Strengthening the Role of Inter-O rganizational Relationships (IORs) to Improve Rural Women’s Access on Microcredit: The Case Study of Nepal Women Community Service Center in Dang, Nepal

Bhagirath Yogi

ABSTRACT
This case study observed the Inter-O rganisational Relationships (IORs) of Nepal Women Community Service Centre (NWCSC), a financial NGO in Western Nepal, in order to assess the strength and weaknesses of the IORs of the NWCSC on the basis of the three ‘C’ framework – namely competition, co-operation, and co-ordination. The study found that there is a lack of proper communication and co-ordination between the government agencies and NGOs, even within the government agencies themselves. This highlighted the fact that poor women in the rural areas are deprived of any meaningful support they would otherwise have access to. Institutional constraints facing such NGOs include lack of trained manpower, limited access to information technology, comparatively low salary and benefits, and extended working hours for the staff. The prescribed best practices for financial NGOs included investing in training and developing strategies to reach out to the marginalized poor whereas the government, particularly the central bank, can enforce strict measures to discourage unhealthy competition among the microfinance institutions (MFIs) and encourage them to reduce their high interest rates to the borrowers.

JEL Classification: O10, O29, I38

Keywords: Microfinance, Women Empowerment, Inter-Organizational Relationships

1 Multimedia Journalist, BBC World Service, British Broadcasting Corporation (BBC), United Kingdom. E-mail: bhagirath.yogi@gmail.com.
1. Introduction

Development is the overarching challenge of the 21st century. Managing development or making it work for millions of people around the world is, hence, more than an academic discourse. Alan Thomas defines Development Management as the management of intervention aimed at external social goals in a context of value-based conflict (TU870, 2007). Here, intervention refers to attempts aimed at influencing social processes while external social goals refer to action directed outside an organisation. Similarly, value-based conflict refers to struggle to promote a particular view of progress in the face of opposition from other powerful interests.

One needs to take into account during the course of development intervention that institutions and organisations interact among themselves. The way they interact – also known as Inter-Organisational Relationships (IORs) (hereafter IORs) – is considered central in the overall outcome of development interventions. According to Robinson et al. (2000), there are three ideal types or modes for structuring IORs namely Competition, Cooperation and Coordination also known as 3Cs. The role of state, market and civil society in determining the IORs of any particular organisation remains a matter of great concern. Similarly, the IORs of an organisation can operate at the macro, meso and micro level which needs to be studied in the specific context. This study attempts to look at the IORs of the Nepal Women Community Service Centre (NWCSC) – a financial non-governmental organisation based in Dang in Western Nepal – and how they have impacted on service delivery to poor women in rural Nepal.

1.1 Microfinance movement

The idea of microfinance took off nearly four decades ago with the launch of Grameen Bank in Bangladesh, founded by Nobel Laureate Prof. Muhammad Yunus. It was based originally on the idea of providing small loans to poor, mainly women through joint-liability groups, which is famously known as the Grameen model. In this model, individuals form a group of five to receive a five-day training in order to receive a loan to start microenterprises. Multiple groups then set up a Centre to meet every week to repay their loans and meet with the Grameen staff (Grameen Research, 2012). In Nepal, such meetings take place on a fortnightly or monthly basis rather than every week.

Microfinance usually involves microcredit and micro insurance. Microcredit is the small loan given to poor people on the basis of group guarantee. Prof. Yunus is credited to have launched the microfinance in early eighties, though similar practice is also believed to be going on in different parts of the world at around the same time (TU872, 2005; Yunus, 1997).

The Grameen Bank alone has been imitated or adapted in over 40 countries. In Indonesia, well over two million poor rural households have now been assisted by individual loans through the regional development banks. Russian Small Business Fund, set up by the European Bank for Reconstruction and Development, follows a similar model. Banco Solidario S. A. (Solidarity Bank), on the other hand, was established in Ecuador in 1992 with a view to reach out to poor members of the society especially women. By 2010, the bank had disbursed more than US$ 2 billion to more than 1.5 million micro enterprise projects. (GABV, 2014).

