FINANCIAL ANALYSIS OF MICRO FINANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment 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 "**Financial Analysis of Micro Finance Companies In Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it 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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Report of Research Committee

Ms. Mina Dahal has defended research proposal entitled "Financial Analysis of Micro Finance Companies 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 Asso. Prof. Dr Kapil Khanal and submit the dissertation for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled "Financial Analysis of Micro Finance Companies in Nepal" presented by Mina Dahal 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 dissertation is worthy of acceptance.

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Mina Dahal

Researcher

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ABBREVIATIONS

A/C	=	Account
BAFIA	=	Banking and Financial Institution Act
BFs	=	Banking and Financial Institutions
CAR	=	Capital Adequacy Ratio
CF	=	Cash Flow
CRR	=	Cash Reserve Ratio
EPS	=	Earnings per Share
MPS	=	Market price of stock
NEPSE	=	Nepal stock exchange
NPL	=	Non Performing Loan
NRB	=	Nepal Rastra Bank
P/L	=	Profit and loss
P-Value	=	Probability Value
ROA	=	Return on Assets
ROE	=	Return on Equity

ABSTRACT

This research delves into the financial performance of micro finance limited in Nepal and the factors influencing their profitability. Employing a causal research design, the study investigates cause-and-effect relationships among variables. Out of 59 microfinance organizations in Nepal, a sample of five is chosen using a judgmental sampling approach based on paid-up capital. Financial evaluation is conducted using various instruments including cash reserve ratio (CRR) for liquidity, capital adequacy ratio for capital assessment, non-performing loans for asset quality, and Return on Equity (ROE) and Return on Assets (ROA) for profitability.

Statistical methods such as regression analysis and correlation are utilized to compare liquidity, capital, asset quality, and profitability. Regression analysis assesses the impact of capital sufficiency, asset quality, and liquidity on profitability, while correlation analysis gauges the relationships between different variables. Results indicate mixed findings regarding the significance of predictors on profitability and equity returns. Notably, Non-Performing Loan (NPL) ratio and Cash Reserve Ratio (CRR) do not exhibit statistically significant linear relationships with ROA, despite strong standardized coefficients. Similarly, Capital Adequacy Ratio (CAR) and NPL ratio do not show significant linear relationships with ROE. However, a significant positive relationship is found between CRR and ROE, suggesting that maintaining higher cash reserve ratios may enhance equity returns. These findings highlight the intricate nature of factors influencing financial performance in the microfinance sector, emphasizing the potential role of liquidity management in boosting equity returns.

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The practice of analysing a company's financial statements and identifying its strengths and shortcomings financially is known as financial analysis.As a result, financial performance analysis is also known as a financial well-being assessment for each company. Any financial institution must regularly assess its financial health in order to preserve and defend the interests of its stakeholders, including shareholders, lenders, and depositors. International monetary organisations, including the World Bank and the International Monetary Fund, have instructed its member nations to regularly assess the financial health of financial institutions (FIs) in order to improve the financial system. The World Bank is continuously offering technical and financial help to reengineer Nepal Rastra Bank (NRB), restructure Nepal Bank Ltd., and restructure Rastriya Banijya in order to overhaul the financial system.

Microfinance is seen as a successful way to provide the underprivileged and disadvantaged segments of society with a range of financial services (Nepal Rastra Bank, 2019). Microfinance is characterised by several key elements, such as lending without collateral, easy processes requiring minimal documentation, a replacement for conventional credit, flexible repayment terms, emergency financial help for group members, targeting impoverished individuals, and group engagement (Momba, 2021). As per the World Bank report of 2017, the number of microfinance clients worldwide has surpassed 200 million. This growth is credited to the government and development partners' recognition of microfinance as a crucial development intervention, as well as its increasing commercialization, which has enabled it to yield significant economic and social benefits. It is anticipated that having access to financing through microfinance organisations may help households engage in income-generating activities and diversify their sources of income, resulting in a sustained increase in their income level. Additionally, it may help stabilise spending, build up household assets, and enhance

borrowers' housing, health, and educational opportunities. Furthermore, financial accessibility may be vital to women's social and economic advancement (Hermes & Lensink, 2021Financial services for underprivileged and low-income consumers are sometimes referred to as "microfinance." In actuality, the phrase is frequently applied more narrowly to loans and other services provided by companies calling themselves "microfinance institutions" (MFIs). These organisations often take little or no collateral and offer extremely tiny loans to unsalaried customers using novel techniques developed during the previous 30 years. These strategies include pre-loan savings requirements, collective lending and responsibility, progressively larger loan amounts, and an implicit promise of easy access to future loans in exchange for timely and complete repayment of current loans.

1.2 Problem Statement

In Nepal, a variety of microfinance models are operational. The greatest number of microfinance models are found in Nepal. Every model has been successful in what they have done. The primary causes of these models' presence in India might be attributed to the nation's vastness, the diversity of social and cultural groups that inhabit it, the existence of many economic classes, and the robust NGO movement. Nepalese microfinance institutions have embraced a range of conventional and novel strategies to augment the loan supply to the organised industry.

In just a few years, a large number of banks and financial institutions have opened in Nepal. Even while joint venture banks have outperformed other microfinance in the little time they have been in, they have been in fierce rivalry with one another. As such, an analysis of microfinance's financial performance is required. Therefore, the goal of this study is to investigate the effectiveness and relative financial performance of microfinance. The study's main challenge is to identify the factors that contribute to variations in financial performance. It would be quite helpful to compare the microfinance industry's financial performance in order to identify their strengths and weaknesses. While microfinance banks are thought to be efficient, to what extent are they? This query does come up in the microlending industry. There are now 28 commercial banks in our system. Despite the quick expansion, certain metrics indicate

that service coverage performance is not very encouraging. In an attempt to provide answers to the following questions, the study uses the CAMEL model to assess the current performance of microfinance.

- What is the level of capital adequacy, assets management of the micro finance in Nepal?
- What is the position of liquidity, Assets Quality of micro finance in Nepal?
- What is the level of profitability position of micro finance in Nepal?
- Is there is any effect of capital adequacy, liquidity and Assets quality on profitability of micro finance?

1.3 Objectives of the Study

- To assess the level of capital adequacy, assets management of the micro finance in Nepal?
- To assess the position of liquidity, assets quality of micro finance in Nepal?
- To measure the level of profitability position of micro finance in Nepal?
- To evaluate the effect of capital adequacy, liquidity and assets quality on profitability of micro finance?

1.4 Research Hypotheses

H1: There is significant positive relationship between capital adequacy and Return on assets (ROA)

H2: There is significant positive relationship between assets quality and Return on assets (ROA)

H3: There is significant positive relationship between assets management and Return on equity (ROE)

H4: There is significant positive relationship between liquidity and Return on assets (ROA)

H5: There is significant positive relationship between Capital adequacy, assets quality liquidity and Return on equity (ROE)

1.5 Rationale of the Study

An essential component of a commercial enterprise's financial decision-making process is the analysis of its financial situation and statement. Ineffective financial management has a negative impact on profitability, turnover, and liquidity. Periodically assessing the enterprise's financial status is necessary to guarantee seamless operations and make it a significant national issue. Therefore, the purpose of the study is to assess the financial standing of Nepalese commercial banks. Every organization has limited resources available to it, and these resources must be used to achieve the organization's goals. An examination of their current financial performance is required in order to respond to the question. A well-executed performance is similar to a well-combined whole. The success of policy, management ability, and asset and money mobilization will thus be measured by the policy's efficacy. Effective financial performance really acts as a mirror, reflecting both the strengths and weaknesses of the banking industry. Thus, the most important factor is not the creation of banks but rather the efficiency with which they carry out their operations.

The microfinance sector has to be studied, and this study will satisfy the necessary research about the performance of microfinance firms in Nepal. There are currently insufficient studies pertaining to the financial analysis of microfinance companies in Nepal. Analyzing a company's financial data may assist identify its strengths and weaknesses and steer the business in the proper direction. These are several corporate stakeholders, each with its own goals and interests, and a company's primary duty is to satisfy them. Only the company's strong financial success makes it feasible. The significance of this research is in identifying the variables associated with financial analysis and providing guidance to financial managers. This study is crucial for everyone interested in investing, as well as for owners, creditors, and shareholders. It may also serve as a reference for researchers studying Nepal's microfinance industry in the future.

1.6 limitation of the Study

This research has evaluated the financial performance of microfinance companies that are publicly traded. For the study, the following limitations are in effect.

- The information was gathered from secondary sources employed by the company, including websites and financial records.
- Instead of addressing other factors, the research focuses on financial analysis.
- This analysis is based on data and information from only five fiscal years, and it has only made limited use of statistical and financial approaches. Since the research only looks at microfinance sector, its conclusions might not apply to other industries.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Theoretical Review

Examining the main ideas, procedures, and factors involved in evaluating the performance and financial standing of microfinance institutions (MFIs) is a theoretical study of financial analysis in the context of microfinance. In order to provide financial services to low-income people and small enterprises, which are frequently located in underserved or distant locations, microfinance is essential. Securing the viability, expansion, and influence of microfinance activities is facilitated by proficient financial analysis. The following are some crucial factors to think about:

Theory of Agency

The agency hypothesis states that there is a positive correlation between financial leverage and profitability. The concept heavily emphasises the possibility of conflicts of interest between the company's owners and management. A conflict of interest can occur when management puts their own interests ahead of the interests of the shareholders. According to Jensen and Meckling (1986), the problem is figuring out how to prevent managers from squandering their money and making unwise investments. According to Jensen (1986) and Stulz (1990), high leverage decreases managers' free cash flow, which lessens the need for investments in incompetent enterprises or other loss-making organizations in which management may have personal interests.

Capital Adequacy

This part evaluates the institution's capacity to withstand losses and act as a buffer against unforeseen financial shocks. It assesses if the organisation has enough cash on hand to meet its commitments and dangers. To ascertain if an organisation satisfies regulatory capital requirements, important measures such as the Capital Adequacy Ratio (CAR) are employed.

Asset Quality

The quality and riskiness of the institution's loan portfolio and other assets are assessed by asset quality. Metrics such as non-performing loans (NPLs), loan loss provisions, and the total exposure to credit risk are examined by analysts. A robust asset quality component shows that the organisation is doing a good job of controlling credit risk.

