Savings for Empowerment

An assessment of six CARE related savings and credit groups in Nepal and recommendations for improvements

For CARE Nepal and CARE Denmark

Financed by the FAHU Foundation

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Executive Summary

The main purpose of this project is to outline recommendations to improve and expand CARE related savings and credit groups in Nepal, to the benefit of the poor and marginalized people. The point of departure is the "Village Savings and Loan Model" (VS&L), while the analysis is primarily based on the assessment of six different savings and credit groups in Nepal.

Within the last ten years, microfinance has become one of the most expanding and public discussed tools against poverty around the world. It began to show up more than three decades ago, but gained considerable public attention after the first world comprehensive Microcredit Summit in Washington 1997. It is estimated that the number of formal microfinance institutions has grown dramatically from 618 in 1997 to 3,316 in 2006. In total, the microfinance institutions have reached 133 million clients with credit, savings- and other financial services. Assuming five persons per family, more than 600 million people are now benefiting of the new possibilities to generate income, get empowered and resist emergencies as fire, death, climatic incidents etc.

Many consider this expansion as a promising development, due to the fact that more than 40 percent of the world's population still has less to live for than USD 2 per day. Others will disagree because of scaring evidence that some commercial Microfinance investors have shown to be less focused on helping the poor than maximizing their profit by giving the poor too much credit. Originally, microfinance evolved as an alternative form of finance to poor and marginalized people who was held out from the formal financial system. Now microfinance is becoming more and more commercial and international banks and pension funds are investing in microfinance institutions in a very large scale.

However, to evaluate whether the present microfinance expansion is desirable, one has to distinguish between at least three different forms of microfinance: Specialized microfinance institutions focusing on credit; integrated development projects with credit components and self helped savings and credit groups. According to the microfinance organisation C-GAP, it can be shown that microfinance projects tend to fail when credits are financed by an early injection of external funds from donors or governments. And that success tends to correlate with the quality of external non-financial support and facilitation for the groups.

About 31 percent of Nepal's population lives below the poverty line. To help these people, formal microfinance emerged in Nepal for the first time in 1956, when cooperatives started providing savings and micro credit services to their members. Today, four main types of formal Microfinance institutions are present in Nepal: Savings and credit Cooperatives (SCC or SACCO), Small Farmers Cooperatives Limited (SFCLs), Financial Intermediary NGOs (FI-NGOs) and Microfinance Development Banks (MDBs). However, most of the poor are still served by thousands of savings and credit groups in the informal microfinance system.

Although microfinance in Nepal has expanded significantly the last ten years, there is still much to be done. Formal Microfinance Institutions have reached less than 40 percent of the poor Nepali households and less than10 percent in rural and remote areas in the mountains and inaccessible hills. Many of the 900.000 households linked to the formal microfinance sector and the 1.3 million in the informal savings and credit groups are not content with their situation. Some because they are caught in a debt-trap due to too much credit. Others because their savings and credit group is about to collapse due to the lack of competence and external facilitation.

This analysis shows that CARE can make a significant difference, by implementing a new focused microfinance strategy of facilitating self helped savings and credit groups in Nepal in a larger scale than today. The most significant need is to reach the poorest and marginalised people, living in the mountains and inaccessible hills.

Eight out of the 24 current CARE Nepal development projects include microfinance and/or savings and credit components. To our knowledge, CARE is not involved in other microfinance projects in Nepal. The organisation has not yet, as in Africa, aimed to scale up the distribution of basic financial services to poor Nepali people, by facilitating groups and projects, where savings and credit is the main focus.

A large part of the microfinance and/or savings and credit projects initiated by CARE and other promoters in Nepal have failed. Out of the original 48 savings and credit groups initiated by CARE in the Syangja district about five years ago, only 10 groups still exist in 2008. Hence, 38 groups have either collapsed or merged into larger cooperatives and groups. After the establishing of seven new groups, the project now consists of 17 savings and credit groups in different forms of which five are cooperatives. CARE has neither a formal strategy nor an operational model for microfinance and/or savings and credit groups in Nepal. Actually, we have not found any indication of such an official policy or methodology regarding microfinance provided by CARE International, CARE Nepal or CARE Denmark. However, when it comes to present practice in the microfinance and development industry, the CARE organisation is closely related to one of the most famous and successful savings and credit models ever, called the “Village Savings & Loan Program (VS&L).

One of the aims of this project has been to recommend a general model for CARE related savings and credit groups in Nepal, based on the international VS&L model and adjusted to Nepali conditions through our assessment of six different savings and credit groups. The assessed groups consists of a Dalit group, a women group and a cooperative group in the Syangja district, two women groups in the Kaski district and one women group in the Chitwan district. Before visiting the groups, we developed a “30-Key-Issues-Model”, in order to structure the VS&L model in a clear way,and to construct an interview guide and a tool to assess and compare the six local projects with the VS&L model as a benchmark for successful international practice. The choice of the VS&L model as a point of departure is well-founded, due to the fact that it is developed by CARE, it has been very successful in many countries, it is self-helped and financial sustainable, it is relatively easy to replicate and it is especially suitable to reach the poorest people in the rural mountains and inaccessible areas of Nepal, where the uncovered need for microfinance services is the largest.

According to our assessments, the main purposes of the six self helped savings and credit groups have been to generate income, to increase household security against emergencies, to empower the members and to prevent them from the exploitation of private moneylenders. The actual results vary in the different groups. However, the general picture is that the groups have created good results when it comes to household security, empowerment and alternatives to the private moneylenders, while the income generation has been more unclear.

Most of the projects are threatened by the lack of external facilitation, internal capacity building and training of local management and members. The groups do not have enough competence in recordkeeping and other elementary savings and credit operations. Thus, many groups could improve by implementing the recommended new version of the VS&L model, adjusted to the particular Nepali conditions.

The adjusted VS&L model should be read as our best recommendations within the 30 key issues of microfinance. It can be used if the local facilitators, leaders and members do not have better ideas. When it comes to other issues and the practical implementation, we refer to the original VS&L model, including the templates for constitution, meeting procedures and reporting in the annexes of this report

In other words, this is our recommendation of "best practice" for self helped savings and credit groups in Nepal, knowing that it can be dangerous to use this term, without emphasizing that no model will be ideal for all situations in all geographical areas.

Thus, in general, the VS&L model would be relevant for all remote geographical parts of Nepal. However it is more relevant for Dalit and women groups than for cooperative groups that have their own rules and regulations.

The common features between the original VS&L model and the adjusted version, which we recommends for Nepal, are mainly the focus on facilitation and training, integration of the poorest, savings rather than external funded credit and the institutionalising of the groups in terms of a written constitution and a general assembly where the local management is elected by the members.

When it comes to the main differences, most groups in Nepal accumulate the saved capital instead of regularly paying it out to the members according to their shareholding of as recommended in the original VS&L model. Here we recommend to continue with the accumulation model, although it could also be relevant to experiment with the out payment model. We see no need for cash boxes with three locks.. There seems to be more members in the savings and credit groups in Nepal as recommended in the original VS&L model Finally, contrarily to the original VS&L model, we recommend a central recordkeeping, measurements of the activity and results, and finally a vision and strategy for how to progress.

When it comes to the practical steps, we recommend a revitalisation of some of the more or less default 38 savings and credit groups in Syangja initiated by CARE as a part of the Upper Andhikhola Watershed Management Project. Our assessments indicate that many of them desperately need skills and knowledge regarding financial operations, record keeping etc. According to CARE's local partner, ASK, it is likely that many of the groups could be rescued by more external facilitation and more training of the local managers and members in savings and credit operations.

The FAHU Foundation has explicitly asked us to recommend an operational project to expand the scope of self helped savings and credit groups in Nepal. Our answer is a proposal of facilitating 300 new and existing savings and credit groups in the Syangja district within three years. It will directly benefit 9.000 poor households and thereby at least 45.000 poor family members. More specifically, the main idea is to hire and train 10 facilitators, two supervisors and one coordinator to help and support the groups to implement the adjusted VS&L model within about one year. Every facilitator is supposed to handle 10 savings and credit projects of 30 members each. At the same time, he or she should monitor some old groups and arrange awareness meetings for others. Total costs for the project in three years can be estimated to Rs. 12,300,000, equal to DKK 945.000 or per year in three years DKK 315.000.

A natural step would also be to improve the existing savings and credit operations in the seven other CARE development projects, where this is a present component. However, to scale up the expansion of savings and credit groups in Nepal to the level as CARE has reached in many African countries, CARE Nepal has to take a decisive strategic decision: We recommend CARE to allow itself to promote specialised savings and credit groups that are not a secondary add on to a general development project, but can develop as a platform for that later. Finally, we also recommend that CARE should use the adjusted VS&L model as a standard guideline for savings and credit groups in future development projects where this is relevant.

List of Acronyms

ASCA	Accumulating Savings and Credit Associations
ASK	Aapasi Sahayog Kendra
C-GAP	The Consultative Group to Assist the Poor
FECOFUN	Federation of Community Forestry Users
FI-NGO	Financial Intermediary Non Governmental Organization
MDB	Microfinance Development Banks
MF	Microfinance
MFI	Microfinance Institution
NGOs	Non-Governmental Organizations
NRUSEC	Nepal Rural Self-Reliance campaign
ROSCA	Rotating Savings and Credit Association
SACCO/SCC	Savings and Credit Cooperative
SFCL	Small Farmers Cooperatives Limited
SHMG	Self helped Microfinance Groups
UNDP	United Nations Development Program
VS&L	Village Savings and Loan Model

Foreword

In November 2007, CARE Denmark was contacted by the Danish FAHU Foundation with an offer to sponsor the expansion and improvement of CARE-related savings and credit groups in Nepal. CARE Denmark's answer was that the support was very welcome. The number of these CARE related groups in Nepal is much less than in Africa; many of the groups have closed down and CARE Nepal has no formal strategy or preferred general model regarding microfinance.

Thus, FAHU and CARE made an agreement to set up the *Saving for Empowerment* project. By assessing six CARE related savings and credit groups in Nepal and comparing them with the successful international VS&L model, the project's purpose is to outline recommendations for: 1) A strategy for the expansion and improvement of CARE-related savings and credit groups, 2) A general model for these self-helped savings and credit groups, and 3) Improvements of the six evaluated projects.

The six savings and credit groups were selected by CARE. After field visits to all projects, the organisation of the projects were assessed and compared with the Village Savings & Loan program, through a *30-Key-Issue-Overview-Model* for Microfinance.

The VS&L model was selected as an international benchmark for different reasons: The model was originally developed and promoted by CARE, it has been very successful in more than twenty countries (according to the microfinance literature), and it is ideal for reaching the ultra-poor in the rural and remote areas with the greatest need for microfinance services. Lastly, the model was recommended as a point of departure by FAHU.

Thus, the objective of the project is not to evaluate which Microfinance model has been shown to be the most successful in Nepal, and nor is it to evaluate the effects of the six savings and credit projects. We also have not had the opportunity to discuss with CARE which microfinance model the organisation would prefer. Hence, our recommendations are based on the VS&L model adjusted to local Nepali circumstances.

The first chapter sets the scene by describing the present international microfinance expansion, discussing the ability of different models to reduce poverty, and analyzing the structure of microfinance in Nepal and relevant CARE strategies and initiatives. It concludes with an outline of a *30-key-issue-overview model* that we have developed to present the VS&L model, as an interview guide for the field visits and for the assessment of the six projects.

Chapter two assesses the six savings and credit projects one by one. *In chapter three,* we outline our recommendations to CARE for the expansion of the savings and credit groups, our proposal for a version of the VS&L model adjusted to Nepal, improvements for the six Nepali projects, and a proposal to a concrete facilitation project in the Syangja district.

Finally *the Annex* contains a description of our methodology, the VS&L guidelines for Constitution, meetings and reporting and the CARE's Consumer Protection Code of Conduct in Microfinance.

Copenhagen, May 2008

CHAPTER 1: INTRODUCTION

1. Microfinance as a tool against poverty

Within the last ten years, microfinance has become one of the most expanding and publicly discussed tools against poverty around the world. After its beginnings more than three decades ago, it has gained considerable public attention after the first world-comprehensive Microcredit Summit in Washington in 1997. The public interest culminated when the UN declared 2005 as the "Year of Micro credit." The following year, Mohamed Yunus was given the Nobel Prize for his foundation of the Grameen Bank, now the world's largest provider of microfinance.

> ***Textbox 1: What is Microfinance?***
>
> *Microfinance can be defined as the provision of financial services as such as credit, savings, and insurance to small enterprises and poor families.*
>
> *Poor people need lump sums of money for different purposes as 1) emergencies (such as health care, fire, climatic incidents) 2)Cycle events (such as funerals, marriage, religious feasts) and 3)Income generation (such as livestock, land, machinery)*

Originally, microfinance evolved as an alternative form of finance to poor and marginalized people that were excluded from the formal financial system. At that time it was primarily driven by NGOs and government-supported institutions with the primary aim of creating better living conditions to the ultra poor. At present, however, microfinance is becoming more and more commercial as international banks and pension funds are investing in microfinance institutions on a very large scale. "Responsible investors"[1] are attracted by the opportunities to contribute to poverty alleviation; at the same time, they get an attractive and stable financial return. Microfinance is a vehicle for this, due to low credit default rates, low correlation to the mainstream financial assets in other countries and the opportunity to do "bottom of the pyramid business".[2]

The number of formal microfinance institutions has grown dramatically from 618 in 1997 to an estimated 3,316 in 2006. They are distributed as follows: 1,677 in Asia and the Pacific, 970 in Sub-Saharan Africa and 579 in Latin America and the Caribbean. (Microcredit Summit Campaign Report 2007)

Microfinance institutions have reached a total of 113 million clients with credit, savings, and other financial services. If we assume five persons per family, more than 600 million people are now benefiting from the new possibilities to generate income and overcome misfortunes such as fire, death, and climatic incidents. Eighty-four percent of microfinance clients are women and 70 percent can be characterized as poor.(Microcredit Summit Campaign Report 2007).

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[1] Institutional Investors including environmental-, social-, business ethical- and corporate governance issues in their investments

[2] A new concept about business on emerging markets, introduced in the book "The Fortune at the bottom of the Pyramid" by C.K. Prahlad 2006

The total volume of microfinance loans has risen sharply from an estimated USD 4 billion in 2001 to around USD 25 billion in 2006. The trend is also reflected in the volume of institutional and individual investments in microfinance institutions that has more than doubled from USD 1.7 billion in 2004 to around USD 4.4 billion in 2006. (Deutsche Bank 2007)

Deutsche Bank estimates that the amount of investment in Microfinance will increase by more than 500 percent to about USD 25 billion in 2015.

Some consider this as a very promising development, due to the fact that more than 40 percent of the world's population still lives on less than USD 2 per day, and, according to the World Bank, around 1.1 billion people live in extreme poverty of less than USD 1 a day. Others disagree because they have seen plenty of evidence that commercial investors are less focused on helping the poor and more on maximizing their profit by exploiting their poor clients by giving them too much credit.

Table 1: Microfinance Institutions and their clients

	Number of MFI	Number of clients	*Number of poor*
1997	618	13,478,797	*7,600,000*
1998	925	20,938,899	*12,221,918*
1999	1,065	23,555,689	*13,779,872*
2000	1,567	30,681,107	*19,327,451*
2001	2,186	54,932,235	*26,878,332*
2002	2,572	67,606,080	*41,595,778*
2003	2,931	80,868,343	*54,785433*
2004	3,164	92,270,289	*66,614,871*
2005	3,133	113,261,390	*81,949,036*
2006	3,316	133,030,913	*92,922,574*

Source: State of The Microcredit Summit campaign Report, 2007

However, to evaluate the fundamental question of whether the present microfinance expansion is desirable, we have to distinguish between the different forms of microfinance. A distinction is often made between three main delivery models for formal and informal microfinance:

- **Specialized microfinance institutions (MFI):** These institutions are organized by banks, cooperatives, governance institutions, and NGOs. Their primary activity is to offer financial services to members and clients on market conditions. They normally focus on financial measures rather than social mobilization and on credit rather than savings. Often, they are not allowed to collect savings.

- **Integrated projects with credit components**: Microfinance is often integrated as a component in general development projects, organized by NGOs or public donors. They normally focus on social mobilization and empowerment rather than on financial measures. They frequently subsidize the credit given by gifts or reduced interest rates.
- **Savings and credit groups:** The most common form of microfinance is informal savings and credit groups, which have become widespread throughout the centuries in different variations all over the world. In some African countries they are present in nearly all villages. They focus mostly on savings and seldom of externally funded credit. They have different names as Merry Go round in Kenya and Cadenas in Ecuador. The most known is the ***Rotating Savings and Credit Associations (ROSCAs),*** which are traditional people-owned and self-helped groups of 10-30 members. Normally they meet every week or month collecting a fixed and mandatory savings amount. The money is immediately lent out to the members in a rotation-arrangement, until everybody has had a chance. Another model is the **Accumulating Savings and Credit Associations (ASCAs),** which do not distribute all the money for credit, and therefore can be more flexible. Finally **Self Helped Microfinance groups (SHMGs)** are similar to ROSCAs, but are promoted and facilitated by external NGOs, governments, and the like.

When analyzing the amount of microfinance, many tend to forget these informal savings and credit groups because they often don't have personnel and links to the external financial system.

An alternative to the formal and informal microfinance institutions and savings and credit groups is to borrow money from private moneylenders. They are present in every village, charging very high interests, often more than 100 percent per year.

In general, the advantages of microfinance are: 1) it generates more income 2) it helps deal with emergencies and economic hindrances 3) it enables members to become less dependent of private moneylenders and 4) it can empower members by training, economic reserves and self esteem.

The microfinance sector is also marked by problems and disadvantages for the people that it was meant for. The main problems are: 1) Many poor and marginalized people are exploited by greedy or non-professional microfinance institutions that push them to more credit than they can pay back, ensnaring them in debt. 2) Microfinance services often do not reach the ultra poor and people in the rural and remote areas with low population density, because it is not profitable.

This has lead to a lot of discussions in the microfinance sector and literature about which model NGOs and donors should promote in different situations. Often the debates centre on the advantages and disadvantages of formal microfinance institutions, with focus on external credit, compared to informal self-helped savings and credit groups with focus on savings – at least in the first one year or two.

Many distinguish between 1) the provider model, where a professional, specialized microfinance institution with a professional staff delivers loans, deposit facilities, and the like; and 2) the promoter model, where communities are taught how to organize themselves without professional staff. Most donor support for microfinance goes to the provider model and thereby to the specialized microfinance institutions. However, there is no reliable estimate of the amount of donor funding that goes to the different savings and credit groups. (Rutherford 1999)

The advocates of externally funded microfinance institutions say that externally funded credit is the only way to improve the possibilities for income generation within a foreseeable future. They are often professional organisations with a relatively large and effective staff focused on financial issues. By linking to the financial system, they can offer more sophisticated products to members, such as flexible savings, long-term loans, insurance, and money transfer.

On the other hand, one of the problems regarding externally funded microfinance institutions is that they provide credit to people who can not pay the money back due to failed plans of income generation. Others are not willing to pay back, because they consider the credit as a kind of gift. Often, microfinance institutions financed by international commercial institutions live with high costs and ambitions of profitability. Thus, they focus on the low-hanging fruits and avoid expanding their business to the ultra poor and rural and remote areas.

Advocates of informal, self-helped savings and credit groups emphasize their abilities to empower the members and create platforms for social mobilisation and other development activities. By mandatory savings and the subsequent credit possibilities, they build up the right background to handle external loans after about two years. The groups are led by local people and can be run at low costs by transferring most of the managing functions to the savers themselves. The money and interests paid is not drained out of the local community. And due to the simple model and cost efficiency, it is easy to replicate, even among the ultra poor and in rural and remote areas.

On the other hand, although the savings and credit groups are called “self-helped,” they are very dependent on persistent facilitation and training provided by external NGOs and other organisations. Many groups become failures due to the lack of skills in handling the financial and bookkeeping operations. As the credit is based on often minor savings among members, it takes a very long time to accumulate the amount of money that is needed for larger income generation projects.

