Reaching Groups of Remote Areas with Microfinance Services - A case study of the Self-Reliant Group (SRG) Model

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ABSTRACT

Microfinance has emerged as a powerful and most sustainable tool for poverty reduction. It is increasingly found more important and necessary in the remote and hills, where intensity of poverty is high. Unfortunately the limited infrastructure and market access, sparse population, less arable land and less economic activities have marginalized the scope of microfinance services in the remote and hills.

This paper intends to complement the scarce of microfinance services in the remote and hills through Self- Reliant Group (SRG) model that has been developed by Nirdhan Utthan Bank Limited (NUBL) initially with technical and financial support from Plan Nepal. This Paper attempts to highlight concept, emergence and features of SRG model. This Paper tries to show how and when the SRG model branch will get break-even numerically. The paper also highlights opportunities and threats in the geographically remote and economically disadvantaged areas. Besides, this paper intends to share deeply NUBL's experience, lesson learned, challenges, essential policies that makes the model successful and sustainable with stakeholders who wish to access and expand microfinance services in remote and hills.

1. INTRODUCTION

Nirdhan was founded and registered, with the sole objective of poverty reduction with the Government of Nepal in April 1991 as an NGO. Two years later, in March 1993, Nirdhan started its microfinance operations from Siktohan Village Development Committee (VDC) that lies near Bhairhawa in Rupandehi district of South-West Nepal. It took about 7 years to institutionalize the NGO to the first microfinance bank. Currently it is registered as a separate company – Nirdhan Utthan Bank Limited (NUBL) and received a license from Central Bank as a "Class D Microfinance Development Bank" under Bank and Financial Institutions Act- 2007. The bank could run its program smoothly until the year 2000. After that stagnation in growth of client outreach and loan portfolio, and surge in loan arrears resulted from internal insurgency and also need for program expansion in hills and remote areas led NUBL to think and develop a sustainable, with community ownership feeling but minimum opportunity for misuse of resources, microfinance model. NUBL's strategic partner Plan Nepal supported to develop such community owned model in Banke district and Save the Children in the hills of Palpa district. NUBL worked out and developed Self-Reliant Group (SRG) model. The bank started piloting this model in the Tarai in 2003 and then in the hills in 2004. As of Mid-January 2007, NUBL is benefiting 90,000 household through 50 branch offices. Out of 50 branch offices, 7 branch offices including 5 in the Tarai and 2 in the hills are operating with SRG model, which have mobilized 492 SRGs (Groups) and benefited 14,134 nearly 16% of the total clients.

The purpose of this paper is to highlight the experience and output of SRG model that NUBL piloted to deliver microfinance services in the hills and remote areas. The paper has taken case studies, to analyze NUBL SRG model's strengths and weaknesses, of two branch offices in the hill district of Palpa: Aryabhanjyang and Bastari. This paper has tried to analyze the success and failure parts of SRG model during the piloting period. We have tried to reflect ideas and concept of SRG to those who wish to replicate the model in the remote and hills viz. microfinance institutions, government, non-government and donor organization. The paper describes about SRG, its need of emergence, how it works, its processes and procedures. This paper also analyzes performance and trends of Aryabhnajyang and Bastari and highlights the essentials that are needed to be adopted to make SRG model successful and sustainable. The paper presents and describes total cost that is needed to establish and run one SRG model branch office till it achieves break-even.

This paper is divided into seven topics: Introduction, Statement of the Problems, Objectives of the Papers, Results and Findings, Conclusions, Recommendations, and Bibliography.

2. STATEMENT OF THE PROBLEMS

Nepal is one of the poorest countries in the world, with a population of 28 million, population growth rate of 2.16%, and 31%[1] of its officially declared population living

[1] The World Development Report 2006.

below the poverty line. Over 90%[2] of the poor live in rural areas and majority of them live in inaccessible hills and mountainous areas.