Earnings

The institution's profitability and capacity to provide steady, long-term earnings are evaluated by the earnings component. Important financial ratios are examined to see if the institution's earnings are enough to pay for operational expenses and give stakeholders a fair return, such as Return on Equity (ROE) and Return on Assets (ROA)

Liquidity

The institution's capacity to pay its short-term debts when they become due is the main subject of liquidity research. It assesses if the bank has sufficient liquid assets to fulfil its immediate liabilities, such as deposit withdrawals. The institution's liquidity condition is evaluated using cash flow analysis and liquidity ratios.

Concept of Microfinance

Financial services for underprivileged and low-income clientele are sometimes referred to as "microfinance." In actuality, the phrase is frequently applied more narrowly to loans and other services provided by companies calling themselves "microfinance institutions" (MFIs). These organisations often take little or no collateral and offer extremely tiny loans to unsalaried customers using novel techniques developed during the previous 30 years. These strategies include pre-loan savings requirements, collective lending and responsibility, progressively larger loan amounts, and an implicit promise of easy access to future loans in exchange for timely and complete repayment of current loans.

In a broader sense, microfinance is a movement that aims to create a society where low-income households always have access to a variety of excellent financial services that help them fund their income-generating ventures, accumulate assets, control their

spending, and manage risks. These services include money transfers, savings accounts, insurance, and credit, among others.

It wasn't until Muhammad Yunus created this new miraculous financial system in Bangladesh in 1976 to reduce poverty that microfinance gained widespread acceptance. According to this paradigm, microfinance is the provision of loans for self-employment, frequently in conjunction with the acquisition of modest savings amounts.

"Microcredit, often known as microfinance, is banking for the unbankable. It makes credit, savings accounts, and other crucial financial services accessible to millions of individuals who are too impoverished to get traditional bank services—mostly due to their inability to provide enough collateral. Generally speaking, banks serve wealthy individuals rather than those in need.

Maanen (2004) the foundation of microcredit is the idea that people in poverty possess abilities that are either underutilised or go undeveloped. Definitely not a lack of skills is what keeps people in poverty, and charity is not the solution. It just serves to perpetuate poverty. It makes people dependent on one another and saps their will to climb the poverty ladder. The solution to poverty is to unleash each person's innate creativity and vitality.

Yunus (2003)Microcredit Outreach to Reach the Millennium Development Goals.Microfinance encompasses a range of innovative financial services, including microinsurance, microsavings, and money transfer vehicles. Microcredit is one of these services. One invention for the poor world is microcredit. Microcredit is a service for underprivileged individuals without jobs, unbankable farmers, or entrepreneurs. Their inability to provide collateral, consistent income, stable work, and a verifiable credit history makes them unbankable; as a result, they are unable to even fulfil the requirements for a regular credit card. People are given more possibilities and choices with less risk when microcredit is provided to them. It has effectively made it possible for low-income individuals to launch their own businesses, generate or maintain a revenue, and often beginMicrocredit is most appropriate for those who have the potential and ability to be entrepreneurs. This refers to the impoverished who can engage in jobs that produce steady weekly revenues and who work in economies that are expanding.

Principle of microfinance

The poor need a variety of financial services, not just loans.

Poor individuals require a wide choice of affordable, flexible, and convenient financial services, just like everyone else. Poor individuals require savings, cash transfers, insurance, and loans, depending on their situation (G8 summit 2004).

Microfinance is a powerful instrument against poverty.

Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education (G8 summit 2004).

Microfinance means building financial systems that serve the poor.

Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In many countries, microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially-responsible investors. In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector (G8 summit 2004).

Financial sustainability is necessary to reach significant numbers of poor people

Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only

way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing

transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor (G8 summit, 2004).

Microfinance is about building permanent local financial institutions

Building financial systems for the poor means building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services. Dependence on funding from donors and governments—including government-financed development banks—will gradually diminish as local financial institutions and private capital markets mature (G8 summit, 2004).

Microcredit is not always the answer

Microcredit is not appropriate for everyone or every situation. The destitute and hungry who have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings (G8 summit, 2004).

Interest rate ceilings can damage poor people's access to financial services

It costs much more to make many small loans than a few large loans. Unless micro lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding. When governments regulate interest rates, they usually set them at levels too low to permit sustainable microcredit. At the same time, micro lenders should not pass on operational inefficiencies to clients in the form of prices (interest rates and other fees) that are far higher than they need to be (G8 summit, 2004).

The government's role is as an enabler, not as a direct provider of financial services

National governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's

savings. The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high-delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. In special situations, government funding for sound and independent microfinance institutions may be warranted when other funds are lacking (G8 summit, 2004).

Donor subsidies should complement, not compete with private sector capital.

Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity, etc.), and support experimental services and products. In some cases, longer-term donor subsidies may be required to reach sparsely populated and otherwise difficult-to-reach populations. To be effective, donor funding must seek to integrate financial services for the poor into local financial markets; apply specialist expertise to the design and implementation of projects; require that financial institutions and other partners meet minimum performance standards as a condition for continued support; and plan for exit from the outset (G8 summit, 2004).

The lack of institutional and human capacity is the key constraint

Microfinance is a specialized field that combines banking with social goals, and capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government development entities and donor agencies. Most investments in the sector, both public and private, should focus on this capacity building (G8 summit, 2004).

The importance of financial and outreach transparency

Accurate, standardized, and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative. Bank supervisors and regulators, donors, investors, and more importantly, the poor who are

clients of microfinance need this information to adequately assess risk and returns (G8 summit 2004).

Role of Microfinance

Employment Generation on Sector-wise Enterprises

The most crucial first step in reducing poverty is to provide the impoverished opportunities to work and earn a living. People's main motivation for joining a microfinance programme is to have access to loan funds so they may launch a microbusiness and generate income for themselves. Increasing local self-employment is one of the main goals of the microfinance programme. Microbusinesses are essential to the creation of jobs in underdeveloped nations. After talking with the female clients, it was discovered that their husbands were also working on the projects they had begun with the borrowed money. In certain instances, women who have made company investments have given up to four family members jobs (Gywali, 2011).

Poverty reduction

Poverty is a burden on humanity that has given rise to a wide range of crimes. The dread of poverty is more worse than actual poverty. For the sole purpose of accumulating money, generations have been wasted and wars have been waged over millennia. Microfinance has shown to be a useful instrument in the modern world for combating poverty without causing harm to other living things (Khatiwada, 2016).

Women empowerment

The process by which women define and reimagine what it is that they can be, do, and achieve in a situation that they were previously denied is known as women's empowerment. On the other hand, women's process of redefining gender roles gives them the capacity to select amongst recognised options, a capacity that would otherwise be denied to them.Women's empowerment is defined by a number of ideas, one of which is that one must start from a place of disempowerment in order to become empowered.

Moreover, empowerment is something that one must achieve on their own, not something that is bestowed upon them by another

Models of Microfinance

Nepal is the poorest nation in South Asia and among the least developed nations worldwide. Poverty is being reduced at a very slow rate. It's possible that the sluggish development is due to high population increase, low per capita income, and urban concentration. Microfinance can assist those in need who are eager to work but do not have more opportunities in order to significantly increase the income of the populace. Despite the fact that Nepal has developed a large number of financial institutions during the past 20 years, little progress has been made. Microfinance is defined as financial services targeted at small business owners and members of marginalised or underprivileged communities, with the goal of assisting them in finding prospects for self-employment or other sources of income. The microfinancial institution is taking the lead with its lending services, regular savings, modest and appealing flexible conditions. In Nepal, a distinct kind of microfinance approach has been explored. They are as follows:

Grameen Model

In 1992, the government of Nepal attempted to implement this strategy in an effort to alleviate rural poverty. Bangladesh was the initial adopter of this. Known as Grameen Bikas Bank in the banking industry, these banks are now Nepal's biggest microfinance provider. Through the 2+2+1 method, the bank typically extends loans to group members for micro-level income-generating operations on a group guarantee basis (Nepal Rastra Bank 2008). According to Parajuli (2016), a group must consist of five women and have a land area of less than 0.71 and 0.55 hectares in the hills and terai, respectively.

Small Farmers Co-operative Model (SFCLs)

The Agricultural Development Bank of Nepal, which was established in 1976, was the inspiration for this approach. Services provided by SFCL are restricted to the village development committee and primarily benefit farmers in rural regions. About 500

households in the neighbourhood may utilise it. This programme is supported by a number of international organisations, including IFAD, GTZ, CGAP, etc. According to Parajuli (2016), SFCL provides farmers with both wholesale financial loans and non-financial services such as technical assistance, training, and social mobilisation.

Financial Intermediary Non-governmental Organizations (FINGO)

In terms of the financial intermediary process, this is among the most recent developments in microfinance development. According to the data, there are more unregistered NGOs than registered ones. Under this strategy, microfinance loans are distributed by NGOs on a group basis. Interest rates vary annually from 18 to 25 percent (Nepal Rastra Bank, 2008). These kinds of institutions were no longer granted licences by Nepal Rastra Bank (Parajuli, 2016).

Priority Sector and Deprived Sector Credit Model

The NRB proposed this concept as an obligatory credit requirement for the services, cottage industry, and agriculture sectors at the beginning of 1974. This programme offers two different kinds of funding: direct and indirect. Under the direct arrangement, commercial banks lend money to the recipient directly as retail lending; under the indirect arrangement, however, the commercial bank functions as a wholesale microfinancer and the loan funds are repaid via MFI (Parajuli, 2016).

Saving and Credit Co-operatives (SACCOS) Model

The early 1950s saw the emergence of this concept. This is a member-based organisation that has been registered with the goal of fostering member self-help and growth. In Nepal, there are an enormous number of SACCOS. This approach is governed by a different legal framework known as the Co-operative Act of 1998. It is difficult to build trust with financial cooperatives in the absence of an appropriate regulatory framework and transparent oversight (Parajuli, 2016).

Donor (Project) Based Micro Financing Model

Under this approach, six significant donor-funded programmes existed, but they have all been phased down. PCRW (Production Credit for Rural Women) and MCPW (Micro-credit Project for Women) are two examples of projects. The goals of these initiatives were to help the targeted populations obtain microcredit and to lessen poverty (Parajuli, 2016).

Wholesale Micro-Financing Model

In the 1990s, Nepal implemented wholesale microfinance with the creation of the Rural Self-Reliance Fund (RSRF) in 1991. Subsequently, in 2000, RMDC (Rural Micro Credit Development Centre) under RMP was established in order to address MFIs' wholesale credit needs for on-lending purposes as well as to build MFIs' institutional capacity and that of their partner organisations' clients (POs). Simultaneously, Sana Kisan Bikas Bank (SKBB), a wholesale microfinance institution, was founded in 2002 to supply Small Farmers Co-operative Limited (SFCL) with wholesale financing. Similarly, the National Co-operative Development Bank (NCDB), a wholesale organisation, was founded in 2003 (Parajuli, 2016).