Microfinance has been dubbed as a tool to reduce poverty and transform people’s lives. Armendariz and Murdoch (2010) argue that microcredit was explicitly focused on poverty reduction and social change, but the transition from microcredit to microfinance has brought a change of outlook with a growing realization that low-income households can
benefit from access to a broader set of financial services beyond just credit. Nonetheless, various studies have suggested that microfinance alone is not able to reduce poverty in a sustainable way. Some economists have argued that while the microfinance model may well generate some positive short-run outcomes for a few lucky individuals, these positive outcomes are very limited in number and anyway swamped by much wider long-run downsides and opportunity costs at the community and national level (Bateman et al., 2012).

1.2 Microfinance in Nepal

Sandwiched between two Asian giants China and India, Nepal has a population of over 26 million. Though Nepal has over three decades of long microfinance experience, a push to the sector came after the political change that occurred in 1990. In the 1990s, five development banks were established replicating the Grameen model. Microfinance institutions including Nirdhan, Center for Self-Help Development (CSD), and Chhimek were established later (NRB, 2008). By 2011, there were 21 Micro Credit Development Banks in Nepal (NRB, 2011).

In mid-1970s, Nepal Rastra Bank (NRB) – the central bank of the country – directed that two state-owned banks to lend at least 5 percent of their deposits under a Priority Sector Credit scheme. Though the policy phased out in 2006/07, NRB still has made it mandatory for commercial banks in the country to invest 3 to 5 percent of their lending to what it defines as the deprived sector. Commercial banks, on their part, lend to MFDBs and MFIs to meet their obligations (Shrestha, 2009).

The microfinance sector in Nepal can be classified as formal and semi-formal. The formal sector model is initiated by the government and Nepal Rastra bank while the semi-formal sector is initiated by NGOs, Cooperatives and Microfinance Banks (see Fig 1). Microfinance products in Nepal include micro-credit, medium and small enterprise credit, group savings, project loan, and micro-insurance. NRB considers the loan up to NRs 60,000 (£350) per borrower given to the deprived sector as micro-credit and a group loan up to NRs 150,000 (£875) given to the members on joint liability as project loans (NRB, 2008).

It is believed that more than 10,000 unregistered NGOs are operating in the country either in the field of microfinance or in social and community-based development activities. However, only 47 NGOs had been permitted license for doing limited banking operation from NRB. In this model, the NGOs disburse loans for microfinance on a group basis. The interest rate ranges between 18 to 25 percent per annum and the repayment system of NGOs in microfinance is on a very short term periodic basis (NRB, 2008).

![Fig 1. Microfinance Sector in Nepal (Source: NRB, 2008)](image-url)
Wholesale microfinancing in Nepal was introduced with the establishment of Rural Self-Reliance Fund (RSRF) in 1991. Later, another institution called RMDC (Rural Micro Credit Development Center) came into existence in 2000 to cater to the wholesale credit needs of MFIs for on-lending purpose as well as for institutional capacity building of the MFIs. Two more organizations, Sana Kisan Bikas Bank (SKBB) and National Co-operative Development Bank (NCDB), are also working as intermediaries in this sector (NRB, 2008).

Nepal Rastra Bank supervises the performance of MFIs and microfinance development banks in Nepal. Major laws and regulations that govern MFIs include Nepal Rastra Bank Act, 2002, Bank and Financial Institutions Act, 2006, Financial Intermediary Act, 1998, and NRB Directives for Banks and Financial Institutions, 2010, among others. Under these legal frameworks, there has been significant growth in the number of MFIs in the country over the last few years. According to the South Asia Micro-entrepreneurs Network (2014), total rural credit requirement in Nepal is estimated at USD 313 million, while the total supply from the formal and semi-formal sectors is only USD 129 million. Of the approximate 2.1 million households living below the national poverty line, nearly half are deprived of services from the formal microfinance sector. According to the World Bank (2012), Nepal has got only 25 percent financial inclusion. The Bank defines financial inclusion as the use of formal (bank) accounts. M-CRIL (2012) estimates that perhaps just over half of this is provided by the microfinance sector in Nepal.

1.3 Nepal Women Community Service Center (NWCSC)

NWCSC was established in 1993 in western Nepal with a view to help in the empowerment of rural women. The organization started lending micro-credit to needy women on the basis of group guarantee since 2003 only. By 2012, the gross loan portfolio of the NWCSC stood at USD 1.3 million. Similarly, it had raised deposits of USD 662,541.1 from over 12,000 depositors by the same year (MIXMarket, 2012). As lately as November 16, 2018, the NWCSC has been issued a licence as a Class D Financial Institution by the central bank of Nepal allowing it to work as financial intermediary in 10 districts of the country, a wider coverage now than before.

