGOs are present and where services are being expanded, *NGOs should be encouraged to specialize.* The provision of financial services in particular should be reserved for those that undertake it wholeheartedly, are committed to operational sustainability, and have some existing management capacity. Worldwide experience in microenterprise development has shown that not all NGOs are capable of being microenterprise finance institutions. Those that are and that eventually become sustainable have found the best way to do so is to become specialized institutions — that is they give up many of their other functions.

*USAID needs to evaluate an NGO's commitment to becoming sustainable prior to initiating funding or other assistance.* The team's assessment of how likely the selected institutions are to achieve sustainability in the future was greatly hampered by the lack of sufficient efficiency and profitability data. Existing monthly reports appear to be prepared to suit Nepal Rastra Bank requirements rather than the institutions' internal management needs. *Improved management information systems are required.*

It is recommended that after institutions have been instructed in how to provide basic financial data, *USAID/Nepal should carry out its own financial analysis using a framework commonly used by financial institutions to assess the financial position (health) and financial performance (profitability) of the program.* The framework known as CAMEL focuses on capital adequacy, asset quality, management, earnings, and liquidity. By tracking such information, USAID can assess the operational self-sustainability or financial self-sufficiency of the program.

A final recommendation would be for USAID to consider *inaugurating a donor coordinating group* to ensure that donors are aware of each other's efforts, to prevent dysfunctional duplication, and to reinforce those programs that prove effective.<sup>2</sup>

## ORGANIZATION OF THE REPORT

The first part of this report presents an overview of the business environment in Nepal, followed by a brief description of the microenterprise sector and a discussion of how the promotion of microenterprises will contribute to USAID/Nepal's strategic objectives and to achieving impact.

The second section presents the key implementation issues identified by the team, which looked at gaps in service, potential areas for microenterprise development and for the inclusion of women, and criteria for selecting financial intermediaries and for evaluating these institutions. The third section contains information for each institution visited. Implementation issues and options for assistance to these institutions are presented at the end of each profile. The final section summarizes the team's recommendations for USAID, with the emphasis on ways to develop effective financial intermediaries for microenterprise. Five annexes follow the report.

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<sup>2</sup> As an example, donors using subsidized credit in lending programs undermine donors promoting self-sufficiency through positive real interest rates in their credit programs.

## **PART ONE**

### **INTRODUCTION**

#### **THE ASSESSMENT**

##### **Purpose of the Assessment**

This report contains the findings of a team of consultants from the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project. The team examined the micro and small enterprise (MSE) sector and the existing service system for that sector in Nepal to assist the U.S. Agency for International Development in Nepal as it prepares to implement its new Country Program Strategic Plan. Specifically, the team was requested to:

- Review ongoing and proposed projects and programs that support MSEs with a focus on women;
- Review past studies that relate to MSEs, and other relevant sectoral studies; and to examine the business environment as a factor in microenterprise development;
- Examine the strengths and weaknesses of selected private and public institutions involved in providing services to MSEs; and
- Make specific recommendations for desirable technical and financial interventions to develop these institutions into effective MSE promotion and support entities.

##### **Methodology**

The team reviewed previous evaluations and spoke with many of the donors to find out what lessons have been learned in microenterprise development in Nepal, especially with respect to various implementing institutions, including government agencies and nongovernmental organizations (NGOs), both international and local. Representatives from more than 30 implementing organizations were then interviewed to understand the range of methodologies used and their associated results. The team also interviewed institutions, preselected by USAID to receive assistance, to estimate and assess their organizational structure, management needs, and capacity. Brief field visits were made to Bhairahawa and Janakpur where team members were able to observe local operations.

The GEMINI team was comprised of a development banker, a social scientist, and three local consultants. The local consultants brought to the study their familiarity with the microenterprise sector from the vantage point of two NGOs and from a private enterprise.

##### **Organization of the Report**

Following this description of the assessment, an overview of the business environment is presented. This is followed by a brief description of microenterprise in Nepal and a discussion of how the promotion of microenterprises will contribute to USAID/Nepal's strategic objectives and to achieving impact.

The second section presents the key implementation issues identified by the team for USAID/Nepal. The team looks at gaps in service, potential areas for microenterprise development and for the inclusion of women, and criteria for selecting financial intermediaries and for evaluating these institutions. The third section contains information for each institution visited. Implementation issues and options for assistance to these institutions are presented at the end of each institutional profile. The final section summarizes the team's recommendations for USAID, with the emphasis on developing effective financial intermediaries for microenterprise. Five annexes follow the report.

## **BACKGROUND ON MICROENTERPRISES IN NEPAL**

### **Nepal Business Environment**

During the early and mid-1990s, the nature and constitution of Nepal's business environment changed noticeably. Some of these changes came about as a result of more liberal Government of Nepal (GON) policies. Change also occurred because of India's private sector-led development, which helped to convince Nepalese government officials, business owners, and others of the need for change. By mid-1994, the GON, with support from the International Monetary Fund (IMF), the World Bank (IBRD), and USAID/Nepal, had implemented a wide range of reform measures to resuscitate the economy and lead to a pro-market, private sector-led, sustainable economy.

Some of the measures implemented by the GON include the passing of the Privatization Act by Parliament to enhance the privatization process; the deregulation of the commercial banking sector that encouraged several financial institutions to enter the market, including Himalayan Bank Ltd. and the Bank of Kathmandu Ltd.; the elimination of licensing requirements for small and cottage industries except for those with negative environmental and national security impacts; the introduction of full convertibility of the Nepalese Rupee for current account transactions in 1992; the commencement of a restructuring of the tax system; the proclamation of the Industrial Policy Act and the Industrial Enterprise Act to provide incentives and provisions on excise and income taxes, tax holidays, and sales tax; the May 1993 restructuring of the Securities Exchange Center as the Nepal Stock Exchange, Ltd. on January 13, 1994; and the elimination of import restrictions and the reduction of tariffs. The beneficial effects of privatization are only now being felt.

Foreign investment policy is now permitted in all industries with fixed capital above Rs.20 million excluding defense-, tobacco-, and alcohol-related industries. The domestic as well as foreign private sectors are allowed to invest in hydroelectricity generation; foreign investors are allowed to remit their dividend and a commitment has been made not to nationalize any industry. As industries have been experiencing electricity supply shortages, the Nepal Rastra Bank (NRB) has allowed loans for the purchase of generators to be classified as priority sector lending since October 1993.

At the end of Financial Year 1993/94, some economic indicators were:

1. GDP - 1993-94	\$3,820 million
2. GDP per capita (IBRD method)	\$210
3. Average real GDP Growth (1990/91-1993/94)	6.7%
4. Inflation Rate	8.9%
5. Overall BOP (Rs. in millions)	+7,110.9

The GDP growth rate rose to 6.9 percent in FY 1993/94 from 3.06 percent in FY 1992/93. Inflation was down from its high of 21 percent in FY 1991/92 to 8.9 percent in FY 1993/94 (Source: NRB and USAID).

The Nepal Rastra Bank has set the following policies: macroeconomic policy has been given top priority and GON intends to cut unproductive expenditure. Tax reforms include base-broadening and reduction of top marginal rates of income tax from 50 percent to 35 percent. Corporate tax rates have been reduced to 35 percent. A self-assessment system has been given prominence and excise and sales tax reforms have also taken effect. Domestic borrowing is to be kept below 1 percent of GDP; and the size of the GON bureaucracy has been reduced.

The more liberal economic policies being adopted have led to many changes in the financial sector. With the deregulation of the banks, it is now easier to obtain long-term (5+1 years) and medium-term loans (3 years). The processing time for loan approvals is 6 to 8 weeks compared with three months in 1991. Interest rates are now deregulated and commercial banks are free to determine their deposit rates and lending rates based on market forces. Loan approval rates by some accounts are now in the 90 percent range as borrowers have learned to provide banks with financial statements, projected cash flows, business plans, and details of their past history and experience in their selected industries. Furthermore, credit checks and credit ratings are becoming more commonplace in banking circles.

After a three-party coalition voted out Nepal's first elected Communist Government on September 10, 1995, the newly appointed Prime Minister, Sher Bahadur Deuba, announced that the priority of his Nepal Congress-led coalition government would be to establish political stability and economic order. The Nepal Bankers Association chairman believes the new government will continue to push economic reform. The promise of political stability will enhance Nepal's business environment. It is also now likely that tax reforms will proceed as planned.

### **Description of Microenterprise Sector**

Much attention has been focused on the small and cottage industry in Nepal, which has been responsible for nearly all industrial production outside of the urban areas and almost 60 percent of exports (Siekman, 1992). The microenterprise sector by contrast is less well defined; there are only rough estimates of its size. In general, the microenterprise and cottage and small industries sectors can be similarly characterized as owner-managed, with limited division of labor and using primarily family labor, and by informal relations with clients, including suppliers. Although the number of employees (less than 10) does not clearly distinguish the microenterprise sector from the small and cottage industries sector, the amount of fixed assets does. The government has defined the cottage industry as including those businesses with fixed assets of not more than Rs. 600,000 (\$12,000). Microenterprises are defined as those with fixed assets of less than Rs. 100,000 (\$2,000).

Because Nepal is overwhelmingly rural, the majority of its population is agriculturally based. For most rural households agriculture is a seasonal activity that provides only for subsistence, so households seek other means to complement their annual income during the off-season. Off-season income strategies include making baskets and other handicrafts such as woven products, raising livestock, and selling forest-based products such as firewood. In urban and peri-urban areas, microenterprise activities are not confined to the off-season and are the most important, if not the only source, of income for many households.

Although MSEs provide employment for a large percentage of Nepal's workforce population, productivity is often low. Underemployment is a key characteristic of the MSE sector because many of the

activities do not provide full-time employment. Experience from other GEMINI projects reveals that profit margins of most MSEs are so low that close to two-thirds of all MSEs make less profit than the equivalent of the minimum wage of domestic workers.

There are basically two scenarios in which growth in the informal or microenterprise sector occurs. In the first, new businesses are created based on a demand for services not otherwise provided (demand-pull scenario). In the second, businesses are created as a result of an excess labor supply (supply-push scenario). The former is most likely to create an environment in which microenterprises will be more profitable. Such businesses require high capital and skill levels, and grow in relation to the prevailing economic conditions. The latter scenario is where people seek alternative sources of income regardless of demand for products. Such businesses are characterized by low entry costs, low profit margins, and growth rates unrelated to current economic conditions.

In Nepal, many MSEs are one-person survivalist enterprises created under the second hypothesis, as a function of the labor supply. Many of these enterprises emerge without any consideration of viability and have very low productivity and profitability rates. A great majority of these MSE operators have little or no idea of what constitutes a profit. Because of the low wage levels, most do not include their wage component in the pricing structure and thus only refer to gross profit levels. In addition, many women suffer from low levels of confidence and lack essential family support.

## USAID'S COUNTRY PROGRAM STRATEGIC PLAN

The promotion of microenterprise activities will contribute directly to two and indirectly to one of USAID's strategic objectives as outlined in its Country Program Strategic Plan FY 1995-2003. The first objective that will be directly affected by expansion in the microenterprise sector is a sustainable increase in the sales of high-value agricultural products (SO1). The second objective directly affected by the creation of microenterprise opportunities is the empowerment of women (SO3). USAID's second strategic objective, to reduce fertility and improve maternal and child health (SO2), will be indirectly affected as women become empowered through greater economic activity, providing them with the resources to buy food to improve the household diet. Access to information through savings groups and marketing networks will also enable women to make choices about health and family planning that will benefit themselves and their households.

### High-Value Agriculture

USAID's Sustainable Income and Rural Enterprise (SIRE) Program has two components: the Market Access for Rural Development Activity (MARD) and the Environment and Forest Enterprise Activity (EFEA). Through these two components, USAID proposes to continue its efforts in the mid-Western region focusing on forest products, livestock, fruits and vegetables, seeds, and some processed goods. *The microenterprise opportunities in these areas are for small producer groups and microprocessors.* Initially, USAID will use the vehicle of the 600 producer associations organized in the Rapti zone to expand its income objectives. Through the MARD project these associations will be assisted by NGOs in marketing. USAID plans to work with an additional 400 groups within five years.

The EFEA project builds on developments in GON policies, particularly the Community Forestry/Private Forestry Program, which allows for transfer of control of national forests to community forest user groups. *Microenterprise opportunities exist in ecotourism and in the use of nontimber forest products.*

Women's participation in community user groups will promote women's greater voice in community affairs and encourage their economic empowerment, USAID's third strategic objective (see discussion below). Community forest user groups also have the potential to ease some of the harsher effects on women related to increased livestock production, which creates a greater demand on fuel and fodder resources. The relationship of women's economic well-being to the use of forest resources is a very good reason why USAID should promote greater participation and leadership by women in these community forest user groups.

### **Empowerment of Women**

Under USAID's third strategic objective, the empowerment of women, a three-pronged approach will be used. USAID will continue its efforts in women's literacy, it will support advocacy in legal rights for women, and it will promote methodologies with the potential for increasing women's economic contribution. Literacy programs being implemented with USAID funding have worked well to date. With close supervision from international NGOs such as PACT and the Asia Foundation, local NGOs seem capable of promoting these efforts in an effective way. Literacy is an important first step for women as it signals a shift in a woman's traditional relationship to her spheres of activity.

Legal awareness classes addressing such questions as women's rights to property and other assets have been piloted by the Asia Foundation and have generated much interest among women in the rural areas. Through participation in these classes many women have expressed their curiosity and eagerness to gain additional information that would enable them to improve their situation. Subsequent to receiving literacy training, many women's groups have also expressed interest in income generating activities.

Women in Nepal spend much more of their time providing for household needs than do men. Constrained by limited mobility and household responsibilities, women generally have less time and fewer opportunities to contribute cash income to the household. Despite these limitations, women find ways of generating income whether through the sale of vegetables or by weaving and selling mats. As more active economic players, their value to the household increases and they are treated with more respect. Studies of the Grameen Bank in Bangladesh have illustrated this point.

Although USAID has recognized the importance of an improved economic role for women, it would be useful to understand more clearly the causal linkages between economic factors and other targeted behaviors, including increased use of family planning and improved health and nutrition. It is also helpful to understand the particular ways in which empowerment of women is manifested in a given culture. USAID/Nepal may want to consider some more tangible indicators of empowerment that could be used to evaluate different approaches or methodologies to determine which are most effective as catalysts for women to have more control over the situations in their lives.<sup>1</sup>

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<sup>1</sup> As an example of how this has been done elsewhere, we would recommend a review of research undertaken by John Snow International in Bangladesh, which compared BRAC and the Grameen Bank. Using qualitative research, eight domains of empowerment were defined in these areas: mobility, economic security, ability to make small purchases, ability to make large purchases, involvement in major decisions, relative freedom from domination and violence within the family, political and legal awareness, and participation in public protests and political campaigning. A composite index of empowerment was derived for women based on their behaviors in these areas (Schuler and Hashemi, 1994).

## **Potential of Microenterprise Programs to Have Impact**

Whether out of pressure from fiscal conservatives or in response to prior evaluations, USAID now seeks to initiate programs where results are clear. Though employment gains are small, incremental changes in employment in the microenterprise sector have been found to have a large cumulative effect because of the size of the informal sector in many developing countries. Microenterprise programs also offer the real possibility of reaching the poor, who have minimal capacity to absorb large amounts of capital. Small loans at nonusurious interest rates have been the building blocks for households to gradually move away from the edge of financial insolvency.

As USAID undertakes to implement its new microenterprise strategy, it must keep in mind that although microenterprise programs have the potential to have an impact on people's lives, one must be looking in the right direction to view this impact. In the lives of the poor, changes may not be large but small changes may make a big difference. To glimpse these small changes, USAID must set realistic expectations about what it expects from microenterprise programs, in the way of increases in income and in assets. Where household income may be the hoped-for change, other changes that also signify an improvement in overall economic security may substitute for absolute income changes. Household changes that should be considered include increased numbers of children in school, improvements in housing, and diversified sources of income. Under the Microenterprise Innovation Project, the successor to the GEMINI project, USAID will be developing tools and methodologies for documenting these impacts that do not rely entirely on indicators of employment and income.

Another important reason to set realistic expectations of impact of microenterprise programs is that it will allow USAID/Nepal to evaluate its implementing institutions fairly. By setting standards within the realm of the expected for microfinance institutions, USAID will be able to determine whether the service provided is both desirable and sustainable.

## **PART TWO**

### **KEY IMPLEMENTATION ISSUES FOR USAID**

#### **PROGRAMMING OPTIONS**

With the exception of the Small Farmers Development Project (SFDP) and the Production Credit for Rural Women (PCRW) Project, efforts to assist rural microenterprise activities in Nepal have been recent and limited in scale. In the case of these two, both of which have been plagued by low repayment rates limiting the efficiency and sustainability of the programs in the long term, there is some evidence that they have not catered to the needs of the extreme poor nor to the needs of rural women. Other methodologies have been piloted, though most are in the early stages of implementation and hence the impact of these programs is unclear.

#### **Nonfinancial Services**

In nonfinancial services, a number of methodologies have been contemplated and a few have been attempted. The greatest need of existing rural enterprises is a market for their products. But to meet the changing demands of these markets, some guidance is necessary in product design and quality control. Several NGOs have taken on this role for handicraft products but there is tremendous opportunity for private entrepreneurs in this area as well.

Business consultancies, such as those provided in the past through the Economic Liberalization Project (ELP-S), to existing businesses and producer groups are one means of providing market guidelines to rural enterprises. However, the scale that can be attained through one-on-one consultancies is limited at best. The team has recognized that there is no shortage of capable Nepali consultants who could provide these services on a short-term basis. Many of the members of the Fair Trade Group, for example, have strong backgrounds in marketing and management, in addition to an understanding of issues related to income generation in the rural areas and familiarity with producer groups.

Another approach would be to provide training to local NGOs in marketing concepts. Training of trainers could be provided on a broader scale and would help to introduce some basic business principles to the local NGOs. These local NGOs could then act as intermediaries for the many producer groups throughout the rural areas. The NGO, Mahaguthi, which has providing marketing services to many producer groups in the past, could become involved in the designing of a curriculum or the training of trainers in principles of marketing.

Business literacy is being discussed as a logical next step for women's literacy classes, which are highly motivated to continue their group activity and to undertake new income generating opportunities. Organizations with no prior enterprise creation or income generating experience are now preparing to deliver this service. Even the Small Business Promotion Project (SBPP), which has the best record to date in entrepreneurship training, has little experience with business literacy at the level required by many rural women. To its credit, SBPP undertakes a needs assessment prior to training and attempts to include only those motivated to start their own business.

Business literacy at a very basic level, for those who are not already engaged in a business activity, must be related to concrete options. One approach that has been employed involved showing women slides of possible activities that helped them to visualize the problems they would encounter.

Training in business principles for those already in business is the next stage. The most important element of such trainings should be relevance. Subsector-specific trainings are the most useful in conveying information that enables entrepreneurs to directly apply what they have learned. More generalized training may be less relevant while detracting from the amount of time the person has to run their business. Demand for training should guide USAID in continuing with this service. This demand can only be judged fairly if the participants are willing to pay something in exchange for the information.

A number of other nonfinancial services, such as product exhibitions and trade fairs, are contemplated or have been implemented by some of the many organizations we interviewed. These are mentioned in Part Three. Several donors (such as Swiss Development Corporation and USAID) and implementing institutions have commissioned subsector studies to assess market prospects. Additional subsector studies could be undertaken by the IMCC or some other qualified organization.

Although all of the other donors have worked with NGOs in some manner, there is a pressing need for increasing the management capacity of those NGOs that have established themselves and have shown that they are committed to becoming self-reliant institutions. This is an area where USAID could provide critical assistance to help bring a generation of NGOs to the next plateau of institutional development. (This is discussed further under financial sector issues.) There is no doubt that this can be achieved because there are several examples of NGOs that have become completely self-sustaining, such as the Association for Craft Producers and Mahaguthi.

## **Financial Services**

In financial services, several models have been employed to date in Nepal. The most widely used approach follows the model of the Grameen Bank in Bangladesh. This model is used by the four branches of the Regional Rural Development Bank (RRDB) and by two NGOs, Nirdhan and the Center for Self-help Development (CSD). The Micro Credit Project for Women, formerly the PCRW, uses a village banking model whereby the groups mobilize their own savings, which are then lent to individual members. Eventually, the village banking groups will be linked to banks who will provide loans to the group, which are then on-lent to members.

