Dhikuti: A Challenge to Financial Institutions in Nepal

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1. Background of the Study
Financial system encompasses the financial markets, institutions, laws, regulations and techniques through which financial assets are traded, interest rates are determined, and financial services are produced and delivered around the world (Rose 1997). It carries out saving, wealth, liquidity, credit, payments, risk, and policy functions. There are formal and informal financial systems. Commercial banks, development banks, insurance companies, finance companies, cooperatives, credit guarantee corporation, securities dealers, and money exchangers are the institutions of formal financial system. Most of them are providing the services to the urban elite. A few are providing the services in sub-urban areas. Informal system plays a considerable role in the least developed financial system like ours. It carries out saving, wealth, liquidity, and credit functions in invisible manner. The informal financial institutions are wide spread in Nepal. Indigenous bankers, social contribution, user group, cooperative system in traditional form—monka-jya and prima, dharmabhakri, and dhikuti—are such institutions found in Nepal. Of these, indigenous bankers and dhikuti are found in both rural and urban areas, and the rest in rural areas. In this paper, attempt has been made to analyze the dhikuti in saving and credit mobilization perspective.

2. Conceptual Framework
Origin of Dhikuti: These terms—dhikur, dhikuri, and dhikuti—are used interchangeably. The term, dhikuti is commonly used in Pokhara. Dhikur (or thukur in the Gurung language) is used in Tin Gaun in Manang district (Messerschmidt 1972). Similarly, dhikuri is used in Thakali and Loba of Mustang, Tibetan Refugee Camp of Chhorepatan of Pokhara and Central Hill of Nepal (Chhetri 1995). In operation term, all these terms refer to the same saving and credit institution originally among the Thakali and Gurung community. Thus, it is logically concluded that the term dhikur is derived from thukur and finally dhikuti is derived from dhikur.

There is no empirical evidence about the origin of dhikuti. However, it is believed that Thakali community copied this from Tibetan traders. Thakali traders may have been forced to form dhikuti association to raise the funds required to run the business. But some of the Gurung residents of Tin Gaun of Manang believe that this rotating credit system was invented by Gurung community (Messersmshmidt 1974). Thus there are two versions—(i) Thakali community copied this from Tibetan traders and (ii) Gurung of Tin Gaun introduced this system by the inspiration of the Tibetan traders—about its origin. But there is no evidence that supports either of these versions. But it is logical that Himalayan traders borrowed dhikuti system from Tibetan traders as a means of raising

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Some writers have categorized it as organized and unorganized system. But institutions under unorganized system are informally organized.
funds required to run the business. Latter on, the Himalayan traders especially Thakali community brought about this system in different parts of the kingdom along with their migration. At present, it is commonly found in business community, regular earners especially in urban areas as a saving and credit scheme.

**Formation of Dhikuti:** It is a voluntary saving and credit association of individuals associated with a particular area, profession and community. Anthropological studies done so far have considered it as only rotating credit association. But, financially, it has not only the element of credit but also the element of saving and investment. In formal saving and loan association, the same individuals used to provide the loanable funds and borrow the money from the association but now-a-days, however, savers and borrowers are frequently different individual (Rose 1997). In the case of dhikuti, savers and borrowers are the same individuals. Individuals other than the savers (members of dhikuti) are not entitled to borrow the money. Thus, dhikuti is considered as an institution of saving and credit association.

As stated earlier, it is a voluntary association. There is no formal rules and regulation governing the formation of dhikuti. The founder of dhikuti, known as ghopa (we use this term after onwards) in Pokhara (Chhetri 2000) and thukur amma in Tin Gaun (Messerschmidt 1972) normally calls on the potential members and briefs them his/her intent of running the dhikuti. In general, ghopa disseminates the information on the intended member number, share, and type of the dhikuti. Ghopa works both as a manager and entrepreneur of the dhikuti. He/she has to take the whole risk of saving and credit functions of a dhikuti. So, he/she decides who will be a member of the dhikuti. Financial condition and character of an individual are considered before accepting the membership. In general, ghopa calls up all members to a dhukuti party—the party given on the opening day of the second round—and discusses the rules regarding the due date of instalment of each round, interest on the funds, disbursement of the funds and takes the approval of all members. Formation of dhikuti is considered complete when dhikuti party is over and proposed rules are approved by members.