General Assembly is the highest body of the NWCSC. Chief Executive Officer (CEO) reports to the Executive Committee, which in turn reports to the General Assembly. Heads of various departments are responsible for the activities of their respective departments while CEO is responsible for the overall performance of the organisation.

The article is organized follows: Section 2 describes the nature of the problem. Research Methodology is discussed in Section 3. Section 4 describes analysis and findings and Section 5 concludes and forwards recommendations.

2. Nature of the Problem

Major problems being faced by microfinance sector in Nepal include the tendency of the microfinance institutions (MFIs) to concentrate in areas which is close proximity to the market with high population density. Most MFIs do not feel comfortable to launch services to the deprived groups of the far flung areas in Nepal. Likewise, especially in the context of mostly agricultural-focused lending in predominantly agricultural-based economy, rare use of appropriate agricultural technology is another problem in promoting microfinance in the geographically remote areas (Shrestha, 2009). Nepal Rastra Bank, the regulatory agency, also notes that the microfinance sector has been suffering from various issues such as incidence of overlapping of programs, high operating costs, high interest bearing loan, and mushrooming of different microfinance products (NRB, 2008). Other problems faced by MFIs in Nepal
include lack of supporting environment, less coordination between government agencies and MFIs, and duplication in the working area and clients, among others (Lohani, 2010).

2.1 Institutions and Institutional Development

A study by Brett (2000) describes institutions as norms, rules, habits, customs and routines, which govern society at large. They influence the function, structure and behavior of organizations as actors in society. North (1990), on the other hand, defines organizations as groups of individuals bound by some common purpose who come together to achieve joint objectives. Organisations interact among themselves to carry out their chosen activities. According to Robinson et al. (2000), there are three ideal types or modes for structuring inter-organisational relationships – Competition, Cooperation and Coordination (also known as Three Cs) – where ideal types suggest how people or groups relate to each other based on these modes.

The role of IORs has become critical for the NWCSC in the wake of a new regulation introduced by the Nepal Rastra Bank (NRB). In its monetary policy for fiscal year 2013-14, NRB announced that all financial NGOs that it licensed for financial intermediation have to become ‘D’ class financial institution, that is, microfinance development bank (THT, 2013). The NWCSC materialized this recently.

The IORs of the NWCSCS is shown in the form of a Systems Map in Fig. 2. Systems maps give a graphical snapshot of a set of inter-relationships. Setting up of boundaries to the system or sub-system of components and examining it becomes quite important when analysing the performance of an organization (Hewitt and Robinson, 2000). The figure shows that the government of Nepal, Nepal Rastra Bank, and 2nd Tier Organisations such as RMDC have their own functions but they are also connected with the NWCSC influencing its microfinance activities.

Fig 2. A Systems Map of the IORs of the NWCSC

One can also look at the institutional development as a social process (TU872, 2005). Successful development of an institution depends on several factors including constructive
relationships between the state, the entrepreneur or community, and the functioning of markets. Promoting institutional development, therefore, would require working with other organisations and locating social goals within a wider context; for example, within the context of government policies or within the wider environment of market economies. The section below discusses the problems being faced by the NWCSC in its IORs on the basis of the three 'C' framework.

2.2 Three Cs

2.2.1 Competition

A total of ten MFIs are operating in Dang district with whom NWCSC has to compete seeking resources and clients. There have also been instances of duplication at some places. Moore (2000) defines competition as rivalry between the two or more actors over a limited resource or reward. Competition takes place when there are limited resources available and individuals as well as groups want to have maximum share of those resources. Moore insists that for competition to work in public sectors, certain key functions have to be performed (referees, judges and prize givers as well as competitors) in certain ways in order to create the right type of competitive environment to create the desired outcome – increased effectiveness and efficiency.

Shrestha (2009) argues that competition among MFIs for providing quality service to their clients through increased efficiency is good. The study, however, cautions that cut-throat competition through overlapping would harm to both the competing microfinance institutions and to the clients whom the MFIs intend to help. Ironically, clients of the MFIs haven’t benefited from the competition between the MFIs in Nepal. Interest rates of the loan they have borrowed remain comparatively high (around 22 percent) and they don’t have access to training and skills development. They also face the threat of over-indebtedness as various MFIs approach them to sell their products and services.

