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Resource Institutions
for Enterprise Support

**A REVIEW OF THE
FREEDOM FROM HUNGER FOUNDATION
APPLIED NUTRITION CREDIT PROGRAM
NEPAL**

**Sponsored by the
U.S. Agency for International
Development**

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Directed by

Robert R. Nathan Associates, Inc.

November 13, 1987

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Assistance to
Resource Institutions
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Submitted to:

USAID/FVA/PVC

**FREEDOM FROM HUNGER
FOUNDATION**

By:

Russell Webster

The views and interpretations in this publication are those of the author(s) and should not be attributed to the U.S. Agency for International Development.

ARIES

Assistance to Resource Institutions for Enterprise Support

The ARIES project is designed to strengthen the capabilities of support organizations in developing countries to implement small-scale and micro-enterprise development programs. ARIES builds on the work of the Agency for International Development's former Program for Investment in the Small Capital Enterprise Sector (PISCES) and Small Business Capacity Development projects. It works with intermediary support organizations that provide services to small and micro-businesses and industries, such as private voluntary organizations (PVOs), banks, chambers of commerce, management training centers, business people's organizations, and other developing country government and non-governmental organizations (NGOs).

The contract for this five-year project has been awarded to Robert R. Nathan Associates, Inc. (RRNA) with subcontractors Harvard Institute for International Development (HIID), Control Data Corporation (CDC) and Appropriate Technology International (ATI).

ARIES is core funded by the Bureau for Science and Technology's Office of Rural and Institutional Development (S&T/RD) and the Bureau for Food for Peace and Voluntary Assistance's Office of Private and Voluntary Cooperation (FVA/PVC). Mission funded technical assistance represents \$3.8 million, or almost three-fifths of the five-year budget of \$6.8 million.

The ARIES project has three major components -- research, training, and technical assistance -- designed to cross-fertilize each other. The applied research component focuses on economic, social, and organizational issues surrounding intermediary support organizations to inform AID missions and host country actions in this subsector. The training component includes design, testing, conduct and follow-up of training programs in such areas as finance, management and evaluation for PVO and NGO personnel. The technical assistance component provides short-term technical assistance to AID missions and intermediary organizations to assist small and micro-enterprise development.

PREFACE

This report is part of a multi-country review of the Freedom From Hunger Foundation (FFH) program of Applied Nutrition Credit. Countries included in this review were Kenya, Honduras, Thailand, Sierra Leone, and Nepal. Nepal is covered in this report.

The Nepal Freedom From Hunger program is managed through a cooperative agreement with the Family Planning Association of Nepal (FPAN). I would like to express my gratitude to the staff of FFH/FPAN in supporting and actively participating in this review process. Each of them was willing to share their experiences and insights to date, and eager to discuss ways of making credit a viable component of their program; I hope that the recommendations made here will prove helpful in that process.

Russ Webster

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EXECUTIVE SUMMARY

This report contains the findings and recommendations arising out of a review of the Freedom From Hunger (FFH) Revolving Loan Fund Program in Nepal, undertaken in early June 1987 by Russ Webster, a member of the Robert R. Nathan Associates/ARIES project staff. ARIES (Assistance to Resource Institutions in Enterprise Support) is a five-year project now in its second year, funded by USAID and administered under the Bureau for Science and Technology. Robert R. Nathan Associates, Inc. (RRNA) is responsible for overall project management, and for providing program evaluation and technical assistance services.

Like other FFH programs worldwide, the Nepal program has nutrition and health improvement as its primary objective. The purpose of credit and the Revolving Loan Fund Scheme (RLF) is to assist clients of FFH and Family Planning Association of Nepal (FPAN) in acquiring resources necessary for growing nutritious foods and securing health services and commodities.

Summary of Major Findings and Recommendations

The analysis in Nepal was complicated by the lack of loan information. The program has not yet established consistent accounting procedures to monitor loans and resource inputs

supporting the RLF scheme. The program is new (lending began in late 1985), but this is an area that needs immediate attention. This situation also made cost-effectiveness analysis impossible.

Interest is not being charged on loans; the field staff of FFH/FPAN initially felt that charging interest was "not consistent with PVC philosophy"; this outlook changed somewhat during the review. Repayments are also accepted in kind, i.e., one kilo of soybean can be repaid six months later with one kilo of soybean. These two factors make recapitalization of the loan fund difficult; although in-kind lending is feasible, repayment should be made in cash back into the fund. Some alternatives, such as a village-based, small livestock exchange program, may be feasible but need to be researched further.

Additional training and technical assistance is needed to support the RLF program. Technical assistance offered by government agricultural and livestock extension efforts is apparently inadequate. Many projects have suffered -- pests and diseases affect vegetables and chickens, for example -- and may continue to suffer unless FFH either drops them from the program or meets minimum requirements for ensuring an acceptable measure of success in its loan projects.

RLF program participants need to have training in financial management. Keeping personal accounts as a prerequisite for receiving a loan can also be a sound incentive for basic literacy training.

Currently, projects eligible for loans are selected by the FFH/FPAN staff for their nutritional value or potential. Income-generating potential is not a consideration. Selection criteria should address how the loan recipient plans to make the cash available for repayment. If the project does not generate income per se, then some type of savings scheme needs to be applied to

ensure repayment. This carries with it, however, the responsibility of making sure that the money is not being diverted from other essential uses.

