

Final Report

Foreign Aid Utilization at the Grassroots Level
A Case Study of Local Development Fund

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List of Acronyms and Abbreviations

ADDC/N	Association of District Development Committee
CBO	Community Based Organization
CO	Community Organization
DANIDA	Danish International Development Association
DDC	District Development Committee
DIMC	Decentralization Implementation Monitoring Committee
DIP	Decentralization Implementation Plan
DIMWC	Decentralization Implementation Monitoring Working Committee
DPP	District Partnership Programme
GTZ	German Technical Assistance
HDI	Human Development Index
HDR	Human Development Report
HMG/N	His Majesty's Government of Nepal
HRDC	Human Resource Development Center
INGO	International Non-governmental Organization
LBFP	Local Body Fiscal Commission
LGSP	Local Governance Strengthening Programme
LSGA	Local Self-Governance Act
LSGR	Local Self-Governance Regulation
LDF	Local Development Fund
LTF	Local Trust Fund
MLD	Ministry of Local Development
MoF	Ministry of Finance
MuAN	Municipal Association of Nepal
NAVIN	National Association of VDCs in Nepal
NGO	Non-governmental organisations
NORAD	Norwegian Agency for Development Co-operation
NPC	National Planning Commission
PERC	Public Expenditure Review Commission
PRSP	Poverty Reduction Strategy Paper
PDDP	Participatory District Development Program
SDC	Swiss Agency for Development and Co-operation
SNV	Netherlands development organisation
UDLE	Urban Development Through Local Efforts
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
VDC	Village Development Committee
VDP	Village Development Programme
WB	The World Bank

CHAPTER – 1

INTRODUCTION

1.1 Background

According to World Bank, Nepal is the 12th poorest in world and the poorest in South Asia. Annual per capita income of the Nepalese is as low as US\$ 240 with distribution skewed enough to have nearly 38 percent population in abject poverty (capacity to arrange less than 2,124 kcal per day and other basic needs). Among them 17 percent are hard-core or ultra-poor. The Gini-coefficient of income distribution is on the rise – from 0.3 percent in 1977 to 0.358 in 1999/00. The poverty is manifested in different forms – exclusion, deprivation, destitution, and even social conflict.

Poverty is endemic in the rural areas (44% rural poor and 23% urban poor). Poverty level is higher in mountain districts (56%) followed by Tarai (42%) and hills (41%) (CBS, NLSS 1996). The hill and mountain districts of Mid-western and Far-western regions are the poorest areas. The least poor district is Kathmandu, the capital city with only 4 percent absolute poverty. However, other aspects of poverty– those reflected by social, demographic, health, and infrastructure indicators– point to progress notably in primary education and health. Nonetheless, chronic malnutrition among children below five years of age (54.1%) and the proportion of people not expected to survive beyond 40 years remains among the highest in the world (Nepal Human Development Report 2001). Like income poverty, human poverty in rural areas (41.4%) is almost twice as high in urban area (23.9%), and varies widely across ecological regions. As of 2004, Nepal has been ranked 69th among 95 developing countries in the Human Poverty Index (HPI)¹.

All in all, even after the planned development effort of nearly five decades, both income and human poverty is deep and pervasive in Nepal. The fruit of development was largely captured by the few better-off people while majority of people were marginalized, particularly in rural area. There have been a myriad of poverty alleviation endeavors in Nepal by the government since the initiation of First Five Year Plan in 1956. In the fight against poverty, donors have been providing a substantial amount of external assistance over the years dating back to early 1950s. Despite the massive flow of such foreign assistance over years, widespread poverty remains in Nepal.

Although the resources committed for rural poverty alleviation is enormously large, it has failed to uplift the rural economy. Recently both Nepalese government and donor community have realized that people's participation is a must to reduce poverty. Participatory approach to development is the central theme of most donor-supported projects. In this context, Nepalese government passed Local Self-Governance Act 1999 to increase people's participation in the process of development. Local Development Fund (LDF) is established to undertake poverty alleviation programmes at grass-roots level. It is assumed that LDF-supported projects are effective at grass-roots level to reduce poverty. However, the assessment and review of this fund has not been undertaken yet. Thus the proposed study will assess and analyse different aspects of the LDF-supported projects with considerable level of field surveys, and analysis of primary and

¹ UNDP: Human Development Report 2004.

secondary data. Based on the findings of research it will suggest some tools to increase the effectiveness of the fund-supported projects.

1.2 Conceptual Framework

Nepalese government regarded planning as the most efficient tool and instrument to stimulate economic growth that raised living standard of the common people. Since the beginning of planning, development goals at different times have focused on various themes such as agricultural development, industrial development, balanced growth, regional development, and equity-oriented development to integrated development. Poverty alleviation and human development objectives had taken preliminary shapes under the line of basic needs approach during the sixth and seventh plans. This objective of poverty eradication received explicit attention in the eighth and ninth plans. Similarly, the tenth plan has also taken poverty alleviation as the major and fundamental objective of the plan.

Recently the planners and donor community have realized that people's participation in the formulation and implementation of plans is most crucial element to achieve the goal of poverty eradication and to uplift the condition of rural poor. And it is felt that, in the absence of people's participation, all the programmes and projects would be like pouring water into the sand. Thus participatory approach to development is needed to eradicate widespread poverty that exists in the country. The concept of social mobilization for development and poverty eradication has become the central theme of most donor-supported projects. Realizing this fact, Nepalese government also adopted participatory approach to development. In this regard, the Local Self Governance Act passed in 1999, is a landmark piece of legislation. It will now be the people in villages who will assess and analyze their own needs, set their own priorities and devise means to achieve them. Locally elected bodies now have the mandate to plan, implement and manage all resources.

Local Development Fund (earlier known as Local Trust Fund) is another mileage established at the DDC level under LGP/PDDP programme, which later on was extended to 68 districts. Under this fund government grants and the assistance received from friendly nations, bilateral and multilateral donor agencies, inter-governmental organizations, international non-governmental organizations and so on are deposited. It is established for undertaking village development programmes and other poverty alleviation programmes at community level through community based organizations (CBOs).

UNDP has supported these initiatives through Participatory District Development Programme (PDDP) and the Local Governance Programme (LGP), simultaneously emphasizing social mobilization and strengthening local government. PDDP has become a model program of HMG in working towards poverty alleviation and bringing the grassroots into the mainstream of development. At the district level, PDDP has been helping the District Development Committees (DDCs) become more professional and capable institutions for carrying out local development activities. The Local Self-Governance Act 1999 incorporated its local development approach and the government has also institutionalized Participatory Development Guidelines.

To support the district development initiative, the PDDP has assisted to set up a district level Local Development Fund (LDF) as a revolving and continuous fund. The fund is functioning at the district level as the partners of development with line agencies, sectoral agencies, local bodies, donor agencies related to the development of the district. Through Seed Grant Fund

(SGF) and Credit Capital Fund (CCF), the LDF is supporting the poverty alleviation programmes at grass-roots level on self-reliant development. It is believed that LDF-supported projects and programmes are effective at grass-roots level and can be replicated to other areas for poverty reduction. However, the assessment and review of this fund has not been undertaken yet. The proposed study will assess and analyze different aspects of the LDF-supported projects with field surveys, and analysis of primary and secondary data. Based on the findings of research it will suggest some tools to increase the effectiveness of the fund-supported projects.

1.3 Rationale of the Study

The above analysis brings out the fact that the plans and projects formulated and implemented during the past have hardly touched the rural poor. At the same time researchers and intellectuals have also questioned the role of foreign aid in economic development and poverty eradication in the country. Some analysts argue that it has been beneficial for the country whereas others have the opposite view while many claim that the amount of foreign aid flowing into the country is just not enough to make a significant difference (Joshi, 1996, Poudel, 1998). Few hold the view that foreign aid is responsible for widening the gap between the rich and the poor and it is also seen as the creator of middle class in the country (IIDS, 1983, xv). Similarly, few hold the view that demonstration effects, dependence, economic colonialism and low-self pride are the products of foreign aid.

At present a variety of studies are available that assess the role of foreign aid in the development of Nepal (Acharya, 2002; Joshi, 1996; Khadka, 1991; Poudel, 1988). But all these studies are concentrated on macroeconomic variables such as gross domestic product, per-capita income, national saving and investment, while assessing the impact of foreign aid in Nepal. However, the ultimate goal of development and foreign aid itself is the reduction of poverty rather than raising average income of the country. In this context, such macro level studies are inappropriate to analyze the impact of foreign aid at grass-roots level, which is supposed to be real beneficiaries of the most donor-supported programmes. So far micro studies are unattended and skipped by researchers. Thus, it would be timely to assess the impact of foreign aid at grass-roots level of Nepal. To fulfill this gap, the proposed study will try to analyze the impact of foreign aid at grass-roots level. The study will focus on those donor supported programmes that are directly linked with community or village level.

1.4 Study Objectives

It is to be noted that the LDF itself depends largely upon external sources with lot of technical assistance. The District Development Committees (DDCs) are now well equipped with computers, trained staff in planning and financial management technique, but it is not known to what extent they have been able to deliver the services to the people. This will have a serious effect on the functioning of LDF in its expanded programmes. In consideration of this fact, the study will be undertaken with the following objectives:

1. To review the inflow of foreign aid deposited in LDF and its management in terms of record keeping, preparing statement of account and the progress report of all the projects funded under the fund.
2. To assess the impact of foreign aid granted to the CBOs and Village Development Committees (VDCs) through LDF.

3. To analyse the poverty-focused foreign aid expenditure going to the DDCs, VDCs and CBOs through LDF.
4. To review the institutional capabilities of the local bodies generated under PDDP/LGP and other such programmes that are following the Village Development Programme (VDP) model to reduce the poverty through social mobilization and participatory decision making process and also to see whether the local bodies are ready to take up the management of the LDF from their expatriate counterparts and sustain it.

1.5 Methodology

There are altogether 68 districts (out of 75 districts of the country) where Local Development Funds (LDFs) are established under the umbrella of District Development Committee (DDC) as an institute to support and manage the implementation of village development programmes for poverty alleviation programmes. LDF is now spread in 262 village development committees (VDCs) operating down to Community Based Organizations (CBOs) through DDCs and VDCs as a satellite of PDDP (in 30 districts) and LGP (in 30 districts) of UNDP and District Partnership Programme (DPP) of SNV (in 8 districts) for improving living condition of the community and in poverty reduction. However, in this study 6 districts (3 PDDP, 2 LGP and 1 DPP) were selected and surveyed from 5 development regions and 3 ecological regions of the country.

Information for the study data were collected from (i) primary and (ii) secondary sources. Following methodology were used in collecting data under primary source.

i. Sampling Method

Stratified/purposive sampling has been used in selecting districts, village development committees (VDC) community organizations (COs) and the households. As per this methodology, selection of districts, VDCs and households was done as follows:

- a. At the first stage, six districts were selected from the five development region including two selected from the eastern development region. While selecting these districts, consideration was given to trap the ecological diversity of the country viz Mountain, hill and Tarai. But most of the analysis in the following pages have constructed only two ecological variation viz Mountain hill and Tarai by merging the two high lands.
- b. In each of the selected districts, two VDCs were selected at the second stage of sampling. For the selection of VDCs the only criteria used was the programme district.
- c. At the third stage, personal judgment considering again the same criteria of program COs was used.
- d. At the fourth and last stage of sampling, five household from each of the selected COs were selected using random sampling.
- e. Thus in total, there is a selection of 6 districts, 12 VDCs, 40 COs and 244 households. In each of the household community members were contacted for the response on the programme impact. For the selection of districts and VDCs concerned officials were also contacted.
- f. Also some primary data was obtained through the records of offices LDF, VDC and COs. Most of the secondary information were collected from different reports, manual and book from LDF and concerned offices.

- g. Held discussion with the official from PDDP, LGP, SNV, DANIDA, MLD, NPC, on various aspects of the programmes especially Village Development Programme (VDP) and the functioning of LDF, and gathered useful documents, reports and literature. Also the study team discussed with the concerned officials about the selection of districts and VDCs as well.

ii. Recruitment and Training of staffs and pre-testing of questionnaire

Supervisors and enumerators with the prior experience in this kind of survey were recruited for data collection. They were trained in survey technique, specially using questionnaire designed for data collection prepared for the purpose. The field staff pre-tested the questionnaire in around the local bodies (DDC, VDC, COs, LTF and Individual household) in Dhulikhel, Kabhre district for four days. Necessary corrections were done in the questionnaire based on the findings of pre-testing.

iii. Data Collection and Field Organization

For the collection of data from the field, each field Team were covered by one team consisting of 1 supervisor and 2 to 4 enumerators. There were six teams covering each district by one team of 3 to 6 persons depending on the sample size in each region. Each team approximately spent 15 days. The enumerators under close supervision of supervisors and periodic supervision of study team members collected from the field using the questionnaire as discussed above.

iv. Analysis of Data

Data generated in the study were analyzed manually as well as using appropriate statistical computer package. Before processing of the data, they were checked for their consistency, error and appropriateness to the question included in the study.

In addition, to collect the answers for the identified parameters, it is decided to use the tools such as consultation meeting, focused group discussion, observation, study of institutional documents and individual interview of the stakeholders in the selected districts.

Secondary sources include the analysis of information on national government expenditure, LDF expenditure, review of decentralization and participatory development approaches, review of relevant acts and legislation, and review of pertinent plan and strategy documents. In order to review the macro level situation, secondary data; primarily consisting of government policy documents, legislative and regulatory provisions and donor programmes documents were studied and analyzed.

1.6 Chapter Scheme

The study report is divided into 11 chapters. The first chapter will be the introductory part, which begins with the magnitude of poverty problem, genius of LDF, study purpose and methodology in carrying out the study. The second chapter gives historical background of foreign aid, changing structure of foreign aid from bilateral assistance to multilateral assistance and from grant to loan assistance, problems brought out by external debt, foreign aid impact at the grassroots level with components of foreign aid, emerging role of local development fund along with its objectives, methodology of the study adopted in analyzing its impact at the grassroots level for poverty eradication, and the limitations of the study.

The third chapter deals with the role played by foreign aid in local development. It the process, it gives an overview of decentralization that Nepal has been pursuing for long time. The chapter oversees the strengths and weaknesses of the participatory district development approaches in the perspective of Local-Self Governance Act 1999 enacted for taking care of poverty problem at the local level.

The fourth chapter is entirely devoted on discussing about the concept, functions and role of local development fund established in all the districts to push up the activities related to poverty alleviation activities as mentioned in the participatory district development approaches. This also discusses the funding sources provided by different agencies including donors, fund deposition mechanism at the central and local level by program activities, funding operation mechanism covering disbursement of loan by activities and recovery of loans. This also analyzes the capacity of fund in disbursing loans vis-à-vis the fund at disposal.

The chapter from five to nine deals with the findings of the field survey done at the district level, village level, community level and household level. These chapters will find out to what extent the LDF fund has helped in ameliorating the problems of poverty prior to and introduction of the fund activities in the sample area.

The tenth chapter is dealt with problems of sustainability of the local development fund. The last chapter is on conclusion and recommendations. In this chapter attempts have been made to highlight the strengths and weaknesses of the Local Development Fund. Building upon the strengths of the programmes, the chapter will come out with some recommendations to overcome the weaknesses and also provide suggestions how to run and make the LDF programmes effective and sustainable on long term basis to ameliorate the poverty problems faced by the community at the grassroots level.

1.7 Limitations

- A substantial amount of resources (foreign aid) are being spent annually by donors, Non Governmental (INGOs) and governmental at the grassroots level on poverty alleviation activities. Unfortunately, all the resources spent by these donors are not officially recorded; neither the study team had any access to these records. Hence the analyses of resources flow made by different agencies are not included in the study.
- The study has taken into account only about those funds, which are disbursed through Local Development Fund. Neither it has taken into account about those funds administered directly by donor agencies nor the government red book (Budget). In fact the resources allocation made through LDF are not reflected in the government red-book.
- As the insurgency disturbed some of our study area selected earlier, we shifted to other areas, which are safe and also give national representations.
- Village Development Programme (VDP) is highly affected by ongoing insurgency problem, hence the findings of this study should be seen cautiously.
- Reference period for project implementation in each district remained varied. The programme is under implementation in Kabhre since 1995, Nawalparasi since 1996, Sankhuwasabha since 1997, and in Jhapa and Kanchanpur districts since 1999, and it was implemented in Jumla since 1996. Given the variation in the reference period, these six districts cannot be compared to each other and only represents the situation of that particular district.

- The PDDP and LGP programmes were previously implemented separately, and were implemented as the bridging phase from 2002 to 2003. But now both the programme are merged together and is being implemented by Ministry of Local Development as Decentralized Local Governance Support Programme (DLGSP). This study covered the period up to December 2003 only; the new phases of the selected programmes is not included in the study.
- As the information on overall utilization of foreign aid utilization at the grassroots level was not available, this study focused and analyzed the aid deposited and utilized through the LDF. Hence the study has been termed as Foreign Aid Utilization at the Grassroots Level: A Case Study of LDF.

CHAPTER – 2

FOREIGN AID IN NEPAL

2.1 Historical Background

The ultimate goal of development is to reduce poverty and improve standard of living. For this to happen, sustainable economic growth and investment in people are necessary. However, given the prevalence of resources constraint, poorer countries cannot achieve this goal by itself. There is a need that the poorer countries should seek support from donors in the form of aid for financing project and programmes in needy areas, support for policy reform, and assistance in building implementation capacity. However, the recipient country should not use donors funding to substitute the domestic saving. In fact donors funding should be used to mobilize internal resources and private investment directed towards enhancing or accelerating the process of development and achieve the objective of poverty alleviation. Flow of foreign aid to Nepal also corresponds to this objective that began with Point Four Program of the US in 1951. The volume of external assistance has consistently increased over time since the initiation of the first five year development plan in 1956/57. From a rather humble beginning with US \$ 0.13 million, the amount of foreign aid to Nepal has risen immensely to US \$ 257 million in 1999. The per-capita aid disbursement rose from 0.2 to US \$ 12.0 in between 1971 and 2000. Now there is not a single area where foreign aid is not present and decisive. Many projects covering agriculture, transportation, communication, education, health, education, etc. have been undertaken under foreign assistance.

Table 2.1: Total Foreign Aid Disbursement (1950/51-2001/02)

Total Foreign Aid (In NRS Million)	210162
National Expenditure (In NRS Million)	721798
Foreign Aid as % of Expenditure	29
Total Foreign Aid (In US\$ Million)	5928
National Expenditure (In US\$ Million)	17601

Source: Economic Surveys

Whether foreign aid has contributed to accelerate the economic development on sustainable basis over these years is a much debatable issue in the country. However, the reality is that Nepal still has relied much on foreign aid financing a huge proportion of development expenditure in the country. The First Five Year Plan (1956-1961) was fully financed by external assistance; that share of foreign aid is still high, with the figure for Tenth Plan (2002-2007) being 60.7 percent. Foreign aid financed 60-80 percent of Nepal's annual budget in the 1990s and accounted for over 10 percent of GDP.

Table 2.2: Foreign Aid Disbursement Trend (1975/76-2001/02)**(In NRS Million)**

Year	Development Expenditure	Revenue Surplus	Foreign Aid	
			Disbursement	% Dev. Exp
1975/76	1238.7	441.1	505.6	40.8
1976/77	1498.4	490.8	556.9	37.2
1977/78	1807.9	715.1	848.4	46.9
1978/79	1978.8	770.2	989.4	50.0
1979/80	2308.6	717.9	1340.5	58.1
1980/81	2731.1	1058.0	1562.2	57.2
1981/82	3726.9	1045.1	1723.2	46.2
1982/83	4982.1	844.5	2075.9	41.7
1983/84	5163.8	1135.8	2547.5	49.3
1984/85	5488.6	1010.5	2676.4	48.8
1985/86	6213.3	1060.5	3491.5	56.2
1986/87	7378.0	1839.9	3314.5	44.9
1987/88	9428.0	2673.4	5078.5	53.9
1988/89	12328.7	2100.7	5666.9	46.0
1989/90	12997.5	2615.7	6427.1	49.4
1990/91	15979.5	3159.6	5990.0	37.5
1991/92	16512.8	3607.3	7800.4	47.2
1992/93	19413.6	3664.3	9235.6	47.6
1993/94	21188.2	7171.6	11557.2	54.5
1994/95	19794.9	5310.1	11249.4	56.8
1995/96	24980.5	6331.2	14289.0	57.2
1996/97	26542.6	6192.4	15031.9	56.6
1997/98	28943.9	5763.5	16457.1	56.9
1998/99	28531.3	6203.3	16189.0	56.7
1999/00	31749.2	8370.5	17523.9	55.2
2000/01	37065.9	6124.4	18797.4	50.7
2001/02	31482.2	1855.4	14384.8	45.7

Source: Economic Surveys

Nepal's foreign aid structure by source and by composition has undergone significant changes in recent years. The share of bilateral assistance in total aid has declined to around one-fourth currently, and so with the grant assistance. Initially Nepal received all assistance in the form of grant, mostly guided by the strategic considerations of the donors consisting of the US, the former Soviet Union, India and China. The first foreign aid to Nepal provided through the Point Four Program of the US was in the form of grant. These motives changed during the later years. The country received the first ever foreign loan during the second plan period in 1963/64. Since then loans have gone up from constituting about a fourth of total foreign aid receipts to constituting three-fourths of total foreign aid received by Nepal. The loan component seems to be on continuous rise. The increased trend of loan component compared to grant indicates the fact that there is not much free money available in the world anymore. This demands judicious spending scarce resources either loan or grant, on the sector having competitive advantage.

Table 2.3: Grants and Loan as Percent of Total Aid Disbursement

Year	Total Aid (In NRS Millions)	% as grants	% as Loans
1975/76	505.6	71.14	28.86
1976/77	556.9	70.48	29.52
1977/78	848.4	55.00	45.00
1978/79	989.4	60.57	39.43
1979/80	1340.5	60.10	39.90
1980/81	1562.2	55.62	44.37
1981/82	1723.2	57.64	42.36
1982/83	2075.9	52.51	47.49
1983/84	2547.5	34.41	65.59
1984/85	2676.4	34.50	65.50
1985/86	3491.5	32.10	67.90
1986/87	3314.5	32.53	67.47
1987/88	5078.5	39.07	60.93
1988/89	5666.9	26.08	73.92
1989/90	6427.1	27.99	72.01
1990/91	5990.0	27.21	72.79
1991/92	7800.4	19.63	80.37
1992/93	9235.6	35.45	64.55
1993/94	11557.2	20.71	79.29
1994/95	11249.4	35.00	65.00
1995/96	14289.0	33.77	66.23
1996/97	15031.9	39.84	60.16
1997/98	16457.1	32.83	67.17
1998/99	16189.0	26.79	73.21
1999/00	17523.9	32.59	67.41
2000/01	18797.4	35.93	64.07
2001/02	14384.8	46.48	53.52

Source: Economic Surveys

The available data since 1950/51 demonstrate the increasing trend of foreign aid vis-à-vis national expenditure. The table also shows a reversal in the roles played by grants and loans in the development process of the country. The share of foreign aid in the total expenditure, which was minimal in the initial period, started increasing as a mix of loan since 1963/64.

2.2 Debt Burden

With the dominance of loan portions in the foreign assistance and the maturity of debts incumbent upon the nation, debt service obligation is rising. Nepal's debt service position, though within sustainable limits, is consuming quite a significant chunk of fresh resources, which could otherwise be used for productive purposes. Its debt service ratio remained around one-third of the annual regular expenditure in the 1990s. External debt service alone consumed 13.5 percent of the government revenue and 15.9 percent of total regular expenditure during 1998/99. The debt servicing on foreign loan amounted Rs.4685.8 million in 2001/02.

External indebtedness of the Nepalese economy as measured by the ratio of GDP with external outstanding debt stock has reached 53.1 percent in 2000/01. The level of total export as percent of the external debt stock is 21.4 percent. It demonstrates the increasing pressure on the available resources creating difficulty on adequately financing socio-economic infrastructure building and maintenance, social welfare, and poverty alleviation programmes.

Table 2.4: Debt Servicing Burden on the National Economy

Year	Net Outstanding debt (NRS Million)	Outstanding Debt (% of Export)	Outstanding Debt as (% of GDP)	Total Debt Service (Million NRS)	Repayment as (% of Export)	Repayment (% of GDP)
1974/75	346.1	38.9	2.2	11.2	1.3	0.1
1975/76	477.2	40.2	2.9	14.8	1.3	0.1
1976/77	629.4	54.0	4.0	16.1	1.4	0.1
1977/78	972.3	92.9	5.5	20.5	2.0	0.1
1978/79	1320.9	101.9	6.7	23.2	1.8	0.1
1979/80	1807.3	157.1	8.8	23.0	1.2	0.1
1980/81	2451.3	152.4	10.7	59.8	3.7	0.3
1981/82	3177.8	213.1	12.2	74.0	5.0	0.3
1982/83	4717.6	416.8	14.6	94.7	8.4	0.3
1983/84	6321.1	371.0	16.8	128.2	7.5	0.3
1984/85	9203.2	335.8	21.5	189.5	6.9	0.4
1985/86	10330.2	335.6	20.7	285.7	9.3	0.6
1986/87	15171.9	507.2	26.6	487.0	16.3	0.9
1987/88	20826.0	506.2	30.5	591.0	14.4	0.9
1988/89	29216.9	696.4	36.3	701.3	16.7	0.9
1989/90	36800.9	713.7	39.4	1123.6	21.8	1.2
1990/91	59505.3	805.5	54.9	1086.5	14.7	1.0
1991/92	70923.9	517.5	52.5	1664.9	12.2	1.2
1992/93	87420.8	506.3	56.9	2131.9	12.4	1.4
1993/94	101966.8	525.1	57.3	2488.7	12.8	1.4
1994/95	113000.9	640.6	53.8	2984.7	16.9	1.4
1995/96	128044.4	644.1	53.5	3304.3	16.6	1.4
1996/97	132086.8	583.5	49.0	3349.4	14.8	1.2
1997/98	161208.0	585.9	55.6	4201.2	15.3	1.4
1998/99	169465.9	475.0	51.4	4745.5	13.3	1.4
1999/00	190691.2	382.7	52.1	5321.4	10.7	1.5
2000/01	200404.4	360.1	50.7	6201.4	11.1	1.6
2001/02	220125.6	463.0	54.4	6567.5	13.8	1.6

Source: Economic Surveys

The national priority on poverty focused program demands additional resources for vital social sectors such as education, health, local development and so on. The percent share of loan in social sector so vital for poverty alleviation and sustainable development have not yet been satisfactorily increased. Large sum of foreign aid which the government is receiving has gone for debt payment. In 2001/02, the country received a total foreign aid of Rs.14384.8 million, of which Rs.4685.8 million is in social sector. However, the debt servicing on foreign loan amounted to Rs.6567.5 which is equivalent to about 50 percent of total foreign aid, exceeding over two-third of the aid received in social sector. The growing burden of debt will restrict further increase of financial resources in the social sector.

2.3 Foreign Aid Impact

It is not that foreign aid has not contributed to national development. The contribution made by foreign aid in bringing dynamism in growth and national output cannot be ignored. The increased flow of foreign aid in Nepal has certainly helped to make major strides in many areas of socio-economic development front. With active support from a wide range of donors, access to primary education has greatly increased. Now there exists a wide network of health posts, basic road network in the low-land tarai and part of the hills, substantially expanded irrigation and community forestry, and basic electricity and telephone network benefiting thousands of people.

Despite these achievements, Nepal still remains one of the world's poorest countries in the world with a very low per capita income of US\$ 240 in 2000. The development outcomes have remained minimal. Widespread poverty and unequal distribution of income are still most formidable challenges. However, in reality, the plans, programmes and projects formulated and implemented during the last five decades, supported by various donor agencies, have done very little in percolating benefits to the poor (Gurugharana, 1996). The country is now worse off economically than it was 20 years ago (WB, 2000), a higher number of people are living below the poverty line and their number is constantly rising. The population below poverty line was 5 million or 36 percent of the population in 1977, which grew to 7 millions, or 42 percent in 1986 and further to 9.5 million or 42 percent in 1996 (NPC, 1997). The incidence of poverty is not similar in rural and urban area or in all geographic areas or ethnic groups. As the ninth plan stated 41 percent and 42 percent of population in hills and tarai respectively, and 56 percent in the mountains, live below poverty line. Similarly 23 percent in the urban area and 44 percent people in the rural areas live below the poverty line, revealing that concentration of poverty is high in the rural than urban areas. Another disappointing feature related with poverty is that it is very severe among lower castes and ethnic minorities. Marked disparity in the distribution of income has also been noticed, with the bottom 80 percent of households accounting for 50 percent of the total income and the top 20 percent enjoying the other 50 percent of the income (NLSS, 1996). This merely indicates the fact that economic growth has been concentrated primarily in urban areas, particularly in Kathmandu valley, largely excluding 86 percent of population who live in rural areas.

Though foreign aid has been instrumental in reducing infant and child mortality, increasing primary school enrollment, reducing gender gap in education and increasing access to drinking water, it still remains low compared to other South Asian countries. Also there is wide variation in human development within Nepal with rural areas lagging sharply behind the urban areas. For instance, the Kathmandu valley with a population of over one million has approximately the same quality of life as the Philippines. However, in the Mugu district in the remote north-western Nepal, People's life expectancy is about half of those living in Kathmandu. It is the same situation for education and other basic services. The prevalence of chronic malnutrition is very high nationally (64 percent), it is even higher in the rural area (63 percent) comparing to urban area (49 percent).² Whatever the services government provides appeared to be captured by better-off households. Low income, lack of employment opportunities, especially in rural areas, poor public services and inefficient use of resources have all contributed to this low and unequal human development. These same factors have also contributed to creating social unrest and political instability in the country.

2.4 Aid Utilization at the National Level

In support of reaching the poor with poverty alleviation program in nooks and corner of the country, government has been pursuing a declared policy of gradually increasing the annual budget expenditure up to 70 percent of the total development budget, the evidence is however lacking. The review of the government budget 7-8 years indicated that the larger proportion of the development budget is still allocated to the central level programmes. At the district level less than 30 percent of the total development budget had been earmarked. This figure excludes those amounts that the district line agencies tend to receive a additional funding directly from the respective line central agencies on the top of the budget that has been allocated to them. The size

² NPC/UNICEF, Nepal Multiple Indicator Surveillance, Health and Nutrition – Cycle 1, March 1996.

of the development budget could be larger once this amount also is counted. Of course the development budget spent at the district level also includes the foreign aid funding, but the source-wise break up is not available. Neither there were any previous studies done to disaggregating the development budget/expenditure by foreign aid utilization at the grassroots level.