Evolution of Microfinance in Nepal

Cooperatives (1950–1960s) and regular banks (1970–1980s) provided services to the microfinance industry until 1980, when a number of pilot programmes and initiatives were put in place to bring banking and financial services to assist the underprivileged and women. Though some impoverished populations did benefit, these services were ultimately shown to be ineffectual. The establishment of five Regional Development Banks (RDBs) based on the Grameen model in each Development region with the express purpose of offering micro-credit services to the poor and women was one of the government's many efforts to strengthen microfinance institutions to provide financial services to the underprivileged and women during the 1990s and early 2000s.. After being privatised, these Regional Development Banks eventually changed their names to Microfinance Development Banks (MFDBs) and obtained class "D" financial institution licences. Several private microfinance companies and non-governmental organisations with microfinance programmes emerged shortly after, in the early 2000s. NGOs that

successfully implemented microfinance programmes under the Grameen Model were Nirdhan Utthan Bank and the Centre for Self-help Development (also known as CDF), which eventually changed their name to Microfinance Development Banks. In a similar vein, Nerude Microfinance Development Bank Ltd. (NMDB), Deprosc Bikas Bank (DBB), and Chhimek Bikas Bank Ltd. (CBB) were established as Microfinance Development Banks. Financial Intermediary NGOs (FINGOs) were established as a result of Nepal Rastra Bank (NRB) legalising and granting licences to NGOs engaged in community-based financial activities to formally offer microfinance services in the early 2000s. In the early 2000s, wholesale finance institutions were also established. The Rural Self-Reliance Fund (RSRF) was established by Nepal Rastra Bank in 1991 to give money to cooperatives and non-governmental organisations. One such wholesale organisation is the Rural Microfinance Development Centre (RMDC), which was established in 1998 under the Public Private Partnership (PPP) Programme. Nepal Rastra Bank has a 26% ownership in the organisation, with the balance holdings held by (NCDB) was established in 2003 to assist and fund the nation's cooperative organisations, while (SKBBL) was established in 2001 with the goal of financing Small Farmer Cooperatives Ltd. (SFCLs). The country's national bank, Nepal Rastra Bank, oversees Financial Intermediary NGOs (FINGOs) and Microfinance Development Banks (MFDBs), while cooperative laws control Savings and Credit Cooperatives (SACCOs) and Small Farmer Cooperatives Ltd. (SFCL). In the nation, Microfinance Institutions (MFIs) operating as regulated MFDBs, FINGOs, SFCLs, and SACCOs offer all varieties of microfinance services. The top three microfinance institutions in the nation are Swabalamban Bikas Bank, Nirdhan Utthan Bank Ltd., and Chhimek Bikas Bank Ltd. Government Regional Development Banks service approximately 25% of all borrowers under Microfinance Institutions; Microfinance Development Banks (MFDBs) handle approximately 50% of all borrowers; and cooperatives and FINGOs service the remainder borrowers.

Policies and Regulations Related with Microfinance in Nepal

Microfinance is a useful instrument for eradicating poverty, but in order for it to work, proper microfinance policy is required.even more.Meeting the local community's need for microfinance is also crucial.and facilitate the impoverished's access to it. The

administration has not released a single remark on this matter.declarations from trade groups or the central bank, which may also include the national microfinance policy of Nepal.The declaration and promise made by the larger stakeholders who offer guidance is known as the policy.control. Encourage best practices and offer monitoring as well. The following are policies, laws, and regulations pertaining to Nepal's microfinance industry.Nepal Rastra Bank Act ,2002

With the passage of this legislation, the NRB's responsibilities were clarified. These included creating safe, sound, and efficient payment systems, regulating, overseeing, and inspecting banking and financial institutions, and encouraging the development of a reliable banking and financial system. It forbids NRB from purchasing stock in financial firms or CBs.Nonetheless, NRB contributes to development through a unique fund called the Rural Self Reliance Fund, which has an interest rate lower than the market.The steady growth of other apex institutions in the rural and microfinance sectors is hampered by NRB's financing role through RSRF. the rationale for other wholesale lending firms' continuous operations.Banks and financial institutions Act (BAFIA) ,2016

The bank and financial institutions ordinance (BAFIO) of 2004 was superseded by this overarching Act, the "Bank and Financial Institutions Act" 2016, which went into effect in 2006. Every every commercial bank. This umbrella legislation regulates development banks, financing businesses, and microfinance financial institutions as class A, class B, class C, and class D entities, respectively.

2.2 Empirical Review

Dar and Presley (2020) studied and dissected the camel model's third zone, or management What additional authority does banking have over internal governance? Additionally, financial institutions). Even though they don't take it seriously, those Muslim universe microfinance and financial institutions need assistance. They discovered that the actual cause of the lack of advantage could be the absence of proper parity between administrative controlling privileges. Bangladesh Bank introduced the camel grading system in many producing nations in 1993. In the same way, as the exclusive off-site supervision framework and vital analytics.

Tucker and Miles (2021) research has shown that MFIs may remain viable by increasing fees, loan interest rates, or both. However, raising consumer fees is likely to raise the default rate. A rise in loan costs may not help low-income households; instead, it may cause them to become marginalised. Microfinance institutions employ the CAMELS technical note in their financial reporting, according to their study. In order to determine if small business financing programmes had the ability to increase small businesses' access to capital, Satta (2020) investigated how well these programmes performed. It used written-off loans, ROA, net loans to total assets, and non-financial investments to total assets as metrics for measuring financial success.

Srinivasan (2018**)** research has shown that lending organisations have found microfinance appealing due to its proven sustainability and minimal operating costs. The fact that NABARD and SIDBI are involved in India indicates that they believe this industry has long-term potential.

Ayayi and Sene (2019) found that credit risk management was a decisive factor for financial performance after researching 223 MFIs. It was said that cost containment was crucial. To pay costs, an interest rate has to be rather high. They also found that information systems, sound banking procedures, and the utilisation of pertinent data all contribute to sustainability.

Mishra and Kumari (2021) chosen 12 banks from the public and private sectors based on market share, and the Camel Model was used to assess their soundness and efficiency. They graded the banks based on their study. They indicated that Axis Bank, ICICI, and HDFC are in the lead. IDBI and Kotak Mahindra Bank occupy the fourth place, followed by Bank of Baroda and Punjab National Bank. Public sector banks, such as Union Bank and SBI, are not given much priority. The fact that private sector banks are outperforming public sector banks is indicative of this.

Kumar (2022) defines the camel rating system as a way to group banks based on their general health, financial standing, and management and operational effectiveness. He selected State Bank of India and its affiliates to evaluate performance in his study, and he

arrived to the conclusion that SBI consistently outperforms its colleagues in every area of camel ownership.

Aspal and Malhotra (2023) assessed the asset performance of Indian public-sector banks using the camel model and data from tests such as the arithmetic, f, and Anova tests. They came to the conclusion that United Bank of India performed the poorest due to ineffective management, low capital adequacy, poor assets and earning quality, and inadequate capital adequacy. The top two performing banks were Bank of Baroda and Andhra Bank. The Indian Central Bank is ranked bottom, followed by UCO Bank and the Maharashtra Bank.

Mahua (2021) from the banks' annual reports, two public sector banks—Andhra Bank and Bank of Maharashtra—were measured and their performance was assessed using the CAMEL model for the years 2011–2022. The study uses twenty variables, which are supported by the body of current literature on the CAMEL model.

Chaudhary (2021) carried out a study to compare the performance of public and private sector banks using secondary data gathered from annual reports, periodicals, websites, etc. for the years 2009–2021. The study found that private sector banks are growing faster and have outperformed public sector banks in every category.

Muralidharan and Lingam (2019) examined and assessed the financial performance of five banks—Punjab National Bank, Bank of Baroda, Central Bank of India, Bank of India, and Bank of Maharashtra—between 2012 and 2019. Based on each ratio, they ranked all five institutions.

Campain (2002) the presentation "Challenges to Microfinance Commercialization" she gave addressed some of the main barriers to microfinance commercialization, which is defined as using market-based concepts to reach the underprivileged with financial services. The study covered a few of the obstacles to the commercialization of microfinance, including inadequate legislation and oversight, ineffective donor subsidies, and the restricted managerial capabilities of microfinance organisations. The examination of what donors may do to further the commercialization of microfinance in a constructive

way wraps up the study. In summary, in order to better meet global demand, a number of challenges pertaining to the commercialization of the microfinance sector must be overcome. Donors should generally refrain from employing direct subsidies as they will cause distortions in the market. Donors should refrain from giving MFIs direct subsidies for on-lending, but they should nevertheless provide some technical support and training to help the microfinance sector grow. Furthermore, donors can enhance the conditions in which MFIs function by augmenting the capabilities of regulatory and supervisory entities, endorsing the establishment of credit bureaus, and establishing additional information support systems and networks.

Yunus (2003) this study titled "Expanding Microfinance Outreach to Rich the Millennium Development Goal-Some Issue for Attention" illustrates how microfinance affects the world's impoverished. Microcredit has a significant impact on reducing poverty. The number of impoverished individuals rises daily. Therefore, microcredit programmes are useful strategies for lowering poverty. He came to the conclusion that the next five years will be crucial for ensuring that the necessary institutional, budgetary, and policy arrangements are made in order to meet the 2015 Millennium Development Goals. We will still be halfway through the period allotted to achieving our target in five years. The MDG cannot be accomplished if the proper laws and regulations are not passed. Microcredit can be a key component in achieving the objective. By 2015, microcredit-backed information technology has the potential to be a highly potent factor in lifting half of the world's impoverished out of poverty. To ensure that the world is ready to effectively complete the most exciting job mankind has ever embarked upon, the issues highlighted in this article must be given careful consideration.

Wendt and Eichfeld (2006) the expanding microfinance industry has demonstrated astounding success in utilising financial markets to reduce global poverty where it is prevalent, as discussed in this study titled "Building on Success: The Next Challenges for Microfinance". The potential to create economic opportunities for hundreds of millions of people and bring communities together through civil society networks lies in the expansion of microfinance and its integration with the global financial system. The study came to the conclusion that microfinance is one of the world's most successful

instruments for reducing poverty. By developing new behavioural standards, encouraging a new degree of social trust, and strengthening both horizontal and vertical networks of workers within a community, microfinance can generate social capital. The paper's primary goal also demonstrates the emerging microfinance issues that MFIs must deal with.