One of the problems of integrated projects with microfinance components is that the members often think of the microcredit as gifts; they don’t pay back the credit. Another problem is that many different development components often mean a lack of focus on each of them. Thus, the microfinance component fails due to the lack of focus and facilitation from the promoting organisation.

In March 2006, C-GAP published the results of an evaluation of 60 community-managed loan funds funded by 23 agencies between 1990 and 2005. The main conclusion was that when credits are financed by an early injection of external funds from donors or governments, the projects appeared to fail. Only one out of 20 evaluated external funded projects was successful. (C-Gap 2006)

On the other hand, the funds are often successful when loans are financed by members’ own savings and there is either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings. When groups start by collecting and then lending their members’ own savings, but subsequently receive large loans from a bank that is serious about collection, performance is mixed. (C-Gap 2006)

According to C-GAP, the clearest pattern that emerges is that success tends to correlate with the quality of external non-financial support and facilitation for the groups, including standardized products and norms, training, help with member acquisition and retention, bookkeeping and administration, and in some cases, direct authoritative supervision of the group's operations. (C-Gap 2006)

According to the C-GAP-report, the main reason that externally funded projects fail is the members' distinction between "hot and cold money": "Capital generated through local savings feels hot because it comes from one's neighbours. Defaulting on loans that are savings based feels like stealing from neighbours, with the result that borrowers are more likely to take repayment seriously."

Thus, C-GAP recommends the following strategy: The bank linkage seems to work best if it is delayed until the groups have gone through several preparatory stages. The first stage is building social capital. The SHG needs leadership, trust among members, and training on group management, collection methods, recordkeeping and other topics. The second stage is building internal capital through savings. Regular deposits test and demonstrate each member's ability to make loan payments at a later point. The third stage is financial intermediation, when the group members lend out their savings internally and collect loans with interest. External support is important at this stage, because recordkeeping becomes complex and enforcement of rules becomes more challenging. After groups have enough experience successfully repaying loans from their own savings, they can handle a bank loan with less risk, as long as they do not commit to payments that are larger than they can handle…….."Linkage to formal credit services can provide permanent and sustainable access to financial services." (C-Gap 2006)

Nevertheless, microfinance tends to be transformed into a more commercial business proved to be profitable, maintaining its original social objective. It creates volume and growth in the sector. However, there is also evidence of exploitation of clients, who are most of the time illiterate, vulnerable and very poor. One example that has been much criticized is the public offering of a major microfinance institution in Mexico.

Textbox 2: Top five MFI by number of borrowers

1. Grameen Bank 6,287,000

2. ASA 5,163,270

3. VBSP 4,695,986

4. BRAC 4,550,855

5.BRI 3,455,894

Source: State of The Microcredit Summit campaign Report, 2007

In April 2007, Compartamos launched an initial public offering (IPO) in which 30 percent of the institution was sold to investors. The IPO netted some $450 million for its initial investors and valued the company at some $1.4 billion. Nobel Peace Prize Laureate Muhammad Yunus stated: *"I am shocked by the news. Microcredit should be about helping the poor to get out of poverty by protecting them from the moneylenders, not creating new ones…... There is no justification for interest rates in the range of 100 percent"*

Other future trends within the microfinance industry could be more sophisticated financial services, such as insurance and international money transfers. We will probably also see the use of more information and communication technology, which will provide better and cheaper opportunities to reach the rural and remote areas.

2. Poverty and microfinance in Nepal

Nepal is one of the 14 least developed countries in the Asia Pacific region and one of the poorest countries in South Asia with a per capita GNI of USD 260. Most people are subsistence farmers, just managing to feed their families and sell a small surplus to buy a few things such as clothes, salt and tea.

About 31 percent of Nepal's population lives below the poverty line (CBB/World Bank 2005). This is a significant reduction from 42 percent in 1996; however the target is to reduce the rate to 21 percent in 2015.

More than 90 percent of the poor live in the rural areas and a majority of them live in inaccessible hills and mountainous areas. Most of them have no access to the formal financial system and are left to the private moneylenders who often charge an interest rate of 100 percent per year.

One of the tools against the poverty is microfinance. Formal microfinance emerged in Nepal for the first time in 1956, when cooperatives started providing savings and microcredit services to their members. An official policy that recognized the importance of microfinance came in the Sixth Plan implemented 1980-1985. Today the Nepalese microfinance sector is governed by Bank and Financial Institutions Act 2006, Cooperative Act 1991 and act for NGOs involved in Financial Intermediation 1998.

Four types of formal Microfinance institutions are present in Nepal: Savings and credit Cooperatives (SCC or SACCO), Small Farmers Cooperatives Limited (SFCLs), Financial Intermediary NGOs (FI-NGOs) and Microfinance Development Banks (MDBs). .

However, most of the poor are still served by savings and credit groups in the informal microfinance system. Here we find thousands of community based groups of which some are traditional ROSCAs called *dhikuti, dharma bhakari* and *pharma*. Others are Accumulating Savings and Credit Associations and Self helped savings and credit groups, facilitated and promoted by NGOs and the like. Finally, some groups are integrated in the thousands of rural development programmes with savings and credit components.

Table 2: Number of clients in different Microfinance institutions

	2004	2005	2006	2007
SCC/SACCOs	342,370	393,826	393,826	*403,126*
MDBs	270,030	303,348	353,719	*392,770*
FINGOs	57,818	98,291	159,232	*257,956*
SFCLs	*58,300*	*71,010*	*85,700*	*129,900*

Source: Microfinance Summit 2008 -Kathmandu

Cooperatives (SCCs or SACCOs): Most formal microfinance clients in Nepal (403,126) are served by registered savings and credit cooperatives. Cooperatives are organizations established under the Cooperative Act and allowed to collect deposits from and advance loans to their members only. They are authorized to carry out limited banking activities within their members subject to the prior approval of the Nepal Rastra Bank. According to the Cooperative Act, cooperatives should have at least 25 members, single shareholding is limited to 20 percent, membership is open and voluntary, dividends must not exceed 15 percent, and every member has one vote.

Microfinance Development Banks (MDB) When it comes to volume of credit, the Microfinance Development Banks cover 60 percent of the microfinance market in Nepal. The nine MDBs providing microfinance services replicate the Grameen model in one or another modification**.** The Grameen bank system was introduced in Nepal during 1990s by the central bank establishing five Rural Regional Development Banks, one in each development regions. The prominent MFIs-NGOs replicating Grameen in Nepal are Nirdhan, Swabalamban,Chhimek, DEPROSC, and NRDSC. These five MFIs-NGOs each have promoted Microfinance Development Banks.

Financial Intermediary Non Governmental Organization (FI-NGO) The so-called FI-NGOs have shown the largest relative growth: 346 percent since 2004. A FI-NGO is a non governmental organization registered at District Administration Office under Association Act 2034 and has obtained license as per the Financial Intermediary Act 2055 from Nepal Rastra Bank (Central Bank of Nepal) to carry out microfinance activities. FI-NGO lends amount of a maximum of Rs 60,000 per member of a group of poor people. The groups consist of 4-10 members and lending is based on rules and bylaws within the prescribed geographical working set by the Nepal Rastra Bank.

Small farmers Development Project (SFDP) to Small Farmer Cooperative Limited (SFCL) SFDP was implemented by the Agriculture Development Bank-Nepal in the beginning of 1975. The main objective is to improve the socio-economic condition of small farmers - the rural poor - by providing basic inputs such as credit, technology, training and facilities related to social and community development. SFDP was lending to marginal & small farmers on group basis with or without collateral. Institutional development of SFDP was initiated in 1988 and SPOs were registered as Small Farmer Cooperatives. SFCL has a three-tier structure with small farmer groups consisting of 5 to 10 members at the base, and an inter group and the main committee on the top. SFCLs are affiliated with the Sana Kisan Bikas Bank Ltd (SKBBL).

In 2006, more than 1.1 million Nepali saved money in the formal microfinancial institutions, while nearly 900.000 had credit. However, as some people are served by more than one institution, it is estimated that the formal microfinancial market serves 886,003 savers and 729,869 borrowers. (UNDP 2007)

Although there are microfinance institutions in all 75 Nepali districts, the geographical distribution is unequal due to the remoteness, sparse population, and limited infrastructure and market access. Thus 575,000 or 65 percent of the savers are located in Terai, while only 16.000 or less than two percent of the savings clients live in the mountains. SFCLs, MBDs and FI-NGOs provide no financial service activities to those in the mountains and a very small amount of activities to those in the inaccessible hills. The community based cooperatives are more equally distributed in the different area. (UNDP 2007)
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The same picture appears when it comes to microcredits. Despite the huge market for microfinance, the outreach of microfinance services is still low and ensuring the access to microfinance services to people living in remote areas is a challenge in Nepal. Nevertheless, Nepal has established a system where providers of microcredit can obtain wholesale loans from commercial banks and other financial institutions. Actually, this means that there is capital enough

to expand the microfinance to more poor people. What are needed are microfinance institutions and groups to administrate the funds.

Table 3: Distribution of Microfinance Savings Clients 2006

Areas	Total Savings clients	Community Based		Commercial			*Total Savings Clients (Adjusted)*
		SCCs	SFCLs	CBs	MDBs	FI-NGOs	
Mountains	17,676	13,320	0	4,356	0	0	*16,792*
Inaccessible hills	47,716	30,789	1,400	11,088	3,248	1,191	*43,422*
Accessible hills	294,119	160,347	26,838	39,458	45,486	21,990	*250,001*
Terai	767,718	184,883	88,947	72,557	304,985	116,346	*575,789*
Total	*1,127,229*	*389,339*	*117,185*	*127,459*	*353,719*	*139,527*	*886,003*

Source: UNDP: Towards Expanding the Frontier of Microfinance Services in Nepal

According to UNDP, the Nepali population consists of 4,840,703 households. About 50 percent or 2,405,889 households are poor and vulnerable and thus have a potential need for microfinance services. Based on this assumption, the microfinance institutions have until now reached out to 37 percent of the potential clients with savings and to 30 percent with loans.

Table 4: Distribution of Microfinance Loan Clients 2006

Areas	Total loan clients	Community based		Commercial			*Total loan clients (Adjusted)*
		SCCs	SFCLs	CBs	MDBs	FI-NGOs	
Mountains	12,681	8,325	0	4,356	0	0	*12,174*
Inaccessible hills	35,083	18,908	1,400	11,088	2,740	947	*32,978*
Accessible hills	220,283	98,136	26,838	39,458	38,076	17,775	*191,646*
Terai	624,141	113,750	88,947	72,557	254,841	94,046	*493,071*
Total	*892,188*	*239,119*	*117,185*	*127,459*	*295,657*	*112,768*	*729,869*

Source: UNDP: Towards Expanding the Frontier of Microfinance Services in Nepal

In other words, there is still an unsatisfied need for about 60-70 percent of the poor and vulnerable people in Nepal. However, while the microfinance coverage is 66 percent in Terai, it is limited to 6 percent in the Mountains and nine percent in the inaccessible hills.

Table 5: Market for Microfinance and penetration 2006

	Market for Microfinance			Total Clients Served		*Market Penetration pct.*	
	Total HHs	HHs potential for MF services	Pct. of potential HHs	Savings clients	Loan clients	Savings Services	*Loan Services*
Mountains	331,918	296,403	89.3	16,792	12,174	5.7	*4.1*
Inaccessible hills	702,268	485,267	69.1	43,422	32,978	8.9	*6.8*
Accessible hills	1,551,644	750,220	48.4	250,001	191,646	33.3	*25.5*
Terai	2,254,900	873,999	38.8	575,789	493,071	65.9	*56.4*
Total	*4,840,703*	*2,405,889*	*49.7*	*886,003*	*729,869*	*36.8*	*30.3*

Source: UNDP: Towards Expanding the Frontier of Microfinance Services in Nepal

Thus, although the growth in microfinance activity has been very high the last five to ten years, more than 90 percent of the very poor people in the mountains have not been reached yet. The low outreach or market penetration in remote areas is attributable to difficulties in reaching a minimum number of clients per Microfinance Institution, due to a low population density and a high poverty incidence. In addition the more commercial microfinance Institutions focus the expansion of their services in urban and densely populated areas. The existing cost structure limits the expansion of the commercial MFIs especially. Across the Microfinance Institutions, cost per borrowers is highest in MBDs and lowest in SFCLs. FINGOs and SCC rank in the middle.

In addition to the nearly 900.000 people served by the formal microfinance institutions, 1.3 million people are serviced by more than 55.000 informal savings and credit groups promoted by government and NGOs, according to UNDP. These groups are present in most villages in Nepal. However, many of them are not functioning well, due to the lack of skills and facilitation.

Table 6: Cost per Borrowers (Rs.) across Delivery units

	SCGs	SCCs	SFCLs	MDBs	*FI-NGOs*
Mountains	-	518	-	-	-
Inaccessible hills	-	497	203	1,953	*1,344*
Accessible hills	-	448	217	1,652	*931*
Terai	-	406	280	1,281	*686*
Total	-	*486*	*293*	*1,542*	*987*

Source: UNDP: Towards Expanding the Frontier of Microfinance Services in Nepal

UNDP concludes that the key microfinance actors are located at the frontier of microfinance services. Thus, a strategy to strengthening existing microfinance Institutions and helping the thousands of savings and credit groups reach their full potential is needed to expand the microfinance services in remote areas. (UNDP 2007)

One of the most famous microfinance projects is Pact's Women's Empowerment Program (WEP) in rural Nepal. In one year, the program reached 6.500 savings and credit groups comprising 130.000 women in rual Nepal. With a grant of USD 5.2 million, the program provided literacy, empowerment, and savings and credit training to 130,000 women at an average cost of USD 40 per member for over four years. Roughly, one third of the grant covered overhead and management support from Pact's US headquarters. (ASHE 2002)

In February 2008, the first Nepali Microfinance Summit was held in Kathmandu. In a speech, the Minister of Finance, Dr Ram Sharan Mahat stated that the government is committed to promoting microcredit as an effective tool in the fight against poverty. He assured that the government would help to spread microcredit "to every nook and corner" of the country for sustainable socioeconomic development. "If there is anything that has been vital in the sustainable socioeconomic development of poor countries, it is the contribution of the microcredit," the Minister of Finance said.

He stressed the need of Microfinance Institutions and concerned development partners to expand their reach and activities to remote villages where the incidence of poverty is very high.

The government is ready to review its tax policy and rate of tax, if Microfinance Institutions and their partners come up with solid programmes to expand their activities solely to the rural parts, he said.

Textbox 3: Conclusions Microfinance Summit in Kathmandu, February 2008:

- MFI has reached to only poor not the ultra poor
- Elite has captured the microfinance services
- Unhealthy competition and duplication of clients
- Concentration of MFIs in Terai districts (plain area)
- Donors support needed to strengthen the institutional capabilities

3. CARE and Microfinance

According to the following project overview, eight out of the 24 current CARE Nepal development projects include microfinance or savings and credit components. To our knowledge, CARE is not involved in other microfinance projects in Nepal. In other words, the organisation has not yet as in Africa tried to scale up the distribution of basic financial services to poor Nepali people by facilitating groups and projects where savings and credit is the main focus.

Table 7: CARE Nepal development projects, January 2008

Project	Date	District coverage	Major focus	Savings and credit component
1. Safe Passage	-	Doti, Dadheldhura, Kailali	EC-CO financing-Improving Livelihood	NO
2. SHAKTI	2008-2012	Chitawan, Makawanpur, Nawalparasi	EC-CO financing-Empowering Women to livelihood	YES
3. EC-CO Financing	-	Gorkha, Dhading, Kapilvastu, Rupandehi	Women and Youth as a pillar of Development	NO
4. SAMADHAN-II -	2007-2008	Doti , Kailali	Community Based Disaster Risk reduction	NO
5. Polio Eradication	2007-2012	Dhanusha, Mahottari, Parsa, Nawalparasi, Rupandhi	-	NO
6. CHULI	-	Mahottari, Dhanusa, Sarlahi	-	YES
7. CRADLE	2007-2011	Doti, Kailali	-	NO
8. WATSAN IV	2007-2008	Doti, Baitadi	-	NO
9. Samanata	2007-2009	Nawalparasi, Kapilbastu, Rupandehi	Promoting Rights and Social Inclusion of Terai Dalit	YES
10. JANASEEP	2007-2011	Dhanusha and Dolakha	Janajatis Social and economic empowerment	YES

			project	
11. SAHABHAGITA	2007-2010	Bajura, Bajhang, Achham, Doti, Kanchanpur, Kailali, Banke, Bardiya, Surkhet, Dang	Gender and Peace Building	NO
12. SAKCHAM	2007-2007	Chitwan, Makwanpur, Sarlahi and Mahottari	Women Empowerment for Transformation	MAY BE
13. Civil Society Strengthening	-	same as SAGUN II	-	NO
14. SAGUN	2007-2008	Kailali, Dhadhing, Bardiya, Banke, Mugu, Dolpa, Gorkha, Lamjhung, Rasuwa, Sindhupalchok, Nuwakot, Taplejung, Sankhuwasabha	Governance in Natural Ressource Management	YES
15. SAEENO	2006-2009	Sunsari, Saptari, (Udaypur-proposed)	Women and natural resources	YES
16. Urban Poverty	2006-2008	Kathmandu Valley and Chitwan	Strengthening CN capacity to address the Urban Poverty Issues through partnership and alliance building	NO
17. SAMADHAN	2006-2007	Mahottari, Dhanusa, Sarlahi	Disaster Risk Reduction	NO
18. PPS Program	2005-2008	Syangja, Bajhang and Bajura	Enhancing livelihood through rebased CSOs strengthening	YES
19. JIWAN Program	2005-2007	Danusha	NRM based non-formal education, social and	NO

			political empowerment	
20. UJYALO Project	2004-2007	Banke, Kailali, Kanchanpur, Doti, Dadheldura, Bardiya, Surkhet, Salyan, Pyuthan, Dang, Lamjung	-	NO
21. Poverty Reduction Doti	2004-2009	Doti District	-	YES
22. ASHA-Program	2004-2007	Doti, Dadeldhura, Bajhang, Bajura, Achham, Pyuthan, Darchula, Kalikot, Gorkha	-	NO
23. Child Survival	- 2007	Doti, Dadeldhura, Bajhang, Kanchanpur	-	NO
24. Polio Eradication	*- 2007*	Dhanusha, Mahottari, Parsa, Nawalparasi	-	*NO*

Source: CARE Nepal

One of the points of departure for this study is the recognition that a large part of the microfinance and savings credit projects initiated by CARE in Nepal have failed. To our knowledge, this can not be documented, because the activities have not yet been registered and evaluated and are therefore not reported externally. However, our assessment of the Syangja projects indicates that the rate of success seems unsatisfactory. In addition, the volume of CARE-initiated microfinance and savings credit groups in Nepal is relatively low, compared with the situation in many countries in Africa.

Another point of departure for the study is that CARE neither has a strategy nor an operational model for microfinance and savings and credit groups in Nepal. Actually, we have not found any indication of an official policy or methodology regarding microfinance provided by CARE International, CARE Nepal or CARE Denmark. This seems to be a deliberate choice.

One of the organisation’s most well-known experts when it comes to microfinance, a previous Chief Technical Advisor for Small Economic Activity Development in Africa, Hugh Allen, stated the following view a few years ago: (Allan 2002)

"…Put simply, CARE has not espoused any particular methodology for microfinance. Its basic position is that circumstances alter cases and that what works fine in a Dhaka slum may fall flat on its face in the Maasai steppes. This is an uncontroversial view and thoroughly explored in CARE's Savings and Credit Sourcebook. While the Savings and Credit Sourcebook suggests the types of operating environment to which one methodology may be better adapted than another, it does not go so far as to state any sort of preference or suggest the clear superiority of any one methodology. Partly this arises from CARE's belief that programme designers should be free to make their own decisions, but it also has to do with the fact that in 1996 neither CARE nor many other multi-methodology practitioners were ready to nail their colours to the mast in the way that ACCION, Grameen, FINCA and others had done around a methodology-of-preference considered to have general applicability."