The benefits of both the solidarity group model and the village banking model are that they allow the institution to reduce its transaction costs of lending to individuals because the groups assume much of the responsibility for collections and disbursement. The group also provides a guarantee against default. From the point of view of group members, they attain access to services that they would not otherwise have and they gain experience in democratic decision-making processes as well.

On the other hand, the terms and conditions of loans provided through such vehicles are relatively inflexible and not appropriate for many businesses with specialized needs either for more capital or different repayment periods. Loan size was found to be too small and proved to be a limitation in the Developing Women's Entrepreneurship in Tourism (DWET) Project, for example. Similar arguments have been made on behalf of many agrobusinesses and handicraft businesses. Typically, the loan terms such as weekly repayment do not match the cycle of agrobusiness activities because of seasonality, which may put undue pressure on the household to meet the debt obligation incurred through the group lending scheme. More flexible instruments

for the delivery of credit including purchaser finance, supplier credit, and lease-purchase financing are all important methods of providing credit to agrobusinesses.

Another model for the provision of financial services that has potential is the credit union model, such as the type attached to a place of formal employment or to a purchasing cooperative. Credit unions set up their own constitutions and management committees. Savings are easily deducted from wages or earnings and then on-lent to members. Credit unions, when they are federated, also provide shareholder dividends and are able to leverage large amounts of capital as membership in the registered credit unions expands. Although Nepal does have an alliance of credit unions, NAFSCUN, this organization is reliant on donor funds. It is questionable whether it will survive after its current funding cycle is concluded in 1997.

USAID should consider the strengths and weakness of the range of methodologies employed to date. Different models may be worth promoting, should there be an NGO capable of implementing a different approach.

## **OPPORTUNITIES FOR THE PROMOTION OF EXPORTS AND AGRIBUSINESSES**

Because the team had limited time to visit the field, we were not able to assess the needs or potential in this area except via the information we received from the NGOs and INGOs working in rural areas. The potential for expansion in agricultural production itself was not considered as a priority of this study because production is not considered a microenterprise activity. Opportunities in trading and marketing of agricultural products, which is agrobusiness activity, particularly through the vehicle of producer groups, were investigated to the extent that time allowed.

The most important needs of agrobusinesses reported to the team by local NGOs working to promote rural enterprise include improved technologies and expanded market linkages. Technologies such as improved seed varieties, methods of fertilization, and storage and handling create the single greatest impact because they increase the quality of the product and in some cases increase the value added. Expanded market linkages were reported to be the second most important factor for agrobusinesses, which are sorely limited by poor infrastructure. Producer groups often do not have the resources in time and money to travel to the location where the best price can be obtained for their products. Hence, intermediaries, such as NGOs and private traders, are needed to act as go-betweens to link producer groups to outlet markets.

Two approaches have been used to identify additional opportunities in agrobusiness and exports. Regional surveys document the range of products available within a defined region, whereas subsector analyses take a more in-depth look at particular subsectors across a larger region. The former approach has been used in areas where INGOs are focusing their efforts, as in the Makula Barun Conservation Area (Nicholson, 1995). A survey of producer groups revealed the range of existing products available, providing information to potential buyers outside the region and resulting in some initial orders. Such an approach may be useful in reaching remote areas but the more effective approach in creating some economy of scale is the subsector approach, which has been used on several occasions already. Subsector studies can also identify potential market intermediaries.

Opportunities for producer groups to move into areas with greater market potential need to be further explored but some possibility appears to exist in paper-production and leather-making. A recent study of the potential for expansion in the lokta paper-making industry was undertaken for USAID by the International Marketing Consulting Corporation (IMCC). The IMCC consultant believes that lokta paper can become very

competitive in world markets with Japan, China, Thailand, the Philippines, and India. Paper-making is an activity that involves women and that has been successfully implemented in high-altitude rural areas by several NGOs as well as private companies. The most highly regarded project is the Bhaktapur Craft Printers (BCP), funded by UNICEF, which is undergoing a transition to become self-sustaining, with UNICEF remaining as its primary buyer. Because of the growing demand for the high-quality Nepalese paper, a number of organizations are already considering expansion in this area.<sup>2</sup>

Leather-making has been introduced by United Missions to Nepal with some success. A subsector assessment of the leather-making industry may be warranted to determine whether there is potential to expand in that world market also.

Several INGOs have experimented with the introduction of vegetable seeds, coffee, cardamon, and pineapples with some, though limited, success. The introduction of vegetable seeds in particular is an area where there is a need for improved technology allowing producer groups to realize monetary benefit. Pineapple production has been severely hampered by the lack of infrastructure that would allow the fruits to get to market in a timely way. The important lesson here appears to be that introduction of new agricultural products requires a long-term effort, often combined with other community improvements in water supply and infrastructure.

## GENDER ISSUES

Women constitute slightly more than half the total population of Nepal and 45 percent of the women over the age of 10 are considered to be economically active. A report prepared by Nepalese NGOs to be submitted to the U.N. Fourth World Conference on Women in Beijing cites data suggesting that 91 percent of women are dependent on agriculture and 57 percent of agricultural activities are performed by women themselves. Despite limited economic opportunities, women still contribute 50 percent of the household's real income in comparison with a 45 percent contribution by men. And, as in many other countries of the developing world, women in Nepal typically spend much longer days carrying out their economic and domestic activities than do men (10.85 hours per day for women versus 7.51 hours for men).

Women's rights to property are a major issue for women in Nepal and will continue to affect their ability to earn income on a par with men. Under the Civil Act of Nepal, married women are entitled to property only under certain circumstances. Two kinds of property are relevant: female property or dowry (*stree dhan*) and inheritance (*angsha*). Dowry that is given at the time of marriage is considered to be the property of the women but she does not have full rights to it. Since she shares the rights to this with her husband, in effect she cannot claim it as her own. In the case of inheritance, women have no rights to inherit property with two exceptions: unmarried women over 35 years old and married women over 30 years who have been married for longer than 15 years (Acharya, 1994). The law limits women's ability to exert any claim over property that puts them at a great disadvantage in many situations but particularly in dealing with banks, which require collateral prior to disbursing loans.

Recently, however, the Supreme Court has issued a statement that the Parliament has one year to revise its inheritance laws to provide women with the legal right to inherit property. According to UNIFEM, two women have now officially challenged the law. It is expected that, subsequent to the U.N. Conference on

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<sup>2</sup> The Janakpur Women's Development Center is considering adding a paper-making operation, though using a different raw material.

Women in Beijing, there will be greater political pressure on the court to move forward on this issue. Although such a change is an important step, the experience of many other countries has shown that changes in traditional practice will take much longer to implement.

The role of culture cannot be underestimated as a constraining or catalytic factor in development. Earlier research on the status of women in Nepal has emphasized that women's status varies with their many roles and with the contexts in which these roles are enacted (Acharya and Bennett, 1981). Women have traditionally not been able to participate in many of the economic spheres in which men have participated. For women to do so will require a gradual shift in attitudes by both women and men. There are already a number of examples where such changes have occurred in Nepal, as women have shown their willingness and ability to become economically active. There is evidence that this has occurred as a result of the Janakpur Women's Development Center. Lessons from Bangladesh and elsewhere have shown that the process can even be hastened by instructing men in the potential benefits of allowing women to become greater economic players.

It is clear that constraints on women vary among ethnic groups in Nepal. Within the Tibeto-Burmese groups, for example, women have higher status and are much more economically active. Training that has been implemented with women's groups in these areas has been found to be less difficult because women were more mobile and more accustomed to interacting with strangers. On the other hand, in those areas where women are more limited in their movement, it has been much more time-consuming to initiate training. One NGO that allowed women to make their own arrangements for a training session found that they set it up in the late evening when they had finished all their household chores.

The difficulties women in the developing world have encountered in dealing with banks are well documented. One of the most important aspects of the financial services provided to women is ease of access. Time constraints on women even when they have sufficient amounts of capital to warrant having a bank account keep them saving at home rather than walking long distances to the bank. Flexible access is also important to women as household providers and is another feature of many self-managed groups. On the down side, it was noted that in some of the group lending programs the groups themselves have started to require collateral from their members in the event of default. Without land entitlement, this development could serve as a limitation on the amounts women can borrow from group funds.

Several problems have arisen in previous attempts to link women to the banking sector in Nepal. An evaluation of the Credit Guarantee component of the DWET project implemented by the Asian Development Bank (ADB) showed that after two years of implementation the bank had reached only 70 percent of its targeted objective to guarantee loans to women entrepreneurs. A number of contributing factors were mentioned including the failure of DWET trainers to carry out their role in selecting women entrepreneurs and in helping to prepare financial plans. Despite the desire of many women in this program to receive credit, some chose to forego the service because it was a two-day walk to the bank and they didn't like the long wait once they got there. As a result, many of the women chose to continue using the informal sources providing credit at much higher interest rates.

Livestock raising is predominantly a woman's economic activity in Nepal and it raises several issues. Livestock is seen as an important asset to women, particularly because they are unable to claim land. Many loan programs to women are making vast numbers of loans for livestock such as buffalo, goats, pigs, and poultry. Where there is a market for milk or meat, women usually prefer cows and buffalo. However, where there is no market, they prefer goats and pigs, particularly because these animals will consume almost anything. Where alcohol production is common from millet and barley, the waste is fed to the pigs. Bhatt et al (1994) found that increases in buffalo production as a result of loans from the SFDP and a local Dairy Cooperative have indeed contributed to a raised standard of living in that area. Food deficiencies, which in the past occurred

for eight months of the year, occur only for two months. Increasing amounts of buffalo manure have also helped to increase agricultural yields. However, women have had to work even longer hours and, although acknowledging some benefit to the household, they complain of receiving little personal benefit. In addition, the researchers found that the ecological balance in these areas was being affected by the increase in livestock numbers. In particular, a greater demand on the fodder and fuelwood reserves to feed and maintain buffalo has put pressure on these communities to better manage their forest reserves.<sup>3</sup>

In summary, the problems Nepalese women face in business have been defined by Ranabhat (1995) as:

- Lack of self-confidence;
- Role conflict (as homemaker and breadwinner);
- Social values and cultural attitudes toward women in the workplace;
- The low value placed on women's work;
- Lack of access to credit;
- Lack of access to training and education;
- Lack of family support; and
- Concentration in traditional types of business that are low-paid and have low growth potential.

As can be noted by the number of problems that relate to social, cultural, and psychological forces, the long-term prospects for women in Nepal seem difficult at best. Lack of access to financial services, although an obstacle, is typically not the main hindrance for women. Keeping the role of financial services in perspective is important, because it is just a part of the picture. Achieving the greatest impact on women's lives will occur as women themselves are able to move beyond their traditional roles, which is partially accomplished through improving their economic status in the household and partially accomplished through expanding their ability to make decisions based on wider information. Literacy and legal awareness contribute to the latter by assisting women to develop skills and open up new possibilities.

## **FINANCIAL SECTOR ISSUES**

The single most important improvement in the financial sector would be the use of positive real interest rates by microfinance institutions. Positive interest rates are defined in terms of their ability to cover the costs of financing affected by inflation rates. There is a widespread belief among many NGOs, government officials, and rural inhabitants themselves that loans to the poor should be partially or fully subsidized by the use of below-market interest rates. Interest rates are subsidized up to 80 percent on government-funded loans under Rs. 5,000 (\$100) and up to 33 percent on loans of Rs. 15,000 (\$300).

Some are attempting to use positive real interest rates but are having to wage a war for market share against those who use subsidized rates. Although the Regional Rural Development Banks are using these subsidies, the NGOs are not yet doing so. However, CSD has applied to the Central Bank for permission to do so. RRDB and Nirdhan are already competing for market share in the Bhairahawa area, which will likely bring the issue to a head. The subsidies themselves, which cost the GON close to Rs. 40 million in 1994, have a negative impact by undermining the profitability and operations of institutions while reducing the incentive

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<sup>3</sup> In this community the solution to managing reserves has been in allowing households to maintain their own pakhos, or encroached lands, which serve their fuel and fodder needs. In other areas, community forest user groups are in place and may serve to protect the long-term interests of the community.

for groups to mobilize their own savings when the rate charged by the group would run higher than the bank rate.

Another problematic issue in the financial sector is priority sector lending targets set by the GON. These should be discontinued as they are loss-making concerns and are not reaching the target market. Instead of requiring banks to meet these priority sector targets, alternative financial institutions, such as the rural development banks and NGOs like Nirdhan and CSD, should be more widely established.

Commercial banks are unlikely to change their policies and procedures in the near future to make their services more readily available to microenterprises. Although some donors have made an effort to link women's groups to these institutions, it may be more effective to work with alternative institutions. To promote such alternative financial institutions there is a need for further differentiation of institutions, especially among those that are registered as NGOs. The Development Banking Act, currently under consideration, would provide institutions such as Nirdhan with additional legal authority, including the right to hold outside deposits to leverage more loan funds. The Savings and Credit Act, also under consideration, would further differentiate those savings groups that would like to establish themselves as village banks.

The Nepal Rastra (Central) Bank (NRB) should monitor and supervise all rural financial institutions (RFIs) to protect both the RFI and RFI client base. NRB needs to provide sound financial policy guidelines for RFIs before full or limited banking licenses are approved. Although limited technical knowledge is a problem within RFIs, it is also a problem within banks. Some senior managerial appointees of government-owned banks are nonbankers and lack the technical expertise to run these banks efficiently and profitably.

One issue that arises with respect to both Nirdhan and CSD is that each has arisen out of the vision of its founder, a banker. These programs have expanded rapidly, which has necessitated a tier of capable, trained middle managers who share this vision and can implement strategies to achieve it. During a field visit, the assessment team observed that middle managers at the local head office level had not yet received the necessary skills training to be able to take on a senior manager's role: fund management, management information systems, preparation of financial statements and forecast cashflows, basic financial analysis, and basic computer skills.

Both NGOs are experiencing losses due to new start-ups, unsustainable volumes of lending, and high overhead costs (In remote areas estimated to be between 12 and 15 percent (sources here are Agricultural Bank of Nepal and Himalayan Bank Ltd)). Assuming the RFIs receive all interest due and that there is no provision for bad debts, the best-case scenario is breakeven or loss making.

None of the RFIs (including the RRDBs, Nirdhan, and CSD) viewed by the assessment team provide sufficient efficiency and profitability data. It is presumed they have never been asked for it either by NRB or by donors. Existing monthly reports appear to be prepared to suit Nepal Rastra Bank requirements rather than the RFI program's internal management needs. They cover basic outreach data solely. Simple financial performance data including operational income, operational expenses, and profit are not included, thus precluding any financial analysis. Inclusion of this data will benefit not only program management but also donors and the monitoring agency (NRB), by providing the necessary financial indicators to demonstrate the efficiency and profitability of the RFI programs.

In considering whether to fund microfinance programs, USAID will need to request that potential recipients provide them with forecast cashflows that comprise revenue inflows and expenditure outflows and show when the program is likely to break even. To assist in monitoring progress in outreach and financial

performance of credit programs, USAID will need to request that the institutions provide financial statements, including balance sheets and profit and loss statements, on a periodic basis.

The team recommends that after institutions have been instructed in how to provide basic data, USAID/Nepal should carry out its own financial analysis using a framework commonly used by financial institutions to assess the financial position (health) and financial performance (profitability) of the program. This framework is discussed more fully in Part Four of this report. By tracking such information, USAID can assess the level of self-sufficiency of the program.<sup>4</sup>

## NGO ISSUES

NGOs have a long history in Nepal and should not be underestimated as a force for positive change (Siekman, 1992). At the same time, the increasing numbers of NGOs, which by some estimates number more than 7,000, are cause for some concern by the government, which has few supervisory powers over these organizations as well as by donors who are seeking to use NGOs as intermediaries. The very fact that NGOs are able to access bilateral donor funds directly has contributed to the plethora of NGOs with a nominal social agenda. Another factor is that groups, organized either for savings or other purposes, have few choices at the time of registration in Nepal other than registering as an NGO. The greater differentiation within the financial sector, discussed above, would allow donors to more appropriately select implementing organizations for specific programs.

Because of the proliferation of NGOs in Nepal, USAID needs to set clear criteria for those with which it will work. It also needs to recognize the varying capabilities of NGOs. Some of the newer local NGOs have been found to do quite well in literacy training, for example, but should not necessarily be expected to handle

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<sup>4</sup> Christen, Rhyne, and Vogel (1994) distinguish microfinance programs at three levels separated by two hurdles — operational self-sufficiency (OSS) and full self-sufficiency (FSS). Level I programs are heavily reliant on subsidies that, if not ongoing, will result in capital erosion to meet operating costs. All RFIs in Nepal are at Level I status, but have the potential to become Level II should they be willing.

The first hurdle after Level I status, operational self-sufficiency, refers to the ability of a program to cover all nonfinancial expenses including salaries and administrative costs, depreciation of fixed assets, and loan principal bad debts out of program fees and interest charges. Financial costs, or the cost of funds, are not included. If a microcredit program can achieve OSS status, this indicates its operations are generally efficient, with high customer-to-staff ratios and good control over defaulters.

Level II includes programs that have achieved OSS status but not FSS. These may still be reliant on soft funds, or near unsubsidized profitability. With FSS status, program revenues cover both financial and nonfinancial costs on a commercial basis, and subsidies are no longer needed. Investors can expect a market force return on equity. Very few programs reach Level III, and show profitability without subsidy.

Credit programs classified as Level I can leverage funds through compulsory savings; however, the multiplier on these savings is approximately one-fourth to one-third of related loans. The authors define leveraging as a credit program's capacity to use its capital as a lever to arrange increased funding through loans or savings deposits. Level II class RFIs, with strong loan portfolios and a history of operational self-sustainability, find leveraging of additional commercial or donor loans easier. Top ranking Level II programs can leverage around two to three times the value of donor investment funds.

income generation as well. One of the primary problems with NGOs is that when they are recognized as doing something well, donors begin requesting them to do other things, which tempts them away from their main objectives and their main areas of expertise.

NGOs should limit their activities to one or two areas. Experience shows that those that diversify to capture more donor funds often end up being overstretched. The good NGOs often end up getting donor funds from more than one source. This places the burden on them of additional reporting requirements, which are time-consuming and labor intensive.

In areas where many NGOs are present and where services are being expanded, NGOs should be encouraged to specialize. The provision of financial services in particular should be reserved for those that undertake it wholeheartedly, are committed to operational sustainability, and have some existing management capacity. Worldwide experience in microenterprise development has shown that not all NGOs are capable of being microenterprise finance institutions. Those that are and that eventually become sustainable have found the best way to do so is to become specialized institutions; they give up many of their other functions.

USAID needs to evaluate an NGO's commitment to becoming sustainable prior to initiating funding, if self-sustaining programs are the ultimate objective. An evaluation of the NGOs participating in the DWET program noted that sustainability could not be expected of the institutions involved because there had been no planned and systematic phase-out of assistance from the project. In particular, there had been no provision to gradually transfer the responsibility for trainer salaries from the project to the NGOs. This is an example where, had donors initiated management discipline at the outset, the NGOs would have been better prepared to face the inevitable.

USAID's selection criteria for NGOs should match program objectives. In the case of income generating projects, NGOs should have prior experience in marketing or some other aspect of business. Most of the donors and INGOs have a set of selection criteria, (including expectations of the board, its involvement and experience, financial experience, and managerial capacity), which they have refined to help them better compare and evaluate institutions.

Because there are fewer NGOs outside the Kathmandu valley that have specialized in helping to link rural businesses to the market place, there is a need to consider other options there. Although some local NGOs may be in position to help in creating the marketing linkages so desperately needed, it may also be possible to link the producer groups more directly to buyers and markets in Kathmandu. Business consultancies, such as those that have been carried out under ELP-S and will continue under the IRIS contract, should be undertaken on a much broader scale.