Lohani (2010) the issues presented here are from the perspective of microfinance services expanding in the rural and inaccessible areas instead of being confined in only limited areas as it is currently happening, as stated in their article title, "challenges and issue currently experienced by microfinance institutions (FINGOs) in Nepal." Nepal's overall development aim is to reduce poverty. Financial services for the impoverished in rural areas are thought to be one of the most important components in achieving these poverty reduction objectives. But observing the varied terrain. One of the main barriers preventing the socioeconomic stratum of impoverished community members living in rural and inaccessible areas of Nepal from rising faster has been a lack of access to banking services. The issues raised in this study are not intended to call into question the legitimacy of regulatory and support agencies. The difficulties and problems he has identified with microfinance organisations include outreach, regulatory issues, unhealthful competition, resource limitations, development issues, and management issues.

Kayestha (2011) the general state of microfinance in Nepal was covered in a study titled "Current Issue of Microfinance in Nepal". The paper's introduction defines microfinance through an example, then goes on to discuss the evolution of the industry and the workings of microfinance organisations. Without a question, one of the most successful strategies for reducing poverty in Nepal is microfinance. According to this research, Nepal has had a remarkable rise in microfinance during the past 20 years, starting in the 1990s. But as microfinance has grown, it has also brought up a number of challenges and problems, as this study has illustrated in great detail. During the heated debate over inclusionary microfinance and governance. If we disregard the idea of institutional governance, it is almost impossible. Every MFI has its own set of internal rules, laws, and management practices. The NRB also creates microfinance acts and policies without

consulting MFIs specifically, and there is sometimes a lack of coordination between MFIs and the Nepali government. The report went on to discuss the problems and difficulties facing microfinance institutions. The study came to the conclusion that Nepalese financial sectors did not yet place microfinance at the forefront. If these two factors are not connected, it should be challenging for microfinance to grow in Nepal.

Neupane (2014) these issues with microfinance programmes operating in rural areas are discussed in the study titled "The Effectiveness of Microfinance in Nepalese Economy." Due to a lack of dedication and a defined plan of action, as well as an inability to properly identify the poor, Nepalese microfinance organisations are unable to reach the most vulnerable people. Although the government's liberalisation policy in the financial sector aimed to encourage financial institutions to contribute to the government's endeavour to reduce poverty, some managerial challenges faced by microfinance institutions throughout the county have prevented the satisfactory outcome from being achieved. The issues faced by the many types of financial institutions, such as banks, financing businesses, NGOs, cooperative societies, and self-help groups involved.

Dhakal (2015) This article titled "Emerging Issue in Nepalese Micro Finance Sector" reviewed the state of the art in building Nepalese microfinance sectors and discussed an emerging issue on microfinance in Nepal as well as strategies towards developing a viable microfinance sector. Establishing a policy environment that is supportive of microfinance (MF), creating a framework for regulation and supervision, strengthening institutional capacity, extending services to remote areas, introducing ICT into the MF sector, and addressing issues of encroachment, unfair competition, and achieving financial viability should be the main priorities of Nepal's microfinance sector. He came to the conclusion that MF has traditionally been used in Nepal as a development and anti-poverty instrument. Beginning in the late 1990s, the MF sector had a dramatic paradigm shift that saw it advance as an industry and help thousands of impoverished individuals, including impoverished women, micro-entrepreneurs, and peasant farmers. The mutual fund sector will continue to evolve into a profitable venture that offers financial services to the underprivileged in the future. In order to achieve this realisation, it is necessary to properly and finely address emerging issues like the policy on macroeconomic and

financial system stability, the regulation and supervision of microfinance sectors, the building of institutional capacity, the expansion of Mf service in remote areas, the introduction of ICT in the Nepalese microfinance sector, encroachment or unfair competition, and financial viability that are identified in this paper.

Panta (2015) the conclusion drawn in their journal article "Financial inclusion in Nepal: role of microfinance" is that microfinance contributes to the creation of assets as opposed to only debt. Borrowers of microfinance have demonstrated this by carefully managing the risks and expenses associated with microbusinesses. It has been demonstrated that taking a chance increases a person's likelihood of working harder to ensure the project's success. For the first time in Nepalese history, microfinance institutions have brought the capital closer to the impoverished and made it accessible to almost everyone in need. People living in poverty in Nepal are becoming more financially literate, developing their own financial self-discipline and prospects for personal development.

Wagle (2016) according to their article, "Impact of Microfinance on Women," women who participate in these programmes gain in terms of increased earning potential, reduced poverty, improved living standards, and elevated social standing. Following the microfinance program's involvement, the women beneficiaries have seen a major improvement in their economic standing as well as a stimulation of their living standard, health, political, and social position. She demonstrates how the program's creation and growth in production have improved women's living standards. Enhancing the financial status of impoverished women is the cornerstone of the most significant and successful programme.

Paudel (2016) the impacts of microfinance on the lives of impoverished women families are demonstrated in their study, "Role of microfinance in poverty reduction," through the improvement of livelihood activities and the accumulation of livelihood assets. He demonstrates how microfinance organisations and programmes play a critical role in helping impoverished women or reducing poverty.

Khatiwada (2016) the article title "Impact of microfinance on Poverty Alleviation in Nepal" demonstrates how successful microfinance has been in combating poverty

without causing any additional losses. He explained that the changes in wealth status, primary occupation, food sufficiency, literacy status, education level, children's schooling, consumption of nutrient-dense food, social and political participation, family decision-making role, self-confidence, awareness of social issues, awareness of health issues, and sanitation are indicators of the impact of microfinance in Nepal. While microfinance has made a significant contribution to Nepal, it is undoubtedly not a panacea for poverty. The advancement of microfinance in Nepal has raised rural residents' standards of life. The majority of borrowers who already have some assets (or business acumen and education) are more likely to benefit from MF assistance, according to impact study of microfinance. The poor can benefit from both the financial system approach and the poverty lending strategy. He concluded by saying there is still uncertainty about the connection between poverty and microfinance. Additionally, additional research is required to fully understand the relationship between microfinance and poverty, as well as a more suitable approach for calculating the impact.

Pandey (2017) the issue and issues that microfinance banks are experiencing are discussed in this article titled "Issue and Problems on Microfinance in Nepalese Context Facing Microfinance Banks." The study's sole source of secondary data was information gathered mostly from Nepal Rastra Bank's official publications.This essay demonstrates the problem with microfinance, which is that it hasn't reached the really poor, isolated places, hills, or everyone. However, microfinance is primarily focused on the impoverished, including those living in villages and hills, and is gradually making its way to the interior of the terai. This paper identifies the issues with microfinance, including limited funding, high interest rates on loans that are denied, high tax rates, public deposit capacity building, unheard voices, sustainability, and viability.

Adhikari (2018) the present concerns and challenges in microfinance were discussed along with their causes and remedies in their essay titled "Current Issues, Challenges, and Way Forward." Microfinance institutions have several challenges in carrying out their operations. He demonstrates how to overcome the difficulties and problems of the present. The steps to take are as follows: create a national data centre to compile and distribute information from microfinance institutions through a single point of contact;

develop entrepreneurship and technology-based microfinance on a large scale, particularly in remote areas; define the roles and responsibilities of practitioners to improve the effectiveness of service delivery; establish a national microfinance wholesale fund with support from the government and NRB to provide financial support.

6.1 Research Gap

Numerous studies have been conducted on this subject, but they have all focused on commercial banks and there is a dearth of research that examines Nepal's microfinance industry. The microfinance sector has to be studied, and this study will satisfy the necessary research about the performance of microfinance firms in Nepal. There are currently insufficient studies pertaining to the financial analysis of microfinance companies in Nepal.

CHAPTER-III

RESEARCH METHODOLOGY

The way the researcher gathers, examines, and evaluates the study's data is known as the research methodology. The study design, demographic and sampling strategy, data sources and types, data analysis methods, and data analysis instruments will all be covered in this part. The primary focus of this chapter is on the research process and techniques design in order to achieve the study's stated objectives. The study strategy and design, sample description, equipment, data collecting process, data validity and reliability, and analysis plan are all covered.

3.1 Research design

The current study, which aims to quantify the financial success of microfinance in Nepal, will be carried out using a casual research approach. Ratio analysis will be used to examine and contrast financial performance and industry trends in the microfinance space. The data gathered from secondary sources was interpreted and examined using a variety of statistical methods.

3.2 Population and sampling procedure

The population of the study is 57 microfinance companies as per Nepal Rastra Bank and 5 microfinance will be selected based on judgmental sampling method and five microfinance company has been selected based on top five paid up capital.

3.3 Nature and source off data collection

This research has been used secondary data to collect the data on the subject matter and also know further about subject. The financial and accounting data of banks will be collected from the annual report of the select microfinance to analyze the financial performance of microfinance.

3.4 Conceptual Framework

This part presents the conceptual aspects of the study including concepts on commercial bank, functions of commercial banks and concepts of CAMEL rating system. This research is based on findings of journal published by International Business Research, Canadian Centre of Science and Education on "CAMEL Analysis on Performance of ASEAN Public Listed Banks".

Dar and Presley (2020) conducted the research on CAMEL approach and financial ratios with secondary data available of 63 public listed banks of ASEAN banks. Ranks to each countries were given for the average result to each five perspective; Capital adequacy, Assets Quality, Management Efficiency, Earnings and Liquidity. As per study CAMEL has been common rating system applied by government, regulators and researchers in measuring the soundness of the banks. Dang (2021) noted that the scholars often used the CAMEL framework to proxy bank specific variables. These variables are internal factors, which are under the control of the banks to manipulate and are different from each bank.

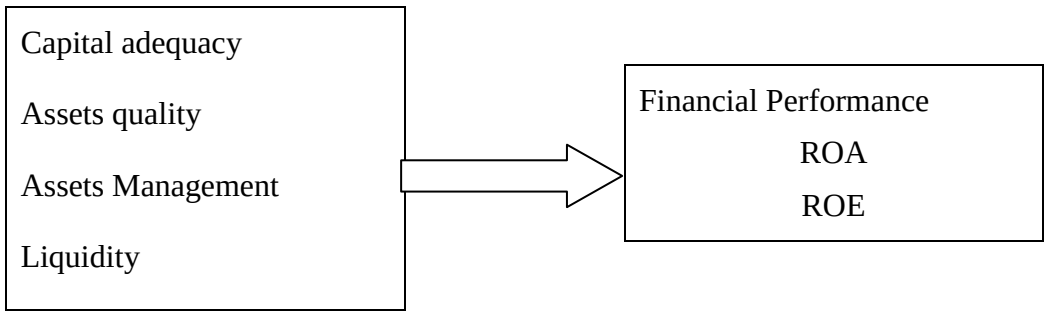

Figure1: Conceptual framework

Definition of Variable

Capital Adequacy

The institution's capacity to create reserves against the risks associated with its operations and to raise additional equity in the event of losses are both examined in the capital adequacy examination. An institution's expansion ambitions, the state of the economy, its capacity to manage risk, and the concentrations of its loans and investments are further considerations in evaluating and grading its capital adequacy.