However, when it comes to present practice in the microfinance and development industry, both CARE and Hugh Allen are very closely related to one of the most famous and successful savings and credit models ever, the Village Savings & Loan Program (VS&L).

In 1991, CARE began its first Village Savings & Loan program in Niger, Africa. Since then, the savings and credit method has been developed to a very comprehensive and operational methodology, used in more than in twenty countries, mostly in Africa, to the benefit of about 865,000 people.

Textbox 4: Scope of CARE's VS&L model

Afghanistan, Angola, Benin, Burundi, Cote d'Ivoire, Ecuador, Ethiopia, Eritrea, India, Kenya, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, South Africa/ Lesotho, Tanzania, Uganda, Zambia, Zimbabwe.

The basic principle of the Village Savings and Loans system is that 20-30 people form a self-selected group to save money. An external facilitator trains the group and helps them to elect local management and write a constitution. The savings and credit transactions are carried out in a weekly, fortnightly or monthly meeting, where it is compulsory for all members to attend. They often save a very minor amount, say USD 0.10 per week, which is used to purchase shares in a loan fund. From this fund, members can borrow when they need money such as for emergencies and income generation.

To ensure that transactions do not take place outside the meetings, a cashbox with not less than three locks is used. The payback term is very short, and all members have to pay a relatively high interest rate to the common group, allowing the fund to grow. At the end of an agreed period, the accumulated savings are shared out amongst the members in proportion to their savings. After this, every member can decide if she wants to take part in the next cycle.

After a twelve-month facilitation and savings period, the group is autonomous and self-sufficient.

The VS&L groups receive no outside funding; all of the money used for credit comes from members' savings. However, as the groups mature and the members get used to the system, savings and repayment habits, some choose to develop linkages with the formal microfinance system to obtain external funding. (For a closer description of the model see part 1.4 and Annex 3, 4 and 5)

The VS&L model has been praised for several advantages:

- For poor people, facilities for savings are often more needed than credit.

- The groups are autonomous, self-managing and financial sustainable, due to the lack of external funding
- Members, especially the women, are empowered through meeting skills, self-consciousness, and the like
- The practical operations needed to obtain success is described in an operational manual (Annex 3,4,5)
- The cost per member is very low (USD 20 - USD 50), which is approximately 15 percent of the cost to develop a typical micro-finance institution client in Africa. (Allen, Huge 2006)
- Due to the low costs and focus on savings, the VS&L model is especially suitable to be provided to the poorest people in the rural and remote areas.
- The model is easy to replicate. It just requires facilitators with minor training.

The limitations of the model lie in the low level of capitalization that groups can achieve, when it has to be based on their own minimal savings.

We have found several indications that CARE is planning to scale up the distribution of the VS&L model in different countries:

In a newsletter from December 2007, CARE USA states that "….there is tremendous potential both to extend the reach to more poor communities worldwide, and to increase its effectiveness in places where associations are already established." However, the Economic Development Unit at CARE USA realized that achieving both of these aims would require more effective knowledge sharing (KS) and organizational learning. As a result, CARE launched the Building a More Effective Learning Organization (BELO) VS&L Pilot project to facilitate rapid, accurate, and reiterative knowledge sharing among VS&L microfinance programs. (www.edu.care.org)

Box 5: Linkage to formal financial institutions

June 2006, a group of CARE experts had a discussion on whether they should recommend linking the self-helped VS&L groups to formal Microfinance institutions such as banks. Here are some of the tentative conclusions:

- External funding shouldn't happen quickly (perhaps after 2 successful cycles) and on the basis of a very conservative debt/equity ratio.
- Donor funding should never be injected into the groups.
- External funding should go to the group for on-lending and not to the individual members.

In a new "Universal Access Campaign", CARE plans to use the model to lift 30 million people (70% of whom are women) and their families out of poverty by facilitating equitable access to a suite of basic financial services (such as savings, loan, insurance, remittances) over the next decade in sub-Saharan Africa. According to the CARE website, the campaign will scale-up CARE's successful village savings and loan (VS&L) program, which is currently under implementation in 19 countries, to a total of 34 countries. On the higher level, the campaign will scale existing microfinance institutions, start new institutions, and foster links between members of the VS&L associations and the formal sector. It will also develop local intermediaries and find new technological solutions.

Some of the partners already engaged include: MicroVest, Morgan Stanley, ICICI Bank, Grameen Foundation, Opportunity International, IBM, The Gates Foundation, UNCDF, Womens World Banking and others. Additional partnerships to pursue include cell phone providers, Standard Bank, local MFIs and national MFI networks, Swiss RE, and others.

Finally, CARE USA approved a "Consumer Protection Code of Conduct in Microfinance " in March 2007. Among other things it requests all CARE staff to "….take additional steps to educate village savings and loan members on this code and on their rights and responsibilities vis-à-vis a formal financial institution". And it states that "…CARE and our partners will take necessary actions to educate clients on financial management and seek to ensure that clients and their families benefit from the services they receive and do not become over-indebted."

4. Conditions for a general savings and credit model in Nepal

The main purpose of this project is to outline a general model for the expansion and improvement of CARE-initiated savings and credit groups in Nepal, for the benefit of the poorest part of the population. According to the adjusted Terms of Reference, it should be based on the Village Savings and Loan Association Model (VS&L), adjusted to local Nepali conditions, as we have experienced from our assessments of six local savings and credit projects.

Textbox 6: CARE Nepal overall strategy:

CARE Nepal has focused its activities on community organizations, ensuring participation of women and marginalized groups, strengthening self-reliance of the communities, transfer of appropriate technologies, sustainability of its programs and impacts and facilitating the development of appropriate linkages and networks of community groups in various sectors.

Source: CARE-Nepal Publication ; Program Document (PPS-AAPAS Program)

The choice of the VS&L model as a point of departure is well-founded, due to the fact that it is developed by CARE, it has been very successful in many countries, it is self-helped and financial sustainable, it is easy to replicate, and it is especially suitable for reaching the poorest people in the rural mountains and inaccessible areas of Nepal, where the need for microfinance services is the largest.

In addition, we find it natural that the general model is compliant with CARE's "Consumer Protection Code of Conduct in Microfinance", the CARE Nepal overall strategy, C-GAP Principles of Microfinance and the general recommendations that can be found in the comprehensive amount of microfinance literature.

The eleven C-GAP principles for Microfinance were developed and endorsed by C-GAP (The Consultative Group to Assist the Poor) and its member donors, and were further endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004. C-GAP is a consortium of 31 public and private development agencies (among these Danida) working together to expand access to financial services for the poor. However, the principles are mostly focused on specialized Microfinance Institutions and therefore they will be used in a general way.

It is important to emphasize the limits of the ambition to conduct a general microfinance model for all regions in Nepal. It is evident that there are no models that can be recommended for all purposes. Different regions and groups of people have different demands and conditions. And all experiences shows that the best road to failures is to press stiff and inflexible rules down on savings and credit groups without leaving any influence to the members involved.

Thus, our recommendations of the adjusted VS&L model should be considered as a point of departure for local discussions and experiments; they can therefore be replaced with more appropriate ideas.

Textbox 7: C-GAP Principles of Microfinance

1. Poor people need a variety of financial services, not just loans.
2. Microfinance is a powerful tool to fight poverty.
3. Microfinance means building financial systems that serve the poor.
4. Microfinance can pay for itself.
5. Microfinance is about building permanent local financial institutions.
6. Microfinance is not always the answer.
7. Interest rate ceilings hurt poor people by making it harder for them to get credit.
8. The role of government is to enable financial services, not to provide them directly.
9. Donor funds should complement private capital, not compete with it.
10. The key bottleneck is the shortage of strong institutions and managers.
11. Microfinance works best when it measures—and discloses—its performance.

Source: C-GAP

Our first step towards a general model has been to conduct the following overview-scheme for the thirty most central key issues regarding microfinance. The choice of issues is based on a study of a large amount of models and relevant literature. The purpose is to present the VS&L model in a clear way and to construct an interview guide and a tool to assess and compare the six local projects with the VS&L model as a benchmark for successful international practice.

Thus, the second step was to fill in the VS&L recommendations in the scheme, taken from the comprehensive program guide version 3.0 published October 2007 (VSL Associates 2007). The third step was to structure the interviews and our assessment of the six projects within the same scheme. And finally, the forth step was to conduct our recommendations to the adjusted general model for expanding the CARE-initiated savings and credit groups in Nepal and recommendations for improvement of the six described projects.

It is our hope, that the following 30-Key-Issues-Owerview can be used for assessments of other microfinance and savings and credit projects in a structural way.

Table 8: 30-Key-Issues-Overview for the VS&L model

Key-Issue	30-Key-Issues-Overview for the VS&L model
I. PROJECT INITIATION	
1. Organisation	• Promoting institution, external capital providers, government support, project links and other partners
2. Project purpose	• Household security through savings, income generation through investments, social security for most poor and members experiencing emergencies • Focus on the poor
3. Members	• Poor individuals and households, other individuals • Gender criteria • 10 – 20 members in each group is recommended • Self-selection of members

4. Awareness raising	• Preparatory meetings:
	  o Community leaders and administration officials
	  o Introductory meeting with the community
	  o Preliminary meeting with potential members
	• Importanance of being aware of special local conditions

5. Facilitation	• An external facilitator should, in one year, help the SCG by training and organizing the groups. He should attend in 15-21 meetings. After one year, the association should manage its own affairs, and the facilitator should visit the SCG about once every third month to monitor the process and results. • Facilitators should never manage the activities and never touch the money.
II. ORGANISATION	
6. Rules and Constitution	• Constitution: A written document that defines the goals, purposes, rules and governance of the association (Template Annex 2) • The constitution should be charged on the first general assembly by at least 2/3 of the members • The final version should be signed by all members (fingerprints from all non-literate members) • If non-literates, every member has to remember one or two of the rules in the constitution • A paper version should always be kept in the cash box, to be available in case of misunderstandings and discussions
7. General Assembly	• Purpose: Adoption of constitution and election of local management committee • All members should have one vote • All members should have the right to propose issues to be discussed • If a management committee doesn't do its work well, it has to be replaced by a new committee elected by the General Assembly • It should be the General Assembly and not the Management Committee that is responsible for setting rules and regulations
8. Local Management	• The Association should be managed by its own democratically elected members

	• The management committee should be changed at least once a year through elections on General Assembly. • The committee members also serve the following functions: Chairperson, Record-keeper, cashbox-keeper, and money counter • At least two candidates should be nominated for each function • At least two of the members of the Management Committee should be females • Members should vote in secret
9. Job funktions	• Chairperson: Leader of the meetings, levies fines • Record-keeper: Responsible for controlling the financial transactions, repayments, disbursements, passbook entries and for announcing balances at the end of the meetings. He should be able to operate a calculator. • Box-keeper: Responsible for the security of the cash box between meetings; assists with maintaining passbooks and managing slot savings • Money counters: Should count the money in the cash box at every meeting.
III. FINANCIALS	
10. Savings and credit meetings	• A saving/share purchase meeting should be held every week, fortnightly or monthly, while credit meetings should be held every four weeks. • All members should participate in all of the meetings. • All members should contribute the mandatory savings amount at each meeting • All transactions should take place at savings and credit meetings in front of members. • Template for meeting agenda and procedures see Annex 2.
11. Amount of savings	• Members should decide the minimum and maximum savings • Savings need not to be the same for all members in every meeting • Saving allows each member to buy 1-5 shares at each meeting. • If decided, smaller amounts can be saved between the meetings (slot saving). • The cashbox–keeper should register the slot savings in a special notebook and the slot saves should receive a metal token that represents the value of money they have deposited in the box until the next saving meeting, where they have to by shares for the savings.
12. Amount of credit	• Credit to each member should not be more than three times the amount of her shareholdings (savings)
13. Access to credit	• Associations should never give credit to non-members • Every member can receive credit at the credit meetings every fourths week by requesting (speaking out loud) the amount, the purpose and over what period of time they expect to repay • If the total value of loans requested is higher than the money available in the loan fund, the Association should discuss adjustments to the individual loan amounts until all members are satisfied
14. Guarantee	• None
15. Interest rate/service charge	• The model distinguishes between interest rates and service charges. Interest leaves the community and is paid to an outside lender, while service charges remain in the VS&L and are the property of the people who paid them. • In most VS&Ls the monthly interest rate/serving charge is 10 percent. However, it can be set to five to 20 percent, depending on what the members

	decide. • Interest rate/saving charge should be the same for all members • Total amount should go to members as a property of the Association
16. Social fund	• Members should decide if all members should pay to a social fund • Members can receive grants for emergencies such as funeral expenses, catastrophes such as house burning down, and educational support to orphans.
17. Repayment	• During the first circle, the minimum credit term should be four weeks and the maximum should be twelve months. • All credit should be repaid over a period of not more than three months. • If members cannot repay, debt should be taken from the members share value
18. Out payment	• Every cycle of about one year ends with a share out meeting, where the accumulated money is paid out the members proportionate to their shares. • The value of each share should be calculated as the total amount to be distributed divided by the number of shares • Members can sell their shares in order to get access to their savings. • The money in the social fund is not paid out, as it belongs to the Association
IV. CONTROL AND REPORTING	
19. Fines and discipline	• Members that arrive late to meetings should pay a fine • Other offences that can be fined could include non-attendance of meetings, not remembering Association rules, loss of number card, chatting during the proceedings, showing disrespect to a fellow member, and not remembering decisions and activities of the preceding meeting.
20. Safekeeping of cash	• Cash should be held in a box with three locks. • It should only be opened during member meetings, where all three key-holders responsible are present
21. Record keeping	• No central record keeping is needed. • The records are based on individual passbooks with information about individual loan amounts and shares • In the case of many non-literate members, record keeping could be based on memorisation • As members make their contributions, the box-keeper should stamp the correct number of shares in their passbooks, making sure that the record-keeper and the member watch this and confirm that the amount is correct • The passbooks should be saved in the cash box
22. Effect measuring and reporting	• Before the paying out of the savings, the record keeper should register the key amounts and the like. • On the basis of the registrations done by the record-keeper performance, indicators should be calculated (Annex 4)
23. Monitoring and audit	• In the first circles, the facilitator should monitor regularly if everything is okay.
V. PROGRESSION	
24. Integration of	• Yes, but no concrete recommendations

the poorest	
25. Integration in development activities	• It is not recommended explicitly
26. Training and capacity building	• The local manages and members should be trained in leadership and elections, policies and rules, savings and credit operations, record-keeping, and other necessary skills.
27. External funding	• In general, it is not recommended to provide external funded credit for at least the first two years. • However, after the system has shown to be sustainable, the SCG should be linked to external microfinance institutions. • The promoter organisation should never promote loans or seed capital themselves directly. • External funding from banks or MFI should never be individual, but a lump sum which can be turned out to smaller loans • Associations should never borrow more than total value of all shares
28. External deposits and inter-lending	• Associations should never agree to deposit their savings with a lending institution
29. Other financial services as insurance	• Is not recommended explicitly
30. Vision and strategy for progression	• No recommendations

Source: VSL Associates: Programme Guide. Field Operations Manual. Version 3.0. October 2007.

Chapter 2: Analysis

2.1. Three savings and credit groups in Syangja district

2.1. 1.Description of the project

The Syangja savings and credit scheme in the central part of Nepal was established in 2002 as a continuation of the ”Upper Andhikhola Watershed Management Project” (UAKWMP). The general development project had been driven by CARE Nepal and the Department of Soil Conservation and Watershed Management since 1992. After its completion, CARE Nepal implemented a PPS project from 2002 to 2005 in partnership with the local NGO, Aapasi Sahayog Kendra (ASK) and with the financial support from CARE Denmark and Danida. As part of this, 48 savings and credit groups were initiated.

A PPS-II is being implemented by CARE Nepal in partnership with ASK in a five-year period from September 2005 to June 2010. One of the objectives of the PPS-II is to improve the economic and social status of poor and marginal households with the expected output of increased income of poor and marginalized groups through agro-based and non agro-based income-generating activities.

ASK Syangja is a leading Non Governmental Organization in Western Development Region. The organization has a vision of green revolution as a basis for sustainable agriculture and livelihood of people. The goal is to improve the living standards (social, economic and cultural) of the poor and socially excluded farmers, creating balance in environment and conserving bio-diversity, while utilizing human resource and increasing the rate of production in non-agricultural sectors through development of human resources and management of natural resources.

ASK has been working in Syangja in partnership with CARE Nepal in the last decade and is involved in different development activities such as advocacy, good governance, conflict management and different training and education programs such as forest, veterinary and animal husbandry, bee keeping, and conservation farming.

In the district, almost all development agencies have initiated or enforced savings and credit groups in one form or another. One of the motives has been to bind people together and organize regular meetings. According to the Nepali authorities, about 1000 groups are organized in the district with some kind of savings and credit component included. However, many of the savings and credit groups have closed down due to large problems.

Out of the original 48 savings and credit groups initiated by CARE about five years ago, only 10 groups are in operation in 2008, according to ASK. Hence, 38 groups have either collapsed or have been merged into larger cooperatives and groups.

After the establishment of seven new groups, the scheme now consists of 17 savings and credit projects of different forms, five of which are cooperatives.

Table 9: Status of Savings and Credit Groups as of Dec 30, 2007

Dec. 2007	Executive Committee				General members				Savings and credit		
	Total		Dalit		Total		Dalit		Total	Lending amounts Rs	
	M	W	M	W	M	W	M	W	Group fund(Rs)	IGA	HH expenses
1. Mahila Jagaran Saving Group		11		2		270		55	1.435.000	880.000	150.000
2. Durga Bhawani S &C Group		9				25			187.000	100.000	25.000
3. Shrinjal S &C Group	7	2			10	15			78.000	40.000	6.000
4. Society S &C Group	5	6	1	3	58	67	5	12	270.000	100.000	25.000
5. Kaligandaki S &C Group	12	13	0	0	12	13			78.000	70.000	0
6. Bangrati S &C Group	6	18	0	0	6	18	0	0	120.000	80.000	17.000
7. Kalika Multipurpose Saving Group	6	3	1	1	155	220	44	65	385.000	312.000	45.000
8. Toradi S &C Group	5	4	2	1	62	105	22	33	217.000	135.000	55.000
9. Darau Multipurpose Saving Group	10	5	1	0	25	65	11	17	1273000	1042000	77000
10. Kalabhairav S &C Group											
11. Pragatishil S &C Group											
12. Paropakar S &C Group	5	4	1	0	181	186	22	19	2200000	1.380.000	770000
13. Sahuthar S &C Group	6	3			71	18			520000	498000	0

14. Prajatantrik S &C Group	6	3			102	65	0	0	620000	610000	0
15. Janakalyan S &C Group	5	4	0	1	140	132	9	16	900000	890000	0
16. Naupuja S &C Group	4	3	0	0	75	73	0	0	450000	450000	0
17. Hariyali S &C Group	7	4	0	0	42	83	6	12	800000	480000	300200
	84	92	6	8	939	1355	119	229	9533000	7067000	1470200

Source: Status Report on Savings and Credit Groups –ASK-Syanga

For this study, we have been visiting three groups in Syangja, representing different profiles: One small group of male Dalits, one larger women's group and one registered cooperative society.

The first group was initiated in the CARE project as of 15 January 2001. The group members are all Dalits, belonging to the most deprived caste as blacksmith and tailor. It started with 29 members and consists now of 21 male members representing 21 households.

The women's group, Hariyali Savings and Credit Group, was formed in 23 August 1989 at Seti Dovan VDC as a part of the CARE project. The group members are mixed: poor and non-poor. Some members are Dalits, but most belong to the Chhetri caste that dominates the community.