With a view to address such threats, the Credit Information Bureau (CIB) of Nepal is going to host the Microfinance Credit Information Bureau that will provide credit information services to all tiers of MFIs in the country. Once the Bureau is in operation, it will start collecting data from the MFIs and develop and disseminate credit reports to interested parties. The Asian Development Bank (ADB) has provided financial assistance to the Centre to set up the Microfinance Bureau and introduce the service (CIB Nepal, 2013).

2.2.2 Co-ordination

Coordination is defined as the act of bringing two or more organizations or entities together to meet a common goal or purpose. According to Bennett (2000), the aim of the coordination is to minimize duplication and wastage through voluntary sharing of information and/or resources. Robinson (2000) discusses two main forms of coordination between central and local governments and between the state and other actors and community groups. Co-ordination also refers to some form of hierarchical control which we can see in a bureaucracy. Chambers (1997), however, argues strongly against hierarchies of control and co-ordination and an ideal world hierarchies need to be reversed ‘putting the last first’. The strategies and tactics that is recommended for such changes to take place – in what is described as a ‘learning organization’ – include network with allies, train, support and encourage grass roots staff, and build out and up from grass roots success, among others.

There are a number of actors in the microfinance sector in Nepal who face many challenges to have appropriate coordination among them. For instance, while the government formulates policies, Nepal Rastra Bank is responsible to ensure that MFIs are adhering to the policies and regulations enacted by the government, and in this case conflicts often arise.
Similarly, there are dozens of MFIs across the country working at the grassroots level while intermediary organizations like the Rural Microfinance Development Center (RMDC) work as wholesale lenders. A number of commercial and development banks provide loans to MFIs as stipulated by the NRB. There are a number of bilateral and multilateral donor agencies, on the other hand, that have interest in and are supporting the MFIs in different capacities. Co-coordinating all these agencies centrally and locally is a huge challenge. As multilateral agencies like the Asian Development Bank (ADB), for example, are coming forward to support the microfinance sector, many stakeholders have felt the need for better coordination among the government, MFIs and donor agencies to avoid duplication and ensure better services to the needy.

Coordination will have to be carried out at three levels: macro, meso and micro. At the macro level, with a view to coordinate among various agencies, the NRB has proposed a National Microfinance Authority that will be mandated to monitor and supervise the activities of MFIs across the country. It will also work as a nodal office for interested international development partners. The Authority will come into being only after the Nepalese parliament passes a law to this effect. At the meso level, on the other hand, NWCSC interacts with second tier wholesale lenders like the Rural Microfinance Development Center (RMDC). It looks like a symbiotic relationship in which both sides benefit. At the micro level, NWCSC deals with a number of government organisations in the district, other MFIs, borrowers and community-based organisations. While there is some sort of coordination at the grassroots level, there is much room for improvement. The result is that NWCSC’s borrowers, who come from the poor socio-economic background, fail to get timely services from the government agencies and at times there is duplication and unhealthy competition among the MFIs themselves.

2.2.3 Co-operation

Hariss (2000) defines co-operation as people working together or acting in conjunction with others, for their mutual benefit, on a voluntary basis. Harris further maintains that trust is an important element of the ideal type of cooperation as a mode of organization. Similarly, ‘market’ and ‘bureaucracy’ or ‘competition’ and ‘co-ordination’ do not exhaust the possibilities for people to establish the kind of cooperation and co-ordination which is necessary in social life. The construction of trust takes place together with the process of 'self-organization'. Here, self-organization is described as a sense of mutual adjustment of behavior over an extended period of time. Co-operation often takes the form of partnership or networks.

NWCSC has to cooperate with and seek cooperation from various agencies while undertaking its activities. The organization is trying to self-organize as a viable financial institution after transformation into a Class 'D' Development Bank recently as stipulated by Nepal Rastra Bank. It is also working on to develop trust with partner organizations. Promoting co-operation is one of the strategies adopted by the NWCSC but unhealthy competition among different MFIs and lack of coordination among the government and NGOs are hindering such efforts. The result is that only a limited number of poor Nepali women in rural areas have had access to its services.