## PART THREE

### ORGANIZATIONS SUPPORTING MICROENTERPRISES

Following is a brief description of most of the donors, government agencies, INGOs, and NGOs that provide services to the microenterprise sector.<sup>5</sup> This list, though extensive, is not exhaustive. Some activities are being implemented by more than one donor or agency, so are referenced in more than one place. The intention is to provide an overview of the areas of involvement, the lessons learned, and the issues the institutions have recognized to be important in working with the microenterprise sector in Nepal.

#### DONORS

##### United Nations Development Programme

Since 1994, UNDP/Nepal has been focusing its efforts on Sustainable Human Development. Its four priorities are poverty elimination, job creation, advancement of women, and environmental protection and regeneration.

UNDP was one of the funding agencies for the Developing Women's Entrepreneurship in Tourism Project, which supported WEAN, the Mothers Club Central Committee (MCCC), and the Annapurna Conservation Area Project (ACAP). ACAP was considered to be successful except in the implementation of its credit component.

UNDP has also funded The Women Training Center (WTC), which was introduced by the government in 1956 to promote women development programs in the country. The Women Training Center offers 20 different training courses from rural development, health, family planning, leadership, cultural, general administration to skills development training.

UNDP has funded the Women Development Division (WDD) under the Ministry of Local Development. The Production Credit for Rural Women Project implemented by the WDD in conjunction with local banks has been the main program for income generation in the rural areas. UNICEF, IFAD, UNFPA, USAID, FAO, GTZ, SNV, CIDA, EU, World Bank, and ADB have all provided funds for this program.

In addition, UNDP has funded Training for Rural Employment (TRE), which provides training courses in 28 varied cottage and small industry disciplines discussed further below. In these training programs nearly 50 percent of the participants were women. UNDP advised us that only 30 to 40 percent of participants who attend TRE courses go on to establish microenterprises.

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<sup>5</sup> Australia is a significant contributor to bilateral aid; in 1993, its contribution was \$6.37 million, making it the seventh largest bilateral donor. It is not included in this list because AUSAID is not providing any assistance to MSE development at this time. AUSAID finds it gets more value for its aid funds through small assistance packages. One of its success stories is the Nepal Australia Community Forestry Project, which is used as a model by the Government of Nepal.

UNIFEM, which is housed at UNDP, has also funded several microenterprise-related activities. UNIFEM provided early support to the Janakpur Women's Development Center. Currently they are supporting WDD in its role of providing monitoring and evaluation to the PCRW and its successor, the Micro Credit Project for Women. UNIFEM was very pleased with a local consultant whom they hired to design the Benefit Monitoring and Evaluation System to be used for the assessment of impact.<sup>6</sup>

UNIFEM is also actively engaged in advocating policy interventions through the National Planning Commission. A set of tools and methodologies have been designed to provide guidance to policy makers on how to incorporate women's concerns in all development projects.

### **Asian Development Bank**

ADB has funded the six-year Micro Credit Project for Women effective December 15, 1993, with a loan totaling \$5.444 million (see descriptions below under Canadian Center for International Studies and Cooperation or CECI and WDD). WDD is the implementing agency for the group formation and training of women beneficiaries. Selected NGOs will assist WDD in the above activities. The Nepal Rastra Bank is the implementing agency for the credit component.

Under the credit component of this project there are two delivery and recovery mechanisms.

- The first mechanism allows NRB to relend part of the ADB loan proceeds to public commercial banks (Rastriya Banijya Bank and the Nepal Bank Ltd.) to on-lend directly to women beneficiaries based on the recommendations of the Women Development Officers or the participating NGOs; and
- The second mechanism allows the NRB to relend a portion of the ADB loan proceeds to NGOs for on lending to women beneficiaries.

The subsidiary agreements between Nepal Rastra Bank and the two participating banks were finalized in August 1994. As of March 31, 1995, \$128,000 (Rs.6.4 million) had been disbursed to 718 beneficiaries (average loan size was \$180 or Rs.9,000) for livestock production, banana and pineapple production, sewing, and pottery- and mat-making.

ADB plans to conduct a review of Micro Credit and Micro-enterprise Development for Nepal and other selected developing member countries in 1995/96. The objective is to review ADB's experience in microcredit and microenterprise development in Bangladesh, India, and Nepal, with an emphasis on women.

### **Swiss Development Corporation**

The Swiss Development Corporation (SDC) does not want to duplicate activities undertaken by other donors. Therefore, their program of assistance is directed toward Small Industry Promotion (SIP), and specifically vocational activities. In 1996 they plan to provide literacy classes and vocational training, such as automobile maintenance workshops. Trainings will be demand-led and participants must be existing entrepreneurs. SDC does not want to target households but rather existing businesses.

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<sup>6</sup> The consultant was from a Nepal NGO, APPROX.

SDC has taken a three-pronged approach to SIP activities, which includes:

- **An Action Research Study:** Agreements will be made with six Federations and Associations, including Nepal Micro Hydro Power Development Association, the Association of Nepal Cottage and Small Industries (ANCSI), WEAN, Auto-mechanic Association of Nepal, Federation of Nepal Industries, and Federation of Nepal Transport Entrepreneurs, to conduct action research studies on suitable vocational activities. These agreements will be for one year and then reviewed;
- **Further Studies:** A countrywide study will be carried out by SBPP, which has completed several similar studies, to identify other existing and potential subsector activities; and
- **Subsector Studies:** These will include studies on the automobile and transport sector; structural metal products and electrical appliances (manufacturing); and agricultural- and forestry-based industries for women.

On completion of these studies, SDC will conduct a workshop from November 12-15, 1995 to identify and plan the 1996 training activities. SDC takes a rigid stance on cost sharing; selected participant associations must contribute a minimum of 30 percent of the costs.

**Issues:** The SDC believes too many donor programs are being implemented by the same institutions, which are short-staffed.

## GTZ

GTZ supports, among other programs, the Small Business Promotion Project, which was begun in 1983 and is in its fourth phase. It will run through mid-February 1996. In its current form the SBPP has five components: New Business Creation, Small Business Consultancy, Services to Institutions, Planning and Business Information, and the Complementary Credit Scheme administered by the Agricultural Development Bank of Nepal. Collateral is required for participation in this program.

The clientele that SBPP has attempted to reach is slightly better off than that which USAID has defined as microenterprise. SBPP has targeted the small enterprise sector, those businesses having assets of Rs. 100,000 (\$2,000) up to Rs. 1,000,000 (\$20,000). Under its new business creation program, it had trained 2,100 potential entrepreneurs and 240 trainers (some of them from abroad) by the end of 1994. It conducts 15 new business creation courses annually and estimates that it generates 350 to 400 new enterprises a year based on an average number of 18 participants and a success rate of 44 percent. These enterprises have an average of 5 employees each.

Under its business consultancy activities, SBPP has assisted new and existing businesses with a package of promotional activities. By the end of 1994, SBPP had trained 1,720 entrepreneurs through 94 training programs in management, marketing, accounting, and financial management. The small business consultancy department also conducts area census surveys and has been contracted by the Swiss to describe the microenterprise sector. It has also undertaken a number of subsector studies, such as food processing.

In its third phase (between 1989 and 1992), the SBPP began to set up the Industrial Enterprise Development Center (IEDC) whose purpose is to enhance the capability of service delivery institutions in the small enterprise sector based on the approach innovated by SBPP. In the next three months this new

organization, the successor to SBPP, will be fully operational. As the SBPP is phased out into the IEDC, GTZ's support of this project will be reduced to 50 percent. Other donors will be invited to participate in supporting its continued activities. The German government for its part is still very committed to promoting the small enterprise sector.

The SBPP, soon to be IEDC, has eight branch offices that implement its activities. One of the roles of the IEDC will be to enhance the capacity of the government agencies and NGOs in their efforts to provide training to the MSE sector.

SBPP has had extensive experience working with NGOs throughout Nepal. Under the Microenterprise Creation and Development Program, jointly sponsored by CECI, they worked with three NGOs, the Lion's Club of Gorkha, Nepal National Social Welfare Association in Gulmi, and Mari Bikas Sangh in Morang District. None of these NGOs had any significant experience in microenterprise development prior to this project, which trained trainers. The total number of women trained at project end was 300 with 7 new microcredit programs being established. SBPP has joined with ANCSI to conduct 22 regional entrepreneurship trainings. In collaboration with the ILO and the UNDP, SBPP also participated in the Development of Women in Tourism project.

#### **Issues:**

- Although there is a tradition of paying people to attend training sessions in Nepal, SBPP has not done this. Because of the precedent set by some NGOs and government agencies, it will take some time for the concept of "fee for service" to be accepted. SBPP believes that fees should gradually be introduced to help programs recover some of the costs and to add a sense of the value of the services being presented.
- To keep its costs lower, SBPP has attempted to use local trainers. Local trainers are able to speak the local dialects as well as Nepali. The experience of SBPP is that women trainers are not required to reach women, although they have tried to include at least 50 percent women trainers. In some areas where trainings are offered for both men and women, very few women have come. When women-only trainings have been presented in these locations, the attendance was much better.

#### **USAID**

USAID is a relatively new player in microenterprise programs in Nepal. The agency has supported several associations, INGOs, and NGOs that have provided services to small business. In addition, USAID has provided limited support through ELP-Secretariat activities such as business consultancies to rural producer groups. ELP-S has been folded into IRIS's Nepal operations. USAID's RAPTI project has benefitted rural producer groups through the efforts of No-Frills. The agency has also supported programs in women's literacy, providing an opportunity for many women's groups to form and to begin to articulate their common interests. Some of these programs are discussed below.

#### **Agro Enterprise Center**

The Agro Enterprise Center is a USAID-funded project founded in 1991 and housed in the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). The focus of this project is to encourage the

development of agroenterprises through the provision of marketing information and by creating linkages among and between producers, traders, and trading houses.

Because of its location within the FNCCI, AEC has access to a number of influential business people in Nepal who have introduced them to clients. AEC has also used these connections to lobby on behalf of agrobusiness and in favor of easing export restrictions. It would also seem that they would be in the position to lobby on behalf of the microenterprise sector as well.

The AEC's brochure states that its clients may be either individual business people, producer groups, commodity associations, or other export groups. Some of their clients have come through the District Chambers of Commerce and Industry, some have come directly through the FNCCI. Most of their clients are very well established business people seeking information about export markets. Their activities to date have also included arranging for study tours by local businessmen to learn more about agricultural production in India and to learn how to meet export standards. When AEC has provided a business plan or a feasibility study, the business has had to share the cost of the study.

Although AEC does not work directly with micro or small producers, it can work indirectly with them through brokers or traders who buy from producer groups. To date they have been working with established businesses, generally of a larger scale, but they see the potential to create linkages between producer groups, comprised of very small-scale producers, and exporter where there is a broker or other intermediary acting on behalf of the producers. They are pessimistic that a micro producer from the group can serve as an intermediary for the group because producers are not usually familiar enough with markets. Rather, established traders are needed to create the link between the producer groups and AEC's other clients, established businesses.

The AEC has also expressed an interest in promoting women's agroenterprise activities. On one occasion they introduced WEAN to a new client for which they provided marketing services. A number of the commodities that AEC is investigating have potential for creating an impact on women producers and microentrepreneurs, including sericulture, vegetable seeds, horticulture, dairy, and tea.

**Issues:** Although in principle the AEC has stated that it is willing to work directly with producer groups, in our interview they stated that practically speaking there was a need for a knowledgeable intermediary to represent the group. There was no expressed eagerness or readiness on the part of their staff to mediate on behalf of these groups at this time.

- AEC expressed pessimism in No Frills ability to intercede on behalf of the producers in the marketplace. The basis of this doubt is that No Frills is an NGO with a "social welfare" approach, not a "business approach," like the AEC. In effect, the AEC would prefer to work with business people rather than NGOs because established business people understand the demands of the market.

### **Institutional Reform and the Informal Sector**

IRIS has been contracted by USAID to undertake efforts in four areas: business consultancy, business literacy, support to microenterprise finance institutions, and institutional strengthening. The business consultancy efforts previously undertaken under ELP-S were limited in scale. Consulting services were provided to women's producer groups in Tehrathum, Shankuta, and Biratnagar. The length of the consultancy

was short (two weeks) but it did result in increased sales by the groups. Unfortunately, such approaches do not have much promise of leading to sustained sales by these groups.

IRIS has decided to try an approach of contracting with several different consulting firms that would develop a relationship with 7-10 groups each over a 8-9 month period. One of those already contracted is Ideas Unlimited Pvt. Ltd. Ultimately the objective should be to link the producer groups with a broker or firm interested in their product and willing to deal with them directly.

The second area of IRIS's scope is to continue with programs in business literacy. IRIS, like PACT, has been funded by USAID to provide these services to microenterprises. IRIS's previous experience, under the ELP Secretariat, consisted of 10 trainings in 10 districts. IRIS will work with SBPP to refine a business literacy curriculum to make it more appropriate for microenterprises. Business literacy will be provided for existing businesses only and at two levels. One curriculum will be developed that is useful for clients of the microfinance programs such as Nirdhan and CSD, and another curriculum will be developed for the training of trainers who will provide services to microenterprises. ANCSI and DCCI are being considered as possible vehicles for these trainings.

Under the third objective, IRIS is contracted to work with those organizations providing financial services to microenterprises, which at the present time include the four rural banks (RRDB), Nirdhan, and CSD. Of these, they have placed a higher priority on Nirdhan and CSD, which emphasize sustainable operations and have not accepted the interest subsidies authorized by the Central Bank. The greatest need of these institutions, particularly Nirdhan, is to strengthen management through training and technical assistance. In addition, there is some concern that the rural banks are developing too rapidly and do not have the organizational capacity to tolerate such expansion.

The final area in which IRIS has contracted with USAID is to provide technical assistance to build the institutional capacity of other institutions working with microenterprises. Recommendations related to other organizations with which IRIS has been contracted to offer technical assistance is contained under each institution's profile in the relevant sections below.

The information dissemination efforts to MSEs begun under ELP-S will also be continued under IRIS because they have been successful. One TV station is continuing to broadcast market information on its own and IRIS will continue to support radio broadcasts.

#### **Issues:**

- The institutions to which IRIS must provide support were selected by USAID. What amendments to the agreement can IRIS include that will allow them to have some role in selecting the organizations to which they will provide technical assistance? How will IRIS be evaluated with respect to the delivery of services to these other institutions?
- In the area of business literacy, there are a number of issues, not the least of which is the curriculum itself. IRIS staff are concerned with having to meet the terms of their 18-month contract under this objective, particularly since they do not even have a curriculum as yet. Reasonably, in the period of time remaining, they should be expected to pilot and evaluate an approach to business literacy that would have the potential to be implemented on a wider scale at a later date.

- Business literacy provided to existing businesses should be provided on a fee-only basis to ensure the interest and commitment of participants. This will also provide a measure of the demand for the service. The second approach, training local trainers, may serve to develop a base of local enterprise consultants; however, evaluating the effectiveness of such an approach will be difficult at best.
- Under IRIS's scope of work, this contractor should continue with its efforts in policy but with specific emphasis on those policies affecting the participation of women in the microenterprise sector. Although IRIS has gotten off to a slow start, particularly as it has not yet hired a new executive director, a number of these policy issues are already under consideration by a working group established by CECI. IRIS should seek to become involved in these ongoing efforts.
- The local staff in IRIS are strong, but they need an executive director and additional support staff. Completion of their scope will depend on the resolution of these staffing issues in a timely way.
- IRIS should establish a computerized database of consultants from which it can draw to provide technical assistance to microenterprises, producer groups, and microenterprise assistance organizations. Specialists in marketing, product design and development and in meeting the standards of export markets should be sought initially from among the many existing NGOs. Individual consultants should be used where possible to avoid cumbersome contractual relationships with other institutions. Additional training of consultants may be required to meet a growing demand. Such consultants could be provided to rural producer groups on a "scaled" fee for service basis.

### **International Executive Services Corps**

IESC volunteer executive program in Nepal began in 1991 with a grant of \$540,000, which was subsequently increased by \$355,390 in August 1992, thus providing total funds for the project of \$895,390. The grant expired on August 31, 1995. The volunteer executive program was established to assist private businesses through technical expertise provided by highly qualified and experienced retired volunteer executives.

As of August 1, 1995, a total of 27 business projects and groups which were identified for assistance under the original grant agreement had been signed and approved by IESC. Priority was given to small businesses, labor intensive firms, and export related firms, and those with some existing or potential U.S. interests. The recipient business client is charged a fee for services based on the size of the firm and its ability to pay

Some of the projects awaiting the arrival of volunteer executives relate to microenterprise development. These include assistance to the Handicrafts Association of Nepal (HAN), and the Association of Craft Producers (ACP), which are both due to start mid-September, 1995. The volunteer will assist HAN in sandcasting training, in conducting a workshop, and in providing training materials. Assistance to ACP will include the preparation of a strategic plan for business development to customize exports and market development, financial planning, and management training.

Some of IESC's completed projects have been with the Federation of Business and Professional Women (FBPWN), the Himalayan Bank Ltd., the Hotel Association of Nepal, Nepal Airways, the Nepal Film

Development Corporation, the Jyoti Group, and the Harisiddhi Brick & Tile Factory Ltd. Additionally, the IESC has 5 projects waiting to be signed by clients; 6 projects awaiting client approval within the next 30-60 days; 9 projects with good possibilities of client approval in 3-6 months; and 12 projects identified.

Based on IESC data, client contributions have varied. The Hotel Association of Nepal contributed \$13,400 to finance all of the volunteer executives in-country expenses while the Business Development Co. was not capable of financing anything. Client contributions for the signed 27 projects averaged \$3,070, which is 0.02 percent more than the amount called for in the Grant Budget. The average USAID contribution towards total project cost for the 27 projects signed and approved by IESC is \$18,409, compared with a Grant Budget amount of \$21,417.

#### **Issues:**

- As a result of above-average client contributions, IESC has a budget surplus of \$3,008 and plans to include up to four projects of technical assistance to small/micro enterprise-related organizations. The three organizations identified are the Handicraft Association of Nepal, Association of Craft Producers, and FBPWN. These budget surpluses will enable IESC to contract and partially subsidize TA for associations unable to fully fund all of a volunteer executive's expenses in Nepal. IESC is keen to work with the above mentioned associations.
- IESC would like more precise guidelines on the type of businesses, size, ownership, and location to assist them to identify these additional businesses.
- IESC should identify labor-intensive MSEs at the district level, through the channels already open to them through their association with ACP, HAN, FBPWN, Association of Nepalese Cottage and Small Industries, and the Nepalese Chambers of Commerce and Industry.

## **GOVERNMENT MINISTRIES AND AGENCIES**

### **Department of Cottage and Small Industry and Cottage and Small Industry Development Board**

DCSI, formerly known as the Department of Village and Cottage Industry, was established in the early 1940s. The Small Business Promotion Project's Entrepreneurship Development Program (EDP) was under this office in the initial stages of the project. DCSI was also involved in the ILO-sponsored TRUGA (now TRE) project.

CSIDB, formerly known as the Cottage Industry Development Board (CIDB), was established in 1974 under the Development Committee Act. Originally, it was intended to provide assistance and services to promote cottage and village industries countrywide. Under a GON provision designed to eliminate the duplication of activities, DCSI and CSIDB were assigned to operate in specific regions. DCSI and CSIDB now share a common objective in providing support services for the promotion, expansion, and strengthening of cottage and small industries. Other objectives are to reach and assist low income earners and to provide basic skills training. DCSI and CSIDB are not gender-biased; however, they advised us that around 60 percent of their participants are women.

DCSI now covers 27 Districts, and CSIDB the remaining 48 Districts of Nepal's 75 Districts. Both institutions provide the same services and perform two major operating functions, that of a regulatory body and a promotional institution. Their major activities include providing skill development training and entrepreneur development training; organizing industrial fairs and exhibitions; registering and licensing cottage and small industries; and assisting in the supply of raw materials, equipment, and machinery for cottage industries.

