

Expanding Access to Finance in the Eastern Hills of Nepal (EAF)

Duration : September 2008 – August 2011
Donor : Whole Planet Foundation (WPF)
Amount : US \$ 312,000, leveraging US \$ 3,500,000 in loans
Region : East

Beneficiaries : 10,272 Households
Sectors : Financial Access and Agriculture
Partner : Nirdhan Utthan Bank, Ltd. (NUBL)

The Challenge

Out of Nepal's total population of 26.4 million people, 13 million people lack access to even the most basic formal financial services (The World Bank 2006). Microfinance Institution (MFI) outreach - facilitated by both government and international donor efforts - is inadequate and heavily concentrated in easily accessible areas, reaching only 23% of rural people (Asian Development Bank 2003). Furthermore, in the Eastern Development Region, financial services from MFIs reach only 11% of the population. There are many challenges which prevent delivery of financial services to rural communities, including high operating costs of banks/MFIs, difficult geographical terrain and a lack of financial products that meet the needs of rural economies. Additionally, there is limited technical support for designing new loan products adapted to remote, predominantly agricultural communities (Mercy Corps 2008).

In addition to the smallholder farmers, certain disadvantaged groups - particularly the Dalits, Janjatis, ethnic minorities, and agricultural wage laborers in the Eastern Region - either do not have access to appropriate and flexible financial services, or are unable to comply with the terms and conditions required by commercial banks or MFIs. As a result, many households in the target districts rely on predatory loans from money lenders, which eventually place them in a cycle of debt (or "debt trap") from which it is difficult to emerge.



EAF beneficiary women's group in Ilam

The Opportunity: Expanding Access to Financial Services for the Underprivileged

The hill districts of the Eastern Development Region are rich in natural resources, especially non-timber forest products (NTFPs) and high value crops like cardamom, tea, *chiraita*

(medicinal herb), ginger and *amliso* (broom grass). These resources provide enormous potential for the development of natural resource-based microenterprises, which in turn will provide a new market for financial institutions while augmenting local economic development.

In the Dhankuta, Ilam, Jhapa and Panchthar districts of Eastern Nepal, Mercy Corps is working with Nirdhan Utthan Bank, Ltd. (NUBL) to expand access to appropriate financial services for low income households.



NUBL's branch office in Hile, Dhankuta



Community member receiving loan from NUBL

Mercy Corps' strategic alliance with NUBL, which is the largest MFI in Nepal, is designed to facilitate the development of effective modalities for expanding access to finance into rural communities in the Eastern hills. The resulting project - Expanding Access to Finance in the Eastern Hills of Nepal - aims to expand financial services to over 10,200 households using Grameen-model and Self Reliant Group (SRG)-model lending.

Ensuring the expansion of financial services in underserved districts

With Mercy Corps' operational support during its expansion period in the East, NUBL has opened seven branches in four districts to expand access to credit and other micro-finance services, such as savings and micro-insurance. Through these branch offices, microfinance outreach is being expanded to over 10,200 households in 48 Village Development Committees (VDCs). Over the project's three year period, NUBL will disburse US \$ 3,500,000 in loans to these households and will mobilize US \$ 112,000 in savings. NUBL provides monitoring and supervision services to its

branch offices through the Regional office in Birtamod, its head office in Bhairahawa, and its liaison office in Kathmandu.



Mina Tamang, happy to have received a micro-loan to invest in her grocery store

Mercy Corps is also supporting NUBL's efforts to promote group-based savings and loan modalities that are suitable for rural households in sparsely populated areas. These group-based savings and loan products target marginalized rural households who do not have access to formal financial services, are unable to access collateralized loans, and do not live in more densely populated areas suitable for Grameen-model lending. Following NUBL's SRG model, the project mobilizes groups, provides compulsory group training, recognizes groups, and then links ongoing lending to ongoing compulsory savings. The majority of recipient households to date have utilized loans for agricultural income generating activities - such as cultivation or animal husbandry - while other recipient households have utilized loans to support trade and retail. Thus, the project is contributing to diversified livelihoods, greater resilience to livelihoods shocks, and greater empowerment for low income rural households.

Effective agricultural loan products for farmer groups

A secondary aspect of the project focuses on modifying NUBL's SRG model to be more applicable for farmers' groups. This is critical given the status of agriculture as the target area's primary livelihood strategy. To this end, Mercy Corps is working with NUBL to incorporate farm cash flow analysis and farmer business planning into its SRG training modules; to modify repayment period; and, to link NUBL to farmers groups supported under complimentary Mercy Corps projects.

Borrower's Profile:

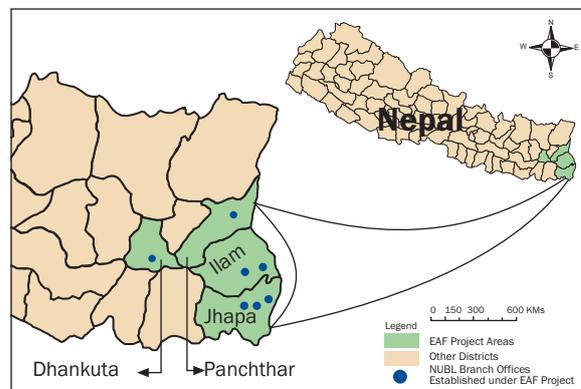
Dilkumari Gole Tamang, 26 years - a beneficiary of EAF - runs her family owned small farm without any help as her husband is working in Malaysia as a security guard. She has the responsibility to make enough money to meet her family's daily needs. She recently joined the Women's Micro-Finance Group in her district of Ilam in Eastern Nepal, which enabled her to take a loan of 20,000 Nepalese Rupees (approximately 260 US dollars). She has invested the money to buy good quality ginger seeds and two goats. This determined young woman wants to put forth her best efforts to get a fourfold return from her agricultural investments this year, and wants to use the farm profits to give her son - now six years of age - a better education. She feels joyous that micro-finance support has provided her with an opportunity to improve her family's future.

Borrower's Profile and pictures by Neelima Shrestha



Dilkumari's newly bought ginger seeds and goats.

EAF Project Areas



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*You must be the change
You wish to see in the world.*

- Gandhi



Be the change