Related to this point are the issues of who determines what is an acceptable loan project and on what grounds. To encourage target group beneficiaries to participate, FFH/FPAN should accept loan proposals from participants, and evaluate them on the basis of their financial viability. In this sense, projects should be geared towards income generation, or at least income savings. During the survey interviews, villagers expressed interest in other activities, e.g., sheep or goat raising, which could be considered.

Some staff members in Nepal felt that increasing incomes should not be an objective, because the money would be spent on inessential consumer goods. It is difficult to run a viable loan program -- particularly in areas of extremely low income -- without emphasizing the income potential of loan-related activities. The proper use of this income should be a subject for the nutrition and health education components of the project.

The organization and management of the RLF scheme at the village level needs further development. Some groups have been formed, but their use in supporting the RLF program has not yet been exploited fully. Some savings accounts have been opened, but how they will support the program is not yet clear. The great potential here needs to be developed. For example, regular savings could serve as a basis for qualifying beneficiaries and for building up the capital base of the fund. Regular group meetings could also serve as a training forum for a variety of other activities.

Finally, current staff resources appear inadequate to meet the demands of a credit program intended to serve 4,200 families

in a region with significant transportation problems. Group-based lending can be a strong tool for attracting participants and involving them in a variety of community development activities, but it requires more human resources than presently available. In particular, FFH should consider training staff in some small business finance skills.

Suggested Next Steps

These steps are intended as guidelines in strengthening the Revolving Loan Fund Program in Nepal.

1. Develop a clear policy statement supporting income generation and employment as objectives of FFH/FPAN.
2. Prepare a sectoral profile of possible income-generating activities based on an investigation of (1) existing productive activities in the target area, both farming and non-farming, (2) where markets for these products are, (3) what transportation constraints exist, (4) what existing credit sources, both formal and informal, are, and (5) what other institutions, both governmental and non-governmental, are available to provide training and technical assistance to support income-generating activities.
3. Provide financial management and small business development training to FFH staff who will be supporting the RLF scheme; consider hiring additional staff to strengthen the program.
4. Analyze current interest rate structures in the region, both formal and informal, and adopt a policy which supports interest at equitable rates -- probably at or slightly above the official government rate.
5. Develop a clearer management structure which focuses on strengthening the RLF groups to take responsibility for loan approval, monitoring, and evaluation. Provide training to these groups and their leaders in group development, financial management, project planning, etc. Do not give out loans until the groups have demonstrated their cohesiveness of purpose, and ability to manage group funds. Loans can be made to individuals, but they should come from the group, not FFH/FPAN, otherwise they may be perceived as grants.

It is important that the groups and their members become responsible for the program, and accountable to each other.

6. Credit may not be for everyone in the program. Focus initially on those families and those activities which show good potential for success. This does not mean overlook the hard cases, but find what works first, and why.

OVERVIEW OF THE NEPAL APPLIED NUTRITION PROGRAM

The Nepal Applied Nutrition Program (ANP) is implemented jointly by Freedom From Hunger Foundation (FFH) and the Family Planning Association of Nepal (FPAN). A liaison office is located in Kathmandu; the program operates in the North Indrawatti Block of Sindulpalchok District. Operations began in 1985; in January 1986 the staff completed a Needs Assessment Survey which provided the basis for program design and implementation.

In accordance with FFH's goals and objectives, the Nepal ANP focuses on health and nutrition education, clinical services, agriculture extension, and community development. Their objectives, as stated in a 1984 Funding Proposal to the PACT Consortium, are to

Establish an integrated nutrition program using a participatory, community approach

Develop and adapt a program model suitable for replication in Nepal

Work with FPAN as well as with national and regional government health workers to raise awareness of the importance of nutrition to economic development and strengthen their service delivery capability in the target area

Organize and work with communities to develop and implement health- and nutrition-related projects

Reduce the level of malnutrition of the 0-5 year old children in the target area by 25 percent in five years

Provide maternal health and family planning and other basic health services to 40 percent of the total population in the target area.

Program activities to achieve these objectives include

Development of nutrition, health, and sanitation education materials

Implementation of a comprehensive nutrition education program

Training for FFH program staff, village volunteers, health and extension workers, traditional leaders, and community members

Implementation of health- and nutrition-oriented community development projects based on results of the needs assessment and baseline data surveys

Provision of agriculture extension services

The Revolving Loan Fund Scheme

In addition to these programs, the ANP includes a Revolving Loan Fund (RLF) scheme designed to make credit resources available for promoting the activities described above. For example, in-kind credit (chickens, ducks, seeds, etc.) is being provided to households under the agriculture extension program. Under another program, medicines and vaccines are provided to community pharmacies set up by FFH on credit.

The purpose of credit under the RLF scheme is not to promote income generation. (Rules for the ANP/RLF Program appear in Appendix A.) Credit is used primarily to help beneficiaries defer payment on agriculture inputs; by supplying these goods on loan, FFH/FPAN hopes to encourage people to grow and consume

nutritious foods, and thereby to reduce malnutrition in the region.

Purpose of the Nepal ANP/RLF
Program Review

The Nepal Revolving Loan Fund Scheme was reviewed jointly by the ARIES consultant (Russ Webster) and members of the program staff. Working together, this team

Reviewed policies and procedures for the program

Analyzed organizational structures, management, and staffing requirements

Completed surveys of 28 loan recipients selected from four target areas, and analyzed the results (considering the mountainous terrain the staff works in, it is truly to the team's credit that this number of households were visited in the short time allotted)

A copy of the Survey Questionnaire appears in Appendix B.