DCSI and CSIDB's government-funded budgets have been increased more than three-fold for the 1996 financial year commencing July 16, 1995, although the number of trainees has increased only some two-fold. They suggested this reflected a new emphasis on "quality training." DCSI and CSIDB plan to train 15,000 persons countrywide in 28 basic CSI skills package training programs that cover topics ranging from noodle production to electrical repairs to hairdressing. The four main features of the training package are:

- To provide basic training skills and to recommend selected participants to the Agricultural Development Bank in Nepal (ADBN) for fixed asset machinery or equipment loans. Market interest rates of 14 to 15 percent are subsidized 80 percent by the government for loans up to Rs. 5,000 (US\$100);
- To provide eligible participants from undeveloped regions of Nepal, who successfully complete the training courses, with subsidies of between 40 and 60 percent off the purchase of small machinery and equipment purchases used in training courses, such as sewing machines. DCSI and CSIDB have received Rs.10 million (\$200,000) in funding assistance from UNDP for this purpose. (UNDP also provides technical assistance and some logistical support.) Under the package, participants also receive Rs.1,000 (\$20) honorarium per month (pro-rata for shorter courses). Participants are selected by a four-person selection board including ANCSI and DCCI officers, a regional bank officer, and a government technical officer such as an agriculturist;
- To develop linkages with the Small Business Promotion Project; and
- To enhance registration of new industries with a view to ease banks' borrowing requirements, to provide income tax holidays, and to assist with the purchase of imported goods.

**Issues:**

- The delivery of training requires strengthening. DCSI and CSIDB admit they are attempting an ambitious training program in financial year 1996. They are keen to work with USAID to explore forms of technical assistance specifically in training.
- CSIDB needs to build its human resources. It requires improved methodologies for delivering training, and improved technical skills in trainers.
- CSIDB complains that they service very isolated districts and have equipment shortages.

**Women Development Division**

WDD has been mandated to work with poor rural women. Currently, four projects, funded through different donors, are being implemented by WDD: PCRW, funded by IFAD, UNIFEM, and others; the Micro Credit Project for Women funded by the ADB; Enhancing the Agricultural Productive Capacity of Rural

Women funded by the FAO; and the Women in Development components funded by several donors including USAID and GTZ. WDD also has UNIFEM support to operate a monitoring and evaluation program of its efforts.

The role of WDD in donor-sponsored loan programs is to organize and train women's groups. With its presence in 68 districts and with 600 field workers, WDD has an outreach capacity to thousands of rural women. First, it selects sites according to a set of criteria, some of which include that the site has limited financial services available to women and yet is not far from a commercial bank. Next, it undertakes a survey of households in that area to identify those that are under the Rs. 2,511 annual income threshold.<sup>7</sup>

Following the analysis of the results of the household survey, they invite the women in the target group to a presentation of the program and organize them into groups. Groups are not necessarily based on caste, but the more cohesive groups are the homogenous ones. Fourth, training sessions are provided to the groups to explain the approaches the group can take to income generating activities. As much as possible, the groups are left to decide for themselves how they would like to operate. The next step for the WDD worker is to undertake a needs assessment of the group to more fully understand what the majority of the group's members feel would benefit them the most. Many of the groups are interested in livestock production because this is a traditional area of women's activity. At this stage the WDD also attempts to link the group to other existing programs and agencies providing services in areas of need for the group, including literacy, health, drinking water, and sanitation.

Although PCRW has focused on providing credit to rural women, the Micro Credit Project for Women has a rural and urban focus. Since its inception 13 years ago, WDD has worked with 50,000 women clients through 11,325 groups; 30,000 women have received credit. Credit funds disbursed by the end of 1994 were nearly Rs. 60,000,000. Only 15 percent of the loans that have been given to women have gone into trade and services activities while 70 percent have been used for livestock raising. Some of the groups under the PCRW program are now on their 16th cycle of loans. Initial loan sizes were only Rs. 2000 (\$40) and have reached as high as Rs. 30,000 (\$600).

Under the Micro Credit Project for Women alone 250 groups were formed last year. Initially group size was between 4 and 10 people; the project is now promoting larger groups. The Micro Credit Project for Women also limits loans for agricultural purposes to Rs. 30,000 (\$600) and loans for other microenterprise activities to Rs. 40,000 (\$800).

The future directions under consideration by WDD include providing additional managerial support to develop the capacity of women's organizations.

**Issues:**

- The poverty level established by the Planning Commission 10 years ago is Rs. 2,511. Because this has not been adjusted for inflation, WDD feels that it should be changed to Rs. 4,000.
- One of the biggest constraints that the WDD sees in its current approach is that doing household surveys is very time-consuming. In the future they may just use key informants.

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<sup>7</sup> They consider assets as well, but land alone is not a good indicator without reference to whether the land is irrigated. They also consider a number of social indicators including the number of children and the degree of literacy in the household.

- In the past, WDD has not gotten involved in identifying potentially lucrative MSE activities for women. Their approach to markets is a passive one: "We can't create markets, markets create themselves." The Micro Credit Project for Women, on the other hand, has identified potential investments for women and will do more of that in the future.
- PCRW has experienced low repayment rates, especially early on; however, WDD believes that they are currently at nearly 95 percent.
- Where NGOs have provided credit funds with no interest this has undermined other projects where interest is charged.
- WDD sees the possibility of establishing some of the groups that it has worked with as savings and credit associations. The Savings and Credit Act would greatly benefit them in this effort.

## FORMAL FINANCIAL SECTOR

### Agricultural Development Bank Nepal

ADBN plays a major role in the implementation of credit through the Small Farmers Development Project (SFDP), the TRE program implemented by DCSI, and PCRW. ADBN has 675 offices comprising 229 branch offices plus some 444 SFDP offices, and five training centers. ADBN covers all 75 districts and has 4,500 staff.

Collateral requirements of the ADBN are normally met by land and buildings. There is, however, a joint liability arrangement made for landless small farmers that applies to SFDP borrowers only. Interest rates offered are 8 percent for savings deposits and 12 percent for term deposits. Loan terms are defined as short term if less than 2 years, medium term if more than 2 years and less than 10 years, and long term if more than 10 years and less than 20 years. Tea loans are sanctioned for 7 years. The maximum loan amount is Rs.70 million and Rs.20 million for tea production. Lending interest rates vary: 14 percent for coffee and tea, 17 percent for livestock, 18 percent for working capital, 16 percent for cash crops, 15 percent for food crops, and 16 percent for irrigation.

Apart from the normal interest rate subsidies provided to SFDP loans (80 percent on loans up to Rs.5,000 and up to 33 percent for loans up to Rs.15,000), ADBN also offers subsidies of 50 to 75 percent in rural areas for micro-hydro, methane, and bio-gas loans up to Rs.10,000; and 40 to 75 percent on irrigation loans.

ADBN's main lending outreach is, as the name suggests, for agricultural production, farm improvement and irrigation, ag. business, and agroindustry marketing and warehouse construction. As of July 15, 1995, loans disbursed totaled Rs.6,567.9 million of which 24 percent was for agricultural crops and cash crops; 24 percent for livestock; 23 percent for agroindustry, marketing, and warehouse construction; 19 percent for farm-mechanization and irrigation; and 10 percent for miscellaneous purposes.

In financial year 1995/96, ADBN plans to make 55 branches, currently responsible for more than 50 percent of ADBN's lending portfolio, more financially viable by reducing costs and increasing lending. ADBN advised us that operating costs are 4-5 percent in rural areas and 12 to 15 percent in more remote areas, with an average cost of funds of 11 percent.

ADBN is experiencing problems that can be attributed to a lack of training resources; a lack of skilled manpower; competitors providing cheaper interest rates under deregulation, resulting in a fall in market share; and losses in tea, coffee, and livestock loans.

### **Small Farmers Development Program**

SFDP was established by ADBN with the support of the FAO in 1975 for low income households in rural areas. As a component of the Small Farmers Development Project, GTZ (the German aid agency) has provided technical assistance to ADBN to create linkages with small farmers. SFDP sees its role as twofold: promoting the farmer organizations through technical assistance and training, and involving the banks with NGO partners who are numerous though not all that effective. One NGO that it has worked with for more than 10 years is the Rural Self-Reliance Development Center, which has worked with 20,000 families in 15 districts. By the end of 1992, the SFDP had been extended to 75 districts and had formed 18,597 groups with a total of 142,711 members. 18.2 percent of its members are women (ADBN 1992). The loan repayment rate is 38.9 percent for men and 66.9 percent for women.

Although initially the SFDP worked only with the banks, it later worked directly with the farmers organizing groups of 5-7 people/households. Within these small groups, savings is collected and loans are also disbursed. Ten small groups are organized into a larger group (intergroup) with 50 to 80 households represented. At this level savings are also collected and group projects undertaken. At the small group level, interest is paid on members savings at the normal bank rate of 8 percent. No interest is paid on savings at the intergroup level. There is yet another level of organization, the main committee or village level, where 10 intergroups are united representing 500 to 800 households. At this level, additional projects are undertaken, and there are no savings requirements. Some of these village organizations are further organized into committees that focus on other areas such as well-building, milk marketing, or use of community forest resources.

The average loan size provided to members within the small groups has been Rs. 8,000 (\$160) to Rs. 10,000 (\$200). Maximum loan size is Rs. 30,000 (\$600). The maximum initial loan offered to members is less, only Rs. 5,000 (\$100). Interest on the loans is paid at 16 percent.

Of the village organizations formed through SFDP, seven, representing about 4,000 families, are functioning independently, obtaining wholesale loans from the bank that are on-lent to the group members. Four of these have been operating for around 20 months, and another three for only four months. There are 41 more village organizations eager to follow this approach. These organizations are being registered as cooperatives. The SFDP feels confident that with changes in the Cooperative Law, amended in 1992, allowing a cooperative to conduct partial banking services, there will be some improvement in the status of cooperatives.

#### **Issues:**

- Interest rate subsidies are negatively impacting this project because of the difference in rates the groups must charge to their members on loans and the rates charged at banks (25-36 percent as compared with 6 percent). These subsidies are actually discouraging the mobilization of savings.
- One important lesson learned to date by the SFDP is that village organizations must develop at their own rate to allow group cohesion to develop naturally.

- Low repayment rates have hurt the credibility of this program with borrowers and its prospects for long-term sustainability. Women borrowers have accounted for only 18 percent of total lending.

### **Nepal Rastra Bank**

NRB is the Central Bank of Nepal, and is responsible for monetary and banking policy. Some of the NRB's activities include: managing cash reserves and statutory liquidity requirements; supervising budget provisions for interest rate subsidies on credit up to Rs. 15,000; granting approvals for establishment of Regional Rural Development Banks and permission to open finance companies; approving program expansion for the Production Credit to Rural Women program; issuance of Nepal Rastra Bank Bonds; setting credit limits on Priority Sector Lending; providing guidelines for finance companies; and approval of a range of other banking services.<sup>8</sup>

Other responsibilities that come under the NRB are: issuing notes and coins, minting coins, participating in investment activities, raising international loans, issuing Development Bonds, National Savings Certificates, Treasury Bills and other certificates, and acting as a clearing house. NRB is also the major shareholder of the Regional Rural Development Banks.

**Issues:** The major decisions made by NRB affecting microenterprise are interest rate subsidies on credit and credit limits on priority sector lending. Both are considered to have a negative affect on the microenterprise sector. The former erodes rural financial institutions and the value of members' savings. The latter is ineffective and a costly exercise to the commercial banks, which are forced into funding NGOs to avoid paying penalties on the unmet amount at the highest market interest rate (around 21 percent).

### **Regional Rural Development Banks**

RRDBs were created in 1992 to provide financial services to the rural poor. These programs were modeled on the Grameen Bank of Bangladesh, which has demonstrated that the poor can be identified, reached, and organized through the establishment of groups and centers. Field activities in two regions began in July 1993, at Biratnagar in the Eastern region and Dhangadhi in the Far Western region. Two additional RRDBs were established in 1995.

Due to time constraints, only the Western head office located in Butwal was visited. The RRDB Butwal Head Office was established in mid-1995 and registered under the Commerce Act. The RRDB Butwal office is responsible for monitoring and supervising three branches (Gorusinge, Semlar, and Ram Nagar) in three *terai* districts of the Western region that provide banking services to 16 districts. The other new RRDB is located at Nepalgunj in the mid-Western region.

Issued and paid up capital for the RRDBs is Rs.30 million or \$600,000. Ownership of the RRDBs is 58.5 percent Nepal Rastra Bank, 16.5 percent GON, and 5 percent each for five commercial banks. The RRDB programs have specifically targeted poor women. For details on RRDB operations, and savings and loan criteria for members, refer to discussion on Nirdhan below.

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<sup>8</sup>. Source: Nepal Rastra Bank Annual Report 1992/1993.

As of mid-July 1995, average outstanding loan balances ranged from Ks.3,262 (\$65) in Biratnagar to Rs.4,722 (\$94) at the newly established RRDB in Butwal. The growth pattern of these RRDBs is reflected in the number of borrowers, varying from 21,538 at Biratnagar to 62 at Butwal, which has only recently commenced operations. The number of individual savers are 6,598 and 56 for these two RRDBs, respectively.

**Issues:**

- Borrower education is limited in the areas of production, marketing skills, and how to develop market linkages.
- The RRDB's local head office at Butwal is currently understaffed. Temporary staff are on loan from its Eastern and Far Western branches.
- High operating costs are placing financial strains on RRDB resources.
- The RRDBs are growing too quickly at a price. The Nepal Rastra Bank needs to consolidate the operational and financial position of its four RRDBs before expanding further. It is estimated that the four RRDBs will not reach operational self-sufficiency in the midterm because they have high start-up costs and low institutional capacity.
- None of the reports provided by the RRDBs or completed studies provides details of operating and financial costs. Nor do these documents provide a clear picture of the financial position of the RRDBs. Until the willingness to attain sustainability is clearly demonstrated, USAID support to these institutions should not be considered.

**Himalayan Bank Limited**

Of the 10 commercial banks in Nepal, the Himalayan Bank Limited (HBL) is a joint venture, private sector, commercial bank established in 1993 in partnership with Habib Bank Limited, Pakistan, a 20 percent shareholder.

HBL, like most other commercial banks, does not find it profitable to lend to the microenterprise sector because of high transaction costs. Nonetheless, HML is in the planning stages of a long-term (8 to 10 year) cashmere goat program in Nangkara that will provide micro credit loans to farmers in the range of Rs.5,000 (\$100) to Rs.10,000 (\$200), with a maximum loan limit of Rs.15,000 (\$300).

To meet the priority sector lending requirements, HML has identified several organizations and has provided them with loans totaling Rs.12.5 million (\$.250,000) at 6 percent, which is less than their cost of funds. The beneficiaries of these loans will be Nirdhan, CSD, and Aama Impex, a manufacturer and exporter of Dhaka handwoven textiles and crafts.

**Issues:**

- High transactions costs (12-15 percent) related to loan monitoring of small and microenterprise loans prevents lending to this sector.
- Imposition of priority sector lending program requirements places excessive strain on commercial banks due to high penalties and a lack of suitable candidates.

- Lending to the carpet and garment sectors is no longer a priority due to intense competitive from nearby countries and the resultant fall in local quality control.

## **INTERNATIONAL NGOs**

### **The Asia Foundation**

The Asia Foundation is implementing several projects that encourage the empowerment of women. With USAID funding it has also offered literacy classes through several NGOs. USAID has also funded a pilot project to provide training in legal education. A study of 12 districts has been undertaken and has identified some of the areas of legal knowledge that would be most beneficial for women. A great deal of interest has been expressed by rural women in their legal rights. This will be implemented as a kind of postliteracy training.

The Asia Foundation has used its own core funding to work with several NGOs that have formed women's groups being set up as cooperatives. Seed money of Rs. 5,000 (\$100) has been provided to the groups, which they can decide to use for a particular purpose or which they can save and add to through their own savings. Thirty-seven cooperatives have been established to date and they expect to establish another 25 this year. Each cooperative is comprised of 15 to 20 women. The groups are provided training in money management and in other areas.

**Issues:** Many of the women's groups supported by the Asia Foundation are eager for the opportunity to participate in some kind of income generation activity. The Vitamin A project (fruit drying) funded by USAID was of great interest, despite the fact that from implementation point of view the project had a number of problems.

### **CECI**

The Canadian Center for International Studies and Cooperation has a key role in the Micro Credit Project for Women, the six-year project funded by the Asian Development Bank. The project has been under way for one year. The three main components of this project include group training implemented by WDD, institutional support implemented by CECI, and the provision of credit implemented by the ADBN and commercial banks. (See also the WDD and the ADB) The target for this project is to reach 20,000 beneficiaries.

CECI has been contracted to provide institutional support to NGOs in the form of training in the basic credit methodology and in methods for the organizing of women's groups. Training is also provided in methods of internal monitoring and evaluation. A six-month review process has been instituted whereby the women's groups meet with the NGO to provide feedback on the program and the NGO meets with the bank for review and planning. A third aspect of CECI's assistance to this project has been the identification of business activities with market potential and the preparation of investment profiles for these activities, which are made available to the women's groups. Investments involving high, low, and minimum risk are described. The business identification task has been completed in 5 districts to date.

The project initiated in the Western region is currently operating in 12 Districts and 5 towns with 26 NGOs. The project objective is to provide support to 95 NGOs. Criteria for the selection of these NGOs is that

they have been registered for at least a year; they have at least 100 beneficiaries; they have an office with paid staff; they are women focused, and locally based.

All of the NGOs participating in the project are being trained by CECI in the group lending methodology. Groups are formed of 5 to 15 persons who must contribute monthly savings in an amount determined by the group. At present groups are mobilizing their own savings to lend to members at interest rates determined by the group ranging from 20 percent-60 percent. In the next stage of implementation, groups will liaise directly to the bank to reduce transaction costs of lending to individuals. One benefit to the group is that service fees will be paid to the group and not to the bank. Loans will be made available up to Rs. 30,000 (\$600) for agricultural loans, up to Rs. 40,000 (\$800) for nonagricultural MSE loans, and up to Rs. 250,000 (\$5,000) for small businesses with feasibility studies. The interest rate on these loans will be determined by the bank, though if subsidized rates are available they will likely be used. A third stage of implementation will involve setting up the NGOs themselves as financial intermediaries to lend to their women beneficiaries.

To date most of the loan activity that has taken place has been for livestock and other agorelated production. Project officers estimated that roughly 80 percent of the loans to rural women have been for the purchase of chickens, goats, and other livestock and for vegetable gardening.

CECI is very concerned about the attitude of the Central Bank and the other commercial banks to the MSE sector.<sup>9</sup> As a result they have instituted a Policy Implementation Committee, which is bringing together some of the players from the NGOs, from the banks and from the project management to discuss related issues. An advisory council is also preparing a report to be presented on September 20, 1995. Members of this council include representatives from Ford Foundation, from FNCCI, Rastra Bank, Cody Institute, and CSD. This report will make recommendations on the licensing of credit unions so that the women's groups do not have to be registered as either cooperatives, companies, or NGOs.

**Issues:** The proposed methodology to lend to the NGOs as intermediaries seems unnecessary if the banks are willing to wholesale their loans directly to the women's groups. Adding the NGO layer between the banks and the women's groups creates additional overhead and adds another layer of management information which has to be monitored for efficient use of funds.

## **PACT**

PACT manages two USAID-funded projects. The first of these, Women's Literacy, is in its second year of implementation. In the first year it provided training and technical assistance to 300 NGOs that provided literacy classes to women. Classes ran for two hours a day, six days a week, for six months. There are approximately 25 to 30 women in each group. They will be working in 20 Districts in the second year of this project; at least one of the Districts where they ran this program last year will now be serviced by a similar program operated by GON. (World Education also runs similar programs in another three districts and will add two more.)

NGO trainers are given a nine-day training in the literacy curriculum but that is not sufficient. PACT has found that it must also maintain a facilitator who attends the trainings to assure the quality of the training. Thirty percent of the trainers and facilitators are women.

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<sup>9</sup> In the next few weeks the Central Bank is expected to report on its decision with regard to the role of NGOs as financial intermediaries. There are several issues there that are of concern to the bank, especially its ability to monitor the NGOs.

Requirements for the NGOs are that they be registered in the District and be locally based, though they may have no prior experience. The smaller NGOs tend to do better than the larger ones at this particular task because many of the larger ones are stretched between many donor-funded projects. PACT works very closely with the NGOs training them in how to manage the project. Each NGO must prepare a budget which follows PACT guidelines. All accounting is run through PACT's main office in Kathmandu, which disburses funds only upon receipt of expense vouchers.