Moreover, government record on foreign aid disbursement is incomplete. Large amount of foreign aid is directly administered by donors, which does not go through government channel. This will be evident once we look at the UNDP record and compare it to that of the government record. According to the information obtained from UNDP, the total official development assistance (ODA) provided to Nepal in 1999 amounted to US\$ 414.6³ million while the government report showed receiving a total of US\$ 250.34 million only (Rs.17,523.9 million with Rs.5,711.7 million grant and Rs.11,812 million loan⁴) during this period. This means government record on foreign aid is 40 percent underreported, and these are not channeled through government red-book (budget document). These are self-executed donor funded projects and administered by the army of their own 'yes men' with much of resources going to the salary, and other perks and benefits of the international consultants, which need not necessarily be spent on service delivery. This exemplifies the fact that foreign aid management and administration in many cases are not in the hands of government.

In the present study, the UNDP country report has been used, which is very much elaborative and comprehensive that gives total picture on the utilization of foreign aid in the country. As per this report, a total of 687 on-going projects were implemented, for which a total of US\$ 414.6 million was disbursed in 1999. It has a separate section on inventory of on-going foreign aided projects that gives information on foreign aid commitment vis-à-vis disbursement by project and programme-wise with specific location site.

The sector and sub-sector wise distribution of foreign aid by economic sector is presented below.

Table 2.5: Aid Utilization at the National Level

Economic Sector	Aid at National Level (NRS)	Percent of Foreign Aid by Sector (%)
1. Agriculture, Forestry and Fisheries	60,176	14.5
2. Energy	54,811	13.2
3. Transport	53,491	12.9
4. Health	50,021	12.1
4. Social Development	37,601	9.1
5. Human Resources Development	33,947	8.2
6. Area Development	32,803	7.9
7. Economic Management	23,118	5.6
8. Humanitarian Aid and Relief	14,793	3.6
9. Natural resources	13,683	3.3
10. Development Administration	13,742	3.3
12. Disaster Preparedness	6,877	1.7
13. International trade	6,107	1.5
14. Communication	6,091	1.5
15. Industry	5,920	1.4
16. Domestic Trade	1,401	0.3
Total	414,582	100.0

³ UNDP; Nepal Development Cooperation Report 2000

⁴ HMG/Ministry of Finance: Economic Survey, Fiscal Year 2002/2003

This is seen from the above table that the larger share of foreign aid disbursement went to agriculture followed by energy, transport and health. Foreign aid disbursed to other sectors like social development, human resource development and area development at the national level averaged 8.4 percent.

Humanitarian aid and relief projects absorbed about 4 percent of total aid. The aid disbursement provided under this heading was just only to look after the problems of Bhutanese and Tibetan refugees who had been in Nepal for years. Had these foreign aid were not available, the refugee problem would have added negative impact upon the national economy, which at present itself is running in big crisis.

2.5 Aid Utilization at the Grassroots Level

His Majesty's Government of Nepal has recently established District Development Fund (DDF) under DDC requiring all the district level donor agencies to deposit their aid money into it through which disbursement of fund to the line agencies will be done. Nonetheless, a compilation of such foreign aid deposits and disbursement by sector and sub-sector has not yet done. It is also not known whether it will capture the fund directly administered by donor agencies. Hence for analyzing what proportion of foreign aid disbursement went to at the grassroots level, we have used the UNDP document and disaggregated the community projects from it. While doing so, judgments were made to identify grassroots level projects on the basis of project specific location by districts, beneficiary institutions and executing agency as mentioned in the report. In addition, the nature and objectives of each individual programme and projects were also reviewed while deciding upon which project and programs fall at the grassroots. For example, if any project mentioned in the document were referred as community, they were treated as grassroots level projects. Based on these criteria, 253 projects out of 687 or about 37 percent of the total projects were identified as falling under grassroots levels category. These projects were spread over in all sectors from economic management to development administration; natural resources; human resources development; agriculture, forestry and fisheries; area development; industry; energy; transport; social development; health; disaster preparedness; and humanitarian aid and relief program.

As per this UNDP document, a lot of general and specific community development activities are included under natural resource program, human resources development, agriculture, area development and social development. Aid disbursement made under these headings appeared to have focused at the grassroots level poverty problems in Kabhre, Okhaldhunga, Mustang, Ramechhap, Kanchanpur, Bajhang, Kailali, Patan, Palpa, Nawalparasi, Jagarkot, Bhojpur, Sankhuwasabha, Lamjung, Sarlahi, Saptari, Khotang, Rukum.

Review of location-wise analysis of foreign aid disbursement gives the impression that it has tried to reach the far-flung areas of the country, which is also known as Maoist hot-bed area (*Kanchanpur, Bajhang, Kailali, Jagarkot, Rukum and so on*) with many package programs made through health sector, area development including social development. Along with this, the foreign aid disbursement made in health sector in rural area is noteworthy making it possible to aid child survival, safe motherhood, enhanced support for HIV prevention in Nepal, assist community health workers strengthen their capability and in reaching the targeted people at grassroots level with primary health care activities.

Foreign aid disbursement by sector and sub-sector made at the grassroots level showed that almost all the foreign aid disbursement went to humanitarian aid and relief basically for Bhutanese refugees. Of the remaining foreign aid disbursement, larger proportion was disbursed to health, area development, social development, disaster preparedness and so on. However the proportion of foreign aid disbursement made to other sector are very small. Agriculture, which is the mainstay of the rural economy, was given only 4 percent. The proportion of aid disbursement made to human resources development accounted for only 2 percent and about 7 percent to economic management. Under economic management, there is only one project named rural micro financed project running since 1998 aimed at improving socio-economic status of women and in increasing employment opportunities. Implementation of the decentralization reform process requires strengthening of institutional capacity of local bodies, but the foreign aid disbursement made in this respect is not encouraging and so with the coverage of the districts. Just 2 percent of foreign aid disbursement went to support development of institutional capacity at two district development committees (DDCs) and all village development committees to implement the decentralized reform process.

Table below shows that a total of US\$ 103 million was disbursed to grassroots level projects accounting for around 25 percent of the total foreign aid disbursement in 1999. In case the humanitarian aid and relief project were taken out, the foreign aid disbursement made at the grassroots will stand at 21 percent. Sector-wise distribution of resources demonstrates the fact that only a small percentage of foreign aid disbursement made to agriculture, skill development, micro finance, institutional development and so on. From equity point of view, it is clear that the way fund is distributed in these areas is socially unjustifiable. One can hardly imagine how the poverty at the grassroots level can be reduced with such meager resources. Though the foreign aid disbursement made in health, area development and social development looks pretty high, basic social indicators in terms of life expectancy, health status, adult literacy rate, school enrollment and so on remains poor vis-à-vis national level.

Table 2.6: Disbursement of Foreign Aid at Grassroots Level by sector, 1999

(In US\$ thousand)

Sector	Aid at National Level	Aid at Grassroots Level	Share of Total Aid to Grassroots Level (%)
1. Agriculture, Forestry and Fisheries	60,176	2,416	4.0
2. Energy	54,811	2,147	3.9
3. Transport	53,491	2,150	4.0
4. Health	50,021	36,803	73.6
4. Social Development	37,601	15,734	41.8
5. Human Resources Development	33,947	662	2.0
6. Area Development	32,803	19,612	59.8
7. Economic Management	23,118	1,528	6.6
8. Humanitarian Aid and Relief	14,793	14,739	99.6
9. Natural resources	13,683	5,144	37.6
10. Development Administration	13,742	288	2.1
12. Disaster Preparedness	6,877	1,141	16.6
13. International trade	6,107	0	0.0
14. Communication	6,091	0	0.0
15. Industry	5,920	937	15.8
16. Domestic Trade	1,401	0	0.0
Total	414,582	103,301	24.9

Source: UNDP Nepal Development Cooperation Report 2000

This may be noted that most of the projects and mentioned under UNDP document under reference are not new, and some of the projects were there running in the community for the last two and half decade since 1978⁵ having no sign of ending. It is, however, not understandable why the basic social indicators of the grassroots level have remained low despite the flow of much needed resources in the area. It is in doubt whether the foreign aid disbursement allocated at grassroots level has really touched the rural poor. It is reported that much of aid and loan money is not reaching the intended beneficiaries. In between aid-giving agency at one end and the aid receiving agency at the other end, there are several institutional and bureaucratic barriers obstructing the flow of resources directly to the poor. A massive share of allocated resources goes into the pockets of political-bureaucratic-business oligarchies before it reaches the door-steps of the poor.

Whether it is in the name of advocacy and awareness raising activities or in imparting knowledge on planning formulation techniques and so on, much of technical assistance is spent providing refreshment and meeting allowance to the participants in the meeting. Even the local authorities, community leaders and the members of civic organizations were found participating in such donor-driven meeting either as a resource persons or chairing the meeting taking handsome amount under the table as their fee or remuneration. The interesting part of such meeting is that it will end up with big lunch on or dinner or reception party, attended by almost all local dignitaries from all walks of life adding much weight to the program. The other lucrative part of such foreign aided programs is that the local authorities involved in the program will get an opportunity to go abroad in the name of observation tour or study tour returning with baggage of full foreign goods and making full support to the projects. Donors, on the other hand, feels happy with the output that their support is really doing good things under the so-called poverty-focused project and programs launched at the local level. This exemplifies the prevalence of bad governance, characterized by misuse of resources and wrongdoings that has been happening in all the foreign aided projects affecting all the institutions down to the local level. Even organizations working especially for human welfare have come under the shadow of doubt.

Local people at the grassroots level may not be aware of such “money-scams” predominating in the projects around their surroundings. They will be happy in receiving the service delivery so long as it is available. They just remained only as silent spectators with nothing to gain and nothing to loose. Their simplicity and ignorance let them to be by-passed by the politicians, local leaders, and bureaucrats raising doubts about their capability in planning, programming and in implementing them.

Because of such wrongdoings mentioned under reference, there is a need for adopting and implementing policies that bring improvements in governance, decentralized allocation of resources, and robust control of corruption. Much can be learnt from the home-grown programmes like inoculation and vitamin programme to show how resources can be made directly without involving any other intermediaries. In similar line, a delivery-insured distribution mechanism can be developed to bring local people in the mainstream of development and make them feel that they also can share their views with their counterparts in the matters of development and are able to man the projects and programs by them ensuring the benefits on a sustainable basis. To this end, government and donors should forge together in finding out such a modality which can understand the potential force of the local people and use

⁵ Community health and development is one of such project running in the country for decades under technical assistance.

it in designing and implementing long-term and sustainable poverty-focused programs in their surroundings. The district-based local bodies could be mobilized in determining how the resources can be reached to the poor and needy households.

Establishment of Local Development Fund (LDF) under District Development Council (DDC) is seen as the product donors' joint move which is operating in 68 districts. LDF is now being supported with financial support from a host of external and internal agencies to implement the VDP. External aid agencies like UNDP, DFID, NORAD, and SNV (The Netherlands) remained major development partners in this endeavor.

Functioning of LDF at the district level is welcomed by all sides with thousands of volunteers from all walks of life mobilized alongside the programme. The logic of the programme is that it is result oriented, ensures social justice, and treats all alike irrespective of economic status, gender, caste or religion. However, the establishment of LDF tells us only half of the story how the foreign aid utilization is done at the grassroots level. Many foreign aided projects running into millions of US dollar remain outside the purview of LDF. As recording and compilation of foreign aid disbursement made at the grassroots level is a long way to go even with the creation of DDF mentioned above, LDF provides at least partial information to it. It may provide a basis for estimating how financial transaction is taking place under foreign aided place at the district level towards poverty reduction. In this perspective, the establishment of LDF should be treated as an innovative approach and should be seen as a case study to seeing the problems of foreign aid utilization at the grassroots level.

In the following section, attempts have been made to give background information on how LDF came into existence in the perspective of local development and poverty reduction. This also deals with the strength and weaknesses of the programme, and the lessons to be learnt for the sustainability of the programme.

CHAPTER – 3

FOREIGN AID AND LOCAL DEVELOPMENT

3.1 Targeted and Local Development Programme

The issue of rural poor has always received great attention in Nepal's development agenda. Nepal's Tenth Plan document (2003-2007) has a separate chapter devoted to targeted and local development program. This chapter attempts to address the issues of those specific groups of people who may either be unable to escape the poverty trap or take an unacceptably long time to benefit from the broad-based economic growth human development. Many of them lack education, knowledge, skills, and access to resources and opportunities to benefit from general development programme. These groups can be the hard-core poor, asset-less, disadvantaged groups, indigenous communities, people living in remote areas, female-headed households and women. The programme is worked out targeting – (a) specific geographical locations, more backward and isolated regions and (b) group programmes. The specific geographical location targeted programmes include multi-dimensional/integrated area development programmes for the construction of infrastructure as drinking water, small irrigation, schools, health posts and trails with the support of training, credit and technical support activities thereby enabling to improve the productivity of the inhabitants of the backward areas. Group programmes are aimed at improving the access of target groups to resources, skill and opportunities for income generation. These include programmes such as women's group formation and empowerment, income generation activities, non-formal education, skill training, technology adaptation and advisory services in agriculture and livestock food for work in famine-hit areas, and occasionally cash grants for food and supplies, among others.

The government had also initiated a Poverty Alleviation Fund (PAF) which will be used as an umbrella programme in order to strengthen target-oriented programme. The PAF will increasingly utilize NGOs and CBOs as support group for the target groups and provide financial assistance for poverty alleviation programmes. The Tenth Plan also seeks to address gender and ethnic/caste related and group facilitates social inclusion instead of simply relying on targeted programmes. Accordingly, in implementing key sectoral programmes, attention will be given to ensuring equity of access to such programmes for all, with special attention to assuring access of women and deprived communities, with the explicit objective of reducing the existing gaps between these groups and the rest of the population. Sectoral responsibility is also given to all line ministries⁶ and the non-governmental organization to running the targeted poverty reduction programmes under their areas. The Ministry of Local Development is also responsible for strengthening local institutional development, such as bolstering the district and village development committees.

⁶ These include the Ministry of Agriculture; Local Development; Finance; Women, Children and Social Welfare; Industry, Commerce and Supplies; Education and Sports; Health; Physical Planning and Public Works; Water Resources; Forest and Soil Conservation; National Planning Commission, Poverty Alleviation Fund; and Non-governmental Organizations.

3.2 Method of Targeting

Many of the programmes discussed above are not new; they already exist, sometimes overlapping and generally not efficiently run. Nepal has implemented a series of five-year plans with their support on a number of different approaches to rural development to meet the needs of these diverse groups. To this end, Nepal has used different methods to target the poor. In the mid 1950s Village Development Programme on American as well as on Indian models were introduced but after a few years of implementation, it were abandoned. Later Village Panchyat Development Programme was introduced in early 1960s. The Village Panchyat being the lowest tier of Panchyat political system was more oriented to political issues than with rural development programmes. Later in mid 1970s Small Area Development Programme (SADP) programme was adopted as a strategy for rural development and SADP was launched at a number of areas that incorporated about 4-5 Village Panchyat. SADAP was designed to cover manageable small areas that had potentially to be developed as growth centers. SADP was also abandoned towards the end of the 1970s and the Integrated Rural Development Programme (IRDP) was first initiated in Rasuwa and Nuwakot districts. Altogether ten IRDPs were executed in the country that covered 29 districts. The IRDPs adopted integrated approach for multi-sectoral for rural development. Although there were divergent approaches in the execution of IRDPs, the efforts and major investments were focused on development of agriculture, animal husbandry, health, education and environment. Special priority was also given to small farmers and women development programmes. Most of the IRDPs have already phased out their programmes but it is distressing to note that there has been an increasing trend of rural poverty, environmental deterioration, depletion of land and water resources, rising unemployment problem and high population growth.

With the restoration of multi-party democracy in 1990, a number of new initiatives in local development were undertaken, of which *Afno Gaon Afai Banaou* (Build Your Village Yourself) and *Gaon Ko Adhikar Gaon Layee* (Power to Village) remained quite popular to alleviating poverty and in uplifting the socio-economic conditions of the rural poor as well. The first initiative provided a sum of Rs.0.3 million to each village development council (VDC), and the second increased the amount to Rs.0.5 million to each VDC, which is deposited in the village development fund. Of this amount (0.5 million), each VDC is required to spend 25 percent on local human development, welfare and social security activities. VDCs need to implement human development activities meeting the following conditions such as:

- Conducting vocational and skill development training for the local people paying special attention to the areas of public health, mother and child health, literacy and education, agriculture, animal health, and small and cottage industries to ensure self-employment.
- Conducting pre-vocational training for the people belonging to the oppressed class and ethnic groups in the area of masonry, wood-working, shoe-making, painting, electrician, tap-pipe fitting and other activities to ensure self-employment.
- Setting aside 5 percent of the total 25 percent grants allocated to human development welfare and social security activities for group based community health programme, family planning and maternal child health programme, polio and vaccination programme, and other child health programme such as Vitamin-A distribution programme.
- Making arrangements for additional teachers in the government-run schools and discourage them providing one technical assistant with remuneration for assisting a VDC in plan formulation, implementation and in monitoring and supervision activities.

- Setting aside some amount of money for the relief of the families affected by natural disaster.
- Carrying out other activities for the welfare and social security of the elderly citizens in a VDC.

In addition, the government also provides VDCs with block grants for some specific purposes associated with human development. These grants are for rural drinking water, personnel welfare fund, local development programme, vital registration programme and social security programmes among others. The block grants comprise certain portion of the election constituency development grants too that include some inputs to the area of social sector development. In addition, the sector line agencies are also providing substantial amount through their district line agencies for universal access to basic social services.

The country has also adopted several other methods targeting to indigenous peoples, the oppressed and downtrodden (*dalits*) women and children with specific pro-poverty reduction programmes. These programmes are typically small and the benefits tend to the non-poor. Another method used for poverty reduction was providing a service or asset – such as credit, infrastructure or institution building. Credit-based schemes in Nepal have suffered from mis-targeting, declining repayment rates, high service delivery costs and inadequate institutional capacity.

Thus looking back to the historical background of the projects initiated for local development, it is evident that none of these multiple poverty alleviation activities and targeting methods could bring hardly any difference in the lives of the rural poor. Too many fragmented interventions, lack of co-ordination and follow-up, inadequate resources and commitment and lack of poor targeted programmes were the main deficiencies. Little attention has gone to involve the local people in the participatory self-reliant development. Instead of creating appropriate condition for popular initiative to flourish, almost all the project initiatives tended to be centrally designed, administered and managed by bureaucrats and semi-autonomous organizations. There are ample examples of not achieving development and social justice through such centrally planned interventions alone if people's participation are not sought, and make the people feel the sense of ownership of the programme. It requires developing authority to local bodies and making them capable, strong, autonomous, and accountable, so that they can go ahead with full responsibility for the promotion of equity, and social justice in development. Experience has shown that the programmes implemented with the close involvement of beneficiaries – even when they incur more costs for delivery of services – tend to be more successful.

3.3 Decentralization for Local Development

Viewing the importance of decentralization and peoples' participation in poverty alleviation and overall development of the country, the government gives high priority to the process of decentralization in her plans and policies especially after the restoration of multiparty democratic system in 1990.

The step toward local self-governance was made first time in the history of Nepal only after the dawn of democracy (2007 B.S.)⁷. A number of laws were framed between 2007-2018 B.S. to establish local institutions at the village and urban areas. A village development scheme was

⁷ Among the various ministries formed after the democratic set-up in 1951, one was the ministry of self-government [Pradhan, 1980].

initiated with the objective to assist villages in planning and implementation of local projects, however, no local institutions could be formed except in some municipalities [Gurung 2003]. Decentralization was adopted as a fundamental principle during the Panchayat period (2017-2047 BS). A High-level decentralization commission and various committees were formed in Panchayati system. Decentralization planning 2022 and Decentralization Act 2039 were formulated and implemented by the Panchayati governments. Similarly, Village Panchayat, Nagar Panchayat (Municipality), and District Panchayat were restructured.

After restoration of pluralist democracy, local self-governance and decentralization are realized as the foundation of the democratic system that is also necessary for the optimum mobilization of local resources. The constitution of the Kingdom of Nepal 1990 (article 25.4) has also identified decentralization as the means to ensure optimal participation of people in governance enabling them to enjoy the benefits of democracy. Decentralization is directly linked with democratization, self-governance, promoting equity among the different geographical regions and participation of people in development initiatives [HMGN-Donors 2000], which are closely linked with poverty level in a country. Recognizing the role of social mobilization in the promotion of participatory development, community empowerment and local resource mobilization, The Ninth Plan [1997-2002] has intended to build local governments that are accountable and responsive to people's need and institutionally capable to manage development activities locally [The Ninth Plan, p. 692-93]. To put the policy directives into practice the Village Development Act 2048, the Municipality Act 2048 and the District Development Committee Act 2048 were enacted.

To review these laws and to lay down the principle and policies on decentralization High Level Decentralization Co-ordination Committee was formed in 2053. To execute the recommendation of the committee a separate law was needed and consequently the *Local self-Governance Act 1999* was enacted. Similarly, the ongoing Tenth Plan also recognized people's participation in the mobilization of resources, as an essential element for combating poverty and improving governance [NPC 2002: P.23]. Policymakers and donor community now agreed on decentralization as the most appropriate mechanism to affectively address local development and services needs and vis a vis strengthen democracy through institutional pluralism, that ultimately alleviate poverty through empowerment of community, addressing gender and equity concerns, capacity building of local institutions and creation of economic and service opportunities locally [HMGN-Donors 2000]. Therefore, to increase people's participation in development process, decentralization policies are highly emphasized in Nepal. Various steps were taken by the Nepalese government to strengthen the process of decentralization, especially after the initiation of planned development effort in 1956-57. Major among them are presented below:

Table 3.1: Decentralization Chronology

Year	Initiative	Remarks
1962	Constitution of Nepal	<ul style="list-style-type: none"> • Emphasis on decentralization of Panchayats. • Creation of post of Chief District Officer (CDO).
1965	Local Administration Act	<ul style="list-style-type: none"> • Decentralization plan of three phases. • Panchayat Development Land Tax (PLDT) pilot scheme.
1972	Local Development Department	<ul style="list-style-type: none"> • Creation of post of Panchayat Development Officer (PDO).
1974	District Administration Plan	<ul style="list-style-type: none"> • Provision for District Development Plan.
1978	Integrated Panchayat Development Design	<ul style="list-style-type: none"> • Idea of "Service Centre" as focal point of local planning. • 1979, PLDT withdrawn

1980	Establishment of Ministry of Local Development (MLD)	<ul style="list-style-type: none"> • Conversion of PDO to LDO (Local Development Officer).
1981	Merger of Panchayat and Local Development Ministries and MLDP	<ul style="list-style-type: none"> • Integrated Rural Development Central Coordination Board.
1982	Decentralization Act	<ul style="list-style-type: none"> • Districts to prepare periodic plans.
1984	Decentralization Rules	<ul style="list-style-type: none"> • Districts, Village, Town Panchayats to prepare annual/periodic plans.
1989		<ul style="list-style-type: none"> • Supporting Decentralised Planning Project (SLDP)
1992	DDC, VDC and Municipality Act	<ul style="list-style-type: none"> • Increased responsibility for local development.
1992	DDC, VDC and Municipality Rules	<ul style="list-style-type: none"> • 1992, Decentralisation Support Project (DSP) • 1995, Participatory District Development Project (PDDP).
1996	Decentralization Co-ordination Committee	<ul style="list-style-type: none"> • 1996, Local Governance Programme (LGP).
1999	Local Self-governance Act	<ul style="list-style-type: none"> • More on delegation than devolution.

Source: Gurung, 1999, p. 22.

However, even after the introduction of *Local Self-governance Act 1999*, the participation of the stakeholders concerned in the decision making process is far from satisfaction [Dhungel 2002]. Decentralization has been an incessant theme in Nepal over the last five decades and evolved according to the rationale of successive regimes: for cosmetic purposes during the Rana rule, to sustain elite power base during Panchayat period, and for good governance in the present democratic set-up [Gurung 2003]. Singh durbar, where most of the ministries are located, is still the decision making centre for all matters related to both the national or regional level affairs [Dhungel 2002]. The past initiatives all foundered on the bedrock of the highly centralized governance system of the country and even now, there is no evidence that the central government and entrenched bureaucracy are becoming amenable to some form of local autonomy [Gurung 2003]. What is required, therefore, was development of a system that would not only de-burden Singh durbar but provide a framework for the people living in the different parts of the country, especially the underprivileged and deprived ones to have say in the decision making process that affect them [Dhungel 2002].

From the government perspective, the Local-self Governance Act has been considered to be a landmark event in the process of decentralization. The merit of this Act is that it seeks to bridge the gaps and to correct the shortcomings of the earlier decentralization policies and remould the ‘top-down planning approach’ into the ‘bottom up planning approach’ for the social well-being of the people. For achieving this objective, this Act intends to:

- Make provisions conducive to the mass for enjoying the fruits of democracy through the decentralization.
- Institutionalize the process of development by enhancing the participation of all people including all ethnic communities, indigenous people and downtrodden as well as socially and economically backward groups in mobilization and allocation of local resources so as to ensure social equity and justice.
- Make local bodies capable of formulating and implementing plans and programmes.
- Promote local leadership in order to enable them for making decisions on the matters of delivering daily needs of local setting.

The Act has thus created the legal base for the devolution of authority of planning to locally elected authorities and substantially delegate power and responsibility to district, town and village authorities. Specifically DDCs, Municipalities and VDCs are now empowered to design

and implement plans of and programmes on locally felt needs, which among others include basic social services such as education, basic health, basic rural water supply and sanitation schemes.

Pursuant to this Act, the power vested in the central government is being gradually transferred to the local government institutions. The line agency office personnel at the local or district level are being made accountable to local government institutions such as DDCs, municipalities and VDCs. Pursuant to this Act, the National Planning Commission (NPC) has started sending the budget figure directly to local bodies for preparing their annual plan and programmes. Based on the budget figures, local bodies have already prepared their annual development plan in consultation with all the line agencies and have sent these plans to NPC for necessary action. Thus a stage has already been set for the implementation of the Local-self Governance Act of 1999.

3.4 Donor's Support to Local Development

The PDDP is being executed by the NPC with, MLD as the Cooperating Agency, since December 1995. Likewise the MLD with NPC as the Cooperating Agency has been executing the LGP since December 1996. Various donor agencies are supporting the process of village/local development initiatives in Nepal. United Nations Development Programme (UNDP) is supporting VDP in 60 districts through its Participatory District Development Programme (PDDP) and Local Governance Programme (LGP)⁸. Similarly, Netherlands Development Association (SNV Nepal) has supported VDP in 7 districts through its Districts Partnership Programme (DPP) and Mechi Hill Development Programme (MHDP). SNV supported basically in infrastructure building, particularly drinking water supply and irrigation schemes, sustainable community development and in strengthening district level institutional capabilities in planning and implementation of local initiatives.

DANIDA/DASU also supporting decentralization; focusing on: policy development, capacity building and service provision, and strengthening LG institutions. DASU supports Doti and Surkhet districts to enhance the capacity of the DDCs and all VDCs in planning and development. GTZ initiated the Urban Development through Local Effort (UDLE) programme in 1987 and assists 36 municipalities. UDLE has worked to increase the capability of municipalities to plan and manage urban development and it supports municipalities to improve their use of existing resources through stakeholders' participation, action oriented results, client value and informality and flexibility.

Similarly, the Swiss Agency for Development and Cooperation (SDC) has supported decentralization through two programmes; the "Local Self-Governance and Decentralization Programme" in partnership with the Nepal Law Society (NLS) and the "Strengthening DDC Kabhre in Local Governance through Training and Support of Village Technicians" began in 1998. CARE-NEPAL and the Ministry of Local Development's Remote Area Development Committee (RADC) have implemented the Remote Area Basic Need Project (RABNP) from 1990 in Bajura District. RABNP is an integrated rural development project with a broad range of activities implemented in line with local needs. Project interventions include: community organization, agriculture extension, livestock development, community and private forestry, rural infrastructure (bridge building, irrigation and drinking water supply), non-formal education and

⁸ Other donors such as NORAD, SNV, DFID, UNICEF and DPCP are also cooperating with PDDP/LGP through their own programmes under the PDDP/LGP approach.

income generation. The project has laid great emphasis on people's participation through users committees and other groups like CDCs. It has also started collaborating with the DDC, VDCs and LGP to develop the planning process and in other development activities.

United Nations Capital Development Fund (UNCDF) started Local Development Fund (LDF) as a project in coordination with Nepalese government in 2000. Eight districts were selected for LDF implementation. LDF aims to alleviate poverty through rural infrastructure income earning and human resource development opportunities and to involve community identification of small-scale rural infrastructure and other public investment needs. UNICEF is another key partner working in 20 districts at the VDC/and settlement/community level under the umbrella of PDDP/LGP for the promotion of basic health, basic education, drinking water and sanitation, and child protection and women development.

With all these inputs from various donor agencies, PDDP have been providing technical assistance to the districts to produce Periodic Plans as per the provisions of LSGA. In addition, PDDP has also provided technical and advisory support to National Planning Commission (NPC) to review the periodic plans submitted by the districts. More than 100 local planners and DDC staff have been provided in-depth training. They have also be supported periodic plan preparation based on Log Frame Approach. These trained staff can now work as facilitators during periodic planning exercise in their own and other districts. Also various bilateral and multilateral agencies are showing their interest to utilize LDF framework and also the existing COs, formulated under the VDP, for sustainable local development activities at the grassroots level which reveals that VDP can emerge as the best institutional option at the district level to promote gender-sensitive, locally managed, self-reliant poverty alleviation and participatory local development in Nepal.

3.5 Participatory District Development Programme (PDDP)

The PDDP surfaced in the wake of several unsuccessful historical attempts towards decentralization. The programme provided policy level support while Local-self Governance Act (LSGA) and Local-self Governance Regulation were being prepared. Since their enactment, the programme has put its support in supporting the local government bodies to acquire capacities so that LSGA provisions can be institutionalized.

In this respect the PDDP attempts to empower people to take increasingly greater control over their own development and to enhance their capacities to mobilize and channel the resources required for poverty alleviation. To achieve its twin objectives the PDDP works simultaneously to enhance decentralized development at the district level, with strong linkages for mutual support and cooperation at the central, district and village level. At the central level, the programmes have close partnership with the National Planning Commission Secretariat (NPCS) and the Ministry of Local Development (MLD), primarily to support local level initiatives and formulation of macro policies rooted on successful local experiences. The programmes are supporting the District Development Committees (DDCs), as partners, to enhance decentralized development and develop the capacity for programming and managing local development with strong linkage with line agencies and Village Development Committees (VDCs). At the village level (micro level), PDDP provides support for improving the governance system and social empowerment process at the village level through the development of self-governing community institutions.

PDDP supports the HMG/N to develop the capacities of the established decentralized governance structures to institutionalize participatory and sustainable process for management of local development initiatives and to enhance equitable access to development resources.