In accordance with the objectives of Davis Headquarters, the assignment in Nepal was a combination of review and technical assistance. Therefore, the consultant also described and discussed with the staff similar revolving loan fund schemes in other countries, and suggested steps for further development of the Nepal program. The consultant also assisted the staff in completing parts of the Davis Headquarters Questionnaire on Existing ANP Credit Systems.

In summary, the review provided a good opportunity to evaluate the management and operations of the Nepal program, and to discuss issues such as target group selection, lending policies, repayment schedules and interest rate structures, organization, and economic and financial analysis. Quantitative analysis -- e.g., program cost-effectiveness and financial

viability of income-generating activities -- was very difficult because of a lack of data. Improvements in accounting practices and data collection at the field sites will be necessary before such analysis can be done.

The following sections discuss the findings arising out of the review of the FFH/FPAN RLF scheme; they are presented according to issues outlined by Jeff Ashe in his May 13 Issues for the Inter-Program Credit Systems Assessment. (A summary appears in Appendix C.) Because the Nepal RLF program is so new, its impact could not be measured accurately; it was therefore not included in the following discussions.

FINDINGS

Revolving Loan Fund Strategy

Within the FFH/FPAN program, credit is seen as a tool -- one of many tools -- to help overcome malnutrition. The purpose of credit is to encourage the production of nutritious foods by deferring the costs of agricultural inputs, and allowing families to acquire seeds, chickens, and ducks, for example, during periods when they normally wouldn't have the cash to purchase these goods.

The target group for credit is basically the same as the target group for all FFH/FPAN activities. There are approximately 4,200 families in the program, distributed among eight village Panchayats. (Panchayat refers to the system of representative government in Nepal.) The vast majority of the population in the areas where FFH/FPAN works is poverty stricken, and engaged partially or wholly in farming activities. Non-farming income-generating activities include carpet weaving (primarily by adolescent girls), portorage, small scale trading/bartering, tea-shops, etc. Some family members also go to Kathmandu or other regions to seek work as daily laborers.

in Appendix A. Briefly stated, the loan recipient family should be

Affected by malnutrition

A resident of the local Panchayat

Willing to follow the rules of the RLF

Able to repay the loan

Honest and hard working

The family should have

Low income

Children

No political affiliation

Faith and a cooperative attitude towards the ANP

The activities being supported through credit to individuals are potato, soybean, wheat, pulses, and paddy cultivation, and duck and chicken raising. One loan was also given to finance a small bread bakery, which is developing and test-marketing wheat products as alternatives to rice. Each of these activities was selected by FFH/FPAN.

The program has had mixed success in encouraging these activities. The FFH/FPAN staff report a greater number of gardens, and increased awareness of the nutritive value of new vegetable varieties, wheat, and pulses (pulses are a source of protein). During the consultant's visit, one proud farmer brought in a kilogram of soybeans from the crop he had produced with his loan.

Chicken raising has not been particularly successful because the new breed of chicken provided is susceptible to disease. Although FFH/FPAN administers the proper vaccines before providing the chickens to their clients, an additional vaccina-

providing the chickens to their clients, an additional vaccination is required that farmers have difficulty in obtaining, either because the local livestock extension office does not have it, or because the cost of transporting the chickens to a vaccination center is prohibitive.

Ducks, however, are not as susceptible to disease, and are preferred by the villagers because of their low maintenance requirements. Nearly all of the families interviewed who raised both ducks and chickens preferred the ducks.

Other difficulties reported in the survey included

Problems in getting fertilizer and pesticide for potatoes and vegetables

Lack of irrigation

Duck mortality

Insufficient technical assistance

Lack of money to repay loans

Table 1 shows the distribution of loans and loan amounts among the families interviewed. Usually multiple loans are given to each beneficiary for several of the targeted activities. Complete information covering all loans to date was not available.

The Credit Delivery Model

Under the FFH/FPAN credit model, loan recipients are selected by a village Loan Committee made up of (1) the Ward Chairman, (2) a female volunteer, (3) a Ward Committee Member, (4) a poor member of the village, (5) a local influential person, and (6) a Social Worker from FFH/FPAN. (See RLF Guidelines in Appendix A.) This committee recommends applicants to the office

Table i: Type and Value of Loans
Made to Families Surveyed
(Nepali Rupees)

Survey No.	Ducks	Chicks	Vegetable Seeds	Wheat Seed	Soybean Seed	Potato Seed	Maize Seed	Pulse Seed	Paddy Seed	Total		
										Amount Loaned	Amount Overdue	Amount Repaid
1	40		7	20		14				81	34	7
2	40		5	6		14				65	0	0
3	40		10			14				64	0	V 2/
4	40		10	6						56	0	V 2/
5	40	120	6	6		7				179	0	12 3/
6	40		5	6		7				58	0	11 3/
7	34	120	n/a	6		14				174	0	V 2/
8		48	n/a							48	0	0
9		168	n/a		25			n/a		193	0	0
10			5				6			11	11	0
11		96					6			102	0	0
12			25				6			31	0	0
13		48					6			54	0	0
14		48					6			54	0	0
15	34	360	n/a					n/a		394	0	0
16		120			n/a	14	n/a			134	0	0
17	25.5		n/a							25.5	0	0
18		120	n/a			14				134	0	0
19		120	n/a		11	14				145	14	0
20		195	n/a				3.5			198.5	0	0
21	34	315	n/a		22					371	0	0
22		120								120	0	0
23	84					28			25	137	0	0
24		240			9		3.5		2.5	255	0	0
25		120								120	0	0
26		120			20				20	160	0	0
27	40	120						n/a		160	0	0
28	40	120			9		3.5		15	187.5	0	0
Total:	531.5	2718	73	50	96	140	40.5	0	62.5	3711.5	59	30 4/
X	14%	73%	2%	1%	3%	4%	1%	0%	2%	100%		