**Types of Dhikuti:** Dhikuti, on the whole, can be classified on two grounds—i. period of instalment and ii. fund disbursement system. Normally, in Pokhara, instalment of dhikuti is due in each month—member should pay each instalment in each month. Messerschmidt has reported the dhikuti whose instalment is due annually (1972). Such dhikur was common in Tin Gaun of Manang district. In addition to monthly and annual dhikuti associations, Manzardo has reported the bi-annual dhikuti also. Such dhikuti was popular in Thakali community (Manzardo 1978). But, now-a-days, especially in Pokhara, dhikuti other than monthly are not common.

Fund—total money contributed by each member of dhikuti—raised by a dhikuti is disbursed according to the system set by its members. In general, two types of disbursement system are found. The commonly used fund disbursement system is bidding system. In this system, members who want to borrow the funds submit the secret bid to the meeting of each round. Let me clarify this system with an example. Mr. A founded a monthly dhikuti with 20 members. Its one share is Rs.10, 000. Thus the amount of the fund to be raised in each month is Rs.200,000. The first round goes to the ghopa. This is a normal custom of dhikuti. For the second round and the rounds to come, members who have yet to borrow the money can submit the secret bid for loanable funds. The member bidding the lowest amount wins the funds for that particular round. To
clarify this, let us assume that Mr. B submits the bid for Rs.170,000, Mr. C for Rs.180,000 and Mr. D for Rs.160,000. The lowest amount is Rs.160,000. So, Mr. D wins the funds in second round. Here, the amount of the funds is Rs.200,000 and the discount is Rs.40,000. There are three system of distributing the discount benefits among the members. In the first system, discount is distributed among all members on pro rata basis. In our example, each member gets Rs.2000 discount benefit. This discount benefit is deducted from the share of each member. So, in the second round, each member contributes Rs.8000 to the funds provided that ghopa does not pay interest. Ghopa may or may not pay interest on the funds. Normally, interest for each period is fixed in amount. Suppose, in our example, interest for each period is Rs.1000 and ghopa does pay the interest, then he has to contribute Rs.9000 in the second round. Interest goes to the winner of the funds. In our example, Mr. D will get Rs.153,000 net (after deducting his contribution).

In the second system, discount is distributed to the members who have yet to win (borrow) the funds. In our example, Mr. A has already borrowed the funds from the association. So, he will not entitle to the discount. Here, the discount is distributed among 18 members on pro rata basis. In the previous system, each member gets Rs.2000 discount and in this system 18 members get Rs.2222.22 discount each. This discount is deducted from the share of respective members. This type of dhikuti is not in prevailing in Pokhara. But one of the ghopas of Pokhara reported that this system is common in Baglung district.

Third system of distributing discount was reported from Pumdi Bhumi village of Kaski district long back (Dolebel 1985). In this system, winner gets the bid amount plus interest. All members contribute the full share to the funds. In our example, 20 members contribute Rs.10,000 each in the second time making the fund Rs.200,000. Separate fund for auxiliary credit equal to the amount of discount is created. Dhikuti invites the bid for the auxiliary credit. It provides the auxiliary credit whoever bids the highest interest rate on it. The borrower of the auxiliary fund pays the principal and interest in the next round of the dhikuti. Then the amount of the auxiliary fund is distributed to all members in each round. The winner of the main fund gets the bid amount plus the interest on the funds. Thus, under this system, at the same time, except in the first round, association provides two types of credit—credit from basic fund and credit from auxiliary fund.

