

# Effectiveness Of The Saving-Credit Operation Of *Swavalamban* Programme : Substantiation From Borlang VDC, Gorkha, Nepal

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## INTRODUCTION

Credit facilities are an integral part of the process of commercialisation of the rural economy. It removes financial constraints and accelerates the adoption of new technologies. However, no amount of credit, even at the most reasonable rates, can guarantee high productivity. Success of credit programmes depends on many factors including availability of complementary inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels.

Rural credit system has, therefore, been at the centre of public policy intervention in developing countries over the past five decades. Government and aid agencies have devoted considerable resources to supply cheap credit to rural communities in a myriad of institutional settings. The public policy interventions in rural credit system are in varied forms. It is either cost reducing or increasing of borrowers or risk reducing or increasing of lenders. Most credit policies are implemented without clear assessment of their nature and effect.

Rural credit system has been largely disorganised in Nepal. The credit needs of a large portion of rural families are often met by a non-institutional credit market that include village money lenders, landlords and traders. In order to expand rural credit system, and thereby to displace village money lenders, in the fifties Nepal created a system of rural co-operatives, then in the seventies and eighties branch banking was expanded to rural area. As a result, the share of rural credit supply by co-operatives, Agricultural Development Bank Nepal (ADB/N), and commercial banks have been increasing during the past decade. According to a credit survey (NRB 1977/78) about 24 percent of farm families have borrowed from institutional sources in 1977/78 as compared to 18 percent in 1969/70, while the rest was borrowed from informal sources. However, there is no evidences as to the increase or decrease of the volume of informal lending between these two survey periods, although an interest rate differential between formal and informal

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sectors does exist. The interest rate charged by formal sector, 18-20 percent, is lower than that of the informal sector, 24-72 percent. Despite the government's efforts to institutionalise the rural credit system and interest rate differential, the informal sector is still playing a dominant role in the Nepalese rural credit system.

Among the different Non-Governmental Organisations (NGOs), the Gorkha Development Programme (GDP), under the German Agency for Technical Co-operation (GTZ), is the rural self-reliance programme, literally meaning that self-reliance is a poverty alleviation programme targeted to the ultra-poor people residing in the northern hill area and the people of lower caste who are extremely underprivileged. The programme is self-managed by the participating households with minimal help from a motivator fielded by the NGO which facilitates the programme. The participating households are encouraged to form Income Generation Groups (IGGs) which is the principal mechanism of the programme. The group members contribute a fixed amount of savings regularly to the group's self-reliance fund to finance urgent household and social needs of members and to finance productive investment, thereby reducing their dependency on the local money lenders who charge exorbitant interest rates. The fund is collected from a regular monthly fee savings, donations of various types and interest earned from the disbursement of the central revolving fund which serves the participants for both consumption and production purposes. Thus, this fund has remarkably reduced the century old dependency of the poor rural farmers on the local informal money market. Moreover, self-reliance or self-help programmes seem to impact the incomes of those moderately poor who have some assets, skills and socio-economic connections to take advantage of income-earning opportunities. Credit programmes backed by the savings of self-help groups is an innovative concept in Nepal. Before initiating the *Swavalamban* it is necessary to evaluate the saving-credit operation and its utilization.

### Background of the Study Area

The Borlang VDC of Gorkha district is situated in the south eastern corner of the Gorkha district and about 20 km. from district headquarters. Information collected from the VDC office shows that the total population of this VDC is 5056 including 2522 females and 2534 males.

There are 873 HHs. The area has a mixed population of different ethnic groups consisting of *Brahmin*, *Chhetri*, *Newar*, *Kumal*, *Magar*, *Sarki*, *Damai*, *Kami*, *Majhi*, *Darain*, *Gurung*, consisting *Brahmin and Chhetri* 39.32 percent, *Newar* 22.40 percent, *Gurung* 0.15 percent and *Kumal* 11.75 percent and account for over 73 percent of the population.