Notes:

- 1/ The majority of loans were made in the spring of '87, and are due in the fall. Many families had been receiving "multiple vegetable seed loans" since the fall of '86, and weren't sure what amounts were due when. Most potato loans were made in Dec '86 or Jan '87 and were due in June '87, the time when the revolt took place.
- 2/ V=Village Volunteer; they receive loan free as an incentive.
- 3/ Paid back in-kind.
- 4/ This suggests a historical repayment rate of about 34%. Information concerning vegetable seed loans, however, was

in Sindulpalchok, and is supposed to take responsibility for monitoring loan projects, and ensuring repayment on time.

All loans are in kind, interest free, and require no collateral. Terms of repayment are typically one lump sum due after a period of six months. As shown in Table 1, most families receive multiple loans.

Although the rules of the RLF specify an interest rate of 5 percent, the staff was not enforcing it because they felt charging interest was inappropriate for a non-profit agency such as FFH/FPAN, and contrary to the true spirit of social development. This outlook changed somewhat during the review after the consultant explained the linkage between interest rates, inflation, recapitalization of the loan fund, and sustainability of the program. This issue requires immediate attention and resolution; by not charging interest FFH/FPAN may be accepting a higher level of subsidization than might be either desirable or necessary.

Because complete loan information was not available, the analysis of the loan portfolio had to be limited to the results of the survey. The data in Table 1 suggest a repayment rate to date of about 34 percent, excluding a number of vegetable seed loans for which families did not recall the amounts or due dates. If these were included, the rate would probably drop appreciably: according to the staff, most vegetable seed loans had not been paid back.

The majority of loans, in both number and value, were made after December 1986, and were due after this review took place in June of 1987. Prior to December 1986, most loans were of vegetable or potato seed. As mentioned earlier, information on these loans was not available, although the staff stated that repayment rates were very low.

Program Sustainability

In its present configuration, the RLF program is highly subsidized. FFH/FPAN is covering all expenses related to the purchase and transportation of in-kind loan goods from Kathmandu to Sindulpalchok. Because loan recipients are for the most part paying back in kind, no cash is available to put back into the fund, either for relending or for purchase of additional loan goods. Also, since no interest is being charged, the value of the fund is depreciating in real terms over time, forcing FFH/FPAN itself to recapitalize the fund.

Determining costs per loan was not possible because of the lack of information. Staff are only partially allocated to this activity, and their time inputs for it are not tracked separately. Records of other direct costs relating to the RLF scheme also were not easily obtainable. Finally, the lack of information about the total value and number of loans made to date made it impossible to make such estimates.

Some general observations can be made, however, about program costs. Staffing costs, for example, appear to be low. The program currently employs 11 people in the field: a Field Program Manager, an Accountant, two Nutritionists, two Community Development Officers, an Agronomist, two Clinical Assistants, and two Staff Nurses. Of these, only the Field Program Manager, Community Development Officers, and the Accountant have explicit responsibility in managing the RLF day to day; however, they carry responsibilities in other programs as well. If we include time inputs by management staff in Kathmandu, we could estimate that the RLF presently occupies three, or at most four, full-time staff equivalents on a program that has a target area of 4,200 households.

This low figure needs to be weighed against technical assistance and training requirements needed to support the RLF program. At present, little if any training is being given to the target group in financial management, small business management, or other technical areas that could improve loan performance. Agricultural extension and training is left to Government Extension Agents, who tend to focus more on agronomy, and less on financial management, marketing, or business development. The staff also commented that HMG technical assistance and training is often inappropriate and insufficient.

FFH/FPAN therefore needs to reassess its allocation of staff resources and determine what level of technical assistance and training is necessary to help ensure timely repayment by loan recipients. The ability of beneficiaries to manage their loan activity -- from both a technical and a financial point of view -- will affect their ability to repay their loans, and therefore the ability of the loan fund to recapitalize itself and move away from subsidization.

Linkages with local banks are starting to develop, and discussions are beginning about ways in which FFH/FPAN can collaborate with the National Bank in supporting the RLF scheme. The target area is served by one branch office that is up to one day's journey from the most remote FFH/FPAN sites. Forty-four wards -- a subdivision within the Panchayat system -- which include an estimated 775 families have established group savings accounts at this branch. The total estimated value of their savings is Rp 16,241 (about US \$740). Table 2 presents the position of these accounts.

Table 2. FFH/FPAN Group Savings Accounts

Panchayat Name	No. of Wards With Accounts	No. of Members	Amount of Savings
Banskherka	9	141 (est)	1,951
Bhotenamlang	9	133	4,424
Bhotang	3	62 (est)	3,880
Langarchi	9	111	1,845
Thangpaldhap	8	204	1,571
Thangpalkot	5	103 (est)	2,494
Gunsakot	1	21 (est)	76
TOTAL	44	775	16,241
Average Savings per Member		20.96	

Source: FFH/FPAN.

A strategy for using these accounts to strengthen the group lending process has not yet been developed. Saving is encouraged, but it is not a prerequisite for receiving a loan. During the review, the consultant discussed ways in which saving can be used to support the RLF program, including:

As a vehicle for capitalizing the fund

As a means of screening members for their willingness to participate

As a reason for convening members regularly to discuss social and economic development issues, provide training, etc.