PACT has also worked with the NGOs in methods of groups formation. They recognize that both caste and ethnicity are factors in the cohesiveness of groups. The more homogenous the group the stronger the bond between members. One example of a group of mixed caste resulted in a group default when two members of the minority caste represented never repaid their loans and the group dissolved.

PACT's second USAID-funded project has only very recently begun and builds on the groups that have been formed under the literacy program. A business literacy curriculum is being developed to provide some basic skills to some of the graduates of the literacy program who are keenly interested in income generation. PACT is very concerned that too many income generation projects for women lead to the same nonremunerative activities for women: sewing or knitting and goat raising.

The Business Literacy program will have three basic topics: instructions for setting up the village banks, instruction for getting into business, and instruction in growing a business. The groups will be instructed in the benefits of saving. Two requirements will be made of group members: attendance at meetings and savings. It is expected to take about three months of meeting and saving together before the groups will use these savings to on-lend to their members. Group savings will be deposited into the bank to earn interest. At this point they will have graduated to village banks and it is hoped that at a later date these groups will be able to access additional funds from other sources, including banks, but at this point the funds are not available. PACT is hoping that a bank or some other source will be willing to put up matching funds to create a revolving credit fund in the future.

Although women in the literacy program have not been required to pay fees for their classes, PACT plans to implement this at a later date. This year, for example, the students will have to buy their books. The same will be undertaken with the Business Literacy program to ensure that members are committed. It will also build the stature of the NGO as the provider of valuable services to the community.

PACT's work with NGOs goes back for some time. Only recently have they become involved in microenterprise activities so they acknowledge that they have much to learn. In addition to working closely with the NGOs to prepare budgets and to understand the principles of financial management they have brought together representatives from the various NGOs with whom they work to meet and discuss implementation issues. Of the NGOs with which they worked on the literacy project, they felt confident in resigning 90 percent for the second year. Only in a few cases did they feel that NGOs misrepresented their expenses. In a few cases where they were not 100 percent satisfied with the work of an NGO, they have funded them again but at a lower level to give them a second chance. PACT prides itself on its monitoring system, which includes at least 100 people on retainer who follow-up periodically with the NGOs to ensure program quality and institutional accountability. At present, the NGOs must report on their activities 4 times during a literacy session. PACT has direct contact with at least 40 percent of the classes that are offered but would like to make contact with 100 percent.

They have selected just 5 NGOs through which to pilot the Business Literacy program in the first year. Over the entire two-year pilot phase, they expect to benefit 3,000 women through 15 NGOs. After that they will evaluate the program to determine whether to refine it.

**Issues:**

- Although it is unfortunate that loans to group members will be limited to the amount of accumulated savings in the group, this is not such a bad thing. Groups will first learn the disciplines of savings and of repayment. PACT is concerned however that the amount of savings that can be mobilized by the groups themselves at least initially will not be sufficient to capitalize commercial activities.
- Just as formal education is not a prerequisite for becoming an entrepreneur, so business literacy is not a logical next step for all women after basic literacy. The main concern with such programs is that women who are not already in business have few reference points to understand what is being presented.

**Plan International**

Plan International has a program for income generation but they admit that the great weakness of this program is that they provide grants. The grants have been given to families, many of which have used them for the purchase of livestock. Plan regrets that they have created something of a culture of dependency and yet that approach is inherent to Plan's strategy of linking children and their families to sponsor families in developed countries. For them not to give grants at this point would be very difficult. Plan would like to begin working with savings and credit groups but has no prior experience in that area.

**Save the Children**

Save the Children US has three projects with some relation to enterprise development. The first of these is the formation of women's savings groups from its literacy classes. In the three districts where Save has implemented the literacy classes directly, it has formed nearly 400 groups. In the other districts where it works through local NGOs, another 700 groups have been formed. The literacy classes already have accumulated earnings from the Rs. 2 paid per month by each woman. In addition the women have paid 2 or 3 rupees each for their books, which has also gone into a group account. When the savings groups have met some basic criteria, including having passed the literacy test and having their children in school, the group is eligible to receive Rs. 2000 (\$40) in seed money from Save. Each group makes its own rules for how to save and provide loans to members. Many groups have emergency loans and loans for social purposes, such as wedding and funerals. They also set the interest rates on loans, which range from 8 to 25 percent.

Save has tried in the past to link these groups to commercial banks with little success. Bank procedures are too cumbersome and many of the women are not self-confident enough to interact with them. There are also many corrupt bank officials who demand a commission the women cannot afford.

Save's vision of these groups is that after they have established themselves they would become federated into a larger NGO that would then become involved in larger community projects. They have been working with some groups now for nearly five years. Some of these groups, which average in size from 12 to 23 members, have already saved Rs. 30,000-40,000 (\$600-\$800) in their group account.

Save the Children's second program in the microenterprise sector involves an agreement it has signed with Center for Self-Help Development. Under the terms of that agreement, Save will continue to form the groups and undertake social development projects such as literacy classes and basic business training, and CSD

will provide the financial services. This arrangement will take place in the Siraha District. In this way, Save will be assuming some of the transaction costs of lending to rural women. This model was used by Save the Children in Bangladesh. (One of the advantages of the INGOs is that they have access to a broad range of lessons and success stories.)

The third program is a grant program for skills training that has been used mostly by men. This program is limited in scale in spite of the fact that it has been in operation since 1991. Only 100 entrepreneurs have been trained, with a 75 percent success rate (those who have used the skills in which they were trained). Save has provided grants of Rs. 1,000 (\$50), which have been used to set up apprenticeships for the study of bicycle repair, pump maintenance, mill repair, and the like.

## CARE

CARE Nepal works in 7 districts throughout Nepal and uses an integrated approach to development. They have focused on the *terai* and the mountainous areas, leaving the middle hill districts to the many NGOs found there. CARE's four strategic directions are defined as integration; impact as opposed to results; process, which refers to their long-term commitment to learn and adapt their methods to the needs of the community; and a focus on women and disadvantaged groups. CARE's commitment to undergoing the development process itself as an institution has led to an emphasis on periodic staff training.

CARE's three main projects in Nepal pertain to natural resource conservation, soil management, and basic needs. The methodology includes organizing community development committees (CDCs) at the hamlet or ward level that pursue community development objectives. Within the first year of CARE's efforts at the local level, many different types of training based on a needs assessment of the community are provided through these committees. A number of the CDCs are lending money mobilized through group savings to their members. CARE is considering matching the funds of these groups to provide more financial resources to the community.

Women's groups have also been formed and many of these have undertaken their own income generating projects such as setting up plant nurseries. This particular activity has proved to be very useful and a good source of supplemental income.

Several of the groups CARE has worked with have now become NGOs with their own social development perspective. What these groups have is enthusiasm and commitment, though not much management expertise. CARE prefers to work with these new local NGOs with which they already have a relationship rather than outside NGOs.

After some years of preliminary work in communities, CARE has introduced several high value agricultural crops with some success. They have introduced coffee, cardamon, and pineapple. Poor infrastructure has posed a problem for the pineapple crop, which must be delivered to markets quickly. Preliminary work includes meeting some of the basic needs such as water supply. In Care's experience, it has taken 8 to 9 years of working with a community before the results of its integrated efforts become sustainable by the community and before income gains are visible.

CARE has been very active in providing literacy classes to women, which it feels is one of the most important first steps for them. After this initial training the women are often inspired and motivated to investigate many options on their own.

**Issues:**

- Care has had positive experience in introducing women to activities not considered traditional for women. One example was a woman's group that wanted to construct a water supply system for the community despite the fact that women are not normally engaged in construction. The experience gained from this project showed the INGO that it is important to not focus too heavily on the women at the expense of other groups. CARE has learned that it can provide some "invisible support" to the women's groups that does not draw as much attention: to the group.
- Another approach being taken by CARE that has some merit is that it is working with men, not just women, in health.
- Care's distinction between impact and results is important. Rather than being interested in the number of participants in a literacy program, they have sought to determine what differences attending literacy classes have made in people's lives. They are not satisfied with the tools they have employed in describing impacts and are not sure what they need to document over time. To date they have relied mainly on case studies.
- CARE's project coordinators believe that no single program will make a significant impact on income in villagers' lives. More importantly, they are concerned about the debt that many people carry and believe that through mobilized savings many households can get out from the burden of debt.
- CARE's experience in working with income generating projects has also shown them that not everyone has the skill or inclination to undertake a microenterprise activity. Those activities should be completely voluntary and should not be imposed from the outside.

**Mellemfolkeligt Samvirks (MS) Danish Association for International Cooperation**

MS is a nonprofit organization working in poverty alleviation and giving priority to human resource development in rural areas. An MS objective is to secure equal opportunities for women and provide women with access to decision-making bodies, to resources, and to earnings. Priority is given to work in the Western and mid-Western regions (middle hills and *Terai*).

Services provided by MS include basic literacy classes and postliteracy classes that focus on skill development, entrepreneurship development, confidence building, hygiene, health, and sanitation. The postliteracy classes start not more than two weeks after the basic literacy classes are completed. Veterinary training is also provided by MS over two days by a veterinary doctor. Topics include livestock management, disease identification and prevention, balanced livestock diet, medicines, and doses of injections.

DANIDA provides MS with 90 percent of its funding sources; the remaining 10 percent is funded by Danish NGOs. Grant funds total Rs. 4,517,560 (\$90,350) of which Rs. 2,233,603 (\$44,672) have been utilized. MS works with donors, INGOs, and local NGOs. These include DANIDA, Save the Children, Asia Foundation, MS International, and USAID. Some of MS's partners in cooperation include:<sup>10</sup>

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<sup>10</sup> MS/Nepal Annual Report 1994

- Naari Bikash Sangh, an NGO established in 1980 operating as a women's network. NBS activities include literacy classes, awareness building, health education, savings and credit programs, sericulture, and income generating activities. The sericulture program is the largest in Nepal;
- Tree Improvement Program (funded by DANIDA) under the Ministry of Forest and Soil Conservation. Objectives are to preserve and improve the gene base of tree species, and tree breeding and management;
- Backward Society Education (BASE) was established in Dang, Western region, by Bahadur Chaudhary, who devoted himself to freeing bonded laborers (Kamaiyas). BASE coordinates with a central committee, 5 District committees, and 14 area committees in the Dang, Banke, Bardia, Kailali, and Kanchanpur Districts. BASE works closely with AMFAR, Asia Foundation, and Save the Children US. MS supports BASE by providing a health nurse and an education adviser, and a youth exchange program;
- Naari Bikash Kendra (NBK), a Nepalgunj based Nepal volunteer women's group NGO involved in social welfare development work. MS is supporting a 5 year 'Women Literacy and Income Generating Program' (1991-1996) for a target group of 900 women, a Permaculture Farm Project, and small girls education program for 250 girls;
- The Community Forestry Development Program (CFDP) for preservation and protection of forests, funded by World Bank, UNDP, DANIDA, and others. MS provides TA in sericulture and the management of nurseries; and
- The Resource Center for Primary Health Care (RECPHEC), a Kathmandu-based NGO whose goal is to facilitate primary health care. Donors providing support are Oxfam and USAID.

MS's experience has shown that the impact of income generating activities could be strengthened by diversifying activities; providing income generating-related training in post literacy classes; providing follow-up services by appropriate people with relevant expertise; developing strong linkages with veterinary support agencies for livestock and agricultural support agencies for vegetable growing; and by providing counseling related to income generation upon completion of post literacy classes.

An improvement in postliteracy classes in the area of income generation has been the production of slides about different activities. The slide projector uses solar cells for field usage. The visual impact of the slides motivates newly literate participants to seek further information about the income generating activities.

#### **Issues:**

- Local NGOs lack strategic activity plans and thus are willing to bend to try and fit in the donor's activity. NGOs are weak in financial management. MS feels donors are equally to blame for not identifying whether the NGO has the capacity to undertake the activity. MS said there should be a needs assessment of NGOs's to evaluate objectives and needs, and what impact the planned activity will have on the environment. It is difficult to assess the capacity of NGOs. Kathmandu-based NGOs are better equipped and write better proposals, but the lesser NGOs at District level are quite often very capable.

- MS is critical of donors and INGOs conducting the same training activities in, for example, literacy, skill development, and community development, without any follow-up activity or impact evaluation being undertaken. PACT was cited for giving literacy classes without providing follow-up.

### **The Mountain Institute**

The Makalu-Barun Conservation Project (MBCP), instituted in 1993, is being implemented by The Mountain Institute in collaboration with the government. The project has elements of community development, natural resource management, and applied research in an approach designed to encourage the local people to become active custodians of the forests and other natural resources in the Makalu Barun Conservation Area. An initial baseline survey of the 6,000 households in the project area suggested that the typical household was running an annual deficit of Rs. 5,000. This project has attempted to promote community development programs to help increase household incomes while promoting efficient management and conservation of natural resources.

MBCP has worked with the VDCs in 108 village hamlets and with 40 to 50 community forest user groups. At least one-third of these are women. The project has also implemented 10 literacy classes for 200 women. These women have formed savings clubs and many have saved substantial amounts to date. The total amount saved by these groups is between one-fourth and one-half million Nepal rupees.

Several income generating efforts are being undertaken by MBCP, particularly in the areas of horticulture, herbs, and allo cloth production. The Allo Cloth Production Club has been supported by the MBCP since 1990. This club is comprised of 10 smaller groups that produce the allo on order from the larger club. The groups operate as savings clubs and have made loans as well. Some have even lent to outsiders with interest rates of up to 36 percent. MBCP has provided technical assistance to the Allo Cloth Production Club in addition to subsidizing their operations.

There is also lokta paper production in the area, though this has not yet been promoted by the MBCP. The paper factories have many outgrowers in the area. According to the MNCP the factory owners often serve as moneylenders, providing a source of credit to the growers that creates additional obligations to the factory. MBCP also has promoted ecotourism in this area and has seen this program benefit primarily women who run the guest houses. They are considering promoting other handicrafts in the future.

MBCP has worked with a number of other NGOs including PACT and with SBPP. They have discussed with IRIS the possibility of receiving technical assistance to promote microenterprise activities.

#### **Issues:**

- Management problems have occurred within the Allo Cloth Production Club, some of which are related to a lack of transparency in the club's finances. The club is still being heavily subsidized by MBCP, which should not be necessary if it is achieving the degree of success suggested.
- The savings and credit study (Bhatt, 1995) raises the issue that vast numbers of rural households are in constant debt to moneylenders. Under these conditions a strong argument can be made for promoting financial services, especially savings.

## United Missions to Nepal

UMN is an international Christian organization comprised of 39 missions from 18 countries. UMN's programs of assistance are funded by church member agencies and bilateral aid programs such as CIDA, FINIDA, NORaid, and USAID. UMN is involved in providing health services, education services, engineering and industrial development, and rural development.

UMN began its Nepal activities with medical work in 1954 at the invitation of the Government of Nepal. Since 1990, UMN's focus has been on rural development. The rural development department provides multiple training courses in animal health improvement, horticulture agronomy, forestry, and water systems support. Trainings for women have been provided entitled 'Women in Forestry Development' and 'Water System Care for Women.'

UMN has implemented a village leathers goods training project that replaced traditional shoemaking with export quality bags and other leather goods. These goods have been exported to Europe and Southern hemisphere countries. Eighty producers in five villages received training staggered over 18 months. Buyers, including the Association of Craft producers (ACP), were easy to identify but quality control problems arose. Now the producer groups are responsible for quality control themselves. The project ran for four years and has recently concluded.

Other UMN microenterprise activities include livestock raising using improved breeds, vegetable growing through adult education groups, fruit production, nurseries, manufacturing wood products (by lepers), roof tiles, small metal workshops, flavored ice sticks, fresh fruit juice, and dried apples. UMN also conducts an empowerment program and an NGO support project. The former focuses on group involvement and problem-solving, and the latter provides training support in organizational development, social analysis, and group formation techniques. At least 25 percent of total trainee days are for women.

UMN has observed that the formation of women's groups through the Rural Development Program at Okhaldhunga (hill area of east Nepal) has made a big difference to whole villages. By being part of a group, women gain confidence, establish relationships with other women beyond traditional help systems (planting, harvesting, childbirth), develop trust, and are less hesitant to speak up and raise issues important to them in the village community. Women soon see the benefits of meeting and exchanging ideas, thus having a significant impact on the village.

**Issues:** Taxation on leather goods at district boundaries has been a problem, as has the transporting of fruit (especially apples) and vegetables to distant markets.

## LOCAL NGOs

### No Frills Consultants

No Frills, which contracted with USAID to work in the area of its RAPT project, was begun as a private company in 1982; however, it is also now operating as an NGO. It manages several donor-funded projects through Nepal, including the installation of telephones in rural districts for DANIDA, and assistance in building roads for the Swiss. It also receives funding from GTZ.

In 1983, a midterm evaluation of the Rapti project suggested that the project had little impact at the household level. No Frills was then commissioned to assist in helping to raise annual household incomes in this region by Rs. 3,000-5,000 (\$60-\$100). They performed a survey that identified several commodities having potential for increasing household incomes. Initially they focused on marketing these products to local markets, but it is their intention to move beyond these markets to export markets. No Frills has used a subsector approach to identify the opportunities within these subsectors, whether as producers, processors, or traders.

No Frills methodology in Tulsipur involves the training of trainers in production and marketing of high value agricultural products, including vegetable seeds and off-season vegetables and fruits such as apples and oranges, potatoes, and ginger. They have organized producers into groups for contract production. At present, some groups are becoming registered, though others are not. When they are registered they are legally empowered to negotiate with larger companies. The groups have decided for themselves whether to register as companies, NGOs, or cooperatives.

Their efforts to promote marketing have included three approaches: negotiating the prices directly for the farmers, collecting the market prices of commodities and distributing this information to the groups who then make their own decisions, and allowing the groups to use their telephones to contact traders themselves. They are currently working with 300 to 400 groups. Each group is comprised of some 10 people. Forty percent of the groups are women's groups. Of the groups organized to date in some 52 villages, some members are receiving loans through the SFDP project but many others are not. Credit is not a major constraint to these people as much as the opportunity or knowledge of how to generate supplementary income.

#### **Issues:**

- No Frills believes the single biggest impediment to small farmers is the lack of appropriate technology to meet new market demands. Farmers need improved technologies for packaging and handling, for sanitation, and for transport. They also need improved varieties of crops for which there is a market.
- No Frills has done market research on 10 to 12 commodities and has a basic understanding of the needs of local markets. They would like to be able to access to the markets of northern India and elsewhere.

#### **Nirdhan**

This NGO was founded by Dr. H. D. Pant in 1993. It now has eight branches in three districts. The mandate of this NGO is to provide financial services to poor rural women using a methodology based directly on the Grameen Bank in Bangladesh. After groups are formed, training is provided, and needs assessments are performed. After an initial training period the Group Recognition Test is given and members must show that they understand all the rules of participation before they are allowed to become members.

Initial loans provided to women are for Rs. 5,000 (\$100). Second loans are Rs. 10,000 (\$200) and third loans can go up to Rs. 50,000 (\$1000). To date, 20 women have received third loans. Of the loans that have been disbursed, approximately 50 percent have been for trading activities. Another 49 percent have been for livestock, especially goats and buffalo, and only 1 percent have been for productive activities. Many more would be interested in productive activities if they had the appropriate skills and if there were a market for their products.

Nirdhan's branches have recently been formed into cooperatives, which have as their primary role the wholesale purchase of raw materials for members. They will also serve as marketing co-ops for products produced by members and as a vehicle through which technical support can be provided. All members of the branch are cooperative members.

There are many areas where the chairman of NIRDHAN sees the need for development. He sees the need for additional staff training, particularly in financial management and in basic organizational skills. He also sees the need for borrower skills training in nontraditional activities for women — in other words, something other than textiles. There is already too much competition in the textile industry from India. Third, he sees a need for support to the cooperatives that have not yet become strong. Fourth, he would like to see donors provide guarantee funds to banks to leverage more money for on-lending to clients.