Microfinance has emerged as a powerful and most sustainable tool for poverty reduction. Microfinance means the easy access of financial services to low income people, often without physical collateral. Microfinance assists the poor by; a) promoting investment in `assets, b) facilitating activities to earn a livelihood, c) protecting against economic shocks, and d) building social capital and improve quality of life. It is estimated that over 2.4[2] million households in Nepal require microfinance services. Though, there is huge demand of microfinance service, its outreach has reached to only nearly 900,000[2] households. There is still 63%[2] poor left out of microfinance services. These un-served poor reside mostly in the remote areas and hills, for whom microfinance services is urgently and utmost needed for their well being. Unfortunately, these areas have less access and even no access of microfinance; it is because comparative advantage for microfinance is less in hills compared to Tarai. There is limited infrastructure and market access, remoteness, sparse population, less arable land and less economic activities. In fact these conditions are not suitable for existing microfinance models to run successfully and sustainably.

The lack of successful and sustainable microfinance model to deliver financial services in the remote and hills is the main constraint at the moment.

3. OBJECTIVES OF THE PAPER

The main and the general objectives of the paper are to analyze the effectiveness of the SRG model that NUBL has piloted in two branch offices: Aryabhanjyang and Bastari in the hilly district of Palpa. Besides, there are two other objectives also. They are:

a. To share experience of strengths, weaknesses and opportunities of the SRG model.
b. To recommend learning of this SRG model to policy makers, practitioners and development agencies for successful and sustainable replication in all those remote and hilly areas of Nepal where there is no access to microfinance.

4. RESULTS AND FINDINGS

4.1 An Overview of NUBL: The First Microfinance Development Bank of Nepal

It was in April 1991, when Nirdhan was founded and registered with the Government of Nepal as an NGO. Two years later, in March 1993, Nirdhan started its microfinance operations from Siktohan VDC that lies near Bhairhawa in the South-West Nepal. With the enactment of Development Bank Act in 1996, Nirdhan was the first NGO to transfer its microfinance operation to an autonomous microfinance development bank - Nirdhan Utthan Bank Limited (NUBL). It took about 7 years for Nirdhan to institutionalize the first microfinance bank from an NGO.

[2] Towards Expanding the Frontier of Microfiannce Services in Nepal, January 2007.

NUBL uses three types of microfinance models: group lending (individual loans with solidarity group guarantee based on Grameen model), individual lending (individual lending with physical collateral) and self-reliant group (SRG; wholesale lending). NUBL provides four types of financial services such as loans, savings, micro insurance, and money transfer service to low income groups. Under these services, NUBL offers a wide range of loans and savings products. Loans products include general, seasonal agricultural, seasonal business, tube-well, sanitary, housing, micro enterprise, foreign employment, biogas, education, and emergency loans. Maximum loan size for collateral free loan is up to Rs. 60,000.00 and for collateral base loan is up to Rs. 1,50,000.00. NUBL offers both mandatory and voluntary savings. Mandatory savings are collected from group members by deducting 5% of the loan amount up-front on selected loan products and collecting Rs. 4.00 per meeting per client. The clients can withdraw any amount from this saving maintaining minimum balance requirement. The voluntary savings product is a self-managed personal saving program and funds can be withdrawn at will. In addition to the financial services mentioned above, NUBL also offers insurance through a linkage of insurance company and money transfer service in association with commercial banks and money transfer companies.

As of Mid-January 2008, NUBL is providing microfinance services to around 90,000 clients in 11 districts through its 50 branch office networks, 4 regional office networks, and it's a central office. The bank's operational self-sufficiency level was at 112% during the same period.

