EVALUATING THE ROLE OF OUTREACH IN ENSURING FINANCIAL STABILITY OF MICROFINANCE INSTITUTIONS IN NEPAL

A Dissertation submitted to the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Evaluating the Role of Outreach in Ensuring Financial Stability of Microfinance Institutions in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Abhishek Rai

REPORT OF RESEARCH COMMITTEE

Mr. Abhishek Rai has defended research proposal entitled "**Evaluating the Role of Outreach in Ensuring Financial Stability of Microfinance Institutions in Nepal**", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Suman Kamal Parajuli and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Evaluating the Role of Outreach in Ensuring Financial Stability of Microfinance Institutions in Nepal**" presented by Abhishek Rai a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREBIATIONS

BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
CAR	:	Capital Adequacy Ratio
CRR	:	Cash Reserve ratio
DR	:	Debt Ratio
FIRST	:	First Microfinance Laghubitta Bittiya Sanstha Limited
FS	:	Firm Size
GDP	:	Gross Domestic Product
GLBSL	:	Gurans Laghubitta Bittiya Sanstha Limited
LC	:	Letter Of Credit
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROC	:	Registrar of Companies
ROE	:	Return on Equity
RSDC	:	RSDC Laghubitta Bittiya Sanstha Limited
S.D	:	Standard Deviation
SKBL	:	Sana Kishan Bikas Lagubitta Bitiya Limited

ABSTRACT

This study aims to explore the impact of financial factors on the performance of microfinance institutions in Nepal. Effective liquidity management within these institutions requires a structured approach to decision-making concerning liquidity risk control, including appropriate funding strategies, exposure limits, and emergency liquidity allocation protocols. Liquidity considerations encompass both the public's trust and the firm's daily operations. A lack of sufficient cash or liquidity signals deeper financial issues and crises within the institution, sending a negative message to both individuals and businesses.

The variables examined in this study include the debt ratio (DR), firm size (FS), cash reserve ratio (CRR), capital adequacy ratio (CAR), return on assets (ROA), and return on equity (ROE) for microfinance institutions. DR, FS, CRR, and CAR are treated as independent variables, while ROA and ROE serve as dependent variables in the analysis. Secondary data for this research were collected from the annual reports of authorized companies over a span of ten years, from 2070/71 to 2079/80. The data were processed and evaluated using SPSS version 24, employing descriptive, exploratory, and explanatory research methods. A sample of four microfinance companies was selected from a total of 55 through convenience sampling. The companies involved are First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited, and RSDC Laghubitta Bittiya Sanstha Limited. This research relies on secondary data, with ordinary least square (OLS) regression being a key method in panel data analysis. There is a significant positive correlation between firm size and ROE, as well as a strong positive relationship between CRR and ROA. However, the cash reserve ratio and debt ratio show little connection to return on equity (ROE). The findings of this study could assist lawmakers and bankers in formulating effective policies to enhance the profitability of the financial sector.

Key Words: Microfinance Companies, ROE, ROA, debt ratio, firm size, CRR, CAR

CHAPTER – I

INTRODUCTION

1.1 Background of the study

When the financial system which includes markets, financial institutions, and infrastructure functions smoothly and effectively, it is said to be in a stable state. It suggests that there are no systemic threats, financial imbalances, or crises that could impede economic activity. An organization's profitability is briefly shown by its financial performance, which is a key sign of its health. It draws attention to the company's advantages and disadvantages. An organization's financial performance is shown by important financial statements such as the profit and loss statement and balance sheet. It is essential to analyze these statements in order to evaluate the organization's overall financial health. Together with other operational data, this analysis reveals the strategic relationship and importance between the items on the income statement and balance sheet. As a result, financial performance analysis is necessary to make wise financial and managerial choices (Bist, 2004).

In the literature, outreach's breadth and depth are the two most frequently mentioned characteristics. While outreach's width relates to an MFI's operational scope, outreach's depth relates to the poverty level of the consumers it serves. Regarding the relative advantages of outreach's breadth and depth, there is some debate in the literature. This debate is between those who support microfinance sustainability and those who support the impoverished. The pro-poor microfinance strategy contends that since MFIs reach out to the most vulnerable members of society, outreach depth matters more in attaining the social goal of microfinance. Conversely, proponents of sustainable microfinance are more focused on expanding access to a broad spectrum of poor or unserved clients (Bhatta, 2004).

Financial sustainability, as demonstrated by Conning (1999), is the microfinance program's long-term continuation following the termination of project activities. In order to ensure that microfinance services are consistently available and that clients continue to regularly benefit from them, it is necessary to implement the proper systems and procedures. This would also imply that the members' needs would be satisfied by the

program using resources that they raised on their own initiative, whether from inside the group or from outside sources.

The ability of an organization to generate income from its core business operations using its assets is referred to as financial performance. It is a comprehensive indicator of a business's financial standing over a given time period and can be used to compare similar businesses in the same industry or across several industries or sectors overall. This examination evaluates the profitability, cash flow, and revenue creation of a business by methodically observing and analyzing financial documents. The balance sheet and the profit and loss account, sometimes known as the income statement, are important financial statements. The balance sheet indicates the financial situation with respect to assets, liabilities, and capital, whereas the profit and loss account displays operational outcomes for a particular Period. Internal control, strengthening financial position, and boosting organizational performance all depend on the analysis of financial performance (Malik & Rafique, 2013).

According to Onyuma and Shem (2005), an institution's financial sustainability is determined by its capacity to bring in enough revenue to cover program expenses. The program's sustainability is determined by a variety of criteria. These consist of product pricing, funding expenses, administrative costs, loan losses or portfolio quality, and inflation. Every determinant is significant in and of itself and has varying degrees of controllability. According to bankers, a microfinance institution is considered sustainable if its operational income from loans is enough to pay for all of its expenses (Yunus & Jolis, 2003). This definition adheres to the sustainable accounting approach and takes the bankers' perspective. Meyer (2002), however, offers an integrated approach to the definition of sustainability, arguing that the "accounting method," which considers the institution's financial element, is overly limited. He claims that the idea of sustainability encompasses, among other things, the mobilization of local resources and the acquisition of funds at market rate.

In most MFIs, one of the performance measures has been financial sustainability. Meyer (2002) contends that rather than receiving short-term financial assistance, the impoverished should have access to long-term financial services. He further claims that any short-term loan will negatively impact the wellbeing of the impoverished (Navajas,

2000). Meyer (2002) added that low repayment rates or the non-materialization of funds pledged by donors or governments are the main causes of the MFI's financial unviability. He also emphasized the significance of viability, emphasizing how important it is for growing outreach in order to meet the main goal of reaching the less fortunate members of society.

Hence, a few metrics that can be employed to gauge outreach include the average loan amount, the number of MFI branches and their geographic distribution, the percentage of female clients the MFI serves, and the overall clientele in a certain area. Analyzing a company's financial operations in order to meet its value-maximizing objectives is known as financial performance analysis. It is essential to financial decision-making and has a big impact on how businesses expand and thrive. Profit generation is the goal of business organizations, and a firm's financial performance is largely determined by the amount of profit made (Neupane, 2019).

Gurans Laghubitta Bittiya Sanstha Limited (GLBSL)

Through 33 locations spread throughout Koshi Province, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), a growing microfinance organization in eastern Nepal, offers over 20,000 impoverished, landless, rejected, and marginalized members in 12 districts access to financing. The Nepal Rastra Bank, the country's central bank, granted GLBSL a microfinance banking license on 2073/07/22. as well as the 2073/02/02 company registration office. Standard, dependable, and long-lasting financial services are offered to the underprivileged and marginalized members of GLBSL.

Vision: Strive to establish Gurans as a premier microfinance institution in Nepal by offering its esteemed members standard, dependable, and long-lasting financial services.

Mission: To raise the social and economic standards of the impoverished, abandoned, and marginalized members of society by offering them simple, dependable, and long-lasting financial services.

Capital Structure: The total authorized paid-up capital is 10.14 crore Indian rupees.

Goal: By introducing various financial and social awareness programs, to raise the standard of life for landless, impoverished, and marginalized individuals in rural and urban areas, as well as to enhance their economic standing.

Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd. (SKBBL)

Established on July 6, 2001, under the then-Company Act, Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd. (SKBBL) was granted a "D" class national-level wholesale lending microfinance institution license by the Central Bank of Nepal, as CAR the Bank and Financial Institution Act (BAFIA). The mission of SKBBL is to alleviate poverty via the creation and upkeep of community-based, sustainable cooperatives run by smallholder farmers in the area. In order to expand its services to underserved and remote locations, it uses SFACL replication initiatives. Small farmer development microfinance financial institution Ltd. (SFACLs) own 43.63% and 44% of SKBBL, 'A' class regulated institutions own 26.25% and 26%, and the general public owns 30.11% and 30%.

Vision: Develop become a premier, financially stable wholesale microfinance company that is mostly owned by SFACLs and dedicated to improving rural communities through partnerships with partner cooperatives.

Mission: Provide poor people, small-scale farmers, and small- to medium-sized business owners with high-quality financial services and technical support by forming strong alliances with vibrant and long-lasting cooperatives.

Values: Place a strong emphasis on the following: responsiveness, equity and inclusivity, accountability, transparency, cost-effectiveness in service delivery, responsiveness to legal requirements, and commitment to sustainability.

Capital Structure: The total authorized paid-up capital is 1,564,413,000 rupees.

Objectives: Give SFACLs and other cooperatives wholesale funding so they can lend to low-income individuals and agricultural enterprises. To guarantee compliance with legal requirements, partner cooperatives' operations are observed and managed. Provide Technical Assistance (TA) to SFACLs and other cooperating cooperatives (www.skbbl.com.np) in order to strengthen their institutional capacity and resilience.

First Microfinance Laghubitta Bittiya Sanstha Limited

On January 8, 2010 (B.S. 2066 Poush 24) in Kathmandu, First Microfinance Laghu Bitta Bittiya Sanstha Ltd. was established as a national microfinance organization registered by Nepal Rastra Bank under the Bank and Financial organization Act, 2073. Through MFIs, it offers microfinance services to those who are economically and socially disadvantaged, with an emphasis on improving lives, especially in agriculture and microenterprises. The organization provides MFIs with wholesale microcredit and is committed to promoting sustainable microfinance services in Nepal. 51% of its authorized, issued, and paid-up

capital of Rs. 964.5 million is held by promoters, and the remaining 49% is held by the general public. Prominent bankers, chartered accountants, and esteemed professionals, together with Global IME Bank, Prabhu Bank, Kumari Bank, Rastriya Banijya Bank, and ICFC Finance, are among the major promoters; they rely on their strong public relations and extensive banking experience as key competencies.

