

***WOMEN'S EMPOWERMENT  
PROGRAM  
(WEP)***

***A Literacy and Savings Led  
Option for Village Banking***

***EXCERPT FROM THE DRAFT FINAL REPORT***

***Prepared for  
Pact, NEPAL***

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## **SECTION I:**

### **INTRODUCTION:**

Modern advancements in health and education would appear to have overlooked Nepal's women. A recent assessment ranking the state of the world's women based on maternal mortality, use of contraception, births attended by trained personnel, anemia, literacy, and role in national government, placed Nepal at the bottom of the scale among 106 nations.<sup>1</sup> Despite this dismal picture, Pact's Women's Empowerment Program (WEP) is breaking new ground in the ongoing struggle to ease the plight of poor women. By providing literacy and group savings services to nearly 125,000 women, Pact is making visible changes in the lives of its women members and breathing new life into the term "empowerment" in 21 of Nepal's 75 districts. It is increasing their incomes and family wellbeing, and giving them the self-confidence they need to dramatically change their social and economic environment.

### **Results:**

In just eighteen months:

- **123,493 women have been organized into 6,443 groups**, approximately 4,500 of them savings groups on the way to becoming independent village banks. The rest are linked to Grameen Replication sites, cooperatives and NGOs like Parks to People that provide them access to external loans.<sup>2</sup> Two hundred and eighty six groups have become village banks and another 1,000 to 1,500 groups are slated to become village banks by the end of the current AID Cooperative Agreement in September 2001.<sup>3</sup>
- **The poor are being reached.** Most group members face a food deficit; they cannot produce enough food for their families to get through the entire year. Several thousand are Kamaiyas, bonded laborers only recently released from generations of permanent debt servitude.

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<sup>1</sup> *State of the World's Mothers 2000*, Save the Children, Westport, CT, May 2000. UNICEF, UNDP, and the World Bank have developed similar composite ranking scales in which Nepal generally falls at or near the bottom, regardless of the specific indicators used.

<sup>2</sup> It is not expected that the groups linked to Grameen replications and cooperatives will evolve into village banks, although a number of groups have expressed their interest in becoming independent village banks that manage their own savings.

<sup>3</sup> The groups have been formed in partnership with 240 local NGOs. Staff estimate that approximately two thirds of the savings groups have the potential to evolve into village banks, although these numbers are difficult to estimate because many of the savings groups have twelve or so members and must either merge with other groups or recruit new members to reach the 25 member minimum requirement for village banks.

- **80,000 are on WEP's waiting list**, having come forward with the 15 rupee fee to participate, demonstrating the enormous unmet demand for the services WEP offers.<sup>4</sup> The NGOs that sent proposals to become part of WEP identified 350,000 potential customers, a number far beyond WEP's capacity, but an indication of the potential demand.
- **Dropout, an endemic problem of village banking programs worldwide, is near zero**, and when a women leaves a group, often to get married and move to another village, she is generally replaced by another local woman.<sup>5</sup> The tendency so far is for village banks to increase in size.
- **The women have saved 84,000,000 rupees in eighteen months**, showing that capacity of poor women to save is greater than recognized. (US \$1.2 million).
- **1,000 groups have saved 24,500 rupees or more**, with some groups saving more than 100,000 rupees. (US \$350 and US \$1,430 respectively).<sup>6</sup>
- **89 groups are managing loan portfolios of over 70,000 rupees** (US \$1,000). The average outstanding loan balance per member in these groups is 2,800 rupees, or US \$40.
- **Over 90% have passed the literacy test**. Fourteen percent of women in rural Nepal are considered literate, and the WEP test is considerably more stringent than the government standard.<sup>7</sup>
- **97.4% of those with loans are paying them on time**. Virtually no loans are considered uncollectable. 51,087 have taken out at least one loan; 35,680 have an outstanding loan.
- **75,736 women (61%) are operating micro-enterprises**.
- **The number of women with microenterprises has quadrupled in 18 months from 19,000 to nearly 76,000**, showing that the WEP education process leads to women starting their own businesses.<sup>8</sup>

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<sup>4</sup> Some NGO partners have expanded the program beyond the number of groups paid for by Pact and have underwritten the costs of the expansion of the program to groups that they had organized previously that were demanding to be part of the WEP program.