Finaly**,** we have been visiting the Panchase Savings and Credit Cooperative Society Ltd., established in 18 August 1999 at Wangsing VDC and registered as Cooperative Society in 10 July, 2001. The group members are mixed: poor and non-poor, with some Dalits.

2.1.2. 30-key-issues-overview

In the following, we will present an overview of the Syangja savings and credit scheme, based on the 30-Key-Issue-model and the interviews of the ASK management and local managers and members of the Dalit group, the women's group and the cooperative group.

Table 10: 30-Key-issues-Overview Syangja

Key-Issue	**30 key-issues-overview of three savings and credit groups in Syangja district**
I. PROJECT INITIATION	
1. Organisation	48 savings and credit groups were initiated by CARE and ASK as a part of a PPS project, following the general development project UAKWMP, in 2002.
2. Project purpose	**In general,** the project purposes are income generation, household security, and integration of the poorest people in the district. **The Dalit Group** was initiated with the hope of getting help and relief regarding

	money problems and emergencies. **The Women's Group** was initiated with the objective of solving the financial problems of the women drawn in, to involve them in income-generating activities, and to relieve them from exploitation of private money lenders with a high rate of interest. **The Cooperative Group** was initiated with the objective of uplifting the standard living of the people, to involve the members in income-generating activities, and to relieve the poor people from the exploitation of private money lenders.
3. Members	**In general,** most groups consist of less than 25 members. However, some groups are much larger. Registered cooperatives should have at least 25 members, and there is no maximum limit. **The Dalit Group** consists of 21 members, representing all household of the community. All members are Dalits and among the poorest. **The Women's Group** consists of 211 members, both poor and non-poor. More than 50 percent are women and 15 are Dalits. **The Cooperative Group** consists of 541 members, whereof more than 73 percent are women, 8 are Janjatis and 38 are Dalits. In general members are a mix of poor and non poor.
4. Awareness raising	**In general,** the groups started as an add-on of a general development project with different components. To raise awareness, some of the facilitators and managers visited some of the existing groups to fight against rumours that it was not secure to save money in the new groups.
5. Facilitation	**In general** the savings and credit groups were facilitated by project staff **The Dalit Group** has not had any kind of external facilitation. **The Women's Group** has been facilitated of an employee from ASK and a member of the group since its inception, same as in the cooperative society **Cooperative Group**: has been facilitated of an employee from ASK and a member of the group since its inception, same as in the women's group.
II. ORGANISATION	
6. Rules and Constitution	**In general**, it is fixed by law that registered cooperatives have to have a written constitution. However, most of the other groups in the project do not have any. Hence, rules are different from one group to another, depending on the decisions taken on the member meetings. **The Dalit Group** has no written constitution. Rules are agreed on the monthly meetings. **The Women's Group** has a written constitution with rules for savings and credit. **The Cooperative Group** has written by-laws approved by Government of Nepal as per Cooperative Act 1991.
7. General Assembly	**In general** most groups do not have a general assembly. However, it is compulsory for the cooperatives. **The Dalit Group** has no general assembly. All decisions are taken on the monthly meetings. **The Women's Group** has to hold a general assembly every half year, according to the constitution. However, none has been held within the last two years. According to the constitution, 51 percent of the members have to be present to hold the general assembly. **The Cooperative Group** holds general meetings every year, where every member has one vote. The purpose is to approve progress as well as financial report, next

	year's annual plan and budget, elect the local management committee and discuss new rules, and so on. All members have the right to propose an issue to be discussed. If the management committee does not do its work well, it is replaced by a new committee elected by the general assembly.
8. Local Management	**In general** the local management committee consists of 7 to 11 members. All members can be candidates for the committee. **The Dalit Group** makes up a seven members' management committee from its own members. It consists of a Chairperson, a Secretary, a Treasurer and members. The terms of the committee are not fixed. The role and responsibility of the office bearers are not written. No voting is exercised. **The Women's Group** elects a seven members' local management committee. Four have to be females, three males and at least one Dalit. The Chairperson and secretary are women. The term of the committee is three years. All policy level decisions are made on the management committee meeting held one day prior to the monthly meeting. No voting is exercised. Mostly members are literate and some are capable of writing only their name. The management committee was recently reshuffled as the secretary resigned from the post. **The Cooperative Group** makes up every second year a board of directors consisting of a Chairperson, a Vice Chairperson, a Secretary, a Treasurer and rank and file members. Two of the members have to be Dalits and one has to be a vice chairperson. In addition three members are to be elected to the Account Committee, three to the Loan Committee, and five to the Market Monitoring Committee.
9. Job functions	**In general**, the local management committee consists of a Chairperson, a Secretary, a Treasurer and four to eight executive members. **In the Dalit Group,** the Chairperson advises, while the Secretary and Treasurer are responsible for controlling the financial functions, repayments, and disbursements. **In the Women's Group**, the Chairperson leads the meetings and levies the fines. The Secretary is responsible for recording the meetings and administration of savings and credit, while the Treasurer controls the financial transactions, repayments, disbursements, passbook entries, and security of the cash. **In the Cooperative Group,** the Chairperson leads the meetings, and levies the fines. The secretary is responsible for recording the meetings and administration of savings and credit, while the treasurer controls the financial transactions, repayments, disbursements, passbook entries, and security of the cash.
III. FINANCIALS	
10. Savings and credit meetings	**In general**, the groups hold savings and credit meetings every month, compulsory for all members. However, voting is not normal, as can be seen in the data. Each member has to save money in the group meetings.
11. Amount of savings	**In general,** the amount of savings every month is fixed in order to keep the record-keeping simple. However, in some of the larger and cooperative groups, the monthly rate is flexible. **In the Dalit Group,** the compulsory fixed saving amount is Rs. 30 per month. **In the Women's Group,** some members save Rs. 50 per month, while most save Rs. 100 per month. **In the Cooperative Group,** some members save Rs. 50 per month, mostly save Rs. 100 per month, while others few save Rs.1000 per month. Every member has to have at least one share of Rs. 100 each.

12. Amount of credit	**In general t**he amount of credit varies between the groups. Total credit amounts to Rs. 3,500,000, total savings to Rs. 3,239,000, while the monthly savings collected amount to Rs. 85,000 and Rs. 2,000,000. Loan overdue is Rs. 10,000 in cooperative group, Rs. 5.500 in Dalit group. **In the Dalit Group,** the limits for each members credit is minimum Rs. 500 and maximum Rs. 6,000 based on the availability of fund. Loan is given for terms of three months. Every member has to repay his loan to get the new loan. **In the Women's Group,** the limit for each of the member's credit is minimum Rs. 5,000 and maximum Rs. 30,000. 20 to 30 percent of the loan amount is based on savings. **In the Cooperative Group,** the limits for each members credit are minimum Rs. 500 and maximum Rs. 50,000. Loan amounting up to Rs. 50,000 is given based on member's savings and his/her own guarantee without collateral. Maximum Rs. 1,000,000 to 2,000,000 is given based on his/her own savings and guarantor's savings as collateral.
13. Access to credit	**In general,** the members decide who should have access to credit during the monthly meetings. If the total value of loans requested is higher than the savings available, the members discuss the individual loan amounts until all members are satisfied. Normally, loans are only given to members. **In the Cooperative Group,** members have to submit a loan application by the 25th of every month and loan disbursement is done on 3rd day of every next month.
14. Guarantee	**In general** it requires a guarantee from the other members to receive a credit if his/her loan demand is more than his/her savings. However, in some groups it is not necessary. **In the Dalit Group,** there are no rules of guarantee**.** **In the Women's Group,** the rules states that if a member wants to obtain a loan of more than Rs. 5,000 she has to provide a guarantee that other members of the family will not demand loans unless her loan is paid. **In the Cooperative Group,** members have to provide a guarantee if they wants loans of more than Rs. 50,000.
15. Interest rate/service charge	**In general,** the interest rate/service charge varies between 12 and 24 percent per annum. The rate also varies for different purposes. **In the Dalit Group,** the interest rate/service charge is 15 percent per annum. **In the Women's Group,** the interest rate/service charge is 24 percent per annum. **In the Cooperative Group**, the interest rate/service charge is 16 percent per annum on regular loan and 12 percent on income generation.
16. Social fund	**In general,** most groups are collecting minor savings contribution from the members to a social or emergency fund. Here members can obtain a short loan without paying interest rate/service charge in case of death, dangerous disease, fire and other emergencies. **In the Dalit Group,** Rs.100 plus one to two kilograms of grain is collected per household for emergencies. The present social savings of Rs. 4,000 is used to offer interest free loans for one month to members in case of emergency. **In the Women's Group,** Rs. 7,000 is kept for emergency. Interest-free loans of Rs. 2,000 to 4,000 for one and half month are given to members in case of emergency. **In the Cooperative Group,** Rs. 25,000 is kept for emergency. Interest-free loans of Rs. 5,000 for one month is given to members in case of emergency. It is converted to a general loan if it is not paid back within one month.

17. Repayment	**In general,** the repayment term of credit is between three months and three years. However, the term is normally less than one year. **In the Dalit Group,** the loans have to be repaid within three months. **In the Women's Group,** the loans have to be repaid within six months. If a member can not repay within the period, she can renew the loan for further six months by paying the accrued interest. **In the Cooperative Group,** the loans have to be repaid within six months. However credit for income generation is given with a term of up to three years.
18. Out payment	**In general,** most of the groups have no out payment of the savings after one year. The money is generally accumulated in member's individual savings. Except for the Cooperatives, where members may withdraw savings up to the balance of previous financial year and take payment of dividend on shares. **In the Dalit Group,** all savings is accumulated, hence there is no regular out payment to the members. **In the Women's Group,** the total amount of savings of Rs. 450,000 has been distributed once. **In the Cooperative Group,** savings are accumulated. However, members own shares in the organisation, dividend is paid annually and interest is accumulated in individual savings semi-annually. But each member is allowed to withdraw the accumulated balance of savings up to the previous financial year.
IV. CONTROL AND REPORTING	
19. Fines and discipline	**In general,** the members are often fined due to different offences such as lack of monthly saving or late arrival in meetings. **In the Dalit Group,** Rs. 5 is charged as fine if a member does not save the monthly deposit. **In the Women's Group,** a penal interest is charged at the rate of two percent per annum. Rs. 5 is charged if a member does not save monthly deposit **In the Cooperative Group**, a penal Interest is charged at the rate of three percent per annum. Rs. 5 is charged if a member does not save the monthly deposit.
20. Safekeeping of cash	**In general,** most groups have no cash box**.** Normally some cash is held by the Treasurer, while the rest of the money is given as credit or stored in the bank. **In the Dalit Group,** the balance of cash left after disbursement is kept with the Treasurer on trust. He keeps the money in his personal drilling box and locks it himself. **In the Women's Group,** Rs. 5,000 to Rs. 7,000 is kept by the Treasurer by trust. **In the Cooperative Group,** Rs. 35,000 is kept by the Secretary, 10 percent of total deposits is kept in a bank as liquidity.
21. Record keeping	**In general,** only a few groups have an individual passbook for registration of the individual savings and credit. Most of the groups have a central registration of saving and credit for every member. **The Dalit Group,** has no passbook system. Individual records are kept in a simple register. **In the Women's Group,** a passbook is given to each member. It is filled by the Chairperson or Secretary and authenticated by the Treasurer. Individual records are kept in a register. **In the Cooperative Group,** a passbook filled by the Secretary is given to each member. Individual records are kept in the register.

22. Effect measuring and reporting	**In general:** Cooperatives have to report about their activities to be registered. However, most other groups have not implemented a reporting system. **The Dalit Group** has no reporting system. **The Women's Group** shows a monthly account of savings collection and loan disbursement. An annual account is also prepared. **In the Cooperative Group** a monthly account of savings collection and loan disbursement is prepared. An annual account is prepared and submitted to General Assembly as well. It is reported to District Cooperative Office and other supporting organizations.
23. Monitoring and audit	**In general:** Most groups have no monitoring and audit systems. **The Dalit Group** has no monitoring and audit system. **The Women's Group** has a monitoring and audit system. **The Cooperative Group** has regular monitoring and audits.
V. PROGRESSION	
24. Integration of the poorest	**In general,** most groups try to integrate the poorest, without luck. However, they often can not afford to save the compulsory amount of Rs. 30 per month. Hence they have to go to the private money lenders. **In the Dalit Group,** all members are very poor. **In the Women's Group,** members are a mix of poor and non-poor. **In the Cooperative Group,** members are a mix of poor and non-poor
25. Integration with other development activities	**In general,** the original 48 savings and credit groups were an add-on to the development project UAKWMP. Now most other activities go through the savings and credit groups. **Dalit Group:** No **Women's Group:** No **Cooperative Group:** Yes Cooperative has disbursed Rs. 20,000 as revolving fund to Dalits for goat raising as income generation activities in coordination with ASK and VDC.
26. Training and capacity building	**In general,** the groups have received a lot of training, but very seldom in savings and credit operations and the like. **In the Dalit Group** no one has received training. **In the Women's Group** two members have received five days training on savings and credit. **In the Cooperative Group** one member has received savings and credit training. Two have received training in account-keeping. Two members however are both in foreign employment. Two have received training in marketing management, three in accountancy and three in microcredit and three in loan management.
27. External funding	**In general,** only a few of the groups have received external funding. According to the local managers and members, external funding is not relevant before the members have learned to save and inter-lending among group members. **The Dalit Group** has not received external funding. **The Women's Group** has not received any external funding **The Cooperative Group** has received some external funding for goat-raising groups.
28. External deposits and inter-lending	**In general,** some cooperatives have taken money from schools, users, and groups as loan with an interest of 10 percent and mobilizing into loan at the rate of 15 percent to its members as the cooperative is not allowed to take deposits from non

	members. **The Dalit Group** has no external deposits and inter-lending. **The Women's Group** has no external deposits and inter-lending. **The Cooperative Group has** led group savings from Panchase Dalit /Panchase Singer Group and Goat Raising Groups.
29. Other financial services as insurance	**In general,** the groups do not offer members other and more advanced financial services such as savings and credit.
30. Vision and strategy for progression	**In general,** the groups have no vision and strategy for progression to the next step of microfinance.

2.1.3 Assessment of the Syangja project compared with the international model

In general, the purposes of initiating the 48 savings and credit groups in the Syangja district were to generate income, to create household security, and to integrate the poorest people in the district. Some of the analysed groups added other purposes such as to liberate the members from the exploitation of private money lenders and their high rate of interests.

As emphasized in the foreword, it is beyond the purpose of this report to conduct a deep and independent evaluation of the consequences and whether these purposes have been fulfilled. However, on the basis of interviews with managers and members of the scheme, there are indications that many families are now in a better situation than before, especially when it comes to improvement of security and the independence from private money lenders. Hence the interest rate demanded by money lenders in the rural area has been reduced from five percent per month to now less than two percent per month.

Other positive consequence is the general empowerment of the women involved. The savings and credit groups have also developed to become a springboard for other development activities in the district.

The results are more inconsistent when it comes to income generation and the integration of the ultra poor in the districts. Here, the effects are different in the different groups.

Nonetheless, most striking is the discouraging fact that only 10 of the original 48 savings and credit groups initiated by CARE have survived as independent and sound organisations.

According to the local managers and members, one of the Syangja groups had collapsed due to fraud and misuse of money. A few others had merged with other groups. However, most of the groups had failed due to the lack of external facilitation and internal competence. The local management committees had not been strong enough and their skills, especially recordkeeping skills, had been too weak.

According to ASK, many of the problems could be solved by revitalizing the groups with more facilitation, training the group members, and implementing more of the elements in the international VS&L model. However, the situation varies to some degree in the different groups.

Originally, ***the Dalit group*** was formed to help some of the poorest families in the district to build up financial preparedness to neutralise emergency problems as death, illness, and natural calamities such as draught and land slide.

According to the members, the loans are used for household consumptions and social events rather than for income generating purposes. However, a general problem is that members are not clear on the objectives of the scheme.

The group started with 29 members, but now it consists of 21 households due to the fact that some of the very poor members have not been able to save even Rs. 30 per month and therefore have been forced to leave the group -- some without repaying their loans.

The Dalit group is having difficulty keeping records of transactions, as only two or three people are literate. The local management also admits that they are not able to calculate basic interest rates.

None of the members have received training; the records are kept by the secretary. A member with tenth grade education has been keeping the records after the secretary migrated aboard for another job. However, he is frustrated with the work as he is having difficulty keeping the records. Usually, young people leave the village after graduation from school.

Compared with the international model, the most significant similarities with the local model are: The local management of seven members, the regular savings and credit meetings (monthly),the compulsory savings and meeting participation, the access to credit for all members without the demand of guarantee, the monthly interest paid to the group, the social fund, a system of fines and discipline, no external funding, external deposits and inter-lending, no offering of advanced financial services as insurance.

The main differences are: the lack of facilitation, no written constitution, no general assembly, no voting on the meetings, no shares and out paying of saved money, no cashbox with more locks, very limited recordkeeping, no effective measuring, reporting, monitoring and audit, insufficient integration of the poorest and no training and capacity building

The lack of a constitution means that the rules are too pragmatic, and there are no formal procedures for members to come up with proposals for improvements. The objectives of the group are not clear to the members. The situation would have been different if all the members had signed or marked their fingerprints on a written constitution.

The lack of a general assembly means a risk of too little replacement in the local management. In the Dalit group, the same persons have been Chairperson and Secretary for seven years. Only the Secretary has been replaced (after six years), as the predecessor left the village for a job abroad. And it is important to have second-line potential managers and open and friendly discussions.

The normal rate of interest is 15 percent per annum where as penal interest is 15 percent per annum in addition to the normal rate of interest, preventing the borrower from repaying the loan.

The lack of competence discourages some members in saving more than the fixed amount per month -- a flexible rate demands more advanced recordkeeping. Although most of the members are illiterates, the group doesn't use the memo-systems recommended in the VS&L model.

Finally, the safekeeping of cash with the treasurer on trust basis seems unsafe. It not necessary to use a box with three locks as in the VS&L model; however, to keep the members' confidence, it is important to use a more secure cash system.

The main purposes of ***the women's group*** is to solve the financial problems of the women drawn in, to involve them in income generating activities, and to relieve them from the exploitation of private money lenders. According to the members, the scheme has lived up to these purposes.

However, the group has been dealing with other problems. One problem is that it is dominated by middle-income families that do not want to incorporate the poor, who can afford savings of only less than Rs. 50 per month. They also fear keeping the ultra poor that may default the loans. Actually, some of the poorest have left the group, due to inability to contribute the Rs. 50 per month.

The middle class members represent nearly all the savings, which they lend to the very poor in the group for a high interest rate of 24 percent per annum. In other words there is no solidarity in the group, as some members earn a high margin on giving credit to other members. The prevailing interest rate at the locale is also 24 percent per annum and the group has the same rate of interest since its start; this is one kind of exploitation from elite members in the groups who are in favour of high rate of interest.

The group has difficulty in keeping records of the transactions as the group is very dependent on chairperson and the facilitator from CARE-Project. No next-in-line leadership has been developed, and only two members have received training on savings and credit.

A general assembly has not been held the last two years, contrary to the constitutional provision of holding general assembly twice in a year. It means that replacement in the local management occurs too infrequently. The same chairperson has held the position for the last 15 years.

The safekeeping of cash seems too insecure.

Management committee meetings are held prior one day of the monthly meeting, where policy-level decisions are made and rules and policies are revised. The management committee is dominated by elite groups and major decisions are taken at the management committee meeting.

Compared to the international model, the most significant similarities are: the existence of a written constitution, a general assembly, the local management board, compulsory savings and participating in member meetings (monthly), flexible saving, max credit depending on savings, members decide who can have credit, no guarantee is required, a social fund, fines for not paying back, every member has a passbook, monthly and annual accounts, monitoring and audit systems, no external funding, deposits and inter-lending, no advanced financial services.