The second fund mobilization system is turn system. In this system, ghopa entitles to the fund in the first round and latter on, turn is determined by lot. In our example, Mr. A will get Rs.200,000 in the first round of the mobilization of the funds and other members will get the basic funds plus the interest on the funds by lot. Member winning the second round will get Rs.201,000 (amount of the fund plus interest for one month). In the same manner, member winning third round will get Rs.202,000 (amount of fund plus interest for two months) and so on.

So far we discussed the dhikuti that has the fixed amount of share. In other words, the amount of the share remains constant through out the life of the association. In our example, Rs. 10,000 remains constant through out 20 months. But in some dhikutis, the amount of the share does not remain constant. The amount of the share increases by a constant amount in each period. This type of practice was reported in the annual dhikuti (Messerschmidt 1972). In such a dhikuti, borrower does not pay interest. The member borrowing the money at the end of the period gets the maximum benefits and members
borrowing earlier bear financial cost. In our example, if share of the dhikuti increases by Rs.1000 in each month, the ghopa will get Rs.200,000. In the second round, each member will have to contribute Rs.11,000. The member winning the second round of the fund will get Rs. 220,000. In the same token, the member winning the third round will get Rs. 240,000. Thus, the loanable fund increases by the constant amount in each round.

3. Review of Past Studies

Dhikuti as an informal financial institution has played considerable role in mobilizing the saving and credit especially in urban economy. Dhikuti mobilizes millions of saving and credit in an urban centre like Pokhara. Business community and communities dominated by Gurkha soldiers are more interested in dhikuti in Pokhara. A few years back, daily dhukuti also were in operation. But, due to the high risk, such a dhikutis have ceased to exist in Pokhara. In 1990s, dhikuti had become challenge to the formal institutions of banking and credit (Chhetri 1995). Its existence in both urban and sub-urban area, somewhere in rural area also, is still a challenge to the financial institutions. Foreign as well as Nepalese scholars have carried out many anthropological studies on it. But there is no considerable study on it in financial perspective.

Messersmchmidt had carried out a study on dhikuti of Tin Gaun of Manang district bordering to Tibet, China, in 1972. He had investigated into the various facets of dhikuti of Gurung community of Tin Gaun in social perspective. He has just mentioned two basic financial aspects—raising and investment of funds—of dhikuti in general. In 1985, Dolebel had carried out a study on dhikuti of Pumdi Bhumdi Village Development Committees, Kaski. He has described dhikuti as a credit co-operative. In his study, he has mentioned that it is important with a view point of accessibility of the credit without pledging any security (Dolebel 1985). Mr. Chhetri had carried out a case study of dhikuti among the Loba of Mustang, the Tibetan refugees, and business people in the urban centre of Pokhara. In his study, he has concluded that dhikutis seem to exist as competitors of modern financial institutions (Chhetri 1995). In the course of studying the various aspects of Thakali community, Manzardo has described the dhikuti as a financial means of establishing a new business, and part and parcel of the Thakali economy. He concluded that it helps Thakali to start "heavily capitalization ventures, to use new methods in business and new techniques in agriculture, to diversify the investment, and to maintain cohesiveness among people (Manzardo 1978).

KC has conducted a study on dhikuti in Pokhara in 2000. This is the only study on it done so far in financial perspective. He has identified three types of dhikuti—monthly, weekly and daily. Of these, he found that monthly dhikuti is the most popular in Pokhara, and weekly and daily dhikutis are less popular. This study has covered these dimensions—dhukuti system, social background of the members, financing of share, risk factors, and investment of funds raised from association—of dhikutis being run in urban centre of Pokhara. This study also has presented dhikuti as a challenge of formal financial institutions especially commercial banks, finance companies and cooperatives (KC 2000).