Asset Quality

This facilitates the examination of the amount of the portfolio that is at risk and eliminates the need for credit regulations and processes. When compared to the company's book value of investments, it shows how corporations are impacted by the fair market value of their investments.

Management Quality

This part oversees internal control, audits, management information systems (MIS), human resource policy, and general management. It addresses the management's capacity to guarantee the institution operates safely while adhering to all relevant internal and external requirements.

Earnings Efficiency:

The institution's interest rate policy, operational efficiency, and total outcomes as determined by return on equity (ROE) and return on assets (ROA) are among the important aspects of revenues and costs that are examined.

Liquidity Management

A comprehensive evaluation of an institution's liquidity management should also take into account the productivity of its present assets and the liabilities structure of the organisation. The presence of easily convertible assets and reliance on ephemeral, variable short-term financial resources are additional factors that might be considered when assessing a company's liquidity condition.

3.5 Tools of Analysis

Financial Tools

Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.

Capital Adequacy Ratio= $\frac{Total\ capital}{total\ risk\ weighted\ exposure}$

Banks are required by law to reveal their ratio of non-performing loans to the amount of total loans. An NPL ratio is used to measure the level of the bank's credit risk and quality of outstanding loans.

Non Performing Loan Ratio= $\frac{Total\ non\ performing\ \ loan}{Total\ Loans}$

Return on Assets

Return on assets (ROA) is a ratio that helps investors understands how efficiently a company is generating revenue on its assets. ROA has been used to evaluate the financial performance of the banks and It can be calculated by:

Return on Assets (ROA) = $\frac{net\ income}{Total\ assets}$

Return on Equity

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets.

Return on Equity (ROE) = $\frac{Net\ Income}{Total\ equity}$

Statistical Tools

The tools like Mean, standard deviation, correlation and regression analysis have been done through SPSS V 22 to analyze the data.

Arithmetic mean

The arithmetic mean is the most commonly used and readily understood measure of central tendency in a data set. In statistics, the term average refers to any of the measures of central tendency. Arithmetic mean can be calculated by:

$$\text{Arithametic mean} = \frac{\sum X}{N}$$

Standard deviation

The standard deviation is a measure of the amount of variation or dispersion of a set of values. A low standard deviation indicates that the values tend to be close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the values are spread out over a wider range. Standard deviation can be calculated by:

$$\text{Standard deviation} = \sqrt{\frac{\sum(x - \bar{x})^2}{n - 1}}$$

Correlation

Correlation is a statistical term describing the degree to which two variables move in coordination with one another. If the two variables move in the same direction, then those variables are said to have a positive correlation. If they move in opposite directions, then they have a negative correlation. Correlation can be calculated by:

$$\text{Correlation}(r) = \frac{n.\sum(xy) - \sum y.\sum x}{\sqrt{\left[n\sum x^2 - (\sum x)^2\right]\left[n\sum y^2 - (\sum y)^2\right]}}$$

Regression analysis

Regression analysis is used when you want to predict a continuous dependent variable from a number of independent variables.

Regression (Y) = a+ bX + e

Y= dependent variable

X = independent variable

e = error terms

CHAPTER-IV

RESULT AND DISSCUSSION

This chapter is structured to give the findings, analyze them, and provide context for them. Presenting and interpreting data and information is its primary goal. Data gathered from many sources were categorized and tallied in compliance with the study's requirements and the type of data that was gathered. This chapter uses a variety of statistical and financial methods.

4.1 Financial performance of Microfinance Companies

Table 1

Capital Adequacy Ratio (CAR) of Microfinance Companies *(in percent)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	14.35	11.14	23.84	13.91	11.55
2019/20	14.84	11.87	23.94	11.14	11.72
2020/21	16.16	12.62	15.06	12.80	12.43
2021/22	14.45	13.63	13.10	13.42	12.84
2022/23	17.44	12.22	16.02	13.51	11.77

Note. Annual reports

The provided data outlines the Capital Adequacy Ratio (CAR) of five microfinance companies - CBBL, NUBL, NICLBSL, DDBL, and FOWAD - across a span of five years from 2018/19 to 2022/23. CAR measures a financial institution's capital relative to its risk-weighted assets and is crucial for assessing its ability to absorb potential losses. Throughout the years, there are noticeable fluctuations in CAR among the companies. For instance, CBBL's CAR shows a general upward trend, increasing from 14.35% in 2018/19 to 17.44% in 2022/23, indicating a strengthening of its capital position. Conversely, NUBL's CAR fluctuates, peaking at 13.63% in 2021/22 before slightly

decreasing in the following year. NICLBSL's CAR decreases consistently over the period, indicating a potential decrease in its capital adequacy relative to risk. DDBL's CAR remains relatively stable, fluctuating around the mid-teens percentage range, while FOWAD's CAR displays fluctuations without a clear trend. These fluctuations could stem from various factors such as changes in asset composition, risk exposure, regulatory requirements, and capital management strategies pursued by each company throughout the years, reflecting their efforts to maintain financial stability and regulatory compliance in the microfinance sector.

Table 2

Total Assets Turnover of Microfinance Companies *(Times)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	0.95	1.2	1.6	1.6	0.9
2019/20	1.2	1.3	1.14	1.25	1.2
2020/21	1.1	1.2	1.25	1.3	1.07
2021/22	1.3	1.1	1.2	1.5	1.23
2022/23	1.05	1	1.15	1.2	1.29

Note. Annual reports

The table presents the Total Assets Turnover (TAT) ratios of five microfinance companies (CBBL, NUBL, NICLBSL, DDBL, and FOWAD) over a five-year period from 2018/19 to 2022/23. TAT measures a company's ability to generate sales in relation to its total assets. In 2018/19, CBBL had the lowest TAT at 0.95, indicating that it generated less revenue per unit of assets compared to the other companies. However, by 2021/22, CBBL showed significant improvement, reaching a TAT of 1.3, the highest among the listed companies. Conversely, NUBL started with a TAT of 1.2 in 2018/19 but experienced a decline over the years, dropping to 1.0 in 2022/23. NICLBSL's TAT fluctuated slightly, while DDBL and FOWAD showed more consistent trends with fluctuations within a narrower range. Overall, the table illustrates the varying efficiency levels in asset utilization among the microfinance companies over the specified period.

Table 3

Cash Reserve Ratio (CRR) of Microfinance Companies *(in percent)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	2.11	2.71	0.51	8.53	1
2019/20	2.98	2.40	0.56	3.70	1.09
2020/21	2.53	2.24	0.54	15.32	0.95
2021/22	2.29	2.16	0.56	10.69	0.52
2022/23	3.11	2.27	0.87	4.42	0.55

Note. Annual reports

The provided data outlines the Cash Reserve Ratio (CRR) of five microfinance companies - CBBL, NUBL, NICLBSL, DDBL, and FOWAD - across a span of five years from 2018/19 to 2022/23. CRR represents the percentage of total deposits that banks are required to maintain with the central bank as reserves, which helps regulate the liquidity in the banking system and control inflation. Throughout the years, there are noticeable variations in CRR among the companies. For instance, CBBL's CRR shows fluctuations, with a notable increase in 2022/23 compared to previous years. NUBL and NICLBSL maintain relatively stable CRR levels over the period, with minor fluctuations. DDBL experiences significant fluctuations, particularly in 2020/21 when its CRR jumps to 15.32% before decreasing in subsequent years. FOWAD's CRR also displays fluctuations, albeit less pronounced, with a slight increase observed in 2022/23 compared to earlier years. These fluctuations in CRR could be influenced by factors such as changes in monetary policy, regulatory requirements, liquidity needs, and market conditions, reflecting each company's liquidity management practices and adherence to regulatory guidelines in the microfinance sector.

Table 4

Return on Assets (ROA) of Microfinance Companies *(in percent)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	3.10	3.56	2.24	2.64	2.73
2019/20	2.46	1.12	2.04	3.39	1.56
2020/21	3.83	4.48	2.17	2.14	2.48
2021/22	2.48	2.53	1.7	4.09	2.93
2022/23	2.40	0.61	0.97	2.61	0.39

The provided data represents the Return on Assets (ROA) of five microfinance companies - CBBL, NUBL, NICLBSL, DDBL, and FOWAD - over a span of five years from 2018/19 to 2022/23. ROA indicates the profitability of a company relative to its total assets. Across the years, there are fluctuations in ROA among the companies. For instance, CBBL experienced a decline from 3.10% in 2018/19 to 2.40% in 2022/23, while NUBL fluctuated from 3.56% in 2018/19 to 0.61% in 2022/23. NICLBSL relatively stable ROA, hovering around 2% to 1.7% over the years. DDBL displayed variations with a peak of 4.09% in 2021/22, and FOWAD had fluctuating ROA.

Table 5

Return on Equity (ROE) of Microfinance Companies *(in percent)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	19.49	32.73	9.94	10.23	17.22
2019/20	16.34	10.55	9.98	15.29	10.27
2020/21	25.91	30.86	17.12	18.13	17.60
2021/22	16.29	16.21	14.15	20.21	18.95
2022/23	15.19	3.62	6.17	17.19	2.55

Note. Annual reports

The provided data represents the Return on Equity (ROE) of five microfinance companies - CBBL, NUBL, NICLBSL, DDBL, and FOWAD - over a span of five years from 2018/19 to 2022/23. ROE indicates the profitability of a company relative to its shareholders' equity. Across the years, there are fluctuations in ROE among the companies. For instance, CBBL's ROE decreased from 19.49% in 2018/19 to 15.19% in 2022/23, while NUBL experienced a significant decline from 32.73% in 2018/19 to 3.62% in 2022/23. NICLBSL and DDBL showed fluctuating ROE with varying peaks and troughs over the years. FOWAD also displayed fluctuations, although less dramatic, with a decrease from 17.22% in 2018/19 to 2.55% in 2022/23. These fluctuations could be attributed to factors such as changes in profitability, leverage, and shareholder equity, reflecting the companies' performance and strategic decisions during the respective years.