4.2 SRG Model: An Innovative Approach to Microfinance

SRG model has been emerged as a solution of microfinance delivery model in the conflict situation as well as in the remote and hills. In the year 2000, Maoist movement affected the rural life and property very badly, especially those organizations with networks in the remote and rural. Micro-finance industry couldn't remain an exception. This resulted stagnance in client outreach and loan portfolio, and also portfolio quality decreased. In this atmosphere, replications of Grameen Bank Financial System (GBFS) were also criticized for its modality of direct lending to clients, lack of ownership to its group members, over emphasis on delivering credit services. In this context, NUBL looked for appropriate microfinance model for remote and hill areas, and developed SRG model to address aforesaid issues. Plan Nepal provided technical support in the design of this model and provided financial support to test this model in Banke district. Learning from the experience of this program, Save the Children supported NUBL to lunch this program in the hill district in Palpa. SRG model is a hybrid of Village Banking (VB) and Grameen system. NUBL has incorporated some of good aspects of GBFS and some of the VB model to develop a community owned and managed SRG model. The main characteristics of SRG model are: to (1) mobilize and organize (social mobilization) targeted households into Self-Reliant Groups (SRGs), provide training to executives and other members of the SRG on their role and responsibilities (capacity building), and develop systems, (2) monitor and supervise the SRGs' activities frequently and regularly, and (3) provide necessary on-lending wholesale fund to the SRGs.

4.2.1 How is this model different from other Self-Help Groups/CBOs/Cooperatives

Basically there are three essentials for Self-Help Groups (SHGs)/Cooperatives/CBOs to operate sustainable: (1) These organizations should be capable and efficient to run the organization and business. This is what most of the INGOs/donors/Government organizations do. They mobilize the community to form groups/ cooperatives and provide training to them to run the business. In some cases they develop the system also. Some of them provide seed money or revolving fund also. After some time (may be 5-6 years) they close the project and the groups are left on their own. NUBL also mobilized the community, organized them into SRG, provided training to SRG office bearers and members and developed required system to run the organization and their business.

(2) Once the groups start working independently, it is absolutely necessary in the case of institutions providing financial services to be regularly monitored their work and supervised regularly and frequently, otherwise it is quite possible their resources to be misused and ultimately the institution will be defunct or liquidated over the period. In the case of Microfinance banks, they are monitored, inspected and supervised by the Nepal Rastra Bank. They are required to be audited by chartered accountants licensed by the Auditor General's office and the Rastra Bank. Besides, they have their own internal audit system for regularly checking their financial transactions. There is no such institution to monitor and supervise institutions like cooperatives and CBOs regularly and frequently. Neither they have internal auditing system. In some other countries, such financial institutions employ outside agencies to supervise, monitor and internal auditing. It is expensive to supervise and monitor thousands of such institutions if the supervisors are not located nearby. In the case Of NUBL SRGs, the branch office located within a radius of 10-15 km performs this job and controls SRGs from misusing the resources.

(3) The SRGs or MFIs always require additional resources, besides their member or client savings. Most of the institutions, if they are in large number or if they are small, don't get such facilities. It is not possible, or it is not financially viable for Kathmandu or regionally based whole sale funds to provide such services to thousands of cooperatives/CBOs. But it is possible for NUBL or other microfinance institutions to provide financing to large number of such organizations because of their location nearby.

4.2.2 SRG Formation and its Operational Modality

The Bank staff select clients on the basis of their means test. For client selection; married women, permanent residency, land holdings, house status, and income level are considered as major criteria. The staff then mobilize targeted clients in the groups of 10 to 40 members, which is called SRG. A SRG comprises four executives - Chairperson, Secretary, Treasurer and Alternative Treasurer. The bank staff, at the beginning, facilitate and guide to select group executives democratically. The same executives do not remain in the same post for more than two years. NUBL puts efforts to make executives capable to perform all the activities that are being conducted by loan officers in the Grameen model. In this process, bank staff provide training to the executive committee members on subjects like savings and credit policies, accounting, minute's preparation, financial statements, book-keeping, administrating group etc. The chairperson of the group is responsible to make sure that the group members attend the meeting in time and maintain necessary discipline. The Treasurer then collects savings and loan installments and then updates group register and the member's pass book. In performing these entire activities group Secretary assists the Treasurer and also maintains the group meeting minute. If any member wishes to borrow loans she needs to fill the loan application, which has to be approved by other members including group executives. After 3 months of SRG formation, they are eligible to receive wholesale loan from the bank. During the first three months, SRG executive run their internal business with the help of bank staff. The bank assumes that with the training provided to the executives and facilitating for few meetings by bank staff, the SRG becomes self capable to conduct their banking business themselves.