Vision: supplying resources to enable people with low incomes to participate in the economy.

Mission: empowering people by making financial services more accessible.

Values: dedication to sustainability, encouragement of creativity, respecting morality, and keeping professionalism.

Shareholders: Global IME Bank, Prabhu Bank, Kumari Bank, Rastriya Banijya Bank, ICFC Finance, as well as renowned bankers, chartered accountants, respected businesspeople, and professionals, are the main promoters of First Microfinance. First Microfinance (www.firstmicrofinance.com.np) is regarded as having good banking knowledge and excellent public relations from its promoters.

RSDC Laghubitta Bittiya Sanstha Limited

Initially, the goal of the Non-Governmental Organization Rural Self-reliance Development Centre (RSDC) was to establish an inclusive financial institution in order to promote a self-sufficient community. In 12 districts, RSDC has previously founded and supported 171 cooperatives, or Swawalamban Sahakari, on the grounds that these community-based organizations could support economic activity and provide necessary funding. Despite their early success, financing problems caused the cooperatives to quickly find it difficult to give rural areas enough financial support. After identifying this need, RSDC started looking into the possibility of establishing a financial organization to assist these cooperatives, which resulted in the creation of RSDC Microfinance Ltd. (RSDCMF). In 12 districts, the Rural Self-reliance Development Center (RSDC) has founded and supported 171 cooperatives, or Swawalamban Sahakari. The promoters of RSDCMF possess 60% of the company's capital structure, with the public receiving the remaining 40% in the form of common shares. The primary promoters include private investors (35.86%) from different districts around the country, as well as the Rural Self-reliance Development Centre, Kathmandu (RSDC-12.14%) and the erstwhile Lumbini

Bank (now Global IME Bank Ltd., 12%). With an issued and paid-up capital of NPR 869.568 million, RSDC now has an authorized capital of NPR 1000 million.
Mission: To strengthen the local institutions and boost their visibility in order to improve the economic standing of underprivileged rural areas.
Vision: to create a community that is self-sufficient and independent.
Goal: to create an atmosphere in which rural communities who are economically disadvantaged can use their own institutions to address their financial requirements.
Values: a focus on cooperation, effectiveness, client service, compliance, and reliability.
(www.rsdc.com.np)

1.2 Problem statement

According to Dondo and Mutiso (1999), MFIs' primary purpose of lending money to the underprivileged has led to the majority of MFIs being loss-making organizations. The two writers discovered that the majority of MFIs are successful in lending to local small businesses and low-income agents because of financial backing from Western donors and Non-Governmental Organizations (NGOs), who grant the MFIs loans at interest rates below market rates. However, the report does not highlight the connection between different MFIs' outreach initiatives and long-term sustainability. Kioko (2012) conducted a study on the variables affecting MFI sustainability in Kenya, however she was unable to demonstrate the connection between outreach and financial sustainability. Kimando, Kihoro, and Njogu (2012) have done the same.

Microfinance companies' profitability is influenced by both internal and external variables. One facet of microfinance profitability is reflected by internal variables that are connected to financial indicators from microfinance accounts, such as balance sheets and income statements (Wahdan & Leithy, 2017). The economic and regulatory settings that have an indirect impact on the functioning and sustainability of microfinance institutions are referred to as external factors, which are unconnected to microfinance management (Tobias & Themba, 2011).

The ability of an organization to pay its debts on time is referred to as liquidity. When a microfinance bank finds it difficult to make its scheduled payments, liquidity risk arises (Idama et al., 2014). A microfinance institution's lack of liquidity can cause problems like

unpredictable future results, hold-ups in getting timely funding, growth objective impediments, and increased portfolio risks (Brom, 2009). A daily fund plan that details how to balance daily cash inflows from savings accounts and loan repayments with cash withdrawals should be developed by each branch of a microfinance bank in order to reduce liquidity risk (Idama et al., 2014). A popular metric for assessing the liquidity status of MFIs is the loan to company size ratio (LAR), which shows the percentage of firm size allotted to loans (Adhikary, 2014).

An organization's size has a big impact on its profitability as well as its relationships both inside and outside the company. The modern intermediation theory (Kahiga, 2014) states that economies of scale should provide efficiency advantages for larger financial organizations. On the other hand, smaller microfinance institutions (MFIs) find it difficult to compete with their larger counterparts due to their inability to diversify their product offerings and pay for high operating costs (Muriu, 2011). During prosperous Periods, larger organizations generally have more organizational flexibility, market power, and diversification options than smaller firms (Addisalem, 2015). To assess economies or diseconomies of scale, institutional size in the context of MFIs is frequently calculated using the natural logarithm of company size (Cull et al., 2007).

1.3 Research questions

i. What are the structure of Debt ratio, Firm size, CRR, CAR, ROA and ROE of microfinance companies?
ii. Is there any relationship between Debt ratio, Firm size, CRR, CAR, ROA and ROE of micro finance companies in Nepal?
iii. Do the Debt ratio, Firm size, CRR and CAR impact on ROA and ROE of MFIs?

1.4 Objectives of the study

The following are the study's objectives:

i. To assess the structure of Debt ratio, Firm size, CRR, CAR, ROA and ROE of microfinance companies.
ii. To examine the relationship between Debt ratio, Firm size, CRR, CAR, ROA and ROE of microfinance companies.

iii. To analyze the impact of Debt ratio, Firm size, CRR and CAR on ROA and ROE of microfinance companies.

1.5 Rationale of the study

The following groups find the study to be significant: The study will provide policy makers with a preview of the factors that MFIs take into account before deciding whether to grow. Their comprehension will improve, which will help them create and approve the required laws and, ultimately, support the implementation of Vision 2030—a vital blueprint for Nepal's economic progress and prosperity. Additionally, the study will support the establishment of domestic institutions for the purpose of enhancing the financial ability of locally organized groups and funding a crucial component of the devolved structure of government.

Academicians will find this study to be helpful in expanding the corpus of knowledge, as well as in assisting them in conducting additional research and serving as a source of reference for future studies on microfinance organizations. It will serve as a literature source for scholars studying microfinance as well. Businesses that have received funding from MFIs will also be able to understand their role in the success and sustainability of the MFIs, which is crucial to their operations and will eventually enable them to assume their final role in supporting the performance of the institutions. The study will be beneficial to microfinance consultants who work to advise investors and governments on the effective application of MFIs outreach program in various regions. Academics, businesses, investors, and other interested parties are drawn to this study. Understanding how different factors affect stock prices, how prices form, and how these aspects relate to the company's financial status is a crucial insight for financial managers. Furthermore, it helps prospective investors who want to know how price patterns, stock trading volume, and signaling elements affect the NEPSE index (Downey et al., 2002). Without a doubt, this study will be significant to many different groups of people, but it is specifically targeted at the following groups of people:

Importance to shareholders

Effectively, takeover efforts can be thwarted by shareholders who judge the offer price to be too low. As a result, shareholders have a big impact on a company's overall

performance and profitability since they have power over many different aspects of its operations.

Importance to customers

Your customer is still the most important part of your business, regardless of the sector or the goods and services you provide. They are essential to the development of your marketing strategy and approach because sales are fully dependent on them.

Importance to financial institution and stock exchange

Although financial markets may seem complicated, at their core, they act as a hub where people congregate and help shift cash to areas where it is most needed. These markets give businesses access to capital for expansion, investment, and hiring. They also favor government funding for building projects, such as hospitals, schools, and highways.

Importance to government bodies and policy makers

Government policies provide the justification and guidelines for certain acts, addressing the many causes of public concerns with customized solutions. Governments impose a lot of regulations on enterprises.

Importance to the institutes

Additionally, institutions are essential for redistributing resources within the economy, guaranteeing their proper allocation, and defending the interests of those who are economically disadvantaged. Furthermore, they promote trust by maintaining a uniform legal framework throughout the policing and justice systems.

Importance to the researchers

Research fulfills a number of crucial roles, including increasing knowledge in a particular field of study, supporting hypotheses, and guiding action. It is essential for improving understanding and judgment. Research is essential for revealing the complexities of problems, dispelling myths, confirming facts, and building a solid foundation of trustworthy and genuine knowledge. Undertaking research cultivates more profound understandings and fortifies the capacity for well-informed decision-making.

1.6 Limitations of the study

The following are the study's limitations:

- The study concerned on impact of financial indicator on profitability of microfinance companies of Nepal.
- Out of 55 micro finance companies of Nepal First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL) and RSDC Laghubitta Bittiya Sanstha Limited are taken for the study.
- The study used secondary data for analysis which are taken from annual report of respective banks, journals and articles, NRB directives etc.
- The study is cover the past ten year’s data from 2070-71 to 2079-80 Period.

CHAPTER – II
LITERATURE REVIEW

The overview of previous research on the subject of "Financial indicator analysis of microfinance enterprises" is the main goal of this chapter. Gaining knowledge in the topic, spotting fresh contributions, and gathering concepts for creating a study strategy are the goals of this literature review. Because they serve as the foundation for the current study, earlier research is essential. In order to present a broad overview of the topic, this chapter synthesizes pertinent literature, including research, journal articles, and prior thesis work.

- Conceptual Review
- Theoretical Review
- Empirical Review

2.1 Conceptual review

In order to establish investing strategies and monetary value estimates, finance theory is a comprehensive field that encompasses both speculation and mathematical measures. Plans for capital development and fundraising are also developed using theories of finance, as is the management of financial risk.

2.1.1 Sustainability of microfinance

Various people have different perspectives on sustainability, so it can be difficult to come to an agreement on the subject. Institutional, social, and environmental considerations are frequently subordinated to financial sustainability in profit-driven companies. On the other hand, organizations that prioritize development give sustainability more weight. Sustainability, Schrieder (2000), is development that satisfies current demands without jeopardizing the capacity of future generations to satiate their own needs. In general, sustainability refers to the promotion of constructive changes in a dynamic system that combines society, economy, and ecological. According to Gilman (1990), sustainability is the ability of a community, ecosystem, or other continuing system to continue operating without depleting vital resources and deteriorating.