<sup>5</sup> Most of the groups interviewed for this consultancy said several village women had approached them to join and would permit them to join once the loan cycle was completed and the prospective members had made a deposit in the group's saving account. Dropout may become a problem later when the women find the loans are too small to support their now thriving enterprises and do not have the time to meet so frequently.

<sup>6</sup> It is not surprising that the groups with the most savings and the largest loan portfolios visited during the consultancy were located in urban areas with strong markets, and most of their members were literate before they joined the program. Some groups whose members are day laborers, have no land, and live in areas that are more rural had only managed to save 5,000 rupees (about US \$70) in a year and a half, although even these groups had made a few loans to the income generating activities of their members.

<sup>7</sup> The number of illiterates varies considerably from group to group. Even the poorest groups visited had at least one or two literate members, one whom typically became the literacy volunteer. In urban settings, half to most of the members were literate when they joined, but they found the workbooks useful for organizing their groups and developing their microenterprises. Overall, an estimated 30% of WEP members were literate before they joined.

<sup>8</sup> Most microfinance programs require that borrowers be in business at least six months and often a year. In the groups visited, while virtually all said they had raised animals or were engaged in agriculture before they joined, few had carried out these activities as a business. Very few were engaged in trade before they joined.

- **Microenterprise sales during the past six months approached 280 million rupees**, (US \$4,000,000). Fifteen months earlier approximately the same number of group members collectively earned only \$12,500 from their businesses.
- **65,574 women have met or exceeded WEP income targets for their enterprises.** Income from their businesses will increase substantially as the groups evolve into village banks and increased savings makes larger business investments possible.
- **The women members have initiated 78,600 collective community and advocacy activities** with visiting local government officers, group gatherings, organizing a mass gathering or rally; door to door campaigns and labor contributions the most common activities.<sup>9, 10</sup>

The WEP model has proved to be highly effective, easily replicable and very low cost compared to both traditional literacy and microfinance programs. Few microfinance initiatives have reached as many as ten thousand clients in two years, with most doing well to reach two thousand clients. WEP has reached 125,000 rural women with both literacy and microfinance services in only a year and a half.

This report seeks to explain how WEP reached this level of performance, and how this program, which required considerable donor funding from AID to launch, has the potential to evolve over the next year into a sustainable, virtually self-replicating microfinance movement, run largely by the women themselves.

While *credit led* microfinance program provide loans through their own fund, and initiatives like Freedom from Hunger's "Credit with Education" provide access to credit by *grafting* village banks onto local credit unions, WEP's savings groups and village are freestanding. In WEP's *savings led* model, the newly literate members, who learn village bank management as an integral part of the literacy curriculum, make loans from their own savings, dispensing with the external loan fund as a central program component. WEP, then, represents a third approach to microfinance:

In brief:

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<sup>9</sup> The performance statistics are presented in detail in Annex One.

<sup>10</sup> The first paragraph and the summary of the monitoring data were adapted from, "*Breaking the Mold: Women's Empowerment from the Himalayas to the African Veld, A Pact Model for Expansion and Replication*" by Dr. Marcia Odell, Pact Team Leader, Nepal.

- In **Credit Led** programs, the institution administers a loan fund and self-sufficiency (or profitability depending on the type of institution) is attained when interest income exceeds operational and financial costs. Examples of credit led institutions include ACCION's affiliates, including its NGOs that have evolved into regulated financial institutions, such as BancoSol; KUPEDES in Indonesia and the Grameen Bank. Credit led programs can provide loans individually or through groups, or may have a social agenda, or simply deliver credit, but they all administer a loan fund and interest income pays their operating costs.
- In **Grafting Led** programs, such as those championed by Freedom from Hunger, self-sufficiency is reached when the loans provided by the local cooperative to the local network of village banks turn a profit for the cooperative. In the FFH case the women receive credit services along with health and nutrition education, hence, "Credit with Education." Freedom from Hunger's role is graft its village banking and education structure into the existing credit union structure.
- In **Savings Led** programs, such as WEP, self-sufficiency will be attained when village bank officers working as trained "Group Specialists," provide monitoring and training functions to a cluster of new and evolving savings groups and are paid for their services by the members. (The Savings Led model is closest to the credit unions tradition, except that WEP starts with literacy, serves women exclusively, reaches generally poorer people and focuses most all loan activity on the development of microenterprises.)<sup>11</sup>