PDDP' sphere of activities at the local and central level, in order to achieve its objectives include:

- Provide management and organizational support to the DDCs to enhance their functional capacities by reorganizing their development activities into four sectoral units and providing support service to these units. The sectoral units established under DDCs are as follows (a) Agriculture, Forestry and Industry Support Unit, (b) Physical Infrastructure Development Unit, (c) Social Development Unit, and (d) Information, Research and Publication Unit.
- Develop an information system that would use data contributed and collected at the level of individual settlements to aggregate up to the VDC and DDC level. The collected information can be used to improve planning and programme design by being integrated in a geographic system database that would also help improve the flow of information across levels of governance. The responsibility of data collection is mainly entrusted to the VDCs and monitored by the elected representatives of local bodies. The Programme provides the DDCs with computer, printer, photocopier and other logistics to support the task and for the collection of accurate data.
- Institutionalize a participatory planning and monitoring process that would embody more transparent decision making and coordination. The participatory planning process consists of pre-planning workshop, settlement level planning, village council, ilaka level planning workshop, DDC sectoral committee meeting, DDC integrated planning committee meeting. The PD package lays stress on planning, monitoring, evaluation and management of development programmes at district level through DDCs in co-ordination with VDCs, sectoral line agencies and COs.
- Help develop and implement training package on sustainable and participatory development for professionals, government and elected officials, and private sector organizations. PDDP helps the DDCs to become human resources development (HRD) focal point by helping them establish HRD Units.
- Support action research on sustainable development-related issues such as poverty alleviation, women's development, environment management, and employment generation that would also help the NPC and MLD to formulate and improve to promote sustainable human development and decentralized local development in Nepal.

Under the PDDP, the process of participatory planning and monitoring has received significant attention in an effort to shift the core of action from the center to the locality. The planning process in the districts starts with the pre-planning workshop, which provides sectoral guidelines to the representatives of DDC, the VDC, sectoral line agencies and others. This workshop familiarizes the participants with the project request forms that are then distributed to the VDCs. At the settlement level, community members make a prioritized list of their most wanted development projects. Some of the priorities that villagers have articulated are roads, irrigation, electricity, and drinking water and school buildings.

Village Advisory Council Meetings screen the list of projects submitted by the community members and their organizations from the different settlements. These projects are then prioritized, giving greater preference to those who benefit more than one settlement. The plans formulated at the VDC-level are discussed in Ilaka level workshops. Screening occurs on the basis of discussions among the representatives of different line agencies, NGOs, local authorities and representatives of beneficiaries.

These prioritized lists of projects received from the Ilaka-level workshops are analyzed by the four sectoral units (Agriculture, Forestry and Industry Support Unit; Physical Infrastructure Unit, Social Development Unit; Information, research and Publication Unit) of the DDC as outlined above. After analysis, these lists are sent to district council where they are incorporated, if necessary after discussion, into the single annual District Development Plan (DDP). These plans are then forwarded to the NPC and MLD. At this point, the preferences of users expressed in DDPs are supposed to help national-level policy-makers select sector-wise programmes for the annual plans. Development of institutions, information systems and human resources takes place at the district level, strengthening human capabilities and material infrastructure in the district for development-related decision making. Studies on human development are carried out at the micro level, often about micro-macro linkages, and their results are aimed at various levels of policy making and implementation. The two major sets of activities at the village level and below are the VDPs that mobilize and involve people in governance and partnership-building efforts that seek to bring together civil society organizations such as NGOs with local authorities in the shape of the DDCs and VDCs. The partnership-building efforts have borne the greatest fruit in Chitwan district, where a large dairy and milk processing plant is in the process of going on line as a result of collaboration with private sector firms (Agrawal et al 1998).

3.6 Village Development Programme for Local Development

VDP is a major component of the PDDP, which is geared towards empowering rural Nepalis to rise above the poverty trap. Under this initiative, the DDCs uses social mobilization as a tool for inspiring local people at the settlement level people both men and women, to form their own community organizations COs), generate capital and undertake small enterprises to promote their development through their own efforts and to actively participate in development decision making process for their better livelihood.

There are two components of social mobilization in VDP – institutional development, and social and economic development. Institutional development involves the process that require the people to organize themselves into a broad-based and multi-purpose community organizations (COs), and the economic development includes capital generation by CO members, and small enterprises run by members after acquiring necessary skills. Through institutional and social as well as economic development these groups of men and women enhance their capacities to effectively plan and manage participatory sustainable local development to enable them to uplift their living standard. In the process, they also transform themselves into self-governing institutions at the grassroots.

In order to sustain and institutionalize village development programme at the local level, the PPDP has made provisions for the establishment of a Local Development Fund (LDF) to operate as a revolving fund at the district level. COs can have access to Local Development Fund (LDF) to fulfill their credit needs for establishing micro enterprises and other income generating activities. Starting initially with financial allocations from donors and matching funds from the DDCs and participating VDCs, the fund is expected to grow with contributions from other external and internal agencies. The COs are also provided with a one-time investment through Seed Grant Fund (SGF) for increasing productivity, improving infrastructure, as well enhancing the CO's resource management capacities once they organize themselves, save and upgrade their skills. As an essential element in VDP, a seed grant is matched with cost-sharing contributions from the DDCs and VDCs (cash) and COs (kind). If required, the DDCs and the VDCs will tap the resources from district line agencies and other sources for the implementation of productive schemes.

To make VDP sustainable, cost-effective and participatory, programme lays stress in choosing a group of individual local professionals with track record in social mobilization/community development efforts, as support organization (SO). The social mobilization team in the districts is led by the District Development Advisor (DDA), and consists of a Deputy Team Leader, Social Mobilizers, Credit and Savings Facilitators, an Overseer, and an Administrative Assistant. Among other things, these SOs motivate and assist the people in the community in organization development, train CO-representatives in preparing economic base like savings & credit, skill development, and proposals for seeking Seed Grant Fund for economic development. The SOs also assist the VDCs and DDCs in designing economic development around the productive sector.

It is to be noted that the VDP was initiated in selected two VDC of PDDP districts in 1996 as one of the key programmes directly associated with building a sustainable foundation towards poverty alleviation. VDP is now being implemented in 662 VDC of LGP/PDDP districts⁹, and is trying to demonstrate: (1) how local communities can be organized into self-governing institutions of their own: (2) how they can generate their own resources: (3) how they can develop capabilities to promote entrepreneurial services for village development: (4) how they can link up their development programmes to VDC and district level resources as well; and, more importantly, (5) how their improved governance is leading to sustainable human development.

All the details of village development programme, social mobilization process and functioning of LDF towards achieving poverty reduction and local development are discussed in following chapters.

3.7 General Observation

PDDP has gained increasing attention as a valuable instrument for enhancing efficiency and promoting democratic participation as envisioned under the *Local Self-Governance Act 1999* for local development. Yet the progress has been slow. Only 74 percent of the households in communities covered by PDDP are members of the community organizations (COs). Various reasons have been stated for the shortfall. Some of the reasons could be poverty, or households having handicapped people, or being in isolated and dispersed settlements especially in the mountains. Thus potential weaknesses of COs are the risks of further marginalization of the poorer households, who have remained outside the COs.

⁹ LGP/PPDP Bridging Phase Programme Unified Report 2003.

CHAPTER – 4

LOCAL DEVELOPMENT FUND

4.1 Concept and formation of LDF

Fund established at the district level to mobilizing internal and external resources based on social mobilization for poverty alleviation vis-à-vis socio-economic development of the members of an organized multi-purpose community organization is called local Development fund (LDF). This has been established under the umbrella of District Development Committee as per the Local Self-Governance Regulation section 275 to manage village development programme for poverty alleviation. By-laws in this respect have been made effective in 2001, and are geared towards empowering LDF for gradually sustaining VDP at the district level. This has now become an institution for poverty reduction efforts at the local level.

The concept of LDF is modeled on Local Trust Fund, which was introduced in 1997 under LGP and PDDP. With the effectiveness of by-laws in 2001, the LTF is now functioning as the LDF.

LDF is established under the District Development Committee (DDC) as per the decision of District Council (DC) and is accountable to DDC, but it will work independently as an autonomous body in decision-making process. DDC will not interfere in the decision making process of LDF. LDF will have its own official seal as to that of DDC to carry out its day to day activities. The Fund has a separate secretariat of its own and the Executive Secretary is the chief of the secretariat. The Fund may open branch office at the VDC level.

4.2 Objectives, Function and Responsibilities of LDF

The Fund constitutes an important element in the strategic framework of the VDP. This fund is created with the approval of the District Council to initiate and support the implementation of VDP. The establishment of LDF and their operation will be done as per the by-laws. The main objectives of the LDF are as follows¹⁰:

- i. To provide necessary financial, technical and institutional support to the implementation of VDP based on social mobilization approach in an effective and efficient manner.
- ii. To carry out village development programme for rural development.
- iii. To promote the formation of a self-reliant and self-governance community organizations (COs) in each settlement through social mobilization to address prioritized local level development needs.
- iv. To develop human resources for activating social mobilization, maintaining self-governance for poverty alleviation and carry out necessary activities enabling the LDF to develop as a district level specialized agency.

As given in VDP operational manual prepared by MLD in 2002, the function and responsibilities of LDF are grouped under four major categories – (a) Formation of community organization and the development related activities, (b) Maturity stage of COs, (c) Financial management, and (d) Investment Programmes under LDF. Activities to be carried out under each category are given below.

¹⁰ Operational Guideline on Village Development Programme, Ministry of Local Development/HMG Nepal.

a) Formation of Community Organization

This is the first stage of Village Development Programme. The average duration of this phase can vary from one to two months. During this phase, community mobilization and the formation broad-based, multi-purpose community organization will be initiated. To this end, following activities will be carried towards the formation of COs:

- i. To assist local communities to form community organizations at various settlement leveling village development area,
- ii. To help form the following groups (a) male group, (b) female group, and (c) mixed group with male and female as members under the community organization as formed under the sub-clause (1),
- iii. To assist the community organization to collect the capital by saving and to mobilize it,
- iv. To provide training and technical assistance to develop entrepreneurship in rural people,
- v. To provide credit capital to develop entrepreneurship in agriculture and non-agricultural sector,
- vi. To assist the works operating productive programme for promoting institutional and human capacity,
- vii. To assist for introduction of integrated village development programme having considered social, economic and environmental problem,
- viii. To assist the community organization to increase their capacity for poverty alleviation programme and to make active such organizations in poverty alleviation programmes,
- ix. To monitor and evaluate the activities of community organizations,
- x. To provide necessary assistance to the community organizations formed under sub-clause (2),
- xi. To do or cause to do necessary works to develop necessary human resources in accordance with the concept of autonomous community organization,
- xii. To extend assistance in administrative, managerial capacity development of the community organization and to assist such organizations to bring transparency in their activities.

b) Maturity Test of Community Organization

This is the second phase of VDP with an average duration of one to two months. During this phase, the fund tests the maturity and formation of the COs for their self-governance and development. The Fund may prescribe qualifications and conditions of maturity in regard to loan and grant (social and economic development programme) to be provided by it to the community organizations. Such conditions and qualifications may be as follows:

- i. The community organization need to be affiliated with the village development committee (VDC) and be registered with the Local Development Fund (LDF),
- ii. The community organization need to conduct its meeting regularly and at-east 80 percent of members are required to participate in each meeting,
- iii. The community organization shall have to start to operate saving and credit programme and its decision making procedures should be transparent,
- iv. The community organization needs to use its own saving proceeds for credit flow and account and record system should be maintained in a systematic order,
- v. The community organization should have inadequate its saving proceeds only to flow the credit to its members,
- vi. Every agenda to be presented before the meeting shall have to discuss and decision making procedures should be based on consensus,

- vii. The community organization shall have to design programme and planning by mutual consultation,
- viii. Members of the community organization shall have to carry out any model programme jointly for the benefit of their organization and their habitation,
- ix. The community organization shall have to follow the participatory approach for the planning design and evaluation system,
- x. The community organization shall have to classify the poverty of its members and maintain their records,
- xi. The community organizations shall have to develop a concept for its long-term development.

During this phase, the COs are encouraged to initiate programme activities which do not require external inputs or costs, but which can bring the members to work together for a common cause with their own resources and inputs. These include small village development activities like literacy classes for illiterate CO members, family planning activities, formation of cultural groups and clubs etc.

c) Capital Formation

In the third phase, averaging about three months in duration, the community organization (COs) can access LDF to undertake individual as well as collective entrepreneurial activities of their choice. During this phase, the COs can start utilizing their savings for small-scale credit purposes, and can also tap on LDF credit support for initiating community-based entrepreneurial activities. Such credit support is provided to the COs based on the amount of savings they have accumulated and based on the principles of social collateral. Prior to contracting out the loan assistance to the COs, the LDF sets following criteria:

- i. The Fund shall determine minimum criteria for assistance to be provided by the community organization. The Fund shall provide loan capital amount as loan to the community organization having charged interest and service charge. Conditions concerning sanction of the loan capital and repayment thereof shall be as specified in the agreement to be concluded between the Fund and the community organization,
- ii. The Fund may on the basis of mutual agreement, provide other service and facilities. Such services and facilities may be provided through its employees or through the concerned village development committee or through training center of a consultant or a company or non-governmental organization or private firm or an individual and through other appropriate institutions,
- iii. The Fund may, in order to promote activities of the community organization during period of establishment of such organization and to make such activities sustainable, provide operational grant,
- iv. The Fund may finance loan capital in bulk to the community organization having charged 10 percent interest rate per annum in maximum. The community organization shall make flow the loan borrowed from the Fund to its member in the joint responsibility of the organization. The community organization shall repay to the Fund an interest not exceeding at the rate of 10 percent and service charge not exceeding 2 percent of the loan and in total for interest and service charge not exceeding 12 percent,
- v. The community organization shall invest the proceeds of loan borrowed from the Fund to its members pursuant to its own rules in force and at the definite rate. The community organization shall, out of the interest amount to be re-paid, invest the proceeds of percentage as fixed by it to the organization and it may be expended for remuneration,

- allowance or incentive to the chairperson, manager or member involved in recovery of loan and certain amount may be expended for the saving and operation and institutional development programme, as required,
- vi. If principal installment and service charge and interest thereof are not paid under the payment programme within the prescribed time limit, the community organization shall have to pay to the Fund an amount at the rate of 1 percent as compensation for the unpaid installment after the prescribed grace period. If the principal amount invested by the community to its members, interest and service charge amount thereof is not paid under the payment programme within the prescribed time limit, the community organization shall recover the compensation at the rate as prescribed by it on the un-paid amount after the prescribed grace period,
 - vii. The Fund shall utilize the interest, service charge and compensation received for operation cost of the Fund and to increase its loan capital
 - viii. Necessary insurance policy may be prepared and introduced for the compensation and security of the amount of the Fund in the event of loss and damage,
 - ix. The Fund may obtain grant from His Majesty's Government, friendly countries, international and national donor agencies, national and international non-governmental organizations, other inter-governmental organization and individuals. Such grant may be utilized for development construction and operational work in accordance with the terms as prescribed in the agreement,
 - x. The Fund may, subject to the laws and regulation in force, borrow the loan from His Majesty's Government, bank, financial institution, district development committee and other Local Development Fund or from any other organization, institution providing such loan,
 - xi. The Fund shall, in order to obtain external grant and loan have to obtain approval of the district development committee,
 - xii. The Fund may, out of its reserved Fund, provide loan to any other Local Development Fund or invest in any commercial bank or financial institution,
 - xiii. The Fund shall utilize the interest amount obtained from the investment of loan capital for operational and management cost and shall utilize it for enhancement of loan capital amount,
 - xiv. The Fund may obtain an amount as matching Fund from the village development committee and district development committee,
 - xv. The Fund may, for the operation of the Local Development Fund, obtain a grant for operation and management cost from His Majesty's Government, Poverty Alleviation Fund, district development committee, village development committee, foreign friendly country, national and international donor agency, national and international non-governmental organization, inter-governmental organization and also from an individual. Moreover, the Fund may, for the operation and management of cost and for sustainability, prepare its own strategy and the same,
 - xvi. The Fund may, in order to operate a programme concerned with village development programme or to uplift the living standard of the local people and to operate a programme that may support to the economic development of village, operate a programme in accordance with the agreement concluded with the concerned donor agency having obtained prior approval of His Majesty's Government under section 263 of the Local-self Governance Act 1999 on the understanding that the cost of such a programme shall be borne by His Majesty's Government, Poverty Alleviation Fund, foreign friendly nation, international and national donor agency , national and international non-governmental

organization and any non-governmental organization and any other inter-governmental organization.

xvii. The Fund may, in course of operation of its programme, flow micro-credit to the community organization.

The enterprise development plan prepared and approved by the COs under phase II activities form the basis for identifying entrepreneurial opportunities. Support from LDF is provided to COs who have graduated or demonstrated that they are heading towards self-reliance and social empowerment.

d) Programmes to be undertaken through LDF

This is the fourth and last phase of the VDP, the duration of which lasts for three or more months. During this phase, the Community Organizations (COs) finalize the village development plan for productive infrastructure priorities. LDF will thus undertake following activities as regards to poverty alleviation in addition to socio economic development of the village development as a whole:

- i. The Fund may operate its programme having obtained services and support of private sector and non-governmental organization,
- ii. The Fund may provide seed capital amount as grant to them, for the productive development construction works irrigation, water tape, small bridge and culvert, shallow tube-well, well, small drainage and so on that may support to increase income, and living standards of the members of community organization,
- iii. The Fund may, for the upliftment of poor and backward ethnic tribes, prepare separate specific programme considering conditions and requirements of the district and villages may implement the same. Based on past experience, following package programmes are presented as suggestive examples for the upliftment of the ultra-poor
 - Loan investment in kind
 - Compulsory livestock insurance
 - Manage to use barren and fallow land for the economic upliftment of the ultra poor in coordination with the local bodies such as village development committees
 - Provision of loan on installment basis at subsidized interest rate
 - Arrangement of compulsory employment system on the projects to be carried out under Local Development Fund at the local level.

LDF provides grants only to those projects that provide common benefits for all members of the Community Organizations (COs). These grants are therefore provided as a means to get the CO members to work together to make their organization stronger and to develop alternative local institutions to support local development.

4.3 Management Structure of COs

The CO adopts a community-oriented constitution to govern the management of the CO. The constitution spells out the *management structure* of the CO, which includes a Chairperson, a manager/Secretary, and the rest as members. The CO is then registered at the VDC in order to establish a formal linkage. Each CO chooses its Chairperson and a Manager for the smooth execution of the organization activities. This is done through the concurrence of all CO members.

The CO Chairpersons and Managers (CMs) have a conference every month. It has become useful forum for exchanging ideas and experience. Besides reporting on the progress report made by their respective COs, the CMs also discuss about the plans and programmes of their COs and also interact on the problems faced for developing their village. The discussions at these CMs Conference (CMC) revolve around the management of COs, savings and investments, and as they gain maturity, the discussions shift to training, exposure visits, forging linkage with district level institutions, etc. The CMCs offer the women chairpersons and Managers the forum to voice their concerns and suggestions for their betterment. Their voice is not only heard, but also respected by their male counterparts. The CMC also identifies the projects to be implemented with seed grant support. The functional groups are formed for implementing projects under seed grant.

The CMC is also a venue to district certificate of maturity to COs. One major task of CMC is to assign its members the responsibility of cultivating relationship with sectoral agencies of the VDP, ilaka or district level.

4.4 Local Development Fund Board (LDFB)

In order to develop Local Development Fund as an autonomous body and give autonomy to it in all decision making process, an executive committee at the district level has been formed under the umbrella of DDC. The Board is chaired by the DDC chairman comprising of representatives from DDC, commercial bank, chairman and manager of VDC where village development programme is introduced including the NGO representative. DDC has constituted a management board to manage and administer the fund. The board members of the committee are as follows:

1. DDC Chairman	Chairman
2. Intellectuals (one woman and a social servicemen)	Member
3. Secretary to DDC and local development officer	Member
4. VDC chairmen (2)	Member
5. CO Chairperson and manager (2)	Member
6. Chief of Agricultural Development Bank/Commercial Bank	Member
7. Sectoral Officer within the district (2)	Member
8. Representative of Non-governmental organization (1)	Member
9. Representative of Chamber of Industries and commerce (1)	Member
10. Chief, District Women Development Office	Member
11. Executive Secretary	Member

The member of the Board other than ones mentioned in (10 and (2) shall be non-political and non-elected. The Board Chairman and members will provide service on voluntary service. The terms of Board members shall be two year from the date of appointment.

- i. If any governmental or non-governmental agencies expresses its willingness and agrees to operate any programme through the LDF, representatives of such programmes may also be included as members.
- ii. Representatives of any national and international organization within the district operating the programme through the Local Development Fund and related with the programme shall be invited as an invitee member in the meeting of the Board.
- iii. The donor agencies may on the basis of progress review of the Local Development Fund decide whether they will extend further grant or not.

- iv. The executive secretary may be selected through the open competition once the management of the Local Development Fund becomes effective.
- v. The district development committee shall, in order to implement the decision of the Board of the Fund, extend necessary support.

4.5 Powers and Functions of LDFB

The power and functions of the Board as outlined in operational manual and in by-laws are as follows:

- i. To formulate policy on the operation of the Fund and submit it to the DDC for the approval,
- ii. To prepare running programme and budget of the Fund and submit it to the district council through the district development committee and to operate the approved programme,
- iii. To prepare trimester and annual report of the programme details of the Fund and submit it to the district development committee for review, and in the case of a programme operated under the support of any donor agency, to provide a progress report for the period as requested by such a donor agency,
- iv. To prepare plan and work schedule on the approved programme and activities and to implement or cause to implement the approved programme,
- v. While providing loan and seed capital to the community organization, to monitor and evaluate whether the prescribed terms are met or not and to give suggestions and directions thereof,
- vi. To prepare the policy concerning terms and facilities of the employee of the Fund and to make it approved by the district development committee,
- vii. To appoint any officer employee of the Fund to act as an executive secretary of the Fund until the executive secretary of the Fund is appointed,
- viii. To frame the criteria for the service to be obtained from non-governmental organization or private sector and select private sector or non-governmental organization on the basis of the criteria so framed and to obtain the service of such organization as per necessity,
- ix. To frame criteria for selection of a village development committee, to select a village development committee on the basis of such criteria and to cause it to be approved by the district development committee and to implement the village development programme. While so implementing the village development programme, it shall operate the programme in such a way so that there shall be no duplication,
- x. To make necessary arrangement for compensation against the loss and damage of the proceeds of the Fund “Security arrangement” means and include necessary insurance, compensation and other recovery process,
- xi. To carry out such other functions required for performance of business according to the objective of the Fund,
- xii. To audit or cause to audit the annual accounts of the Fund,
- xiii. To submit the audit report of the Fund to the district council through the district development committee and to arrange for discussion, and
- xiv. To register a community organization requesting for registration with the Fund.

4.6 Executive Meeting of the LDF Board

Ordinarily, a meeting of the Board shall be held at least once a month. The board meeting of LDF will be chaired by the chairman of the district development committee. The executive secretary of the LDF shall work as the secretary of the executive committee. Executive secretary will call a meeting of the Board if the chairperson directs. The executive secretary shall record all decisions

of the Board in a minute book and shall have them authenticated by the chairperson of the meeting.

4.7 LDF Secretariat

LDF shall have its own secretariat to implement the village development programme. The secretariat of the Fund is located in district headquarter and is made available by respective DDCs.

The implementing responsibility of the village development programme shall fall upon the responsibility of the LDF. It will be the responsibility of the secretariat to implement the decision of the Board. The secretariat will make available the trimester progress report of all village development related programme to the executive committee, district development committee, Ministry of local Development (MLD) and donor agency through district development committee.

4.8 Employee of the LDF

District council shall create the positions of employees upon the recommendation of executive board for the operation and management of the local Development Fund (LDF). The executive committee shall prepare policy paper regarding the provision of services and facilities of the employee which shall be in force once it is approved from the district council.

The LDF shall create positions as per its requirement, seek approval from the district council and shall appoint as per pre-determined process.

The condition of service and facilities of the LDF employee shall be similar to that of the DDC employee. But the district council may provide additional facilities to the LDF employee.

This is to be noted that the LDFB pre-qualifies and identifies different agencies in the government, non-government and private sectors to create and develop a cadre of skilled specialists in the villages. These organizations provide a service package that includes professional skills training, transfer of technology, quality control and linkage with markets. In this manner VDP props up the COs' efforts at self-reliance by assisting them to develop a cadre of *village specialists* and thereby reduce their current dependency on "external" agencies to solve their problems. By bringing them abreast of the latest technical know-how and management and marketing concepts, VDP helps the villagers to maximize their potential to earn more by building up on various skills they already possess. The programme lays stress on linking such technology transfer and skills training activities with the district-level government and non-government organizations.

To make VDP sustainable, cost-effective and participatory, programme lays stress in choosing a group of individual local professionals with track record in social mobilization/community development efforts, as support organization (SO). The social mobilization team in the districts is led by the District Development Advisor (DDA), and consists of a Deputy Team Leader, Social Mobilizers, Credit and Savings Facilitators, an Overseer, and an Administrative Assistant. Among other things, these SOs motivate and assist the people in the community in organization development, train CO-representatives in preparing economic base like savings & credit, skill development, and proposals for seeking Seed Grant Fund for economic development. The SOs also assists the VDCs and DDCs in designing economic development around the productive sector.

4.9 Role of LDF

Access to saving and credit is fundamental to helping poorest of the poor. The LDF has basically three roles in poverty reduction activities. Firstly, it provides credit capital as a wholesale lending to COs once they receive graduation (maturity) phase. The loan is provided against social collateral. The members of community organizations – both men and women – may utilize this credit capital for developing micro-enterprises appropriate to their local conditions. While providing credit to develop enterprises, LDF stresses on those enterprises that add to family income without replacing the day to day wage earning opportunities of the households. Enterprises that have a negative impact on the environment are also discouraged. The LDF provides capital credit based on amount of saving that has accumulated not exceeding to Rs.3000 per each member. The credit capital is provided after providing skill development training to CO members.

According to the unified report of LGP/PDDP, the capital credit disbursed has reached Rs.862.27 million as of October 2003 and more than 190 thousand CO members have benefited from this facility. Of the beneficiaries 55 percent constitute male and 45 percent female. Disbursement of credit capital and the number of beneficiaries is given in the following table.

Table 4.1: Credit Capital Disbursement Trend (Cumulative)

Year	Million Rs.	Beneficiary of Credit Capital		
		Male	Female	Total
1998	26.8	7	5.5	12.5
1999	106.1	20.3	16.2	36.5
2000	299.9	43.1	32	75.1
2001	448.8	82.2	61.8	144
2002	847.6	121.1	91.4	212.5

Before the credit capital can be accessed by the COs it should identify potential members who are already engaged in entrepreneurial activity or are interested in enterprise promotion. Upon the request of COs, the LDF arranges for training with the pre-qualified training institutions. The LDF provides training CO-members to develop village specialist in the area of agriculture, veterinary, community health and audit. With the support of LDF staff, COs identify potential candidates from their groups for training as village specialist. The CO members after undergoing training programmes successfully will serve as village experts and will have access to credit through LDF to initiate their own enterprise or mobilize other fellow members to open up cooperatives. The village experts will provide services to the interested members of the COs on a commercial basis.

The second role that the LDF plays in poverty alleviation programmes is to provide one-time grant money as seed capital to COs based in their proposal to construct some infrastructure in the community. This is provided in support of productive infrastructure schemes such as irrigation projects, drinking water supply schemes, natural resources, natural resources, micro-hydro, development of higher levels of cooperative enterprises, commercial forestry, and others. Where possible, it also assists them in accessing markets and enhancing their sustainable resource management capacities. It is emphasized in providing grants to those projects that provide common benefits to all CO-members enhance the productivity and are sustainable. These grants are therefore provided as a means to get the CO members to work together to make their organization stronger and to develop alternative local institutions to support local development.

The initial step in the allocation of the seed grant is the orientation of CO-members on its policies as well as its terms and conditions. In the next step the COs identifies the needs of the community on a consensus basis. The needs form the basis of VDP, which is then considered for the grant. The seed grant is matched with the cost sharing contributions from the DDCs, VDCs, and COs. The plan also serves as a basis for mobilizing resources from other sources including the district line agencies to carry out the development activities in the VDC.

With the support of seed grant from LDF, a total of 5563 of different type of projects were completed benefiting 172,000 people in the project area until October 2003.¹¹ These completed projects comprises of 2,823 drinking water projects, 2,170 irrigation projects, 35 micro hydro, 31 community forestry projects and 504 other different types of project concerned with basic human needs.

Third role is to establish linkage between COs and line agencies, I/NGOs for mobilization of resources to meet their needs as well as for technology transfer and promotion.

4.10 Funding Source

Local Development Fund is supported with financial resources from different sources that are mainly the following:

- Grant Received from the government for the operation of village development programme.
- Financial assistance in the form of grant and loan received from bilateral and multilateral donor agencies including NGOs and INGOs.
- Making fund made available by DDCs and VDCs.
- Earning of interest and service charge received from its investment.
- Borrowing of credit from the government, DDC, banks, financial institutions, and others.
- Savings deposited by the COs as its investment.

NORAD has also supported the implementation and expansion of VDP through the LDF. The Norwegian support, which started with six districts, has been expanded to cover four other districts. Total Norwegian support for LDF now amounts to US\$ 3.01 million (PDDP 2002).

4.11 Foreign Aid Deposit Mechanism

Foreign aid deposit mechanism is clearly reflected in the basic agreement signed between the government and donor agency. The action plan developed, after the basic agreement, in coordination with the donor and the implementing agency form the basis for HMG/N to request disbursement of foreign aid for its deposition to government account through which the fund will be released to the respective government agencies down from central and regional level to local bodies at district and community levels.

The LDF was established in DDCs to implement VDP, a programme primarily initiated by PDDP/LGP programmes, which is being implemented at three levels – (a) macro level, (b) micro level, and meso level. At the macro level PDDP supports the National Planning Commission (NPC) and Ministry of Local Development (MLD) to formulate policies that reflect and support local level development initiatives. At the micro level, PDDP supports for improving the

¹¹ LGP/PDDP Unified Report 2003

governance system and social empowerment process at the village level through the development of self-governing community institutions. At the meso level PDDP provides support for the strengthening of development programming and management capabilities of the DDCs.

This is to be noted that large sum of amount has already been spent at all three level mentioned above. Unfortunately, how this fund is utilized at the macro level is not known. At the central level, the fund is not deposited to government account. The Fund is directly administered and controlled by UNDP, and hence lacks transparency in all financial transaction concerning to the PDDP activities. This has simply distorted the financial discipline, which goes against the mandate of foreign aid policy brought out by the government in 2002.

The foreign aid mechanism is very clear as regards to the operation of LDF at the district level (micro level). The donor partners deposit the fund in the name of the programme (LGP, PDP, etc) in the specified project account of Nepal Rastra Bank. The programme (LGP, PDDP, etc.) delivers the fund to LDF through DDF of respective districts. The DDF in turn deposit the amount in the account of LDF. This system has helped to reflect the grant provided by donors for poverty alleviation in the national treasury partially.

4.12 Funding Operation Mechanism

The source-wise details of LDF have already been discussed above. The accounts of funding will be deposited in the bank as directed by the committee. In the case of donor funding, it will be deposited in the interest bearing account as per agreement. The fund is managed by the LDFB. The Board meets once a month. The secretarial is responsible to carry out the decisions made by the Board. The resources are used as per the decisions of the Board. The decision on delivery of credit capital, seed grant, human resource development, and technology transfer are made by the Board on the basis of request received from the COs through Chairman – Manager Conference which is the Federation of COs at VDC level.