Dr. Pant initially financed his operation with \$60,000 from Grameen Bank and from the APDC in Malaysia. He has further capitalized Nirdhan through loans obtained from five commercial banks with his own personal guarantee. At present, Nirdhan is not self-sustaining and is running at a loss. He projects that each branch should take 3 to 4 years to reach breakeven point. After three years a branch should have 10 staff, including 8 field assistants, an accountant, and a manager. Clearly Dr. Pant understands how branch development should be phased, starting with two field assistants and adding one every three months until the branch reaches capacity. Each field assistant should be able to form two groups per month. When the branch has reached 200 groups, it should become sustainable.

#### **Issues/options:**

- A recent concern to Nirdhan is that the Rural Development Bank has established a branch very near to Nirdhan. Because the RRDB uses the GON interest subsidies and Nirdhan does not, it will only be a matter of time before Nirdhan's clients discover that they are paying higher interest rates. Nirdhan is considering applying these subsidies towards community development projects.
- Nirdhan is awaiting the passage of the Development Banking Act that would enable it to become a bank to accept deposits from nonmembers. At that time it would also be able to mobilize these deposits to lend to new clients and leverage additional funds. When they have become a development bank, members will be shareholders in the bank.
- Nirdhan needs to develop branch and middle management skills in financial management topics, including basic accounting (preparation of financial statements and forecast cashflows); basic financial ratio analysis (see Annex 4 for CAMEL analysis); monitoring operational cost levels and defining ways to reduce costs, for example in selection of locations considered viable to serve and increasing the responsibility of center chiefs and group chairpersons; including information inputs mentioned above in monthly reports; and monitoring systems.

#### **Center for Self-help Development**

CSD is a nonprofit NGO established in August 1991. CSD is implementing four projects, namely the Community Self-help Development project in Jumla District, the Community Development Program in Kalikor District, the Environmental Awareness Action Research Project in Dang and Salyan Districts, and the Self-help Banking Program in Saptari, Siraha, and Udayapur Districts. Services include organizing and conducting training programs for NGOs as well as individuals.

In September 1993, CSD launched the Self-help Banking Program (SBP) in several *terai* districts to provide basic credit and savings services. The program was initially funded with a loan of \$50,000 from Grameen Trust of Bangladesh at 2 percent interest. Additional cheap loan funds averaging 6 percent have been provided by Himalayan Bank Ltd. Fund details:

Grameen Trust of Bangladesh	Rs 2.5 million (\$50,000)
Himalayan Bank Ltd.	Rs 2.6 million (\$52,000)

CSD plan to borrow an additional Rs. 10 million or \$200,000 from Grameen Trust of Bangladesh to expand their operations within the existing eight Districts. They also receive grant assistance from Churia Forestry Development Project, GTZ/ Nepal, and from CECI.

Like Nirdhan, the SBP is a near-adaptation of the Grameen Bank of Bangladesh. Loans provided through the SBP are smaller than those provided by Nirdhan, however. Credit is provided on joint liability of peer group members, without the need for collateral. Although the SBP was not originally established with the needs of women as its goal, SBP now works exclusively with women. Heaton (1995) reports a major strength of the Self-help Banking Program has been the impact on upgrading the living standard of poor women as well as raising women's status in their home and in society.

Target areas are identified through introductory workshops. SBP staff identify target households who are then visited by SBP motivators to establish trust and advise on pre-group training — a 9 to 10-day training course that teaches members how to write their names and basic accounting skills. Groups are formed of five members and represented by a group chairperson. A center is then formed and consists of a minimum of two groups and a maximum of eight, totaling up to 40 members, represented by a center chief. The group is recognized when members demonstrate they have assimilated the training and acquired the basic skills.

The number of SBP members rose from 1,147 in December 1994 to 2,665 by mid-July 1995, of whom 2,465 (over 92 percent) received loans. Loan amounts disbursed rose more than 2.4 times in the respective periods from Rs 2,179,900 to Rs.7,419,500. The amount of outstanding loans increased 1.96 times from Rs.1,438,262 to Rs.4,263,506. Repayment rates remain at 100 percent. Details are presented in Annex 5.

#### Issues:

- Limited financial resources have curtailed expansion. There is a need to strengthen CSD's capacity to increase its clientele while reducing operating costs if SBP is to reach sustainability. Although not yet sustainable, the existing eight units are forecasted by CSD to break even in five years. This is doubtful in our estimation. None of the CSD reports, including Heaton (1994), refer to operating costs and financial performance. Financial statements including forecast cashflows demonstrating how CSD intends to achieve this target were also not evident.
- CSD's banking program is heavily reliant on subsidies, which if not ongoing will result in capital erosion to meet operating costs. CSD must demonstrate that it is prepared to attain *operational self-sufficiency*.
- To make programs more effective, existing training components in business literacy and skills training, confidence-building programs, project-based repayment system, and group mobilization need to be reviewed and strengthened.

- Although CSD is against the GON interest rate subsidies, they have applied to receive them from the Nepal Rastra Bank. CSD now needs to review its strategy on how it will pass on these subsidies to its borrowers when approval is received.

### **Center for Community Development and Research**

CCODER was established as an NGO in 1990 by Govinda Dhital. The founder has implemented a model for participatory community development in the Districts of Gorkha, Lamjung, and Nuwakot. The project has three main emphases: education, organization, and socioeconomic development. This NGO, like many others, has mobilized savings groups.

CCODER has helped the savings groups to become village banks of which there are now 7, with a combined savings of more than Rs. 500,000. Each bank is made up of around 12 smaller groups, each of which includes some 50 villagers. Initial loans provided by the bank are between Rs. 1,000 and 5,000. The loan provided to the individual is guaranteed by the smaller group. The vision of CCODER is that these banks will one day be part of a system of banks and that each will be sustainable. In 10 years' time the director hopes to have a national bank comprised of 5 district banks, each including 5 village banks.

In addition to loans provided by the bank, a plan to introduce health insurance has already been investigated. This would be catastrophic insurance to be provided by a nursing home in Kathmandu in the event of the need for hospitalization.

Another service provided by CCODER has been to promote group enterprises. These have consisted of the following activities to date: fruit processing, medicinal herbs, tourism, and dairying. Three dairy cooperatives have been set up to provide collections and processing of milk. Processing consists of boiling the milk for resale to local markets. Without refrigeration the cooperatives cannot expect to expand their market any distance from Gorkha. Members of the cooperative are shareholders who share the dividends on a 40-40-20 basis (40 percent goes to individual shareholders, 40 percent to the savings groups, and 20 percent is reinvested into the cooperative). When one of the cooperatives complained that because of the poor road conditions they could not manage to collect the milk of its members, CCODER helped to arrange a loan to buy a tractor for the group for which they paid half and CCODER paid half.

**Issues:** The model being implemented by CCODER, while complex, is part of bigger plan that reflects the vision and long-term objectives of the founder.

### **Janakpur Women's Development Center**

This center was initiated some six years ago through the efforts of an American, Claire Burkett, who brought together some of the women of the villages around Janakpur and had them put their traditional wall designs on paper. In 1990 the women held their first exhibition at the American library in Kathmandu. Then in 1991, with grants from UNIFEM and Save the Children-Japan, the women began receiving training in a number of different areas, including printing, ceramics, sewing, and weaving. At an early stage funding from UNDP was channeled through the Lion's Club in Janakpur because the JWDC was not yet an NGO. This arrangement proved to be unsatisfactory as much of the money designated for the center never reached the women. The Lion's Club also set up arbitrary rules and regulations for the women to follow and ultimately refused to provide the funds. In 1992 JWDC became an NGO with the objective of empowering the women

to operate the facility on a viable basis for themselves. Originally there were 13 members of the center; now membership is at 52.

The impact of this project has been significant especially in light of the local culture, which is oppressive for women in Nepal. Women are predominantly illiterate and few have ever been allowed to leave their homes. In a final report to UNIFEM, the benefits derived by women in the JWDC and the great strides that these women have made in a short time are documented. The status of these women has been raised in their households because they are able to contribute economically; half of them have been able to send their children, including daughters, to school. Literacy classes have greatly improved their self-esteem and they have come to understand the benefits of being organized. The community has also benefitted by the recognition of the value of the traditional art work carried on by women and, although there is some jealousy of JWDC's success, there is also appreciation as expressed through imitation.

Because this organization started informally, it has taken some time to get its management structure in place. When a Nepali manager was hired, she stayed only two years before she left. Recently a new manager has been hired, but this person is quite young, has no prior business experience, and will have to learn the ropes very quickly. All the departments have their own managers.

Plans are afoot to obtain funding for a child care center and parenting education classes. Other services are currently provided to the women, including literacy classes that range from beginning classes to more advanced classes. The scheduling of these classes during the day competes with the ongoing production activities and is not ideal. The classes have to be offered during the day because many of the women come from long distances.

There is not a savings group at JWDC because the women are not interested. They don't like to have any amount deducted from their pay. Some women have been assisted in accumulating the minimum amount to make a deposit at the bank, but that is all. Many say that they just don't have any money left over.

#### **Issues:**

- Although in principle the idea of bringing local persons into positions of management seems good, this organization would greatly benefit from the hiring of experienced business people. IRIS or the board should take some precaution to ensure that the learning curve of the new manager is not also the learning curve of the organization. A management consultant should be hired soon to assist her in sorting out some of the organizational problems that currently exist. Because no guarantees can be made that she won't leave after she has gained some experience in this position, it is highly recommended that the position of assistant manager be set up and that this person begin to gain experience in managing some areas of day-to-day operations.
- The most pressing need is for a technical advisor to come in and set up an accounting system and provide training to the current staff person. We would recommend the purchase of a computer, if there are funds, to facilitate bookkeeping procedures and help in the production of regular income statements and balance sheets.
- The HURDEC proposal presented to USAID suggested separating the functions of the organization into different cost centers by departments. We would also recommend tracking production activities separately to analyze the business operations apart from the other NGO-type functions. Because its training activities are not contributing to income, they are a drain on operations and should also not necessarily be seen as direct expenses of the business, (although

training activities and proposed child care activities are benefits to employees). As long as JWDC continues to receive donor funding for these activities, however, they could be tracked separately from the productive activities.

- The board needs to be involved in strategic planning decisions, not necessarily in operational decisions. The board should become involved in clarifying the long-range plans of the organization. One important issue seems to be the artistic vision of JWDC. Approaches to product development and costing will depend on whether JWDC promotes the quality of its products and price its products higher, or sets a lower standard and thus becomes more competitive in price. In our view, JWDC should follow the high road and maintain a superior artistic direction. Now that JWDC has many competitors, many of whom are directly copying their designs, JWDC must emphasize its distinctive character. This is an area where they seem to need help and where Claire could continue to provide assistance.
- Because the departments all have their own managers, a team concept could be emphasized to implement productivity incentives. The desire of women to receive steady salaries is understandable but any additional raises over the base salary currently in place should be given as bonuses and production incentives. Approaches implemented at Mahaguthi and ACP could be investigated. Based on the financial picture presented in the HURDEC report, bonuses may already be warranted for the previous year. Production incentives could be based on meeting deadlines and quality inspections.
- Because the JWDC can only provide employment to so many people and because of its NGO status, it has been misunderstood in its local community. To its credit it has tried not to let itself become overstretched by opening its doors to everyone. On the other hand, with its outstanding facility it already has a central place in the community and it could take more of a leadership role. One approach would be to accept applications from nonemployees for its literacy training. Other services under consideration in a proposal to Redd Barna, such as mobile health services, childcare, and parenting education, could also be structured to include wider community participation.
- Trainings provided to employees at the present time are a drain on production. Production could be held steady or increased by hiring additional women to work out of their homes. Other income generating activities, such as paper-making or fruit drying, should be researched to provide additional opportunities to women in nearby villages. JWDC should not necessarily be the one to implement these other activities, however. Other NGOs in the area could be linked with JWDC through some of these activities.
- The business literacy training mentioned in the scope of work provided by IRIS seems inappropriate for JWDC. Not all employees need business literacy training (or want it) and this would just create another drain on production. The trainings mentioned in the HURDEC proposal seem much more appropriate to the needs of the organization. Specialized trainings, such as the ones in marketing and promotion, basic production management, and business plan, are not for everyone and those members selected to attend should be motivated.
- A credit union-type approach to savings would work well at the center if members saw the value in it. This should be presented and discussed. Emergency loans could be made available depending on the amount of savings members kept with the union. The union would have its

own charter and its own management committee making decisions about uses of the money, and so on.

### **Institute of Integrated Development Studies**

IIDS was registered as an NGO in 1990 and is the successor to Integrated Development Systems. This institution is devoted to general research in wide-ranging areas related to development and to action research. As a part of its action research program, it has implemented a program entitled Self-Reliant Development of the Poor by the Poor (SRDPP), which is funded by USAID, Helvatas, UNICEF, and several other donors. This project has mobilized women's savings groups and implemented revolving loan funds. Each group of 15 to 25 members has been given Rs. 15,000 for which they are charged 12 percent interest. This interest is accumulated for the group itself, deposited to its account to add to the cumulative funds.

Microenterprise activities funded by the groups so far have been traditional activities such as the growing of vegetables and livestock. Some women are involved in keeping shops, hotels, and spinning wool. Recently they have involved the cottage industry in conducting a group training for 15 women in weaving.

IIDS has also carried out its Microenterprise for Marginal Women (MEMW) Program since 1989 in the Kathmandu valley, Bhaktapur, and Lalitpur. Loans are provided on an individual basis to widows, prostitutes, and ex-prisoners. Each woman is given Rs. 2,000-5,000 (\$40-\$100) as an initial loan, which must be repaid at 12 percent interest; 156 women have benefitted from this program. The women are primarily involved in spinning wool, making candles, and some are keeping shops. Some of the women have succeeded in accumulating Rs. 20,000 in their savings funds and they are beginning to educate their children with this income. USAID is also funding literacy training provided by IIDS, which is seen to provide great benefit to the women.

### **Women Entrepreneurs Association of Nepal**

WEAN was formed in 1987 by a group of women entrepreneurs to network among themselves and to assist other women entrepreneurs through programs designed for start-up as well as existing businesses. Since WEAN's founding, it has evolved into a complex organization with several separate though related parts. WEAN, the NGO, has an executive director and eight other staff persons, including a training facilitator, four trainers, an accountant, and an executive secretary. There are 45 association members.

WEAN's board is comprised of nine women who are committed to the idea of promoting women's entrepreneurship in Nepal. Despite their volunteer status and busy schedules, board members make an effort to have regular meetings. Each board member takes responsibility for a particular area such as outreach or finance. Like any other organization WEAN has experienced its ebbs and flows; still its founding members have remained committed and have a vision for the organization which goes beyond meeting current donor objectives.

WEAN, the NGO, has spawned the WEAN Cooperative, a marketing outlet that handles the products of its members. It has 105 members, many of whom are involved in handicraft production, though some make pickles and other agrobased products. The WEAN Cooperative is currently being helped by the Agro Enterprise Center, which pays for the rent of the Cooperative store. The AEC had also intended to display other agricultural products in the store though they have done very little to date. Several of WEAN's members are also part owners of Dhaka Weaves located in the same building with the WEAN Cooperative.

WEAN, the NGO, has provided trainings to women entrepreneurs in different areas, including tourism, which was sponsored by GON, UNDP, and ILO. Trainings in new business creation under the sponsorship of USAID/Nepal have also been conducted by WEAN. Under the terms of reference provided by IRIS, WEAN will continue its efforts in working with existing businesses but not in new business creation. WEAN would like to continue offering classes in new business creation, a course based on the SBPP curriculum, because they had achieved a success rate of 50 percent.

WEAN's loan program involves two different approaches. In the first they operate a small revolving fund of \$5,000 provided by the ILO) for microenterprises. No collateral is required and the typical client is the owner of a small hotel or restaurant. To date, 40 women have been assisted. The second approach involves a four-week training session after which time the woman must submit a business plan. Upon reviewing the business plan, WEAN may recommend her to the ADBN, which provides the loan guaranteed by ILO funds. Plans are under way to become an affiliate of Women's World Banking based in New York. However, because Women's World Banking will only be providing the loan guarantee fund, other loan funds must be obtained prior to the implementation of this program.

Under WEAN's agreement with IRIS, it would also provide business consulting services to women entrepreneurs. The executive director will provide basic consulting services to women in marketing and accounting. Consulting in technical areas will also be provided and in such cases the consultants will be hired. WEAN will also undertake a product exhibition to bring together women producers and potential buyers. Another future project of WEAN is the preparation of a feasibility study on the provision of vocational trainings to be funded by the Swiss Development Corporation.

#### **Issues:**

- With little experience outside of the Kathmandu valley, WEAN is seeking to extend its outreach. Networking with more rurally based entrepreneurs and women's producer groups should be more of a focus of WEAN's efforts, but because its board is made up of business-oriented individuals and because the organization itself is seeking to implement many different programs, this process will likely take some time.
- Like many other NGOs, WEAN is attempting to be a one-stop shop for women entrepreneurs, from training in business creation to the provision of credit. Financial services should be provided by specialized institutions. WEAN for its part should confine its efforts to lobbying on behalf of its members for appropriate financing terms and conditions. WEAN should also be willing to refer its clients to other programs offering financial services.
- At the suggestion of a USAID staff person, WEAN prepared a plan that described how it would achieve sustainability over a five-year period. (Actually after five years it was still only recovering 67 percent of its costs.) This plan was reviewed by USAID but not accepted. USAID may wish to revisit this plan or provide guidance in the preparation of a new one in the future.
- The wide perception of WEAN is that it serves the interests of its members. This is partially related to the close relationship of the WEAN Cooperative, Dhaka Weaves, and WEAN (the NGO). To some extent WEAN's objective to reach out to other women entrepreneurs is in conflict with the objectives of the Cooperative and of Dhaka Weaves, which are seeking to promote their own handicraft products. Competition in the crafts sector is a factor and for this reason WEAN (the NGO) may want to distinguish itself more clearly from the cooperative and Dhaka Weaves.

## **Federation of Business and Professional Women/Nepal**

FBPWN was initially founded in 1974 to provide institutional linkages and to promote the interests of working women. It was not until February 1991 that the Federation was registered as FBPWN. Five chapters have been opened at the national level. FBPWN has four permanent staff and one part-time staff person. Members must have their own businesses or have professional employment in, for example, banks, offices, or universities.

Fund sources are generated from members fees (Rs. 200 per year), training fees (Rs.1,200 per month for secretarial courses), and employment agency placement fees (half of the employee's first month salary). These fees are sufficient to pay most of the operating costs, but FBPWN is still reliant on donor funding for its programs. Other financial assistance is provided by Canadian Corporation Office for text books, furniture, equipment, marketing, and other operating costs. FBPWN plan to become self-sustaining in the future. They plan to expand and build their own premises on land purchased on deposit.

FBPWN is involved in several donor-funded activities that include: secretarial training courses, intensive marketing training, primary school education, sewing classes, and a three-month literacy program. They have received marketing training assistance from IESC.

**Issues:** FBPWN, like many NGOs besieged by donors, lacks a clear vision of their major areas of expertise and adopt a chameleon-like approach by changing their work profile to adapt to new donor projects. They need to focus on providing services and activities in specific areas, such as secretarial services.

## **Association for Craft Producers**

This association has the objective to bring women into the workforce. Their view is that by taking on some of the risks of business, they enable the poor to participate more easily in income generating activities. Registered in 1984, ACP provides design, marketing, management, and skills training for low income crafts people, primarily women. They work with 824 producers and have a staff of 61 persons.

ACP deals with both individual and groups of producers, some of whom work on a piece rate basis at their homes and some of whom work on an hourly basis in-house. The average daily rate paid to crafts people is Rs. 52 (\$1). Rural producer groups have their own agent who represents them with ACP. ACP has recruited workers but more recently has found that many women have come to them for work. In some cases NGOs working in the rural areas have put producer groups in contact with ACP. Periodically, ACP needs to train new people as the work force has some turnover, particularly among the knitters. There is an initial 15-day orientation period when the woman must come to the factory to be trained and for staff to observe the quality of her work. After the trial period they may choose to take materials to their home to work. ACP provides the materials without charge and the women return the finished products on order. Typically the demand runs ahead of the supply. To date ACP has not been able to keep up with its orders.