The amount for receiving wholesale loan depends on how much saving the SRG has deposited at the bank. Generally, SRGs are eligible to receive loans 20 times of savings they have deposited. The SRGs receive wholesale loan from NUBL and disburse to their members. The executives are responsible for the payment of the wholesale loan that they borrow from the bank. The SRG provides loans to members for the wide range of purposes. Though, NUBL offers wide range of loan products, members are allowed to receive a maximum of four loans (2 collateral free and 2 with collateral) at a time. However, the collator based loans are provided by the bank to the members individually. The SRG members have to pay back the loan according to the agreed repayment schedule. Repayment schedule ranges from bi-weekly to quarterly, depending on the cash flow of the project. NUBL provides wholesale loans to the SRGs at an annual rate of 18% in a declining balance. The bank reimburses 3% of interest during annual closing if the SRG pays back the installments in time. This makes the effective rate of interest only 15%. The NUBL doesn't dictate SRGs to determine their lending rate to the members. General practice has shown that they are lending to the members at 24% per annum following declining balance method. The spread of 9%, considering a rebate of 3% is enough to cover basic operating cost, loan loss provision, profit distribution, other unavoidable expenses and creation of reserve funds. The SRGs that are able to generate surplus at the end of fiscal year distribute dividend to fellow members proportionately.

4.2.3 Experience of Aryabhanjyang and Bastari branch offices

This part of the paper intends to highlight the actual position of two branch offices, Aryabhanjyang and Bastari, which were first piloted SRG model in the hills. NUBL, after conducting preliminary survey, found Aryanbhanjyang and its surroundings VDCs as potential area to establish branch office. While doing preliminary survey, NUBL collected total number of households; the households that are below poverty line as per bank's definition, economic activities, infrastructure and market, microfinance service providers etc. Since, it was first initiation in the hills; the bank did market research and gained feedbacks on existing services and products and their term and condition of lending and repayment. When market research showed that proposed working area was thinly populated, geographically hard to reach out interior part of VDCs, constraints of grameen bikas bank, size of market and etc., the bank decided to use SRG model (which was being implemented in Bake district, Terai) rather than Grameen model.

Aryabhanjyang branch office was established in January 2004 with the aim of providing microfinance services to deprived and unprivileged people of six VDCs of Palpa district: Nayarnamtales, Pokarathok, Chidipani, Khanichap, Pipaldada and Chirtungdhara. Aryabhanjyang is a market place in Palpa district along the Siddhartha Highway. The bank found its client size of 1,101 households (HHs), which was 50% of 2,202 below poverty line HHs. In the six VDCs total HHs according to 2001 census were 4,404. The bank assumes 50% of total HHs i.e. 2,202 HHs that fall below poverty line. The bank assumed to achieve break-even within the period of 5 years. It was because the branch office and SRG model both were first piloted in the hills.

In the Annex 1, some facts and figures have been tabulated to see and analyze the status of branch office since its inception in January 2004 to January 2008. The branch office has crossed 48 months of its operation. Within 48 months, the branch office was able to achieve 906 client outreach, loan client 415, loan outstanding Rs. 4.4 million, savings Rs. 546 thousands. These efforts were able to achieve only 52% operational self-sufficiency (OSS), which means the branch office, was still making a loss. Though the OSS was low, the trends of productivity and efficiency indicators were in right direction. If we see on the productivity and efficiency side, we find client per loan officer is increasing and administrative efficiency is improving. This is noticeable that no installment of loans was overdue for the whole period of operations.

After analyzing the performance, it can be said that branch office is doing better period after period. But one thing is clear and remarkable to all is that, even after 48 months of operation, the branch is still far from break-even. So there is one question that arises is the issue of sustainability. To address the issue of sustainability, bank analyzed outputs and found that low client outreach, low loan client, small loan size, low volume of loan outstanding, and lower interest rate were the major obstacles of the branch not earning sufficient income to cover operation cost. The bank realized that low loan clients, low loan outstanding, low interest rate were the result of bank policy which was revised later. The bank reviewed and revised in SRG policy as much as the bank could. The impact of revised policy can be seen in Bastari branch office, which was established one year after Aryabhanjyang.