The Need for Credit

Formal credit markets are scarce in Sindulpalchok; this is a common situation in most of the mountainous regions of Nepal. As mentioned earlier, only one bank serves the FFH/FPAN program area; its lending policies and practices are not geared towards the small borrower targeted by the RLF program.

Because of a fairly constant cash-flow constraint and a lack of formal credit at equitable rates, the potential demand for credit among borrowers is indeed high. There is no reason to believe that this situation will change. FFH/FPAN needs to be cautious, however, about the size of loans given to their target group. Very small loans for vegetable seeds, chickens, and ducks can probably be repaid even if the produce is consumed by the families themselves. Somewhat larger loans that are targeted for income-generating activities will need to be researched more thoroughly to determine market potential, capital investment requirements, maintenance costs, and so forth.

Credit program support services are limited under the present program. Related activities include:

Vaccinations for chicks

Nutrition education to encourage proper cultivation and use of vegetables

Agricultural extension services provided by HMG
Extension Agents

Accounting training provided to Village Loan Committees

Additional support services will be necessary to help ensure timely repayments, including training in group formation and group development, and basic training in financial management for both literate and illiterate loan recipients. If FFH/FPAN expands its lending activities to include cottage industry or micro-enterprises, additional training in business management, marketing, and quality control will be necessary.

RLF Program Management

One of the issues raised in the guidelines for this review was whether RLF management strategies should be developed by Davis headquarters or by the field staff. Davis clearly has a

policy role in formulating the appropriate use of program monies. Management approaches, however, could differ from country to country. In Nepal, for example, a RLF model that uses guarantees against loans made from existing banking institutions would be unmanageable, because the loans are too small to attract such cooperation, and there are few banks to service the FFH target group. In addition, Nepal's geography creates transportation and other infrastructure problems that might be more easily overcome in other countries. Because FFH works with indigenous institutions, program structure and management will also differ from country to country. In summary, it seems appropriate that FFH should foster RLF management strategies that speak to the needs of the particular environment.

In Nepal, a group-based lending strategy is being tried, and also seems to be the most appropriate. Since loan amounts are very small, the use of groups can reduce management costs. This requires effort to develop the groups, but the medium to longer term benefits are potentially great.

Management strategies need to focus on how to develop the mechanisms for successful lending. Because FFH does not go into a region with the intention of becoming a permanent institution, skills and technology transfer are imperative in their programs. Currently, FFH is giving out loans; efforts should begin immediately to strengthen the ability of RLF groups, local banking institutions, and others to provide a viable service to the people of Sindulpalchok.

The lack of loan information during the review suggests the need for strengthening accounting and project information systems. A new accountant has been hired for the FFH/FPAN project, and some improvements are being made. This may be an opportunity for FFH Davis to provide some training or technical assistance. Specifically, a "cost centering" practice should be

adopted in which costs, including salaries, are monitored for each program. Cost-effectiveness analysis would be easier, and management would be able to track project performance over time.

CONCLUSIONS AND RECOMMENDATIONS

The Applied Nutrition Program in the Sindulpalchok District is among Freedom From Hunger's most recent international projects. A good deal of the staff's time and energy is channeled into such matters as setting up the office, becoming acquainted with target area needs and potentials, working out logistic and administrative problems (which abound in Nepal due to its geography), and determining a development strategy that is consistent with the objectives of both FFH and FPAN. Any analysis of the current program should not underestimate the importance of these duties and their tendency to distract attention from project activities.

Any analysis should also recognize the significant economic constraints on development in the Sindulpalchok District. It is a poor region, and peoples' incomes are low and generally seasonal. This makes it difficult for them to pay for goods and services beyond their traditional spending patterns. The objective of the RLF scheme is, however, to encourage them to pay for FFH services.

[It is interesting to note, however, that based on our survey results, those interviewed had annual incomes ranging from

\$57 to \$476, with a mean average of \$171. This does not compare with the annual per capita income for Nepal reported in FFH's 1984 proposal to PACT of \$110. The accuracy of the incomes reported during the survey needs further research; it suggests larger than expected incomes, and the potential for increasing current levels. The largest income reported, for example, was from a family that made carpets to sell in Kathmandu.]

Several problems need to be addressed in making the revolving loan fund scheme viable. First, the FFH/FPAN program needs a clearer policy objective that supports income generation as a goal. The staff in Nepal made it clear that their objective was to improve nutrition and health, not increase incomes. Some even objected to increasing incomes as a goal because they felt that the additional money would be wasted on inessential consumer items.

Without income generation as an objective, it is difficult to develop a strategy for re-capitalization of the fund based on loan repayments. The program is currently providing in-kind loans for items which might not ordinarily be purchased, therefore straining the recipient's already tight cash-flow situation. Ideally and practically, the loans should be justified on the grounds of either income generation or income savings.

Second, the program needs a clearer strategy for designing and implementing the RLF program. Such a strategy should include some needs assessment such as marketing surveys; analysis of credit institutions, government policy, and capital market constraints; evaluation of skilled and unskilled labor supplies in the region; and surveys of production sectors (agriculture, cottage industries, manufacturing). Undertaking some of this strategic analysis can save time in the design and implementation of the fund, and avoid the costs of trial and error.

The absence of such a strategy might be accounted for by the fact that the FFH program does not have income generation and enterprise development as explicit objectives. The strategic areas just mentioned are more commonly associated with small- and micro-enterprise development, or more basic income-generating projects. However, adopting income generation as a goal will help make objectives and performance criteria clearer in administering the RLF program.