Sustainability, according to CGAP (2003), is the capacity for repetition. Two concepts are included in the term sustainability: the sustainability of a business as a whole and the sustainability of individual transactions. Sustainable transactions are repeatable in the long run. Organizations that are sustainable are designed with incentives to maintain the flow of business. Sustainability in the context of microfinance refers to an MFO's ability to continue operating and fulfilling its purpose of providing financial services to the underprivileged. In the context of microfinance, self-sustainability refers to an MFO's ability to support itself without the help of outside donors. On the other hand, microfinance sustainability may not always represent an MFO's social influence; on the other hand, microfinance self-sustainability shows an MFO's continued societal value.

Mayoux (1999), performance entails reaching goals. Achieving sustainability means achieving short- and long-term objectives. Six different stakeholder groups are included in an MFO: donors, employees, and customers in need, investors, society, and the poor. Each stakeholder group places restrictions on the others. Every organization establishes its own goals, and as a result, its own performance measures. From the perspective of society, the social advantages of a successful MFO outweigh the expenses. Effectiveness for those living in poverty is measured by how well money designated for reducing poverty are used. While measuring costs is usually less expensive than evaluating benefits, cost-effectiveness analysis can determine whether unmeasured advantages could be more valuable than measured ones. A successful MFO promotes repeat business from clients in need. Donors give top priority to using public monies to draw in private investment. A successful MFO is seen by staff as offering meaningful work, guaranteeing sustainability even in the event that donor support wanes. Good performance is seen by investors as producing market returns.

A major difficulty in microfinance is sustainability, as emphasized by Hollis and Sweetmen (1998). One noteworthy discovery is that, in comparison to MFIs dependent on donations or government funding, those sustained by deposits typically have longer lifespans and service a greater number of borrowers. Building a robust institution can draw in local depositors, ensuring the viability of the organization. Three crucial elements are highlighted by Mosley and Hulme (1996) as they expound on the interrelated facets of microfinance sustainability: the sustainability of MFI borrowers, the financial and economic viability of MFIs, and the larger macroeconomic stability. Ahmed (2002) has

put forth a number of measures, such as operating efficiency measurements, portfolio quality evaluation, and financial ratio analysis, for evaluating financial sustainability.

2.2 Theoretical review

2.2.1 Joint liability theory

The notion of joint culpability is subject to several interpretations, which can be broadly classified into two groups. First, members of the group are contractually obligated to return the loan in the member's place under express joint obligation, which may arise when one borrower is unable to repay it. These repayments can be compelled by using a group savings fund as collateral or by threatening a common punishment, which is usually the denial of future credit to all members of the defaulting group (Banerjee, et al, 1994). The second form of joint liability is implicit, or the belief among borrowers that, even if the lending contract does not expressly state this penalty, if one member of the group defaults, the entire group would lose its eligibility for future loans. One way this might occur is if the microfinance company decides to shut down when faced with delinquency (Banerjee, et al, 1994).

2.2.2 Women's empowerment theory

Significant levels of poverty and sluggish economic growth are typically found in nations with significant levels of gender inequality (King et al., 2001). Research indicates that high-performing microfinance initiatives, particularly those that combine social services with lending, empower borrowers and enhance their wealth. This is one of the reasons MFIs prioritize women, and also why a lot of foreign donors, regional non-governmental organizations, and governments have included microfinance in their agendas for reducing poverty and promoting gender equality. (Cheston & others, 2002). Numerous academic disciplines, including sociology, economics, anthropology, and public health, use the idea of empowerment. In spite of this, the word's meaning is very consistent across all fields. One significant factor that is frequently highlighted is the ability of women to make decisions that affect them, their families, and their children. Other factors include the ability to govern one's own life and one's financial resources. One of the main elements that is mentioned as contributing to women's empowerment is their access to financial resources. The notion of empowerment can be segmented into multiple aspects, with particular emphasis placed on women's control over income, credit availability, domestic

decision-making, and birth control when examining its economic and interpersonal aspects (Malhotra et al., 2002).

As per Malhotra et al. (2002), women frequently experience the most severe aspects of poverty, as they lack formal education, employment, and income, and their social mobility is restricted. Women's standing would rise in the family and in society if they could improve their economic situation, health, and level of education. Due to poor status and lack of authority over their own bodies, women in many nations have high fertility rates and little access to birth control. As a result, the lack of influence held by women may be the cause of population growth. Raising the social and economic standing of women is necessary for a society to control its fertility rate, and this is where MFIs come into play.

2.2.3 Financial systems model

Maximizing the reach of MFI services through a sustainable institution that prioritizes a financial intermediation model is the goal of the financial systems approach (Rosenberg, 2003). With this strategy, MFIs can serve their members exclusively, as in the case of village banks, or they fund the general public, like commercial banks. The loan portfolio of this MFI is funded by retained revenues from micro lenders, commercial financing, savings that have been mobilized, and for-profit investments. These MFIs are distinct from subsidized formal microcredit, where a regulated institution, such a state-owned bank, feeds government or donor funds to borrowers at subsidized interest rates, and from informal money lenders, such as uncontrolled organizations like NGOs (Rosenberg, 2003).

Proponents of the financial system contend that rather than directly funding loan portfolios, donors and the government should instead spend their limited resources toward encouraging the replication of this model. However, there is a problem with this model because it depends on a market approach that could be flimsy and weak in marginal areas (Rutherford, 2000). However, Bogan et al. (2007) contended that market solutions can be discovered to get beyond any barriers in these areas as well.

2.2.4 Poverty lending model

The goal of the poverty lending method, according to Honohan (2004), is to assist the poorest of the poor, who are usually involved in pre-entrepreneurial activities that prioritize consumption over productivity-boosting endeavors. Because any credit granted to them is likely to be consumed rather than invested in anything that yields a return large enough to repay the debt, this group needs help in the form of income transfers to cover their fundamental requirements (Rosenberg, 2003).

This strategy is not the same as the minimalist financial services paradigm. Typified by the approach to financial systems. To lessen the target group's exposure to preventable risk, it offers auxiliary services in addition to microfinance, including instruction in nutrition, improved farming methods, family planning, health, and fundamental money management. These auxiliary services are usually paid for by donor grants, governments, and other subsidized sources of money. In the past, governments and donors sponsored lending portfolios, and loans were provided at interest rates lower than the market. Nonetheless, the practice of subsidizing interest rates has altered because to mounting evidence that the repayment rates of the microfinance target population remain unaffected by market-related interest rates. Furthermore, even if the target demographic for microfinance is initially unable to save, the use of "forced savings" has lessened the amount that governments and donors must fund loan portfolios (Rosenberg, 2003).

The institution's microfinance function is financially sustainable, and measures have been taken to guarantee that the supply of ancillary services to individuals in the pre-entrepreneurial category is accomplished without jeopardizing this stability. This is accomplished by clearly identifying the difference between the cash allotted for services. The former is financed by member savings, whereas the latter is financed by government and donations (Honohan, 2004).

2.2.5 Endogenous growth theory - education / human capital theory

The endogenous growth hypothesis places a strong emphasis on the contribution of human capital to national economic development. Since knowledge is included in the model as a form of capital, the production function does not show a declining return on capital. Savings and investments in human capital can both result in sustained growth, according to the endogenous growth model. Human capital is identified by neo-classical

growth theories and the Solow model as one of the elements influencing CAR capita growth (Lipsey et al., 2009). Many economists, including Todaro et al. (2003), contend that a country's human resources influence its level of economic and social growth. Since health and education are components of human capital, it follows that both are essential to a nation's development. Since excellent health is a must for attending school, the two characteristics are closely intertwined.

There are various ways that microcredit affects human capital that are discussed in the literature on microfinance and education. The effects have been categorized into five groups by Maldonado (2005): income effect. Lowering the opportunity cost of sending the kids to school is achieved by increasing income. Behrman (1999) This suggests that since the return to primary school is high and the income elasticity on the demand for schooling is positive, children should be sent to school to a greater extent than before if microfinance increases the household's income (Maldonado, 2005). The risk-management effect arises from the fact that impoverished people are more susceptible to outside shocks; a negative income shock frequently results in the removal of school-age children. By reducing consumption and improving the household's capacity to anticipate and manage economic shocks, access to microcredit can reduce the likelihood that the kids would miss school (Behrman, 1999). The influence of gender is another. Numerous studies have demonstrated that women place a higher priority on raising their children than do males, and that microcredit awarded to women has a greater impact on children's academic performance than credit awarded to men (Maldonado, 2005).

The information effect occurs because a large number of families in developing nations may make snap judgments as a result of incomplete information about available options. Microcredit programs can help households make long-term decisions by, for instance, considering the high return on elementary schooling, if they improve information and raise awareness about options. Credit programs that integrate education and financial services are one example. The program members' education may alter their stance on how to educate their kids.

2.3 Empirical review

Khan, Goswami and Choudhury (2024) examined on the microfinance institutions (MFIs) operate to achieve twin objectives: financial and social. In terms of clientele and loan portfolios, South Asian MFIs hold a significant market share. Examining the dual objectives (financial and social) of MFIs functioning in South Asia is the aim of this paper. The authors measure bias-corrected efficiency ratings using bootstrap data envelopment analysis. We have moreover chosen a meta-frontier method to take technological heterogeneity into consideration. The technological gap ratios and relative inefficiencies of each MFI were also calculated by the writers. Our findings support the notion that MFIs serving the South Asian population prioritize financial objectives over social outreach. Furthermore, the primary reason for the lower level of performance in the chosen location is managerial inefficiency. Therefore, in order to further improve social as well as financial performance levels, MFIs must utilize the newest technologies and allocate resources properly.

Lehenchuk et al. (2023) researched on the impact of financial Performance on the profitability of advertising agencies in the Slovak Republic. This study set out to evaluate the relationship between financial performance and advertising firms' profitability in Slovakia. We used multiple regression to analyze the data. The findings showed that while the debt to equity ratio has a negative impact, business size and turnover both positively affect profitability. The study came to the conclusion that funding advertising companies using debt resources (bonds or loans) has a negative impact on return on assets (ROA), which supports the suggestion that finding other financing sources can increase profitability. These findings are reinforced by the study's finding that there is no meaningful correlation between current ratio (CR) and return on assets (ROA).