ACP has initiated excellent benefits for its employees, including a producers savings program whereby some money is deducted from a woman's earnings and deposited in a joint savings account, a producers' welfare fund, a producers' bonus equal to one month's earnings, an ACP-wide picnic, a fair price shop, a retirement fund, producer counseling services, a cafeteria, an education allowance for girl children, informal education programs, and work incentives based on monthly earnings.

ACP has established itself as a viable commercial enterprise and is able to completely fund its operations through revenues, though it does use donor funds for specific projects. Currently it has a grant from the Ford Foundation to add computers, which will allow computerization of producer profiles. The last fiscal year showed a 16 percent increase over the previous year's profits. That year showed .7 percent decrease over the year before and the year before that showed a 60 percent increase.

**Issues/Options:** One of the needs ACP expressed is for a donor-funded study on the income needs of rural inhabitants. As a member of the Fair Trade group, they are committed to providing fair wages to their producers; however their understanding is greatly limited by a lack of data on the actual needs of rural inhabitants.

## ASSOCIATIONS

### **Nepal Federation of Saving & Credit Cooperative Unions Ltd.**

NAFSCUN is an alliance of primary savings and credit unions. NAFSCUN was founded in 1988 from representatives of different Savings and Credit Groups. They have 125 affiliated member societies in 20 Districts. They are registered with the Department of Cooperatives and do not come under the control of the Nepal Rastra Bank (Central Bank). Each society has a minimum of 25 members, total membership is 5,357. Lending is mostly to farmers for fertilizer and other agricultural inputs.

Key program data: total savings: Rs.10 million; 118 savings groups; Rs.6.2 million loans disbursed; Rs.100,000 in total reserves (1 percent of savings in casual fund); Rs. 3.8 million in retained savings; 8 to 10 percent interest offered on savings; interest rate on loans — upwards of 18 percent flat; average loan period — one year or harvest period (season); compulsory savings amount is fixed by members' own group.

NAFSCUN is associated with the Irish League of Credit Unions (ILCU) and is reliant on ILCU funds totaling \$25/30,000 annually. This represents 80 percent of their funds source and will continue until 1997. They have also received a grant of Rs. 1.1 million from ILCU for training. The Asian Confederation of Credit Unions also provide technical assistance. In May 1995, the Canadian Cooperative Association provided a Rs.1.7 million grant for training manuals. PACT conducted 70 literacy classes for 1,014 NAFSCUN women.

There are three permanent and two temporary paid staff. Membership fees are Rs.5 per annum. Five of 15 board members are trainers who provide voluntary service and good leadership.

#### **Issues:**

- NAFSCUN needs to develop trainers in income generating activities, and related topics like basic project costing, project identification, and market linkages.
- Some NAFSCUN areas do not offer loans and there is a surplus of savings at these unions. NAFSCUN would like to introduce an intersociety lending scheme working as a cooperative within cooperatives and on-lend these surplus funds to other units. This will require training, however.
- NAFSCUN was assessed as a Level I institution, or reliant on donor funds. It is not clear how they will survive after 1997 when ILCU financial assistance ceases. Therefore USAID should

not consider any assistance to NAFSCUN until they demonstrate a desire to become operationally self-sustainable.

### **Federation of Nepalese Chambers of Commerce and Industry**

FNCCI was established in 1965 and today has a membership of 68 District Chambers of Commerce and Industry (DCCI), 41 Commodity Associations (including carpet, garment, and handicrafts associations), some 25,000 members (90 percent are small and cottage industries), and 377 Associate members (including all commercial banks and leading industries). The federation has Rs.5 million in paid-up capital. FNCCI's activities are managed by an elected Executive Committee and by a president elected by a majority of the DCCIs.

FNCCI helped to establish the Agro Enterprise Center and the Business Development Consultancy Service (BDCS). FNCCI and USAID founded AEC in 1991 to foster the development of agroenterprises in Nepal. In 1994 BDCS was initiated to assist in the development of and strengthen private business enterprises by providing professional consultancy services. The District Chambers of Commerce and Industry offers this program.

#### **Issues:**

- FNCCI would like more resources to send small exporters to trade fairs.
- FNCCI believes that some spoon feeding will still be required for cottage and small industries for at least two to three years to overcome basic obstacles.
- FNCCI does not see ANCSI as a competitor because ANCSI is not very active and because ANCSI is too heavily reliant on donor funds.

### **District Chambers of Commerce and Industry**

DCCIs number 68 throughout Nepal. Their activities are supported by FNCCI and their members are traders. The Economic Liberalization Project provides assistance through training, study tours, and commodities. The GTZ-assisted Small Business Promotion Project has conducted district training programs funded under ELP.

The ELP midterm evaluation report noted that many District chambers are administratively weak and do not have the necessary equipment to be successful compared with the larger District chambers, which have adequate members to be self-sufficient.

Members of the DCCI chambers are medium-sized to large enterprises. Lalitpur and Narayangarth DCCI chambers are considered by ZDH (German NGO called the Federation of Small Business and Craft assisting FNCCI) to be relatively sound, because they have good management, reasonable finances, and active and enthusiastic leadership who work for their members.

**Options:** USAID may wish to consider providing selected District chambers with institution-building training, specifically secretariat skills.

### **Association of Nepal Cottage and Small Industries**

ANCSI was registered as a NGO in 1990. ANCSI has more than 16,000 general members grouped in 56 district committees as well as 12 other manufacturing association members. More than 4,000 or 25 percent of the district members are women. Although ANCSI states that it has a good working relationship with FNCCI, it is not a member of FNCCI. The major difference between ANCSI and DCCI is that ANCSI members must be involved in the manufacturing industry or cottage industries, while DCCI members are traders. Traders cannot join ANCSI.

ANCSI protects the interests of cottage industries and carries out promotional activities and services. These activities, in collaboration with national and international agencies, include training, consulting services, information and business services, and export promotion services. At the District level, ANCSI conducts short-term training courses,

A field visit was made to ANCSI at Bhairahwa. They operate out of rented premises and have no telephone. The office expenses are met from membership fees and donations because they receive no financial assistance from Head Office. The President confided to us that they are financially strapped. Although many activities are planned for implementation by the branch office, this has not been taken place due to the lack of skilled manpower and funding sources. To date they have conducted a workshop for women entrepreneurs to discuss the members' problems and prospects. The branch had planned to implement a food processing training course for women entrepreneurs that was subsequently canceled due to the unavailability of trained manpower promised by a donor agency. These unfulfilled commitments have created a negative attitude toward donors.

The total number of members in Bhairahawa branch are 250-300 and this number is expected to increase to 400 in 1996. ANCSI funding is sourced from membership fees (\$2 or Rs 101 per member) and training course fees. These fees totaled \$32,000 or Rs 1.6 million in 1995, of which 20 percent is retained by ANCSI's Head Office for operating costs. An additional \$20,000 or Rs 1 million is sourced from German donor agencies including ZDH, Frederick Neumann Foundation, and German Development Service (GDS). ANCSI also works with the Swiss Development Corporation.

#### **Issues:**

- To date ANCSI has only been able to achieve self-sustainability at its head office. None of the branches are expected to reach sustainability in the near future.
- ANCSI awaits the introduction and passing of the Development Banking Act so that they can register ANCSI as a Cottage and Small Industries Development Bank.
- There is a great need for management and entrepreneurship training. Many districts served by ANCSI do not understand free markets and the future challenges of a market economy. ANCSI believes the public sector does not have the capacity to provide the services available in neighboring ASEAN countries in markets promotion, finance, information systems, and promotional programs.
- ANCSI states that there is a need to establish a private sector-run industrial information center that can provide advisory services, information on technology, and possible joint venture partners.

- ANCSI members' access to credit would be enhanced by the formation of a Credit Guarantee Corporation to support the cottage and small industry sector.
- ANCSI, Bhairahawa branch, seeks the services of a Nepali or Indian food processing specialist to provide technical assistance in food processing and fruit drying.

### **Handicraft Association of Nepal**

HAN was established in 1971 as an NGO to promote handicraft trade and industry. It assists members to improve their productivity and explore markets, and introduces them to international contacts. The fees of the 1,275 members are Rs.100 per annum; they make up 5 percent of HAN's revenue. Eighty percent of revenue is derived from handicraft exports at 0.5 percent of the export invoice value (Rs.3 million per annum). Fees earned from services, publications, and training make up the remaining 15 percent of revenue. Thirty-five product groups are assisted by HAN such as wooden stove and jewelry manufacturers. Only handmade paper is planned for export.

HAN has asked the U.S. Trade Fair Promotion Center for details on product type on display at respective trade fairs. HAN has received more applications from members than positions are available, and hence would like to ensure that the right participants are sent.

HAN has two branches at Taksar and Bhojpur in the Koshi zone, one at Pokhara, and is planning another for Janakpur. Branches are staffed by volunteers. HAN advised us that they are self-sustaining at their head office (17 staff) and provide branches only with basic furniture and equipment. The branches must stand alone.

#### **Issues/Options:**

- The 13-member Executive Board does not provide clear objectives. The board is made up of entrepreneurs who do not know how a secretariat operates.
- HAN does not represent handicraft producers Nepal-wide. A strategy needs to be formulated to increase membership outside the Kathmandu valley by identifying and visiting other areas, instigating dialogue with potential members, and motivating potential handicraft producers.
- HAN advised us that they do not have a Management Information System (MIS) to handle membership details, trade enquiries, and local and international trade fair data. HAN therefore seeks USAID assistance to fund the technical assistance services of an MIS computer consultant based in Kathmandu to set one up.
- HAN notes that participants attending Human Resource Development courses, funded by USAID, are generally HAN board members who are elected for only two years. Participants should be Secretariat staff who are permanent employees and will provide continuity and add to the knowledge base of the organization.
- HAN requires strengthening of its middle management and secretariat. USAID could provide HAN with a middle management training course for selected HAN junior staff in secretariat skills and procedures.

### **Central Carpet Industries Association**

The association has a membership of 700 businesses that range in size from 5 looms to 200 looms. The carpet industry lends itself well to smaller firms because there are many markets that change quickly and the smaller firms are better able to respond quickly to changes in design or style. In addition the firms want to stay small to avoid the labor laws that apply to firms with more than 25 employees. More than 60 percent of the workers in the carpet industry are women, which is not surprising since the skills are traditionally women's skills. Typically, income is linked directly to productivity.

Under ELP, the CCIA member firms have been assisted in moving into the U.S. market. The CCIA has obtained contracts that have been distributed to their members. Through this effort contracts amounting to more than \$25 million have been obtained and more are expected.

Although women are well represented in the carpet industry in the technical areas of carpet making, they are not so well represented in management and ownership of firms. CCIA recently requested applications from all their members to attend a marketing seminar and, of the 70 applications, none were from women. Women have been seen to make strides in the past 10 years and, within some communities, particularly the Tibetan community, women are dominant players.

One of the roles of the CCIA has been to lobby on behalf of its members for changes in export, financial, and tax policies to ease restrictions on the carpet industry and on small producers. In the past, for example, a duty was paid on wool used in carpet production but this has now been reduced. The government also charged a 2 percent service charge on all exports, which has been waived. As in other areas, GON has contradictory policies affecting the carpet industry. It has encouraged banks to lend to carpet manufacturers through priority sector lending (which has now ended), with loan subsidies of 4 percent. Even with these incentives the CCIA has had to speak on behalf of its members on occasion when they have not been able to obtain loans. Also in tax policy, small carpet producers are greatly affected by the municipalities tax charged on transported products. Although the government is trying to encourage carpet producers to move out of the Kathmandu valley, municipality taxes discourage travel. One CCIA member located outside the capital must travel through 16 municipalities, which proves to be a great waste of time. There is also a need for a land use policy that would set aside areas for industrial purposes. Many people are particularly concerned about the environmental effects of the carpet washing process.

### **Fair Trade Group**

Seven NGOs involved in handicraft production and marketing have joined together to cooperate in the marketplace and to provide each other with helpful information and advice. As NGOs with social development objectives, they are also concerned with reducing exploitation in the handicraft industry. This group is modeled on a similar group initiated in Bangladesh by Oxfam. All of the group's members enjoy trading relations with Oxfam and with other IFTA/EFTA members. Members pay a Rs. 1,000 membership fee.

The group has been meeting for the past two years and has recently held a workshop to further clarify its objectives. It has not yet sought registration because there is some doubt as to the commitment of one its seven participating members. The organizations currently represented are Association of Craft Producers, Janakpur Women's Development Center, Kumbeshwar Technical School, Manushi Art and Craft, Mahaguthi, Nepal Women's Skill Development Project, and Sana Hastakala.

Planned activities for the group include preparing a database of urban and rural producer groups, group marketing initiatives, project evaluation, and government lobbying. At a recent meeting discussion centered on registration of the group and the need for members to appeal jointly to Grindley's Bank, which has been charging 10 percent on transfers from foreign banks. There is also a problem with the bank's holding money for extended periods.

## **PRIVATE SECTOR APPROACHES**

### **Nepali Paper Products Ltd.**

This is a private company linked to rural paper producers and founded three years ago. One of the founders was involved with the UNICEF project of a similar nature. The paper factory has 115 employees in Kathmandu, of which 50 are women. The company buys the Lokta paper from four larger paper producers and from a cooperative established for 6,000 households in a rural district. The cooperative has members from 7 villages.

The cooperative has been set up as a 25 percent shareholder in the company. (The other four producers are minor shareholders.) One of the benefits derived from participation in the cooperative is that 10 percent of the company's profit goes toward community development. Last year NPP spent Rs. 365,000 for a water supply system in one of the villages. Another benefit is the year-end dividend distributed to the cooperative as shareholder. Purchaser finance is also provided to the cooperative so that its members can replace their paper supplies. The value of these supplies are then deducted from proceeds when they have delivered the paper to the factory. There is no interest charge. Many of these people have borrowed from banks in the past with problems so they are happy with this approach. The cooperative has other services, like child care for its members.

The managing director of NPP said that it would take another three years to bring another cooperative into the same relationship with his company. It would take two to three years of working with the producers to bring the quality of their product up to the company standard and at least a year to get the contracts that would enable the company to purchase the cooperative's paper.

This company is vertically integrated from production to packaging and handling for shipping to Europe and the United States. The managing director is concerned by the competition that has arisen recently in this business. There are at least 12 to 13 new paper companies. A problem is that some of these companies are producing a lower-quality paper. When this paper is marketed abroad it makes a bad name for other Nepali companies.

The prospects for growth by this company continue to be good. Profits this year were about 20 percent over the previous year's. Seventy percent of the company's product is exported to Europe, the United States, and Japan, and this is growing. On the other hand, the domestic market for this product is shrinking. Sometimes the company's suppliers cannot meet the export demand and they have to buy from others.

### **Aama Impex**

This private firm was started by a woman entrepreneur in 1989. The firm works with women weavers in Eastern Nepal who weave dhaka cloth according to the required specifications. Initially there was a period

of training involved but now the relationship between the weavers who remain up-country and the factory in Kathmandu where the cloth is sewn (into clothing) is established. One of the primary competitors of this firm is Dhaka Weaves, one of the subsidiaries of WEAN. Aama Impex is doing quite well in some export markets and expanding into others. More recently, other handicraft products such as allo cloth have also been purchased from rural areas.

**Issues:** An important issue in private sector development in Nepal relates to the cost of technological innovation. One example of this is in the area of allo cloth production. Because the allo cloth is very coarse, it needs to be blended with angora to make it more marketable. Production groups themselves cannot afford to experiment with this process, nor can some of the NGOs unless they are supported by donor funds for that purpose. Private entrepreneurs are taking the initiative but in the very competitive handicraft industry, small manufacturers have to absorb the costs of this experimentation to hold on to their market share.

## **PART FOUR**

### **FINDINGS AND RECOMMENDATIONS**

#### **FINDINGS**

Efforts to promote rural microenterprise activities are limited. There is some evidence that the two programs that have targeted rural microenterprise — Small Farmers Development Program and Production Credit for Rural Women — have not catered to the needs of the extreme poor nor to the needs of rural women. Because of high operating costs in the rural areas, the formal financial institutions are not committed to servicing microenterprises. The greatest need of existing rural enterprises is a market for their products. To meet the changing demands of these markets, some guidance is necessary in product design and quality control.

There is also a pressing need for increasing the management capacity of those NGOs that have established themselves and have shown that they are committed to becoming self-reliant institutions. The single most important improvement in the financial sector would be the use of positive real interest rates by microfinance institutions. To promote alternative financial institutions, there is a need for further differentiation of institutions, especially among those registered as NGOs.

#### **RECOMMENDATIONS**

Recommendations for individual programs and projects in Nepal are found in the Issues sections in Part Three. Here we present the principles underlying these program-specific recommendations.

##### **Policy**

The policy environment is important in any effort to develop microenterprise programs. Several significant laws have already been passed by the government to liberalize the Nepalese economy (see Part One). USAID should continue to encourage liberalization, and, for example, discourage the government from setting priority sector lending targets.

The Development Banking Act, currently under consideration, would provide financial intermediary NGOs such as Nirdhan with additional legal authority, including the right to hold outside deposits to leverage more loan funds. The Savings and Credit Act, also under consideration, would further differentiate those savings groups that would like to establish themselves as village banks. USAID should support these efforts.

## **Procedures for USAID Programs**

### **Use of NGOs**

Because of the proliferation of NGOs in Nepal, USAID needs to set clear criteria for those with which it will work. It also needs to recognize the varying capabilities of NGOs. Some of the newer local NGOs do literacy training well, for example, but should not necessarily be expected to also handle income generation programs. A well-functioning NGO should not be overextended by donors, and, the other side of the coin, NGOs should limit their activities and build on their strengths.

In areas where many NGOs are present and where services are being expanded, NGOs should be encouraged to specialize. The provision of financial services in particular should be reserved for those that undertake it wholeheartedly, are committed to operational sustainability, and have some existing management capacity. USAID needs to evaluate an NGO's commitment to becoming sustainable prior to initiating funding, if self-sustaining programs are the ultimate objective. USAID's selection criteria for NGOs should match program objectives. In the case of income generating projects, NGOs should have prior experience in marketing or some other aspect of business. Fees should gradually be introduced to help programs recover some of the costs and to add a sense of the value of the services being presented.

### **Other Resources**

Because there are fewer NGOs outside the Kathmandu valley that have specialized in helping to link rural businesses to the market place, there is a need to consider other options there. It may be possible to link producer groups more directly to buyers and markets in Kathmandu. Business consultancies should be undertaken on a much broader scale. Cooperation with private sector firms may be one way to leverage donor resources in this area.

### **Program Evaluation**

For financial intermediaries, it is recommended that after institutions have been instructed in how to provide basic data, USAID/Nepal should carry out its own financial analysis using a framework commonly used by financial institutions to assess the financial position (health) and financial performance (profitability) of the program. The framework known as CAMEL focuses on capital adequacy (also called leverage), asset quality, management, earnings, and liquidity. Capital adequacy refers to the amount of debt an institution has incurred compared with the amount of equity or investment in the program. Earnings demonstrates the efficiency and profitability of a financial institution. Liquidity is the institutions ability to meet short-term liabilities from short-term liquid assets, or cash deposits.

Two tables have been prepared to assist USAID to monitor outreach and financial performance and are included as Annexes 4 and 5 to this report. These are to be used as a guideline only. USAID may choose to monitor only one or two institutions. By tracking such information, USAID can assess the operational self-sustainability or financial self-sufficiency of the program, and determine how effectively the organization leverages funds (from the donor or from fees and interest rate income) to expand outreach.

Under the Microenterprise Innovation Project, the successor to the GEMINI project, USAID will be developing tools and methodologies for documenting these impacts that do not rely entirely on indicators of employment and income. Microenterprise programs offer the real possibility of reaching the poor, who have

minimal capacity to absorb large amounts of capital. Small loans at nonusurious interest rates have been the building blocks for households to gradually move away from the edge of financial insolvency. Thus in the lives of the poor, changes may not be large, but small changes may make a big difference. To glimpse these small changes, USAID must set realistic expectations about what it expects from microenterprise programs in increases in income and in assets.

An important reason to set realistic expectations of impact of microenterprise programs is that it will allow USAID/Nepal to evaluate its implementing institutions fairly. By setting standards within the realm of the expected for microfinance institutions, USAID will be able to determine whether the service provided is both desirable and sustainable.