Table 6

Non Performing Loan (NPL) of Microfinance Companies *(in percent)*

Year	CBBL	NUBL	NICLBSL	DDBL	FOWAD
2018/19	0.28	1.17	0.72	0.78	0.82
2019/20	0.45	1.83	0.99	0.91	2.85
2020/21	0.63	4.11	0.93	2.51	4.75
2021/22	0.83	5.30	1.43	0.92	1.83
2022/23	1.72	9.87	3.93	1.03	4.26

Note. Annual reports

The provided data illustrates the Non-Performing Loan (NPL) ratios of five microfinance companies - CBBL, NUBL, NICLBSL, DDBL, and FOWAD - across the span of five years from 2018/19 to 2022/23. NPL ratio indicates the proportion of loans in a company's portfolio that are not generating income due to non-payment by borrowers, reflecting the quality of the loan portfolio and potential credit risks. Over the years, there

are noticeable fluctuations in NPL ratios among the companies. For instance, CBBL's NPL ratio shows a steady increase from 0.28% in 2018/19 to 1.72% in 2022/23, suggesting a potential deterioration in loan quality. NUBL experiences significant fluctuations, with its NPL ratio peaking at 9.87% in 2022/23, indicating a substantial increase in non-performing loans compared to earlier years. Similarly, NICLBSL and FOWAD also witness fluctuations in NPL ratios, with peaks in certain years indicating increased credit risk exposure. DDBL's NPL ratio remains relatively stable over the period, except for a notable increase in 2020/21. These fluctuations could be influenced by various factors such as economic conditions, borrower defaults, loan underwriting standards, and risk management practices implemented by each company throughout the years.

Table 7

Correlations Between Variables

		ROA	ROE	CAR	NPL	CRR
ROA	Pearson Correlation	1	.967**	-.174	-.634	.803
	Sig. (2-tailed)		.007	.779	.251	.102
	N	5	5	5	5	5
ROE	Pearson Correlation	.967**	1	-.272	-.447	.921*
	Sig. (2-tailed)	.007		.658	.450	.026
	N	5	5	5	5	5
CAR	Pearson Correlation	-.174	-.272	1	-.493	-.527
	Sig. (2-tailed)	.779	.658		.399	.362
	N	5	5	5	5	5
NPL	Pearson Correlation	-.634	-.447	-.493	1	-.063
	Sig. (2-tailed)	.251	.450	.399		.919
	N	5	5	5	5	5
CRR	Pearson Correlation	.803	.921*	-.527	-.063	1
	Sig. (2-tailed)	.102	.026	.362	.919	
	N	5	5	5	5	5

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

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

The correlation matrix provided indicates the relationships between different financial metrics - Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Cash Reserve Ratio (CRR) - for the given microfinance companies.

ROA and ROE show a strong positive correlation of 0.967**, indicating a close relationship between a company's profitability and its return to equity holders.

ROA and CRR exhibit a positive correlation of 0.803, suggesting that higher returns on assets might be associated with higher cash reserve ratios.

ROE and CRR also demonstrate a strong positive correlation of 0.921*, indicating that companies with higher returns on equity tend to maintain higher cash reserve ratios.However, ROA shows a negative correlation with NPL (-0.634), indicating that as return on assets increases, the proportion of non-performing loans tends to decrease.Similarly, ROE displays a negative correlation with NPL (-0.447), suggesting that companies with higher returns on equity tend to have lower levels of non-performing loans.CAR does not show strong correlations with other metrics, indicating its relatively independent relationship with the other financial indicators.These correlations provide insights into the interplay between different financial aspects within microfinance companies, aiding in understanding their performance, risk management practices, and regulatory compliance.

4.2 Inferential Statistics

Regression of CAR on ROA

Table 8

Model summary of CAR and ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.174[a]	.030	-.293	.76203

a. Predictors: (Constant), CAR

The model summary indicates the linear regression analysis between the Capital Adequacy Ratio (CAR) and the Return on Assets (ROA) for the microfinance companies. The model shows a weak positive relationship with an R value of 0.174, suggesting that there is a minimal positive association between CAR and ROA. However, the R Square value of 0.030 indicates that only approximately 3% of the variability in ROA can be explained by changes in CAR. The adjusted R Square value of -0.293 suggests that when accounting for the number of predictors, the model's explanatory power diminishes, possibly indicating that CAR alone might not be a strong predictor of ROA. The standard error of the estimate of 0.76203 indicates the average distance between the observed ROA values and the values predicted by the model, highlighting the model's limited accuracy in predicting ROA based solely on CAR.

Table 9

ANOVA of CAR on ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.055	1	.055	.094	.779[b]
	Residual	1.742	3	.581		
	Total	1.797	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), CAR

The ANOVA table provided presents the results of the analysis of variance for the regression model predicting Return on Assets (ROA) based on the Capital Adequacy Ratio (CAR) for the microfinance companies. The table includes the sum of squares, degrees of freedom, mean square, F-value, and the associated significance level (p-value) for the regression model and its predictors. The regression model's F-value of 0.094 with 1 and 3 degrees of freedom for the regression and residual, respectively, results in a non-significant p-value of 0.779, exceeding the typical significance level of 0.05. This indicates that the regression model as a whole, including the CAR predictor, is not statistically significant in explaining the variability in ROA. Therefore, the relationship between CAR and ROA may not be significant based on this analysis.

Table 10

Regression of CAR on ROA

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.171	8.958		.577	.604
	CAR	-.193	.629	-.174	-.307	.779

a. Dependent Variable: ROA

The coefficients table provided summarizes the results of the regression analysis predicting Return on Assets (ROA) based on the Capital Adequacy Ratio (CAR) for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is 5.171 with a standard error of 8.958. However, it is not statistically significant, as indicated by the non-significant p-value of 0.604.For the CAR predictor, the unstandardized coefficient is -0.193, suggesting that for every unit increase in CAR, there is a corresponding decrease of 0.193 units in ROA. However, this coefficient is not statistically significant, as indicated by the non-significant p-value of 0.779. The standardized coefficient (Beta) of -0.174 indicates the strength and direction of the relationship between CAR and ROA, but since the predictor is not statistically significant, the interpretation of this coefficient is limited.Overall, these results suggest that the CAR variable does not have a significant linear relationship with ROA for the microfinance companies in this analysis.

Table 11

Model Summary of CAR on ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.272[a]	.074	-.235	5.60528

a. Predictors: (Constant), CAR

The model summary provided outlines the results of a linear regression analysis predicting Return on Equity (ROE) based on the Capital Adequacy Ratio (CAR) for the microfinance companies. The model indicates a weak positive relationship, with an R value of 0.272, suggesting that approximately 27.2% of the variability in ROE can be explained by changes in CAR. The R Square value of 0.074 indicates that CAR accounts for only about 7.4% of the variance in ROE, indicating a limited level of explanatory power. The adjusted R Square value of -0.235 suggests that when considering the number of predictors, the model's explanatory power diminishes, potentially indicating that CAR alone might not be a strong predictor of ROE. The standard error of the estimate of 5.60528 indicates the average distance between the observed ROE values and the values predicted by the model, highlighting the model's limited accuracy in predicting ROE based solely on CAR.

Table 12

ANOVA of CAR on ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.522	1	7.522	.239	.658[b]
	Residual	94.258	3	31.419		
	Total	101.780	4			

a. Dependent Variable: ROE

b. Predictors: (Constant), CAR

The ANOVA table provided summarizes the results of the analysis of variance for the regression model predicting Return on Equity (ROE) based on the Capital Adequacy Ratio (CAR) for the microfinance companies. The table includes the sum of squares, degrees of freedom, mean square, F-value, and associated significance level (p-value) for the regression model and its predictors.

For the regression model, the sum of squares for regression (model) is 7.522 with 1 degree of freedom, resulting in a mean square of 7.522. The F-value of 0.239 with a p-value of 0.658 suggests that the regression model as a whole, including the CAR

predictor, is not statistically significant in explaining the variability in ROE at the 0.05 significance level.

The sum of squares for the residual (error) term is 94.258 with 3 degrees of freedom, resulting in a mean square of 31.419. The total sum of squares is 101.780 with 4 degrees of freedom, reflecting the total variability in the dependent variable, ROE.

Overall, the ANOVA results indicate that the regression model's explanatory power, as assessed by the F-test, is not statistically significant, suggesting that CAR alone may not be a significant predictor of ROE for the microfinance companies in this analysis.

Table 13

Regression of CAR on ROE

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	47.905	65.893		.727	.520
	CAR	-2.264	4.627	-.272	-.489	.658

a. Dependent Variable: ROE

The coefficients table provided summarizes the results of the regression analysis predicting Return on Equity (ROE) based on the Capital Adequacy Ratio (CAR) for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is 47.905 with a standard error of 65.893. The t-value of 0.727 with a p-value of 0.520 indicates that the constant term is not statistically significant at the 0.05 level, suggesting that there is no significant intercept when CAR is zero.

For the CAR predictor, the unstandardized coefficient is -2.264, suggesting that for every unit increase in CAR, there is a corresponding decrease of 2.264 units in ROE. However, this coefficient is not statistically significant, as indicated by the non-significant p-value

of 0.658. The standardized coefficient (Beta) of -0.272 indicates the strength and direction of the relationship between CAR and ROE, but since the predictor is not statistically significant, the interpretation of this coefficient is limited.

Overall, these results suggest that CAR may not be a significant predictor of ROE for the microfinance companies in this analysis, as indicated by the non-significant p-value for the CAR predictor.

Table 14

Model Summary of Assets Turnover on ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673[a]	.453	.271	4.15743

a. Predictors: (Constant), Assetsturnover

The given model is a linear regression model with one predictor variable (Assetsturnover) and one dependent variable (ROA, Return on Assets). Here are the summary statistics for the model:

R: The coefficient of determination or R-squared value is 0.673. It indicates that approximately 67.3% of the variability in the dependent variable (ROA) can be explained by the predictor variable (Assetsturnover).

R Square: The R-squared value is 0.453, which means that 45.3% of the variation in the dependent variable can be attributed to the predictor variable.

Adjusted R Square: The adjusted R-squared value is 0.271. It takes into account the number of predictor variables and the sample size to provide a more accurate measure of the model's goodness of fit. In this case, only one predictor variable is used, so the adjusted R-squared is similar to the R-squared value.

Std. Error of the Estimate: This value, 4.15743, represents the standard deviation of the residuals (the differences between the observed values of the dependent variable and the predicted values from the model). It gives an indication of the average amount by which the actual ROA values differ from the predicted values.