2.3 Power Relations

Microfinance is often described as an exercise to empower poor women in rural areas. But one needs to look into the existing power relations and assess if financial intervention alone will be able to transform those relations.
Table 1: Power Relations of different actors in relation to the NWCSC in Nepal

<table>
<thead>
<tr>
<th>Power Relations</th>
<th>Nepal Rastra Bank</th>
<th>NWCSC</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘power within’</td>
<td></td>
<td>Has to obey government rules but can decide about its own operations and work fairly.</td>
<td></td>
</tr>
<tr>
<td>‘power to’</td>
<td></td>
<td>As an individual, accept loan conditions set by the NWCSC, but as a group member can decide about the size and terms of loans being offered to new members.</td>
<td></td>
</tr>
<tr>
<td>‘power with’</td>
<td></td>
<td>Collaborates with other organizations to deliver services to poor women in rural Nepal.</td>
<td></td>
</tr>
<tr>
<td>‘power over’</td>
<td>Is in a position to enforce its mandate to subordinate organizations and MFIs including the NWCSC.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Mayoux and Johnson (2007) argue that power has different dimensions and operates in different interrelated and often mutually reinforcing ways. They discuss four different types of power relations namely ‘power within’ ‘power to’, ‘power with’ and ‘power over’. The power relation of different actors in relation to the NWCSC is shown in Table 1.

The power relation between the NRB and NWCSC is similar to that of a ‘one-way traffic’. NWCSC has to obey all the rules and regulations set by the government and NRB while there is no direct channel to convey its concerns to the policymakers and the regulator. To strengthen their position, MFIs like NWCSC have formed an umbrella organization, the Micro-Finance Association of Nepal (MIFAN), which lobbies on their behalf with the government and other concerned bodies.

Borrowers, on their part, are least powerful and often find themselves at the receiving end. The result has been that they can neither negotiate the amount of loan they would like to borrow nor the interest rate being offered by an MFI. Such a state of affairs usually goes against the very principles that its proponents say microfinance stands for.

Based on all this background, this research is aimed at answering the following questions: a) In what ways does the NWCSC interact with other MFIs and government agencies? What are the strengths and weaknesses of those relationships in facilitating access
to loans for poor rural women? b) What are the institutional and capacity constraints (including adverse power relations) on cooperation and co-ordination between NWCSC and other stakeholder agencies? How might these constraints be managed in ways that support NWCSC’s efforts to extend loans to the target group? c) What is the role of trust in building cooperation as a basis for coordination in the context of NWCSC’s activities? d) How might more organised horizontal co-ordination between stakeholder agencies in Dang district support NWCSC in identification of capacity building and training needs at the organisational and client levels to enhance eligibility and effective management of loan proceeds?

3. Research methodology

3.1 Data

The research used both primary and secondary data. Primary data were collected through interviews and speaking to stakeholders directly or with the help of an enumerator. Scoping and pre-testing of the interview questions were also conducted with selected interviewees. The researcher later contacted over one dozen people for primary data collection comprising of officials from NWCSC, borrowers, Nepal Rastra Bank, and other relevant sources. Since all of them are based in Nepal, semi-structured interviews were conducted over phone, email and Skype with most of the respondents. An enumerator in Dang district helped in conducting interviews with four borrowers from two MFIs in Dang. The enumerator was given written questions in advance and also tips to conduct face-to-face interviews. The data thus collected were then ordered, summarised, transcribed into English, and categorised for the purpose of analysis.

Secondary data, on the other hand, were collected through published literature, academic reports, and other relevant sources. Materials available in the Open University, UK website and Google books were also used.

3.2 Research Design

Case study is a primary mode of research for this study. In semi-structured interviews, interviewees were identified progressively and modified in response to understanding or information gained in earlier interviews. Questions or topics of interviews were tailored to different informants and different stages of enquiry. The method was also found well suited to answering ‘Why’ questions as highlighted by Woodhouse, 2007. Over one dozen key informants were identified and interviews were conducted with them (survey questionnaire can be made available upon request). Draft questionnaire were pre-tested with selected respondents and amendments were made on the basis of the feedback received. Efforts were made to bring bias to a minimum by training the enumerator beforehand and by establishing good rapport with the respondents.