### Income Generation Group in the Study Area

The Income Generation Groups (IGGs) can be taken as the main and basic body, the medium and the tool of the self-reliance programme to achieve its desired objectives. The self-reliance programme starts with the formation of IGGs and end with handing over all its responsibilities to these groups. The *Swavalamban* programme has covered 544 households out of a total of 873 households in this VDC. The total 544 households of this VDC were organised in 19 groups through the programme. Almost all members, 86.24 percent, of the 109 sampled households had taken loans to improve various types of income generating activities, as well as for consumptive needs. Thirteen IGGs had been formed with only male members, where as the other six IGGs had formed with only female members. Total number of males were 378, 69.48 percent, and females was 166, 30.52 percent. Thirteen IGG members collected NRs. 5 as a monthly membership fee, whereas the other six IGG members collected NRs. 10 as a monthly membership fee.

### OBJECTIVE OF THE STUDY

The main objective of the study is to evaluate the generation and operation of saving-credit content under *Swavalamban* Programme in Borlang VDC Gorkha. This is an attempt to analyse the loan disbursement and repayment under the *Swavalamban* Programme and identify the existing problems and weakness of the *Swavalamban* and to suggest measures to correct them.

### Methodology

The study is based on both primary and secondary data. Secondary data and information are gathered from programme reports and VDC office. Primary data are gathered from field by asking direct question to the members of IGGs. Out of 544 HHs, which were organised in the chain of 19 IGGs, 20 percent 109 HHs were taken for the study. For this, simple random sample was created by pulling names from the borrowers of all the IGGs, with different strata being defined. When selecting this sample only those borrowers who had taken a loan during the last one year were considered.

### ANALYSIS OF DISBURSEMENT, REPAYMENT AND OUTSTANDING LOANS IN SAVING CREDIT FUNDS

Table 1 represents IGG members of the sampled households and their purpose for taking a loan from their own saving-credit fund. Out of 109 households 94 reported taking a loan from saving-credit during 1998. Out of 94 respondents, 49 members, 52.13 percent, belonged to an UCG, 31



members, 32.98 percent, belonged to an MCG and the the remaining 14 members, 14.89 percent, belonged to a LCG.

**Table 1**  
**Purpose For Taking A Loan From Saving-Credit Fund During 1998**

Purpose of Taking Loan	UCG		MCG		LCG		Total	
	N	%	N	%	N	%	N	%
HH expenditures	4	8.16	4	12.90	2	14.28	10	10.68
Festival/Marriage	2	4.08	2	6.45	1	7.14	5	5.32
During illness	2	4.08	1	3.23	1	7.14	4	4.26
Pay back a loan	2	4.08	2	6.45	3	21.43	7	7.45
Crafts	1	2.4	3	9.68	3	21.43	7	7.45
Livestock	20	40.82	6	19.35	2	14.29	28	29.79
Crop cultivation	6	12.25	1	3.23	x	x	7	7.45
Horticulture	2	4.08	3	3.68	x	x	5	5.32
Vegetable Production	6	12.25	6	90.35	2	14.29	14	14.90
Fertiliser	1	2.04	1	3.23	x	x	2	2.12
Trade	3	6.12	2	6.45	x	x	5	5.31
Total	49	100.0	31	100.0	14	100.0	94	100.0

**Note:** UCG = Upper Caste Group  
MCG = Middle Caste Group  
LCG = Lower Caste Group  
N = Number

**Source :** Field Survey by the Author 1998

As a purpose for taking a loan, 94 members of sampled households stated livestock, 29.79 percent, HH expenditures were 10.63 percent, festivals and marriages were 5.32 percent, illness were 4.26 percent, to pay back a loan were 7.45 percent, crafts were 7.45 percent, crop cultivation were 7.45 percent and horticulture were 5.31 percent.

Table 2  
Loans Disbursement By Saving - Credit Fund During 1998

Activities	UCG			MCG			LCG			Total		
	N	Borrowing Amount In NRs.	Av In NRs.	N	Borrowing Amount In NRs.	Av In NRs.	N	Borrowing Amount In NRs.	Av In NRs.	N	Total Amount in NRs.	Percent
Craft	1	540	54.0	3	1800	600	3	2300	766.67	7	4640	5.39
Trade	3	3450	1150	2	2400	1200				5	5850	6.78
Livestock	20	35202	1760.10	6	7450	1241.67	2	1000	500	28	43652	50.62
Crops	6	3825	637.5	2	800	400				8	4625	5.36
Vegetable Production	6	3220	536.67	5	2625	525	2	1200	600	13	7045	8.17
Horticulture	2	1000	500	3	1275	425				5	2275	2.64
Paddle Pipe	1	500	500	1	400	400				2	2275	2.64
Others	10	5800	580	9	6400	711.11	7	5050	721.43	26	17250	20.00
Total	49	53537	1092.59	31	23150	746.77	14	9550	682.14	84	86237	100.00