For the operation of the Fund, annual plan and programme-wise budget with funding source will be prepared and get it approved from district council through district committee. In the case of the budget received from donor agencies, it will be expended remaining within the budget ceiling as per the conditions of the agreement. However, the Fund will have to seek prior approval from the respective donor agencies in case of any budget item exceed to that of the allocated amount. Annual or quarterly breakdown of the budget needs to be submitted to the respective agency.

Operational manual also contains the procedure to be adopted while expending the budgeted amount. As per this manual, the allocated budget should be spent on those agreed programme and activities in accordance with the agreement done with the donor agencies. Only the authorized official of the LDF can have right to spend the budgeted amount. The operational manual of capita credit fund will have to be followed while disbursing the capital credit to the COs or recovering it. Likewise, the operational manual of seed grant fund needs to be followed while disbursing the seed grant to the community organizations or doing other related business.

The LDF shall have four ledger account – (a) operational account, (b) training and enterprise development account, (c) credit capital account, and (d) seed grant fund account. The operational account shall be used for meeting the cost of salary, administrative and logistic expenses. The training and enterprise development account shall be used for training to develop the village cadre and entrepreneurs. The credit capital account shall be used as revolving fund for advancing

credit demands of the COs. The seed grant fund shall be used for implementing productive investment projects.

The returns from the credit capital investment shall be used to manage the operational cost of the LDF as well as to enlarge future investment.

The LDF account will be maintained as per the guidelines of the account. Amounts received during any fiscal year under LDF will not be freeze and will be carried over the next fiscal year. The LDF account will be operated with the joint signature of the executive secretary and the chief of the account division. In the absence of these officials the account will be operated by the officials of the Fund as decided by the executive board. The local development fund (LDF) shall also maintain the records of financial transactions at the CO level for information and monitoring.

There will be annual audit of the Fund and the LDF itself may check the books of account of COs. The accounts of the Fund may be checked by DDC or His Majesty's Government at any time it deems necessary.

4.13 Allocation of Fund in Different Programme

Any donor funded programme has annual project plans of action, which is prepared jointly by the respective donor agency and the government and non-government stakeholders. It is not sure whether there is any kind of such arrangement in the case of the PDDP supported LDF activities. It is, however, seen that the fund is provided under the headings of support organization (operating cost and logistic support to COs), credit capital, seed grant, skill development and technology transfer.

As of 2003, the LDF has release a total of Rs.862 million, the category-wise expenditure of which is given below:

Table 4.2: Fund Release by activities under LDF (2003)

Programme	Million Rs.	Percent
Support Organization	249,752	29.7
Technology Transfer	24,681	2.9
Skill Development	60,916	7.2
Seed Grant	213,210	25.3
Credit Capital	293,447	34.9
Total	842,006	100.0

Source: UNDP/DLGSP

From the above table, it is evident that the largest share of resource has gone to credit capital followed by support organization (29.7 percent), seed grant (25.3 percent). The share of resources given to technology is insignificant (2.9 percent), and remains far from satisfactory given the present condition of enterprises running under traditional technologies, which tend to have low benefits, thus limiting people's choices for economic opportunities.

This is to be noted that the programmes such as skill development, credit capital and seed grant are very much complimentary to each other so far as poverty reduction is concerned in rural area. Unfortunately, the resources allocation made to skill development, credit capital and seed grant

are not matched with increasing demand for the resources. LDFs are operating with limited resources and attempted to use resources as effectively as possible but at the moment the resource allocation made to these areas are very low and very much disappointing. However, LDF is entitled to change the resource allocation pattern as per the COS demand, which is very needed.

4.14 Funding Disbursement

There is an understanding that the donors' commitment to participatory district development programme (PDDP) will go on disbursing on declining trend assuming that the government and local body will pick up the programme with its own source. This is not known to what extent the commitment is maintained. But the evidence shows that the disbursement under these programmes of course is falling, except in 2003.

Resources that have been made available to LDF under PDDP and LGP are given in the following table:

Table 4.3: Resources Available to LDF by Programme

Year	PDDP	LGP	Total
1996	208.9	0	208.9
1997	611.9	0	611.9
1998	1565.7	0	1565.7
1999	467.9	1423.2	1891.1
2000	1162.4	386.5	1548.9
2001	406.5	589.5	996
2002	166.3	499	665.3
2003	840.6	691.3	1531.9

Source: PDDP/LGP

4.15 Absorptive Capacity

Absorptive capacity for this study has been defined as a difference between the cumulative fund disbursement and the cumulative expenditure made till 2003. Available information in this respect shows that only 53 percent of the fund disbursement could be spent during the review period. It is only in the area of support organization where 97 percent of the total funding disbursement could be utilized. The spending in support organization is meant for paying the salary and other operating cost borne for Senior Social Mobilizers, Social Mobilizers, Local Saving and Credit Facilitators, Local Facilitators and to some extent the administrative staffs of the LDFB staff. Hence it is not surprising that if the funding disbursement in this area is fully spent.

It is, however, frustrating to see that the funding disbursement made to productive sector could not be used fully. Expenditure made to productive sector such as technology transfer, skill development and seed grant lagged far behind the funding disbursement, which needs correction.

Table 4.4: Status of Absorptive Capacity

Programme	Disbursement	Expenditure	Percent
Support Organization	249,752	242,108	97
Technology Transfer	24,681	15,055	61
Skill Development	60,916	49,262	81
Seed Grant	213,210	143,318	67
Credit Capital	293,447	-	-
Total	842,006	449,743	53

Source: PDDP/LGP

As the expenditure part of the credit capital was not available, the absorptive capacity of this credit could not be measured. It is, however, a revolving fund, which cannot be freeze. Nonetheless, it is being experienced that the credit capital available is inadequate and able to meet only 30 percent of credit demand. In view of the growing demand for credit capital, LDF in Morang, Bara, Tanahau, Kaski, and Syangja has made agreement with Agricultural Development Bank for wholesale lending. Under the agreement each LDF is eligible to borrow loan amounting to Rs. % million in a year. Agricultural Development Bank charge charged 12 percent to LDF for wholesale lending. This arrangement is tested in pilot scale since May 2003.

4.16 General Assessment of LDF

The LDF has been established to keep away from lengthy bureaucratic procedures and political interferences in poverty alleviation efforts and mobilize resources from various sources in favour of the poor. LDFs in 60 districts are supporting rural people to form COs, to establish a well discipline system of organizing meeting, resolving issues, electing executive bodies, mobilizing external resources and participation in decision making process. It has helped members to build knowledge of how to run a democratic system at grassroots level. LDF has proved to be a source of external funding for the COs who would otherwise have no access any external lending. The significance and contents of LDF embodied for poverty alleviation are summarized below:

- a) LDF has emerged as a major district level institution to manage social mobilization process and channel funds to the targeted poverty reduction activities. All districts have endorsed LDF as an institutional arrangement for poverty reduction efforts at the local level.
- b) It is evident that from the point of view of utilizing aid resources at the grassroots level LDF has a special significance. Not only as an institution but also as a process of decentralization it has proved to be an effective strategy to empower communities, deliver service and reduce poverty.
- c) The provision of credit capital through the Fund helps members of the COs to undertake income generating activities and start micro enterprises after they develop the required skill and capacity which has resulted in an increase of the household income. With the availability of such credit which is targeted mainly the poor and needy, villagers need not depend on local money lenders who charge exorbitant interest or commercial banks which has cumbersome process.
- d) Similarly seed grant which is an important component of LDF has been effective in promoting community participation to develop much needed infrastructure in different areas such as irrigation, water supply, forestry, hydro power etc. It is essential to underline its catalytic role in economic development at the local level.
- e) It is recognized that a limited number of VDCs in each district is covered under the LDF programme at present. There is obviously a need for expanding its coverage in response to the growing demand in the districts. This calls for finding out ways and means of increasing

resource mobilization of LDF in coming years. For this purpose, apart from donors' support efforts should be made to increase functional linkages with different line agencies, NGOs and private sector as well.

Thus the LDF appears to have possessed great potential to offer many things in terms of skill development, availability of credit for undertaking micro-enterprising activities with poverty alleviation programme and so on. It is claimed that LDF by laws was prepared in consultation with stakeholders such as DDC/VDC officials, CO members and LDF staffs, but the concept itself primarily donor-driven and the by-law on LDF and guidelines on village development programme were also prepared under PDDP/LGP technical assistance in the whole plan formulation and implementation modality. This is not certain to what extent the local bodies and the CO members have fully understood the concept and owe their ownership to its implementation. Secondly, the financial sustainability of LDF itself is in question since the donors' support to LDF is bound to decline in years to come as per their agreement.

CHAPTER – 5

PROGRAMMES UNDER LOCAL DEVELOPMENT FUND

5.1 Income Generating Activities

Poverty reduction strategy is not possible unless the income level of the people is uplifted. This is very much envisaged under village development program. The inherent strategy is directed to empower the poor, disadvantaged sector and women to enhance their access to resources – both financial and technical. Social mobilization is taken under the village development programme as a tool to support the poverty reduction process. The basic requirement under the initiative lies in the empowerment of people that would lead people towards sustainable human development. The empowerment is envisaged through two main fronts – (a) institutional development, (a), and (b) economic development. The basic requirement under the institutional development has already been mentioned elsewhere which requires that people organize themselves into a broad-based and multi-purpose COs.

Economic development component of the village development programme includes two components – (a) capital generation by COs members, and (b) small enterprise run by members after acquiring necessary skills. Once the CO is set up and governance system laid down by the members, they start making regular savings, thereby generating capital. Later the training needs of the CO members are met by organizing skill development training of which is communicated through the chairperson manager conference (CMC). The CO members can borrow the loan from their CO and credit capital fun to run small enterprises to promote their income rise. VDP has a number of production packages for using it in the form of income generating activities. The major thrust of the income generation and community development is to promote cottage, strengthen agricultural extension and veterinary services to supplement household income. The implementation of the income generation community development for social upliftment is done through the Local Development established at the district level. As of 2003, a total of 131,153 enterprises are being operated by CO members in an effort to raise their income. A total of 432,902 members (219,182 male and 213,726 female) in 60 districts are involved in the aforementioned income generating activities. At the same time, these micro-enterprise activities are giving employment to thousands of local people.

5.2 Saving and Credit

Access to saving and credit is fundamental to helping the poorest of the poor. It is a way of making small loans available to the very poor for self-employment and a means of heading towards economic growth. Non-governmental organizations, specialized financial institutions and mainstream commercial banks have shown that the micro-credit could be very promising tool for poverty alleviation. Several credit and saving organizations are also mushrooming at the community level to support the credit facility. In understanding of this, local people are encouraged to the mobilization and formation of broad-based and multi-purpose COs at the settlement level. The COs meets every week to discuss development issues of mutual concern to all the community-members. Every member saves an equal amount each week to allow allowing for cooperative decisions among the members. The funds collected in this manner form the core capital of the CO and are an asset of the CO. Thus COs can lend money to their members at a

rate of profit which satisfies local credit needs, and at the same time supplements the saving. The savings of the is only a form of collective asset, and more like a membership fees that the members have to pay to reap the benefit of being a part of a collective association. As of 2003, COs from 60 different districts have mobilized a total of Rs. 789.65 million in different projects from various source.

To spur up and vitalize local economic development the LDF has made provision of Credit Capital facility in its VDP component aiming to create an access for the rural men and women and thus the poorest of the poor of the groups to the credit capital using decentralized mechanism. Promising COs, which have already reached graduation stage and have demonstrated that they have regularized their meetings, followed up the discipline of saving and credit, established transparency in decision-making and in account-keeping system can have credit capital through LDF. CO members-both men and women utilize this credit for developing micro-enterprise. In case the saving generated by members are not enough they are linked with to the LDF credit capital to run enterprise of the CO members. The LDF provides capital support as per the request from the COs. This can be accessed by mature COs on the basis of social collateral. While providing credit to develop enterprise, LDF lays stress on those enterprises that add to family income without replacing the day to day wage earning opportunities of the households. Enterprises that have a negative impact on the environment are also discouraged. As of 2003, the LDF has disbursed a total credit capital of Rs.862.27 million benefiting 190,379 CO members with 45 percent going to female members. In terms of poverty profile, poorest received 41 percent of the total credit capital.

5.3 Human Resources Development

Human resource development is an important support strategy to build capacity of the all the stakeholders with development of skill which will enable them to undertake the LDF sponsored activities thereby enlarging the people's choice including income. To this effect, many districts have well established Human Resource Development Centers (HRDC) to organize training and participatory planning and monitoring, social mobilization, decentralization and so on for local representative, DDC staff, LTF staff, line agency staff and others. HRDC of respective districts have prepared their policy guidelines on human resource development as part of the internalization of their long-term vision. The DDC have allocated resources for HRDC to organize training and orientation to DDC officials and DDCO staff.

These HRDCs held pre-selection for the potential candidates of different posts. Similarly these centers have also been active in holding participatory rural appraisal, geographic information system, logical framework approach and others in addition to social mobilization. These centers also support in holding the training to develop village experts under village development program (VDP) related to veterinary, agriculture, health and so on. Such trained local experts are the assets of the communities. They support communities in the area of their expertise. As of 2003 a total of 10,379 local people (comprising 68 percent of male and 32 percent of female) have been trained in more than five different areas ranging from farming horticulture to livestock, poultry community health, local auditor and others¹². This is the manpower, which permanently remains at the villages.

¹² LGP/PDDP, Bridging Phase Programme Unified Report 2003.

In order to make HRDCs self-sustaining, districts have adopted a wide variety of strategies. Most districts charge overhead costs. Some districts have mobilized DDCs, VDCs, and in some cases, Municipalities, to make annual contributions for HRDC fund. HRDCs have been receiving contributions from resource persons as well as fees from the use of Center's facilities. Many districts have now separate account and ledger book for HRD activities.

5.4 Institutional Capacity

It is seen from the analysis that a LDF is created in each district as per the decision of District Council to mobilize the external and internal resources for the implementation of the VDP directed towards the upliftment of the socio-economic condition of all the CO members. It works under the umbrella of DDC, and is accountable to District Council to support and manage the implementation of VDP. Nonetheless, the Fund is free and works as an autonomous body in its decision making process. District Development Council will not interfere in its decision making process. Under the LSGA Rules, the LDF has now been legally prescribed to institutionalize the conceptual framework, procedure and mechanisms for VDP. LTF has its own official seal similar to DDC to undertake its activities.

Social mobilization is an approach adopted by LDF in VDP. LDF has been institutionalized at the VDC level for implementing VDP program thereby bringing social and economic changes at the community level. In the process, a broad-based multi-purpose community organizations (COs) have also been promoted at the settlement level as a self-sustaining institutions to facilitate participatory development for better local governance and for making a better impact on poverty reduction. For activating the process, the ground rules of governance and management are also set by COs themselves. They also select chairperson and managers to carry out the activities envisaged in the rules. Once the CO is set up and governance system lay down by the members, they start making regular saving, thereby generating capital.

To assist the COs in their institutional development, and social and economic development activities, the support organization team (SOs) has been formed at the district levels led by the Executive Secretary of LDFB consisting of a Deputy Team Leader, Social Mobilizers, Enterprise Development Officer, and an Administrative Assistant. Among other things, the SO motivate and assist the people in the community in institutional development, train COs representatives in preparing economic base like micro finance, skill development, and proposals for seeking seed grant fund for economic development, and initiating their prioritized development needs with other development sources.

A system of institutional process has also been established in the process of submitting and giving approval to the projects. This is evident from the fact how COs submit their project to DDC, and how they are selected and approves. The elected User Committee (UC) of the community that identifies, proposes and formulates the project is directly responsible for the implementation, operation and maintenance of projects supported by LDF, including its financial management.

It is thus evident that the institutional development has been established at all level for the implementation of LDF supported project and programs. However, mere institutional development will not work unless their professional capacity is enhanced which requires trained staff including needed office equipments along with logistic support to plan monitor and coordinate local development activities. LDF has been strengthened and institutionalized with

staff orientation, training and equipment for effective management of its operations. The programs of human resources development activities and the physical facilities have been positive in building up the capacity of DDCs down to COs.

5.5 General Assessment of LGP/PDDP

Government annual report has brought out many successful stories telling how LGP/PDDP is doing miracles in bringing socio-economic change in the project through its two main components of capacity building and social mobilization. VDP has made access to credit especially poor and underprivileged. Easy access to productive credit has enabled many CO members to open medium or small factory and milling centers. The percentage of households taking loans from moneylenders has significantly decreased due to internal saving and credit capital in all the five development regions. The interest rate of local money lenders has gone down drastically in all the regions, thanks to LDF credit. The credit capital investment and priority productive projects have helped boost average income of households as a result of income generating and micro-entrepreneurial activities. These reports also discuss about the positive change that LGP/PDDP has impacted in villages in terms of social impact, gender impact, and health and sanitation impact and education impact. The programme is now spread in 60 districts and 662 village development committees (VDCs) directly affecting the lives of 1.7 million poor Nepalis.

However, there is no any other independent report to verify the claims that the stakeholders of these programmes have made. The present study tries to make an in-depth analysis of the LDF that it has made at the district, VDC, community and at the household levels with all their pros and cons of the programme including the sustainability of the project generated benefits.

CHAPTER – 6

IMPACT AT THE DISTRICT LEVEL

6.1 Overview

This study was conducted in six districts – Jhapa, Sankhuwasabha, Kabhre, Nawalparasi, Jumla and Kanchanpur representing all five development and ecological regions. Each participating district has set up a district-level Local Development Fund (LDF) under the umbrella of District Development Council (DDC). The study found a total of 1,878 COs operating in the sample districts comprising of 51,674 members with 26,700 female and 24,974 male during the time of survey. Each CO on an average has had a total of 26 members. Over 86 percent of the household members were found to be the members of these community organizations (COs).

Female participation in the functioning of COs is increasing in all the districts. Evidence shows that female members are outnumbering their male counterparts it is in the formation of COs or in membership coverage. Women participation in decision-making and leadership position is coming up. Female were found chairing the COs in Sankhuwasabha and Kabhre. However, male were still found dominating COS as chairperson in other four districts under survey.

The status of COs by sex affiliated with LDF remained varied by districts, which are presented, in the following table

Table 6.1: Status of COs Registered with LDF by Gender

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Total No. of Cos	330	240	881	192	26	209	1878
Male	159	75	390	48	8	46	726
Female	122	61	414	85	6	36	724
Mixed	49	104	77	59	12	126	427
Male	4131	2101	12265	2752	798	2927	24974
Female	5609	3068	11720	3189	510	2604	26700
Total Members	9740	5169	23985	5941	1308	5531	51674
Chairperson (Female)	NA	128	439	100	6	75	748
Chairperson (Male)	NA	142	442	92	20	134	830
Member HH	9730	5136	18078	5481	1052	5105	44582

6.2 Financing Source

The LDF is being supported with financial inputs from a host of external and internal agencies to implement village development programmes. Data from the district level reveal that DDCs and VDCs are also contributing significantly in LDF. During the period under review, LDF has a total contribution of Rs.76.94 million, of which 71 percent was provided by donor agencies followed by VDC (8 percent), DDC (6 percent) and others (13 percent). In addition, Poverty alleviation Fund (PAF) also has provided resources to this Fund, which, however, constituted only 2 percent.

District-wise use of LDF fund is presented in table below. Of the total 76.9 million deposited amount, Rs.42 million (55 percent) went to Kabhre followed by Jhapa with Rs.2 million. The Kanchanpur received less than a million only, the reason might be that PDDP was introduced only in 2001.

Source-wise analysis shows the contribution made by VDCs and DDC is spread over all the districts. It is, however, not so with other sources. The PAF funding was confined to Jhapa (eastern development region) and Nawalparasi districts (western development region). Donor funding has been utilized in all the regions. However, no information were found about the use of external assistance in Kanchanpur (far-western region).

Table 6.2: LDF fund use by Districts

(Rs. in 000)

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
VDCs	590	2005	2560	44	564	599	6362
DDC	800	1200	680	500	777	250	4207
PAF	30	0	0	1200	0	0	1230
Donors	9054	0	38820	215	6591	0	54680
HMG	0	0	0	0	0	0	0
Others	10026	0	0	46	0	0	10072
Total	20500	3205	42060	2005	7932	849	76551

6.3 Enterprises Established

LDF helped CO members establish many micro enterprises in all the six sample districts under survey to uplift their socio-economic level with the provision of capital credit. A total of 11,548 micro enterprises were found established in these districts during the time of survey. These micro enterprises were based on agriculture, horticulture, livestock and poultry farming. Livestock and poultry farming superseded the traditional agriculture. Trade and service enterprises remained on the top in Jhapa and Nawalparasi. These enterprises are coming up as the second most favoured industry in other four districts after livestock and poultry. Industrial enterprises are also showing up in Jhapa, Nawalparasi and Jumla.

Among all the enterprises discussed above, majority of them (61 percent) were concentrated in Kabhre district (central region falling under mountain and hill region). Sankhuwasabha comes in second position where a significant number of micro enterprises were also established constituting 24 percent of the total enterprises established in the sample districts. Though Kanchanpur (far western region falling under tarai region) is considered to be a new district under PDDP, the way the micro-enterprises were established is quite encouraging. Of the total micro-enterprises established in the six districts under survey in Kanchanpur accounted for 10 percent.

Table 6.3: Micro Enterprises Established by Types

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Agriculture\ Horticulture	9	452	1983	99	11	344	2898
Livestock\ poultry	25	1618	3877	69	3	514	6106
Agro- forestry	8	0	0	0	3	0	11
Trade\ Service	49	733	840	140	1	306	2069
Industry	13	25	139	37	2	39	255
Others	0	0	206	10	0	43	259
Total	104	2828	7045	355	20	1246	11598

6.4 Operational Status of Enterprises

Under this section a total of 8,563 macro enterprises were included for study that were established in five districts – Jhapa, Kabhre, Nawalparasi, Jumla and Kanchanpur were Information on the status of micro-enterprises established in Sankhuwasabha was not available, and hence their operating condition could not be assessed.

The status of micro enterprises operating in the five districts mentioned above is in various stages. Based on information, one can notice that 5,461 out of 8,563 micro-enterprises were in active condition. Most of the active micro enterprises were found in Kabhre district, which represents mountain and hill region and lies in central region. Larger number of inactive micro enterprises was also found in the same district.

Large number of micro-enterprises established in Kanchanpur district also showed in active condition. Micro enterprises established in other districts were found comparatively small so with the active and inactive condition.

Table 6.4: Status of Micro Enterprises

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
1.Active	55	1272	4790	55	10	547	6729
2.Average	37	735	1855	200	6	517	3350
3.Inactive	12	821	400	100	4	182	1519
Total	104	2828	7045	355	20	1246	11598

6.5 Pattern of Internal Saving

The internal saving of community organizations (COs) has grown significantly. These COs have now a total savings of Rs.60 million. Among the six districts under survey, the COs of the Kabhre possesses highest saving. Jumla stands on the bottom in terms of internal savings made by COs.

This is to be noted that the amount invested is larger than the savings generated in some of the districts because of the revolving and rolling nature of fund. At the district level, Jhapa (eastern region) and Nawalparasi (mid-western region) demonstrates larger investment than the savings generated.

The male: female ratio internal resource mobilization shows that while men availed 53 percent of internal loans, their female counterparts took 47 percent of the loans. However, the district-wise analysis shows that in Jhapa female are taking more loans than their male counterparts.

Table 6.5: Mobilization of Internal Saving

(Rs. 000)

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Total Saving of Cos	4657	5061	40523	5960	763	4140	61103
Total investment	4431	4923	34828	27265	63	3453	74963
Male	1515	2770	18364	15649	22	1946	40267
Female	2915	2152	16464	11616	41	1507	34696

6.6 Sectoral Investment under Internal Saving

A total of R4 74.7 million was invested under internal saving through COs to their members in various sector of the economy in all districts. Of the total investment went to Kabhre where a total of 34.8 million was invested constituting around 47 percent, and the lowest went to Jumla. It is obvious that Kabhre stands on the top from investment point of view under internal source also because it is one of the districts where PDDP was launched in 1995, and still in operation since then.

District-wise investment shows much of investment went to Nawalparasi after Kabhre followed by Jhapa (eastern region) and Kanchanpur (far-western region) Kanchanpur being one of the new PDDP districts, investment made under internal saving remains encouraging. It is a pity to note that less than a million were invested in Jumla, because it is one of the old PDDP districts. This is not understandable why Jumla is neglected which is being supported by SNV for years.

Investment by economic sector shows that larger proportion of investment went to livestock and poultry (37 percent), household expenditure (23 percent), trade and services (14 percent) and so on. Investment in Kabhre seems to have followed the same pattern where large amount is spent in livestock and poultry followed by household expenditure. Nothing much economic activity is seen in Jumla, where the investment is incurred mostly to meet the household expenditure. .

The pattern of district-wise investment by economic sector and sub-sector is given below, which remained varied from district tot district.

Table 6.6: District-wise Pattern of Sectoral Investment

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Household expenditure	109	0	9098	7233	45	736	17220
Agriculture\ Horticulture	1535	1139	7364	4671	15	1170	15894
Livestock\Poultry	2075	2355	12389	9810	3	768	27401
Agro-forestry	155	0	45	2	0	0	203
Trade\ Service	336	1406	4330	3397	0	724	10192
Industry	12	23	834	1307	0	0	2175
Other	0	0	769	846	0	55	1670
Total	4223	4923	34828	27265	63	3453	74755

6.7 Investment by Economic Status

Of course the very much purpose of LDF is to provide resources in favor of uplifting the economic status of needy and vulnerable group. For this, the study has attempted to find out which category of people the investment has touched – poorest of the poor, poor or medium poor. Viewed from this point of view, one will find that very little has gone to poorest of the poor on an average. The distribution of resources in the region by economic category has not followed the equity and social justice in principle.

District-wise status of investment by economic category is given below, which, however, remained varied from district to district. Evidence shows that much of investment has gone to in favor of poor in Jumla (mid-western region). It is, however, not so in other districts. This is to be noted that much of investment went to in favor of poor in other five districts – Jhapa,

Sankhuwasabha, Kabhre, Nawalparasi and Kanchanpur. In Kanchanpur, much of investment in terms of percentage went to medium poor.

District-wise investment made by poverty profile is given below. It remained varied from district to district under the study.

Table 6.7: Investment by Economic Status

Description	Jhapa							Sankhuwasabha							Kabhre							Nawalparasi							Jumla							Kanchanpur							Total						
Poorest	7.38							28							34.14							22.23							55.63							22.68							28.34						
Poor	84.68							36							41.96							33.33							44.37							37.2							46.26						
Medium	7.94							36							23.9							44.44							0							40.12							25.4						
Total	100							100							100							100							100							100							100						

6.8 Occupational Status of CO Members

Occupation of all the members in the survey districts is mostly agriculture. However, this varies from district to district. The second most important occupation adopted by CO members in all is wage labour. Likewise, service sector in the is gaining importance.

District-wise information shows that over 60 percent of the households in Sankhuwasabha, Kabhre, Nawalparasi, Jumla and Kanchanpur, owes to agriculture as the most important occupation in their day to day life. In Jhapa, however, agricultural occupation is standing below 40 percent with service sector coming in second place followed by wage labour. In Jumla and Kanchanpur wage labour stood second most important occupation after agriculture. This is a positive sign that the occupation structure in all districts is changing.

Table 6.8: Occupation Status of CO Members

Description	Jhapa							Sankhuwasabha							Kabhre							Nawalparasi							Jumla							Kanchanpur							Total						
Agriculture	35							73.2							71.1							68.5							60.7							65							62.3						
Wage Labour	23.6							14.4							14.7							18.4							34.6							16.8							20.4						
Service	32.4							7.3							10.1							9.7							1.3							8.6							11.6						
Others	9							5.1							4.1							3.4							3.4							9.6							5.8						
Total	100							100							100							100							100							100							100						

6.9 Food Availability

The study has identified that the number of households who were not getting food even for three months in the sample districts constituted about 17 percent. Only about 21 percent of the households have food sufficiency up to 12 months and 9 percent having food surplus. It, however, remained varied from district to district.

District-wise information gives varied results. From the perspective of food adequacy Kanchanpur district (far-western tarai region), seems to be in better position among all other districts under survey. In this district, only 12 percent of the households reported having food adequacy for three months, about 24 percent and 30 percent reported food adequacy for up to 9 months and 12 months respectively. In Jhapa, about 15 percent of the households reported have food adequacy for three months. Only 3 percent of the households reported having food surplus. Kabhre (mountain and hill in the central region) also looks in better position where 14 percent of

the household reported having food adequacy for less than three months. Around 11 percent of the households in the districts have reported with surplus. As data on adequacy and inadequacy of food by households for Sankhusava were not available no assessment could be made to finding out what proportion of the households in the districts is facing the food problems

Table 6.9: Household Food Security

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Accuracy for 3 months	14.7	NA	14	15.6	27	12.2	16.7
Accuracy for 3-6 months	34.7	NA	21.1	16.7	58.2	17.7	29.68
Accuracy for 6-9 months	30.1	NA	28.3	24	14.2	23.9	24.1
Accuracy for 9-12 months	17.3	NA	26.1	28.7	0.6	29.6	20.46
Food surplus	3.2	NA	10.5	15	0	16.6	9.06
Total	100	NA	100	100	100	100	100

6.10 Economic Status of Households

For the purpose of this analysis, economic status of households has been classified into three categories – (a) poorest of the poor, (b) poor, and (c) medium¹³. Poorest of the poor has been defined as those household that do not have regular source of income, produce food enough for less than six months and have to seek wage employment to feed family members. Likewise, Poor have been defined as those households that have regular income, more food security than the poorest, but still vulnerable and risk-prone. Similarly medium poor has been identified as those households who have regular income (such as pensioners, regular service holders), year-round food security, and less prone to risk.