Ilham, Akhyar and Maimunah (2023) examined the influence of profit management and financial Performance on company value in building materials construction sub-sector companies. The purpose of the study was to look into how company value in the building materials industry is impacted by profitability, capital structure, liquidity, and earnings management. For data analysis, multiple linear regression was used. The results showed that while profitability and capital structure positively and significantly impacted company value, earnings management and liquidity had no discernible impact on firm

value. The study came to the conclusion that these variables had a major impact on the company value of listed Indonesian firms in the building materials construction subsector.

Yasmin (2022) conducted a research on financial sustainability of microfinance institutions and macroeconomic factors: A case of South Asia. The purpose of the study was to investigate how macroeconomic choices affect microfinance choices in South Asia. With the exception of GDP growth, economic factors such foreign investment, human development, inflation, interest rates, private lending, and labor force participation generally have a negative impact on financial sustainability. This was discovered through the use of a fixed-effect regression model for data analysis. In light of this, the study suggests that policy makers in South Asian nations take proactive steps to guarantee the financial viability of microfinance institutions, paying particular attention to goals related to reducing poverty, empowering women, promoting financial inclusion, and advancing broader socioeconomic development.

Agaba and Eton (2022) studied on credit risk management practices and loan Performance of microfinance institutions in Uganda. The purpose of the study was to find out how loan performance and credit risk management techniques are related. It analyzed data using multiple regression and found important relationships, including the impact of credit risk identification, evaluation, monitoring, and control on loan performance. The study came to the conclusion that putting these methods into practice well improves loan performance by enhancing credit risk management.

Mwangi (2022) researched on the effect of size on financial Performance of commercial banks in Kenya. The purpose of the study was to ascertain how Kenyan commercial banks' profitability is impacted by their size. The association between size (as determined by the logarithm of business size) and financial performance metrics (Return on Equity and Return on Assets) was investigated using regression analysis. The findings showed that among Kenyan commercial banks, size and financial performance were positively correlated. Furthermore, bigger institutions experienced a stronger impact from this. The study came to the conclusion that Kenyan commercial banks' financial performance is positively impacted by their size. The null hypothesis, according to which size has no appreciable impact on Kenyan commercial banks' financial performance, was rejected.

Bochaberi and Job (2021) researched on mobile banking and financial Performance of selected microfinance institutions in Kenya. The study looked into how mobile banking affects how well microfinance institutions operate. For data analysis, it used multiple regression and descriptive statistics (such means, percentages, and standard deviation). The findings showed that Kenya's four commercial banks' financial performance is considerably impacted by mobile banking. According to the study's findings, mobile banking increases transaction volumes in commercial banks, increases customer dependability, expands outreach to underbanked communities, assures affordability and safety, and improves efficiency.

Kori, Muathe and Maina (2020) studied on financial and non-financial measures in evaluating Performance: The study aimed to assess how well commercial banks Performed by employing various financial and non-financial metrics. For data analysis, it made use of multiple linear regression and descriptive statistics. The results showed that performance of Kenyan commercial banks is highly influenced by strategic intelligence. In addition, it was determined that both financial and non-financial performance measures were critical to Kenya's overall economic growth and the banking industry.

Ndungu and Bosire (2020) researched entitled on determinants of financial Performance of commercial banks listed at NSE in Kenya. The study's goal was to pinpoint the variables affecting Kenyan commercial banks listed on the NSE's financial performance. Standard deviations and means were among the metrics used in data analysis. The financial performance of these institutions varies, and the results showed that credit risk, liquidity risk, market risk, and operational risk account for 31.42% of the difference. In particular, the study found that whereas market and operational risk have a major negative impact on financial performance, credit risk has a favorable influence.

Nalianya and Miroga (2020) examined on determinants of financial Performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE). The study's objective was to evaluate Kenya's commercial banks' financial performance. It analyzed data using multiple regression, correlation coefficients, and descriptive statistics. The results showed that operational costs, leverage, capital adequacy, and liquidity all had a major impact on the listed commercial banks' financial

performance in Kenya. Leverage in particular was found to have the biggest favorable impact on these institutions' financial performance.

Ganyam and Iyungu (2019) researched on effect of accounting information system on financial Performance of firms: A review of literature. Examining the actual data and theoretical foundations of accounting information systems and corporate financial performance was the goal of the study. The study's data analysis, which included multiple linear regression, revealed that efficient accounting information systems facilitate financial transactions, improve managerial decision-making, strengthen internal controls, increase the quality of financial reporting, and improve performance measures. According to the study's findings, information technology has the biggest influence on accounting because it makes it possible for businesses to create and implement computerized systems for monitoring and documenting financial transactions. These systems support internal controls, help management make more informed decisions, and guarantee the accuracy of financial reports.

Akanbi and Adewoye (2018) studied on effects of accounting information system adoption on the financial Performance of commercial bank in Nigeria. The study evaluated the effect of Accounting Information Systems (AIS) implementation on the financial performance of Nigerian commercial banks. The data was analyzed using multiple regression analysis and Cronbach's alpha was evaluated. The results showed that Nigerian commercial banks have adopted and used AIS extensively to provide services to their clients. According to the study's findings, adopting AIS dramatically improves a number of performance metrics, including ROCE, ROTA, GPM, and NOP.

Yusuf and Surjaatmadja (2018) studied on analysis of financial Performance on profitability with non-Performance financing as variable moderation. With non-performing financing (NPF) acting as a moderating variable, the goal of this study is to examine the relationship between profitability as defined by return on assets (ROA) and the capital adequacy ratio (CAR) and financing to deposit ratio (FDR). Multiple regression analysis was used in the study to look at the data. The results show that while BOPO has a large negative impact on profitability, CAR and FDR independently have a significant favorable impact. Furthermore, the analysis indicates that neither the link

between FDR and profitability nor the relationship between CAR and profitability is much affected by NPF. NPF does, however, have a detrimental effect on the connection between profitability and BOPO.

Robin, Salim and Bloch (2018) examined on financial Performance of commercial banks in the post-reform era: Further evidence from Bangladesh. The goal of the study is to look into the financial performance of Bangladesh's commercial banks. To evaluate the data, it used the Hausman test and multiple regression. The results showed that the banks' return on equity (ROE) and return on assets (ROA) were not significantly impacted by the financial reform. Nonetheless, a rise in net interest margin (NIM) was noted. The study found that after the financial reform, the sample banks' profitability did not increase, with the exception of a rise in NIM.

Narwal and Yadav (2016) researched on Sustainability of microfinance institutions: the role of outreach and financial sustainability. Examining the effects of particular outreach and financial metrics on the long-term viability of Indian microfinance firms is the goal of this article. It uses a quantitative methodology based on secondary data from 40 microfinance institutions that were conveniently sampled. Model specification is done using a panel data technique. Research has demonstrated the relationship between financial sustainability measures and outreach. Microfinance institutions' profitability is positively correlated with outreach metrics. Loan repayment terms have a favorable effect on outreach and a detrimental effect on long-term financial viability. The payback rate may be the primary concern of microfinance institutions in order to achieve sustainability. To guarantee the viability of microfinance institutions, it is advised to strike a clear balance between social objectives and institutional sustainability. There are few studies, particularly in India, examining the trade-off between financial sustainability and outreach. Its implementation gave the microfinance industry several priceless features.

International article so far reviewed are presented in Meta table 1.

Table 1

Analysis of International Articles

Date	Writer	Title	Methodology	Objectives	Findings
2024	Khan, Goswami and Choudhury	The microfinance institutions (MFIs) operate to achieve twin objectives: financial and social.	The study analysis is based on 2258 observations of MFIs operating during the years 2005 to 2018	to examine the dual goals (financial and social) of MFIs operating in South Asia	MFIs serving the South Asian constituency tend to prioritize financial objectives over social engagement. Furthermore, the primary reason for the lower level of performance in the chosen location is managerial inefficiency.
2023	Lehenchuk, et. al	The impact of financial sustainability on the profitability of advertising agencies in the Slovak Republic	Multiple regression analysis	To analyze the impact of financial Performance on the profitability of advertising agencies in Slovakia	Studies show : Firm size Turnover and Firm Size have a strong positive impact on Return on Assets when it is used as the dependent variable to evaluate financial performance in advertising agencies, whereas Debt to Equity Ratio has a negative impact.
2023	Ilham, Akhyar and	The influence of profit	multiple linear regression	To examine the effect of earnings	According to certain research, manipulating profits and liquidity has

	Maimunah, et. al	management and financial Performance on company value in building materials construction sub-sector companies		management, profitability, capital structure, and liquidity on the firm value in building materials	little effect on the value of the company. On the other hand, it was discovered that firm value was positively and considerably impacted by profitability and capital structure.
2022	Yeasin	Impact of financial analysis on financial Performance	Multiple regression analysis	To analyze the impact of financial risk management on financial Performance	Non-Performing Loans (NPLs) and the Capital Adequacy Ratio (CAR), both of which had negative and statistically significant effects on commercial banks' financial performance. On the other hand, their financial performance was positively and statistically significantly impacted by the Loan to Deposit Ratio (LDR).
2022	Agaba and Eton	Financial literacy practices and Performanc	Correlation and regression analysis	To examine the relationship between Credit Risk Management	The study found that there was a significant relationship between credit risk identification, assessment, monitoring,

		e of commercial banks in Uganda		Practices and Loan Performance	and control over loan performance.
2021	Bochaberi and Job	Relationship between outreach and financial Performance of selected commercial banks in Kenya	Descriptive statistics	To examine the role of mobile banking on Performance of commercial banks	Through offering consumers dependability, increasing accessibility for the unbanked population, guaranteeing security and affordability, improving efficiency, and increasing transaction volumes within these banks, mobile banking has an impact on the financial performance of four commercial banks in Kenya.
2020	Kori, Muathe, and Maina,	Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence in the Context of	Descriptive statistics and linear multiple regression analysis	To provides comprehensive discussion on role of strategic intelligence in commercial banks, in Kenyan context	Kenyan commercial banks should use a balanced scorecard approach to match training objectives and strategy execution to investor interests.