4. Analysis and Findings

4.1 SWOT Analysis

The evidence collected through semi-structured interviews with key respondents indicates that NWCSC interacts with many organisations in the district as well as in the administrative centres in Kathmandu. It has to submit annual progress reports to Nepal Rastra Bank in Kathmandu and to the District Administration Office (DAO) in Dang. NRB sends its team to NWCSC every year to ensure that it is adhering to the guidelines issued by the Bank. Such interactions, however, look like one-way traffic and little attention is paid to the needs and requirements of the NWCSC (based on interviews with the NWCSC office bearers).
Table 2: SWOT analysis of the NWCSC

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
<th>Opportunity</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>NWCSC</td>
<td>Has branches in four districts.</td>
<td>Can expand its activities to more districts after becoming class ‘D’ bank.</td>
<td>Links with ordinary borrowers may weaken after turning into a bank.</td>
</tr>
<tr>
<td></td>
<td>Nearly 50,000 women involved in its saving and credit programs.</td>
<td>Hasn’t been able to make maximum use of information technology in its day to day activities.</td>
<td>May become more profit-oriented.</td>
</tr>
<tr>
<td></td>
<td>Has earned trust of its borrowers as well as other organizations in the district and also in Kathmandu.</td>
<td>Less investment in human capital and boost their morale.</td>
<td>Conflict of interest could arise between the interests of shareholders and ordinary borrowers.</td>
</tr>
</tbody>
</table>

The NWCSC pays tax to Internal Revenue Department of the Government of Nepal. It also interacts with Rural Microfinance Development Centre (RMDC), a wholesale lender in Kathmandu. It interacts with service delivery agencies of the Nepal government in order to facilitate services to women in rural areas. But, it has been noted that local level government agencies usually do not send their staff to rural areas to address the problems being faced by poor women in rural areas.

One of the weaknesses of the NWCSC is that it hasn’t been able to develop close relationship with government agencies like Livestock Development Office in Dang. Staffs of Livestock Development Office seldom visit NWCSC’s borrowers who have been engaged in enterprises like poultry farming, goat or buffalo raising. It adds into risks if the poultry or animals are infected with diseases.

As directed by the NRB, the NWCSC has increased its authorised capital to NRs 100 million (approx. £667,000) and paid up capital to NRs 60 million (approx. £400,000). Currently, the NWCSC is operating in four districts only but after becoming the Class D financial institution recently, it can operate now in ten districts of Nepal.

NWCSC is passing through a phase of institutional transformation now. After turning into a bank, it has become no more an NGO but a recognised financial institution. Its transformation into a Class ‘D’ development bank offers both opportunities as well threats (Table 2). The study revealed that there is lack of proper communication and co-ordination between the government agencies and NGOs in Dang district. Lack of coordination between the government agencies as well as between the government agencies and NGOs means that poor women in the rural areas are deprived of any meaningful support they would otherwise
have access to. The NWCSC has been offering microfinance services for the last one decade but has failed to make provision of ‘pashu beema’ (animal insurance) available to its members. NWSC staffs admit that there is demand for insurance and that they are negotiating with a non-life insurance company to offer insurance to their members.

4.1.1 Institutional and Capacity Constraints of the NWCSC

Institutional constraints facing NWCSC included lack of trained manpower, limited access to information technology, comparatively low salary and benefits, and extended working hours for the staff (summarized from interviewee accounts of NWCSC staff). Similarly, borrowers generally lacked access to support network and were also anxious about the transformation of the NWCSC into a development bank during the time of interview before such licence was granted (interviews with NWCSC borrowers). There were issues related to power relations involving the NWCSC and its borrowers as well.

The NWCSC cooperates with government agencies as well as the regulatory body (NRB) by fulfilling all compliance rules. Similarly, it also coordinates with different government agencies while providing loans to its members. A recent study revealed that the regulatory framework put in place by the central bank had been quite liberal with limited capital requirements and low liquidity norms and no official limits on interest rates. Though in a country with a political system that has been in turmoil for many years, political pressure on MFI interest rates still prevails (M-CRIL, 2013). Political pressure on the MFIs was a major constraint during the decade-long civil war (1996-2006). Its staffs were often interrogated by both the security forces and Maoist rebels. Despite fragile security situation, overall economic environment for Nepali MFIs including the NWCSC looked good. Nepal Rastra Bank has been proactively supporting the microfinance sector in Nepal and has taken steps to avail them necessary funds.

But critics say that such provisions by the regulator have distorted the market. One of the respondents said that the provision of compulsory lending to the deprived sector has seriously distorted the market operations creating double cost situation (interest to commercial bank plus service charge to the service provider within their reach) to the deprived sector. This sort of mandatory provision has scope of helping the micro-borrowers but needs entirely different institutional arrangement to ensure easier access to the borrowers. Also, there needs to be a serious demand management exercise for attaching every possible disbursement to the defined and expressed objectives of the borrower.