Note : N = Number

Source : As of the Table 1

Table 2 presents the status of credit disbursement in different sectors according to caste. Livestock was the dominant sector for investment, followed by vegetable production and trade. Out of disbursed loans from the saving-credit fund, NRs. 43652, 50.62 percent, had been disbursed to the livestock sector which shows that there is still a high demand for livestock projects. Most of these livestock loans had been used to purchase buffalo, followed by goats, cow/oxen, pigs and poultry. This signifies that the livestock sector had been able to generate a regular income, hence people of this VDC belonging to IGGS are more attracted to this sector. Besides this, market availability of livestock and low price flexibility are observed as encouraging incentives to invest in this sectors, compared to other agriculture and cottage industry sectors. Furthermore, the easy access to grazing in nearby forests is also an incentive to adopt this profession.

Out of NRs. 43652, the total loans disbursed were 80.64 percent for UCG, 17.07 percent for MCG, and only 2.29 percent for LCG. This clearly shows that Upper Caste Groups (UCG) are more interested in raising livestock than the other two groups.

Although HH expenditures, illness, to payback a loan, festivals/marriages, housebuilding etc. occupy the secondary reason for total disbursed loans under IGGS, which amounted to NRs. 19250 in outlays, this programme has reduced their century long dependency upon money lenders for emergency and ritual needs. If this is extended to the agriculture sector which is in second position, out of the total disbursed loans under IGGS, a total of NRs. 148450, 17.21 percents, had been disbursed. Agriculture loans had been used for different crops, vegetable production, and horticulture such as potatoes, ginger, rice, maize, fruit saplings, etc. Loans were also utilized for the purchase of paddle pipes, and fertiliser. Out of the total loans disbursed in the agriculture sector, NRs. 8545 had gone to UCG, NRs. 5100 to MCG, and NRs. 1200 to LCG.

The trade and craft sectors are in the third and fourth position in terms of loans disbursement. Out of the total disbursed loans from 19 IGGS, NRs. 5850 and NRs. 4650 had been disbursed to these sectors respectively. Trade loans had been used for retail shops and livestock. Craft loans had supported the participants in iron, copper, tailoring, bamboo, and others of a similar type job. Out of the total loans disbursed in the craft sector, NRs. 540 had gone for one person in the UCG, NRs. 1800 for three persons in the MCG and NRs. 2300 for 3 persons in the LCG. Similarly, loans disbursed to the trade sector included NRs. 3450 for 3 persons in the UCG and NRs. 2400 for 2 persons in the MCG.

**Table 3**  
**Loans Repayment Of the Saving-Credit Fund in 1998**

Activities	UCG			MCG			LCG			Total	
	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.
Crafts	1	540	540	3	1800	600	3	2300	766.67	7	4640
Trade	3	3450	1150	2	2400	1200	-	-	-	5	5850
Livestock	12	2800	233.33	4	4800	1200	-	-	-	16	32800
Agriculture	13	7545	580.38	8	3825	478.13	2	1200	699	23	12570
Horticulture	-	-	-	1	425	425	7	5050	721.43	1	425
Other	10	5800	580	9	6400	-	-	-	-	26	19250
Total	39	45335	1162.44	27	19650	727.78	12	8550	712.5	78	73535

**Note :** N = Number

**Source :** As of the Table 1

As credit is the vital component of the programme, the success of the programme lies in terms of proper utilisation of loans effectiveness to increase income and timely repayment. Out of NRs. 86237 disbursed in loans, NRs. 73535, 85.27 percent, had already been repaid. Table 3 shows that overall repayment performance is around 86 percent and this is very satisfactory. 39 members from the UCG had repaid 84.68 percent out of NRs. 53537, 27 members from the MCG had repaid 84.53 percent out of NRs. 9550. So, among 94 members from different IGGs and caste groups, 78 members had repaid NRs. 73535, 85.27 percent, in their IGG fund. Due to small size of their IGG funds, members used to disburse loans by a first come first serve basis.