		Commercial Banks in Kenya			
2020	Ndungu and Bosire	Determinants of financial Performance of commercial banks listed at nse in Kenya.	Descriptive statistics and multiple regression analysis	To establish the determinants of financial Performance of NSE listed commercial banks in Kenya	The study discovered a strong positive correlation (r=0.926) between the financial performance of commercial banks and the distribution of funds. It recommended looking at additional factors including inflation, exchange rates, and interest rate swings and concluded that 85.7% of the variation in financial performance could be explained by the allocation of funds to different assets.
2020	Nalianya, and Mirog a,	Determinants of financial Performance of commercial banks in Kenya: Case of listed banks on	Descriptive analysis, correlation analysis and regression analysis	To examine the determinants affecting financial Performance of listed commercial banks in Kenya with specific objectives on	Leverage, operating costs, capital adequacy, liquidity, and other independent variables have a major impact on the financial performance of Kenya's listed commercial banks. It is recommended that managers of these banks use a proactive credit

		the Nairobi Securities Exchange (NSE)		the effect of liquidity, capital adequacy, operational expense and leverage on Performance of banks in Kenya	policy in order to fully utilize debt in capital expenditures, thereby improving the financial performance of the company.
2018	Mirie and Mwangi	The Effect of Size on Financial Performance of Commercial Banks in Kenya	Regression analysis	To establish the effect size has on the profitability of commercial banks in Kenya.	It is important to consider policy efforts that aim to increase the size of commercial banks. Additionally, shareholders or managers may choose to implement growth strategies like internal generation, fundraising, or mergers and acquisitions.
2018	Akanbi and Adewoye	Effects of Accounting Information System Adoption on the Financial Performance of Commercial Bank in	Cronbach's alpha test	To examine various innovations to which their services are been Performance effectively with financial improvement.	In Nigeria, commercial banks have adopted and widely used AIS to provide services to their clientele. At α values, there is a substantial positive association between the adoption of AIS and all performance indicators, including ROCE, ROTA, GPM,

		Nigeria			and NOP.
2018	Yusuf and Surjaatmadja	Analysis of Financial Performance on Profitability with Non Performance Financing as Variable Moderation (Study at Sharia Commercial Bank in Indonesia Period 2012–2016)	Multiple linear regression analysis	To determine the effect of capital adequacy ratio (CAR) and financing to deposit ratio (FDR) on profitability (proxies with return on assets [ROA]) with non Performing financing (NPF) as a moderation variable	While the Bank Operating Profitability Ratio (BOPO) has a negative impact on profitability, the Capital Adequacy Ratio (CAR) and Financial Depth Ratio (FDR) have a positive influence. The association between FDR and profitability or between CAR and profitability is not greatly impacted by non-performing loans (NPF), but it is adversely affected by the relationship between BOPO and profitability.
2018	Robin, Salim and Bloch	Financial Performance of commercial banks in the post-reform era: Further evidence from Bangladesh	Regression analysis	To Examine the financial Performance of the commercial banks in Bangladesh in terms of profitability measures before, during and after a	The return on equity (ROE) and return on assets (ROA) of banks have not been significantly affected by financial reforms; nonetheless, the rise in net interest margin (NIM) has strengthened capital and enhanced asset quality, which are

				Period of financial liberalization	the main variables affecting profitability. For Bangladesh's banking industry to remain viable, it is therefore imperative that effective banking policies that improve capital reserves and asset quality be implemented.
2016	Narwal and Yadav	Sustainability of microfinance institutions: the role of outreach and financial sustainability	Descriptive, correlation and regression analysis	To examine how selected outreach and financial indicators impact on the sustainability of Indian microfinance institutions.	Microfinance institutions' profitability is positively correlated with outreach metrics. Loan repayment terms have an effect on outreach in a favorable way and financial sustainability in a negative way.

2.3.1 Review of national articles

Shrestha (2023) conducted a research on Impact of firm-specific factors on the financial Performance of Nepalese microfinance institutions. The purpose of this study was to evaluate the impact of several firm-related characteristics on the financial performance of microfinance institutions (MFIs) in Nepal. The study found that these characteristics have a substantial impact on the financial performance of MFIs in Nepal through the use of multiple regression analysis. More specifically, it discovered that while worse asset quality has a negative effect on financial performance, higher deposit ratios, enhanced management effectiveness, and a wider interest rate differential had favorable effects. The

study comes to the conclusion that improving interest rate spreads, deposit ratios, and managerial effectiveness could improve Nepalese MFIs' financial performance.

Dhungana and Ranabhat (2022) analyzed on impact of microcredit on micro-enterprise development: A case of Gandaki province of Nepal. The purpose of the project is to find out how microcredit impacts the growth of microenterprises in the Gandaki Province of Nepal. It used correlation coefficients and multiple regression analysis as analytical methods. The findings showed that microcredit has increased microbusinesses' investment, income, and profitability, enabling them to grow and create jobs. The study highlights how important it is for small businesses to use microcredit effectively if they want to succeed and remain sustainable over the long run.

Kunwar (2022) conducted a research on financial sustainability of microfinance institutions in Nepal. Without a doubt, the financial stability of microfinance organizations is the primary emphasis of microfinance sustainability. To examine the data, the study used regression analysis, correlation analysis, and descriptive statistics. It was discovered that the ability to pursue microfinance goals without ongoing donor money is referred to as financial sustainability. According to the study's conclusion, self-sufficiency is essential to these definitions, suggesting that microfinance businesses may be lucrative in the long run.

Jha and Hui (2022) examined on a comparison of financial Performance of microfinance institutions: a case study of Nepal. This study looked at the differences in the financial performance of different ownership structures of microfinance organizations in Nepal. Multivariate regression analysis was used in the study to analyze the data. Results show that public sector banks are much less efficient than private sector banks, but local private banks are about as efficient as foreign-owned (joint-venture) banks. According to the study's findings, the capital adequacy ratio, interest costs as a percentage of total loans, and net interest margin all had a significant impact on return on assets. Furthermore, it was discovered that return on equity was significantly impacted by the capital adequacy ratio.

Shrestha (2020) examined on changing dimension of financial inclusion in Nepal: A comparative analysis. Using secondary data, the study sought to analyze changes in

financial inclusion over time in Nepal and compare these patterns to those in other South Asian countries. The data was analyzed using regression analysis and descriptive statistics. The results showed unequal and insufficient access, especially when it came to credit consumption, underscoring the significant work required to improve inclusion within the financial system. According to the study, establishing inclusive policies and utilizing contemporary technologies are essential first steps in enhancing universal access to financing. The study determined that in order to effectively promote financial inclusion, it is imperative to increase knowledge of and improve the advantages linked with formal financial services.

Oli (2018) researched on impact of microfinance institutions on economic growth of Nepal. This study looked into the relationship between Nepal's economic growth and microfinance institutions. The study discovered through multiple regression analysis that there is a positive correlation between economic growth and increases in business size and total loans. Similarly, stronger economic development was linked to bigger total deposits. The study also found a negative association between inflation and economic growth in Nepal and concluded that more money supply generally results in stronger economic growth. This implies that weaker economic growth is typically the outcome of higher inflation.

Simkhada (2017) conducted a research on indicator for measuring Performance of financial cooperatives in Nepal. This paper's goal is to offer a number of indicators for assessing financial cooperatives' performance in Nepal. PEARLS and CAMEL analyses were used in the study to examine the data. The findings showed that 25 self-governance indicators and 32 financial ratios across eight performance aspects are needed to evaluate the performance of financial cooperatives. The study came to the conclusion that important aspects of organizational performance include profitability, growth, market share, governance, sustainability, efficiency, productivity, and liquidity. All of these dimensions aside from equity market value—were validated through interviews and pilot testing.

2.4 Research gap

This study uses a variety of ratios, trend analysis, and statistical tools to investigate the financial performance of a chosen sample of microfinance firms. Analysis of survey data using financial instruments. To ensure that the data was genuine and up to date, the researcher examined data from five fiscal years. This study tackles problems in Nepalese microfinance that were not covered in earlier research. The goal of the study is to define financial terms. Understanding has been deepened by reviewing pertinent literature, which is crucial for the significance and goal of the study. Lending procedures, credit policies, financial performance, credit administration, and liquidity mobilization in microfinance are all covered in earlier studies. To carry out these evaluations, researchers have used a variety of ratio analyses. Prior research on financial performance focused on narrow ratios that were insufficient to adequately address the problems. This study methodically analyzes and classifies different ratios. Previous studies failed to examine the effects of money mobilization and investment characteristics on profitability. There was no classification of the ratios according to their attributes. This study, on the other hand, groups all ratios based on their unique domains and attributes.

Prior studies limited their analysis to a five-year fiscal period by using data from only one year. These limitations draw attention to a knowledge gap on the current state of affairs in Nepalese microfinance, even though the data is still accurate and up to date. In order to overcome these constraints, a thorough definition of financial performance is provided in this paper. It makes use of a variety of financial instruments, including credit risk evaluations, activity ratios, profitability indicators, liquidity ratios, asset management metrics, and other pertinent ratios. To give a comprehensive examination, statistical techniques such as trend analyses and correlation coefficients will be used. It is anticipated that this study will make a substantial contribution to our knowledge of financial performance in financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

The approach used in the current investigation is described in this chapter. The term "research methodology" describes an organized approach to issue solving that includes the methodical collection, documentation, analysis, interpretation, and reporting of data pertaining to different facets of the phenomenon being studied. The research methodology for this study describes the tactics and techniques used during the investigation. It specifically addresses the target demographic and sample selection, data sources, analytical techniques, and research design.

3.1 Research Design

Defining the techniques and steps taken to get the required data is part of research design. In order to evaluate, compare, and classify the features of independent variables influencing bank profitability (dependent variables), this study uses a descriptive research approach. Furthermore, it makes use of the causal-comparative study design to look into the connections between independent and dependent variables after an event or action.

3.2 Population and Sample

All 55 microfinance organizations listed on the Nepal Rastra Bank website (www.nrb.org.np) that were active in the country as of May 2024 are included in the study. Using purposive sampling, the following were chosen: Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, First Microfinance Laghubitta Bittiya Sanstha Limited, and RSDC Laghubitta Bittiya Sanstha Limited. The study spans ten fiscal years, from 2070–2071 to 2079–2080.

3.3 Nature and Sources of Data

For the research project, adequate data must be acquired from a variety of sources. To accomplish the goals of the study, the researcher's main duty is to collect data and information from various sources. Depending on where it comes from, data might be classified as primary or secondary. The primary source of data used in this study is secondary data that was gathered from various publishers' pertinent publications. Selected

microfinance organizations' financial data for the last ten years was obtained from www.nepalstock.com. Books, periodicals, newspapers, business reports, and magazines will also be consulted when necessary. Since the study is focused on fast-moving phenomena, all computations will only employ secondary data.