Bastari branch office was established in January 2005 to provide services in six VDCs: Madanpokhara, Telgha, Masyam, Kaseni, Rupse, Bandipokhara and one Municipality Tansen. Bastari is located in Tansen Municipality ward no. 4 along the Siddhartha highway. It was established one year after Aryabhanjyang establishment. The bank found the 1,471 HHs as a potential market, which is 50% of 2,942 below poverty line HHs. According to 2001 census there were 5,884 HHs. Bank assumed to achieve break-even well before 5 years as it was established after some favorable amendments in SRG policy.

Annex 2 provides information to analyze the status of Bastari branch office from its inception in January 2005 to January 2008. The branch office has crossed 36 months. Within 36 months, the branch office has been able to achieve client outreach at 1,091, loan client 523, loan outstanding Rs. 5.1 million, saving Rs. 1 million. But all these efforts achieved only 54% OSS, which means the branch office is still making loss. Though the OSS of Bastari is low; we find Bastari performance better in comparison to Aryabhanjyang. It is because Bastari could achieve 1,091 client outreach in 36 months while Aryabhanjyang achieved only 853 during the same period. Similarly, Bastari achieved more in loan client, loan outstanding and OSS during the same period. Bastari could reduce cost per unit of money lent and administrative efficiency to 6 paisa and 18% respectively, which is lower than Aryabhanjyang's 10 paisa and 20% in the said indicators respectively. In addition to these indicators, Bastari could reduce cost per client and loan client to Rs. 684.00 and Rs. 1,652.00, which is lower than Aryabhanjyang's Rs. 838.00 and Rs. 2,100.00 during the same period. We can see that no installment of loans is over due since it started operation. Since, loss is decreasing; we can forecast this branch office will soon achieve break-even.

After analyzing the performance trend of Bastari branch office on the basis of annex 2, anyone can say that branch office is doing well. But the same question of sustainability arises in the case of Bastari also. How long will it take to cover its operating cost from its internally generated income? We can say frankly that it couldn't achieve break-even because of the bank policy to grow steady and achieve breakeven over the years. If we diagnosize SRG model, we find SRG branch office has to be viable with a very small interest margin i.e. by 6%. For the sake of ease, we consider interest income and expenses in context of the loan outstanding. Branch office receives net 15% interest after deducting 3% interest rebate (as per bank policy to reimburse if all groups repayments are in time). The branch office pays 8% interest on borrowed fund and at least 1% as a loan loss provision expense. Altogether branch office spends 9% of their loan outstanding to cover cost of fund and loan loss provisioning. There is only 6% interest income left to cover administrative cost. Besides 15% interest income in SRG, there is another major factor that is number of loan clients, which slows viability. We can see from the annex 2 that the loan client ratio is 0% in the first 6 months, 23% in the second year, 34% in the third year and 48% in the fourth (36 months) year. It is unexpectedly very low, which in the grameen model branch office is found generally 50% to 60% in the first year and then 75-80% and more in the following years. Since the bank had adopted policy to wait and see till 6 months for wholesale lending to the SRG that resulted in low loan clients and low loan outstanding. The bank has realized the main hindrances for sustainability was the bank's policy; not to lend wholesale loan till 6 months, not offering multiple loan products, reimbursing 3% interest rebate and no staff performance evaluation linked with their target and achievement. By now, since the bank has amended policy to address above said hindrances, we can forecast that Bastari branch office will achieve break-even within 4 years of operation

Assuming that Bastari, in the coming 12 months, achieves client, loan client, loan outstanding as per annual plan given to branch office and maintaining other indicators as given in the Table No.1 below, loan client ratio will be 80% and receive 18% interest income then financial scenario will be different. This can be seen from the table below.