Third, more emphasis needs to be placed on developing the capacity of recipients to manage their loans. The lack of this ability may be the result of making loans not to generate income but to encourage consumption of nutritious foods; since the money is not for either investment or working capital, the need for financial management training is less apparent. Such training should be introduced, however, and perhaps incorporated into basic literacy programs.

Fourth, the selection criteria for loan recipients need to be developed further. The current group approach, if strengthened, can serve as a good vehicle for screening applications and enforcing repayments. Members should also be encouraged to suggest loan projects; these of course will need to be evaluated in light of local economic conditions, and will need some reasonable upper limit.

Fifth, the program should adopt some clear criteria for measuring cost effectiveness and impact. This requires improving accounting systems to track the costs -- salaries as well as direct costs -- of running the program, and to track loan portfolio performance. RLF groups should be trained to take on these management responsibilities for their groups.

APPENDIX A

RULES OF NEPAL REVOLVING FUND APPLIED NUTRITION PROGRAMME

Introduction

The Revolving Fund (RF) is one of the components of different interventions implemented by the Applied Nutrition Program, (ANP) sponsored jointly by the Freedom From Hunger Foundation and the Family Planning Association of Nepal. The rules and regulations of the Fund are as follows:

Aims

To continue the integrated Nutrition Program for people by people.

To make the people self-reliant in that area.

To make loans available to low income people suffering from malnutrition so that they can grow nutrient food to fight against malnutrition.

Loan Committee/RF Execution Committee

There will be a Ward Level Loan Committee/Fund Committee in each ward.

The following will be the members in the committee.

- Ward Chairman
- Female Volunteer

- Ward Committee member
- One low income person
- One local influential person
- One social worker and one from ANP

Criteria for Loanee

1. Should be low income person.
2. Affected by malnutrition.
3. Local resident of that panchayat.
4. Without any conviction.
5. Should have faith and cooperative attitude in the ANP.
6. Should strictly follow the rules of RF.
7. Agreed to pay raising amount.
8. Must have children.
9. Should be honest and hard working.

Duties and Responsibility of Loan Committee

1. Committee must organize two meetings every month.
2. Must examine the request of the loanee.
3. Avail loan timely to the loanee.
4. Weekly progress sheet must be obtained from loanee.
5. Any problem of loanee must be reported to the ANP within a week.
6. To recoup the loan amount if not paid back in time with the help of local Administration.
7. To implement loanee's project from ANP.
8. To acquire necessary technical help from ANP to implement the project of the loanee.

Duration

Members of this loan committee will serve one year from the

date of its organization. The membership will be reviewed every year.

Condition to be followed by loanee

1. With the loan application, the loanee has to furnish the proposed project in the project form.
2. Loanee should be an ordinary member of this committee and must pay _____ as a membership fee.
3. Must follow the rules of the loan committee.
4. Fund must be spent on the project agreed to.
5. Loan must be paid back on installment.
6. Loan must be paid back along with the interest.
7. One month additional time will be provided to the loanee who could not pay back in time; after that it will be canceled.
8. Loanee must report progress to this committee once a week or fortnightly.

Rate of interest

Interest rate on the loan amount will be 5 percent.

Pay back

On the specified date the loanee can return the loan amount either in cash or in kind.

Natural disaster

If the project fails due to natural disaster, the loanee should inform this committee or Tipeni ANP office within three days.

Loan pardon

Except due to natural calamities causing the failure of the project, loanee must pay back the loan.

Preference

Preference on sanction of loan will be given to those loanees who have faith and interes in ANP. But the loanee must also fulfill the other requirements mentioned above.

Amendment

During the course of time if any amendment needs to be made in the rules of Revolving Fund, it will be done after consultation with the committee and approval by the ANP office in Tipeni.

APPLICATION FORM

NAME _____ ADDRESS _____

Family Size _____ Male _____ Female _____

Number of Children: Male _____ Female _____

Occupation _____

Present Income _____

Age _____

Father's Name _____

Sir,

Please approve my project and sanction the loan amount which will help me to raise the living standard of my family. I also hereby agree to follow the rules and regulations of the committee.

Date: _____

Signature: _____

PROJECT FORM

1. Name of the Project.
2. What is the aim?
3. What will you do?
 - 1.
 - 2.
 - 3.
 - 4.
4. How will you do it?
 - 1.
 - 2.
 - 3.
 - 4.
5. When will you do it?
 - 1.
 - 2.
 - 3.
 - 4.

Starting Date _____ Ending Date _____
6. What kind of help
 - A) Cash _____
 - B) In Kind _____
7. What is the achievement?
 - 1.
 - 2.
 - 3.
 - 4.
8. Other help _____

APPENDIX B

SURVEY OF NEPAL FREEDOM FROM HUNGER FOUNDATION
APPLIED NUTRITION CREDIT PROGRAM BENEFICIARIES

1. Name:
2. Location:
3. Size of family:
4. Level of education:
5. Source(s) and estimated amount of income. (List type of activity, e.g., farming, daily laborer, buy/sell, business, etc.)