3.4 Data Procedures

The original form of data collected from several sources cannot be used directly for analysis. To make it appropriate for analysis, it has been checked, reassessed, modified, and arranged into tables. The data's dependability was guaranteed by the researcher by obtaining it from legitimate sources. One of the most important parts of the course is data collecting, and there are several tools available for this. These tools need to be planned for and given significant thought. When the researcher has a solid grasp of the issue, they can be applied most successfully. Data collection methods, however, are contingent upon a number of variables, including the nature of the information required, the type of respondents, the length of the study, and the workforce's availability. Information was gathered from microfinance sources, such as annual reports, newspapers, and bulletins, in order to meet the study's objectives. In addition, information from NRB websites, magazines, dissertations, unpublished periodicals, and publications from the NRB were used. Secondary data sources provided the majority of the study's data.

3.5 Method of Data Analysis

The performance of First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), and RSDC Laghubitta Bittiya Sanstha Limited is evaluated and analyzed using a variety of financial and statistical tools and techniques. The following statistical and financial tools were employed in this study:

3.5.1 Descriptive Statistics

Several statistical techniques were used in this investigation to compare the data and arrive at an insightful result. Here are some brief descriptions of these tools.

Mean

The most popular and extensively used technique for providing a single value summary of a dataset is the arithmetic mean. It is calculated by taking the total number of things

and dividing it by the sum of all of the items. The average value over the study period is indicated by the mean values of the various variables.

$$\text{Mean } (\bar{X}) = \frac{\Sigma x}{n}$$

Where,

$\bar{X}$= Sum of the variables 'x'

N = No. of Observation

Standard deviation

The degree of variance among separate items around a central value is referred to as dispersion. Absolute dispersion is quantified by the standard deviation; a higher dispersion is correlated with a higher standard deviation. Higher levels of homogeneity and uniformity within a series are indicated by smaller standard deviations, although the contrary is also true. The standard deviation for the market value CAR share, dividend yield ratio, debt ratio, profits CAR share, dividends CAR share, and capital adequacy ratio was computed in this study.

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Correlation analysis

One statistical method for determining how closely one variable is related to another is correlation analysis. Simple correlation has been used in this investigation. For a thorough understanding, the correlation coefficient between the chosen financial variables has been computed and presented in matrix form. This formula can be used to find the correlation coefficient between two variables, X and Y.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}}$$

If r = 0, then the correlation between the variables is between -1 and +1. A perfect negative correlation between the variables is indicated by r = -1. A perfect positive correlation between the variables is indicated by r = +1.

Coefficient of determination (r^2)

When two variables are independent and dependent on each other, the strength of their linear relationship is measured by the coefficient of determination. In essence, it shows the percentage of the dependent variable's overall fluctuation that the independent variable can account for. The values of this coefficient span from 0 to 1. When the value of the scatter plot is one, all of the data points fall exactly on the regression line, indicating that there is no unexplained variation.

Regression analysis

The direction of movement is provided by regression analysis, but the relative movement of the variables under investigation is not indicated. It does, however, aid in our comprehension of the relative movement of the variables. The following variable's regression analysis has been computed and analyzed. Multiple regression analysis can be used to quantify and estimate the elements influencing estimations of the ROA and ROE. The equation for multiple regression is:

Model 1: $ROA = a + b_1DR + b_2FS + b_3CRR + b_4CAR$

Model 2: $ROE = a + b_1DR + b_2FS + b_3CRR + b_4CAR$

3.6 Research Framework

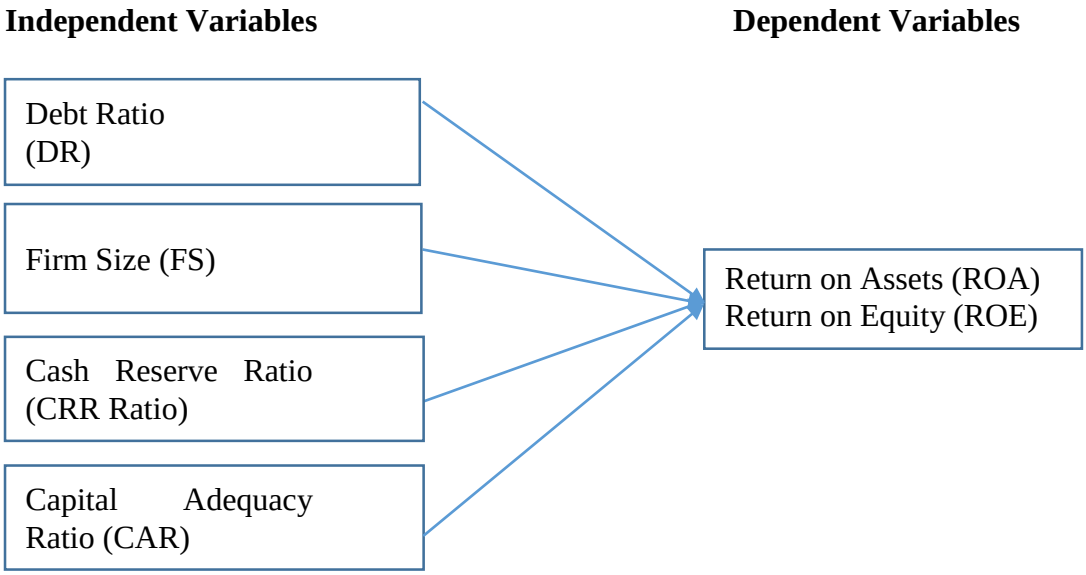

Figure 1

Research Framework

Source: (Narwal & Yadav, 2016)

3.6.1 Definition of Variables

Debt Ratio

The debt-to-equity ratio displays the proportion of a company's equity held by shareholders as opposed to the amount owned by creditors, or those from whom it has borrowed money. Together with the debt servicing ratio and the debt-to-firm size ratio, it is one of three metrics used to determine debt capacity (Bahadur & Bhandari, 2021).

Firm Size (FS)

All of a small business's valuable assets are considered its firm size. Cash, inventory, equipment, tools, and other financial obligations owed to you are all included in the size of the business. Add your equity and liabilities to get the size of your company. The easiest way to calculate business size using this technique is to deduct the value of liabilities from the value of equity or assets because liabilities have a negative value. Your firm's size is represented by the resultant value (Connell, 2023).

Cash Reserve Ratio (CRR)

The central bank of Nepal, known as Nepal Rastra Bank (NRB), oversees all commercial banks. The NRB has mandated that commercial banks retain a specific percentage of their total deposits as reserves in order to facilitate the smooth operation of these banks. This is specifically done to keep commercial banks strong in terms of their liquidity position (Hamal, 2020).

Capital Adequacy Ratio

The amount of capital that a bank has on hand is expressed as a percentage of its risk-weighted credit exposures and is known as the capital adequacy ratio, or CAR. The ratio of a bank's capital to its risk-weighted assets and current liabilities is known as the capital adequacy ratio, or CAR. Central banks and bank regulators make the decisions to keep commercial banks from taking on too much leverage and going bankrupt in the process (Akanbi & Adewoye, 2018).

Return on Assets

Given that it shows the returns produced by the assets a bank has, this ratio is most likely the most crucial when comparing the effectiveness and operational performance of banks (Getahun, 2015).

Return on Equity

The financial performance metric known as return on equity (ROE) is computed by dividing net income by shareholders' equity. ROE is referred to as the return on net assets because shareholders' equity is calculated by deducting debt from assets (Macharia, 2016).

CHAPTER – IV

RESULTS AND DISCUSSIONS

The statistics are carefully presented and examined in this chapter. These particular details could only be found in annual reports. The collected data is examined, assessed, and interpreted in this chapter in accordance with the study approach described in the third chapter. It makes comparisons and provides relevant information and insights on the dividend policies of microfinance firms.

4.1 Descriptive Statistics of Variables

The statistical summaries for the study's variables are shown in Table 2. The findings indicate that, in addition to other independent variables like debt ratio, firm size, CD ratio, cash reserve ratio, and capital adequacy ratio, microfinance institutions in Nepal exhibit diverse degrees of performance across profitability indicators like ROE and ROA.

Table 2

Descriptive Statistics of Variable of Microfinance companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation	C.V
Dependent Variables						
Return on Assets	40	0.02	4.3	1.549	1.00358	0.65
Return on Equity	40	0	29.02	12.4671	8.31278	0.67
Independent Variables						
Debt Ratio	40	0	1.58	0.6208	0.37792	0.61
Firm Size	40	5.76	10.33	8.6147	1.0873	0.13
Cash Reserve	40	0	0.79	0.4044	0.26323	0.65
Capital Adequacy	40	0	198.38	38.8251	34.6203	0.89

Source Appendix II & Annual Report of Sample Companies

The descriptions of the independent and dependent variables are shown in Table 2. The six variables are as follows: firm size, CRR, CAR, DR, ROA, and ROE. Three essential statistical measures are included for each variable: the mean, which indicates the average value, the maximum, which shows the greatest recorded value among the microfinance

organizations under investigation, and the minimum, which displays the lowest observed value. Furthermore, "Std. Dev." provides numbers for each variable and measures the data's dispersion around the mean. Each variable's coefficient of variation (CV), which displays the standard deviation to mean ratio, draws attention to how consistently and uniformly distribute each variable is. As an illustration, the CV values of ROA and ROE are 0.65 and 0.67, respectively, indicating a comparable degree of consistency in their readings.

4.2 Correlation Analysis

The correlation coefficients between variables are shown tabularly in a correlation matrix. If there is no linear relationship between the variables, the correlation coefficient is 0. Perfect positive correlation is represented by a value of +1, and perfect negative correlation is represented by a coefficient of -1. The correlation matrix is displayed in Table 3.