Although household income may be the hoped-for change, other changes that also signify an improvement in overall economic security may substitute for absolute income changes. Household changes that should be considered include increased numbers of children in school, improvements in housing, and diversified sources of income. Other impact measures on women, including measures of mobility, economic security, ability to make purchases, involvement in major decisions, political and legal awareness, and participation in public protests and political campaigning, can also be developed and used.

### **Donor Coordination**

This report has indicated the extent of donor, government, and NGO activity in Nepal. Many agencies and organizations are operating on their own with little coordination among themselves. One exception is the MicroCredit Project for Women, funded by ADB and administered by WDD. This project has involved several INGOs and NGOs in its activities.

The team feels that it would be extremely useful to develop a database of NGOs in Nepal to get a handle on the activities and the defining characteristics of each NGO, or at least of those NGOs within the sphere of donor or government influence. The proposed information network for organizations providing services to women could be a component of this database. For financial intermediation, coordination with the Asian Development Bank and the GTZ would seem to be of crucial importance, because those two donors have significant programs in this area. Other such linkages could be useful, including a more formal arrangement for multidonor coordination.

**ANNEX A**

**MICROENTERPRISE ASSESSMENT SCOPE OF WORK**

## USAID/NEPAL MICROENTERPRISE ASSESSMENT

### I. PURPOSE

The main purpose of this assessment is to provide recommendations for the implementation of program interventions identified under Mission's strategic objectives SO1 and SO3 to support Small and Micro enterprises (agribusinesses and non-agribusinesses), particularly owned or managed by women entrepreneurs that maximizes the employment and income impact of the mission's resources in the country. The assessment will also evaluate the following two areas.

1. Institutional strengths and weaknesses of the selected intermediary organizations, namely Women Entrepreneurs' Association of Nepal (WEAN), Association of Nepalese Small and Cottage Industries (ANCSI), Janakpur Women Development Centre (JWDC), NIRDHAN, Centre for Self-help Development (CSD), District Chambers of Commerce and Industries (DCCI) involved in Small and Micro Enterprises (SME) development activities. In case of agribusinesses, the assessment will be made of the strengths and weaknesses of processors and traders.
2. Key program implementation issues that need to be addressed by institutions involved in supporting SME development. These issues will be used to help USAID/N, government, private sector and other donors understand the need for key interventions to improve the environment for SME in Nepal.

### II. BACKGROUND

The USAID/N's current working definition of a micro enterprise, among other, includes to following criteria: (a) no more than 10 employees, (b) \$300 lending threshold for microenterprise finance programs, (c) off-farm location of the small business, and (d) at least 50% woman beneficiary. In case of small agribusinesses, particularly processing units and trading enterprises, the total investment (fixed and working capital) is less than Rs 100,000 (US\$2,000).

### III. SPECIFIC ASSESSMENT OBJECTIVES

#### A. REVIEW OF ON-GOING AND PROPOSED PROJECTS/PROGRAMS TO SUPPORT SMEs

Building on the on-going programs and proposed programs under Mission's new Country Program Strategy (CPS), this work will provide specific guidelines and recommendations for the implementation of the on-going and proposed programs to support SME development, including recommendations on issues that require further research and analysis during the process of implementing these projects/programs. The major programs identified in the CPS include the Market Access Development, the Business Consultancy on production, marketing, finance and management, the Business Literacy, the Product Exhibition and the limited support for Institutional Strengthening. The study will also focus on issues concerning coordination and

networking among various entities, both institutional and individuals involved in providing support to SMEs.

Some of the issues that should be explored include:

1. Building on current program efforts, including financial programs, that are implemented by existing intermediary organizations.
2. Specializing in on-going and proposed programs that complement other donor programs, such as: (a) training (b) technical assistance, (c) policy reform, (d) institutional support, (e) credit or (f) improving managerial, accounting and management information systems in NGOs.
3. Specializing in terms of target beneficiaries/ commodities, such as export-oriented enterprises, agribusinesses, or non-agribusinesses with vertical linkages to medium/large processors and markets.
4. Desirable relationships that should exist between USAID/N, the Government of Nepal (GON) and other donors in the field of SME development.

#### Specific Activities

1. Identification of which programs have the greatest potential for generating employment and income, including the impact of scale, and other factors on the level of employment and income generated by SME support activities.
2. Identification of key constraints and problems relative to each program identified in the CPS.
3. Identification of demand for credit and other services by each program.
4. Potential for specialized interventions in export-oriented businesses or businesses that offer vertical integration or horizontal integration.
5. Relationships among government institutions and programs, international donor agencies, local financial institutions, NGOs and other local intermediaries, universities, community groups and other institutions involved in SME activities.

#### B. INSTITUTIONAL ASSESSMENT

The assessment team will examine the institutional strengths and weaknesses (financial, managerial and operational) of selected private and public sector institutions involved in providing services to SMWs. Based on its findings, the team will make specific recommendations for desirable interventions (technical and financial) to develop these institutions into effective SME promotion and support entities.

In particular, the assessment will address the following issues:

1. Institutional effectiveness and performance, including the variety, level and quality of services offered, breadth and scope of beneficiary coverage, and prospects for increasing outreach.
2. The potential role of various institutions, including processors and traders, and providers of credit for SME activities (formal banking system, credit unions, NGOs and informal credit sector), strengths and weaknesses, major constraints and ability to service the SME sector at an adequate level.
3. Managerial skills, staff, operational procedural and policy strengths and weaknesses.

#### Specific Activities

1. Develop a profile of each institution, including a description of services, scope of coverage, service volumes (number of beneficiaries by type and level of assistance), and organizational strengths and weaknesses.
2. Utilizing existing data and personal interviews, assess the potential role of alternative financial intermediaries (including banks, credit unions, savings and loan associations, NGOs and the informal sector) in servicing the SME sector, including major institutional strengths and weaknesses.
3. Provide specific recommendations for improving the institutional capabilities and performance of each institution.

#### C. OTHER ISSUES

The assessment team will also examine other issues related to the program implementation specific to Nepal that would have a major impact on the success and viability of small and micro enterprises to produce the desired indicators as specified in the CPS. Specifically the assessment will:

1. Review the data and findings of studies, specifically ELP Mid-term Evaluation report, ATSP Mid-term Evaluation Report, Rapti Final Evaluation report, other studies on SME, trade and export promotion, financial sector, and relevant sectoral studies.
2. Examine the business environment as it specifically affects SMEs in the country. To the extent possible, the team would make suggestions for any minor modifications in the program contents and implementation that would make positive impact on SME development in Nepal.

#### IV. Workshop

The assessment team will conduct a one-day workshop for USAID/N staff, contractors and grantees to present its findings and recommendations.

#### V. Level of Effort

This assessment will require the services of two expatriate professionals and two local professionals. One expatriate professional, who will act as team leader, should be a small/micro enterprise/finance specialist. The second expatriate professional should be an economist/small enterprise specialist with experience in marketing to examine issues of backward and forward market linkages, export opportunities for small enterprises, and market limitations and constraints. Each of them will be required for a period of 24 days, 18 days in Nepal and 6 days in the U.S. to prepare the overall report. Out of two local professionals, one should be a microenterprise specialist with experience in women's issues to examine the gender issues of SME strategies. The other local professional will be a labor, trade and marketing specialist. They will also be required to collect and assemble secondary information available from Nepal sources. Their services will be required for a period of 24 days each.

**ANNEX B**  
**PERSONS CONTACTED**

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## **DONORS**

Asian Development Bank

Someth Sous, Nepal Representative Officer

Australian Embassy

Mary O'Keefe, Am'bassador

Danish Aid (DANIDA), Royal Danish Embassy

Leif Christensen, Minister Counsellor

Yasoda Shrestha, Program Officer, MS

German Technical Assistance program (GTZ)

Rudolf Guthier

Swiss Development Corporation Nepal

Eak Gurung, Program Officer

United Nations Development Programme

Harumi Sakaguchi, Deputy Resident Representative

Rita Thapa, Unifem

United States Agency for International Development

David Johnstone, Deputy Mission Director

Carol Carolus, Economist

Kiran Man Singh, Project Development Officer

James Gingerich, Chief Agriculture and Rural Development Division

Fred Pollock, Agricultural and Rural Development Division

John Mitchell, Agricultural Development Officer

Molly Gingerich, Chief Health Division

Mary Lanehan

## **GOVERNMENT MINISTRIES AND AGENCIES**

Cottage and Small Industry Development Board.

D. Jha, Executive Director

Department of Cottage and Small Industries

Mohon Gurung, Executive Director

Women Development Division, Ministry of Local Development

Ganga Datta Awasthi, Under Secretary

## **FORMAL/SEMIFORMAL FINANCIAL SECTOR**

Agricultural Development Bank of Nepal  
Punya Lamsal, Loans Division Chief

Regional Rural Development Bank, Pashehimanchal Head Office, Butwal.  
Pd Kharmal, Regional Head Office Manager

Himalayan Bank Limited  
Privithi Pande, Executive Director

Nepal Rastra Bank (Central Bank)  
Dr. Pushpa Rajkarnikar, Deputy Governor  
Bodhi Bajracharya, Chief Manager

## **DONOR PROGRAMS**

Agro Enterprise Centre (AEC), FNCCI/USAID  
Ravi Dev Sharma, Managing Director  
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A.S. David, Adviser

International Reform and the Informal Sector (IRIS)  
Praveen Dixit, Director  
Narendra Basnyat, Business Advisor  
Samjhana Thapa, Business Coordinator  
Anita Tuledhar, Policy Coordinator

Small Business Promotion Project (SBPP/GTZ)  
Rudolf Guthier, Team Leader/Adviser,  
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Baburam Ranabhat, Division Chief

Small Farmers Development Project  
Uttam Dhakhwa, Small Farmers Development Project (SFDP/GTZ)

International Executive Service Corps  
Govinda Chipalu, Country Director

## **INTERNATIONAL NGOS**

The Asia Foundation  
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Soi-Lan Lama

Canadian Center for International Studies and Cooperation (CECI)  
Claude Perras, Asia Regional Director  
Hari Bastola, Team Leader Micro-Credit Project for Women (GON/ADB)

CARE Nepal  
Dr. Purna B. Chhetri, Project Coordinator  
Nalina Subba Chhetri, Project Coordinator

Danish Association for International Cooperation (MS)  
Yasodha Shrestha, Program Officer

German Federation of Small Business (ZDH)  
Harihar Subedi, Resident Representative

Makalu-Barun Conservation Project and The Mountain Institute  
Dr. Malcolm Odell, Makalu-Barun Conservation Project

PACT  
Dr. David Walker  
Marsha O'Del

Plan International  
Gajendra Bahadur, K.C. Program Manager

Save the Children, U.S.  
Bharat M. Devkota, Program Director

United Mission to Nepal (UMN)  
Markku Voutilainen, Program Officer, Rural Development Department  
Raghu Sharma, Development Consultant, Engineering & Ind Department  
Steve Knisely, Forestry Adviser, Development Consultant

#### **LOCAL NGOs**

Association for Craft Producers  
Vishwa Rajgywala, Assistant Marketing Director

Center for Community Development and Research  
Govinda Dhital, Executive Director

Federation of Business and Professional Women  
Dr. Dilli Devi Shakya, First Vice President  
Muna Basnyat, Program Coordinator

Institute for Integrated Development Studies  
Muna Nepal, Program Officer

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Janakpur Women's Development Center  
Claire Burkett, Advisor

Mahaguthi  
Surendra Shali, Executive Director

Nirdhan  
Dr. Harihar Pant, Chairman  
Bhoj Raj Basyal, Manager, Bhairahawa Local Head Office.

No-FRILLS Consultants  
Dr. Badri Kayastha, Executive Director  
Teeka Pradhan, Program Director

Women Entrepreneurs Association of Nepal  
Ram Raja Dongol, Executive Director  
Urmila Shrestha  
Rita Thapa, WEAN Vice President

#### **FEDERATIONS/ASSOCIATIONS**

Association of Nepal Cottage & Small Industries (ANCSI).  
Ram Krishna Manandar, Vice President,

Central Carpet Industries Association  
Bijaya Bahadur Shrestha, President  
Tsewang Tenjin, Treasurer  
Chhabi L. Sharma, Officiating Secretary

Federation of Nepalese Chambers of Commerce and Industry (FNCCI)  
Badri Ojha, Officiating Secretary General  
Rajendra Pradhan, Executive Member

Handicraft Association of Nepal  
Dilip Khazal, Senior Office Secretary

Nepal Federation of Saving & Credit Co-operative Unions Ltd (NAFSCUN)  
Bhola Shrestha, Education Officer

#### **PRIVATE SECTOR**

Ram Prasad Prajapati, B.T.C. Textile  
Shree Ram Prajapati, B.T.C. Textile  
Reeta Simha, Managing Director, Aama Impex  
B.P. Shrestha, Nepali Paper Products (P) Ltd.

**ANNEX C**  
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**ANNEX D**  
**CAMEL ANALYSIS**

DATA SUMMARY PROFILE OF MICROENTERPRISES IN NEPAL

1996 - DATA SUMMARY	NIRDHAN	SBP (CSD)	RRDB	RRDB	RRDB	RRDB	C'ICIAL BANK	TOTAL
<b>CAMEL ANALYSIS - CAPITAL ADEQUACY</b>								
LEVERAGE (TOTAL LIABILITY / TOTAL EQUITY)								
EQUITY AS A PERCENTAGE OF TOTAL ASSETS								
TOTAL LOANS / TOTAL EQUITY								
BAD DEBT RESERVE / TOTAL PORTFOLIO								
<b>CAMEL ANALYSIS - ASSET QUALITY</b>								
DECLINQUENCY - BALANCE OF LOANS OVERDUE > 90 DAYS								
LOAN LOSS WRITE OFF AS A PERCENTAGE OF PORTFOLIO								
EFFECTIVE YIELD ON LOAN PORTFOLIO								
<b>CAMEL ANALYSIS - STAFF MANAGEMENT AND PERFORMANCE</b>								
FIELD STAFF / TOTAL STAFF								
NUMBER OF LOANS / TOTAL STAFF								
NUMBER OF SAVERS / TOTAL STAFF								
SALARIES / TOTAL ADMINISTRATIVE EXPENSE								
SALARIES / AVERAGE PORTFOLIO								
SALARIES / AVERAGE TOTAL ASSETS								
AVERAGE SALARY PER FIELD STAFF								
<b>CAMEL ANALYSIS - EFFICIENCY AND PROFITABILITY</b>								
OPERATIONAL SELF-SUFFICIENCY (1)								
FINANCIAL SELF-SUFFICIENCY (2)								
RETURN ON AVERAGE TOTAL ASSET (Net profits/Total assets)								
RETURN ON EQUITY - (Net Profit / Equity)								
ADMIN. EXPENSE / AVERAGE LOAN PORTFOLIO								
ADMIN. EXPENSE / AVERAGE TOTAL ASSET								
(1) Operational Self-sufficiency - operating Income/Operating Expense								
(2) Financial self-sufficiency - operating Income/Total Operating Expenses Including Cost of Funds								
<b>CAMEL ANALYSIS - LIQUIDITY</b>								
CURRENT RATIO - (Current Assets/Current Liabilities)								
LIQUID ASSETS / TOTAL ASSETS								

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**ANNEX E**

**SUMMARY DATA PROFILE OF INSTITUTIONAL CREDIT AND  
SAVINGS OPERATIONS TO MICROENTERPRISES IN NEPAL**

ANNEX E SUMMARY DATA PROFILE OF INSTITUTIONAL, CREDIT AND SAVINGS OPERATIONS TO MICROENTERPRISES IN NEPAL

SUMMARY DATA PROFILE		NIRDHAN BHAIRAHAWA WESTERN MID AUG1995	SBP (CSD) (3) MID JULY 1995	PGBB (1) BIRATNAGAR EASTERN MID JULY 1995	SPGBB BUTWAL WESTERN MID AUG1995	SPGBB DHANGADHI FAR WESTERN MID JULY 1995	ADB ALL OFFICES (2) MID JULY 1995	TOTAL
<b>A</b>	<b>INSTITUTIONAL BUILDING PROFILE</b>							
	NUMBER OF PRE GROUP TRAINING	24	146	156	29	N/A	NOT APPLICABLE	355
	NUMBER OF MEMBERS	1,730	2,665	23,283	165	7,848	NOT APPLICABLE	35,691
	NUMBER OF GROUPS	346	535	4,701	36	1,569	NOT APPLICABLE	7,187
	NUMBER OF CENTRES	102	112	738	11	319	NOT APPLICABLE	1,282
	NUMBER OF BRANCHES / UNITS	8	8	35	3	19	NOT APPLICABLE	73
<b>B</b>	<b>CREDIT OPERATION PROFILE</b>							
	LOAN AMOUNT DISBURSED	12,050,092	7,419,500	148,794,345	301,500	60,867,000	NOT AVAILABLE	229,432,437
	LOANS AMOUNT REPAYD	5,396,700	3,155,994	78,540,075	8,710	33,151,000	NOT AVAILABLE	120,252,479
	AMOUNT OF LOANS OUTSTANDING	6,653,392	4,263,506	70,254,270	292,790	27,716,000	738,153,400	897,333,358
	NUMBER OF BORROWERS	1,572	2,465	21,538	62	7,242	NOT AVAILABLE	32,879
	AVERAGE OUTSTANDING LOAN BALANCE	4,232	1,730	3,262	4,722	3,827	NOT AVAILABLE	17,773
	OVERDUE LOANS BALANCE > 90 DAYS	0	0	0	0	0	NOT AVAILABLE	0
	OVERDUE LOANS PERCENTAGE > 90 DAYS	0	0	0	0	0	NOT AVAILABLE	0
	LOAN RATE OF INTEREST (FLAT/COMPOUND)	10.0%	10.0%	10.0%	10.0%	10.0%	NOT APPLICABLE	0
	EFFECTIVE LOAN RATE OF INTEREST (SIMPLE)	19.8%	19.8%	19.8%	19.8%	19.8%	14% -17%	VARIOUS
	COLLATERAL REQUIREMENTS	NIL	NIL	NIL	NIL	NIL	NOT AVAILABLE	VARIOUS
<b>C</b>	<b>SAVINGS OPERATION PROFILE</b>							
	TOTAL SAVINGS DEPOSITS (A+B+C)	698,961	495,843	9,989,192	20,889	4,325,000	0	15,529,885
	GROUP FUND SAVINGS	674,571	166,017	8,873,428	16,910	3,637,000	0	13,367,926
	LESS LOAN ADVANCED FROM GROUP FUND	170,386	0	546,225	0	564,000	0	1,280,611
A)	TOTAL NET GROUP SAVINGS	504,185	166,017	8,327,203	16,910	3,073,000	0	12,087,315
	CENTRE FUND SAVINGS	0	381,924	0	0	0	0	381,924
	LESS LOAN ADVANCED FROM CENTRE FUND	0	108,110	0	0	0	0	108,110
B)	TOTAL NET CENTRE SAVINGS	0	273,814	0	0	0	0	273,814
C)	INDIVIDUAL SAVINGS - VOLUNTARY	194,776	56,012	1,661,989	3,979	1,252,000	0	3,168,756
	NUMBER OF GROUP SAVERS	346	535	4,701	36	1,569	0	7,187
	NUMBER OF CENTRE SAVERS	0	112	0	0	0	0	112
	NUMBER OF INDIVIDUAL SAVERS	1,730	2,665	6,598	56	4,818	0	15,867
	AVERAGE SIZE OF SAVINGS DEPOSIT							
A)	GROUP FUNDS	1,457	310	1,771	470	1,959	0	5,967
B)	CENTRE FUNDS	0	2,445	0	0	0	0	2,445
C)	INDIVIDUALS/VOLUNTARY	113	21	252	71	260	0	716
	PERCENT OF SAVINGS DEPOSITS -VOLUNTARY	28%	11%	17%	19%	29%	0.00%	1

- NOTES: 1. Regional Rural Development Banks also called Grameen Bank Nepal  
2. Data not available for commercial banks lending to microenterprises. ADBN loans outstanding amount \* by 12% to estimate disbursements to SME under priority lending pr  
3. Standard data not available from Central Bank therefore dates differ.

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