Some of the most significant differences are: a larger number of members in the women group, inadequate facilitation, decisions are taken by the local management a day before the member meetings, the most wealthy members are earning a high marginal by borrowing to the most poor in the group, no shares and out paying of savings, cash is kept by the treasurer by trust, very scarce recordkeeping, not much are being done for the poorest, some integrating with developing activities, inadequate training and capacity building.

The purposes of the ***cooperative group*** have been to uplift the living standard of the people, to involve the members in income generating activities, and to relieve the poor people from the exploitation of private money lenders.

Income-generating activities promoted by ASK with the financial support from CARE Nepal shows a mixed result. It is successful in the case of goat-raising activities carried out by the poor and non-Dalits, while it has been a failure for the poor Dalit members. Goat-raising revolving loans have been provided to five groups of 50 poor families through the cooperative. Almost all groups except the Dalit group have reported that they have been able to generate income from this project. However, out of ten members, six members of the dalit group have reported that they could not generate income from the goat project and they do not have even the goat purchased for goat raising from the loan, as they were supposed to have offspring or money raised from offspring.

According to a member of the Dalit group, she has neither had grazing land nor time to collect fodder grass for goat. According to others, they did not have experience of goat raising as they have to go out for labour work all day and have no one to look after the goat.

The group has developed from an informal group to a registered cooperative group that has to follow the rules for Cooperatives.

Two members have received training on savings and credit only. Mostly, the groups have problems dealing with the record keeping. The Secretary is also works as a Manager, after taking leave from ASK. The cooperative is fully dependent on him as a facilitator.

Compared with the international model, the most significant similarities are: the written rules and constitution, the general assembly where each member have one vote and the right to possess issues to be discussed, local management, compulsory savings and participating in savings and credit meetings (monthly), interest rate/service charge is paid to all members, system of fines, a monthly and annual account system, regular monitoring and audits, some integration of the poorest, some training and capacity building, no offering of advanced financial services.

Compared with the international model, some of the most significant differences are the high number of members, the limited facilitation, election of local management every second year, guarantee is needed for large credits, loans for income generating is given for up to three years, no out payment, no cashbox with more locks, some of the money is put in a bank account, some integration with other development activities, some external funding.

Due to the Nepali rules for registered cooperatives, the VS&L model is less relevant for the cooperative group.

2.2. Two savings and credit groups in Kaski district

2.2.1. Description of the savings and credit projects

FECOFUN is an umbrella organization for all forest user organisations in Nepal. 15.000 groups and 10 million persons are involved. The government has given the group the right to use the forest. In Kaski 39,300 households are involved in the FECOFUN activities.

We have been visiting two savings and credit groups, initiated by FECOFUN. Both are related to general development projects, where CARE Nepal has been supporting FECOFUN to enhance policy advocacy in natural resource management; both are community forest user-groups for women. The difference of the two groups is in the way; they are giving credit to the members.

Women’s group 1 represents a savings and credit scheme initiated in 2004 by SAP-Nepal, which is an International Non Governmental Organization operating in the area. The members are mixed, poor and non-poor. Some are Dalit, a deprived caste, but most members belong to the Bramhan and Chhetri caste and in the community have dominance of these castes. Now it has more than 200 members and all are females. There are 12 groups; the bigger groups consist of 28 members and the smallest 14 members. Each group sends representation to the main group and the chairperson is elected from among the representatives of 12 groups. The groups are federated into a main group and registered under the Association Act 2034. The association receives funds at the rate of 8 percent per annum interest from SAP Nepal and the same is lent out to members at the interest rate/service charge of 12 percent per annum. The records of loan are kept by SAP-Nepal. which plays a financial intermediary role.

Only six members have left the group. Out of the six, two members left due to migration and four left due to a conflict caused by the difference in interest rate/service charge between borrowing and lending to group members. About 20 members are illiterate, but most members are capable of writing their names.

Women's group 2 is representing a savings and credit scheme, which is an outcome of a forestry program started by CARE Nepal in 2003, with FECOFUN as an operational partner. The women were trained in forest and agricultural skills. Community forestry was handed over by the Government of Nepal in 1995. The management of the forest is taken care of by women groups, for which the forest users committee pays Rs. 10,000 per year to women group. One livestock raising group is formed among the forest users and they have been supported by District Veterinary Office through FECOFUN. Seven members of the group have received Rs. 2,500 each for goat purchasing and one high breed goat and Rs. 6,600 were also given to the group. The Veterinary program has also the mandatory provision that group members must save money regularly, a minimum agreed amount and involve in inter-lending. The group is mobilizing savings of Rs. 20 per month.

2.2.2. 30-issue analysis of two savings and credit projects in Kaski

The following is an overview of the two savings and credit schemes in Kaski, based on the 30-Key-Issue-assessment model and interviews with the FECOFUN management and local managers and members of the two groups.

Table 11: 30-Key-Issues-Overview Kaski

Key-Issue	30-Key-Issues-Overview for two savings and credit groups Kaski district
I. PROJECT INITIATION	
1. Organisation	**The first women's group** is the Shree Ganesh Women Community Development Organization, Kaski. The group was initiated by SAP-Nepal among the forest users. **The second women's group** is the livestock raising groups formed among the forest users.
2. Project purpose	**For the first women's group** the purposes are to strengthen the capability of women and involve them in income generating activities. **For the second women's group,** the purposes are to increase household security against emergencies, to generate income, and to empower the women.
3. Members	**In the first women's group** more than 200 members in 12 savings and credit groups are associated in the organization. The bigger groups consist of 28

	members and the smallest consist of 14 members. One Chairperson is elected from each of the twelve groups. All elected are women. Members are mixed, poor and non-poor. **In the second women's group** 21 women were involved from the start. All women in the village have access to being members.
4. Awareness raising	**The first women's group** was initiated by SAP-Nepal, which has supported the organization and provided orientation on savings from the start. **As the second women's group** has been a part of a more general development project; there has been no awareness raising activities about savings and credit before the groups were established.
5. Facilitation	**In the first women's group** SAP-Nepal has facilitated the organization in savings and credit operation since its inception. **In the second women's group** no facilitation has taken place.
II. ORGANISATION	
6. Rules and Constitution	**The first women's group** has a written constitution. However, no rules are framed for savings and credit. **The second women's group** has a written constitution.
7. General Assembly	**In the first women's group**, a general assembly is held annually, as per the constitution. **The second women's group** has no general assembly. Discussions take place in the meetings, where all members have one vote. The local management is not elected, but based on consensus. The chairperson can be in charge for maximum two years.
8. Local Management	**In the first women's group,** a members committee is formed from the 12 savings and credit groups. Out of the13 members, two are Dalit and three are Janjati. The local management consists of a Chairperson, a Secretary, a Treasurer and four other members. The term of the committee is of two years. No voting is exercised. **In the second women's group** the local management formally consists of a Chairperson, a Secretary and a Treasurer. However, the Treasurer has assigned her tasks to the Secretary due to lack of skills.
9. Job functions	**In the first women's group** role and responsibilities of all office bearers are written in the constitution: The Chairperson is the leader of the meetings and levies the fines. The Secretary is responsible for recording the meetings and administrating the savings and credit. The Treasurer controls the financial transactions, repayments, disbursements, passbook entries, and security of the cash. **In the second women's group** the Chairperson is the leader of the meetings and levies the fines. The Secretary is responsible for recording the meetings and administrating the savings and credit. The Secretary has taken the affairs of Treasurer and controls the financial transactions, repayments, disbursements, passbook entries, and security of the cash.
III. FINANCIALS	
10. Savings and credit meetings	**In the first women's group** each member comes to the monthly meeting to provide savings and, if unable to come personally, she sends money through a fellow member. Each member has to save money in group meeting on the 1st day of every month and the money collected from small group has to be brought to the main committee on next day. **In the second women's group** savings are collected on a meeting every month.

11. Amount of saving	**In the first women's group scheme,** out of 12 groups, one group saves Rs. 100 per member every month, while the others save Rs. 50 per member every month. The groups have no share system and no opportunities for saving more. **In the second women's group** each members save Rs. 20 per month. To keep the record system simple, it is not possible to save more than the fixed amount. The women who have more are also saving in other groups.
12. Amount of credit	**In the first women's group** the minimum credit amount is Rs. 1000 and the maximum is Rs. 20,000. The upper limit is the double of the savings amount. **In the second women's group** the maximum credit is Rs. 10.000.
13. Access to credit	**In the first women's group** only members are allowed to receive credit at the monthly meeting. If the total value of loans requested is higher than the money available in the loan fund, the group discusses the distribution until all members are satisfied. **In the second women's group** the group evaluates the individual members who want to have credit on case-to-case basis.
14. Guarantee	**In the first women's group** a member has to provide a guarantee from another member if she wants to borrow a higher amount than her own savings. Members of the local management are not allowed to be guarantor. **In the second women's group** no guarantee is demanded.
15. Interest rate/service charge/service charge	**In the first women's group** the interest rate/service charge is 12 percent per annum. **In the second women's group** the interest rate/service charge is 18 percent per annum.
16. Social fund	**In the first women's group** a small amount is kept in the bank account as a social fund. From this, additional loans up to Rs. 20,000 can be given in case of social events. **In the second women's group** an amount of Rs. 2,000 in cash is held as a social or emergency fund.
17. Repayment	**In the first women's group,** the credit has to be paid back within six months. If a member can not repay under these conditions, she can renew the loan for the next six months by paying an accrued interest. **In the second women's group,** members which cannot pay back, have to pay the interests and get the loans renewed.
18. Out payment	**In the first women's group,** only members who resign from the groups are paid their savings. **In the second women's group** only members who resign from the groups are paid their savings.
IV. CONTROL AND REPORTING	
19. Fines and discipline	**In the first women's group** penal Interest is not charged. However, members are fined Rs. 5 if they do not give the monthly deposit. **In the second women's group** members that are late for the meetings, have to pay a fine of Rs.10.
20. Safekeeping	**In the first women's group a**n amount of Rs. 200 to Rs. 400 is kept by the

of cash	treasurer, while the rest of the money is kept in a bank account. **In the second women's group** the emergency fund of Rs. 2,000 is always kept by the treasurer. The rest is held in a bank account.
21. Record keeping	**In the first women's group,** each member has a passbook. In addition, an individual record is kept in a register at the supporting organization SAP-Nepal. **In the second women's group,** the members have no individual passbooks. However, the treasurer writes down savings and credit to each member after the monthly meetings.
22. Effect measuring and reporting	**In the first women's group** a monthly account of savings and loan disbursement and annual account is prepared. **The second women's group** has no effect-measuring and reporting.
23. Monitoring and audit	**In the first women's group** monitoring is done by SAP-Nepal and additionally, an annual audit is done. **The second women's group** has no monitoring and audit.
V. PROGRESSION	
24. Integration of the poorest	**In the first women's group** members are mix of poor and non-poor. **In the second women's group** the poorest are offered work in order to earn money for the monthly savings.
25. Integration with other development activities	**In the first women's group** the savings and credit groups are integrated with other activities managed by the forest users committee. **In the second women's group** the savings and credit groups are integrated with other development activities as agriculture, veterinary, advocacy, and general empowerment of the women.
26. Training and capacity building	**In the first women's group** one of the members has had some account training. However, she is not involved in account keeping. The local management has not been trained in savings and credit. **In the second women's group** one of the members has some skills of record keeping from the general school. However, the local management has not been trained in savings and credit.
27. External funding	**In the first women's group** the groups borrow money from the supporting organization at the rate of eight percent per annum and lend the money to the members at the rate of 12 percent per annum. **In the second women's group** there is no external funding.
28. External deposits and inter-lending	**In the first women's group** there are no external deposits and inter-lending. **In the second women's group** there are no external deposits and there is inter-lending among the members.
29. Other financial services as insurance	**The first women's group** offers no other financial services. **The second women's group** offers no other financial services.
30. Vision and strategy for progression	**The first women's group** has no vision and strategy. But they are planning to carry out lending activities by themselves. **The second women's group** has no vision and strategy.

2.2.3. Assessment of the Kaski projects compared with the international model

The purpose of ***the first women's group*** is to strengthen the capability of women and involve them in income-generating activities. However, the loans have mostly been used for household consumption and social events.

The group has difficulty keeping record of the transactions as it is dependent on the supporting organization SAP-Nepal. They plan to handle the loan operation themselves but have a problem with record keeping. One member has received training on accounting, but she is not involved in account keeping in the organization. No training on savings and credit has been received by the members.

Demands for loan are not met due to scarcity of fund. According to the local management, there is need for savings and credit promotion is some communities, and they are also ready to promote other groups if they get assistance for social intermediation.

The group is totally dependent on the supporting organization and they lack knowledge about the system of savings and credit. The group is like a client of a commercial bank, feeling scared in handling savings and credit even though they have been operating an association since last eight years.

Compared with the international model, some of the most significant similarities are: continuously facilitation, a written constitution, a general assembly, job functions of the local management, compulsory savings and participation in the member meetings (monthly), all members have access to credit, social fund, system of fines and discipline, each member have a pass book, monthly and annual accounts are prepared, current monitoring and audits, integration with other development activities, no advanced services,

Compared with the international model, some of the most significant differences are: no election of the local management, no voting, saving rate is fixed for each member, but differs between groups, no share system and out-payment, guarantee is needed to borrow more than the individual savings, no cashbox with more locks, inadequate training and capacity building, indirect external funding,

The purposes of ***the second women group*** are to increase household security against emergencies, to generate income, and to empower the women. However, according to the women, the largest benefit to their practices are that they do not need to pay interest rate/service charges up to 60 percent to the private money lenders and that they now have a stronger position in relation to their husbands. The savings and credit meetings have developed into a new forum, where the women can meet and talk about more general problems.

On the other hand, the largest problem is the migration of the competent members. It creates problems for the current meeting minutes and recordkeeping. Hence the group demands more training, especially in record keeping and other savings and credit operations.

From the start, the women group's has focused on integrating the poorest in the area. If they can not contribute the monthly savings, the group offers them work to earn the money needed.

Compared with the international model, the most significant similarities are: a written constitution, a local management (not elected), compulsory savings and participation in meetings (monthly), no guarantee demanded, social fund, no out-payment, no shares, system of fines, focus on integrating the poorest, no external funding, deposits and inter lending, no advanced financial services, no vision and strategy

Some of the most significant differences: No facilitation, no general assembly, no voting, no election of the local management, fixed saving amounts, no individual passbooks, inadequate record keeping, no effect measuring, reporting, monitoring and audit, integration with other development activities, inadequate training and capacity building.

2.3. One savings and credit group in Chitwan district

2.3.1. Description of the Chitwan savings and credit project

In the Chitwan district of the Southern Terai area, more than 400 savings and credit groups with more than 15,000 members have been established since 1995. The groups are a part of a general development project driven by Nepal Rual Self-Reliance campaign (NRUSEC) strengthened by CARE Nepal.

Advocacy education program in 2 VDCs of Chitwan district for 2 years and Public Advocacy for healthy life program in 5 VDCs of Chitwan district for one year were implemented through CARE Nepal. Similarly, other programs such as Women Empowerment Program through PACT-Nepal (now Samjhauta Nepal), Lawful Education Program through The Asia Foundation, and other programs are being implemented.

According to the chairman of the NRUSEC, the savings and credit groups are now the most important component in the development project, which also focuses on capacity building, health, education, environment, livelihood and advocacy. According to him, savings and credit activities are linked with the other development projects; for example, the staff of succeeding projects is mobilized for monitoring and backstopping support to savings and credit groups. In other words, the new projects are targeted towards the savings and credit group members.

The number of groups has increased significantly to more than 400. No groups have been closed or have collapsed due to fraud, lack of repayments, or lack of competence.

Most of the groups are women groups. There are no registered cooperatives. In general, the groups are homogeneous and function like the women's group in Divyanagar-4, Sisai, and the western Chitwan that we have been visiting. However, this group seems to be among the wealthiest in the district.

2.3.2. 30-issue analysis of the Chitwan project

The following is an overview of the visited savings and credit group, based on the 30-Key-Issue-assessment model and interviews of the NRUSEC management and local managers and members of group.

Table 12: 30-Key-Issues-Overview Chitwan

Key-Issue	30-Key-Issues-Overview for savings and credit group in Chitwan district
I. PROJECT INITIATION	
1. Organisation	The Savings and credit groups were initiated by the NGO, NRUSEC through the Women Empowerment Program supported by PACT-Nepal
2. Project purpose	The purposes of the project are household security against emergencies such as sickness and social events, and income generation such as financing of seed, tractor assistance and other farming activities, education, health and advocacy.
3. Members	The project consists of more than 400 savings and credit groups, mostly for females. There are no mixed groups, but there is one created for unmarried girls less than 16 years old. Most of the households in the local area are represented. However, five are not members, because they can not afford the savings. Most of the members can read and write.
4. Awareness raising	Non Formal Education Classes (NFE Literacy Class) were conducted under the Women Empowerment program and the classes were conducted in reflect method by which the knowledge on savings and credit were imparted.
5. Facilitation	The only facilitation activity has been two days of training in accounting for the Chairperson.
II. ORGANISATION	
6. Rules and Constitution	The group has no constitution. Rules are created ad hoc from decisions on the member meetings.
7. General Assembly	The group has no general assembly and no formal election of the local management. The present Chairperson and Secretary have been at their post without election for 11 years. They say that they are willing to give up their positions, but no others have been willing to take over. According to the interviewed members and local managers, there have never been significant conflicts and disagreements. Hence, according to members, it has never been necessary to vote.
8. Local Management	The local management committee consists of a Chairperson, a Secretary, a Treasurer, and other Executive Members
9. Job functions	The Treasurer has been forced to leave the record-keeping and other activities to the Secretary, due to lack of financial skills.
III. FINANCIALS	
10. Savings and credit meetings	The savings meetings are held every first day in the month, while the credit meetings are held every 15th of the month. Participation is compulsory for all members.
11. Amount of saving	In the beginning every member had to save Rs. five per month. Now the amount has increased to Rs. 20 per month. It is not possible to save a higher amount, due to the need for keeping the records simple. Members of the young girls group save

	Rs five per month.
12. Amount of credit	The maximum limit for credit per member is Rs. 35,000, while the minimum is Rs. 500.
13. Access to credit	To ask for a loan, a member has to fill out a formal application to be discussed during the members meeting. In the case of a demand for more credit than the accumulated savings, the loans will be paid out to a reduced amount. The maximum term of credit is four months.
14. Guarantee	No guarantee is necessary; however two members have to be witnesses to the grant of credit.
15. Interest rate/service charge/service charge	The interest has decreased to 18 percent per annum now from 24 percent in the first years.
16. Social fund	The community has an emergency fund of Rs.1,200.
17. Repayment	A member that cannot pay back in time usually gets credit from other members. No members have ever been pushed out due to lack of repayment of loans
18. Out payment	The Divyanagar group has no out payment. The accumulated saving is Rs. 81,500.
IV. CONTROL AND REPORTING	
19. Fines and discipline	The members are fined for not repaying their loans. However, there are no fines for staying away from meetings.
20. Safekeeping of cash	The secretary keeps the cash at home in a box with one of her own locks. Normally, the amount of cash is limited to a minor amount of around Rs.1,000.
21. Record keeping	Each member has an individual passbook. In addition, the secretary keeps a record book with specification of the amount of savings and credit in total and per individual member.
22. Effect measuring and reporting	The group does not conduct any measuring and reporting.
23. Monitoring and audit	There is no kind of monitoring and auditioning of the record keeping.
V. PROGRESSION	
24. Integration of the poorest	There are no ultra poor in the area. The community is homogeneous in terms of financial status.
25. Integration with other development activities	All the savings and credit projects are part of a developing project with many other activities. According to the chairman of NRUSEC, the savings and credit groups have become the main elements in the developing project, because they generate the largest interest among the members.
26. Training and	The training and capacity building has been very poor. It consists of only two days

capacity building	of training in accountancy for the chairperson over the last 11 years. However, according to the chairman of NRUSEC, groups and members with problems can get help from their staff.
27. External funding	Until now there has been no external funding.
28. External deposits and inter-lending	There are no external deposits and there is inter-lending among group members.
29. Other financial services as insurance	The group offers no other financial services.
30. Vision and strategy for progression	The group has no vision and strategy.

