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NOTE FROM THE FIELD

Ensuring Financial Services during Political Conflict

A recent USAID study looks at methods Nirdhan Utthan Bank used during Nepal's political conflict to respond to the insurgency.



This is a photo of Nirdhan Utthan Bank clients.

As the insurgency intensified, Nirdhan Utthan Bank needed to ensure its survival by adapting its products, services, and operations to the crisis... The key focus of these changes was increased flexibility in products and services and heightened decentralization of decision making.

Nepal's 10-year Maoist insurgency dramatically affected the country's socio-economic conditions on both the macro and micro levels. During the period of active insurgency, the government effectively lost control of large swaths of rural Nepal, and the Maoist rebels set up a parallel administration and taxation system in the areas under their control. Frequent strikes and road blocks closed down markets and transportation systems and severely affected the microenterprise sector. The Maoists looted and intimidated MFIs, such as Nirdhan Utthan Bank (NUB), since they were seen as the agents of capitalism exploiting the poor.

A USAID-funded research effort to document approaches to leveraging traditional institutions in crisis settings was recently completed by the IRIS Center at the University of Maryland through FIELD-Support LWA. The work, conducted with Save the Children in Nepal, World Vision in Angola, and CARE in Mozambique highlights the following information on how NUB dealt with the insurgency to secure its sustainability and growth.

NUB is one of the largest MFIs in Nepal with over 85,000 active clients, about \$8 million in outstanding portfolio, over 300 staff, and 45 branch offices. Since 1997, Save the Children has been assisting NUB to expand coverage, strengthen systems, raise funds, and deal with the insurgency. [See [Integrating Services for the Very Poor](#) for a past Note on NUB]. In the 13 years since NUB began operations it has adapted to a changing political landscape that has alternated between pre-conflict, active conflict, and an ongoing peace process. Not all of NUB's products and services were developed in response to the conflict, but every aspect of its operations has been directly or indirectly affected by it.

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As the insurgency intensified, NUB needed to ensure its survival by adapting its products, services, and operations to the crisis.

In order to reduce risk to its assets as well as to continue providing services to clients, NUB implemented several modifications to its financial products and operating procedures. The key focus of these changes was increased flexibility in products and services and heightened decentralization of decision making.

Modifications to financial products and operational procedures included:

- Keeping money in the control of clients as much as possible by disbursing all the cash collected in center meetings to new borrowers in the same meeting.
- Modifying the standard loan period from 12 months to shorter periods of 3, 6 or, 9 months.
- Permitting loan rescheduling in case of an emergency beyond the control of the client.
- Encouraging clients to make loan payments at branch offices (which have better security) rather than at center meetings by giving a 2% discount on interest payments.
- Decentralizing management decisions to the branch level about when to stop and restart operations and when to close branches during periods of severe unrest.
- Implementing a new client monitoring system that emphasizes

prompt follow up in the case of non-payment.

- Removing computers from branches in areas worst affected by the insurgency.
- Backing up all data on two different compact discs with one kept at the branch and the other at the branch manager's house.

In order to reach out to groups with the greatest influence on its ability to operate, NUB developed a far-reaching public relations and communications strategy comprising elements such as:

- Opening a dialogue with local opinion leaders (often including Maoist leaders) to explain the positive impact of NUB's program.
- Increasing transparency through "public audit" meetings that included presentations on the community benefits of NUB followed by open discussions and question-and-answer sessions.
- Drumming up public awareness and support by developing better relations with the media and using newspapers, radio, TV and pamphlets.

Reducing operational risk and improving public relations were intended to mitigate the impact of the conflict on NUB's activities. In the larger picture, the Bank realized that its greatest asset was its relationships with those closest to the organization: existing clients and their families as well as staff and field managers. To this end, NUB improved its internal communica-

tions strategy to boost morale and support staff and clients:

- Reaching out to clients to remind them of the value of the services they receive from NUB.
- Organizing workshops and exchange visits for center chiefs to gain a wider understanding of NUB's operations.
- Reaching out to client families, particularly husbands and fathers-in-law, to discuss NUB's services and benefits and to answer their questions about the program.
- Following up promptly with clients directly affected by the insurgency to develop a loan repayment strategy and help rebuild their morale.
- Organizing senior management visits to branches affected by the insurgency, particularly those that had been vandalized and robbed.

Due to the insurgency, NUB was stagnated at about 35,000 active clients for several years. But as a consequence of these measures NUB was able to double its outreach to over 75,000 active clients between the years 2004-2006. These measures also introduced greater transparency, flexibility, and a better sense of customer care throughout the organization.

The insurgency forced NUB to adapt to a conflict environment or face dissolution. Since NUB started operations before the insurgency, its products and services were not designed for a conflict situation. Rather, they evolved with the escalating conflict, guided by core

strategies of flexibility and decentralization.

In summary, the lessons learned by Save the Children and NUB emphasize four key elements to offering financial services during conflict:

- Flexibility is vital for developing and modifying products, and operational procedures as necessary, to protect assets and better serve changing client needs.
- Assets protection, including risk reduction in handling cash and securing assets, is important but not a panacea.
- Decentralization of decision making helps local staff adapt better to changing circumstances.
- Communications and outreach, both internally and externally, maintain and leverage the strength of local relationships and enhance the social capital of the MFI.

For more information on the Microenterprise Development in Fragile States FIELD-Support activity, see 'Activity at a Glance.'

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