Table No. 1 (Calculation of break-even point for Bastari)

Particulars	**Unit**	**Mid-Jan 2008 (Existing after 36 months)**	**Projection Mid-Jan 2009 (After 48 months)**	**Remarks**
Client	No.	1,091	1,300	As per annual plan
Loan Client	No.	523	1,040	80%
Loan Outstanding Per Loan Client	Rs. in '000	9.6	9.6	Remain same
Loan Outstanding	Rs. in '000	50.53	99.84	
Interest Income	Rs in '000	289	1,353	Annual income with 18%
Total Expenses	Rs. in '000	533	1,336	Annual expenses
Profit (Loss)	**Rs. in '000**	**-244**	**17**	**Profit**

Source: As per annual plan and assumptions

If the Bastari branch achieves client target as per mentioned in the above table, it will achieve loan client target and then interest income (at 18%) will be able to cover total expenses. In this ground, Bastari will be able to get surplus of Rs. 17,000.00. This will be achieved within 48 months (4 years). Then we can assume that SRG model can be made viable in the hills within 4 years of operation if suitable policy is adopted. If we calculate losses of Bastari branch during the period of 4 years, it comes to around Rs. 2.06 million as operational deficit.

Besides operational losses, Rs. 247 thousand was spent as supervision expenses, preliminary survey expense Rs. 25 thousand and capital and branch office set up expenditure Rs. 250 thousands. Altogether, Rs. 2.6 million was spent on Bastari SRG model branch before its break even, to provide microfinance services to tentatively 1,300 HHs.

4.3 Key Aspects of Local Acceptance

4.3.1 Capacity building: The SRG's executives carry out transactions in front of group members, the general members get opportunity to build their capacity to deal with various issues like accounting system, lending policies etc. Out of 60 SRGs of Bastari brnahch office, 40 SRGs executives perform their transactions independently. Similarly, 20 SRGs (out of 56 SRGs) are capable to perform their transactions independently in Aryabhanjyang.

4.3.2 Profit sharing: Since the SRGs receive wholesale funds from NUBL to on-lend to their members, SRGs pay a pre-determined amount of interest (18%) to NUBL. With this arrangement, the SRGs will have a margin of 9%, including 3% rebate in the event of timely repayment to NUBL. A portion of the amount so generated by the SRG is used to cover the operating cost, and the rest is divided as profit among the members during the year-end closing. This is an added benefit to the members in SRG model, which is non-existent in Grameen system. SRG members of Bastari received Rs. 500.00 to Rs. 600.00 as dividend at the end of FY 2063/64, where as Aryabhanjyang members could get Rs. 400.00 to 500.00 in the same period.

4.3.3 Ownership feeling: Generally the Bank staff guide and assist the SRG executives during the first 3 to 6 months duration, after which they handle all the transactions on their own. This has provided a sense of pride and satisfaction for them and has also given them a sense of ownership feeling.

4.3.4 Reducing staff cost: The general principle of SRG model is that the executives are made capable to manage all the group business/transactions on their own. As a result the bank staff in the SRG model need not get involved in there operation as it is done in the Grameen model. This reduces the cost incurred for bank staff. However, in initial years of operation, for about 3 years, the bank branch needs full strength of staff (5-6 in number) until it achieves a client outreach of more than 1,000.

4.3.5 Membership growth: Community people's doubt towards the bank staff (outsider) asking women villagers to join the banking program is always high. Such a suspicion does not exist since the motivational role is basically taken over by the SRGs formed under this program. Nobody suspects or tries to raise antagonism as long as the co-villagers urge them to join the program that is owned and managed by themselves in their own villages.

4.3.6 Group discipline: Since the community mobilizes and forms groups with the assistance of bank staff, member attendance in the regular group meeting, and group support/ group pressure for timely repayment of loans is found very high in SRGs. Similarly, since the community feels that the group and the money they mobilized in the group is their own so no looting incident has happened in the SRGs.

4.4 Key Learnings of this Model

4.4.1 Staff recruitment: While deputing staffs in the SRG model branch office, The staff need to clearly understand values and norms of SRG and be committed.