When AID funding ends September 2001, the plan is that trained members of the village bank management committees, the "Group Specialists" (GS), will assume much of the responsibility for the group monitoring and training activities currently carried out by the Pact staff. Furthermore, it is planned that members will pay the costs of the GSs through membership fees and the sale of literacy workbooks. (Section II presents a scheme for creating a cadre of "Group Specialists," recruited from the most successful of the village banks, that will take on these monitoring and training functions.)

### **Possibilities for Expansion and Replication:**

With relatively minor adaptations, WEP could be quickly expanded from 125,000 women to at least twice that number in the 21 districts in the lowland *Tarai* region of Nepal where the program currently operates. By using trained Group Specialists to develop new savings groups and village banks in nearby communities, the need for outside facilitators from Pact or local NGOs to expand the program will be greatly reduced. A streamlined

and lower cost adaptation of the current model using the more mobile Pact staff initially as group trainers, could replicate WEP in districts in the country's hilly regions, despite their scattered population, underdeveloped markets and higher levels of illiteracy. (See Section III)

**How it Works:**

If WEP's starting point is literacy and savings and not credit, how does it function as a microfinance institution? The easiest way to understand how the program works is to look at WEP from the perspective of a single group. The evolution of a typical group of largely illiterate women -- most of whom were reticent to speak up in a group, had little or no savings and only one in eight ran a business -- into to self-confident, literate members of well organized village banks where sixty one percent run a business, follows this sequence. Over the twelve to eighteen months that this process takes:

- **One literate woman from the group, or a volunteer recruited from the community, begins to teach the other women to read using the WEP curriculum.** As the women learn to read they start to save. They provide their own lanterns and fuel and purchase the necessary stationary, a calculator, a cash box and a cash separator. They also "buy" their workbooks by depositing an amount equal to about a third of their value in their savings account. In other literacy programs, workbooks are provided free and a paid instructor runs the class. WEP proved that women place greater value on what they pay for. They also learn that the services they value must be paid for, an attitude central to the long-term sustainability of the initiative. The core of WEP's development philosophy is to create independence, not dependency.
- **Instead of presenting general interest topics, the WEP literacy workbooks focus exclusively on the practical issues of mobilizing savings, creating a village bank and building a successful microenterprise.** The curriculum establishes a close link between literacy, savings and business development, while reflecting an ethos of mutual assistance, women's rights and community service.
- **By following the step by step lessons in the workbooks, the women learn how to use their savings to provide each other loans to build their fledgling businesses.** This reflects the highest priorities of poor Nepali women: increasing their income and independence.<sup>12</sup>

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<sup>11</sup> At this point, reaching self-sufficiency is only a plan, and the Pact staff will focus on achieving this objective over the next year.

<sup>12</sup> Loans range from 200 to 5,000 rupees (\$3 to \$70). Since most village banks are in their first and second loan cycles and many savings groups have yet to evolve into village banks, a process that typically takes a year to a year and a half, these village banks have not yet had to deal with the issues of drop out and loan payment that typically develop in the second and third year with village banks. These issues and some suggestions for adapting the model to fit the evolving needs of the members are detailed in the report.

- **Since the workbooks are virtually the only materials the women use as they meet together from two to six evenings per week to learn to read, they learn the details of village bank management and how to keep their own records.** Since record keeping is the major obstacle confronting village bank programs operating in areas of low literacy, WEP teaches record keeping up front as an integral part of the literacy program. The women carry out the less complex tasks of tracking their savings before they start to make loans to each other.
- **The lessons in the workbooks are reinforced through a series of interventions from Pact staff.** These interventions include occasional visits to the group's meetings; "mobile workshops" where two representatives from groups meet together; and "management committee training" that provides training to the leadership of four groups together. This partnership with local NGOs helps explain why WEP has built its program so quickly. The program is built on women's groups that the NGOs already had in place or that they could rapidly organize.<sup>13</sup> Many of the NGOs had previously worked with Pact through its WORD literacy program that also required the formation of groups.