4. Methodology of the Study

Data Source and Collection: For the purpose of this study, 13 dhikutis being operated in Pokhara were identified. These dhikutis had altogether 233 members. For the purpose of
the opinion survey, 96 members (41%) were sampled randomly and their opinion on the different facets of dhikuti was taken through structure interview. Attempt to collect the financial data on all 13 identified dhikutis was done but only ghopas of 7 provided the financial data. Analysis of financial aspect of dhikuti has been done on the basis of the data of these 7 dhikutis.

**Calculation of MIRR:** Modified internal rate of return (MIRR) has been used to measure the profitability of the investment in dhikuti. Since internal rate of return (IRR) is not adoptable when project does not have normal cash flows. A project has normal cash flows if one or more cash outflows are followed by a series of cash inflows (Brigham, Gapenski and Ehrhardt 1999). In the case of investment in dhikuti, pattern of cash flows is not normal. Ghopa receives cash (inflow) in the first round and does pay his/her share with/without interest in the consecutive rounds. In other words, for ghopa, first, cash inflow and then series of cash outflows until the termination of the dhikuti. Excepting to the member winning the funds in the last round, cash follow pattern for all members is, first, single/series of cash outflows, then single cash inflow, and then single/series of cash outflows. For member winning the fund in the last round, the flow pattern is, first, series of cash outflows and then single cash inflow. Thus, cash flows in the investment scheme are non-normal. In such a condition, IRR gives the multiple rates. So, IRR technique creates a problem in working out the rate of return on investment. MIRR has been used to do away the problem of multiple rates on investment. The following model has been used to work out MIRR:

\[
PVI = PVTVF \quad \ldots \ldots \ldots \ldots \ldots \quad (1)
\]

Where,

- \(PVI\) = present value of money invested in dhikuti fund (periodical contribution to the dhikuti fund)
- \(PVTVF\) = present value of terminal value of money received from dhikuti.

Every member contributes to the funds for a specified period. For example, if dhikuti is monthly, contribution should be made monthly and if it is annually, contribution should be made once in a year. Thus the periodical contribution to the dhikuti fund is the investment of each member. Amount of contribution to the funds varies from round to round. Normally, amount of the contribution gradually increases with a lapse of the duration of a dhikuti. So, the cash outflows are not level. Payment is made at the beginning of each period. So, the following model is used to work out the PV of investment:

\[
PVI = \frac{COF_{1-1}}{(1+k)^1-1} + \frac{COF_{2-1}}{(1+k)^2-1} + \frac{COF_{3-1}}{(1+k)^3-1} + \ldots \ldots + \frac{COF_{n-1}}{(1+k)^n-1} \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots (2)
\]

Where,

- \(COF\) = cash outflows (contribution of a member to the dhikuti funds in each round
- \(k\) = cost of capital

We reduce model (2) to the following mode (l):

\[
PVI = \sum_{t=1}^{n} \frac{COF_{t-1}}{(1+k)^{t-1}} \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots (3)
\]

Where,

- \(t\) = number of round of the funds
Here, I would like to make clear the distinction between $t$ and $n$ with an example given earlier. In our example, dhikuti will mobilize the funds for 20 times. So, the total number of round of this association is 20. Thus, here, value of $n$ is 20. If Mr. A pays Rs.8500 for third time, the value of $t$ is three. As stated earlier, contribution is paid at the beginning of each period. So, we deduct 1 from $t$.

Let us talk about the right hand side of model (1). As we know that each member receives the credit from dhikuti only one time and only one member gets the credit in one round. So, the terminal value of the funds received from the dhikuti is given by the following model:

$$TVF = F(1 + k)^{n+1-t}$$

Where,

$TVF =$terminal value of the fund

$F=$credit received from the dhikuti

$t=$number of round of the funds

$n=$total number of round

So, PVTVF is given by:

$$PVTVF = \frac{F(1 + k)^{n+1-t}}{(1 + MIRR)^n}$$

Now model (1) is restated as follows {combination of model (3) and (5)}:

$$\sum_{t=1}^{n} \frac{COF_{t-1}}{(1 + k)^{t-1}} = \frac{F(1 + k)^{n+1-t}}{(1 + MIRR)^n}$$

For each member, all variables except to MIRR are known. So, using the finance function of Microsoft Excel, MIRR of investment of each member of a dhikuti has been worked out.