4.4.2 Need to adopt suitable policy: Since it is clear that sustainability basically depends on efficiency and productivity of staff, loan volumes and interest rate charged MFIs need to adopt suitable policy on these issues. Policy that reduces cost of operation need to be addressed, for example meeting frequency need to be addressed., though frequency of group meetings has to be short if the programme is poverty focused.

4.4.3 Meeting time: Since topography in the hills is difficult to work compared to the Terai, work time need to be changed from morning to day time If we manage office time from exiting 8.00 am to 11.00 am in the morning and 1.00 pm to 5.00 pm in the day to continuously from 9.00 am to 4.00 pm in the hills, then staff with their morning meal can go and spend whole time in the field.

4.4.4 Need to provide integrated services: It is obvious that economic activities and market opportunities are very low in the hills so group members need to be brought within mainstream of economy by providing and assisting them skill development training and market access. Since literacy rate in the hills is low, there is also a need of basic and business literacy programmes for SRG members.

4.4.5 Targeting criteria: There is a dilemma in client targeting and SRG model running. It is assumed that SRG is run by group executives where as we are targeting bottom of the poor, who, in fact in absence of literacy, find difficult to run their business transactions themselves. Therefore, we need to think to enroll few of members from above target group to be able to handle business transactions from among the SRG members. It implies that the targeting criteria of the clients will have to be revised.

4.4.6 SRG model need to see differently: This model demands more time and money to achieve break-even compared to grameen model of Tarai. Staff involving in this model will be disappointed and hopeless due to heavy losses. So supervisors and higher authority should think to motivate and encourage these staff till this model gets break-even.

4.5 Key Challenges of this Model

It is not an easy job to implement this model in the communities where majority of potential members (women) are illiterate and ultra poor. It is mainly because this model demands certain level of commitment and skills for leadership and account keeping on the part of the group members. The model needs some interval (3 to 6 months) to know and see the credit discipline within group. This interval slows down the wholesale loan disbursements process. SRG model, therefore, requires large expenditure in the initial years for social mobilization and capacity building of newly developed SRGs. It takes longer time to be viable compared to Grameen model. On the other hand, some group members are complaining about the interest rate on the loans that the group charge 24% by receiving at 18% interest from the bank.

8. CONCLUSIONS

On the basis of the results and findings, we can say that SRG model is effective for providing microfinance services in the remote and hills. This model has proved that it can serve significant number of deprived and unprivileged families. This model has an outstanding feature of capacity building, group and credit discipline, and ownership transformation. This model can be used to deliver microfinance services not only in the remote and hills, but also in the conflict areas.

From the findings, we can conclude that if suitable policy measures regarding lending restriction, interest rate, offering multiple products, as advised in the paper, are taken and adopted, SRG model branch office in the remote and hills can be viable within 4 years. Since the model is community owned and financially viable it can be used to provide microfinance services in remote and hills, provided some grant is received from sources other than the MFI for meeting the loss incurred before breakeven. The low profit making MFIs find difficult/unbearable to meet the huge amount of loss (Rs.2.6 million in case of Bastari)

6. RECOMMENDATIONS

On the basis of the results and findings, the following recommendations have been prescribed for the policy makers, practitioners,donors and development agencies:

6.1 Since SRG model branch office requires around Rs. 2.6 million to meet the loss till it achieves break-even, which in fact is very hard for microfinance institution to bear themselves. In this regard, government, policy maker and development agencies need to think for assisting microfinance institutions if they feel it is necessary to provide microfinance services to reduce poverty in the hills and remote areas..

6.2 If we provide microfinance services with support services, the outcome will be multifold so it is recommended to all concerned agencies to coordinate and deliver services such as basic literacy, business literacy, skill development training, marketing, etc.

6.3 NUBL has experienced that if the MFIs are allowed to mobilize deposit from the public and disburse loan to individual clients, then the MFIs can reduce its financial cost from internally generated saving and increase income from loan disbursement to individual clients. Currently, these issues are restricted by regulatory body and policy maker so they need to consider on it.

6.4 It is advised and recommended to revise existing area expansion policy in the adjoining district. If it is liberalized, microfinance institutions can expand its networks in the profitable area that generates surplus and assists to expand services in the un-served areas.