Based on the above criteria, around 25 percent of the households were found falling under poorest category, 43 percent under poor and 33 percent under medium poor. Among the six surveyed districts, households falling under poorest category were reported to be 31.14 percent in Jumla and 31 percent in Sankhuwasabha (31.1 percent). Those household falling under poor category were reported to be as high as 66 percent in Jumla, 44 percent in Kabhre and so on. As regards to medium poor, Nawalparasi, Jhapa and Kanchanpur shows highest percentage of the households falling under this category. District-wise status of poverty profile of the households by category is presented in the following table:

Table 6.10: Economic Status of People

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Poorest	16.47	31.1	26.31	19	31.14	23.31	24.59
Poor	39.2	35.5	44.42	31	65.63	37.14	42.07
Medium	44.33	33.4	29.27	50	3.23	39.55	33.34
Total	100	100	100	100	100	100	100.00

6.11 Nutritional Status of Household

District level information on nutritional status of the household is very poor. Kabhre, Nawalparasi and Kanchanpur district do have complete information on nutritional status of households by all categories - nourished, average nourished and malnourished. Jumla do have

¹³ PDDP/LGP categories the status in poorest, poor and medium, however CO members are free to define and identify the economic status of the members.

information only by two categories – nourished and malnourished only. Jhapa has information only on one category - that is about nourished situation of the household. Sankhuwasabha does not have any record in this respect. With such incomplete and partial information, we cannot generalize the nourishment status of the sample districts as a whole. Following table provides information about the nourishment status of by district:

Table 6.11 Nutritional Status Households

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Nourished	100.0	85.5	38.6	51.1	96.1	29.6	57.8
Male	55.3	44.2	21.3	25.9	50.2	15.6	31.0
Female	44.7	41.3	17.2	25.3	45.9	14.0	26.8
Average nourished	-	-	40.0	37.6	-	45.1	26.6
Male	-	-	20.7	18.4	-	22.1	13.5
Female	-	-	19.3	19.2	-	23.0	13.2
Malnourished	-	14.5	21.4	11.3	3.9	25.3	15.6
Male	-	6.6	9.8	5.6	1.5	12.1	7.3
Female	-	7.9	11.6	5.6	2.4	13.2	8.3
Total Population	49910	46868	111421	38554	1308	37700	285761

6.12 Education Status

Information record on education status of the households at the district level is very poor. In Jumla, Jumla has information only about literacy level, but not on the status of children going to school. Neither the district does have information about the child population of 0-5 years. None of the information about education is recorded in Sankhuwasabha. DDC does not have any record about it. Under such circumstances, it will be misleading if we come with the estimation of the education status of the sample district as a whole. Under such circumstances, the following table tries to give the education status by individual district.

Table 6.12 Education Status

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Literate (Above 18 years)							
Male	28.6	21.2	21.1	19.1	13.4	19.8	22.5
Female	22.7	10.9	13.5	10.8	9.6	13.5	15.0
Total	51.3	32.2	34.6	29.9	22.9	33.4	37.5
Illiterate							
Male	6.2	7.5	12.1	9.4	32.3	11.6	9.7
Female	8.6	14.5	19.3	19.2	44.8	14.4	15.5
Total	14.9	21.9	31.4	28.6	77.1	26.0	25.2
Children going to school (6-17 years)							
Male	17.4	23.7	15.4	18.0	0.0	16.2	17.5
Female	13.6	21.0	13.6	16.4	0.0	14.9	15.1
Total	31.0	44.7	29.0	34.3	0.0	31.1	32.6
Population not going to school (6-17 years)							
Male	1.4	0.2	2.0	3.1	0.0	4.2	2.0
Female	1.5	0.9	3.0	4.0	0.0	5.4	2.7
Total	2.8	1.2	5.0	7.1	0.0	9.5	4.6

6.13 Investment under Seed Grant

In all the sample six districts, substantial investment seems to have made in priority sector, which are basic to human needs. Under the seed grant, a total of 369 projects of different types were completed during the survey period. The majority of projects (196 in number and 53 percent of total projects) were drinking water schemes and 132 (37 percent of total projects) irrigation schemes. These figures show that the people have given first priority to drinking water, one of the basic needs everywhere in the country, the lack of which gives rise to numerous water-borne diseases. People's second priority seems to have been irrigation, which is natural considering the nature of the country which is largely agricultural, and depending on rainfall for watering their fields.

At the district level the priority of projects remained varied. Drinking water appeared to be the first priority area in Sankhuwasabha, Kabhre, Nawalparasi and Jumla, but it is not so in Jhapa and Kanchanpur. Irrigation stood the choice of first priority area in Jhapa and Nawalparasi over drinking water. .

A total of 114,922 households were benefited from the 329 completed priority productive infrastructure schemes. A total of Rs.45.5 million was spent with seed grant fund constituting 36 percent of the total project costs. The rest was borne by DDC, VDCs, and community organizations (COs) and others. District-wise status of the projects completed under seed grant by types and the beneficiaries is presented below:

Table 6.13: Impact of Seed-Grant Supported Programmes

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
a. Completed Projects							
- Drinking Water	11	73	60	41	7	4	196
- Irrigation	56	17	17	23	0	19	132
- Small Hydropower	0	0	1	0	0	0	1
- Community Forest	0	0	0	0	0		0
- Others	19	14	0	0	5	2	40
Total	86	104	78	64	12	25	369
b. Projects cost							
- Drinking Water	915	1432	9659	1436	1645	52	15139
- Irrigation	265	372	4902	1622	0	871	8032
- Small Hydropower	0	0	451	0	0	0	451
- Community Forest	0	0	0	70	0	74	143
- Others	2351	552	4993	0	322	207	8424
Total	3531	2356	20004	3127	1967	1204	32189
c. Funding sources							
- Seed Grants	1773	2356	7525	1808	2493	1203	17158
- VDCs	150	1	1892	40	564	0	2647
- DDCs	0	0	527	0	777	0	1304
- COs	1608	6	9120	1251	632	121	12738
- Others	0	0	4993	55	6591	0	11639
Total	3531	2363	24056	3154	11057	1325	45486
d. Beneficiaries							
- Male	92	1361	3624	1196	51858	503	58634
- Female	114	671	3825	1236	49906	370	56122
Total	206	2032	7449	2432		873	115270

6.14 Shortcomings in Reporting

The LSGA has given priority to setting up an information centre down to district level equipped with certain facilities. The information center should have all the needed information and record on the status of socio economic conditions that were established before or after the start up any plan and programme in the district down to village level, community level and household level. In order to improve and strengthen the data base at the district level, different kinds of office equipments and facilities have been made available which include computers, overhead projectors, photocopy machines, GIS software, Fax and accounting package software and so on. Despite these facilities, data management system at the DDCs level remained weak. Many gaps and shortcomings were noticed in the compilation and recording of data, and they were not maintained as required according to the operational guidelines prepared by LSGA. Year-wise information was also not available in the districts under survey. In addition, all base-line data is not available as per the manual of LDF in all districts under survey. In its absence, the study could not come up with any difference what the LDF has impacted at the district level.

CHAPTER – 7

IMPACT AT VDC LEVEL

7.1 Overview

To assess the impact of LDF supported programs at village level; total 12 VDCs (two from each district under reference) were selected and surveyed. A total of 9,066 household members and about 3,000 settlement was affiliated with COs in the study area. A total of 355 COs were functioning in the study area with female group (138) outnumbering the male group (122). The mixed group totaled 95 only. All three types of COs have a total membership of 10,636. It, however, varied from district to district. In selected VDCs of Jhapa and Kanchanpur, number of female COs is higher than that of male.

The number of women holding the position of chairperson and managers shows that women's participation in the decision-making and leadership is on the rise. They have benefited in terms of enhanced understanding of the problems faced by the community by identifying and prioritizing their needs. Women's participation in VDC planning in all selected VDCs, except in Jumla is now increasing.

Table 7.1: General Information

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Male COs	27	17	44	18	1	15	122
Female COs	44	15	41	24	1	13	138
Mixed COs	18	14	5	9	12	37	95
Total	89	46	90	51	14	65	355
CO Members							
Male	1025	657	1468	742	334	877	5103
Female	1767	468	1182	684	454	978	5533
Total	2792	1125	2650	1426	788	1855	10636
Chairperson (Women)	68	14	41	24	4	33	184
Chairperson (Male)	75	32	49	27	10	32	225
Manager (Female)	93	15	38	24	0	23	193
Manager (Male)	64	31	52	27	0	42	216
Member HH	2372	1132	1970	1322	495	1775	9066

7.2 Micro-enterprises

A total of 2,889 micro-enterprises were established in selected VDCs. The highest number of enterprises were falling under livestock/poultry, which constituted 47 percent of the total enterprises, followed by agriculture/horticulture (24.4%), trade/service (20.2%), industry and agro-forestry (0.3). In Jhapa and Jumla, agriculture/horticulture remained on the top. It is noticeable that 1,069 (37%) micro-enterprises were in Jhapa alone.

The status of enterprises shows that the majority of enterprises were operating in good conditions (65.5%), and 665 (26.3%) were average and remaining 210 (8.3%) were inactive.

Table 7.2: Establishment of Enterprises**(Percent)**

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Enterprises established	N=1069	N=360	N=946	N=34	N=19	N=461	N=2889
Agriculture/Horticulture	32.3	18.1	16.2	11.8	57.9	27.3	24.4
Livestock/Poultry	28.3	50.6	72.4	5.9	10.5	40.3	47
Agro-forestry	0.5	0	0	0	15.8	0	0.3
Trade/Services	18.1	31.4	10.7	79.4	10.5	31.9	20.2
Industry	-	0	.73	2.9	5.3	0	0.3
Others	20.9	0	0	0	0	.43	7.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Condition of Enterprise							
Active	68.4	NA	70.0	97.1	73.7	46.4	65.4
Average	25.0	NA	26.2	-	10.5	32.1	26.3
Inactive	6.6	NA	3.8	2.9	15.8	21.5	8.3
Total N	100.0	100	100.0	100.0	100.0	100.0	100.0

7.3 Loan Investment and Repayment

Following table shows that a total investment of Rs.51 million (of which 45 percent in fixed capital and 55 percent in current capital) was made by CO members. Kabhre district invested larger amount followed by Kanchanpur, Jhapa, Sankhuwasabha and Nawalparasi respectively.

In the area of loan receipt, it includes the loan from COs saving, LDF and other sources. Loan received from sources other than LDF remained smaller. Kabhre seems to have received larger amount of loan from these sources followed by Jhapa, Kanchanpur, Sankhuwasabha, Nawalparasi and Jumla.

Table 7.3: Loan Investment and Received**(Rs. in '000)**

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Total Investment	18254	1449	26160	697	NA	4531	51091
Fixed capital (%)	60.6	0.0	39.2	36.0	NA	31.7	45.0
Current Capital (%)	39.4	100.0	60.9	64.0	NA	68.3	55.0
Total Loan Received	5681	2824	26514	426	165	3277	38886
- COs (%)	53.7	48.7	17.7	23.0	39.4	45.7	24.2
- LDF (%)	25.6	51.3	59.8	76.8	18.2	54.3	53.7
- Others (%)	20.7	0.0	22.5	0.0	42.4	0.0	34.1

7.4 Status of Internal Savings and Investment

Savings and investment mobilization is important activity of the COs in VDCs. Up to the survey period, the total savings of COs in sample VDCs amounted Rs.12.9 million. The amount of savings varied from VDC to VDC and also differs in COs. In this endeavor, Kabhre VDC seemed to have garnered larger amount of internal saving than others. Mobilization of internal savings is lowest in Jumla, one of the most remote districts of Nepal. Saving mobilization varied in districts to a larger extent from a maximum of Rs.6,751 thousand in Kabhre to a minimum of Rs.345 thousand in Jumla.

During the same period, the CO members made a total investment of Rs.13.99 million out of the internal savings. However, the amount of investment also varies from Rs34 thousand in Jumla to Rs.6378 thousand in Kabhre. Males were found investing a little bit more than what their female counterpart is investing. The investment figure remained almost equal to savings in VDCs of Jhapa and Sankhuwasabha, and is lower in Kabhre and Kanchanpur. Investment is significantly lower in Jumla but higher in Nawalparasi.

VDC wise variation in saving and investment in the sample districts is presented below:

Table 7.4: Internal Savings and Investment

(Rs. in '000)

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Total investment	1167	1375	6378	3242	34	1799	13995
- Male (%)	40.5	55.3	55.1	46.7	47.1	54.9	51.9
- Female (%)	59.5	44.7	44.9	53.3	52.9	45.1	48.1
Total Saving of COs	1141	1389	6751	1247	345	2082	12955

7.5 Sector-wise Investment

CO members in all the VDCs in sample area are investing the loan received under internal savings for various purposes including for meeting household necessities. In terms of sectoral investment, livestock and poultry occupied a prominent place followed by agriculture/horticulture. Trade and services also absorbed a large part of investment in a number of COs. Only few COs invested in industry.

Table 7.5: Sectoral Investment

(Percent)

Sectoral investment	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
HH expenditure	1.1	5.4	27.8	22.3	26.5	20.1	11.0
Agriculture/Horticulture	37.0	24.9	27.0	44.2	29.4	38.0	16.4
Livestock/Poultry	31.9	40.3	17.9	14.2	14.7	21.2	11.0
Agro-forestry	0.0	0.0	0.1	0.0	11.8	0.0	48.8
Trade/Services	21.2	23.1	19.1	18.7	5.9	20.7	10.3
Industry	0.0	0.0	6.6	0.1	11.8	0.0	1.6
Others	8.7	6.2	1.6	0.6	0.0	0.0	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N '000)	1143	2518	6350	3243	34	1796.6	27247

7.6 Fund Utilization by Poverty Profile

The basic principle of providing funds to the needy people is to uplift them from poverty trap. Hence in this study, an attempt has been made to find out which strata of the population receives maximum amount of the fund. Based on the well being ranking, it seems that a larger part of fund went to the poor strata followed by poorest of the poor and medium poor in most of the VDCs except in Kanchanpur where maximum fund went to the medium poor.

Table 7.6: Status of Fund Utilization**(Percent)**

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Poorest	39.6	21.3	33.5	38.7	55.9	19.1	32.2
Poor	31.8	45.3	57.1	40.2	44.1	32.2	45.6
Medium	28.6	33.4	9.4	21.1	0.0	48.7	22.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N) '000	1161	1376	5125	3242	34	1798	12743

7.7 Human Resource Development

Human resource development is an important strategy of VDP towards local capacity building. At the village level the programme helps to enhance local skills and develop a cadre of village experts to make the community self-reliant. Through the training programmes, seminar and publications organized by HRDC at DDCs, a total of 1,765 local people were benefited. However, males are taking more privilege than female counterparts in terms of human resource development at the moment in all VDCs except in the VDCs of Nawalparasi and Kanchanpur districts.

Table 7.7: Human Resource Development**(Percent)**

By Gender	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Male	59.1	66.7	50.7	29.2	58.3	47.9	53.0
Female	40.9	33.3	49.3	70.8	41.7	52.1	47.0
Total (N)	681	132	440	185	60	267	1765

7.8 Credit Capital Disbursement

The amount of credit disbursed varies to a large extent ranging from Rs10 thousand in Jumla to Rs18.32 million in Kabhre. Table below shows that male availed 57.5 percent while their female counterpart shared only 42.5 percent of total credit disbursed.

In terms of sectoral investment, livestock and poultry occupied a prominent place followed by agriculture/horticulture. Trade and services also absorbed a large part of credit capital in a number of COs. Only few COs invested credit capital in industry and other areas accounting for 2.3 and 0.6% respectively.

Table 7.8: Disbursement of credit capital**(Percent)**

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Credit by Gender							
Male	41.3	56.3	60.7	45.5	0.0	63.3	57.5
Female	58.7	43.7	39.3	54.5	100.0	36.7	42.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Credit by Sector							
Agriculture/Horticulture	50.2	18.4	2.8	46.3	100.0	29.3	13.1
Livestock/Poultry	25.4	38.8	80.1	27.6	0.0	46.3	66.5
Agro-forestry	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade/Services	16.6	28.1	15.1	26.1	0.0	24.4	17.4
Industry	7.0	5.0	2.0	0.0	0.0	0.0	2.3
Others	0.8	9.7	0.0	0.0	0.0	0.0	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Credit by Status							
Poorest	30.6	24.8	21.5	43.9	60.0	19.9	24.4
Poor	48.6	48.0	52.8	39.3	40.0	51.3	50.8
Medium	20.9	27.2	25.8	16.8	0.0	28.8	24.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (NRS '000)	2319	1449	18319	2329	10	1777	26205

Credit disbursement by poverty profile showed only 24.4 percent went to poorest, 50.8 percent to poor and the rest 24.8 percent to medium poor. The credit capital disbursement according to economic status shows that poor strata received largest amount of credit (50.8%) followed by poorest of the poor and medium household (24.4% and 24.8% respectively).

7.9 Impact of seed grant supported programmes

The table below shows that total 193 projects were implemented under VDP, ranging from a minimum of 7 in Jumla to a maximum of 70 in Kanchanpur districts. Priority of the projects remained varied according to locally felt needs. As per need of the community, irrigation appeared to be first priority in Jhapa and Nawalparasi districts, both lies in Tarai region. Drinking water figured most prominent as prioritized programmes in the VDCs of Sankhuwasabha and Kabhre, both hill districts. Likewise the cost of implemented projects is highest for drinking water followed by irrigation.

For the implementation of these projects LDF provided a seed grant of NRS 3778 and the rest came from others sources like COs, VDCs and DDCs (see table below).

Table 7.9: Seed Grant Supported Projects

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Number of projects under VDP	54	18	34	64	7	70	193
No. of Projects started							
Drinking Water	5	23	10	6	3	0	47
Irrigation	32	1	2	6	5	6	52
Small Hydropower	0	0	1	0	1	0	2
Community Forest	3	0	0	0	2	0	5
Others	9	6	0	6	7	4	32
Total	49	30	13	18	18	10	138
Cost of Started Projects (NRS '000)							
Drinking Water	75	632	1131	579	NA	0	2417
Irrigation	780	16	138	377	NA	150	1461
Small Hydropower	0	0	45	0	NA	0	45
Community Forest	100	0	0	0	NA	0	100
Others	230	323	0	200	NA	616	1369
Total	1185	971	1314	1156	NA	766	5392
Sources of Funds (NRS '000)							
Seed Grants	770	630	784	1034	NA	550	3778
VDCs	295	91	29	80	NA	0	494
DDCs	0	0	29	0	NA	0	29
COs	670	269	141	77	NA	76	1233
Others	0	0	47	15	NA	0	62
Total	1735	990	1030	1206	NA	626	5596

7.10 Earnings Sources of COs

The income of COs comes from saving deposits from members, interest earnings, interest received from LDF and other sources. These sources are very important for the financial sustainability of the COs and continuation of the programme. The income varied in districts, ranged from about Rs.8.0 million in Kabhre to Rs1.05 million in Kanchanpur. Unfortunately, the field visit could not find any figure for Jumla.

Table 7.10: Income Collection

(Percent)

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Collected from members	63.4	65.6	60.5	49.9	NA	74.8	61.1
Interest earnings	11.5	14.7	19.1	25.2	NA	11.2	17.9
Interest received from LDF	10.2	6.0	14.2	21.4	NA	10.4	13.5
Other income	14.9	13.6	6.2	3.5	NA	3.6	7.4
Total	100.0	100.0	100.0	100.0	NA	100.0	100.0
Total NRS '000	1718	1540	7973	1849	NA	1054	14122

7.11 Occupation of CO Members

Table below shows that almost all the CO members in the sample VDCs depend mostly on agriculture, which is about 80 percent. The second most important occupation adopted by CO members is wage labour, which occupied 12 percent. Percentage of people engaged in service and others sectors remained quite low, constituting about 4 four percent only in each respective sectors.

Table 7.11: Occupational Structure of CO Members

(Percent)

Occupation	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Agriculture	87.0	79.8	53.7	64.9	59.8	60.1	79.5
Wage labour	8.4	7.8	27.1	29.4	30.9	17.5	11.6
Service	1.6	5.9	15.4	3.9	3.3	11.7	4.4
Others	2.9	6.5	3.9	1.7	6.0	10.7	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total NRS '000	15742	7987	1970	1322	753	1775	29549

7.12 Food Security

The study has identified that the number of households who were not getting food even for three months in the sample VDCs constitute about 16 percent. Only about 26 percent of the households have food sufficiency up to six months. Similarly, 22 percent of the households have food sufficiency up to nine months. About 24 percent of the households have food sufficiency for one year. And only 12 percent of the households have reported food surplus.

All sample VDCs have had some kind of food surplus except in Jumla. About 28 percent of the household in the sample VDCs of Nawalparasi is living with a food surplus for more than a year, which is followed by Kanchanpur (20.6%), Jhapa (7.2%), Kabhre (3.3%) and Sankhuwasabha (0.9%).

Table 7.12: Food Security**(Percent)**

Adequacy for	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
3 months	19.1	20.6	16.6	16.3	42.0	5.6	16.1
3-6 months	36.6	41.6	22.0	19.0	42.4	12.5	26.1
6-9 months	21.1	28.3	23.9	16.0	15.5	23.2	21.9
9-12 months	15.9	8.6	34.1	21.3	0.0	38.1	24.4
Food surplus	7.2	0.9	3.3	27.5	0.0	20.6	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total N	2442	801	1974	1322	238	1775	8552

7.13 Economic Status of Household

Table below shows the economic status of households by poverty profile. Of the total household the highest number of household were found falling under poor category (44.5%), followed by medium (30.4%) and poorest (25.2%) respectively. However, it varied for districts. Highest number of household was found under poorest category in Jumla (33.8%) and lowest in Kabhre (10.7%). Highest number of medium poor was found in Kanchanpur and lowest is in Jumla. It shows that poverty is more widespread in Jumla than in other districts.

Table 7.13: Economics Status of Household

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Poorest	28.0	24.0	10.7	27.7	33.8	19.3	25.2
Poor	48.0	37.6	49.6	29.0	48.4	33.7	44.5
Medium	24.0	38.4	39.7	43.3	17.8	46.9	30.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total HH	9194	1123	1970	1322	1204	1775	16588

7.14 Nutritional Status of Households

VDC level information on nutritional status of the household could not be assessed due to poor record keeping system. The study has identified the status of members in terms of nourished, average nourished and malnourished in all the surveyed VDCs except in Jumla (as nutritional status is not available). The available information shows that female is more malnourished than their male counterpart. Similarly, male number is higher both in nourished and average nourished category as compared with their female counterparts.

Table 7.14: Nutritional Status of household**(Percent)**

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Nourished	59.2	9.9	52.7	55.2	NA	33.2	44.4
Male	30.3	6.7	28.4	27.4	NA	16.7	23.0
Female	28.9	3.2	24.3	27.9	NA	16.4	21.4
Average Nourished	26.0	38.3	37.2	35.8	NA	44.1	35.7
Male	13.9	24.7	19.5	17.2	NA	22.0	18.9
Female	12.1	13.6	17.7	18.6	NA	22.1	16.8
Malnourished	14.8	51.8	10.1	9.0	NA	22.7	19.9
Male	7.2	24.8	4.7	4.5	NA	9.5	9.3
Female	7.5	27.0	5.4	4.5	NA	13.2	10.7
Total	100.0	100.0	100.0	100.0	NA	100.0	100.0
Total N	16186	8183	11543	9218	NA	13858	58988

7.15 Drinking Water by Sources

Regarding the sources of drinking water, most of the members used private tap (61 percent) followed by public tap (28 percent) and natural sources (11 percent), reflects the awareness of people in sample area for safe drinking water. However, private drinking water facilities are less available in Jumla and Sankhuwasabha districts, both in the hill regions.

Table 7.15: Sources of Drinking Water

Description	(Percent)						
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Private tap	92.5	11.7	34.6	60.0	9.7	95.6	61.2
Public tap	2.3	41.0	50.4	40.0	84.4	4.4	28.0
Natural Sources (well, River etc)	5.2	47.4	15.0	0.0	5.9	0.0	10.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

7.16 Sanitation

The community people have been using different types of toilets. The study identified that most of the members have utilized permanent toilets (38 percent) followed by pit latrine (20 percent) and temporary latrine (18 percent). It reflects that one fourth segment of the society still do not have enough sanitation facilities. About 24 percent of the households do not have any latrine.

Table 7.16 Sanitation Facilities

Description	(Percent)						
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Permanent	57.6	11.6	59.3	11.8	74.7	13.8	37.9
Temporary	17.1	31.2	21.1	1.7	14.9	19.7	17.9
Pit latrine	16.2	30.0	14.1	0.0	3.0	47.4	20.5
No latrine	9.1	27.2	5.5	86.5	7.3	19.0	23.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total N	2365	1132	1970	1322	495	1775	9059

7.17 Educational Status

The following table gives information about the level of education at VDC level. Most significant impact has been seen in female literacy, and in the school enrollment rate of school-age girls. The literacy level of female appeared to have par with their male counterparts. On top of that, the literacy level of female in some of the sample VDCs of Sankhuwasabha, Kabhre and Kanchanpur is better than that of male.

Regarding the population going to school (6-17years), the female population remained a little bit below their male counterparts in most of the VDCs of sample districts, except in Kanchanpur. Population not going to schools (6-17 years) seems to have gone down more for the girls and is nearly at par with that of the boys in some of the sample VDCs of the districts under review.

Table 7.17: Status of Education**(Percent)**

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Literate (Above 18 years)							
Female	3.9	15.3	4.6	4.2	NA	11.1	7.7
Male	8.8	12.9	0.4	10.2	NA	7.3	8.1
Sub-total	12.6	28.1	4.9	14.4	NA	18.4	15.8
Illiterate (Above 18 years)							
Male	7.5	4.1	13.4	5.0	NA	4.5	6.5
Female	5.1	5.1	6.0	11.4	NA	6.6	6.9
Sub-total	12.6	9.2	19.4	16.4	NA	11.1	13.3
Population going to school (6-17 years)	0.0	0.0	0.0	0.0	NA	0.0	0.0
Female	9.9	7.3	8.3	5.6	NA	8.9	8.2
Male	12.2	9.2	8.8	7.4	NA	8.5	9.3
Sub-total	22.1	16.5	17.0	12.9	NA	17.4	17.5
Population not going to school (6-17 years)							
Female	3.0	2.0	0.4	3.3	NA	2.3	2.4
Male	1.8	1.3	0.2	2.4	NA	1.1	1.5
Sub-total	4.8	3.3	0.7	5.7	NA	3.4	3.8
Children (0-5 years)	0.0	0	0	0	NA	0	0
Female	5.0	4.0	5.1	3.6	NA	4.4	4.4
Male	5.3	2.9	5.3	4.2	NA	4.4	4.5
Sub-total	10.2	6.9	10.4	7.8	NA	8.9	8.9
Total	100	100	100	100	NA	100	100
Total N	21180	12776	11332	16581	NA	22753	84622

7.18 Physical Facilities

Roofing condition of the house also reflects the economic status of the households. Households using thatched roofing materials will be treated as being poor. The following table shows that about 31 percent of the households are having corrugated sheets as roofing while 20 percent are living under thatched roof. Only 10 percent of the households were found living under RCC roofing. It is evident that large segment of the community people still use slates and thatched roof instead of corrugated and RCC due to the low economic status.

However, roofing condition by VDCs varied in sample districts. Table below shows that about 97 percent households had thatched roof in Sankhuwasabha and so the mud roofing in Jumla, this also reflects the intensity of poverty in hill districts of Nepal.

Table 7.18: Physical Facility**(Percent)**

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Corrugated Sheet	86.6	2.6	50.7	0.2	2.8	3.9	30.9
Slate	0.0	0.9	10.3	32.8	0.0	37.8	17.1
Thatched	6.2	96.5	30.8	7.7	0.0	4.2	20.2
RCC	0.0	0.0	1.2	27.9	0.0	21.4	10.5
Other	7.2	0.0	7.1	31.4	97.2	32.7	21.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total N	2365	1123	1970	1928	495	2436	10317

7.19 General Findings

The main findings under this chapter show that the formation of COs along with increased participation of female participation is impressive. Though the ratio of female to male participation in the management of COs remained still smaller but they are now directly involved in the COs as chairperson and managers also. CO members have now access to loan from internal saving and from LDF to use it for their betterment and to come out from poverty trap both in terms of income and human poverty. It, however, not known to what extent the use of internal saving, credit capital and seed grant fund has made a difference at the VDC level since there neither exist base-line data nor year to year change data which would otherwise help to make a compare in between.

CHAPTER – 8

IMPACT AT COMMUNITY LEVEL

8.1 General Information

To assess the impact of VDP programme at community level 3 COs were selected from each selected VDC (totaling 36 COs). Of this total, 11 belong to male, 12 female and 14 mixed groups. Total number of members affiliated with these COs was 1129, averaging 31 members per CO. Out of the total 2659 households of the settlement area only 1129 (around 42%) were affiliated with the COs. It shows that the 58% of the household are still left out from the CO activities.

8.2 COs' Internal Savings and Investment

As explained earlier, mobilization of savings and investment is an important activity of the COs. The amount of savings as reported by the COs amounted to Rs.1.5 million in the sample area. Investment made by the CO members totaled Rs.2.6 million. Total investment figure remained above the savings.

Savings and investment varied in each sample district. Total savings of the sample COs ranged from Rs.530 thousand in Kabhre to Rs.115 thousand in Jumla. Similarly, the amount of investment also varied from a maximum of Rs.1.2 million in Nawalparasi to a minimum of Rs.135 thousand in Jumla district. Investment made by gender shows that male investing more than their female counterparts. However, in some of the sample districts, particularly in Jhapa and Jumla, females were found investing more than their male counterparts.

Table 8.1: Internal saving and investment

Description	(NRS '000)						
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Total Saving of COs	145	21	530	440	115	289	1539
Total investment	0	0	0	0	0	0	0
Male	78	140	410	999	43	142	1812
Female	81	61	128	250	92	138	751
Total	159	201	538	1249	135	280	2563

8.3 Investment by Sector from Internal Saving

The CO members were investing the loan received from internal saving in variety of sectors for their livelihood. In terms of sectoral investment, trade and service occupied a prominent place (42.4%) at the community level followed by household expenditure (19.3%), agriculture/horticulture (17.2%). Nothing much investment was seen in industry accounting for just less than one percent of the total investment

District-wise investment pattern by economic activities shows wide variation. For example, trade/service and household expenditure figured most prominent at the community level in Nawalparasi whereas agriculture/horticulture stood important in Kabhre. Household expenditure

stood second important in Kabhre whereas trade/service stood second in Sankhuwasabha. Likewise, household expenditure stood second important after agriculture/horticulture in Jhapa. For detail see the following table below:

Table 8.2: Sectoral investment

Description	(Percent)						
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
HH expenditure	26.7	12.4	14.8	20.0	10.6	24.8	19.3
Agriculture/ Horticulture	48.4	49.8	41.6	8.1	15.7	13.7	17.2
Agro Forestry	0.0	0.0	0.0	0.0	1.5	0.0	0.1
Trade/ Service	12.4	25.3	7.1	58.1	37.9	16.8	42.5
Industry	0.0	0.0	0.0	0.1	1.0	5.0	0.7
Other	8.7	1.4	0.0	0.1	0.0	9.9	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (NRS '000)	161	217	425	2247	198	416	3664

8.4 Investment by Economic Status

The disbursement of credit capital is aimed at rescuing the needy and poor people from poverty trap. It meant larger investment should go favoring to the poorest. Viewed from this perspective, it is seen that maximum amount of investment went to the poor strata category. This was followed by poorest of the poor and medium poor in most of the district except in Kanchanpur. In Kanchanpur, larger part of the funds was invested to medium poor. It is not understandable how the programme in Kanchanpur could bring such drastic improvement in the living condition of the people (moving from poorest to poor and thereafter to medium poor), in such a short period as the programme started very late (in 1999) in the district. Perhaps the selection of VDCs/settlement is not as per the guidelines of the programme (selection of better off settlement/VDC is also not justifiable from the social equity point of view).