<u>Activity</u>	<u>Estimated Annual Income</u>
_____	_____
_____	_____
_____	_____

6. If farmer:
Size of landholding: _____
Number of livestock:
cows: _____
goats: _____
poultry: _____
other (name): _____

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7. Description of assistance received from FFH:

(THE FOLLOWING QUESTIONS PERTAIN TO THE
LOAN RECEIVED FROM FFH)

8. What type of loan did you receive from FFH?

A. Cash _____

<u>Amount(s)</u>	<u>Purpose</u>	<u>Received</u>	<u>Due Date</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

B. Kind _____

<u>Item(s)</u>	<u>Estimated Value</u>	<u>Date Received</u>	<u>Due Date</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

9. What is/were the terms of repayment?

A. To be repaid in one lump sum _____. If yes:

Due date (month/year): _____

B. To be repaid on a scheduled basis _____. If yes:

<u>Schedule</u>	<u>Amount</u>
_____	_____
_____	_____
_____	_____
_____	_____

10. Have you repaid all or part of the loan?

All _____ Part _____

<u>Date of Payment(s)</u>	<u>Amount</u>
_____	_____
_____	_____
_____	_____
_____	_____

THE FOLLOWING QUESTIONS HAVE TO DO WITH THE ACTIVITY/BUSINESS FOR WHICH THE LOAN WAS USED.)

11. How much time do you and/or your family members spend on the activity for which the loan was used? (Hours per day or days per week for each person):

12. Do you hire any labor for the activity?

13. If yes, how many people and how much do you pay them per day or week?

14. Do you or will you sell the goods you produce with the loan, or are they for your consumption only?

Sell all _____ Sell part _____

Consume all _____

15. If you sell part of the goods, where is the market located? (distance)

16. How much will you sell them for?

17. When will you sell them?

18. What non-labor items are necessary for this activity, and what are their values? (list)

<u>Equipment/Machinery</u>	<u>Value</u>
_____	_____
_____	_____
_____	_____

<u>Inputs (e.g., feed, supplies)</u>	<u>Cost</u>	<u>How often purchased</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

19. Do you have any transportation costs, e.g., going to the market or paying for delivery of inputs? How much?
20. Have you faced any problems in this activity? Describe.
21. Besides the loan, what other types of assistance has FFH provided you for this activity?
22. If you were to receive another loan, how would you choose to use it?

APPENDIX C

ISSUES FOR THE INTER-PROGRAM CREDIT SYSTEMS ASSESSMENT

(The following is summarized from Jeff Ashe's
May 13 Memo to FFH of the same title.)

Strategic Issues

- . How does credit extension fit in with the ANP strategy?
- . Is credit a) needed, b) appropriate, and c) effective?
- . What are the objectives for extending credit?
- . Who is being assisted through the RLF program?
- . What kinds of economic activities are being encouraged?

The Credit Delivery System (Model)

- . Is the RLF mechanism appropriate and effective?
- . How was the model selected?

Program Sustainability

- . What are the costs of the RLF program?
- . How many loans are repaid?
- . What are interest charges and fees?
- . How many borrowers does each staff member supervise?
- . What is the potential for expanding the program?
- . What linkages exist with other institutions?

The Need for Credit

- . How much credit do the borrowers need?
- . What is the potential demand for credit?
- . What services need to be provided in addition to credit?

Program Management Issues

- . Should FFH Davis develop a management system, or should this be left to the field?
- . What kind of information systems are needed?
- . What are appropriate performance criteria?
- . How can "learning from experience" and experimentation be built into the model?

The Impact of Credit

- . Has the RLF lead to increased household consumption of more sales, more income, and increased employment?
- . Have health and nutrition improved?
- . Has there been a positive social impact?

APPENDIX D

SUMMARY OF FIELD SURVEYS

The following tables summarize information gathered through the 28 field surveys conducted in Sindupalchok by the Freedom From Hunger Family Planning Association of Nepal Staff. These surveys were conducted in four wards, one ward per staff person; the ARIES consultant accompanied one of the interviewers. The wards included in the survey were: Thangpaldhap Ward No. 6, Banskherka Ward No. 6, Lagarche Ward No. 5, and a fourth ward in Bhotenamlang.

In cases where not all families surveyed responded to a specific question, the total number of responses is noted at the bottom of the table.

Table D-1. Family Size of Loan Participants

	<u>Number of Members</u>
Largest Family Reported:	20
Smallest Reported:	2
Average Size Reported:	7

Table D-2. Education Level of Loan Participants

<u>Years of school completed or level of literacy^a</u>	<u>Number of Responses</u>
0 years:	5
2 years:	1
4 years:	6
6 years:	2
Illiterate:	6
Literate:	6
Illiterate, but husband literate:	2

a. Responses varied from reports of literacy or non-literacy, to reported number of school years completed.

Note: if we assume that respondents completing at least 4 years of school are literate, this suggests that 16 families (57 percent) have adult literate males or females in them.

Table D-3: Description of Annual Income Levels
(Rp's)

No. of Respondents	Annual Income Range
8	1,000 - 2,500
11	2,501 - 5,000
3	5,001 - 7,500
1	7,501 - 10,000
Minimum Reported Income:	1,200 Rp
Maximum:	10,000 Rp
Average:	3,606 Rp

Total no. of respondents was 23.

Table D-4. Sources of Income

<u>Activity</u>	<u>Number of families engaged in this activity</u>	<u>Number reporting this as only source</u>
Farming:	20	8
Daily laborer:	6	
Carpets:	3	2
Weaving:	3	
Livestock:	2	
Service:	1	1
Shop:	1	

Note: 16 families reported more than one income source.