2.3.3. Assessment of the Chitwan project compared with the international model

The purposes of the savings and credit group are household security and income generation. However, according to the women, the most important benefit is the possibility of avoiding the high interest rates of private moneylenders.

Their largest problem is that their husbands do not understand why they have to participate in the member meetings instead of doing work at home.

According to the local women, it is not relevant to establish mixed gender groups. They say that they prefer to have separated male and female groups, because normally it is the females that have responsibility for their households. According to NRUSEC, the women would not dare to speak as much in the meetings if there were male participants. However, it could be relevant to establish mixed groups in order to make the men understand what is going on during the meetings and to let them take more responsibility. Now, many of the local men do not seem as responsible as the women due to their alcohol habits. The women are getting more powerful in the families due to the savings and credit groups.

According to the chairman of NRUSEC, the largest problem is the lack of competence. Some groups have had troubles due to the migration of some of the few people that could manage the recordkeeping. However, in these situations, the NGOs have been assisting with training.

Compared with the international model, the most significant similarities are: local management (not elected), compulsory savings and participation in regular savings and credit meetings (monthly), no guarantee needed for credit, social fund, ,individual passbooks, a special focus on integrating the poorest, no external funding and deposits and inter-lending, no advanced financial services, no vision and strategy for the future

Compared with the international model, the most significant differences are: no out-payment, no shares, no constitution, no voting, no elections, fixed saving amount, a, no safe cashbox with more locks, inadequate recordkeeping, no effect measuring, reporting, monitoring and audits, inadequate training and capacity building.

3.4. Lessons learned from all six savings and credit projects

The main purposes of the six self-helped savings and credit groups are to generate income, to increase household security against emergencies, to empower the members, and to protect them from the exploitation of private moneylenders.

The actual results vary in the different groups. However, the general picture is that the groups have created good results when it comes to household security, empowerment, and alternatives to the private moneylenders, while the income generation aspect has been more unclear.

The most important point is that the existence of all of the projects is threatened by the lack of external facilitation, internal capacity building, and training of local management and members. According to our interviews and assessments, the groups do not have enough competence especially in recordkeeping and other elementary savings and credit operations. This is also the main reason that a significant number of the groups in Syangja have not been sustainable.

The six savings and credit projects have all been established as a kind of add-on to more general development projects. Due to this, there has not been enough focus on the savings and credit component. It is ironic, because according to our interviews, the savings and credit activities tend to be a good point of departure for many of the other development activities.

Often the inclusion of income generation especially for the poorest people is a main objective of microfinance and self-helped savings and credit groups. It has also been a focus for some of the analysed groups, though the practical results have been mixed. Often the ultra poor members can not save enough money to become members of the groups. In some cases it means they are excluded. In other cases, the groups try to help by reducing the saving rate or by offering the ultra poor possibilities to earn enough money for savings.

A general problem is that most of the groups do not have a formal constitution, as recommended in the VS&L model. This means that the rules can be too pragmatic, with the decisions too dependent on the local leaders; there is not enough discussion among members and when there is discussion, it tends to be dominated by the elite members.

The problems increase when there is no general assembly, no voting, and no formal and regular election of the local management. The consequence is not enough replacements for leaders; the development of competence is very important. There is a possibility of dysfunctionality of the group for want of next-in-line leadership development.

The lack of competence is a barrier for many things, such as allowing some members to save more than the fixed amount, which demands more advanced recordkeeping.

Reliable bookkeeping is important to secure fair transactions and confidence among members. It is also the basis for the reporting, monitoring and audits that is essential to progress. The same can be said about a vision and strategy for the future, which is also missing in most of the projects. But this is not a recommendation in the VS&L model.

We have found indications of some external funding in the form of capital from financial institutions or other organisations in two of the groups. The same can be said about external deposits, inter-lending, and offering of other financial products like insurance. This conforms to the recommendations of the VS&L model to delay implementing more advanced methods until the savings and credit groups are functioning well.

The six groups are also compliant with the international model when it comes to the compulsory savings and participation in regular savings and credit meetings. As the VS&L model recommends weekly fortnightly or monthly meetings; monthly meetings seem to be enough for the groups in Nepal.

None of the six groups follow the recommendation of a cash box with three different locks. Either they store the savings in a bank account or the money is kept by the Treasurer on trust. We have not found indications that this has created any problems. However, to keep confidence and avoid problems in the future, it seems to be a good idea to have a cash box with at least one lock.

In conformity with the VS&L recommendations, all groups have a social or emergency fund. They have also a system of fines and discipline, when it comes to savings, repayment of the credit, and participation in the meetings.

Although there are different systems of guarantee for loans, we have not heard about the lack of repayment as a problem in any of the groups.

None of the Nepali groups follow the VS&L system with savings and credit time circles of one year, the conversion of savings to shares and the out payment of the accumulated capital after one circle. The prevalent system is to accumulate the savings and the interest rates to be able to give more credits. We have not found any indications that members should wish to follow the original VS&L model and get their savings paid out regularly.

Finally, all groups charge a relatively high interest rate/service charge for credit that, without any deductions, is held within the groups and thereby increases the credit possibilities for the members. However, in one of the groups, there are indications that some of the more wealthy members, who have the ability to save regularly, are earning a significant interest marginal to give credit to the poorest in the group, those who needs the money most.

In conclusion, many Nepali savings and credit groups are not sustainable -first and foremost due to the lack of external facilitation, internal skills, institutional frames such as a constitution, and a general assembly with voting and the election of local leaders. Hence, many could improve by implementing a version of the VS&L model, adjusted for the particular Nepali conditions. The VS&L model should be relevant for all remote geographical parts of Nepal where there is no accessibility and less accessibility of credit, and also for inculcating the savings habit among poor and disadvantaged people. However it is more relevant for Dalit and women groups than for cooperative groups, which have their own rules and regulations.

CHAPTER 3: RECOMMENDATIONS

3.1. A strategy for the extension of CARE-initiated savings and credit groups

Although microfinance in Nepal has expanded significantly the last ten years, there is still much to be done. Formal Microfinance Institutions have reached less than 40 percent of the poor Nepali households and less than10 percent in rural and remote areas in the mountains and inaccessible hills. Also, many of the 90.000 households linked to the formal microfinance sector and the 1.3 million in the informal savings and credit groups are not content with their situation. Some, because they are caught in a debt-trap due to too much credit, and others, because their savings and credit group is about to collapse due to the lack of competence and external facilitation.

This analysis has shown that CARE can make a significant difference by implementing a new focused microfinance strategy of facilitating self-helped savings and credit groups in Nepal on a much larger scale. The most significant need is to reach the poorest and marginalised people living in the mountains and inaccessible hills.

We recommend that the first step should be a revitalisation of some of the 38 savings and credit groups that CARE has initiated in the district about 2002 as a part of the Upper Andhikhola Watershed Management Project. Our assessments indicate that most of them desperately need skills and knowledge regarding financial operations, record keeping, and the like. According to CARE's local partner, ASK, it is likely that many of the groups could be rescued by more external facilitation and more training of the local managers and members in savings and credit operations. It should be up to the local people and organisations, whether they prefer new savings and credit groups or revitalisation of the old groups. However, CARE is supposed to make a significant difference by promoting a systematically facilitation project in Syangja as recommended in part 3.3 of this report.

A natural step would also be to improve the existing savings and credit operations in the seven other CARE development projects where this is a present component. We recommend that CARE assesses these projects by using the "30-Key-Issue-Model" to find out how they are functioning to get an overview of the problems and opportunities. Thereafter, CARE should promote a systematic facilitation of the groups inspired by the VS&L model adjusted to Nepali conditions, which we have developed in part 3.2 of this report.

However, to scale up the expansion of savings and credit groups in Nepal to the level that CARE has reached in many African countries, CARE Nepal has to take a resolute strategic decision. We recommend that CARE promote specialised savings and credit groups that are not a secondary add-on to a general development project. These should not be pure financial projects that lie too far away from the general CARE strategy. Different kinds of social mobilisation could be added later to the savings and credit services. First and foremost, it is a matter of which order the financial and social component should be implemented. According to our interviews, savings and credit groups are a platform for other development activities due to the large interest from the members.

Finally, we recommend that CARE use the adjusted VS&L model as a standard guideline for savings and credit groups in future development projects where this is relevant.

Table 13: CARE's opportunities to expand and/or improve savings and credit groups

	Savings and credit groups as a component in integrated development projects	Specialized savings and credit groups
Earlier projects	E.g. Syangja-, Kaski- and Chitwan projects	Not relevant
Current projects	Shakti-, Chuli-, Samanata-, Janaseep-, Sagun-, Seeno-, Syangja/Bajhang/Bajura- and Doti project	Not relevant
New projects	To be decided	To be decided

To carry out the strategy of expanding CARE related savings and credit groups, the organisation should build up capacity internally and in cooperation with external partners. The following elements are the most important:

- **A general model for microfinance, especially for savings and credit groups:** To scale up the outreach of savings and credit groups, it is important to conduct a general model that can easily be replicated. This does not mean that it can not be customised. However, as a point of departure we recommend that CARE should use the adjusted VS&L model outlined in part 3.3.

- **Facilitators:** CARE should hire and train or cooperate with a corps of moderately educated facilitators as outlined in part 3.3.

- **Financial resources:** CARE should make agreements with private and governmental donors that are interested in financing the facilitation of the savings and credit groups. In the long run, CARE should also arrange possible links between mature savings and credit groups and the financial sector for external funding of credit.

- **Registering, monitoring and reporting system:** From the viewpoint that "you get what you measure", CARE should build up a system to register the results and use of resources when it comes to microfinance and especially savings and credit groups. The most important indicators should be reported externally together with CARE performance in other respects.

- **Success criteria and evaluation:** To control the process, CARE should set up a limited number of quantitative success criteria for the microfinance and savings and credit activities. The performance should frequently be evaluated against the objectives.

3.2. A general model for self helped savings credit groups in Nepal

When it comes to a general model, we don't see any reason to evaluate all kinds of microfinance models to find the most optimal for CARE to implement in Nepal. Aiming to help the poorest and marginalised people in the rural area of Nepal, our analysis shows that CARE should not provide external micro credit, but focus on promoting self-helped savings and credit groups. And among the different models in this area, an adjusted VS&L model is a good choice due to several reasons:

- the model is developed by CARE
- it has shown to be a large success in more than twenty countries
- it is easy to replicate
- it is especially suitable for the very poor people in rural and remote areas.

The adjusted VS&L model, we are recommending for Nepali savings and credit groups, focuses on savings and loans given on the basis of the internally collected money. Until good saving habits are developed by the groups after one or two years, we recommend CARE not to provide external funded credit and access to the financial system. And we recommend this kind of link to market-conforming financial services through formal microfinance institutions, rather than donations or loans with a reduced interest rate directly from CARE. To secure that the system is financially sustainable, members have to consider loans as liabilities that should be paid back, and not gifts or "cold money".

After about two years it can also be relevant to offer other financial products as insurance, money transfer, and the like.

An important point in the model is that savings and credit groups needs continuous and systematically facilitation for at least one year before they can manage the savings and credit operations themselves. Thus, we recommend that CARE offer both new and older groups a field officer who will visit the groups at least once a month to help implement the adjusted VS&L model. After about one year, groups should manage themselves, and the facilitator can reduce the frequency of visits to about once every third month.

The facilitation is important to develop the necessary skills among the managers and members, and also to institutionalize the groups with a constitution, a general assembly, elected leaders, and democratic decisions based on "one member, one vote."

There are good arguments both for mixed-gender groups and for separated female and male savings and credit groups. However, we recommend more focus on maximizing the women's ability to increase and control incomes and resources through registration of property and assets in women's names, graduated loan sizes, special packages for women in non-traditional and more lucrative activities, and so on.

Almost NGO's, INGO's, Bilateral Agencies, and Government Line Agencies are working on a group approach and offer savings and credit projects. However the programmes should be more coordinated in order to avoid situations where the same people are involved in too many different programmes.

Below we present the adjusted VS&L model for self-helped savings and credit groups in Nepal, which we recommend CARE to implement. With the Village and Saving model as a point of departure, we have adjusted the model to Nepali conditions on the basis of lessons learned from the six projects that we have assessed in this analysis.

In other words, this is our recommendation to “best practice” for savings and credit groups in Nepal, knowing that it always is dangerous to use that word without emphasizing that no model will be ideal for all situations in all geographical areas.

The model should be read as our recommendations within the 30 key issues of microfinance. It can be used if the local facilitators, leaders and members do not have better ideas. When it comes to other issues and the practical implementation we refer to the original VS&L model, including the templates for constitution, meeting procedures and reporting in the annexes of this report.

Table 14: The VS&L model adjusted for Nepal

The adjusted VS&L model: 30 key-issues-overview for savings and credit groups in Nepal	
I. PROJECT INITIATION	
1. Organisation	The first step should be deciding which organisation to participate in the project as the promoting institution/facilitator, community organisation, external capital provider, local authorities etc. The roles of governments and donors should be as enablers and not as direct providers of financial services. Donor subsidies should complement, and not compete, with private sector capital.
2. Project purpose	The purposes can be increasing household security against emergencies, generating income, preventing from exploitation of high interests rates of private moneylenders, and empowering of the local groups.
3. Members	VS&L recommends 10 to 20 members in each SCG. However, in Nepal the number should be around 25 members. All potential members in the area should be given access to the SCGs regardless of income, cast, religion. In Nepal and many other countries most groups are female groups. However, male groups and mixed gender groups can also be found. Pro & Cons can be found respectively for the separated and mixed gender groups.
4. Awareness raising	Awareness for the project should be raised through preparatory meetings with community leaders, administration officials, and an introductory meeting with the community. Purpose, benefits and potential problems have to be clear before initiating the project. It is important to be aware of special local conditions. Before taking off, a preliminary meeting has to be held with potential members.
5. Facilitation	The first year of operation, the SCG has to be facilitated at least once a month. The facilitator should attend the meetings and drive the “30-Key-Issue-Model” while training the local management. After one year, the associations should manage their own affairs, while the facilitator monitors the progress at least once every third month. The facilitator should never manage the activities of the Association and never touch the money. However, managers from experienced groups can be facilitators in new SCG.
II. ORGANISATION	

6. Rules and Constitution	A constitution should be adopted on the first general assembly by at least two-thirds of the members. It should be a written document that defines the goals, purposes, rules, and governance of the association. A draft for discussion among members could be the standard VS&L constitution formula (Annex 3). However, the rules for the Association should be decided by the members, with the provision that any member can propose changes to the Constitution. The final version should be signed by all members (with fingerprints from all illiterates). A paper version should always be kept in the cash box, to be available in case of misunderstandings and discussions. In case of many illiterates, every member has to remember one or two of the rules in the constitution.
7. General Assembly	A General Assembly should be held at nearly the same date every year for discussions and elections of the local management. All members should have the right to propose an issue to be discussed at the meeting. It is the General Assembly and not the Local Management Committee that is responsible for setting the rules and regulations. If the local management doesn't do its work well, it should to be replaced by new members elected by the general assembly Each member should have one vote on the General Assembly and voting should be in secret.
8. Local Management Committee	The local Management Committee is changed at least every second year through elections on General Assembly. One member should be elected for only two consecutive terms. At least 33 percent of the Management Committee members should be females. At the least, the Management Committee members should also serve the functions as Chairperson, Secretary and Treasurer. Most members of the local Management Committee should be trained at least in savings and credit operations.
9. Job funktions	The Chairperson: Leader of the meetings, levies fines The Treasurer: Responsible for controlling the financial transactions, repayments, disbursements, passbook entries and for announcing balances at the end of the meetings. It is important that he can operate a calculator. The Secretary: Responsible for arranging meetings, meeting minutes and communication.
III. FINANCIALS	
10. Savings and credit meetings	Savings and credit meetings should be held at least once a month. Often, a separate savings meeting is held in the beginning of the month, while the credit meeting is held in the middle of the month. The result is two meetings per month, which is recommended at least the first years. All members should participate in all of the meetings and contribute with the decided minimum saving. All financial transactions should take place in front of all members. A draft for the meeting agenda and procedure can be found in Annex 2.
11. Amount of savings	In the Constitution, members should decide the minimum and maximum savings, which do not need to be the same for all members every month. In the VS&L model, saving allows each member to buy 1-5 shares in the Association at each meeting. However, in Nepal the share system is only common in cooperatives.

12. Amount of credit	In the constitution, members decide the minimum and maximum credit for each member. The past record of repaying and the amount of regular savings from individual members should be considered. Normally there should be a monthly instalment of repayment (principal plus interests).
13. Access to credit	Every member should receive credit at credit meetings by requesting the amount from the group, and stating the purpose and over what period of time they expect to be able to repay. There should be a rule in the constitution that deals with the situation where the total value of loans requested is higher than the money available in the loan fund. Associations should not give loans to non-members.
14. Guarantee	In the constitution it can be de decided that all borrowers should present a guarantee from other members or the total group on order to receive credit. However, in Nepal the guarantee is used when the loan limits are exceeded.
15. Interest rate/service charge	All savers should receive an interest rate/service charge decided by the members, and paid by the receivers of credit. The rate should be the same for all members. In VS&L's an interest of 10 percent per month is normal. However, in Nepal the interest rate/service charges paid for credit is often 18 percent per year, while the interest rate/service charge paid to the savers is 10 percent per year. The difference can be used by the group for common purposes. In some groups, interest on savings is not calculated and just accumulated in the group fund. The interest rate/service charge should not be too high because interest rate/service charge ceilings can damage poor people's access to financial services. On the other hand, interest rate/service charges should not be too low in order to secure financial sustainability, where all costs are covered and savers have an initiative to lend their money to others.
16. Social fund	In the constitution, members should decide if there will be a social or emergency fund, from which members can receive grants for emergencies as funeral expenses, accidents, and catastrophes. The amount should also be decided. All members should contribute to the fund.
17. Repayment	In the constitution, members should decide the maximum credit period. The time period should be based on the purpose of the loan and the payback period for the investment. Normally, it should be less than one year. In the constitution, members should decide what needs to be done when a member can not pay back.
18. Out payment	In the constitution, members should decide if the savings have to be paid out after one year (to start a new circle of savings and credit), or if the money should be accumulated in the fund. In Nepal the latter is the normal, with the exception that in Cooperatives, interest rate/service charge and dividends are paid out. In the original VS&L, every cycle of about one year ends with a share-out meeting, where the accumulated money are allocated amongst the members proportionate to the amount that they have saved. The value of each share would be calculated as the total amount to be distributed divided by the number of shares. The amount each member should receive should be calculated as the value of one share multiplied by the amount of shares owned by the member.

IV. CONTROL AND REPORTING	
19. Fines and discipline	In the constitution, members should decide when they have to pay fines for not respecting the rules. The amount is determined by the members. In VS&L anyone who is late for meetings has to pay a fine on arrival. Other offences to be fined could be non-attendance to a meeting, not remembering Association rules, loss of number card, chatting through the proceedings, showing disrespect to a fellow member, not remembering decisions and activities of the preceding meeting, and the failure of a member of the Management Committee to perform duties.
20. Safe keeping of the money	VS&L recommends a cashbox with three locks that can only be opened in member meetings where all three key-holders are present. The purpose is not to avoid robberies, but to insure the creditability that all transactions take place in front of all the members. In Nepal, cash after disbursement is most often stored by the treasurer or in a bank.
21. Record keeping	The record keeping should be based on individual passbooks with information about individual loan amounts and shares, or on one ledger for all members with the meeting minutes. Record keeping should not be based on memorisation, it should be written in black and white.
22. Effect measuring and reporting	Before the out paying of savings, the facilitator or the record keeper has to register the key amounts and the like. (Annex 4) On the basis of the registrations done by the record-keeper, performance indicators should be calculated. Financial and outreach transparency is important.
23. Monitoring and audit	After one year of monthly training, the facilitator should visit the SCG for monitoring the process, onsite coach and progress every second month.
V. PROGRESSION	
24. Integration of the poorest	One way is to accept a minor contribution of a few Rs from the ultra poor. Another way is to offer them the possibility of working for the saving contribution. A third way is to support the poorest by an external financed revolving fund for a limited period until they are able to earn enough money to contribute to the savings. A forth way is to create new SCG especially for the poorest.
25. Integration with other development activities	SCG can be a good point of departure for other development projects, due to the high interest of members in attending the savings and credit activities and concern for their money. In integrated development projects there has to be a special focus on the savings and credit activities so as to avoid neglect due to other activities.
26. Training and capacity building	Leadership, governance, savings and credit operations, record keeping, entrepreneurship, business promotion, and the like. Training and education should be an ongoing process.
27. External funding	Externally funded credit should not be provided the first two years, where the members have to train internal savings, credit and repayments (except a revolving fund for the poorest). However, after the system has shown to be sustainable, the SCG could be linked to external microfinance institutions. The promoting organisation should never promote loans or seed capital themselves directly.