Table 3

Correlation Coefficients of Study Variables

Variables	DR	TA	CRR	CAR	ROA	ROE
Debt Ratio (DR)	1					
Firm size (FS)	-0.234	1				
	0.169					
Cash Reserve Ratio (CRR)	0.082	-0.004	1			
	0.634	0.983				
Capital adequacy Ratio (CAR)	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
Return on Assets (ROA)	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
Return on Equity (ROE)	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source SPSS Output

Using a correlation coefficient matrix for both dependent and independent variables, Table 3 displays the results of the correlation test. There is a weak negative link between the debt ratio (DR) and both ROA (-0.112) and ROE (-0.305). DR shows a non-significant negative association (-0.234) with firm size (FS) but a significant positive connection (0.384) with CAR at the 0.05 significance level.

Likewise, there is a positive correlation between company size and ROE (0.641) and between firm size and ROA (0.131). Furthermore, there is a substantial correlation (0.641) between company size and ROE at the 1% significance level. With a coefficient of 0.641, the association between company size and ROE is noticeably favorable at the 0.01 significance level. Furthermore, with a value of 0.802, CRR shows a substantial positive connection with ROA at the 0.05 significance level. On the other hand, at the appropriate significance levels, CAR has a high negative connection with ROE (-0.167) and a minor degree of positive correlation with ROA (0.225).

4.3 Regression Analysis

As independent variables, the study examines the link between many financial indicators (ROA, ROE, firm size, debt ratio, and capital adequacy ratio). It makes use of information from four microfinance firms that are listed on the NEPSE to examine the regression outcomes of ROA. 55 NRB-regulated microfinance companies make up the sample, which was studied between fiscal years 2070–2071 and 2079–2080.

The dependent variable in this analysis is ROA, while the independent variables are company size, DR (debt ratio), CAR (capital adequacy ratio), and CRR (cash reserve ratio). The results' statistical significance is denoted by the t-values and the risk indicators, which are included in parenthesis. Furthermore, the Adjusted R square and F-statistic (abbreviated as F and Adj. R2, respectively) offer more information on the explanatory capacity of the model.

Regression Analysis of firm size, Debt ratio, CAR and CRR on ROA

Table 4

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), firm size, FS, DR, CAR and CRR

b. Dependent Variable: ROA

The ROA models are summarized in Table 4, where R2 denotes the degree to which independent factors can be responsible for the variability in profitability, specifically ROA. It shows that the independent variables TA, DR, CAR, and CRR account for 66.70% of the variation in ROA. Adjusted R2, which takes sample size into consideration, is seen as a more trustworthy statistic. The independent variables' coefficients show how much of an impact they have on the dependent variable. Dispersion is quantified by the standard error, which is the average deviation of the coefficients from the regression line.

Table 5

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	34	.379		
	Total	35.251	39			

a. Dependent Variable: ROA

b. Predictors: (Constant), FS, DR, CAR and CRR

As seen in the ANOVA table, Table 5 provides a thorough summary and analysis of the independent and dependent variables. At a significance level of 0.05, the data show a statistically significant link (P-value = 0.000 < 0.05) between the dependent variable (ROA) and the independent variables (TA, DR, CAR, and CRR). This indicates that there is a statistically significant association between these variables, supporting the requirement that the computed p-value be less than 5% in order to demonstrate significance.

Table 6

Regression Coefficients

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1(Constant)	-.615	.915		-.672	.007	Significant
Debt Ratio	.014	.313	.005	.046	.046	Significant
Firm Size	.113	.098	.122	1.149	.025	Significant
Cash Reserve	3.169	.421	.831	7.522	.000	Significant
Capital Adequacy	-.003	.003	-.086	-.726	.073	Insignificant

a. Dependent Variable: ROA

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b_1X_1+b_2X_2+b_3X_3+b_4X_4$

ROA = -0.615 + 0.014 DR + 0.113 FS + 3.169 CRR - 0.003 CAR

The regression coefficients are shown in Table 6, where the constant's p-value is greater than 0.05, indicating that its value is not significant. On the other hand, CRR has a strong effect on ROA, as demonstrated by its p-value of 0.000. According to the related beta value of 3.169, there is an average rise in ROA of 3.169 units for every unit increase in CRR.

Nevertheless, p-values above 0.05 for DR, FS, and CAR indicate that their effects on ROA are not statistically significant.

Regression Analysis of firm size, Debt ratio, CAR and CRR on ROE

From a total licensed population of 55 microfinance enterprises controlled by the NRB, this table offers regression findings of Return on Equity (ROE) utilizing five explanatory variables across a sample of four microfinance companies listed on the NEPSE. The data includes observations from 2070–2071 and 2079–2080 fiscal years. The dependent variable is ROE, and the independent variables are Cash Reserve Ratio (CRR), Debt Ratio (DR), Firm size (FS), and Capital Adequacy Ratio (CAR). T-values are represented

by parenthetical figures, and asterisks are used to emphasize importance. The terms F and Adj. R2 stand for the Adjusted R-squared and F-statistic, respectively.

Table 7

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), FS, DR, CAR and CRR

b. Dependent Variable: ROE

The ROE model summary is shown in Table 7, where R2 is the percentage of profitability variability that ROE can account for. Adjusted R2, which takes sample size into consideration, is seen as a more trustworthy metric. The influence of independent variables on dependent variables is shown by the coefficient sizes, where the sign denotes the direction of influence (positive or negative). The average divergence of the coefficients from the regression line, or standard error, indicates dispersion.

Table 8

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	34	43.327		
	Total	2418.582	39			

a. Dependent Variable: ROE

b. Predictors: (Constant), FS, DR, CAR and CRR

The ANOVA table provides a thorough summary of the significance of the independent and dependent variables, which is shown in Table 8. It shows that the link between the dependent variable, ROE, and the independent variables, FS, DR, CAR, and CRR, is statistically significant at significance levels of 0.05 or 0.001. In order to determine significance, the calculated p-value needs to be less than the 5% cutoff.

Table 9

Regression Coefficients

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1(Constant)	-24.377	9.786		-2.491	.018	Significant
Debt Ratio	-3.630	3.350	-.159	-1.083	.287	Insignificant
Firm Size	4.670	1.049	.611	4.453	.000	Significant
Cash Reserve	-2.929	4.507	-.093	-.650	.521	Insignificant
Capital Adequacy	.003	.037	.014	.090	.929	Insignificant

a. Dependent Variable: ROE

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b_1X_1+b_2X_2+b_3X_3+b_4X_4$

ROE = -24.377 – 3.630 DR + 4.670 FS – 2.929 CRR + 0.003 CAR

Table 9 demonstrates that the constant's p-value is less than 0.05, indicating a significant constant value. Firm size (FS), with a p-value of 0.000, less than 0.05, strongly influences ROE. The ROE grows by an average of 4.670 units for every unit increase in firm size, according to the beta coefficient of 4.670. Furthermore, DR, CRR, and CAR have p-values above 0.05, suggesting that they have little effect on ROE.

4.4 Discussions

In order to better understand the relationships between the several financial measures (FS, DR, CAR, CRR, ROA, and ROE), the study looked at both positive and negative correlations. In particular, a positive correlation between FS, DR, and CRR is observed, indicating that these businesses manage their financial health well. The capacity of profitability indicators to interact favorably is essential for effective profit management. Subsequent investigation, however, shows that overall, ROA and ROE are not significantly impacted by company size, CRR, CAR, or DR.

Firm size, PE ratio, and CRR significantly increase profitability. Nonetheless, firm size has a minimal negative impact on ROE, which runs counter to the findings of Muliani et al. (2023). Firm size alone does not determine ROA; instead, CRR and firm size have a

beneficial impact on ROA, in line with research by Tiwari (2022). DR and CAR demonstrate unfavorable and negligible effects. These results show that the debt ratio, capital adequacy ratio, and CRR have a somewhat favorable impact on profitability; they are in line with the findings of Dhungana and Ranabhat (2022) but not with those of Kori, Muathe, and Maina (2020).

The findings of Serhii's (2023) study, which closely aligns with our analysis, show variances in profitability factors. How well companies use their earnings to generate profits is reflected in the average profitability during the research period. In line with the findings of Agaba and Eton (2022), correlation tests reveal a substantial positive link between the debt ratio (DR) and CAR at the 0.05 and 0.01 levels of significance. On the other hand, connections with return on equity (ROE) and return on assets (ROA) are shown to be insignificant, and there is a negative significant link with firm size (FS). These findings conflict with those of Robin, Salim, and Bloch (2018) and Yeasin (2022), although they are in line with Akanbi and Adewoye (2018) and Bochaberi and Job (2021). Moreover, there is a significant positive correlation between return on equity (ROE) and firm size (ROE). Furthermore, there is a little negative link between debt ratio (DR) and payout efficiency ratio (CAR) and a slight positive association between DR and return on assets (ROA) as well as ROE. Similarly, there is a strong positive link between CRR and CAR and ROA, but a non-significant negative correlation with ROE. On the other hand, CAR exhibits a high positive link with DR but a weak correlation with ROA and ROE. Firm size (FS), when examined in conjunction with ROE, also exhibits statistical significance at the 0.01 level, which is in line with Mwangi's (2018) findings.

The negative coefficient of DR leads to a corresponding decrease in ROA by the same amount that DR increases by one rupee. This suggests that as DR rises, the return on assets (ROA) for Nepalese microfinance companies decreases. Unlike the positive coefficients of FS, CRR, and CAR, which indicate that higher values of these variables would enhance profitability for microfinance firms, the beta coefficient of DR is negative. This indicates that higher DR values are associated with reduced ROA. The significance of DR as an independent variable is inversely related, even at the 0.10 significance level. In contrast to the findings of Yeasin (2022) and Bochaberi and Job (2021), which suggest FS, CRR, and CAR are insignificantly positive, supporting the conclusions of Akanbi and Adewoye (2018).

A one rupee increase in DR and CAR results in a corresponding fall in ROE, according to the negative coefficients for both variables. This implies that decreased DR and CAR may lead to poorer ROE for Nepali microfinance companies. Given that DR and CAR both have negative beta coefficients, it is possible that higher concentrations of both variables will increase microfinance firms' profitability. With a p-value of 0.000 at a significance threshold of 0.05, firm size stands out as a statistically significant independent variable. DR, CRR, and CAR are not statistically significant, in contrast to the conclusions of Dhungana and Ranabhat (2022), Kunwar (2022), Agaba and Eton (2022), and Robin, Salim, and Bloch (2018).

CHAPTER – V
SUMMARY AND CONCLUSION

Examining how outreach by GLBSL, SKBL, FIRST, and RSDC contributes to financial stability and how it affects microfinance institutions' performance is the goal of this study. These analyses are compiled in this chapter together with an overview, results, and implications. The study's results and conclusions are outlined in the first section, while the study's design implications are covered in the second.