4.1.2 Role of Trust

The group-lending model adopted by the NWCSC warrants trust between the organization and the members of its group. The organisation sees trust as one of its precious social capital. Putnam defines social capital as networks, norms and trust that facilitate co-ordination and co-operation for mutual benefit (Putnam, 1993). Putnam further argues that social capital comes from what is called 'norms of generalized reciprocity' and 'networks of civic engagement'. NWCSC cooperates with other organisations and agencies in the district and also administrative centers in Kathmandu. Such co-operation has to be based on trust and a respondent in Kathmandu said that NWCSC enjoys good reputation among the MFIs.

A senior official at the NWCSC informed that two wholesale lenders, including RMDC, had proposed to invest into the organization when it turned into a new microfinance development bank. Since its inception, the NWCSC was maintaining strict financial discipline and it was able to establish trust as per the rules laid down by the central bank. Due to limited timeframe and small size of respondents, this study wasn't able to determine
whether such a trust was translated into greater access for credit to rural women’s needs. The issue warrants further research.

Developing trust with borrowers is an equally important aspect. But, as NWCSC is passing through a transition phase, some of its borrowers look anxious. One of the borrowers at NWCSC said that the NGO had been providing services at their doorsteps. They were rather sceptical of existing banks as they looked down upon poor people like them. To allay such fears, NWCSC will have to explain about the recent transformation and how it would impact its existing as well as new members. It was also noted that practical constraints in the IORs of the NWCSC could not emerge in this study as anticipated. It was realized that questions to individual respondents needed to be revised further and tailored so as to ask them directly about the strength and weaknesses of the IORs of the NWCSC and its impact on its service delivery.

4.2.3 Horizontal coordination for capacity building

The staff at NWCSC maintained that horizontal coordination between stakeholder agencies in Dang district was a major area of concern. There had been identification of training needs for the NWCSC staff at the organisational level and also to clients at the grassroots level. Lack of such training had restricted effective management of loan proceeds.

Role of co-ordination becomes prominent to organise activities like training. The District Development Committee (DDC) in Dang is mandated to co-ordinate activities of all development agencies working in the district. A senior official of the DDC said that MFIs in Dang district were playing an important role by promoting financial access among poor and deprived communities. But enhancing horizontal co-ordination among various agencies and offices remained a challenge. They had introduced Participatory Planning Process to identify the needs and also monitor activities of the NGOs to avoid duplication.

But officials admitted that access to loans was not enough to help improve livelihoods of local people in rural areas. A senior official of the NRB said that in addition to loans, there was a need of training, access to market, and other technical and logistical support to the micro-entrepreneurs. They termed this a Credit-Plus approach. Only an effective co-ordination between development agencies and also between the MFI and borrowers could help ensure clients to make productive use of loans.

Horizontal co-ordination would also be useful to avoid duplication at the grassroots level. When asked about the state of co-ordination in the district, a senior office bearer of Rural Women Development Centre (RWDC) – a Dang-based MFI – said that there were problems related to duplication and, in some cases, unhealthy competition among the MFIs in Dang. But, they were trying to minimize such incidences by sharing credit information among themselves and also through regular contacts. They had received excellent rapport with the NWCSC now but were not able to develop a similar relationship with new MFIs that had entered into their district.

Building capacity of grassroots MFIs like the NWCSC and RWDC is also a formidable challenge. A senior RMDC official said that the RMDC was providing training and other support to NWCSC to facilitate its transition. A staff of the NWCSC described the need of capacity building saying they needed training in accounting, office management, and use of new banking software. Their office was going to hire a consultant to conduct such training and they hoped their transition would be smooth.

The NWCSC staff also needed training in dealing with new customers and helping existing customers in effective management of loans. The organisation also needed to introduce a good pay package and benefits to retain existing staff and attract new talent.
Sending its staff to other microfinance development banks and learn how they had been functioning would also help NWSC in building the capacity of its employees.

The NWSC office-bearers said they were also keen to enhance eligibility of borrowers to procure more loans. A senior official of the NWSC said they had raised the limit for individual lending from NRs 50,000 (approx. £333) to NRs 90,000 (approx. £600). They had also started giving education loan, loan for house renovation, and loans to people who were planning to go abroad to work as a migrant worker.