The repayment rate is very good, and most members participate in the IGG meetings, during which the loans are repaid and new loans are agreed upon. It is very difficult for any member not to repay the loans on time. Only 16 members among the 94 members had reported that they still have to repay a loans. It is observed that agricultural and craft loans are repaid within one year period but for livestock loans, especially for buffalo, goats, cows/oxen, pigs, and fruit saplings, loans are extended for a few months past the fixed time schedule. Keeping up with this constraint, the *Swavalamban* Programme has recently extended loans repayment time to twenty two months in such cases.



**Table 4**  
**Outstanding Loans To Saving-Credit Fund By Economic Activities**

Activities	UCG			MCG			LCG			Total	
	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.	Av. In. NRs.	N	Amount in NRS.
Crafts	-	-	-	-	-	-	-	-	-	-	-
Trade	-	-	-	-	-	-	-	-	-	-	-
Livestock	8	7202	900.25	2	2650	1325	2	1000	500	12	10852
Agriculture	2	1000	500	2	850	425	-	-	-	4	1850
Horticulture	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total	10	8202	820.20	4	3400	850	2	1000	500	16	12702

Note : N = Number

Source : As of the Table 1

Livestock raising and fruit growing are activities that have had outstanding loans for 2 or more years. Out of the total disbursed loans of NRs. 86237, only NRs. 12702, 14.73 percent, remained outstanding. The main reason observed for this is the long repayment time for these project. Out of NRs. 12702, NRs. 8202, 64.57 percent, still had to be repayed by the UCG and NRs. 3400 , 26.77 percent, by the MCG, and NRs. 1000, 7.87 percent, by the LCG (Table 4).

### Changes After Swavalmban Intervention

Table 5 represents the changes brought about by *Swavalamban* to the participants who benefited by taking a loan from the saving-credit fund. Out of 109 sampled members, 94 had reported taking a loan from the saving-credit fund during 1998, of which 63 members had reported that they had benefited by taking the loans while the rest of the members had taken loans for social and consumption needs.



**Table 5**  
**Benefit Acquired By Beneficiaries After Swawalamban Intervention**

Activities	Caste	No. of Borrowers	Borrowing amount in NRs.	Av. borrowing amount in NRs.	Income before borrowing in NRs.	Income after borrowing in NRs.	Total change in income in NRs.	Av. change in income in NRs.
1. Crafts: wooden		1	540	540	2000	2800	800	800
2. Trade: retail		2	2100	1050	3200	9400	6200	3100
Livestock		1	1350	1350	1500	3200	1700	1700
3. Livestock : buffalo	UCG	3	7750	2583.33	-	18000	18000	6000
cow/ox		4	2732	683	-	12000	12000	3000
goat		13	24800	907.17	-	32000	32000	2461.52
4. Crops : paddy		2	1200	600	2872	4860	1988	904
Wheat		1	527	525	1200	1925	725	725
5. Vegetables production		9	5320	591.11	20600	28680	8080	897.78
6. Others		1	500	500	1680	2400	720	720
1. Crafts: wooden		3	1800	600	5200	8275	3075	1025
2. Trade: retail		2	2400	1200	2400	8400	6000	3000
3. Livestock : buffalo	MCG	1	2300	2300	-	7800	7800	7800
cow/ox		1	700	700	-	2200	2200	2200
goat		2	2450	1225	-	3450	3450	1725
pig		2	2000	1000	-	4600	4600	2300
4. Crops : paddy		1	500	500	1700	2200	500	500
5. Vegetables production		6	3025	504.17	3600	5600	2000	333.33
6. Others		1	400	400	1100	1700	600	600
1. Crafts: wooden		1	600	600	1100	2100	1000	1100
copper		1	900	900	1500	2600	1100	1100
tailoring		1	800	800	1200	2100	900	900
2. Livestock : goat	LCC	2	2000	1000	-	5400	5400	2700
3. Vegetables production		2	1200	600	3400	5200	1800	900