**Calculation of COF and F** : Investment of each member comprises of net contribution plus interest on the borrowed funds. Net contribution in the case of bidding system is a share of the dhikuti minus discount benefits. In our example, discount benefit is Rs.2000. So, net contribution to the fund in the second round is Rs.8000. In the second round, for ghopa, COF is Rs.9, 000 and for all members, it is Rs.8000. But in non-bidding dhikuti system, there is no discount benefit. So, COF is equal to the share of the dhikuti plus interest. Ghopa, normally, incurs negligible expenses while running the dhikuti. For this, normally, he/she raises the funds from the member winning a bid or lot. This expense has been adjusted to the amount of the credit received from the dhikuti. So, while working out the COF, following model has been used:

$$COF_{t} = P - \frac{(M - B)}{n} + PMT$$

Where,

$P =$face value of share

$M=$amount of the dhikuti funds

$B=$bid amount

$n=$number of round or number of members

$PMT=$interest per period

Model (7) can be used for all types of dhikuti. The second term of the model represents the discount benefits. In non-bidding system, discount benefit is 0.
Credit represents the lump sum benefit received for regular contribution to the dhikuti. As stated in model (4) it is denoted by $F$. $F$ is given by the following model:

$$F_t = M - D_t + (PMT)(t - 1) - S - (P - \frac{(M - B_t)}{n})$$  

(8)

Where,

$S$ = service charge
$D_t = M - B_t$

$D_t$=total deduction in $t$ round

In some dhikuti, ghopa does not pay any interest and takes no service charge. In this case, we need to modify the model (8) slightly. In such a case model (8) is modified as follows:

$$F_t = M - D_t + (PMT)(t - 2) - (P - \frac{(M - B_t)}{n})$$  

(9)

Using the model (7), (8) and (9), COF and F have been worked out for each member of different dhikutis.

**Effective Annual Interest Rate (EAIR):** Cost of borrowing of each member has been measured in term of EAIR. This has been worked out by using the following model:

$$EAIR_t = \left(1 + \frac{PMT}{F_t}\right)^{12} - 1$$  

(10)

Where,

$EAIR_t$ = effective annual interest rate for member borrowing in $t$th round,
$F_t$= credit for $t$th round, and it is worked out according to model (8) and (9)
$PMT$=interest per period

5. **Analysis of Data**

**Profitability:** Major factors affecting the profitability of investment in dhikuti are discount benefits and interest per period to be paid by the members borrowing the funds. In general, member in need of money and having the informal market link to put up the money at higher interest rate bids at higher discount. So, profitability of investment in dhikuti largely depends on the composition of members. Dhikuti having the majority members from business community may yield higher profit. Conversely, dhikuti run by the employees may yield a low profit. But, investment in the former types of dhikuti is very risky.

Profitability analysis has been done on two scenarios—(i) monthly reinvestment rate of 1.5 % and (ii) monthly reinvestment rate of 1 %. Monthly interest rate at present in informal financial market of Pokhara varies from 1% to 3 %. Ghopa also charges the interest rate on the arrears of the share by the same rate. So, assumption of 1.5% and 1% monthly reinvestment rates is considered adoptable for the analysis. MIRRs under the assumption of higher reinvestment rate are higher than that of under the assumption of lower reinvestment rate. This shows that market interest rate affects the return on the investment in a dhikuti directly. Standard deviations of returns on the investment of members of the same dhikuti under the assumption of lower reinvestment rate are greater than that of under the assumption of higher reinvestment rate. This implies that variation of the return on the investment of the different members of the same dhikuti is adversely related with the reinvestment rate, and the higher risk in the lower market interest rate.
The return across the dhikutis also is highly variable. This is because of the variation in the interest amount, bidding amount and size of the funds.