28. External deposits	Associations should be cautious about depositing their savings in a lending institution.
29. Other financial services	Within the first few years, other financial services as insurance should not be provided.
30. Vision and strategy for progression	A strategy for the future could include external funding; institutionalizing as registered Cooperative or financial intermediate organisations or development banks; training in entrepreneurship and business promotion; and linkages and networks with financial institutions and development organizations

The common features of the original VS&L model and the adjusted version we have recommended for savings and credit groups in Nepal are mainly: the focus on facilitation and training, integration of the poorest, savings rather than external funded credit and the institutionalising of the groups in terms of a written constitution and a general assembly where the local management is elected by the members.

The mail difference is that while the original VS&L model recommends a share and out payment model, our recommendation is to continue the use of the accumulation model in Nepal. We are aware that good arguments can be found for both models. Some of the advantages of the out payment model is that it often attracts more people and stimulates savings, if they know, they get their own money paid out regularly, e.g. every year.

However, one of the arguments for the accumulation model is that it is necessary to accumulate the savings to fund the demand for credit. Another is that if it is possible to withdraw the savings, many will use the money for consumption. Thus, the use of compulsory savings is important.

Last but not least, none of the local leaders and members we have interviewed has expressed the need of regular out payment of the savings. Hence, our general recommendation is to use the accumulation model. However, experiments with the out payment model from the original VS&L model could also be useful and relevant.

Although the share/out payment model and the accumulation model is different, most of the 30-key-issues are the same for the two models. The main differences can be found within issue 11, 15, 18 and 21.

When it comes to other differences between the original VS&L model and our recommended adjusted model, we see no need for cash boxes with three locks and saving meetings every week in Nepal. It seems to be more members in the savings and credit groups in Nepal than recommended in the original VS&L model. Finally, contrary to the general VS&L model, we recommend a central recordkeeping and measurements of the activity and results, and finally a vision and strategy for how to progress.

3.4 Recommendations for improvements of evaluated projects

Although the six evaluated savings and credit projects are different from each other in many ways, it is striking to what extent their main problems seem to be the same. First and foremost, they all need external facilitation, both to improve the skills of the managers and members and to build up a more sustainable organisational structure.

Thus, as mentioned earlier, our first recommendation is the implementation of a very concrete facilitation project in Syangja primarily aimed at revitalising some of the distressed savings and credit groups. The basic idea is to train ten people to each be able to facilitate ten new and old savings groups systematically for about one year in implementing the adjusted VS&L model. After this, the facilitators should monitor the groups once every three months and begin facilitating ten new groups in the same way.

In addition to the training of professional facilitators, we also recommend the training of some of the local managers to work as ambassadors and facilitators for other groups.

Although it is not a part of the original VS&L project, we recommend that the facilitation project contain the training of the local management in recordkeeping and elementary financial operations. Without the records, the savings, credit and repayment can not be measured and reported to the members and promoting organisations. And this is important to convince the members that their financial options are accumulating, and to adjust if something goes wrong.

We think that the central recordkeeping, monitoring and reporting should be emphasised for all the evaluated groups except the Dalit group in Syangja. Here most of the members are illiterates, and due to this, the original VS&L system based solely on individual passbooks would be more realistic and relevant for them.

In general and at a later state, the groups should also be trained in entrepreneurship and different kinds of business promotion and marketing.

In the adjusted VS&L model, we recommend that the external facilitation should also be focused on building up institutions such as a yearly general assembly, a constitution, and a set of operational rules. The Dalit group in Syangja, the second women's group in Kaski and the women's group in Chitwan have no General Assembly, while a constitution is missing in the Dalit group and the Chitwan group as well. However, institutions or not, the most important is that all the groups should begin to elect their leaders formally and let the members use their voting rights before important decisions. This is not only for the case of sound principles of democratic institutions. It is also the best way to ensure that all members are involved and the power is not isolated to one or a few persons.

We also recommend that all the groups should focus more on the integration of the ultra poor and marginalised people in the area. The exclusion of these people from the groups should not be accepted, although it can be very difficult for them to contribute with some saving to the groups. Their option is to be included in the group.

To include the ultra poor, training should be interlinked with the income generation activities. The situation as in the cooperative group in Syangja should be avoided, where goat-raising loans are given to inexperienced Dalit members who neither have grazing land nor skills to take care of goats.

One way is to accept a minor contribution of a few Rs from the ultra poor. Another way is to offer them the possibility to work for the saving contributions. A third way is to support the poorest by an external financed revolving fund for a limited period until they are able to earn enough money to save for themselves.

The women group in Syangja should especially be aware of the problems. It is dominated by middle-income families acting in undesirable ways - excluding some of the poorest and exploiting others by lending them money with a very high interest rate/service charge.

The Cooperative group in Syangja and one of the women groups in Kaski are practicing some external funding of credit. However, during our interviews, we did not hear about any demand of external credit. On the contrary, many of the members had heard about bad experiences where poor people were caught in a debt trap, because they had been offered credit from a external donor or microfinance institution, and they could not pay back the loan. Thus, in accordance with the recommendations of more and more experts in the literature, we recommend that the six groups postpone the external credit until the savings and repayment habits are developed. This often takes two years or more.

The best way of external funding is to connect the savings and groups to the external financial system by giving access to credit on market conditions from one of the existing microfinance institutions. We do not recommend loans based on external gifts or reduced interest rate/service charges from the donors and promoting organisations.

In the Dalit group and the two women groups in Kaski, the rate of savings for all members is fixed and slot-savings are not allowed. This is not optimal, because some of the members have the need to save a larger amount and the system is reducing the amount of savings. The system of fixed savings is often the result because the record keeper is not able to manage savings in different amounts from the members. However, we recommend that slot-savings be allowed in all groups except the Dalit group where it could cause too many problems in registering.

For the Dalit group and the women group in Syangja and to a minor extent the two women groups in Kaski, it could be relevant to keep the cash not loaned out to members in a cash box with a lock. However, it seems not necessary to use the VS&L system with three different locks in order to convince the members that their money is safe.

Although it is not a part of the original VS&L model, we recommend that all of the six groups discuss and create a vision and strategy for the future and their next step of development .It could be training in other disciplines, external funding, new services such as insurance, or conversion to a registered savings and credit cooperative.

The adjusted VS&L model and our recommendations for institutionalizing are less relevant for the Cooperative group in Syangja, which has to follow the rules in the Cooperative act. However, the group needs external facilitation to carry out the good intentions in practise.

At the other end of the scale, our assessment is that it would be relevant for the Dalit group in Syangja to implement the adjusted VS&L model with all its elements, including the special memo-techniques for illiterate members of savings and credit groups. Regarding the operational details, we refer to the Annexes and the very detailed programme guide for Village Savings and Loan Associations (VS&L Field Operations Manual 2997)

3.3. Facilitation project in Syangja

The FAHU Foundation has explicitly asked us to recommend an operational project to expand the scope of self-helped savings and credit groups in Nepal. Our answer is the following project-proposal of facilitating 300 new and existing savings and credit groups in the Syangja district within three years. It will directly benefit 9.000 poor households and thereby at least 45.000 poor family members.

More specifically, the basic idea is to hire and train 10 facilitators, two supervisors, and one coordinator to help the groups implement the adjusted VS&L model within one year. Every facilitator will handle 10 savings and credit projects of 30 members each. At the same time he or she should monitor some old groups and arrange awareness meetings for others.

One facilitator will look after one VDC. Each VDC will have an average of 30 savings and credit groups. We are modifying the VSL model a little bit by keeping monthly meetings instead of weekly ones. Hence, in the first year a facilitator will visit at least 12 times; more times for the needy groups. Thus, there will be about 12 to 15 visits per group the first year. In the next year, the facilitator will allocate time according to level of groups.

The overall objective of the project is to contribute towards the reaching poverty reduction goals by targeting economic growth. However, the project also aims to:

- Empower the backwards, Dalits, and poor economically, politically and culturally through promoting savings and credit groups
- Promote effective governance and best utilization of funds in savings and credit groups
- Strengthen savings and credit groups through different capacity-building measures, training, education, and system development
- Build the linkages of savings and credit groups with different financial institutions

The working area is five existing working VDCs of CARE Nepal and additional five more VDCs in Syangja district.

Table 15: Time schedule for Facilitation project in Syangja

	Events	Year 1	Year 2	Year 3
District Level Training				
Governance	1	1		
Savings and Credit Operation	1	1		
Entrepreneurship Development	1		1	
Business Promotion	1		1	
Field Level Training				

Governance	30	5	15	10
Savings and Credit Operation	30	15	10	5
Entrepreneurship Development	30	5	15	10
Business Promotion	30	5	15	10
Financial Management	10		5	5
Sensitization Camps	270	180	90	
Facilitating New S/C Groups	200	50	100	50
Improving Existing SCOs	100	50	50	
Stakeholders Meeting	36	12	12	12
Staff Meeting	36	12	12	12
Monitoring by Supervisor in 10 VDCs	120	40	40	40
Monitoring by Coordinator in 10 VDCs	60	20	20	20

Facilitators and volunteers of implementing NGOs will be trained at the district level, while the facilitators will train the savings and credit group leaders/members at the field level. The district level training will be held in residential areas, whereas the field level training will be organized in non-residential areas as per the time availability of community people/group members/group leaders of the village.

Textbox 8: Salaries

The salary for three years for the 10 Facilitators, two supervisors and one coordinator:

*10*12,000*13*3 = 4,680,000*
*2*15,000*13*3 = 1,170,000*
*1*20,000*13*3 = 780,000*
In total = 6,630,000

We propose 270 events of sensitization camps: at least three events in one Ward totalling 27 events in a VDC. This is a total of 270 events in 10 proposed VDCs of Syangja district. We estimate that there will be 50 to 60 people participation in each Sensitization Camp.

A Sensitization Camp is an awareness-raising program that will orient people about the different aspects of savings: what it is, why they should save, how to save, the benefit of savings, the benefits of group savings, savings mobilization into credit, and so on. The people will be motivated towards savings, encouraged to form savings and credit groups. Then the facilitator will assist in the formation of savings and credit groups as per the request of community people.

The expected output by the end of three years is:

- 15,000 people will be sensitized on savings and credit and 60 percent of the participants of sensitization camps will be associated in 300 Savings and Credit Groups, and the groups will be proportionally represented by backwards, Dalit and poor
- 600 members of savings and credit groups will be trained in the governance of savings and credit groups; a general assembly will be held regularly; an inclusive management committee will be formed; and democratic exercises will be practiced regularly as system.
- 600 members of savings and credit groups will be trained in Savings and Credit Operation, including accounting and record keeping; at least 60 percent of the savings and credit groups will have maintained records of financial transactions that are updated systematically; all the documents are maintained systematically.
- 600 members of savings and credit groups will be trained in entrepreneurship development and business promotion skills; at least 40 percent of the participants of the training will implement learned skills (individual enterprise)
- 200 members of 100 savings and credit groups will be trained in financial management, including coordination and linkages at least 25 savings and credit groups will be able to access the external resources

Textbox 9: Training and Education
(Costs in Rs)

District Level Training:
TOT on:
*Governance Training : 1*150,000=150000*
*Savings and Credit Operation including accounting and record keeping : 1*150,000=150,000*
*Entrepreneurship development and business promotion skills : 1*150,000=150,000*
*Financial management including coordination and linkages : 1*150,000=150,000*

Field Level Training and Education:
*Governance Training : 30*15000=450,000*
*Savings and Credit Operation including accounting and record keeping : 30*15,000=450000*
*Entrepreneurship development and business promotion skills : 30*20000=600000*
*Financial management including coordination and linkages : 10*15000=150000*

*Sensitization Camps : 270*1000=0,270,000*
*Stakeholders Meeting : 6*5000 =0,030,000*
*Staff Meeting :36*6000=0,216,000*

Total Cost:	*Human Resource =*		*6,630,000*
	District Level Training =	*0,600,000*	
	Field Level Training =	*1,650,000*	
	Sensitization Camps =	*0,270,000*	
	Stakeholders Meeting =	*36,000*	
	Staff Meeting=	*0,216,000*	
	Monitoring Supervisor=		*0,115,200*
	Monitoring Coordinator=		*0,144,000*
	Sub Total:		*9,661,200*
	Overhead Expenses		*0,658,125*
	Subtotal:		*10,319,325*
	Revolving Fund		*1,500,000*
	Contingency 5%:		*0,463,816*
Total:	***or three years***	***12,283,141***	

Total costs for the project in three years can be estimated to Rs 12,300,000, equal to about DKK 945,000 or per year DKK 315,000.

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Links

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www.cgap.org

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edu.care.org

Annexes

Annex 1: Methods

Document Review: Final Evaluation Report of Upper Andhikhola Watershed Management Project Phase II, Enhancing CSO's Capacity Right Based Livelihoods Program in Bajhang, Bajura and Syangja district documents, and other available reports were reviewed, analyzed and assessed.

Development of Assessment Tool: Checklist and Semi Structured Interview (SSI) Questionnaires based on VS&L model were the major tools used during study for collecting data and information. (See Annex: Checklist/Questionnaires)

Preliminary Field Visit : The study team spent one day with representatives of different savings and credit groups at the office of ASK Syangja for the pre-test of the questionnaire , as well as forward planning for the study. The questionnaire was revised after the preliminary field visit.

Sampling of Savings and Credit Groups: Three savings and credit Groups were selected on the basis of their performance as good, moderate, and average, and in terms of operation and membership, large, medium and small. The coverage of the three sectors Municipality, Village and Remote Village of Syangja district was also considered while selecting the sample savings and credit groups.

Two other projects, partners of CARE Nepal were selected for the study. One was FECOFUN of Kaski district and another was NRUSEC of Chitwan District.

Preliminary Meeting and Field Visit: A preliminary interactive meeting was organized with the ASK partner organization of CARE Nepal at Syangja, and one interactive meeting was held with the Executive Members and front line staff of ASK Office at Seti Dovan VDC.

Meetings and Interviews: Different levels of interactive meetings and interviews were organized with the senior officials of ASK, Network Members of Syangja, Officials of Government Line Agencies District Development `Committee, District Agriculture Office, Women Development Division and DLGSP/UNDP.

Focus Group Discussion (FGD): Focus group discussions were done with the Savings and Credit Group of Dalit, Women Managed Savings and Credit Group, and Mixed Savings and Credit Cooperative Society with due focus on the VS&L model.

Two groups, one savings and credit group, and other forest user groups were visited and had focus group discussions based on the VS&L model using the same questionnaire prepared for the savings and credit groups by CARE Nepal.

Similarly, one ethnic group was visited and had focus group discussion with the group's members and an interactive meeting was held with officials of NRUSEC Chitwan.

Sources of Data and Information: The primary source of the data are the Focus Group Discussion with the five different savings and credit Groups selected based on the performance as good, moderate, and average and interactive meetings with the Senior Officials of ASK implementing partner of CARE Nepal, other two partner organizations FECOFUN Kaski, NRUSEC Chitwan, and officials of different government line agencies.

Analysis and Triangulation and Verification of Data and Information: Initial data and information accumulated from the various documents of CARE, FGDs and Questionnaires. Upon returning from the field, study team members prepared a field report of their findings and compiled the information from the checklists in a narrative format. This report contained both description and analysis. The findings of documents, FGD, and questionnaires were reviewed, outlined, and prepared to verify the accuracy with the concerned relevant documents as secondary sources of data.

Other sources of the data were the interactive meeting and interview with Senior Official of ASK and other concerned officials. Therefore, the checklist and the guide questions for the study were developed and used particularly in the FGDs and interactive meetings and interviews.

Annex 2: VS&L Guidelines for meeting procedures

This guide should be copied and laminated in plastic for reference in the field and routinely used for Association meetings after the completion of the training.

Meeting step Procedures

1. Meeting opening

- The Chairperson calls the meeting to order.
- The Record-keeper performs a roll call.
- The Key-holders open the box, which remains in front of the Box-keeper.
- The Fines bowl is placed in front of the Chairperson, so that fines can be collected during the meeting.

Note: Fines for lateness and missed meetings are very important to the Association's success.

2. Daily savings

(If the Association does not have daily savings, skip to step3)

- The Box-keeper calls up each member by number to collect their daily savings deposits.
- The members give their token(s) to the Box-keeper.
- The Box-keeper returns the daily savings to the member and crosses out
- the record.
- When all of the money is returned to the depositors, the record sheet is cancelled.

Note: If a member has saved through daily savings, but has not come to the meeting, their money should remain in the *slot side of the box. It should not be used to buy shares in their passbook, as they are still holding the token(s).*

3**. Social fund**

- The Record-keeper asks the Association to recall the balance of the social fund from the previous meeting.
- The Money-counters then remove the money from the social fund bag, place it in the money-counting bowl, count it, and announce the amount to the members.
- The Chairperson announces that contributions will be made to the social fund. All members must contribute the same amount.
- The Record-keeper calls each member, by number, to give their social fund contributions to the Money-counters. The Money-counters confirm the amount and place it in the money-counting bowl. The Record-keeper then gives the member their passbook.
- The Record-keeper then asks if any member owes money to the social fund. If any member has an outstanding contribution to the social fund, the 'Rememberers' confirm the amount due.
- The Record-keeper then asks for new requests from the social fund. Members in need make their request to the Association.
- If approved, the money is provided to the member according to the Constitution.

- After all benefits have been paid, the Money-counters count the remaining social fund money.
- The Record-keeper confirms the balance of the social fund, and asks the members to remember it for the next meeting.
- The social fund money is then replaced in its draw-string bag and put back in the cash-box.

4. Share purchase/savings

- The Record-keeper asks the Association to recall the balance of the loan fund from the previous meeting.
- The Money-counters then remove the loan fund from its bag and count it, announcing the amount to the members.

Once it is agreed that the amount remembered and the amount counted are the same, the money is placed in the money-counting bowl.

- The Chairperson announces that members will make their share purchase/ savings contributions and the Record-keeper calls each member to the front by their number.
- Each member buys between 1 - 5 shares, giving the money to the Money counters and their passbook to the Record-keeper.
- The Money-counters count the money, place it in the money-counting bowl and announce the number of shares that have been purchased.
- The Record-keeper stamps the correct number of shares into the passbook and crosses out any unused blocks.
- The member then checks that the number of new stamps in the passbook is correct; the passbook remains with the Record-keeper for the rest of the meeting.
- If a member needs a withdrawal, they will ask for it instead of buying shares. When a withdrawal is needed, the Record-keeper will cross out the number of shares from the member's passbook that corresponds to the value of the withdrawal and the Money-counters will give the money from the money-counting bowl. The value of a share paid back to the member will be equal to its original purchase price.

5. Expenses

- If any money was given for expenses in the previous meeting, the person who made the expenditure gives an account and returns any change to the Money-counters, who place it in the money-counting bowl.
- The Chairperson asks the Record-keeper if there will be any necessary expenses before the next meeting. If any expenses are approved by all members, the Chairperson instructs the Money-counters to remove the necessary amount from the money-counting bowl and give it to the member who is designated to make the expenditure.