District-wise information on investment made to different strata by poverty profile is presented below:

Table 8.3: Investment by Economics Status

Description	(Percent)						
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Poorest	26.87	19.91	36.78	33.95	44.44	4.48	30.03
Poor	46.27	42.18	50.24	37.90	50.00	42.54	42.45
Medium	26.87	37.91	12.98	28.15	6.17	52.99	27.57
Total	100	100	100	100	100	100	100
Total (N)	134	211	416	1087	162	268	2277

8.5 Information on Enterprises

A total of 901 micro-enterprises of various types were established at the community level in the VDCs under reference. Large number of enterprises was falling under livestock/poultry followed by agriculture/horticulture, trade/service, agro-forestry and industry. It is noticeable that 282, out of total 941 micro-enterprises were established in Kabhre district alone, followed by Jhapa, Kanchanpur, Sankhuwasabha, Jumla and Nawalparasi.

The status of micro-enterprises established at the community level in six districts under reference is as follows:

Table 8.4: Establishment of Enterprise

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Agriculture/Horticulture	61.2	21.8	18.8	15.0	51.0	22.4	34.3
Livestock/Poultry	16.4	57.1	53.5	27.5	18.6	40.3	37.4
Agro-forestry	5.6	6.8	14.5	0.0	16.7	2.2	8.9
Trade/Services	6.8	8.3	3.9	32.5	8.8	17.2	8.9
Industry	0.8	0.0	7.4	25.0	2.9	0.0	3.8
Others	9.2	6.0	1.8	0.0	2.0	17.9	6.6
Total	100	100	100	100	100	100	100
Total (N)	250	133	282	40	102	134	941

8.6 Condition of enterprises

This is to be noted that the micro-enterprises described above are operating in different conditions. Of the total 941 enterprises, 46 percent were found operating in active condition while about 32 percent were in average condition and about 22 percent in inactive condition. The larger number of inactive enterprises was found in Sankhuwasabha (42 percent) followed by Kabhre (19.9%), Jumla (19.6%), Kanchanpur (17.2%) and Jhapa (15.6%).

Status of micro-enterprises established at the community level in sample area of six districts is given below:

Table 8.5: Status of Enterprises

Status	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Active	37.6	31.6	64.2	55.0	45.1	44.0	47.2
Average	46.8	26.3	16.0	30.0	35.3	38.8	31.6
Inactive	15.6	42.1	19.9	15.0	19.6	17.2	21.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	250	133	282	40	102	134	941

8.7 Investment and Repayment

CO members in the sample community area made a total investment of Rs.6.4 million, of which 59 percent was in the form of fixed capital and 41 percent in the form of current capital. Larger investment was found in Kabhre followed by Nawalparasi, Sankhuwasabha, Kanchanpur, Jumla and Jhapa.

As usual loan received by CO-members from LDF is larger than that of internal savings from COs. Other sources remained not so important in all the districts. In all the districts at the community level, investment figure stood above the savings. Similarly, in the case of loan repayment, Kabhre repaid larger amount followed by Kanchanpur, Sankhuwasabha, Nawalparasi, Jhapa and Jumla.

District-wise information on investment and repayment of loan at the community level in the sample area is given below:

Table 8.6: Investment and Repayment**Rs. in '000''**

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Investment							
Fixed Capital	0	0	3106	141	241	347	3835
Current Capital	311	84	1435	131	298	355	2614
Total	311	84	4541	272	539	702	6449
Loan Received							
COs	137	211	518	34	69	229	1198
LDF	250	311	1298	246	20	298	2423
Other Sources	15	0	384	0	120	417	936
Total	1024	690	2200	280	209	944	5347
Loan Repaid	198	215.5	1029	213	150	321	2126

8.8 Economic Status of HH

At community level there are only two categories - poorest and poor. 55 percent of the household falls under poorest and remaining 45 percent falls under the category of poor in all sample COs under reference. District-wise indicator shows that in Jumla district a larger number of households falling under poorest strata (71%), at the community level followed by Sankhuwasabha (40.5%), Kabhre (37.5%) and Jhapa (27%).

Table 8.7: Economic Status of HH

Status of HH	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Poorest	27.2	40.5	37.5	65.8	73.9	38.1	45.1
Poor	72.8	59.5	62.5	34.2	26.1	61.9	54.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	121	152	187	115	194	997

8.9 Food Security

The study has identified that the number of households who were not getting food even for three months in six districts at the community level constitute 22 percent. Only about 21 percent of the households have food sufficiency up to six months. Similarly, 19 percent of the households have food sufficiency up to nine months. About 24 percent of the households have food sufficiency for one year. Only 13 percent of the households have reported food surplus.

However, food security varied at the community level in sample districts. It is quite impressive for Kanchanpur district where only 3.9 percent of the households have adequate food for three months and 20 percent of the household have the food surplus, whereas in Jumla nearly 60 percent of the households have access to food adequacy for only three months. District-wise indicator on adequacy and inadequacy of food security at the community level in the sample area by district is presented in the following table:

Table 8.8: Food Security**(Percent)**

Adequacy for	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
3 months	17.1	24.6	22.8	28.6	58.8	3.9	23.3
3-6 months	17.5	21.3	20.7	19.0	21.3	24.2	20.6
6-9 months	20.2	14.8	26.1	19.0	14.0	18.6	19.3
9-12 months	27.6	36.9	23.9	14.8	5.9	32.9	24.2
Food surplus	17.5	2.5	6.5	18.5	0.0	20.3	12.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	122	184	189	136	231	1090

8.10 Status of Education

Programme impact can be measured in terms of literacy rate and the population of 6-17 years of age group attending the school. Judged from this perspective, positive impact is seen in terms of school enrollment and the literacy level in all sample community of the districts under review. The proportion of people not going to school remained quite small.

However, female population in general is still lagging behind their male counterpart in education. Literacy level of females in the community accounted for just half of their male counterparts. Likewise population going to schools by gender shows that the percentage of male population admitted to school remained above their female counterparts, except in Kanchanpur, where the ratio of female population stood higher than that of their male counterparts. Community-wise indicators on educational attainment are presented below:

Table 8.9: Educational Status

	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Literate (Above 18 years)							
Female	22.1	10.6	6.1	4.9	4.3	8.2	9.7
Male	26.5	14.4	9.4	11.5	9.2	14.8	14.7
Total	48.5	25.0	15.5	16.3	13.5	23.0	24.3
Illiterate (Above 18 years)							
Male	2.1	5.0	3.5	4.2	6.1	4.2	4.1
Female	5.0	6.2	7.1	11.6	8.8	8.6	7.9
Total	7.1	11.2	10.6	15.8	14.8	12.8	12.0
Population going to school (6-17 years)							
Total	15.1	17.9	13.7	14.3	16.3	17.6	15.8
Female	8.9	7.6	6.9	6.1	6.9	9.2	7.7
Male	6.3	10.3	6.8	8.2	9.3	8.4	8.1
Population not going to school (6-17 years)							
Female	NA	2.6	0.2	2.1	4.8	2.0	1.8
Male	NA	0.0	0.1	1.3	4.8	1.3	1.2
Total	NA	2.6	0.3	3.4	9.7	3.2	3.0
Children (0-5 years)							
Female	1.9	3.0	3.3	4.2	1.5	2.4	2.7
Male	1.5	2.8	6.6	4.1	1.0	2.5	3.1
Total	3.5	5.8	9.9	8.3	2.5	4.9	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	2021	1523	1732	1893	1530	2074	10773

8.11 Nutrition Status

The study has identified the status of house members at the community level in terms of nourished, average nourished and malnourished in all six surveyed districts under review. The available information shows that 57 percent of the households falls in the nourished category, 27 percent in average nourished and remaining 16 percent in malnourished category. Among six districts, Jumla district seems to have a higher percentage of households falling under malnourished category as compared to rest of the other districts.

Table 8.10: Nutritional Status of households

(Percent)

Status	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Nourished	42.9	61.2	69.6	77.8	42.0	54.1	57.9
Average Nourished	37.3	28.9	22.3	20.7	29.1	34.1	28.7
Malnourished	19.8	9.9	8.1	1.5	28.9	11.8	13.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	121	161	922	148	643	2223

8.12 Sources of Drinking Water

There were various source of drinking water, which the households at the community level have been using. The findings in this regard present that most of the households at the community level in the districts under reference using drinking water from private tap (51 percent) followed by public tap (37 percent) and natural sources (12 percent). In Jumla about 71 percent of the households were found using public taps and 29 percent natural resources. District-wise indicators on the use of drinking water by source and by households are given below:

Table 8.11: Use of Drinking Water by Source

Source	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Private tap	75.7	2.7	36.1	64.3	0.0	97.5	51.0
Public tap	24.3	40.7	61.5	35.7	70.9	1.5	37.0
Natural (Well, River etc).	0.0	56.7	2.4	0.0	29.1	1.0	12.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	230	150	208	171	134	199	1092

8.13 Sanitation

The households at the community level were found using different types of toilets. The study identified that most of the members have been using permanent toilets (42 percent) followed by temporary latrine (30 percent) and pit latrine (28 percent). It reflects that one-third of the household still using pit latrine.

Table 8.12: Sanitation

(Percent)

Toilet	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Permanent	27.2	10.3	67.9	100.0	45.2	27.1	41.6
Temporary	48.7	69.1	11.8	0.0	26.6	16.6	30.3
Pit latrine	24.1	20.6	20.4	0.0	28.2	56.3	28.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	136	221	72	124	199	980

8.14 Loan Investment

CO-members made a total investment of Rs.2.9 million at the community level during the time of survey. Kabhre has topped all other districts in terms of loan investment. Investment made by male members remained higher than that of their female counterpart at all the community level in the sample area of the districts under review. Female investment accounted for 53.1 percent of the total investment in these communities.

Loan investment pattern shows that poultry figured most important area where larger investment is made in almost all the districts, followed by agriculture, trade, factory and agro-forestry. Investment by economic status of the community members further shows that a larger part of the fund went to the poorest strata followed by medium poor and poor in most of the communities except in Jhapa district.

District-wise loan investment by sector and by economic status made at the community level is presented below:

Table 8.13: Loan Investment

Description	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
By Gender							
Male	67.3	70.9	39.7	45.5	1.8	59.3	46.9
Female	32.7	29.1	60.3	54.5	98.2	40.7	53.1
Total	100	100	100	100	100	100	100
By Sector							
Agriculture	31.1	41.3	11.3	26.4	90.9	12.8	23.1
Poultry	50.0	35.3	77.7	26.5	9.1	73.2	57.0
Agro-forestry	0.0	7.4	0.4	0.0	0.0	0.0	1.3
Trade	7.1	9.6	10.4	45.9	0.0	14.0	16.6
Factory	0.0	5.7	0.3	1.1	0.0	0.0	1.2
Others	11.9	0.7	0.0	0.1	0.0	0.0	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (NRS)	156	439	1345	527	110	254	2830
By Economic Status							
Poorest	4.6	27.3	62.7	47.7	65.0	18.9	52.9
Poor	10.0	46.7	18.7	25.2	35.0	46.9	22.1
Medium	85.4	26.1	18.5	27.1	0.0	34.3	24.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

8.15 Occupation Status

Agriculture seems to be the major occupation of the household members at the community level in the sample area of the districts under review. Almost 66 percent of the households at the community level derive their livelihood from agriculture. Service sector stands in the second place where about 15 percent of the total households depend, followed by wage labour and others. Increased dependency on service sector and wage labour means employment in modern sector is picking up, which perhaps might be due to increase in more development activities in the study area.

Community-wise information on the status of the occupation structure in the sample area of the districts under review is given below:

Table 8.14: Occupational Status of community Members

Occupation	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Agriculture	75.0	53.7	60.2	48.1	46.2	68.2	60.4
Wage Labour	9.2	18.2	20.4	37.4	23.5	12.4	19.6
Service	8.3	26.4	19.5	8.0	18.5	15.9	15.1
Others	7.5	1.7	0.0	6.4	11.8	3.5	4.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	121	221	187	119	201	1077

8.16 Physical Facilities

Physical facilities expressed in terms of roofing condition of the households at the community level in the surveyed area shows that only 32 percent of the households living under corrugated roofing. Jhapa has the highest number of households living under corrugated roofing (80.3%) followed by Kabhre (78.7%).

About 23 percent of the households were found living under thatched roofing. District-wise indicator display that about 95 percent of the households in Sankhuwasabha were living under thatched roofing.

Table 8.15: Physical Facilities

Type of Roof	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
Corrugated Sheet	80.3	5.3	78.7	1.6	0.0	1.2	32.2
Slate	0.0	0.0	2.7	40.6	0.0	31.8	12.9
Thatched	17.1	94.7	3.8	14.4	0.0	6.4	21.4
Others	2.6	0.0	14.8	43.3	100.0	60.7	33.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (N)	228	150	183	187	134	173	1055

8.17 General Conclusions

Formation of COs by gender, savings generated at the community level and the pattern of investment in various sectors by poverty profile looks very encouraging. Nonetheless, the income poverty continued to remain high. Household status in terms of educational attainment and the literacy rate also remained not so encouraging. Moreover no baseline data is available at the community level. Neither there exist any year-wise data, which would otherwise have helped to see the difference that the programme has made.

CHAPTER – 9

IMPACT AT HOUSEHOLD LEVEL

9.1 Overview

In order to assess the impact of LDF supported programme at the grassroots levels and to understand how the people felt about its functioning towards poverty alleviation, three households from each community organizations were interviewed using a well structured questionnaire. Questions were asked about the socio-economic conditions including the poverty situation what the household of six districts experienced both in terms of income poverty and human poverty prior to and after joining the community organizations. The interview results of 244 households in the sampled area may be considered as reflecting the ground realities of each participating districts and the cross sections of the ecological regions of the country from east to west and from north to south. The study gathered information from all groups of society including *dalits* – the downtrodden people. As per this survey, 30 percents of the respondents were found to be from *dalits* only.

The sampled area had a total population of 1555 with 775 female and 780 male. Of the total population 1045 were belonging to 15 years and above. Population above 15 years was 1045 accounting for . Young population below 15 years thus constituted 33 percent, which remained quite below the national average (40 percent) of the total population, and 60 percent of the population exceeding 15 years and above. Earning members in the family accounted for 40 percent (626) of the total population. In terms of dependency ratio, 2.4 salaried persons in every household will have to take care of the family burden. Average family size of the household living together in the sample area was six persons.

The size of population and family varied from district to district. In tarai region, it varied from about 6 persons in Jhapa to 8 persons in Kanchanpur district. In mountain and hill region, the family size varied to about 7 persons (Jumla) to 6 persons in Kabhre district.

Table 9.1: Total Population in Sampled Area

Indicators	Districts						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
Population							
Female	135	111	119	129	130	151	775
Male	121	117	107	140	134	161	780
Total	256	228	226	269	264	312	1555
Population 15+	190	156	157	187	165	190	1045
Earning Members	76	90	103	122	104	131	626
Family Size	5.95	5.70	5.79	6.26	6.95	7.61	6.37

9.2 Housing Occupancy Status

Housing primarily concerns with the accommodation in housing unit, their structural characteristics and facilities, which are largely related to the living standards of the population in the country. In fact, the well-being of the population generally depends upon the ‘quantity and quality’ of life. Occupancy status of each household in the sample area was analyzed in terms

housing condition, roofing condition and repair and maintenance condition. Judging from the housing condition, occupancy status of the household in the sample area looks quite satisfactory. Almost all the household in the sampled area have their own houses except in Jhapa and Sankhuwasabha. Two families in the districts were found living in a rented house. It is, however, pity to note that the quality of majority of these housing units is not satisfactory. When judged in terms roofing condition. Almost one in two of the total enumerated households in the sample area were living in the building and structures roofed over with straw or thatch. More durable construction materials like galvanized sheets are used in the units occupied by 16 percent of the total households. Tile, slate and stone are some of the common materials used for roofing – about 17 percent of the total households occupy housing units with tile or slate covered roof. Cement roofing were found in a few housing units. Household occupying housing units with muddy roofing were also no less significant. Fifteen percent of the total households were housed in living structure using mud roofing.

Repair and maintenance of the households is another indicator associated with the quality of housing condition. Unfortunately, very few household units were found properly maintained. A large number of household units constituting over 50 percent of the household were under depilating conditions needing major repair and maintenance works. This indicates the intensity of poverty with which the individuals are faced.

Table below shows district-wise occupancy status of the households presented in the form of housing condition, roofing condition and maintenance and repairing work condition in the sample area.

Table 9.2: Housing Condition

Indicators	Districts						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
Housing Condition	43	40	39	43	38	41	244
Own House	42	39	39	43	38	41	242
Rented House	1	1					2
Roofing Condition	43	40	39	43	38	41	244
Straw/thatch	12	37	18	27	1	19	114
Galvanized	30	3	13			1	47
Cemented	1		1	1		2	5
Tile/Slate			6	15	1	19	41
Soil			1		36		37
Maintenance	43	40	39	43	38	41	244
Yes	24	13	23	23	20	16	119
No	19	27	16	20	18	25	125

9.3 Nature of Community Organization

Group formation is the basic pre-requisite for getting loans. All enumerated respondents in the sample area were very much aware of this fact, and hence they have formed their own community organization (COs) called saving and credit organization bringing as many as local people under this fold. However the *modus operandi* in Jumla is quite different, because it falls under SNV programme. In Jumla, SNV have had their organizations, which were popularly known as forestry users group, consumers’ users group and so on. Therefore, the local people did not have their organization, they were just encouraged to join these organizations. Nonetheless all the respondents were found associated with some sort of saving and credit group for years

particularly since the introduction of VDP in the sampled area. Since then all the CO members have been borrowing loans from their own internal saving deposited in COs for meeting their household necessities in addition to making investment in income generating activities. All COs under reference had already reached maturity stage; hence they are eligible to borrow seed grant as well as capital credit from LDF.

There are altogether three types of COs (male, female and mixed) functioning in the sample area. It is reported that 75 of the total enumerated respondents were falling under male group, 82 under female group and 87 under mixed group. In all sample households, male group remained behind their female counterpart in Jhapa, Sankhuwasabha and Nawalparasi. It fairly indicates that women participation in all COs is increasing. The low participation of female in COs in other districts shows that they are not very much conscious about the merits of joining the COs, which needs lot of advocacy and awareness activities in the area.

District-wise status of each CO formed in sample household area along with the educational background of the members is given below:

Table 9.3: Nature of COs and Educational Status

Indicators	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
COs by Group							
Female	21	14	16	19	6	6	82
Male	14	12	17	15	10	7	75
Mixed	8	14	6	9	22	28	87
Education Level							
Illiterate	5	18	9	19	14	14	79
Primary Education	4	9	9	9	8	14	53
Lower Secondary	6	6	6	3	1		22
Secondary	12	3	8	10	11	6	50
10+	16	4	7	2	4	7	40

Each CO has a chairman and vice-chairman, who are supposed to work voluntarily. The meeting is called generally once a week, collect deposit savings from the members, reviews the loan request of the members by activity, fix interest upon loan, and take decision unanimously on priority basis while awarding the loan. The COs in the sample area were found utilizing their savings for small-scale credit purposes, and have also been tapping on LDF credit support for initiating community-based entrepreneurial activities.

This may be noted that almost all the COs in the sample area is functioning well except in *Sarawal VDC* in the Nawalparasi district. The COs in this VDC is not functioning properly and is in the verge of extinction due to poor management and the lack of record keeping of the financial transaction. It has already stopped collecting saving deposits from the members also.

Social mobilizers had been instrumental in all the attempts to get the people organized, and in encouraging them to form their own COs in the sample area as an integral part of village development programme (VDP). However, no such importance is given to social mobilizers in Jumla district, where SNV has its own modus operandi different from other participating donor agencies. Instead of social mobilizers SNV has used facilitator encouraging the local people to join similar other community organization formed and supported by SNV. In some sample area,

the role of social mobilizers remained controversial. They are being criticized for not visiting the assigned area regularly. One of the reasons which led to the closure some of the COs including in *Sarawal VDC* mentioned above were said due to the lack of mobility of the social mobilizers

Despite these gaps and shortcoming in the functioning of COs, almost all the enumerated respondents valued much to this. COs are now being considered as pro-poor friendly in which mutual assistance is very much emphasized to sharing and solving many of their key socio-economic problem in dire need financially and socially. It has also been felt that the CO members are getting opportunity to sharing labour along with tools and equipments for producing goods and services in addition to sharing transportation and going together in marketing their products also. So much so that the CO members were also found others to make payment in time on behalf of those who were failing to repay the loan. These opportunities were not there when they were working alone.

9.4 Occupational Structure

Information on occupational structure of the enumerated respondents at the household level was also collected to see their trend towards the type of the economy. In this respect the households were asked about the kind of business in which they were involved. Almost all the respondents were found involved in one or many other form of business activities. Majority of their undertakings were in the areas of agriculture and livestock activities. Trade, business and service sector, which are known as the modern sector, registered second position after agriculture and livestock farming. Very few respondents were found engaged in production oriented activities for just about 2 percent. This fairly indicates that the local population is still very much dependent upon agriculture having less and less exposure to modern economy. Not a single respondent of the central and western region were found involved in production oriented activities

Table below shows district-wise occupation structure of the sample household by types of economic sector and sub-sector. Agriculture followed by livestock seems to be the major occupation in these sample household. Retail trade, wage labour and service sector were other three areas upon which the households depend for their livelihood. However, Kabhre and Kanchanpur were the only two districts, where no households in the sample area were found depending on agriculture. Except Jhapa, Sankhuwasabha and Jumla, no other household in the sample area were found involved in production oriented activities. Likewise no other household, except in the sample area of Nawalparasi, Jumla and Kanchanpur districts were found depending upon service oriented activities.

Table 9.4: Business Activity by Individual Households (Multiple Responses)

Indicators	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
Agriculture	88.4	95.0	100.0	88.4	76.3	87.8	89.3
Livestock	72.1	95.0	94.9	37.2	57.9	51.2	67.6
Retail Trade	11.6	12.5	10.3	20.9	18.4	26.8	16.8
Production Oriented	2.3	5.0	2.6	2.3	2.6	-	2.5
Service Oriented	-	-	7.7	7.0	10.5	7.3	5.3
Others	7.0	10.0	7.7	30.2	23.7	7.3	14.3

9.5 Profitable occupation by types of business activities

Of the different occupation mentioned above, agriculture and livestock still continued to be the most profitable business for all the sample households in the districts under reference. Within agriculture sector, livestock farming is now emerging to be the most profitable business in Kabhre that falls under central region and represents mountain and hill region. Livestock farming is picking up as the most attractive business in almost all the district now. Trade business and service oriented activities were some other new areas which were found to be the profitable business.

This is to be noted that almost all the business enterprises in the sample area were being run either as household business or own business or on partnership. Very few respondents reported having the business on partnership basis. About 45 percent of the enumerated households reported having their own business and 50 percent household business. District-wise status of the profitable business by type of ownership varied from region to region, which is presented below.

Table 9.5: Profitable Business by Types

(in %)

Indicators	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
Agriculture	81.4	75.0	41.0	53.5	50.0	68.3	61.9
Livestock	2.3	10.0	51.3	11.6	15.8	14.6	17.2
Retail Trade	7.0	2.5	2.6	14.0	10.5	7.3	7.4
Production Oriented	2.3	5.0			2.6		1.6
Service Oriented				2.3	7.9	4.9	2.5
Wage Labour	2.3	2.5		16.3	7.9		4.9
Service	4.7	5.0	5.1	2.3	5.3	4.9	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Type of Business							
Own Business	55.8	15.0	69.2	30.2	34.2	63.4	44.7
Household Business	27.9	85.0	30.8	58.1	65.8	36.6	50.4
Partnership	16.3			11.6			4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

9.6 Income Generating Activities

COs have been credited for encouraging and making the members capable with skill development to undertake income generating activities directed towards for improving their income status thereby raising the living standard of the local people. To this effect, community organizations (COs) are making available loan along with skill development and other village experts to advise members where to invest, and which areas of income generating activities will be profitable. In order to understand this change, group members were asked what income generation activities they have undertaken since forming the community organization (COs). However, the types of income generating activities that the CO members have undertaken in recent years were nothing new, and they still fall under agriculture and livestock, and trade and business. Under agriculture and livestock, activities such as buying of cow, buffalo, goat, poultry farming, vegetable and horticulture farming and so on were included. Likewise, the purchasing of small tools and equipment, purchasing of tractor or an ox including plow, purchasing of bicycle or cart to transport goods to the market, leasing or purchasing of more land to farm, purchasing of fertilizer and pesticides were also included under income generating activities. The

other most important thing included under the income generating activities was about the use of hired workers for meeting the expanded business activities in the sector. This means, the business has helped open up some employment opportunities for the local people.

Under trade, service and manufacturing sector, the income generating activities included what the new products were added in their business. It also included the activities of the entrepreneur what and where they invested under income generating activities. This included in buying the materials in wholesale and in greater volume in reducing the cost, in selling their products in new market, purchasing of small and major tools and equipment, purchasing bicycle and cart for the business. Other areas of possible investment made under income generating activities were in invested made in a structure for a shop, and some rented space for business purposes.

Multiple responses were given to the above queries. Almost all the group members were found involved in one or many other income generating activities. For example, those members involved in investing in livestock farming were also found involved in poultry farming, growing more vegetables and fruits to sell, buying of transport equipments to transport their products to the market, and so with under the manufacturing, service and business sector. The following table provides those areas of income generating activities where the group members made their investment.

Area of business preference differed from individual to individual in each district whether it is in mountain & hill or tarai region. Livestock farming and vegetable growing were most common among the households surveyed in this study. Under livestock dairy has become much more attractive business in the area under reference because it paid dividend to them. Because of the profit made through diary farming, people of this region were found eager to have livestock insurance, which was innovated in Kabhre as Village Livestock Insurance Committee. Under the scheme, all the CO members availing of credit capital to buy livestock have to compulsory insure their animals, after which they become shareholders of the company. The money received through this scheme is then reinvested at 24 percent to farmers wanting to buy more livestock. The committee charges 10 percent premium for cows and buffalos and 14 percent for goats. With the dividend provided under diary farming, the households of the area were found paying premium for the insurance of their livestock.

The other area of preference for the household in the sample area was to investing in goat purchase which was found very much in high demand for meeting the meat product. This led them to invest more in purchasing hay and fodder for animals. Along with this, vegetable growing also opened up many opportunities for increasing the income of the people in the whole region across the country in general and central and, particular in central and western region. They found the market very close to their product. For example in the one of the village development committee where the survey was carried out, diary and vegetable farming was found to be more promising form of business activity in raising the income of the area under reference.

Under trade and business, the households were found investing to add new products in their business. Some invested in purchasing small tools and equipment, and some hired more workers to expand their business.

District-wise information on income generating activities undertaken by the enumerated households by types of business is given below:

Table 9.6: Income Generating Activities by Areas of Business (Multiple Response)

Indicators	District						Total (N=244)
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
	(N=43)	(N=40)	(N=39)	(N=43)	(N=38)	(N=41)	
Agriculture/Livestock							
Purchase a Cow/Buffalo	27.9	12.5	66.7	7.0	10.5	19.5	23.8
Purchase a Goat	18.6	20.0	12.8	7.0	13.2	26.8	16.4
Purchase Chicken/Ducks	14.0	20.0	7.7	2.3	26.3	12.2	13.5
Purchase Hay/Fodder for Animal	2.3	15.0	41.0		15.8		11.9
Grew more vegetable and Fruits	4.7	22.5	41.0	4.7	39.5	12.2	20.1
Purchase small Tools	2.3		10.3				2.0
Purchase a tractor or an ox and a Plow	4.7	10.0	7.7	7.0	-	-	4.9
Improved barn for animals and build storage facility	4.7	20.0	10.3	2.3	2.6	-	6.6
Hired more workers		40.0	15.4		10.5	-	10.7
Leased/Purchased more land to farm		15.0	7.7	7.0	-	-	4.9
Purchased fertilizer and pesticides	32.6	77.5	56.4	37.2	36.8	51.2	48.4
Trade/Business							
Added new products	2.3	7.5		2.3	10.5	4.9	4.5
Hired more workers	-	-	-	-	2.6	-	0.4
Purchased small tools and equipment	2.3	-	5.1	-	7.9	-	2.5
Invested in shop	2.3	15.0	7.7	14.0	10.5	29.3	13.1
Purchased transport equipments for business	-	-	-	2.3	-	-	0.4
Rented space for business			2.6				0.4
Others	23.3	5.0	12.8	27.9	7.9	7.3	14.3

9.7 Funding Source for Income Generating Activities

Financial institutions like saving and credit organizations, LDF, Agricultural Development Bank, NGOs and local money-lenders were providing loan for many purposes including for income generating activities in the sampled area. Of these financial institutions, saving and credit organizations and LDF are getting popular as the most trusted and reliable financial institutions among the interviewed group members. In fact, the loans what the borrowers get from saving and credit organizations were out of their own internal savings deposited by group members some fixed amount either on monthly basis or weekly basis. The reported total savings with the saving and credit organizations reached Rs.323 thousand during the survey period in the sampled area, which varied from district to district. The saving deposit with the community organization was very high in Kabhre (Mountain/Hill in the central region) followed by Nawalparasi (tarai western region) and Kanchanpur (tarai in the far-western region). These three districts combined together shares over 70 percent of the total deposit. The saving deposit in Jhapa and Jumla remained more or less at the same level.

The monthly saving deposit rate of the group members varied from district to district. It ranged from a minimum of Rs.8 to Rs.20 in Jhapa, and Rs.20 to Rs.50 in Kabhre¹⁴. With such small deposit, the enumerated respondents have managed to save a total deposit of Rs.328.8 thousand. Of this total deposit, over 98 percent is with community organizations. Loan use by source showed almost all CO members using from internal savings rather than from LDF and other community organizations. Group members borrowing loans from LDF were reported to be relatively small.

¹⁴ Some COs are depositing their saving on weekly basis whereas some do it mostly on monthly basis. Therefore, for the uniformity the deposits were converted into monthly basis.

9.8 Interest Rate by Institution

Nothing much variation was found among loan giving agencies as regards to the interest rate charged on loan. Community organizations were found charging interest rate as high as 24 percent on loan provided under internal source. It, however, remained varied in all districts under survey. The lowest interest on internal saving ranged from a minimum of 18 percent in Sankhuwasabha to a maximum of 24 percent in Jhapa, Nawalparasi, Jumla and Kanchanpur. In Kabhre, the interest charge on internal source remained at 20 percent. Interest charged other financial institution also remained quite high. Households in sample area of Kabhre and Jumla were found borrowing from other financial institutions at an interest rate of 20 percent.