**Profitability in Bidding System:** In both scenarios, in financial term, no member of all monthly bidding dhikutis has incurred any financial cost. The MIRRs of investment of 77 members of observed dhikuti imply that it is profitable investment for regular savers. It is the most profitable for ghopa and the less for the members who borrow the money at earlier rounds. In both scenarios, pattern of return is the same. On the whole, return on the investment of members of the observed dhikutis suggests that it gradually decreases in earlier round and then increases. The rationale behind this return pattern is that in earlier rounds, members normally bid leaving greater amount of discount and get less amount of interest, and in latter rounds, members bid the funds leaving the less discount and get the more interest on invested funds. This pattern of return on investment is logical with a view point of risk factor also. Ghopa is the entrepreneur and responsible to all dhikuti members for default in the payment of due installment. So, according to the risk return theory, it is he/she who has to get the highest benefit for bearing the highest risk. Sometime, systemic risk brings about the disaster in the dhikuti. Default in one dhikuti may affect adversely to others. As a result of this, investment may run into spoil. Such risk is high for those members who bid for funds in latter round. So, it is logical to get the better benefits by the members in latter rounds.

**Profitability in Non-Bidding System:** As stated in the foregoing analysis, return pattern, in general, in both types of associations is the same. But, in non-bidding/rotation system, relative to the bidding system, return on investment is not so attractive. Here, the return solely depends on the interest per period. In the observed dhikutis, monthly interest rate on the loanable fund varies from .5 % to 1.09 %. Due to the low interest on the mobilized funds and absence of the discount benefits, MIRRs in both scenarios are less than that of bidding system. But the range of MIRRs on investment of members of the same dhikuti is smaller than that of bidding system. Relative to the bidding system, dispersion of return both across the dhikutis and members is less. The less dispersion of return is due to the certain in the benefits received in terms of accumulated interest. Unlike in the bidding system, investors are not uncertain about the return on their investment.

The profitability analysis of both bidding and non-bidding dhikutis implies that investment in dhikuti is more profitable than in the financial institution like commercial banks, co-operatives, and finance companies. So long as members of the dhikuti get the avenue for putting up the borrowed money at higher interest rate than the interest rate on the fixed deposit or saving schemes run by financial institutions, investment in the dhikuti will remain attractive. Tax evasion on the interest and discount benefits is one of the factors that contributes to the attractive return on investment. Investors can not evade the tax on interest income if they put up their money in fixed deposit or in any saving schemes of finance companies and cooperative.

Investment is the function of storing the value of wealth. The investment and its value in the observed dhikutis clearly suggest that dhikuti is discharging the wealth function of financial system efficiently in informal sector. Ghopa in dhikuti 1, converted his/her Rs.290, 000 saving into Rs.380, 000 immediately on bearing certain risk and managing the 20 savers associated with him. Similarly in the same dhikuti, the member winning the

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2 In Pokhara, there are many instances of such disaster brought about by systemic risk. Many businessmen and campus employees are in trouble due to the adverse effect of systemic risk at present.
last round of the funds fetched Rs.383, 300 by investing Rs.270, 254 on installment basis. In the case of non-bidding system, ghopa can not increase the value of investment directly but he/she can increase the value of investment by investing the money borrowed from the dhikuti. In the case of dhikuti 5, ghopa can raise Rs.1, 000,000 funds at the very beginning of the dhikuti by investing Rs.100, 000 in 10 installments for next 10 months. Similarly member winning the fund at 11th round can have Rs.1,108,000 by investing Rs.1,000,000 in 10 installment. These evidences show that this informal financial institution is a challenge to the financial institution in investment perspective also.