Improved horizontal coordination at the district level could also benefit rural women in Dang district. Besides Livestock Development Office, a number of government offices including District Agriculture Office, District Veterinary Office, District Cottage Industries Office, and District Women Development Office were located at the district headquarters, Ghorahi. These offices have trained staff and some resources at their disposal to launch various activities in the district. District Cottage Industries Office, for example, organises skills development training from time to time in different parts of the district. By coordinating with such offices, the NWSC could ensure better services and opportunities for its members.

5. Conclusions, Implications and Recommendations

5.1 Conclusions and Implications

Nepal has nearly four-decade long history of microfinance and this sector saw a boost with the establishment of Grameen style five development banks in the 1990s. The sector is now dominated by dozens of financial NGOs (FINGOs), microfinance development banks, and second tier wholesale lenders. Nepal Rastra Bank has been an active regulator and facilitator in the development of microfinance institutions in the country.

Major problems being faced by the microfinance sector in Nepal include unhealthy competition among MFIs, lack of coordination and duplication, and less focus on capacity building, among others. From the perspectives of the borrowers, lack of access to funds, high interest rates, lack of market to sell their produce, and lack of employment related training and other support structure are major problems.

NWSC started microfinance service over a decade ago and has witnessed steady increase in the number of its borrowers and depositors. NWSC interacts with many organizations in the district as well as in the central government organizations. Institutional constraints facing NWSC include lack of trained manpower, limited access to information technology, comparatively low salary and benefits, and extended working hours for the staff. Similarly, borrowers generally lack access to support network and are also anxious about the transformation of the NWSC into a development bank. Then, there are issues related to power relations involving the NWSC and its borrowers. The NWSC cooperates with government agencies as well as the regulatory body (NRB) by fulfilling all compliance rules while operating its lending activities to poor. Similarly, it also coordinates with different government agencies while providing loans to its members.

It was observed that the NWSC management was keen to be transformed into a development bank which is now materialized, even though enough information had not been disseminated to all the stakeholders, especially the borrowers. They were anxious about the changes and were not sure whether these changes would really help them. It is now up to NWSC's responsibility to ensure the smooth transition and garner trust of the borrowers.

NWSC was found to be striving to gain support from local government offices such as District Livestock Development Office in order to help its members to start their own
enterprises. Lack of coordination among different agencies at the district level – as well as in the central government agencies – was also noted. Similarly, it was found that unhealthy competition among the MFIs at the local level had created problems like duplication, indebtedness, and loan default in some cases.

The decision of an organisation to either co-operate, co-ordinate or compete with other organisations impacts its institutional development. NWCSC was found to be trying to reduce competition and promote collaboration with other MFIs in the district. For this the organization was required to negotiate with various actors keeping in mind the overall interest of its borrowers. As the NWCSC turned into a microfinance development bank, the way it mobilises its IORs will have profound impact on its future as well as on its overall performance. It will also have direct bearing on thousands of its members, majority of whom live below poverty line in the rural areas of Nepal.

5.2 Recommendations

The findings of the research warrant for forwarding some valuable recommendations to either financial NGOs or development banks and the government agencies. To financial NGOs or development banks, they need to be proactive in dealing with other stakeholders including the government agencies so as to streamline services to the target groups. Investing in training and taking steps to boost their morale is another important step they need to follow. Similarly, it is very important for such organizations to inform borrowers about changes that the organization would potentially undergo and how it would impact its services, particularly to minimize anxiety among them during the transition. They also need to develop strategies to reach out to extra marginalized poor in program areas and ensure that it is not too stretched while expanding its services in new areas. Besides, they should work closely with microfinance associations and other agencies to reduce competition and promote cooperation with other MFIs.

Government agencies, on the other hand, need to coordinate with local MFIs and ensure that they prioritize poor and rural women in their programmes. They are also advised to monitor the activities of local MFIs regularly and take steps to avoid duplication and unhealthy competition among them. Conducting survey regularly of economically deprived areas and encourage MFIs and other NGOs to reach out to those communities is also important on their part. In addition, enforcing strict measures to discourage unhealthy competition among the MFIs and support good MFIs is another step to pursue for the government. It should also encourage MFIs to reduce their high interest rates and ensure that they have access to adequate funds as and when needed. Supporting through skill transfer and monitoring is also necessary part of how government can effectively manage the operation of MFIs. Finally, government needs to develop coordination among different government agencies to create conducive policies for the healthy development of microfinance sector.

References