Table 15

Regression of Assets Turnover on ROA

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.166	13.502		-.309	.778
	Assets turnover	18.497	11.731	.673	1.577	.013

a. Dependent Variable: ROA

Note. SPSS Input

The estimated constant coefficient is -4.166. It represents the intercept of the regression line when the predictor variable (Assets turnover) is zero. However, in this case, the interpretation may not be meaningful since the Assets turnover is unlikely to be exactly zero in the context of the data.

Assets turnover: The estimated coefficient for the predictor variable is 18.497. It indicates that, on average, for every unit increase in Assets turnover, the predicted value of ROA increases by 18.497 units.

Standardized Coefficients (Beta): The standardized coefficient for Assets turnover is 0.673. It represents the standardized effect of Assets turnover on the dependent variable, ROA. It indicates that a one-standard-deviation increase in Assets turnover corresponds to a 0.673 standard deviation increase in ROA.

t-value: The t-value for Assets turnover is 1.577. It measures the number of standard errors the coefficient is away from zero. In this case, the t-value is less than the critical value at the 0.05 significance level, indicating that the coefficient is not statistically significant.

Sig. (p-value): The p-value associated with the coefficient is 0.013. It indicates the probability of observing the coefficient value as extreme as the estimated value. In this case, the p-value is lower than the significance level of 0.05, suggesting that the coefficient is statistically significant which indicates the hypothesis of positive impact of assets turnover on ROA is accepted.

Table 16

Model Summary of NPL on ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634[a]	.402	.203	.59845

a. Predictors: (Constant), NPL

The model summary provided outlines the results of a linear regression analysis predicting Return on Assets (ROA) based on the Non-Performing Loan (NPL) ratio for the microfinance companies. The model indicates a moderate positive relationship, with an R value of 0.634, suggesting that approximately 63.4% of the variability in ROA can be explained by changes in NPL. The R Square value of 0.402 indicates that NPL accounts for approximately 40.2% of the variance in ROA, indicating a moderate level of explanatory power. The adjusted R Square value of 0.203 suggests that when considering the number of predictors, the model's explanatory power decreases, potentially indicating that NPL alone might not fully account for the variability in ROA. The standard error of the estimate of 0.59845 indicates the average distance between the observed ROA values and the values predicted by the model, highlighting the model's accuracy in predicting ROA based on NPL.

Table 17

ANOVA of NPL on ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.722	1	.722	2.017	.251[b]
	Residual	1.074	3	.358		
	Total	1.797	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), NPL

The ANOVA table provided summarizes the results of the analysis of variance for the regression model predicting Return on Assets (ROA) based on the Non-Performing Loan (NPL) ratio for the microfinance companies. The table includes the sum of squares, degrees of freedom, mean square, F-value, and associated significance level (p-value) for the regression model and its predictors.

For the regression model, the sum of squares for regression (model) is 0.722 with 1 degree of freedom, resulting in a mean square of 0.722. The F-value of 2.017 with a p-value of 0.251 suggests that the regression model as a whole, including the NPL predictor, is not statistically significant in explaining the variability in ROA at the 0.05 significance level.

The sum of squares for the residual (error) term is 1.074 with 3 degrees of freedom, resulting in a mean square of 0.358. The total sum of squares is 1.797 with 4 degrees of freedom, reflecting the total variability in the dependent variable, ROA.

Overall, the ANOVA results indicate that the regression model's explanatory power, as assessed by the F-test, is not statistically significant, suggesting that NPL alone may not be a significant predictor of ROA for the microfinance companies in this analysis.

Table 18

Regression of NPL on ROA

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.145	.572		5.493	.012
	NPL	-.328	.231	-.634	-1.420	.251

a. Dependent Variable: ROA

The coefficients table provided summarizes the results of the regression analysis predicting Return on Assets (ROA) based on the Non-Performing Loan (NPL) ratio for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is 3.145 with a standard error of 0.572. The t-value of 5.493 with a p-value of 0.012 indicates that the constant term is statistically significant at the 0.05 level, suggesting that there is a significant intercept when NPL is zero.

For the NPL predictor, the unstandardized coefficient is -0.328, suggesting that for every unit increase in the NPL ratio, there is a corresponding decrease of 0.328 units in ROA. However, this coefficient is not statistically significant, as indicated by the non-significant p-value of 0.251. The standardized coefficient (Beta) of -0.634 indicates the strength and direction of the relationship between NPL and ROA, but since the predictor is not statistically significant, the interpretation of this coefficient is limited.

Overall, these results suggest that while there is a negative relationship between NPL and ROA, the relationship is not statistically significant at the 0.05 level for the microfinance companies in this analysis.

Table 19

Model Summary of CRR on ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803[a]	.645	.527	.46106

a. Predictors: (Constant), CRR

The model summary provided outlines the results of a linear regression analysis predicting Return on Assets (ROA) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The model indicates a strong positive relationship, with an R value of 0.803, suggesting that approximately 80.3% of the variability in ROA can be explained by changes in CRR. The R Square value of 0.645 indicates that CRR accounts for approximately 64.5% of the variance in ROA, indicating a substantial level of explanatory power. The adjusted R Square value of 0.527 suggests that when considering the number of predictors, the model's explanatory power decreases slightly, but still retains a significant portion of the variance in ROA. The standard error of the estimate of

0.46106 indicates the average distance between the observed ROA values and the values predicted by the model, highlighting the model's accuracy in predicting ROA based on CRR. Overall, the results suggest that CRR is a significant predictor of ROA for the microfinance companies, explaining a substantial portion of the variability in ROA.

Table 20

ANOVA of CRR on ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.159	1	1.159	5.452	.102[b]
	Residual	.638	3	.213		
	Total	1.797	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), CRR

The ANOVA table provided summarizes the results of the analysis of variance for the regression model predicting Return on Assets (ROA) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The table includes the sum of squares, degrees of freedom, mean square, F-value, and associated significance level (p-value) for the regression model and its predictors.

For the regression model, the sum of squares for regression (model) is 1.159 with 1 degree of freedom, resulting in a mean square of 1.159. The F-value of 5.452 with a p-value of 0.102 suggests that the regression model as a whole, including the CRR predictor, is not statistically significant in explaining the variability in ROA at the 0.05 significance level.

The sum of squares for the residual (error) term is 0.638 with 3 degrees of freedom, resulting in a mean square of 0.213. The total sum of squares is 1.797 with 4 degrees of freedom, reflecting the total variability in the dependent variable, ROA.

Overall, the ANOVA results indicate that the regression model's explanatory power, as assessed by the F-test, is not statistically significant, suggesting that CRR alone may not be a significant predictor of ROA for the microfinance companies in this analysis.

Table 21

Regression of CRR on ROA

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.599	.809		.740	.513
	CRR	.612	.262	.803	2.335	.102

a. Dependent Variable: ROA

The coefficients table provided summarizes the results of the regression analysis predicting Return on Assets (ROA) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is 0.599 with a standard error of 0.809. The t-value of 0.740 with a p-value of 0.513 indicates that the constant term is not statistically significant at the 0.05 level, suggesting that there is no significant intercept when CRR is zero.For the CRR predictor, the unstandardized coefficient is 0.612, suggesting that for every unit increase in CRR, there is a corresponding increase of 0.612 units in ROA. The standardized coefficient (Beta) of 0.803 indicates the strength and direction of the relationship between CRR and ROA. The t-value of 2.335 with a p-value of 0.102 suggests that the coefficient for CRR is not statistically significant at the 0.05 level, indicating that the relationship between CRR and ROA may not be significant for the microfinance companies in this analysis.

Overall, these results suggest that while there is a positive relationship between CRR and ROA, the relationship is not statistically significant at the 0.05 level for the microfinance companies in this analysis.

Table 22

Model Summary of NPL on ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.447[a]	.200	-.067	5.21005

a. Predictors: (Constant), NPL

The model summary provided outlines the results of a linear regression analysis predicting a dependent variable (not specified) based on the Non-Performing Loan (NPL) for the microfinance companies. The model indicates a moderate positive relationship, with an R value of 0.447, suggesting that approximately 44.7% of the variability in the dependent variable can be explained by changes in NPL. The R Square value of 0.200 indicates that NPL accounts for approximately 20% of the variance in the dependent variable, indicating a moderate level of explanatory power. However, the adjusted R Square value of -0.067 suggests that when considering the number of predictors, the model's explanatory power decreases, potentially indicating that NPL alone might not be a strong predictor of the dependent variable. The standard error of the estimate of 5.21005 indicates the average distance between the observed values of the dependent variable and the values predicted by the model, highlighting the model's accuracy in predicting the dependent variable based solely on NPL.

Table 23

ANOVA of NPL on ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.346	1	20.346	.750	.450[b]
	Residual	81.434	3	27.145		
	Total	101.780	4			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPL

The ANOVA table provided summarizes the results of the analysis of variance for the regression model predicting Return on Equity (ROE) based on the Non-Performing Loan (NPL) for the microfinance companies. The table includes the sum of squares, degrees of

freedom, mean square, F-value, and associated significance level (p-value) for the regression model and its predictors.

For the regression model, the sum of squares for regression (model) is 20.346 with 1 degree of freedom, resulting in a mean square of 20.346. The F-value of 0.750 with a p-value of 0.450 suggests that the regression model as a whole, including the NPL predictor, is not statistically significant in explaining the variability in ROE at the 0.05 significance level.

The sum of squares for the residual (error) term is 81.434 with 3 degrees of freedom, resulting in a mean square of 27.145. The total sum of squares is 101.780 with 4 degrees of freedom, reflecting the total variability in the dependent variable, ROE.Overall, the ANOVA results indicate that the regression model's explanatory power, as assessed by the F-test, is not statistically significant, suggesting that NPL alone may not be a significant predictor of ROE for the microfinance companies in this analysis.

Table 24

Regression of NPL on ROE

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.501	4.983		3.913	.030
	NPL	-1.739	2.008	-.447	-.866	.450

a. Dependent Variable: ROE

The coefficients table provided summarizes the results of the regression analysis predicting Return on Equity (ROE) based on the Non-Performing Loan (NPL) for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is 19.501 with a standard error of 4.983. The t-value of 3.913 with a p-value of 0.030 indicates that the constant term is

statistically significant at the 0.05 level, suggesting that there is a significant intercept when NPL is zero.

For the NPL predictor, the unstandardized coefficient is -1.739, suggesting that for every unit increase in the NPL ratio, there is a corresponding decrease of 1.739 units in ROE. However, this coefficient is not statistically significant, as indicated by the non-significant p-value of 0.450. The standardized coefficient (Beta) of -0.447 indicates the strength and direction of the relationship between NPL and ROE, but since the predictor is not statistically significant, the interpretation of this coefficient is limited.