Saving Mobilization: Dhikuti is viewed as a compulsory saving scheme of a regular earner. Like in the saving scheme of financial institution, fund matures in a specified time. The maturity of the funds varies, in general, from 10 months to 24 months. But in the case of annual system, it takes even 10 years to mature. Members are motivated to save certain percentage of their regular income to pay their share. So, a dhikuti mobilizes the considerable amount of saving in each round. In our observation, thousands of rupees have been mobilized in a round. As stated earlier, there are many dhikutis in operation even after liberalization of financial sector in Pokhara. Even educated employees, campus teachers prefer to put up their saving in dhikuti. Even though only 17 % of the sampled members have a saving purpose, around 71 % members have financed the investment from their regular income and rest from other sources like loan and money borrowed from other dhikuti. Majority of the members opined that being a member of a dhikuti forces them to save certain percent of their income. One of the seven observed dhikuti has mobilized the saving ranging Rs.380, 000 to Rs.383, 800 in each month for 20 months. This dhikuti in total has mobilized Rs.5, 678,836 saving in 20 months. Dhikuti associated with the business community mobilizes relatively large amount of saving. One of the observed dhikutis used to mobilize Rs.1, 000,000 saving in each round. Hundreds of such dhikutis are in operation only in urban centre of Pokhara. These facts imply that in saving mobilization perspective also, dhikuti is challenging the organized financial sector.

Credit Mobilization: As stated earlier, dhikuti makes the credit accessible to all members. Members can raise fund to meet the financial requirements of business, ritual functions like marriage, sacred thread giving ceremony, and household durables. Fund is raised from dhikuti to purchase even vehicle, land and building, and repay the due loan. This study shows that more than 50 % members borrow the money for domestic purpose and less than 50% do for business purpose. For domestic purpose, borrowers use the fund to purchase household appliances—television set, refrigerator, and furniture—, vehicle especially motorbike, and personal computer. Some of the members raise the supplementary funds required to purchase house land and construction of a new building. Individuals having a regular income, instead of approaching financial institutions, borrow the money from dhikuti. The reason behind this is that the members of dhikuti can borrow money without any paper hassles and pledging any security at lower interest rate. Around 57% respondents opined that the interest rate is cheaper than that of financial institutions. This opinion is bolstered by the annual effective interest rate (AEIR) on a loan borrowed from dhikuti. Credit in non-bidding system is much more costly than that of bidding system. The rationale behind this is the discount benefits in bidding system. The maximum and minimum limits of AEIR in observed non-bidding dhikutis are approximately 15 % and 7 %. In the case of bidding system, EAIRs are far below the
interest rates on domestic, mortgage and hire purchase loans of financial institutions. The maximum and minimum limits of EAIR of observed bidding associations are 7% and 4%. Thus, from borrowing view point also, bidding system is far better than the non-bidding system. All these facts confirm that dhikuti is mobilizing the credit to their members at cheaper interest rate. This is the reason why individuals prefer dhikuti loan to financial institution loan. In addition, individuals do not approach financial institutions mainly because of the official hassle and security problem. As we know, except to few cases, financial institutions do not provide loan without pledging any securities. Out of the sampled members of the dhikuti, around 42% opined that they do not approach the bank due to the official hassle and 37% do not do due to the security problem. Thus, individuals who do not have assets for bank security and do not have an idea to handle the official hassle prefer to borrow money from dhikuti.

6. Conclusions

Dhikutis, even in a highly urbanized area of Nepal, are providing regular savers a relatively more profitable investment outlet on one hand and on the other; they are supplying the credits at lower cost in an informal financial markets. They are attractive as a saving and investment scheme among individuals associated with a particular profession, institution, locality and affinity. They are mobilizing millions of credits in the market without official hassle and securities. So, they have turned out a challenge to the financial institutions in the saving and investment perspective not only in the rural areas but also in the urban centre like Pokhara.

References


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