Interest rate of LDF is not high considering local market rate. LDF charge 10 percent interest rate plus 2 percent service charge on loan to COs. COs are free to decide the interest rate to be charged to members on loan with the condition that it should not be less than. In contradiction to this condition COs in the household survey were found charging interest rate as high as 24 percent as high as 24 percent in two districts – Nawalparasi and Jumla. COs in three districts – Jhapa, Sankhuwasabha and Kanchanpur – have been charging 18 percent interest rate, which fall within the limit prescribed by LDF. The interest rate charged by COs in Kabhre stood at 20 percent which is lower than that of Nawalparasi and Jumla, and higher than that of the rate prescribed by LDF. However, the interest rate charged by the institutions under reference by ecological region stood at 24 percent, no matter whether the loan was borrowed from internal source or from Local Development Fund. It is not understandable why the interest rate charged by these institutions remained so high, especially in the case of Local development Fund. Thus when judged from the interest rate charged on LDF loan, it appears that they are not within the reach of needy, poor and vulnerable groups. It is also not understandable why the interest rate charged on internal source remained as high as 24 percent when unanimous is sought in all COs meetings. However, the group members have not reported about the problem in spite the high interest rate charged by the financial institutes under reference.

The following table presents agency-wise position of saving deposits of respondents along with loan withdrawn from different sources, and agency-wise interest rate charged upon the loans from borrowers by districts in mountain/hill and tarai region.

Table 9.7: Agency-wise Saving Deposit, Deposit rate, Loan Use and Interest Rate

Indicators	District						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
1. Saving Deposit							
- With own CO	28.7	37.1	108.8	68.8	29.0	50.6	323.1
- With other Co.	0.3	0.2	1.0	0.5	0.6	2.2	4.8
- Total	29.1	37.3	109.9	69.3	29.6	52.8	328.0
2. Monthly Saving							
- Minimum	8	20	20	8	10	10	8
- Maximum	20	20	50	40	50	20	50
3. Loan Use by source (%)							
- Internal Saving	83.9	92.3	77.1	73.7	50.0	84.6	80.4
- LDF	19.4	15.4	31.4	28.9	41.7	10.3	22.2
- Other CO	0.0	0.0	5.7	0.0	16.7	0.0	2.1
4. Loan Repayment by source							
- Internal Source	1263.9	154.4	537.0	590.5	2609.3	309.6	5464.7
- LDF	26.0	35.3	286.5	41.8	10.5	25.0	425.1
- Other Co	0.0	0.0	35.0	0.0	27.4	0.0	62.4
5. Interest Rate by institution							
- Internal source	24	18	20	24	24	24	24
- LDF	18	18	20	24	24	18	24
- Others	0	0	20	0	24	0	24

(Rs. 000)

9.9 Loan Payment and Recovery Situation

Position of loan repayment presented in the above table showed group members borrowing more loan from internal source rather than from LDF. In fact, loan withdrawn from internal source is higher than what they deposited in the saving and credit group organizations. Information on loan recovery was not collected, but the evidence showed large number of group members facing serious repayment problem. Most of the group members reported that business activity undertaken with the borrowed money were found to be not profitable and went on losses. Some group members reported that they faced the problem of repaying the loan owing to the fact that the livestock what they bought with loan died suddenly. Those who reported not being able to repay loan because of fall in agriculture production were very few in number.

The socio-cultural factors appeared to be the most dominating reasons forcing many individual group members to face the difficult situation with repayment problem. The reported evidences were that larger number of group members had to spend either on chronic illness or buying foods to support the family. Some mentioned that they could not pay the loan because they had to spend on the marriage of their sons and daughters. Others explained that they could not pay the loan because they had to pay it to those from where they had borrowed money. The other reasons were that they faced difficulty in recovering the money from buyers what they sold on credit. Floods, drought and other natural calamity were other reasons that deterred them in repaying the loan. The loan repayment problems faced by household members in the sample area by district are given below.

Table 9.8: District-wise Loan Repayment Problem

Indicator	District						(%)
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	Total
	(N=5)	(N=17)	(N=7)	(N=13)	(N=7)	(N=13)	(N=62)
1. Unprofitable Business	40.0	23.5	42.9	23.1	14.3	46.2	30.6
2. Chronic Illness	20.0	35.3	14.3	53.8	14.3	23.1	30.6
3. Food Purchase	-	41.2	14.3	15.4	28.6	7.7	21.0
4. Credit not back	-	5.9	28.6	7.7	-	23.1	11.3
5. Natural Calamity	20.0	-	-	-	-	15.4	4.8
6. Animals Died	-	23.5	-	-	28.6	23.1	14.5
7. Fall in Agricultural Production	20.0	-	-	-	28.6	7.7	6.5
8. Loan records Burnt	-	-	-	-	14.3	-	1.6
12. Profit not yet matured	-	-	14.3	-	-	-	1.6

9.10 Loan Use by Socio-economic Activities

The use of loan by sector and sub-sector depends upon the nature and the type of loans what the group members received. For this analysis, information was collected how the borrowers use those loans received from various sources. It is a mandatory that the credit capital received from LDF cannot be used for household purposes. Basically loans provided under LDF can be used only for productive purposes. Thus most of the loans received under LDF were found using in increasing agricultural production, livestock farming and land purchase. Loans from other sources were also used in livestock farming. In service sector, the LDF loan was used for undertaking the trade business also, but this found concentrated in tarai region of eastern region, central region and western region only.

Loans received under internal source can be used for variety of purposes including household necessities as well as income raising activities. It was reported that the loans received under internal resource were used for food purchase, health treatment, education for children, repaying of loan and also holding marriage ceremony and festivals. However, majority of the interviewed members were found using loans for increased agricultural production, animal raising, bee keeping, and trade business and so on instrumental to income raising.

The preferred area of loan use by funding source and by activities varied from district to district. Livestock farming figured most prominent priority area of business under LDF fund and internal source as well. The use of internal source by households in agriculture remained higher over LDF credit capital in all the districts except in Jumla. used internal source followed by agriculture for all group members. The only difference was that the group members of western and mid-western region did not use internal resources on livestock but they used LDF loan instead. Analysis of loan use by ecological region also showed livestock basically the buffalo raising getting priority.

Table 9.9: Source-wise Loan Use by Purpose

Items	District						Total (N=194)
	Jhapa (N=31)	Sankhuwasabha (N=39)	Kabhre (N=35)	Nawalparasi (N=38)	Jumla (N=12)	Kanchanpur (N=39)	
	%		%	%	%	%	
Internal Source							
a) Food Purchase	3.2	17.9	20.0	2.6	16.7	7.7	10.8
c) Dress Purchase	3.2	5.1	14.3	2.6	8.3	12.8	7.7
d) Health Treatment	12.9	23.1	17.1	28.9	16.7	10.3	18.6
e) Festivals		25.6	2.9		8.3	2.6	6.7
f) Loan Repayment			5.7				1.0
g) Agriculture	19.4	17.9	17.1	31.6	8.3	20.5	20.6
h) Livestock	45.2	28.2	20.0			20.5	20.6
i) Land Purchase						2.6	0.5
j) Trade		5.1	5.7	7.9		15.4	6.7
k) Household			2.9	2.6			1.0
l) Marriage ceremony				2.6			0.5
m) Bee Keeping	3.2						0.5
n) Education		2.6					0.5
Local Development Fund							
a) Agriculture	3.2		8.6	13.2	33.3	5.1	7.7
b) Livestock	12.9	7.7	20.0	7.9	8.3	7.7	10.8
c) Trade	3.2	5.1	5.7	7.9			4.1
d) Land Purchase		2.6	2.9	2.6			1.5
Other Source							
a) Livestock			5.7		16.7		2.1

9.11 Loan Withdrawn from Institutions other than COs and LDF

As mentioned earlier there exist several other financial institutions through which CO members are borrowing larger amount of loan than from the COs and LDF. Perhaps one of the reasons for his fact might be due to the available resources under COs and LDF were not adequate to meet their resource requirements. Hence the CO members have been borrowing loan from these financial institutions like commercial banks, NGOs and money lenders. Among all these financial institutions, moneylenders appeared to be major lending institution. Their prominent presence is seen in Jhapa, Sankhuwasabha, and Kabhre. Their presence is seen very little in Jumla, but not Kanchanpur. NGOs were seen only in Jhapa and Kabhre.

9.12 Interest Rates of Money Lenders

This is to be noted that the interest rate charged upon loans by the financial institutions remained varied institution to institutions and from district to district. There are some cases where the interest rate charged by commercial banks also remained varied, and so with NGOs and SOs. Interest rate charged by money appeared to be the highest. Their interest rate goes up from a minimum of 18-24 percent in Jhapa to 24-60 percent in Nawalparasi. In Jumla, local households in the sample area were found borrowing at an interest rate of 36 percent. This all indicates that the either the loan processing at COs are very cumbersome or they are not easily available.

Annual report of LGP/PDDP shows that the interest rates charged by money lenders have gone down significantly with the easy accessibility of credit capital and loan from COs. The report further claims that the moneylenders went out of their business altogether in the project areas. However, this argument remains invalid if one sees the interest rate charged by the moneylenders in the present study area. Money lenders are still playing crucial role in fulfilling the financial needs of the poor, downtrodden and vulnerable groups where the LDF financed activities are also operating.

The following table provides an overview of the loan amount withdrawn from the financial institutions by types and the interest rate charged upon by these institutions and moneylenders in each sample district and the households.

Table 9.10: Source-wise Loan Borrowed and the Interest Rate

Description	District						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
Loan by Source (Rs. 000)							
- Bank	298.0	48.0	296.4	211.0	57.0	239.0	1149.4
- SOs	0.0	2.1	2.2	15.0	17.0	35.0	71.3
- NGOs	25.0	0.0	40.0	0.0	0.0	0.0	65.0
- Money Lenders	322.0	708.0	263.0	279.0	5.0	0.0	1577.0
- Other Institutions	50.0	0.0	0.0	0.0	0.0	0.0	50.0
Interest Rate by Source (%)							
a. Bank							
- Minimum	15	18	14	12	14	17	15
- Maximum	20	20	16	24	18	18	24
b. SOs							
- Minimum	0	18	15	15	12	18	12
- Maximum	0	18	15	15	15	18	18
c. NGOs							
- Minimum	14	0	15	0	0	0	14
- Maximum	18	0	15	0	0	0	18
d. Money Lenders							
- Minimum	24	18	18	24	36	0	18
- Maximum	36	36	24	60	36	0	60
e. Other Institutions							
- Minimum	24	0	0	0	0	0	24
- Maximum	24	0	0	0	0	0	24

9.13 Sales and Profit of the Entrepreneur

Change in sales of the product marketed for will have certainly effects on profit vis-à-vis the income of the entrepreneurs involved in income generating activities. Increased or decreased sales of the product will have direct effects upon the profit and so with the income. To find out the clear picture on income change of the entrepreneurs, attempts were made to ask the group members about what kind of change they found in their income out of the business made under their on-going income generating activities. A total of 102 out of 244 individuals reported their sales increased a little bit while 24 reported increased substantially. However, 95 individuals or 38 percent of the total enumerated population did not find any change in their sales which stayed the same as in previous year. Number of people reporting decrease in sales was found very small, and they belonged to eastern and central region only. Nobody in the rest of other region mentioned about the decrease of their sales.

District-wise sales position of the enumerated individual group members as responded are given in Table below.

Table 9.11: Sales Profit Position of the Product

Indicators	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
Stayed the Same	27	13	10	24	10	11	95
Increased a little bit	13	14	21	18	17	19	102
Increased Substantially	1	1	3	1	8	5	19
Decreased a little bit	2	10	2		3	6	23
Decreased Substantially		2	3				5

9.14 Change under Income Generating Activities

A quick review of income generation activities brought out by the sales and profit position of the entrepreneurs presents mixed results in terms of income change. Of the total sample household about 9 percent reported decrease in their income. The chronic illness of the respondents or their household members, poor sales, unable to get input, poor agricultural production, job loss, political environment and death of animal were some of the reasons given for decreased income. Over 40 percent households reported no change in their income increase. Those households who reported no change in there income were found significant constituting over 60 percent each in Jhapa and Nawalparasi

However, 50 percent reported increase in their income. The expanded existing enterprises, initiation of new enterprise, availability of inputs at cheaper price, access to market for new products, availability of job in addition to frequent availability of resources, availability of credit at cheaper interest rate, new technology used in agriculture, increase in the salary and so on were the important reasons reported for increase in income. Those who reported their increased income were found quite noticeable in Jumla (76.3 percent) and Kanchanpur (68.3 percent) and Kabhre (64 percent).

District-wise status of income change noticed in the sampled households is given in the following Table.

Table 9.12: Region-wise Income Change by Group Members

Indicators	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
	1. No Change	60.5	42.5	33.3	60.5	15.8	
2. Decreased	14.0	17.5	2.6	2.3	7.9	7.3	8.6
3. Increased	25.6	37.5	64.1	34.9	76.3	68.3	50.4
4. Don't Know		2.5		2.3			0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

9.15 Household Expenditure

Change in income is expected to bring dynamism in the individual household expenditure also. This survey has tried to capture information on what dynamism the income change has brought in household expenditure in the sampled area. Of the total surveyed household, about 44 percent reported spending less than Rs.2000 a month equivalent to dollar a day. Households spending From Rs.2000 to Rs.5000 a month constitutes a bulk about 59 percent. Those households spending above Rs.5000 found to be quite small.

Table below shows the households falling under different categories of expenditure in sample area are in terms of monthly spending. About 34 percent of the household were found fall spending less than Rs.2000 in a month, which varies from 56 percent in Kanchanpur to 44 percent in Jhapa. Around 59 percent of the households were found falling under the category, whose monthly spending ranges from Rs.2000 to Rs.5000. Households spending above Rs.10,000 were found quite small.

Table 9.13: Monthly Household Expenditure by Different Level

Items	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
	%		%	%	%	%	
1. Less than Rs.2000	44.2	40.0	20.5	30.2	7.9	56.1	33.6
2. Rs.2000-5000	46.5	60.0	71.8	55.8	84.2	36.6	58.6
3. Rs.5000-10000	7.0		5.1	9.3	7.9	4.9	5.7
4. Rs.10000+	2.3		2.6	4.7		2.4	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

9.16 Priority-wise Use of Increased Earning

Change in household income will have direct bearing effect on the distributional pattern of household expenditure by the categories of necessary items and vice-versa. In order of priority, those who earn more spend less on food items and more on items like education, health and sanitation and so on related with improving the quality of life. Similarly, those who earn less spend much on food items, and if something is left that will be spent on education and health. In conformity with this, the survey finding also showed about 40 percent household spending on food items.

Household in the sample area have become more conscious about education and health care. The household expenditure pattern shows that the education and health are now coming under priority after food purchase, buying of cloth and household items. The increased spending on

education and health showed how much the households have valued their importance in bringing improvement in their life. The household expenditure shows that about 15 percent of the expenditure has gone to education and 8 percent on health care. Households were also found giving priority to save some amount out of their spending. About 4 percent of the households reported that they gave priority to savings. However, those households reporting to reinvesting their increased earning in their enterprises were quite few. Spending on livestock farming and fertilizer purchase accounted for less than the spending incurred on education and health.

It is interesting to note that not a single individual at the household level reported giving priority to gold, ornaments or jewelry in their household expenditure.

The pattern of household expenditure made in the sample area by district is presented in table below.

Table 9.14: Priority-wise Household Expenditure

Indicator	District						Total (N=244)
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
	(N=43)	(N=40)	(N=39)	(N=43)	(N=38)	(N=41)	
1. Buy Food	46.5	42.5	23.1	44.2	55.3	29.3	40.2
2. Buy Clothing	7.0		7.7	11.6	15.8	7.3	8.2
3. Pay Health Related Cost	7.0	12.5	12.8	9.3		4.9	7.8
4. Pay Education Cost	9.3	10.0	15.4	11.6	2.6	39.0	14.8
5. Buy Household Items	9.3	10.0	15.4	14.0	18.4	9.8	12.7
6. Reinvest in Enterprise		7.5	2.6	2.3	2.6	2.4	2.9
7. Saving							
8. Livestock farming		5.0	15.4	4.7		2.4	4.5
9. Buy Fertilizer, Pesticide	20.9	7.5	7.7	2.3	2.6	4.9	7.8
10. Festivals, Weddings, etc		5.0					0.8
11. Gold, Ornaments, Jewelry							
12. Others					2.6		0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

9.17 Assessment of Food Adequacy

Adequacy or inadequacy of food has been one of the important elements considered for measuring the poverty. As a measurement to this, food adequacy or inadequacy as available from the land has been categorized under four major groups. They were – (a) adequacy for 1-3 months, (b) adequate for 3-6 months, (c) adequate for 9 to 12 months, and (d), the status of food surplus or deficit in year round. Judged from this perspective, around 12 percent of the households reported having food sufficiency from land adequate for less than 3 months of the year. This percentage, however, varied from district to district. In Jumla, the percentage of household surviving with less than 3 months was 24 percent followed by 21 percent in Nawalparasi. Households living under this category (less than three month of food adequacy) accounted for 10 percent in Sankhuwasabha, 2.6 percent in Kabhre and 2.3 percent in Jhapa.

Over 38 percent of the household in the sample area were found living food adequacy up to 12 months and 10.2 percent with food surplus.

District-wise percent of households in the sample area falling under different categories in terms of adequacy or inadequacy of food from the land by months is presented below.

Table 9.15: Food Adequacy and Inadequacy by Months

Items	District						Total (N=244)
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
	(N=43)	(N=40)	(N=39)	(N=43)	(N=38)	(N=41)	
1-3 Months	2.3	10.0	2.6	20.9	23.7	12.2	11.9
3-6 Months	14.0	15.0	15.4	18.6	34.2	22.0	19.7
6-9 Months	9.3	27.5	33.3	25.6	10.5	14.6	20.1
9-12 Months	51.2	42.5	35.9	20.9	26.3	51.2	38.1
Food surplus	23.3	5.0	12.8	14.0	5.3		10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Inadequacy of food forces individuals to look for alternate source also to meet the food gap required for their family all the year round. For this, household members rely upon different sources like house rent, earnings from trade and business, small and cottage industry, services, wage labor and so on. In this survey, a total of 126 sample household were found reporting problems faced with food inadequacy, and hence became involved in various income earning activities. Those who relied upon house rent found to be negligible. Large number of households was making their earnings from wage labor, trade and business, and service sector in the area under survey. Number of individuals relying upon other sources¹⁵ for earnings was also reported to be quite significant.

Table below provides a clear view of the households involved in various alternate sources to meet the food gap by district.

Table 9.16: Sources to Meet the Food Gap

Indicator	District						Total (N=126)
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
	(N=11)	(N=21)	(N=20)	(N=28)	(N=26)	(N=20)	
House Rent	-	-	1	-	-	-	1
Trade	1	4	8	5	9	7	34
Small and Cottage Industry	-	-	1	-	1	2	4
Service	1	4	5	1	4	6	21
Wage Labor	8	12	3	12	12	10	57
Others	1	6	6	9	10	-	32

9.18 Impact on Basic Social Services

Things are certainly changing at the household level in the sample area which are reflected in terms of basic social indicators after they formed and joined the saving and credit organization. This, among others, provided lot of opportunities to uplifting their living standard economically and socially. With awareness activities exposed to understanding the value of human development, household members are investing more in their children through improved health, nutrition and enhanced basic education for increased skills, human productivity and health hoping that it will help generate increase income.

¹⁵ This includes borrowing, livestock, leasing of land, performing ritual works, tailoring, service, and selling of properties as well.

Also the increased investment made under seed grant through seed grant has brought these facilities closer to the households thereby encouraging them to take advantage of these service. As a result, increased education and health treatment cost including water supply and sanitation cost figured most important in the household budget. This has brought lot of changes in the thinking and attitude of the individuals towards making basic social services available for their betterment. The changes noticed in basic social services in terms of human development and income generating activities are explained in following section:

a) Schooling at the Grassroots Level

It is notable that hundred percent of the households reported as having their children in the schools. The households were found sending many children to schools after they joined the saving and credit organizations. The increase was seen most notable in the case of girls- student. The households were asked to explain the reasons for this increase. The responses made by the households were that they have now fully understood about the importance of education in poverty alleviation, and hence they are spending more money to send their children in schools. Household spending on education is now on the rise.

The following table is self-explanatory which shows how the changes are taking place by district in school enrollment of the boys and girls before or after the households joined the broad-based multipurpose community organizations.

Table 9.17: Education Status

Description	District						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
Before Joining the Group							
Boys	45	35	25	19	31	42	197
Girls	31	44	32	40	35	45	227
Total	76	79	57	59	66	87	424
After Joining the Group							
Boys	42	43	27	28	41	43	224
Girls	34	44	35	47	35	56	251
Total	76	87	62	75	76	99	475

The literacy level also showed improvement at the household level in the sample area. Only 32 percent of the sample household reported illiterate.

b) Health Services at the Grassroots levels

Individuals at the household level were found visiting different health institutions or health practitioners at different times or more than one health institutions, whenever any one of them falls ill. Table below presents the access to health facilities by development and ecological region. It can be observed from the table that 27 percent of the total visitors used to rely heavily on traditional and primitive health care services provided by *Dhami*, *Jhankri* and *Suden* prior to becoming the member of COs. Individuals making visits to traditional medicine decreased sharply from 130 to 83 visits. Likewise visits to health post and primary health centers also decreased with noticeable increase in the hospital visits, and so with the private clinics. This change owes to increase in health awareness coupled with the tendency and the behavioral change, specially the attitude of the individuals taking place at the household level towards

allopathic medicine since they joined the group. It is notable that the household are also spending more on health.

Household members making modern and traditional health institutions visits by district in the sample area are given below.

Table 9.18: Household Members Visiting Health Facilities by Types

Indicator	District						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
Before Joining the Group							
1. Health Post	33	23	13	28	17	37	151
2. PHC	4	21	20	5	8		58
3. Hospital	16	1	10	17	25	26	95
4. Mobile Clinic	5			1			6
5. Private Clinic	3		1	19	1	1	25
6. Dispensary	2	7	7				16
7. Traditional Medicine	6	38	13	27	34	12	130
After Joining the Group							
1. Health Post	29	17	12	25	12	35	130
2. PHC	3	28	24	5	3	1	64
3. Hospital	21	5	21	33	36	29	145
4. Mobile Clinic	4		3				7
5. Private Clinic	9		4	20	2	4	39
6. Dispensary	1	14	3	1			19
7. Traditional Medicine		36	4	15	22	6	83
Total	43	40	39	43	38	41	244

c) Drinking water and Sanitation

Increased health awareness seems to have led gradual improvement in the status and availability to drinking water and sanitation condition also. The survey findings showed 49 percent of the household using covered well, 41 percent tap water and 10 percent open well.

District-wise access to drinking water by source shows 97 percent of the households in Jumla, 87 percent in Kabhre and 55 percent in Sankhuwasabha were having access to tap water. Those households having access to tap water in Jumla accounted for only 2 percent. Households using closed well and hand-pumps for drinking water remained quite large with 79 percent in Jhapa and 98 percent in Kanchanpur. The percentage of households using open well for drinking water is quite high and constitutes over 40 percent in Sankhuwasabha and 10 percent in Kabhre. However, the households relying upon open well in Jhapa and Jumla is quite small. The percentage of households using open well in Jhapa and Jumla is quite small but it cannot be neglected from health point of view. The use of open well for drinking water is considered unsafe that invites many water borne diseases like diarrhea, dysentery, cholera and so on.

As a part of sanitation, quite a large number of households were found using permanent latrine constituting 41 percent in sample area. Those house households having temporary latrine and pit latrine combined together constituted 40 percent. Households not having any toilet in their dwelling accounted for just 9 percent, and they were found using more than one place for toilet purpose such an open fields and river bank. Lack of a latrine culture and availability of open land for defecation may be the major reason for non-use of toilet.

District-wise situation of accessibility to drinking water facility by source and sanitation condition by types found at the household level is presented in the following table.

Table 9.19: Access to Drinking Water and Sanitation

Description	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
Source of Drinking Water							
Tape Water	16.3	55.0	87.2		97.4	2.4	41.4
Open Well	4.7	42.5	10.3		2.6		9.8
Closed Well/H.P.	79.1	2.5	2.6	100.0		97.6	48.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sanitary Condition							
Permanent Latrine	46.5	12.5	92.3	34.9	50.0	12.2	41.0
Temporary Latrine	34.9	60.0	5.1	4.7	26.3	53.7	30.7
Pit Latrine	9.3	22.5	2.6		2.6	19.5	9.4
No Latrine	9.3	5.0		60.5	21.1	14.6	18.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Improper disposal of excreta is a major problem in rural area. Improper disposal of excreta is associated with the spread of communicable diseases. Though most of the enumerated households have toilet facilities, but they are unconnected with any kind of sewerage system. Very few households are having underground sewerage or safety tank. Hence there is still a long way to go educating the households about sanitation as an integral part of improving health standard of the individuals in general and community in particular.

d) Nutrition

Nutrition is associated with ensuring individuals achieve growth potential. Poor nutrition is indicated in terms of protein energy malnutrition (PEM), vitamin A deficiency anemia, iodine deficiency anemia, iodine deficiency and so on, the consequence of which are multiple. However with the availability of vitamin A capsules along with increased awareness about kitchen garden for growing green vegetables under LDF seed grant impacted upon individuals at the household level for improving nutrition status in the sampled area. Table below shows 58 percent of the total enumerated individuals reporting with improved nutrition. The response is as high as 88 percent in Kanchanpur (far-western region) and low in Jhapa with only 19 percent in Jhapa (eastern region). However, 39 percent reported no change in their nutrition level.

District-wise nutrition status of the enumerated individuals at the household level is presented below:

Table 9.20: Nutrition Status of the Household Members

Indicator	District						Total (N=244)
	Jhapa (N=43)	Sankhuwasabha (N=40)	Kabhre (N=39)	Nawalparasi (N=43)	Jumla (N=38)	Kanchanpur (N=41)	
1. No Change	76.7	45.0	23.1	27.9	50.0	12.2	39.3
2. Improved	18.6	55.0	76.9	62.8	50.0	87.8	58.2
3. Don't Know	4.7			9.3			2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

e) Decision Making

Males head almost all the household in the surveyed area, and hence all decisions are made by males. Nonetheless, there were some females heading households and where they are playing very important role in decision making. Their role in decision making is found everywhere whether it is in matters of sending their children including daughters to school, or in family planning adoption, marriages of their sons and daughters or buying and selling of the properties. In general, the organization helped raise the status of women in the community and has also made a large impact on their partners' lives.

f) Income level and Household Welfare

Possession of items from low value to moderate value and from moderate value to high value indicates the household welfare at different level. Increase or decrease in income will bring substantial change in household welfare through the possession of the aforementioned items. Individuals belonging to high income bracket possess high value items like gold, jewelry, refrigerator, television, motorcycle, and car and so on. The survey findings illustrate the fact that almost all the enumerated households owe both low and moderate value items. Nonetheless, large number of households reported having low value items. Under high value items, households having cow and gold jewelry is quite large. Households having television also remained significant. Those households having refrigerator is non-existence except in Kabhre. Even in Kabhre only one household in the sample area showed possession of refrigerator.

The situation of possessing low value items, moderate value items and high value items varied by districts, which is presented in table below:

Table 9.21: Household Assets

Indicators	District						Total
	Jhapa	Sankhuwasabha	Kabhre	Nawalparasi	Jumla	Kanchanpur	
	(N=43)	(N=40)	(N=39)	(N=43)	(N=38)	(N=41)	(N=244)
Low Value Items							
1. Watch	38	37	38	28	25	32	198
2. Radio/Tape recorder	38	35	37	18	27	25	180
3. Carpet	11	5	6	1	19	9	51
4. Furniture	29	19	17	13	15	30	123
5. Stove	24	3	12	16	22	5	82
6. <i>Gagro, Ghyampo</i>	38	40	37	35	34	27	211
Moderate Value Items							
7. Daraj	31	26	35	7	26	13	138
8. Cycle	37	1	2	29		30	99
9. Cattle	37	33	25	29	23	23	170
High Value Items							
10. Gold Jewelry	21	37	36	25	33	31	183
11. Sofa Set	7		10	2		1	20
12. Refrigerator			1				1
13. Television	26	10	24	9	5	13	87
14. Cow	40	39	36	17	33	29	194
15. Cart (Buffalo)	10		8	6	6	2	32
16. Ricksha				1			1
17. Motorcycle	5			2		1	8
19 Others		1		2	4	5	12
Total	392	286	324	240	272	276	1790

9.19 Overall Assessment

The foregoing analysis brings out the fact that the community organizations (COs) by its very nature are getting more popular in the sample area as a panacea to relieve the rural poor out of the poverty. In understanding of this fact, more and more local people are getting interested to form their own organizations for seeking loans both from their own organization and from Local Development Fund (LDF) for enhancing their living standard in the society. It is beyond their imagination how the CO members in their respective areas have been able to come up with so much of savings which is going up with millions of rupees.

As change agent, social mobilizers have been instrumental in inspiring local people to form their own organizations, promote their development through their own small saving and other resources receiving from Local Development Fund (LDF) and from similar other source, and participate actively for solving many big and small socio-economic obstructions to improving their lives and their surroundings. With small loans receiving from their own organization and from other sources including Local Development Fund (LDF), local people in general are making good fortune with micro-enterprising activities bringing improvement in their income level accompanied by increased spending on basic social services too. Being in group, members were found helping each other to solve the problems together in times of need whether in business or in social activity. On the top of that the literacy programmes, skill development training, business training and so on have been counted as the most important programme that helped improve their capacity building. Also the role played by social mobilizers in bringing the community organizations (COs) to the present position having enhanced knowledge and capacity building remained paramount. They could make the CO members able to borrow loan from LDF and make them to repay the loan in time, help undertake the most profitable income generating activities, keep records of all business transactions including profit and loss account. Besides this, the social mobilizers also helped the CO members to know about the training launched by similar other organizations in addition to taking the pregnant women health posts and so on.

However, the progress under LDF is running in snail pace. It has been reported that the local people have not been able to reap the benefits from the LDF financed activities as envisioned. It is evident that loans are not easily accessible to those needy people unless some other benevolent members take risk on their behalf. The interest rate charged by the community organizations (COs) on loan are so high that the poor and ultra-poor cannot dare to borrow loans from these organizations. The interest rates were designed in such a way that forces to exclude the poor and needy. Social mobilizers were found performing badly in some of the VDCs that led to the cause for non-functioning of COs also in their respective area.

It was believed that the moneylenders will be out of business once the LDF functions widely with easy access to it for resource availability to all needy people. Unfortunately it did not happen so. The ground reality has shown that the people are still going after moneylenders to borrow money even agreeing to pay with sky-high interest. Of course various types of income generating activities have been initiated by the COs by utilizing the credit capital from LDF also. However, the income generating activities that have emerged so far are the traditional activities mainly in agriculture and livestock, which tend to have low benefit. No efforts have yet been made to introduce any innovative appropriate technologies at the grassroots level for COs to undertake productive enterprise that ensures high profit. This has seriously raised doubts about the viability of the LDF activities functioning in the sample areas.

CHAPTER – 10

SUSTAINABILITY OF LOCAL DEVELOPMENT FUND

10.1 Problem and Prospects of Sustainability

Nepal has been implementing decentralization plan to achieve the twin goals of local-self governance and poverty reduction for years. The plan got a new momentum with the enactment of Local Self-Governance Act 1999 and its rules published in December 1990. The focus of this act and regulations has been on citizenship participation, community building, social mobilization, conflict resolution and economic and social advancement. The institutional network has been in place with its linkage from centre to districts and from district to villages for materializing these intended objectives in reality. VDP has helped grassroots level institution building through social mobilization. More than 16,400 broad-based multipurpose COs have been created, covering over 355,438 households across the country. The saving and investments of COs have been impressive. They have a total saving of Rs.344.63 million.