6. Loan repayment

(if this is not a loan meeting, skip to step 7and then step 9)

- The Chairperson asks borrowers to identify themselves.
- The Record-keeper verifies the amount due by referring to their passbook

Each borrower is then called to the front in order of their number to give their payment amount to the Money-counters. It must not be less than the service charge due.

- The Money-counters count the payment, announce the amount and place it in the money-counting bowl.

- The Record-keeper enters the payment amount in the member's passbook in the 'Paid' box.
- The Record-keeper then calculates the remaining balance due and enters it in the 'Loan Amount' box.
- If the remaining balance due is zero, the Record-keeper signs the passbook and announces that the loan is repaid, cancelling the loan with a diagonal line drawn through the transactions.
- If a balance is remaining, the Record-keeper then calculates the service charge due in the next meeting and enters it in the appropriate space. The borrower then signs in the space provided.

7. Calculating the new loan fund balance

- The Money-counters combine the money in the Fines bowl and the money-counting bowl.
- The Money-counters count the money in the money-counting bowl and the Record-keeper announces the amount to the Association.
- The Record-keeper then tells the Association that this money constitutes their loan fund.

8. Loan taking

- The Chairperson invites loan requests, reminding members of the maximum loan term and loan amount (three times the member's savings).
- Each member who wants a loan then makes a request out loud to the Association, announcing the amount requested, the purpose of the loan and over what period of time they expect to repay.
- The Record-keeper then calculates the total value of the requests and announces it.
- If the total value of loans requested is more than the money available in the loan fund, the Association must discuss adjustments to the individual loan amounts until all members are satisfied.
- Once it is decided how much each borrower will receive, the Recordkeeper calls each borrower to the front in order of their number.
- The Record-keeper then enters the loan number, loan amount and service charge due in the Member's passbook.
- The Record-keeper instructs the Money-counters to give the borrower the loan amount from the money-counting bowl.
- The borrower then counts the money, and signs the passbook.
- The Record-keeper then instructs the borrower to announce out loud the total amount due and the date it is due.
- The Record-keeper instructs the 'Rememberers' to repeat out loud the total amount due and the date it is due.
- This process is repeated until all loans have been issued.
- The Money-counters then count the money remaining in the money counting bowl and announce the amount to the Association.
- The Record-keeper then tells the Association that this money constitutes their loan fund.
- The Money-counters then place the loan fund in its draw-string bag and put it in the cash-box.

9. Closing balances

- The Record-keeper announces the total of the social fund once again, and the Chairperson instructs all members to memorise the social fund balance for the next meeting.

- The Record-keeper announces the total of the loan fund once again, and Chairperson instructs all members to memorise the balance of the loan fund for the next meeting.
- The Record-keeper notes down these two balances in the notebook provided in the kit and encourages members who are able to also note them down or memorise them
- The Key-holders are called by the Chairperson to lock the box.

10. Closing Before closing the meeting, the Chairperson invites members to discuss any items of business that may be of interest.

- The Chairperson announces the date and time of the next meeting.
- Once discussion is complete, the Chairperson closes the meeting.

Annex 3: VS&L Guidelines for Constitution

Part 1: How the Association will govern itself

I. BASIC INFORMATION ON THE ASSOCIATION

Name of the Association ____
Address: ____
The Association was formed on: ____
Date of official registration: ____

II. OBJECTIVE OF THE ASSOCIATION

The purpose of the Association is to be an independent, profitable provider of financial services to its members

The services the Association provides to its members in order to achieve this objective are:

____
____

III. RELATIONSHIP TO EXTERNAL SOURCES OF FINANCIAL SERVICES

The Association will not borrow from financial institutions during the first cycle of savings and lending. If it does so in subsequent cycles it will use the following principles:

- The Association must be the borrower and not the individual members
- The Association will not allow the lender access to information on individual loans
- Members' savings cannot be used as collateral for an external loan
- Any borrowing by the Association must not exceed the total value of all members' paid up shares

IV. WHO MAY BE A MEMBER OF THE ASSOCIATION?

- Lower age limit ____
- Gender ____
- Residence ____
- Other common circumstances ______________________________________

V. COMPOSITION OF THE MANAGEMENT COMMITTEE

- Chairperson:
- Record-keeper:
- Box-keeper:
- 2 Money-counters

VI. ELECTION PROCEDURES

The maximum number of terms any one person serve on the Management Committee is: ____

- Elections must be held at the beginning of each new cycle.
- The minimum number of members who must be present to hold an election is: _____
- The election procedure will use a system that allows everyone's vote to be kept secret.
- The minimum number of people that must stand for each position is two.
- A candidate for election to a post must be proposed for office by another member.

VII. REMOVAL OF OFFICERS FROM THEIR POSITION BETWEEN ELECTIONS

Any member of the General Assembly can call for a vote of no confidence for a member of the Management Committee. If a majority of the members the member decide that the person should be removed from the Management Committee, the member must step down and another member must be elected to the same position.

VIII. MEETINGS
To mobilise savings the Association will meet every ___________________________
- To disburse loans the Association will meet every four weeks.
- The cycle of meetings will continue for a maximum of 52 weeks before the Association shares out its assets.

IX. MEMBERS LEAVING THE ASSOCIATION
- If a member leaves the Association because they have no alternative, the Association will calculate how much they must be paid using the following principle:

____
____
- If a person leaves the Association before the end of the cycle for no reason, except their wish to leave, the Association will calculate how much they are paid using the following principle:

____
____
- If a person is expelled for failing to make regular share-purchase/savings deposits, the Association will calculate how much they are paid using the following principle:

____
____
- If a person is expelled for failing to repay a loan, the Association will calculate how much they are paid using the following principle:

____
____

X. EXPULSION FROM THE ASSOCIATION
- The reasons for which a person should be expelled from the Association are:

____
____

XI. DEATH OF A MEMBER
- If a member dies the Association will calculate how much money should be given to their heirs using the following principle:

____
____

XII. FINES
The following table lists the fines that can be charged for offences committed by members.

XIII. AMENDMENTS TO THE CONSTITUTION
Two-thirds of the members must agree before the constitution can be changed
Anyone can propose an amendment to the Constitution

Offence	Amount
Non-attendance at a meeting for personal reasons	
Late to meetings	
Not remembering Association rules	
Loss of member number card	
Forgetting key	
Chatting through the proceedings	
Showing disrespect to a fellow member	
Not remembering decisions and activities of the preceding meeting	
Failure of a member of the Management Committee to perform their duties	

Part 2: Services offered by the Association

I. SAVINGS

- Members may buy 1 – 5 shares in each meeting
- Members may contribute an equal agreed-upon amount at the start of every future cycle to speed up the growth of the loan portfolio. This can be more than 5 shares if all members agree

II. LENDING

- Those eligible to borrow are:____
____
- The maximum amount that anyone can borrow is three times the value of their shares
- The maximum length of loan term is 24 weeks, but only 12 weeks during the first cycle
- The service charge rate to be charged every four weeks (month) is: ____________ %
- When a member does not repay a loan the following principle will apply: ____________
____
- A loan that is not repaid will be considered uncollectible after: ___________________
- If a member dies his/her loan need not be repaid.
- The highest priority for loans will be given for: _______________________________
- The second highest priority for loans will be given for: _________________________
- The third highest priority for loans will be given for: ____________________________

III. SOCIAL FUND

- The contribution to the social fund will be: ___________________________________
- The social fund contribution will be paid: _____________________________________
- The benefits for the death of a spouse will be: __________________
- The benefits for the death of a child will be: _____________________
- The benefits for the death of a parent will be: ___________________
- The benefit to a member whose house or workplace is accidentally destroyed will be: __________________
- The benefit for sickness of a family member will be: ___________________________

Note: Each Programme will develop a list of benefits from the social fund that most participants think are the most important. What is shown here is a suggested list that may need modification

Name: _____________________________ Signature: ____________________________
Name: _____________________________ Signature: ____________________________
Name: _____________________________ Signature: ____________________________
Name: _____________________________ Signature: ____________________________
Name: _____________________________ Signature: ____________________________
Name: _____________________________ Signature: ____________________________

Annex 4: VS&L Guideline for Recordkeeping and Reporting

Figure 11: Overall project performance

Overall VS&L Project Performance				
	Institution:	Uchumi Savings and Credit Project		
Scale				
Association Membership		**Aggregate**	**%**	**Average**
Total Number of Current Members		410		
Total Number of Men		143	34.9%	
Total Number of Women		267	65.1%	
Total Number of Associations		27		
Average Association Membership				15.2
Membership Growth Rate			9.3%	
Attendance Rate			79.0%	
Dropout Rate		27	7.2%	1.0
Number of Members Belonging to Graduated Associations		500		
Total Number of People Assisted by the Programme		910		
Composition of Current Assets & Liabilities				
Cash on Hand and at Bank		1,521,305	11.9%	56,345
Loans Outstanding		9,298,556	72.9%	344,391
Goods		775,700	6.1%	28,730
Social Fund		1,302,000	10.2%	48,222
Debts		141,000	1.1%	5,222
Net Worth		12,756,561	100.0%	472,465
Financial Performance				
Savings				
Cumulative Value of Savings		10,069,183		
Average Member Savings/Contribution to Date				24,559
Increase in Value of Association Savings		1,385,377	13.8%	51,310
Loans				
Value of Loans Outstanding		9,298,556		344,391
Number of Active Loans		176		6.5
Average Outstanding Loan Size				52,833
Average Loans Outstanding per Association				344,391
Current Yield				
Average Net Profit per Member to Date			13.8%	3,379
Annualised Average Net Profit per Member				9,091
Personnel Profile				
Programme Staff		6.0	85.7%	
Project Manager (PM)		1	14.3%	
Field Officers		4	57.1%	
Other	Field Officer Supervisor	1	14.3%	
Other			0.0%	
Support Staff		1.0	14.3%	
Data Capture Clerk(s)		1	14.3%	
Driver(s)			0.0%	
Other			0.0%	
Other			0.0%	
Other			0.0%	
Efficiency				
Ratio of Field Staff to Total Staff			57.1%	
Caseload: Associations per FO		6.8		
Caseload: Individuals per FO		102.5		
Active Clients per Staff Member		58.6		
Portfolio Utilisation			72.1%	
Number of months completed this fiscal year		8		
Total Recurrent Expenditure this Fiscal Year		8,470,000		
Total Expenditure to Date		38,425,000		
Cost per Client		42,225		
Annualised Cost per Active Client		30,988		
Cost per Unit of Financial Assets			99.6%	

Annex 5: Consumer Protection Code of Conduct in Microfinance

care®

CONSUMER PROTECTION CODE OF CONDUCT IN MICROFINANCE

Approved by CARE USA Executive Team March 2007

RATIONALE

Originally, microfinance (MF) evolved as an alternative form of finance for poor who were previously excluded from the traditional financial systems. It was also rooted in humanitarian soil and driven by a desire to help the poor improve their well-being. But today, MF is becoming a commercial business as it has proved to be profitable, even while maintaining its original social objective. Different categories of actors (banks, investment funds, etc.) are now entering the MF industry and previously non for profit registered MF institutions are in the process of transforming into for profit entities. As MF becomes more commercial and oriented toward profit, there is more and more evidence of exploitation of clients, who are most of the time illiterate, vulnerable and poor. Recent backlash against exploitative lenders that has been seen in different countries to date, such as Bolivia, South Africa, India and other part of the world could be devastating to the whole nascent microfinance industry that reaches out to more than 157 millions individual receiving a micro-loan[1].

CARE has been active in the microfinance industry for decades. As one of the leading international nongovernmental organizations (NGOs) in the world, CARE works in many sectors and extensively in economic development, including financial services, enterprise development and access to market.

Currently, CARE is implementing 74 economic development-related programs in 43 countries throughout Africa, Asia, Europe, the Middle East and Latin America. In addition, CARE maintains ties with 14 independent microfinance institutions (MFI)[2] that have grown out of CARE's economic programming. CARE economic programs reach more than 1.2 million individuals and are largely focused on women. In general, those women are very poor and have a low literacy rate.

OBJECTIVE

Given the scale of CARE's microfinance program and the potential vulnerability of our clients, CARE has designed a consumer protection code that is aligned with our basic programming principles.

This code is intended to protect the rights of our clients and partners, ensuring that they are treated with dignity and respect and at the same time that we are providing them with the highest quality products and services. Consumer protection is not antipathy for business growth; rather it fosters the development of confidence and trust among consumers.

[1] The Micro-Credit summit Campaign, 2006

[2] Some of the MFIs are EDYFICAR in Peru, SEAD Inc in Philippines, WAGES in Togo, and Humo in Tajikistan

CARE'S CONSUMER PROTECTION CODE OF CONDUCT

In the following table, CARE principles are presented in the left column and practices to enact them are in the right.

Our principles	Principles in practice
Promote empowerment *We stand in solidarity with poor and marginalized people, and support their effort to take control of their own lives and fulfill their rights, responsibilities and aspirations. We ensure that key participants and organizations representing affected people are partners in the design, implementation, monitoring and evaluation of our programs.*	CARE staff and partners[3] pledge to treat their clients with dignity and respect. CARE staff and partners will seek to not disclose any sensitive information regarding their clients to a third party without a prior written agreement from the client. CARE staff and partners will always safeguard the interest of the clients and in no case encourage any business deal that undermines the client's control over the business transactions.
Work with partners *We work with others to maximize the impact of our programs, building alliances and partnerships with those who offer complementarily approaches, are able to adopt effective programming approaches on a larger scale, and/or who have responsibility to fulfill rights and reduce poverty policy change and enforcement.*	CARE will always seek a strategic partnership for the implementation of our microfinance activities, especially with local specialized and authorized organizations to ensure sustainable access to and control over financial services by poor and marginalized communities and compliance with local legislation. When working with partners, CARE will ensure that partners have consumer protection codes that are not in conflict with CARE's mission, vision, principles and core values and this Code of Conduct. CARE will play a proactive role in any advocacy work in partnership with others to promote a more conducive environment for the benefits of our communities and partners.
Ensure accountability and promote responsibility *We seek ways to be held accountable to poor and marginalized people whose rights are denied. We identify individuals and institutions with an obligation toward poor and marginalized people, and support and encourage their efforts to fulfill their responsibilities.*	CARE and our partners will seek to ensure that clients have a complete understanding about the true costs they are paying on loans and other financial services and the interest rate they are receiving on their savings. CARE and our partners will seek to ensure that if a loan application is denied to a client, the reason is clearly explained to him or her. CARE and our partners will ensure that clients are aware of their rights and a formal and transparent mechanism is in place to handle client complaints and disputes.
Address discrimination *In our programs and offices we address discrimination and the denial of rights based on sex, race, nationality, ethnicity, class, religion, age, physical ability, caste, opinion or sexual orientation.*	CARE and our partners will seek to ensure that no person is denied access to financial services based on sex, race, nationality, ethnicity, class, religion, age, physical ability, caste or beliefs as long as it is not in conflict with national procedures and regulations. CARE and our partners will make ourselves aware of different power dynamics in the community context and will respond in line with our principles.

[3] By partners, we mean microfinance institutions, cooperatives, banks, investment fund, microfinance association, NGOs or network with whom we work.

Promote the nonviolent resolution of conflicts *We promote just and nonviolent means for preventing and resolving conflicts at all levels, noting that such conflicts contribute to poverty and the denial of rights.*	CARE and our partners will seek to ensure that staffs are respectful to clients, do not sexually exploit them and do not use violent or harmful practices in loan collection, even if the clients are in default. CARE and our partners will seek to ensure that clients avoid investing their loan in business ventures with no prospect for profit to ensure that clients are not deprived of their basic survival capacity as a result of paying back the loan.
Seek sustainable results *As we address underlying causes of poverty and rights denial, we develop and use approaches that ensure our programs result in lasting and fundamental improvements in the lives of the poor and marginalized with whom we work*	CARE and our partners will seek sustainable access to financial services for clients by fairly pricing services, and will make sure that prices are not abusive and comply with local legislation and local industry standard or practices. CARE and our partners will take necessary actions to educate clients on financial management and seek to ensure that clients and their families benefit from the services they receive and do not become over-indebted.

CARE'S CODE OF CONDUCT AND MISSION AND VISION

CARE's work in economic development is customer oriented and geared toward the empowerment and the protection of individuals and communities with whom we work.

OUR VISION *"We seek a world of hope, tolerance and social justice, where poverty has been overcome and people live in dignity and security. CARE International will be a global force and a partner of choice within a worldwide movement dedicated to ending poverty. We will be known everywhere for our unshakable commitment to the dignity of people."*

Our vision focuses on human dignity, social justice and security. As such, CARE should not accept any kind of violation or exploitation of people with whom we work. CARE is proud to be part of the global movement seeking consumer protection in microfinance. CARE believes that by protecting the consumer, microfinance activities are taking a step to further transparency and sustainability.

OUR MISSION is *to serve individuals and families in the poorest communities in the world. Drawing strength from our global diversity, resources and experience, we promote innovative solutions and are advocates for global responsibility. We facilitate lasting change by:*
- *Strengthening capacity for self-help;*
- *Providing economic opportunity;*
- *Delivering relief in emergencies;*
- *Influencing policy decisions at all levels;*
- *Addressing discrimination in all its forms.*

Guided by the aspirations of local communities, we pursue our mission with both excellence and compassion because the people whom we serve deserve nothing less.

ENFORCEMENT AND ACCOUNTABILITY

Expected actions from CARE country offices

All CARE country offices that implement microfinance program are expected to circulate this code of conduct to staff and make sure they understand and abide by it.

CARE's village savings and loan groups

CARE staff should take additional steps to educate village savings and loan members on this code and on their rights and responsibilities vis-à-vis a formal financial institution.

Expected actions from CARE's MFI partners, donors, and policymakers

Any partner that receives funding or technical assistance from CARE for microfinance activities is expected to adopt and implement a code of conduct aiming at fostering transparency and protecting its customers. In any case, the code of conduct should not conflict with CARE's mission, vision, core values and principles and CARE's Consumer Protection Code of Conduct.

New partner:

- Before signing a memorandum of understanding (MOU) with a new partner for a microfinance activity, CARE will share this code of conduct with the partner and make sure that the partner agrees to prepare its own code (if one does not already exist).
- If the partner does have a code of conduct, CARE should review and make sure that it does not conflict with CARE's mission, vision, core values and principles.
- If the partner does not have a code of conduct, it should be clearly stated in the MOU that the partner is committed to adopting one no later than six months after signing the MOU.

CARE's code of conduct should be annexed to the MOU. CARE's partner code should also be attached to the MOU within the 6 month period of time.

Existing partner:

- If the existing partner does have a code of conduct regarding consumer protection, CARE should review the code and make sure it is in line with CARE's mission, vision, core values and principles and should be included in the MOU as an attachment. .
- If the existing code is not in line with CARE's mission, vision, core values and principles, CARE should advise the partner and assist it to amend the code accordingly.

If the existing partner does not have one, CARE should assist in the creation and adoption of a code within six months and should be added later on in the MOU.

In all cases, CARE should make sure that the actual practice of the partner MFI or network conforms to the adopted code of conduct and should be prepared to separate in case of non compliance.

Strategic partners

Regarding CARE's strategic partners without any funding or technical assistance obligation from CARE, CARE should make sure the partner's practices are not in conflict with this code, and should be prepared to separate if they are.

Donors and policymakers

CARE will demonstrate an added value by sharing this code with our donors. This code could also be used to lobby for better consideration of microfinance clients in any donor intervention or microfinance regulations.

We will also enforce ourselves to respect any existing codes, regulations, policies in any country of our operation as long as they are not in conflict with our mission, vision, core values and principles. Otherwise, we shall seek any means to dialogue or advocate for a better conducive legal and institutional environment for our customers and partners protection and interest.

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