Source : As of the Table 1

The total number of households who took a loan for craft industry is 7. Out of 7 households, one was from the UCG, 3 were from the MCG and 3 were from the LCG. The total loans borrowed for crafts were reported to be NRs. 4640 and an increase in income was reported to be NRs. 6875. Therefore, the average increase in income was NRs. 682.14. The total number of households who took a loan for trade is 5, of which 3 were from the UCG and 2 were from the MCG. Under the trade sector, retail shops and livestock trade are the most popular activity. The total loan amount borrowed for the trade sector was NRs. 5850 and the increase in income due to loan was NRs. 13900. So, the average increase in income was NRs. 2700. Livestock raising is the most popular activity in terms of loan disbursement. Raising goats, buffaloes, cows and pigs has shown good potential to generate income in Borlang. Out of the total loan borrowed, NRs. 43652, 50.62 percent, were for raising livestock. 20 households from the UCG, 6 households from the MCG, and 2 households from the LCG were reported that they had taken loan for raising livestock. The total loan borrowed for raising livestock were NRs. 43652 with an increase in income reported by 28 households to be NRs. 85450.50, while an average increase in income was NRs. 3051.78. Crop production is the most prevalent economic activity throughout this VDC. The major crops in this area are paddy, maize and wheat. In cash-crops vegetables, sugarcane was identified. Before the introduction of the programme, people were not habitual in vegetable production, after the programme they started vegetable production for commercial sale, but the number of households selling crops and vegetables was still low. Respondents who benefited from taking a loan from the saving-credit fund for crop and vegetable productions included 1 from the UCG, 7 from the MCG, and 2 from the LCG. The total amount borrowed in loans for crop cultivation was NRs. 2225 and the increase in income due to loans was reported to be NRs. 3213. Therefore, the average increase in income was NRs. 803.25. Similarly, the total amount borrowed in loan for vegetable production was NRs. 9545 by 17 people and an increase in income due to loan was reported to NRs.11880. Therefore, the average increase in income was NRs. 698.82. In the sector for other, household from the UCG had reported that he had taken a loan of NRs. 500, and one household from the MCG had reported that he had taken a loan of NRs. 400 for fertiliser. The total change in income due to fertiliser was reported to be NRs. 1320. So, the average increase in income was NRs. 660.

## CONCLUSION

The result of this study implies that the major strength of the programme has been the organization of the programme operations. Group actions are the key words and all the programmes are routed through the ICGs nineteen saving-credit group with 544 members which exist in this

VDC. Women account for 29.40 percent and men account for 70.60 percent of the total group membership. The majority of these people participated in different programmes initiated by *Swavalamban* Programme. This, indeed, is a very positive and welcome development. Over 0.2 million NRs. had been generated in saving-credit funds through group savings which ranged between NRs. 5 to 10 per month, per member. The average IGGs saved an amount of NRs. 10750.54. Among the 109 sampled households, 63 reported an increase in income by taking loan from this fund. Out of the total disbursed loan NRs. 86237 from the saving-credit fund, around 86 percent had already been repaid and the remaining 14 percent were waiting for a repayment date. All sampled members reported that loan disbursement repayment was regular and there were zero percent overdue loan in terms of their saving - credit operation. 63 households reported taking a loan, in an average amount of NRs. 1977.80 during 1998, and an average change in income due to a loan was reported to be NRs. 1943.66. The programme also demonstrated that the economic status of marginal farmers can be improved through their involvement in IGGs, and it underscores the importance of savings and strongly communicates the message that it is the habit of saving that is important rather than actual amount saved at any point of time.

The main weakness was seen that there was no formula for determining the exact period of loan disbursement and repayment in the different sectors as well as lack of virtual links with other institutions. The links need to be established and put into operation in the future. In this context the following recommendations could be made for the SP which will help, if implemented, to achieve more effective results. Training should be given to at least five member from each IGG about record keeping, writing minute, managing saving-credit fund, motivation of individual members and other intervening in favour of the poor. In order to build the IGG self-reliant institution in his own right, the process of organising and establishing links other institutions should be strongly supported by the programme management office.

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