Local Development Fund (LDF) under DDC supports VDP with the joint efforts of VDC and DDC. The provision of credit capital through LDF helps CO members start micro-enterprises and other income generating activities. A total of 190,379 CO members including male and female benefited from credit capital in 2003. Total enterprise operated under income generating activities by COs reached 131,153 in the same period. Besides capital credit, LTF also provides seed grant for increasing productivity, improving infrastructure and enhancing COs resource management capacity. As of 2003, a total of 171,936 local people were benefited with the completion of many projects under seed grant fund mobilization.

As regards to the sustainability of Local Development Fund (LDF), it is expected that the returns from investments made largely through the interest earned on the credit capital for COs' entrepreneurial activities will be able to generate enough resources for meeting the operation cost of LDF. LDF should not look additional funding or other grants to give continuation to VDP. Also the prospects for sustainability of COs remained high given the COs are investing their saving in economic activities with a high rate of return. This is expected to guide them to transform themselves into more self-governing and self-sustaining communities.

Thus looking at the socio-economic advancement made at the grass-roots level made under the LDF initiative is praiseworthy. This has really raised the hope and aspirations of the local people as the program of being poor-friendly. But the problem now hinges around the sustainability of these benefits. The sustainability requires the un-interrupted supply of capital with fully trained and capable permanent staff to activate the COs for smooth functioning of the on-going activities, and maintain the information records as per the operational manual of LDF prepared for the implementation of the village development program. Unfortunately, the transition for sustainability of the LDF program and activities does not seem to be as smooth as expected because of following reasons:

- Almost all the LDF depend upon external support for the implementation of village development program. Once external support ends, the LDF activities start dying out. It is to be noted that LDF is one of the components of LGP/PDDP, which at present is under bridging phase. At the moment the, it is not known whether the program under reference will

be extended. It is certain that the infrastructure development made so far will collapse, once the external support cease funding.

- Almost all the LDF activities are still donor driven. Social mobilization is considered as one of the important ingredient of village development program, but it is not given importance in SNV supported program in Jumla. In fact, no social mobilization activities were seen in the district in getting the people organized and form their own COs. In fact, they were just joining the groups formed by others and supported by SNV such as consumers group, forest users group, and agricultural group and so on. This may be noted that SNV had begun their activities 15 months before, but they have already announced to withdraw their support from Nepal, which has affected the Jumla program also. Local people in Jumla are in doldrums what to do and how to sustain the already on-going activities.
- LGP/PDDP made big investment getting the social mobilizers trained in implementing the village development program in the area. However, their post is temporary and their permancy is not assured. Hence they will always be looking for similar other lucrative jobs. It is found that most of the trained social mobilizers are joining NGOs quitting the LGP/PDDP job. So the turn-over of the social mobilizer staffs are found to be quite high in LGP/PDDP programs.
- The mobility of the social mobilizers was found quite low. The Maoist insurgency has made this more difficult. Social mobilizers have admitted that they are drawing their salary From DDC without going to the site visit. Because of this they do not have knowledge in many cases how the COs are functioning, how their record keeping are, and so on in their area. It is found that some of the COs particularly in Sarabal VDC is now going to be closed due to poor management, lack of transparency in book keeping and the irregular meeting. It is said that LDF does not take any step to activate the COs once they are formed.
- People are loosing their interest in COs. No new faces are ready to be the chair-person and manager of the institution. The reason is that once they become chairperson or manager of the meeting, they will have to face lot of problems like the maintaining book-keeping of all financial transaction, pursue members for loan repayment, attaining regular meeting compulsorily and spending full day in office with out any pay. They feel that it is wastage of time which would have done many other productive activities at home. This is the opportunity cost which they have lost while working voluntarily as chair-person/manager.
- As members were not extending their support, the chair person and managers in some COs were fond taking due advantage of it. It has been reported that some chairperson and managers have become luxuriant with drawing allowances from capital credit ranging from 2 to 4 percent of the interest, and Rs. from 50 to Rs.1,000 from COs fund per meeting¹⁶. In addition, the study tour, training, meeting allowance or whatever other opportunities are available, they are all enjoyed by the chairperson and managers only. This is not fair as other members feel this will simply invite corruption and in the long run the COs itself cease functioning.
- It is said that every decision in COs including awarding loan is made through active participation. There is an equal opportunity for all members regardless of their caste, gender or status to voice their concerns and come to a consensus. This equally applies to all while loan borrowing whether from COs own fund or from LTF. But there is rare case where non-poor are getting loan without questioning their credibility of loan repayment. They have to face lot of protest and opposition from the non-poor members. Non-poor members deviate from making any commitment and take no guarantee on behalf of poor members. Under such

¹⁶ Poverty Alleviation Through Social Mobilization; An Experience, Village Development in Syangja, Local Trust Fund Secretariat, DDC, Syangja.

circumstances, it is feared that the COs will be monopolized by non-poor will lose its identity as pro-poor organization. The interest rate charged by COs is such an example which keeps the poor members away from borrow loan.

- Loans provided under credit capital to COs are very small keeping in view of their increased demand. It is not in conformity in accordance with the size of COs. CO members feel that the loan received under credit capital is not enough even to buy a buffalo or a cow. In the absence of it, the members either have to other financial institution for seeking additional loans or they have to go for smaller micro-enterprises. On the top of that, the members feel that the repayment period also is very short, this is six month. LDF has been charged that they make rules and regulations as per their convenience only.
- LDF activities are very much scattered as with LGGP and PDDP programs. For example of the total 30 PDDP supported programs, only two districts – Kabhre and Nuwakot – are located in central region, and the rest 28 districts in other regions from west to far-western region. Likewise LDF also is being implemented in 30 districts with one district – Bardia in Mid-western region. Had it been interchanged with Kabhre or Nuwakot, this would have been cost effective from supervision and monitoring point of view. It appears that these program districts were not need-based but an imposed district from the bureaucrats or the then ministers belonging to those districts.
- Sub-regional manager/district development advisors of the LGP/PDDP contributed to keep records as per the operational manual under reference for compiling and producing the progress made under the program. It was presumed that this kind of information are available down to VDC and COs level. But this were not available at the VDC and COs level. Much information was missing. It was not understandable, how LGP/PDDP could bring out annual report showing dramatic improvement in the rural economy.
- Preparation report and maintaining records on socio-economic condition by the staff working in LTF down to village and COs level will not be possible in the absence of the UNDP supported staff, which is very much in need providing feedback to Ministry of Local Development (MLD) and National Planning Commission (NPC) to let these agencies formulate macro policies that reflect and support local development initiatives.
- The internal saving raised by COs from its members has gone into millions. Members now fear that something might happen with their saving since the COs are not yet registered under any appropriate act which is required to ensuring their sustainability.

From all the accounts mentioned above, it is understandable that Local Development Fund (LDF) has not yet reached the maturity. All the DDC officials in this respect stressed that it will be difficult for DDCs to sustain the programs with its own resources although efforts have been made to meet the administrative expenses to the extent possible and matching funds has been mobilized from DDCs and VDCs as well. Hence there is a need for continuing support and at the same time linkage should be established with line agencies and Poverty Alleviation Fund (PAF).

CHAPTER – 11

CONCLUSION AND RECOMMENDATIONS

11.1 Overview

In support of poverty alleviation programme, donors have been providing a substantial amount of external assistance to Nepal over the years. The per-capita foreign aid disbursement reached 18 US dollar in 1999 with loan assistance exceeding over grant. The country's total outstanding foreign loan hovered around 49 percent of GDP as of 1999. With the ballooning total foreign debt, the per-capita debt burden on Nepalis has also surged considerably in recent years. It has touched Rs.7,876, which is almost 50 percent of the estimated per-capita income. Despite the inflow of huge foreign aid, poverty showed no sign of improvement. Foreign aid has either failed to address the poverty issue or it has not yet reached the intended beneficiaries.

The study guess estimates that only 25 percent of foreign aid disbursement goes at the grassroots level, which includes large volume of technical assistance. Unfortunately, this aid also does not reach directly to the needy and poor. In between aid giving agency at one end and the receiving agency at the other end, there lie several intermediaries blocking the flow of resources directly to reach at the grassroots level. In between, much of the intended aid resources either go to the expatriates in many forms or lines the pockets of corrupt political, bureaucratic and oligarchic establishments of the country. Therefore, a kind of model was felt necessary since long, which bypasses these intermediaries and take the resources directly to the poor and vulnerable groups at the grassroots level. The local bodies, NGOs and the civil society can be identified as the indigenous model, which can deliver the services of locally felt basic needs. Decentralization is being looked as a necessary condition for any just distribution of national resources and their most effective use, but also for caring the poor.

The LDF is the product of donors' joint move to ensure that aid grants and loan money reach directly the intended beneficiaries for poverty reduction with no intermediaries involved in between. For this thing to happen, institutional network with LDF at the district level has been established to implement VDP through social mobilization component which provides institutional, social and economic empowerment to local people by creating broad based multipurpose, self-reliant and self governing COs at the settlement level. The LDF grants loans to CO members along with some seed grant for productive investment such as irrigation, drinking water and conservation. Institutionally, the LDF is being strengthened and made capable to look after with staff training and equipments for effective management of its operation. The provision of loan through LDF helps CO members start micro-enterprises after they develop the required skill and capacity. The seed grant is matched with cost sharing contribution from DDCs, VDCs and COs.

The main source of fund for LDF is UNDP. DDCs and VDCs provide matching fund¹⁷. Bilateral and multilateral agencies, national and international NGOs, HMG and financial institutions are other sources. LDF is being supported with financial inputs from DDCs, the LGP/PDDP programme, DFID, NORAD (in 11 district), DACAW (15 districts) and MEDEP. Various other agencies like DPCP, NORAD, COPE, BNMT (Britain Nepal Medical Trust) have shown their

¹⁷ The DDC and each VDPVDC deposit Rs.200,000 and Rs.50,000 respectively as matching fund at LDF.

readiness to cooperate with the program to work together for poverty alleviation efforts. The program at present is being implemented in 60 districts (80 percent of total districts) covering 662 VDCs (17 percent of total VDCs in the country) directly affecting the lives of 1.7 million poor Nepalis. The total amount disbursed through LDF in 2003 is Rs.864.5 million including Rs.278.0 million of credit capital and Rs.223.81 seed grant. It enabled many CO members to come out of poverty with enhanced improvement in terms of accessibility to basic social services.

Looking back to the service delivery what LDF has made directly at the grassroots level in bringing changes in income and human poverty is appreciable. This is seen as a long awaited model of decentralized financial system questing by all development partners to take resources directly to the community level breaking many earlier institutional and bureaucratic barriers obstructing to it. The LDF program is result oriented, ensures social justice and all are treated alike irrespective of their economic status, gender, caste or religion. Nonetheless, the way LDF is functioning has been subject to many criticisms. Critics feel that the functioning of LDF at the district level is no better than the government bureaucracy faced with many paper works coupled with red-tapism ending up the massive share of allocated resources in the consultancy with meager resources going to COs. Also there is a flavor of donor culture and lack of confidence building that has weakened the functioning of LDF.

11.2 Major Weaknesses

In the following section attempts have been made to enumerate some of the weaknesses that requires corrections.

a. Inequity in Service Delivery

1. Inequity in the household coverage under the VDP has been noticed. Only 68 percent of the households in communities covered by LGP/PDDP are members of the COs. Many of the households that have not joined VDP may be from disadvantage and poor section of the society. There is a risk of further marginalization of the poorer households, who have remained outside the COs. Dissatisfaction from these groups could create political problems in the years ahead.
2. The LDF is confined mostly to easy and accessible area providing benefits to well to do and the most influential personalities in the community. It, however, has not yet reached the remote VDC area and the targeted and needy population. Jumla, one of the sampled districts lying in mid-western region of the country, has witnessed similar kind of disparity. Very few resources are mobilized for the COs in Jumla. As DDC in Jumla was found emphasizing much in creating infrastructure development, very little attention is given to up-scaling the activities of the COs. Limited resources were found used only in training, awareness raising and to strengthening the COs in Jumla. Seed grant and capital credit were given only to 14 COs in Jumla (inclusive of male, female and mixed groups) in the areas of agriculture, vegetable growing, livestock farming, herbal management and in cottage and small scale industries. This meant targeted populations neither do have any access to resources nor in decision-making process.
3. Easy access to credit capital facility at low interest rate was expected to keeping the moneylenders out of business, but it did not happen so. Villagers still depend upon local

moneylenders who charge exorbitant interests or local commercial banks, which have cumbersome loan process. In some districts and regions, villagers were found borrowing loan from moneylenders even agreeing to pay interest rate as high as 60 percent. The reasons given in this respect are basically two – (a) the availability of LDF credit is less than adequate, and (b) most of the loan seekers are landless and poorest of the poor, and they lack evidence of citizenship (as reported in Nawalparasi district). As a result, they are unable to benefit from LDF.

4. COs are entrusted to fix the interest rate on the loan that they provide to their members. Unfortunately, they fix it haphazardly without considering the ability to pay of the members, particularly those belonging to poor and vulnerable group. This is to be noted that the COs receive loan from LDF at an interest rate of 12 percent with two percent service charge but while giving the same loan to the members they charge 24 percent, which, in some places, found to be even higher than that of moneylenders. Given these circumstances, CO loans will be accessible only to those who can afford to pay. Those needy and poor cannot dare to borrow loan with such high interest rate. Though the interest rates fixed by COs are supposed to be approved through interaction with the members, but the voices of the poor and needy are overlooked.
5. Of course, CO members are fully involved in making decision about who should be given loan from among them. Unfortunately, CO members are very much biased giving loan to the poor members. Whenever the poor and disadvantaged groups apply for loan request, they face lot of protest from all sides questioning how they can pay back the loan when they have no other source of income. Of course, some influential personalities plead to making loan available to the poorer also, but they were found guided by their own self-motive - to recover his own old and past loan along with the principal and interest.
6. The CO comprises of both poor and non-poor. Non-poor seems to have been dominating whole decision. Hence they don't miss an opportunity taking advantage from CO whether under seed grant or capital credit. This goes against the principal of the COs which is created only to favor the well-being of the community as a whole irrespective of their caste, creed and color.

b. Low Mobility of Social Mobilizer

1. Social mobilizers work as a bridge between CO members and LDF. Social mobilizers with advocacy programs were supposed to make individual households and settlements in the community aware of getting them organized into group, in developing saving habits and letting them trained with skill development to be eligible for acquiring loans from LDF for running the income generating activities. Unfortunately, social mobilizers were found not visiting their assigned areas frequently. There were complains that they have not seen the social mobilizers to their area for months, which resulted in many poor people not recognizing him, and also not being aware of the program.
2. As mentioned earlier, the mobility of social mobilizers have proved to be very low. The reasons, among others, might be due to the fact that the social mobilizers are recruited on temporary basis having their salary paid under donor funding. Once the donors support end, the social mobilization efforts starts dying out. In the perspective of such uncertainty, social mobilizers will be looking for some other lucrative job. At the field level, NGOs were found

offering jobs to these social mobilizers with attractive salary and benefits, because they were already trained, and hence there is no need for NGO to making additional investment to give any kind of orientation for doing similar job. This is actually a great loss to LDF supported programme, without which poverty reduction program cannot be taken forward.

3. Many VDCs are badly affected by Maoist movement. As social mobilizers and the CO-members are targeted both by armed Maoists and security personnel and has been looked with suspicion that slowed their movement in the settlement area.
4. Those, who see the social mobilizers were also not very happy with the way they work. CO members feel that the social mobilizers give unnecessary trouble affecting their day-to-day life sometimes. Giving some instances, when some visitors will be visiting COs, social mobilizers ask the members to be present in CO's special meeting, giving impression that the visitors have magic rod to solving all their problems. But their patience breaks and becomes irritated when the visitors arrive very late exceeding the scheduled time. CO members feel that this kind of gathering just wasted their time, which, otherwise they have used in doing many agricultural activities including many other household activities such as cooking of food, cleaning and washing of their cloths, making ready to sending their children to school and so on¹⁸.

c. Donor Driven Culture

1. LDF is supposed to be an umbrella for all development partners to work for poverty alleviation with much of coordination. Unfortunately, very few donors are coming under this umbrella. Donors feel that they will loose their entity once they come under LDF umbrella. Hence, many donors are working independently with their own entity, and with similar poverty alleviation program at the districts. This has simply resulted in program duplication, thus making the service delivery costlier with much of resources going to technical assistance under the program.
2. LDF should have been instrumental to discourage the donors' tendency in administering the projects directly, which at present stands in millions of rupees. This would have saved millions of rupees, if diverted through LDF to needy areas. However, LDF has not been able to do so. There exist lot of donor-supported programs having similar nature of village development program¹⁹ being carried out directly by donors themselves with no transparency on expenditure about the programs. UNICEF is using LDF network in 15 districts only with their Decentralized Action for Children and Women (DACAW) programme, but in rest of the districts it is using its own modality of administering the programme.
3. Donors tend to select local institution on their own choice for implementing some specific programmes by passing the LDF mechanism. A recently declared program on pre-primary education for which the World Bank will be using School Management Committee (SMC) is substantiating this. The World Bank has stated that while providing hard cash directly to the SMC is at the heart of our reform package to accomplish the goals of Education for All in

¹⁸ DDC, Syangja, Local Development Fund, Village Development Program in Syangja, Year 1 Volume 1 2060 Kartik.

¹⁹ Community Owned Primary Education (COPE) supported by UNDP, Drinking Water Supply and Sanitation Project assisted by FINIDA, Western Terai Poverty Alleviation Project assisted by IFAD and so on.

Nepal. On the top of that a Poverty Alleviation Fund (PAF) has been established at the national level through which donors will be providing resources to LDF for the implementation of the poverty alleviation programs from the top. This is an additional tier similar to other line agencies where massive share of allocated resources goes to paying the salary of the bureaucrats, consultancy, seminar and workshops, before the resources reach the poor²⁰. This is a major challenge to the very existence of LDF, which appears to be losing its credibility and confidence among the donors.

d. Weak Sustainability

1. LDF funding for VDP depends largely upon external assistance, which at present finances over 70 percent of total resources. Internal contribution of DDCs, VDCs, COs and the interest earned on the credit capital for COs entrepreneurial activities will not be insufficient to meet the management costs of the whole project. External funding cannot be expected to be available for the long run, which at present is dwindling. Hence the test for these programmes lies in sustaining their achievements after the withdrawal of donor funds. Will local communities continue to be empowered relative to the government bureaucracy? Will the poor continue to compete with the richer members of the community for the allocation of resources?²¹
2. HRDC for its sustainability depends upon the funds provided by PDDP/LGP, DDCs and VDCs matching fund, and donor agencies. These are, however, the same sources for which LDF also is banking upon. Thus LDF and HRDC will be competing each other for getting the lion share over the same available resources for their sustainability. It is not sure which of the two will get priority in resource allocation. But the general practice is that available resources will be distributed thinly to these agencies, which may be grossly inadequate for their survival.
3. With growing demand of VDP, one of the challenges would be on how to financially sustain SO team. Every additional VDC in VDP means one more social mobilizer, which increase the size of SO team leading to more expenses. From the present standards, the income from VDC would not be sufficient to cover the cost of social mobilizer. The question is how to meet the cost of SO team.
4. The repayment by the borrowers appeared to be a big problem. Most of them have not been able to pay back the loan in time. The general impression observed from the respondents in the survey area was that the repayment period is very short.
5. Marketing appeared to be a bigger problem for the CO members. It is reported that the members had to sell their agricultural products, especially vegetables, at cheaper price due to the absence of the market in their area.
7. Since the launching of VDP in 1995, the number of COs has grown significantly. By 2003, total saving of the COs' has already touched Rs.789.65 million. However, these COs have not yet acquired any legal status. Neither are they registered with the District Cooperative Office

²⁰ PAF is a part of The World Bank funded Poverty Reduction Growth Facility Project carried over in the region.

²¹ Nepal Focusing on Poverty Reduction through Decentralization, United Nations Development Programme Poverty Report, Overcoming Human Poverty.

nor with Social Welfare Council in the country. In the absence of the legal status, there is every chance that these COs will disappear from the villages with all the savings of the members.

e. Worsening of Good Governance

1. At the moment, the local governments in Nepal are being threatened with worsening of good governance. It is neither representative government nor representative democracy. The link between the people and the local authorities is cut off, citizens are passive and there is lack of democratic exercises at local level. The absence of locally elected bodies and the authority to run the local government given to personnel have yielded following implications on good governance:
 - A decreasing trend of participation of local people in planning and monitoring workshop.
 - Information gap between people and local authorities is prevalent.
 - In some districts some innovative activities have been done, but they lack ownership of local people and political parties.
 - The decreasing trend of accountability and responsiveness of local government officials to the clients/people has been observed.
 - Relation of local governments with the respective line agencies remained conflicting. Interferences on local government activities by the center have been observed.
 - The conflict situation has hindered the decentralization processes in the VDC and district level.

f. Deteriorating Developmental Environment

1. The on-going conflicts have impacted adversely on the local governance process and service delivery functions at the grassroots level. Local offices have been destroyed and official documents burnt in several parts of rural Nepal. Sankhuwasabha is one of such sampled districts where all the official documents related with the functioning of LDF and COs were burnt destroying all the evidences.
2. Nepal's Maoist insurgency, which began in 1996, shows no sign of abating. The insurgency affects all 75 districts within Nepal, three of which are in the bowl-shaped Kathmandu Valley, and the future for the poverty-stricken country's 24.8 million people cannot be bright as long as the insurgency rages. More than 10,000 people have already died in the struggle, and tens of thousands have been injured. Local officials have been destroyed and official documents in several parts of rural Nepal. Sankhuwasabha is one of the sample districts, where all the documents related with the functioning of LDF and COs were burnt destroying all the evidence of socio-economic records. The on-going conflicts have largely impacted upon local governance process and service delivery functions at the local level.

11.3 Recommendations

In the perspective of above criticisms, the question now arises whether the present LDF modality as an institution to support and manage the VDP for poverty alleviation is the best possible, and if not, what is the extent to which they can be improved. This is to be noted that Nepal has piloted many poverty alleviation models in the past, but not a single model could last longer. The irony is that we do not have patience to wait and see for the results. The irony is that once the

model starts showing results, they will be scrapped altogether, and looks searching for another mode. The integrated rural development projects were one of such examples, which were tried and tested as a panacea for rural poverty alleviation, which were later abandoned instead of modifying it. Many new models including the Poverty Alleviation Fund (PAF) are now in operation overshadowing the LDF supported village development programme. VDP has already established the solid foundation of LDF at the district level bringing needy people closer to poverty alleviation program for implementation with all needed financial and technical support. This gives policy makers at the central level to have the correct picture of the realities at the macro and meso level enabling to match macro policies with the local context and needs.

Given the concept and logic already embodied in by-laws, there is no other option better than the LDF. Building upon the past gains, the LDF mechanism needs to be strengthened and pushed forward with correction and improvements as follows:

a. Creating a Sound Base for Sustainability of LDF

1. There is no denying that LDF should be made an autonomous body and self-sustaining from financial point of view. For this thing to happen there is a need that LDF should have perennial source of funding. External funding cannot be expected to be available for the long term. Government budgetary resources are also limited. The current share of local governments in the national budget is less than 4 percent and is declining. Given this situation ways have to be found to overcome this problem in the years ahead, which is enumerated as follows:
 - To keep on tapping more returns from investment made by LDF largely through the interest earned on capital credit for COs' entrepreneurial activities.
 - To gradually withdraw external assistance in a time bound programme with increased counterpart funding from the local bodies so that it will be able to sustain the LDF on its own resources at the end.
 - To sharing government revenue with local bodies (DDCs/VDCs) in areas such as tourism, forest, natural resources, electricity and so on.
 - To show the strong will of the local bodies to exercise their taxation authority.
 - To maintain transparency in the government's system of grants to the local governments and develop some kind of criteria based on equity.
2. Given the limitation of resources, choices will have to be made whether Human Resource Development Fund (HRDF) should be given top priority over LDF. There is a need that we should make prudent use of given resources. At the district level, almost all the sectoral line agencies such as education, health, agriculture, and even DDC have physical facilities and have been conducting training packages in the respective areas. Hence efforts should be made to utilize these facilities for carrying out the training package of HRDC instead of creating a separate body as HRDF. This will make enough saving of local resources, which can be used for strengthening LDF.
3. Privatization and open door policy of the government has encouraged the establishment of many financial institutions in the district. The LDF can enter into a contractual arrangement with these financial institutions for the wholesale credit for use by the COs. Experience has shown that the COs, as they become mature, are increasingly demanding credit. Hence more

credit needs to be mobilized. Access to wholesale credit from banks is one of the means of increasing credit capital in the LDF.

4. LSGA contains most attributes required for good governance such as transparency of information, accountability of elected officials, and use of resources effectively and efficiently, and capacity enhancement. However, further improvements in accountability, sustainability, rule of law, and efficiency and equity aspects are needed to meet the requirements of good governance. Furthering the decentralization process and achieving good governance at local level will require an improvement in the conflict situation and the reinstatement of election from local-bodies.
5. Feedback on local initiatives, both positive and negative, needs to be regularly monitored by the policy-makers at the Centre to understand what works and what does not. This has become more significant in the absence of locally elected bodies. This is required in the perspective when the mechanism of LDF is still in place ensuring the continued participatory development, but the VDC/DDC secretaries are not able to release committed matching fund to LDF because of various cause, including the ongoing Maoist conflict.
6. PDDP/LGP have been supporting the VDP programme in very limited VDCs (approximately 5) since the initiation of the programme²². As some of the programme areas have already shown its impact in terms of improving the living conditions of the people, it would be better to phase out the programmes from those areas and go to other areas beyond this, which is also desirable from the equity point of view.

b. Adopting Equity Approach for Service Delivery

1. Awareness about the program is still lacking among the CO members, particularly those belonging to poor and disadvantaged groups. They take the CO meeting very lightly. In joking they say that it is only a meeting called for depositing Rs.5 or 7. Members should have been briefed fully about the program benefits and objectives during the group formation. Members should be encouraged to participate in the identification of problem in groups and in prioritization for their inclusion in the district periodic plans. Here comes the importance of the social mobilizer who should make constant visit to the settlement, interact with the community convincing them that the program is meant for them, and to be managed and implemented by them for their own betterment.
2. As the access of CO members to the decision-making capacity and resources has not yet reached maturity, leadership development along with capacity building training at the local level should be initiated with high priority. This will help diffuse the dominance of those powerful and influential personalities who had been monopolizing the functioning of COs to-date.
3. LDF should be VDC-based instead of being based at district headquarters to enjoy more autonomy, efficiency and ownership. This will lessen bureaucratic tier which at present is functioning from the DDCs and DDFs, save unnecessary expenditure made in meeting the administrative and other costs of the DDC, thus making additional resources available for seed grant and capital credit as well.
4. There is a need that a Marketing Management Committee should be established at the VDC level to take care of the problem faced by the members in marketing of their increased

²² However, in the districts where NORAD is supporting to the VDP more than 5 VDCs are found to be under the programme.

agricultural production mostly vegetables. Provision for medical treatment should be made to encouraging livestock farming.

5. Lessons should be learnt from the LDF of Chitwan, which has made innovative provisions to enhance their resource base and take concrete actions in focusing on the poor and underprivileged groups²³. Based on Chitwan model, it should implement the following three policies for the benefit of the rural poor:
 - At least 50 percent of the credit capital earmarked for the poor;
 - Repayment period and type of activities for micro-finance activities have been defined as per the poverty profiles of COs;
 - First priority for seed grants utilization to the poor.
6. LDF is not mentioned in the Local Governance Act. Its legal status should be clarified. Similarly, it will be desirable to ascertain political perception on its institution arrangement. The role of government should also be clarified in this regard.
7. There is sort of financial tension between LDO and the secretary of LDF. As the secretary of LDF can disburse funds amounting to about Rs.10 million whereas LDO is authorized to disburse far less than this amount.

c. Retaining Social Mobilizer on the Job

1. As mentioned earlier, social mobilizer has a greater responsibility to make the VDP program a success for poverty reduction at the community level. Lot of investment has been made to make the social mobilizers trained with all the needed skills ranging from how to reach the people, get them organized into group, developing saving habits, let them trained and made them eligible for seeking capital credit for running income generating activities. Hence in recognition of the lot of investment made in training the social mobilizers and their importance in the program, there is a need to retain such social mobilizers giving attractive facility and benefits. In this respect, the first and foremost task is to make social mobilizer position permanent.
2. Social-mobilizers should regularly visit the settlement area and establish effective system of monitoring and supervision system to see whether the CO members has borrowed loan as per the embodied objectives or not. It should also see whether the loan granted to the members is adequate to fulfill the objectives. This, among others, helps motivate to conduct the monthly meeting smoothly and maintain transparency in the financial transactions also.

d. Making Free from Donor Driven Culture

1. Almost all the donors working in the country down from centre to the grassroots level wish to maintain their identity, and hence are using multi-entry points in the name of poverty reduction program. This is not in conformity with the foreign aid policy of the government also, which requires that all the donors should come within the government fold. In recognition of this fact that the DDCs and the MLD should take initiative to create a basket fund under LDF incorporating all the district level agencies and the donors working in the district. Accordingly thoughts should be given to remove the PAF from the centre level and let it work through the LDF basket fund mentioned earlier.

²³ HMG/UNDP/NORAD, PDDP Putting people first 2001

2. PDDP/LGP should gradually phase out its direct development advisors and let the local bodies run its activities independently by the local staff avoiding the culture of dependency. This will give an opportunity to test how far the LDF can acclimatize without dependency.
3. Processing for the creation of a CBOs federation should be initiated incorporating all COs working at the VDC level. This should be registered as a Village Level Organization and the COs programs for implementation should be handed over to the efficient COs based on evaluation. At the same time all COs will be given legal status by allowing them either at the CDO office or at the Social Welfare Council to protect and safeguard the saving deposits of the members.

e. Creating Pro-development Environment

1. The prevailing security situation has wide implications for a number of development projects including LDF activities. This is to be noted that the LDF activities requires regular gathering of people however, the security situation in the programme areas is such that it restricts the movement of people including the programme personnel in the country side. Maoists have warned they would not allow “outsiders” to their area unless permission from them is secured in advance. It is not known when this kind of conflict will end.

Under these circumstances, an alternative model should be explored through which the essential services can be delivered to the people without interruption. However, this does not seem possible until and unless the Maoist is taken into confidence. There is a need to find out an agreed solution how the service delivery can be done in such a situation of conflict. Maoists are critical of direct implementation by DDC. A committee consisting the representative of all political parties including the Maoist and NGOs (civil society) need to be formed if the formal channels do not work. Such arrangement may help to give continuity to the on-going VDP activities.

2. DDC should work on the public-private-civil partnership rather than directly implementing the micro-credit activities by employing staff in DDC.

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