Table D-5. Size of Landholdings
(Hectares)

<u>Range (hectares)</u>	<u>Number of respondents</u>	<u>Percent of total</u>
0	0	0 percent
< .50	5	18 percent
.51-1.00	6	21 percent
1.01-1.50	13	46 percent
1.51-2.00	1	4 percent
2.01-2.50	0	0 percent
> 2.5	3	11 percent
Total:	28	100 percent
Smallest reported landholding:		.15 hectares
largest:		5.09 hectares
average:		1.20 hectares



Table D-6: Number and Percentage of Respondents
Owning Various Types of Livestock

Number Owned	Type of Livestock									
	Sheep		Goats		Cows		Buffalo		Bullock	
	Families in this Category	Percentage								
0	21	75%	17	61%	13	46%	17	61%	11	39%
1	2	7%	5	18%	1	4%	4	14%	4	14%
2	1	4%	2	7%	3	11%	5	18%	9	32%
3	1	4%	0	0%	7	25%	2	7%	4	14%
4	3	11%	0	0%	3	11%	0	0%	0	0%
5	0	0%	0	0%	0	0%	0	0%	0	0%
> 5	0	0%	4	14%	1	4%	0	0%	0	0%
Total:	28	100%	28	100%	28	100%	28	100%	28	100%

Table D-7: Summary of Livestock Ownership

Total No. of Livestock Owned	No. of Respondents in This Range	Percentage of Total Respondents in This Range
0	3	11%
1-5	10	36%
6-10	11	39%
10-15	3	11%
15-20	1	4%
> 20	0	0%
Total:	28	100%

Note: Includes all categories from Table D-6: does not include poultry (chickens, ducks).

Table D-8: Summary of Poultry Ownership

(Chickens and Ducks)

Range of No. of Poultry Owned	No. of Respondents in This Range	Percentage of Total Respondents in This Range
0	0	0%
1-5	8	29%
6-10	11	39%
10-15	5	18%
15-20	4	14%
> 20	0	0%
Total:	28	100%

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Table D-9: Annual Production of Grains and Vegetables

(kilograms)

	Grains	Vegetables
Maximum Reported:	8,597	1,000
Minimum Reported:	287	4
Average Reported:	2,867	149

Note: Grains include paddy, wheat, maize, millet, soya and other legumes. Amounts were reported in "muris", which is a volume measurement; therefore, to estimate kilos of production, the total reported was multiplied by the average weight of one muri of paddy and wheat, which is 57.3 kg. A muri of millet weighs significantly more than this (72.665 kg), but the assumption was made that significantly fewer muris of millet or legumes (also heavier by the muri) were produced than paddy, maize, or wheat (a muri of maize = a muri of wheat). The weights reported, therefore, may be slightly understated.

Other Information on the Loan Activity

Labor Inputs

None of the respondents reported hiring outside labor for maintaining the loan activity. The average daily family labor input was reported as 3.14 person-hours for maintaining the loan activity(s). All but two families had received more than one loan; the average number of loans received was three.

Other Inputs

Four families reported providing no other inputs besides labor to their activity. Nine reported using their own locally made products (primarily for chicken and duck feed). Seven reported using chemical fertilizer and six reported using insecticide for maintaining vegetables or other crop loans.

Because of FFH's focus on vegetables, it should be noted that only four of the 17 respondents receiving vegetable loans

reported using insecticide; insect problems were reported by 12 respondents. None reported using chemical fertilizer; six of the 17 reported using "own products", however, which may have included compost.

Marketing Information

Fourteen (50 %) of the respondents reported that they consume all of what they produce from the loan activity. Of those reporting they sold part (fourteen respondents) twelve, or 86%, reported selling eggs; seven, or 25%, reported selling vegetables (including some potatoes).

Four respondents reported selling in their neighborhood; one reported a market distance of one and another of two hour's walk; seven reported a market distances ranging from 4 to 18 kilometers. Eight reported paying porter charges for transportation ranging from 20 to 80 Rps per trip.

Difficulties

Major difficulties reported included:

Lack of irrigation:	8 respondents
Insects:	12 respondents
Poultry disease (primarily chickens, some death of ducks reported):	11 respondents

Some other difficulties were also stated. One respondent reported seed germination problems; one problems with the loan; one reported difficulty in communication and understanding people's attitudes; one a need for additional technical assistance; another potato rot; one reported no problems.

Other Loan Requests

Responses to the question "If you were to receive another loan, how would you choose to use it?" appear in Table D-10. Greatest interest was expressed in small livestock (goats and sheep); 11 respondents wanted loans for this purpose. Second greatest interest (six respondents) was expressed in carpet weaving.

Table D-10: Interest in Additional Loans

Respondent No.	Loan Activity
1	No response.
2	Depends on type of loan; would like to discuss with loan committee
3	No response.
4	Depends on type of loan
5	Depends on type of loan
6	Depends on type of loan
7	Stud goat for upgrading the local goat herd
8	Improved goat variety
9	Fruit saplings, livestock (goats, buffalo, chickens, cows), fodder
10	Ducklings, rabbits
11	Improved goats, fruit saplings
12	Fruit sapling, veterinary medicines, improved goats and bulls
13	Improved seeds, improved goats, utensils, beehives, fruit saplings
14	Beekeeping, improved goats, bulls, utensils, pasture development
15	Sheep
16	Sheep
17	Not sure
18	Does not want another loan: no time to care for projects
19	Does not want another loan
20	Sheep
21	Buffalo
22	Carpet weaving
23	Carpet weaving
24	Carpet weaving
25	Carpet weaving
26	Carpet weaving
27	Livestock (goats and buffalo)
28	Carpet weaving