6.5 It is recommended to form a committee to advise the Government to adopt suitable policy and program for the development of microfinance. It has been realized that insurance services for the poor is utmost important. Similarly, business literacy, skill development training, market accessing, etc. are enavitable for the poor to overcome quickly from the vicious circle of poverty.

6.6Since hills and mountains are geographically hard to reach out, it is recommended to explore the possibilities of appropriate information technology to make this technology workable without staff.

6.7 It needs better understanding and adoption of suitable policy while replicating and implementing SRG model for better result.

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Annex 1

Aryabhanjyang: Programme and Financial Output Report

S. No.	Particulars	Unit	As of Mid- July 2004 (6 months)	As of Mid-July 2005 (18 months)	As of Mid-July 2006 (30 months)	As of Mid-July 2007 (42 months)	As of Mid-January 2008 (48 months)
1	Branch Manager	No.	1	1	1	1	1
2	Loan Officer	No.	5	4	3	3	3
3	Total Staff	No.	6	5	4	4	4
4	Group (SRG)	No.	14	40	47	55	56
5	Client	No.	216	628	744	853	906
6	Loan Client	No.	0	52	229	385	415
7	Loan Client Ration	%	0	8	31	45	46
8	Loan Outstanding	Rs. in '000	0	324	19,77	29,74	44,47
9	Portfolio in Arrear	Rs. in '000	0	0	0	0	0
10	Total Savings	Rs. in '000	0	10	158	345	546
11	Profit (Loss): With interest rate 15% (Actual)	Rs. in '000	-307	-804	-574	-545	-257
12	Profit (Loss): If we had charged 18% (Hypothetical)	Rs. in '000	-307	-802	-534	-514	-202
13	Client Per Loan Officer	No.	43	157	248	284	302
14	Loan Outstanding Per Loan Client	Rs. in '000	0	6.2	8.6	7.7	10.5
15	Administrative Efficiency	%	N/A	484	51	28	20
16	Costs Per Unit of Money Lent	Rs.	N/A	2.15	0.18	0.13	0.10
17	Cost per client	Rs.	2,783	1,858	862	881	838
18	Cost per loan client	Rs.	N/A	30,163	4,209	2,292	2,100
19	Operational Self-sufficiency	%	1	2	26	40	52

Source: Nirdhan Utthan Bank's Monthly Reports

Annex 2

Bastari: Programme and Financial Output Report

S.No.	Particulars	Unit	As of Mid-July 2005 (months)	As of Mid-July 2006 (18 months)	As of Midi-July 2007 (30 months)	As of Mid-January 2008 (36 months)
1	Branch Manager	No.	1	1	1	1
2	Loan Officer	No.	2	4	3	3
3	Total Staff	No.	3	5	4	4
4	Group (SRG)	No.	8	36	54	60
5	Client	No.	109	657	971	1,091
6	Loan Client	No.	0	148	331	523
7	Loan Client Ratio	%	0	23	34	48
8	Loan Outstanding	Rs. in '000	0	11,96	29,14	50,53
9	Portfolio in Arrear	Rs. in '000	0	0	0	0
10	Total Savings	Rs. in '000	1	176	653	10,20
11	Profit (Loss): With interest rate 15% (Actual)	Rs. in '000	-298	-651	-555	-244
12	Profit (Loss): If we had charged 18% (Hypothetical)	Rs. in '000	-298	-641	-504	-186
13	Client Per Loan Officer	No.	55	164	324	364
14	Loan Outstanding Per Loan Client	Rs. in '000	0	8.0	8.8	9.6
15	Administrative Efficiency	%		103	30	18
16	Cost Per Unit of Money Lent	Rs.	N/A	.40	.12	0.06
17	Cost per client	Rs.	5,421	1,610	761	684
18	Cost per loan client	Rs.	N/A	8,334	2,588	1,652
19	Operational Self-sufficiency	%	1	7	31	54

Source: Nirdhan Utthan Bank's Monthly Reports

Photo No. 1: SRG executives conducting group meeting