5.1 Summary

This study aims to investigate the financial parameters of microfinance organizations, such as return on equity, return on assets, company size, cash reserve ratio, debt ratio, and capital adequacy ratio. The purpose of the study is to evaluate the effects of these ratios on microfinance enterprises' returns on assets and equity. To do this, it uses a combination of causal comparison and descriptive comparison techniques. While explanatory and causal research designs are used to quantify the effects of debt ratio, capital adequacy ratio, firm size, and cash reserve ratio on the financial Performance, i.e. ROA and ROE of microfinance firms in Nepal, descriptive research is utilized to understand current dividend practices. For this study, secondary data from yearly reports covering the ten-year period from 2070/71 to 2079/80 are used.

The study focuses on the relationship between financial metrics and the profitability of Nepali microfinance companies. It is said that these companies are extremely profitable. Obtaining investments and disbursing dividends from shares are their primary duties. The study's data comes from the annual reports of a few chosen companies covering the years 2070–2071–2079–2080. To investigate the dynamic links between various financial indicators, a variety of statistical models are used, including regression analysis, average, standard deviation, coefficient of variation, and Pearson correlation. The demographic information used in this study is derived from all 55 microfinance companies that are currently listed and active within Nepal. First Microfinance Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, and RSDC Laghubitta Bittiya Sanstha Limited make up the sample. In the current environment, these four microfinance institutions are

renowned for their exceptional performance in handling deposits and making loans. The study assesses the long-term effects of ratios like DR, CAR, TS, and CRR on the profitability of the microfinance industry.

5.2 Conclusion

Firm size greatly increases ROE, which is in line with Zelalem findings (2022). In contrast, DR's ROE exhibits favorable outcomes but falls short of statistical significance, which is in line with Abebe (2022) findings. Prior research conducted by the industry suggests that this area has not seen much advancement. Some financial institutions may experience liquidity or bankruptcy challenges as a result of poor loan portfolio management and other problems that make it difficult for them to fulfill their responsibilities to shareholders and clients.

As per Shah (2019) research, the reserve ratio and earnings ratio have a direct impact on the profitability of financial institutions by augmenting the liquidity of financial organizations, fostering credit expansion, and stimulating general economic growth. The p-value of 0.000 indicates that firm size is statistically significant as an independent variable when paired with ROE. Because of their larger p-values, DR, CRR, and CAR do not reach statistical significance at the 0.05 level.

As a percentage of all loans, the financial stability ratio is still high and is likely to continue rising. Similarly, the comapnies made a noticeably large provision for financial stability during the research period, suggesting that unrecoverable loans may have an adverse effect on bank profitability in the future.

5.3 Implications

Following are some of the implications based on the above analysis:

- Financial companies that function in the private sector have to put profit first. They should proceed cautiously when seeking profits in an honest manner in order to preserve the confidence of clients, depositors, and shareholders. Right now, RSDC and SKBL are more profitable than GLBSL and FIRST. Thus, it is highly advised that in order to increase profit margins, GLBSL and FIRST use shareholder cash and risky assets. In a same vein, they ought to cut costs and look

for economical ways to raise more money. For businesses to effectively attract and keep clients, they must fortify and actively utilize their marketing initiatives.

- Lower capital adequacy ratios have a negative influence on the bottom lines of financial corporations, which results in decreased profitability. It is anticipated that this decline in earnings CAR share (EPS) will free up more money for investments in the productive sector. As such, it is expected that the dividend CAR share (DPS) of the RSDC will increase in the future, necessitating cautious monitoring of this trend. Establishing a written strategic dividend strategy is advised for all organizations. This policy should be authorized by the Supervisory Board or the General Meeting and made public as necessary for publicly traded companies.
- There is notable variation in the DR, CAR, and ROE of the chosen financial institution. Controlling variations and guaranteeing regularity in these measurements is essential. Stakeholders in all institution will be satisfied if a key financial indicator indicates a positive market sentiment; on the other hand, negative signs may have detrimental long-term effects on both.
- When compared to other sample companies, RSDC has a lower debt ratio. Thus, in terms of performance and dividend sustainability, RSDC is outperforming FIRST, GLBSL, and SKBL, indicating that SKBL, FIRST, and GLBSL have low credit risk.
- Therefore, it is advised that other businesses that are comparable take extra care and objectivity while making loans and advances. To ensure that the money is being used appropriately, ongoing oversight and follow-up are necessary once loans are issued.

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APPENDICES

Appendix I

Essential Information from Respective Microfinance Annual Report

Name	DPR	FS (Ln)	CRR	CAR	ROA	ROE
Gurans	0	0	0	0	0	0
	0	0	0	0	0	0
	0.63	6.64	0.79	0	1.17	0.02
	0.92	6.83	0.76	18.38	1.85	0.02
	1.01	7.47	0.71	13.31	2.13	0.03
	1.58	7.87	0.51	13.97	2.43	0.03
	1.07	8.15	0.54	15.52	2.29	0.03
	0.85	8.29	0.59	19.66	2.29	0.1
	0.84	8.64	0.56	22.3	1.86	0.11
	0.88	9.10	0.64	20.11	2.04	0.32
First	0.61	7.36	0.61	31.57	1.65	22.03
	1.01	7.76	0.49	11.27	1.54	14.17
	0.77	8.03	0.48	17.04	1.77	17.65
	0.78	8.24	0.59	20.32	2.12	15.53
	0.85	8.47	0.56	18.81	2.13	12.92
	0.91	8.72	0.59	19.37	2.17	14.52
	0.78	8.75	0.55	11.81	2.21	13.79
	0.57	9.19	0.51	15.41	1.76	15.71
	0.71	9.3	0.54	17.88	2.4	19.13
	0.74	9.61	0.57	18.07	1.96	20.04
RSDC	0.96	8.56	0	25.66	0.035	10.89
	0.75	8.67	0	18.75	0.036	11.87
	0.73	8.81	0	20.49	0.028	25
	0.66	8.88	0	25.39	0.03	29.02
	0.56	8.97	0	16.76	0.034	12.33
	0.61	9.12	0	16.05	0.039	14.22
	0.63	9.19	0	22.04	0.03	11.19
	1.13	9.41	0	23.1	0.021	8.35
	0	9.41	0.58	24.32	4.3	16.58
	0.31	9.66	0.61	25.10	4.69	17.55
SKBBL	0.32	8.8	0.51	17.58	1.73	13.46
	0.39	9.09	0.52	23.09	1.74	15.6
	0.6	9.39	0.51	16.74	1.86	17.14
	0.5	9.6	0.52	18.56	2.25	20.58
	0.53	9.86	0.5	23.2	2.04	23.53
	0	10	0.5	24.17	1.11	20.23
	0.03	10.1	0.51	21.32	2.28	18.9
	0.03	10.17	0.51	22.31	2.27	17.13
	0.03	10.33	0.52	17.05	2.34	16.98
	0.04	1.72	0.55	23.58	2.77	15.14

Source: Annual Report of FMBL, SKBL, GLBSL and Gurans

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DR	40	.00	1.58	.6208	.37792
FS	40	5.76	10.33	8.6147	1.08730
CRR	40	.00	.79	.4044	.26323
CAR	40	.00	198.38	38.8251	34.62028
ROA	40	.021	4.300	1.54897	1.003585
ROE	40	.004	29.020	12.46706	8.312783
Valid N (listwise)	40				

Appendix II

Correlation Coefficients of Dependent and Independent Variables

Variables	DR	FS	CRR	CAR	ROA	ROE
DR	1					
FS	-0.234	1				
	0.169					
CRR	0.082	-0.004	1			
	0.634	0.983				
CAR	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
ROA	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
ROE	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

Source: SPSS Output

Appendix III

Regression Analysis of DR, FS, CRR and CAR on ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), DR, FS, CRR, CAR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	34	.379		
	Total	35.251	39			

a. Dependent Variable: ROA

b. Predictors: (Constant), DR, FS, CRR, CAR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.615	.915		-.672	.007
	Debt Ratio	.014	.313	.005	.046	.046
	Firm Size	.113	.098	.122	1.149	.025
	Cash Reserve	3.169	.421	.831	7.522	.000
	Capital Adequacy	-.003	.003	-.086	-.726	.073

a. Dependent Variable: ROA

Source: SPSS Output

Regression Analysis of DR, FS, CRR and CAR on ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), DR, FS, CRR, CAR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	34	43.327		
	Total	2418.582	39			

a. Dependent Variable: ROE

b. Predictors: (Constant), DR, FS, CRR, CAR

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	-24.377	9.786		-2.491	.018
Debt Ratio	-3.630	3.350	-.159	-1.083	.287
Firm Size	4.670	1.049	.611	4.453	.000
Cash Reserve	-2.929	4.507	-.093	-.650	.521
Capital Adequacy	.003	.037	.014	.090	.929

a. Dependent Variable: ROE

Source: SPSS Output

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ABSTRACT This study aims to explore the impact of financial factors on the performance of microfinance institutions in Nepal. Effective liquidity management within these institutions requires a structured approach to decision-making concerning liquidity risk control, including appropriate funding strategies, exposure limits, and emergency liquidity allocation protocols. Liquidity considerations encompass both the public's trust and the firm's daily operations. A lack of sufficient cash or liquidity signals deeper financial issues and crises within the institution, sending a negative message to both individuals and businesses. The variables examined in this study include the debt ratio (DR), firm size (FS), cash reserve ratio (CRR),

capital adequacy ratio (CAR), **return on assets** (ROA), **and return on equity**

(ROE) for microfinance institutions. DR, FS, CRR, and CAR are treated as independent variables, while ROA and ROE serve as dependent variables in the analysis. Secondary data for this research were collected from the annual reports of authorized companies over a span of ten years, from 2070/71 to 2079/80. The data were processed and evaluated using SPSS version 24, employing descriptive, exploratory, and explanatory research methods. A sample of four microfinance companies was selected from a total of 55 through convenience sampling. The companies involved are First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited, and RSDC Laghubitta Bittiya Sanstha Limited. This research relies on secondary data, with ordinary least square (OLS) regression being a key method in panel data analysis. There is a significant positive correlation between firm size and ROE, as well as a strong