### **Implications for the Microfinance Industry:**

WEP's experience has important implications for the microfinance industry since it represents a radical departure from current "best practices" in the field. The conventional wisdom is states that:

- **Social and credit activities must be carried out by separate institutions;**
- **Sustainable microfinance programs must be credit led because it is the interest on the loans that pays the operating costs of the institution;**
- **The poor cannot save enough to make significant loans for business development.**

By taking a completely opposite approach Pact's Women's Empowerment Program in Nepal is already among one of the world's larger microfinance initiatives and could easily be expanded substantially without the cumbersome, costly and often fragile credit delivery infrastructure most all microfinance institutions require. The demand to expand WEP further has been demonstrated; eighty thousand women have already come forward to join the program but have been asked to wait.

An additional strength of the WEP model is that if the Pact and NGO support structure disappeared tomorrow, the majority of the groups and village banks would continue functioning without outside support. Microfinance institutions that keep records centrally

and manage the participants' savings and loans are fragile. If these institutions closed the members would immediately lose their access to loans and they would lack the literacy and financial skills to manage their own groups independently. They might also lose their savings.

**A Strategy for Sustainability:**

Implementing WEP will have cost between \$30 and \$40 per participant over the four years of AID funding. This figure includes substantial one-time costs for curriculum development and consulting as well as funding for the Pact and NGO team that has facilitated the group development process.<sup>14</sup> It should be possible to reduce costs to between \$5 and \$8 per participant to expand the WEP to nearby villages if locally based Group Specialists are used to take on the current Pact staff role. Most, if not all, local costs could be covered by the participants through fees and the sale of literacy workbooks. A small grant for PACT's supervision would still be required, however, especially as the expansion was being tested and perfected.

**How Pact Developed its Model:**

How did Pact, an organization known for literacy training, not microfinance, develop this model? Pact had little experience in microfinance, but it did know a lot about literacy training. Pact's previous literacy work in Nepal involved working with hundreds of NGO partners and hundreds of thousands of participants organized into literacy classes. Pact also knew that the highest priority of the women who attended their literacy classes was to increase their income. The women were so motivated to increase their economic

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<sup>13</sup> Suggestions for a streamlined and substantially lower cost means for developing new groups and supporting them are detailed later in this report.

<sup>14</sup> AID funding for WEP will range between \$4,000,000 and \$5,200,000, pending ongoing negotiations for fourth year funding.

wellbeing that they spontaneously created their own savings groups and made loans to each other on an informal basis.

As Pact designed WEP, it linked its experience in literacy training, working with hundreds of NGO partners and hundreds of thousands of participants, to a curriculum based on practical village banking that would also increase the women's economic wellbeing. Pact used its expertise in simplifying difficult materials used in honing its literacy training to write workbooks that provided step by step guides for the women as they developed their groups and businesses.

By basing WEP on Pact's experience (and being little aware of what was "impossible" according to the microfinance industry) Pact developed a very large scale literacy and savings led (and soon locally managed) microfinance initiative. The "industry" has much to learn from this experience.

Looking outside Nepal, the WEP model may become a preferred option for countries with a high level of illiteracy, a weak microfinance sector and weak institutions, especially when there is insufficient loan capital for a program this size. Assuming an average outstanding loan balance of only 3,500 rupees per member (\$25), a program the size of WEP would require a loan fund of over 210,000,000 rupees (\$3,000,000). In this early stage of the program, the women have already mobilized US \$1.2 million in savings that they lend to themselves, and will probably mobilize an additional \$2,000,000 in savings over the next twelve months.<sup>15</sup> WEP has shown that poor women can save.

WEP has also shown it can operate in harder to serve rural areas (although not in remote villages that are too costly to reach, and where there is little economic activity). Most successful microfinance programs operate in cities or in very densely populated rural areas, where access is comparatively easy.

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<sup>15</sup> Group members are saving, on average \$19 per year with this amount tending to increase over time. \$19 X 125,000 = \$2,375,000.