Overall, these results suggest that while there is a negative relationship between NPL and ROE, the relationship is not statistically significant at the 0.05 level for the microfinance companies in this analysis.

Table 25

Model Summary of CRR on ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.921[a]	.848	.797	2.27047

a. Predictors: (Constant), CRR

The model summary provided outlines the results of a linear regression analysis predicting Return on Equity (ROE) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The model indicates a strong positive relationship, with an R value of 0.921, suggesting that approximately 92.1% of the variability in ROE can be explained by changes in CRR. The R Square value of 0.848 indicates that CRR accounts for approximately 84.8% of the variance in ROE, indicating a substantial level of explanatory power. The adjusted R Square value of 0.797 suggests that when considering the number of predictors, the model's explanatory power remains high, indicating that CRR is a strong predictor of ROE even when accounting for other factors. The standard error of the estimate of 2.27047 indicates the average distance between the observed ROE values and the values predicted by the model, highlighting the model's accuracy in predicting ROE based solely on CRR.

Table 26

ANOVA of CRR on ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.315	1	86.315	16.744	.026[b]
	Residual	15.465	3	5.155		
	Total	101.780	4			

a. Dependent Variable: ROE

b. Predictors: (Constant), CRR

The ANOVA table provided summarizes the results of the analysis of variance for the regression model predicting Return on Equity (ROE) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The table includes the sum of squares, degrees of freedom, mean square, F-value, and associated significance level (p-value) for the regression model and its predictors.For the regression model, the sum of squares for regression (model) is 86.315 with 1 degree of freedom, resulting in a mean square of 86.315. The F-value of 16.744 with a p-value of 0.026 suggests that the regression model as a whole, including the CRR predictor, is statistically significant in explaining the variability in ROE at the 0.05 significance level.The sum of squares for the residual (error) term is 15.465 with 3 degrees of freedom, resulting in a mean square of 5.155. Overall, the ANOVA results indicate that the regression model's explanatory power, as assessed by the F-test, is statistically significant, suggesting that CRR is a significant predictor of ROE for the microfinance companies in this analysis.

Table 27

Regression of CRR on ROE

Model		Unstandardized Coefficients		Standardizd Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.081	3.985		-.020	.985
	CRR	5.284	1.291	.921	4.092	.026

a. Dependent Variable: ROE

The coefficients table provided summarizes the results of the regression analysis predicting Return on Equity (ROE) based on the Cash Reserve Ratio (CRR) for the microfinance companies. The table includes unstandardized coefficients (B), standard errors (Std. Error), standardized coefficients (Beta), t-values, and associated significance levels (p-values).

For the constant term, the unstandardized coefficient (B) is -0.081 with a standard error of 3.985. The t-value of -0.020 with a p-value of 0.985 indicates that the constant term is not statistically significant at the 0.05 level, suggesting that there is no significant intercept when CRR is zero.

For the CRR predictor, the unstandardized coefficient is 5.284, suggesting that for every unit increase in the CRR, there is a corresponding increase of 5.284 units in ROE. The standardized coefficient (Beta) of 0.921 indicates the strength and direction of the relationship between CRR and ROE. The t-value of 4.092 with a p-value of 0.026 suggests that the coefficient for CRR is statistically significant at the 0.05 level, indicating that the relationship between CRR and ROE is significant for the microfinance companies in this analysis.

4.3 Major Findings

- The Return on Assets (ROA) data for these microfinance companies is the varying degrees of stability and volatility in profitability over the five-year period. While some companies like NICLBSL demonstrated relatively stable ROA, others such as CBBL and NUBL experienced significant fluctuations. DDBL showed a peak in profitability in 2021/22, indicating potential strategic shifts or successful initiatives during that period.
- Return on Equity (ROE) for these microfinance companies is the diverse patterns of fluctuations over the five-year period. While some companies like NUBL experienced significant declines in ROE, indicating potential challenges in profitability and shareholder value creation, others like NICLBSL and DDBL showed more fluctuating trends with varying peaks and troughs. CBBL and FOWAD also demonstrated fluctuations, albeit with different magnitudes. These

fluctuations likely reflect the impact of various factors such as changes in profitability, leverage, and shareholder equity, highlighting the dynamic nature of these companies' performance and strategic decisions over time.

- Capital Adequacy Ratio (CAR) data for these microfinance companies is the diverse patterns of fluctuations over the five-year period. While some companies like CBBL show a general upward trend, indicating strengthening capital positions, others like NUBL exhibit fluctuating trends with peaks and dips. NICLBSL demonstrates a consistent decrease in CAR, signaling potential challenges in maintaining capital adequacy relative to risk. DDBL's CAR remains relatively stable, suggesting a consistent approach to capital management, while FOWAD's CAR displays fluctuations without a clear trend.
- Non-Performing Loan (NPL) ratios for these microfinance companies is the varied patterns of fluctuations over the five-year period. While some companies like CBBL show a steady increase in NPL ratios, indicating a potential deterioration in loan quality, others like NUBL experience significant fluctuations with peaks suggesting increased credit risk. NICLBSL and FOWAD also witness fluctuations in NPL ratios, indicating varying levels of credit risk exposure over the years. DDBL's NPL ratio remains relatively stable, except for a notable increase in one year.
- Cash Reserve Ratio (CRR) data for these microfinance companies is the varied patterns of fluctuations over the five-year period. While some companies like CBBL exhibit fluctuations with a notable increase in certain years, others like NUBL and NICLBSL maintain relatively stable CRR levels with minor fluctuations. DDBL experiences significant fluctuations, particularly in 2020/21, indicating potential shifts in liquidity management strategies. FOWAD's CRR also displays fluctuations, albeit less pronounced. These variations in CRR could be influenced by factors such as changes in monetary policy, regulatory requirements, liquidity needs, and market conditions.
- One significant finding from the correlation analysis of financial metrics for the microfinance companies is the strong positive correlations between profitability measures (ROA and ROE) and cash reserve ratios (CRR), indicating that

companies with higher returns tend to maintain higher cash reserves. Additionally, the negative correlations between profitability measures and non-performing loans (NPL) suggest that higher returns are associated with lower levels of non-performing loans, highlighting the importance of profitability in mitigating credit risk. Overall, these findings emphasize the interconnectedness of financial performance, risk management, and regulatory compliance within microfinance institutions.

- The analysis indicates that the Capital Adequacy Ratio (CAR) does not have a statistically significant linear relationship with Return on Assets (ROA) for the microfinance companies in this study. Despite observing a negative standardized coefficient, which suggests a negative relationship between CAR and ROA, the coefficient is not statistically significant, implying that any observed relationship may be due to random chance rather than a true association. Therefore, the CAR variable does not appear to be a significant predictor of ROA for these microfinance companies.
- The analysis reveals that the Non-Performing Loan (NPL) ratio does not have a statistically significant linear relationship with Return on Assets (ROA) for the microfinance companies studied ($p = 0.251$). Despite observing a strong negative standardized coefficient (Beta = -0.634), the lack of significance suggests that any observed relationship between NPL and ROA may be due to random chance rather than a meaningful association. Therefore, the NPL ratio does not appear to be a significant predictor of ROA for these microfinance companies.
- The analysis suggests that while there is a positive relationship between Cash Reserve Ratio (CRR) and Return on Assets (ROA), this relationship is not statistically significant at the 0.05 level for the microfinance companies studied ($p = 0.102$). Despite observing a strong standardized coefficient (Beta = 0.803), the lack of significance implies that the observed relationship between CRR and ROA may not be reliable and could be due to random chance. Therefore, CRR may not be a significant predictor of ROA for these microfinance companies.
- The analysis indicates that the Capital Adequacy Ratio (CAR) does not have a statistically significant linear relationship with Return on Equity (ROE) for the

microfinance companies studied (p = 0.658). Despite observing a negative standardized coefficient (Beta = -0.272), the lack of significance suggests that any observed relationship between CAR and ROE may be due to random chance rather than a meaningful association. Therefore, CAR may not be a significant predictor of ROE for these microfinance companies.

- The analysis suggests that the Non-Performing Loan (NPL) ratio does not have a statistically significant linear relationship with Return on Equity (ROE) for the microfinance companies studied (p = 0.450). Despite observing a negative standardized coefficient (Beta = -0.447), the lack of significance implies that any observed relationship between NPL and ROE may be due to random chance rather than a meaningful association. Therefore, the NPL ratio may not be a significant predictor of ROE for these microfinance companies.
- The analysis indicates a statistically significant positive relationship between Cash Reserve Ratio (CRR) and Return on Equity (ROE) for the microfinance companies studied (p = 0.026). With a strong standardized coefficient (Beta = 0.921), the positive association suggests that an increase in CRR corresponds to a significant increase in ROE. Therefore, CRR appears to be a significant predictor of ROE for these microfinance companies, indicating that maintaining higher cash reserve ratios may lead to improved returns for equity holders.

4.4 Discussion

In the context of the financial analysis of the microfinance sector in Nepal, the findings from the analysis of various financial metrics offer valuable insights into the performance, risk management practices, and regulatory compliance of microfinance institutions (MFIs) in the country. Comparing these findings with empirical studies conducted in similar contexts can provide a broader understanding and highlight areas of consistency or divergence.

Firstly, the observed fluctuations in Return on Assets (ROA) and Return on Equity (ROE) across different microfinance companies in Nepal align with findings from empirical studies in other countries. Studies have shown that microfinance institutions often face challenges in maintaining stable profitability due to factors such as economic

volatility, changes in regulatory environments, and operational inefficiencies (e.g., Mersland & Strøm, 2009; D'Espallier et al., 2013). The fluctuations observed in ROA and ROE among Nepalese MFIs may reflect similar challenges and underscore the need for robust risk management and strategic planning within the sector.

Similarly, the analysis highlights the importance of Capital Adequacy Ratio (CAR) as a measure of financial stability and regulatory compliance. While some microfinance companies in Nepal demonstrate upward trends in CAR, indicating strengthening capital positions, others exhibit fluctuations or consistent decreases. These findings resonate with studies that emphasize the significance of adequate capitalization for the sustainability and resilience of MFIs, particularly in mitigating credit and liquidity risks (Hermes & Lensink, 2011).

Furthermore, the relationship between Non-Performing Loan (NPL) ratios and profitability measures (ROA and ROE) underscores the crucial role of effective credit risk management in the microfinance sector. While higher returns are associated with lower levels of non-performing loans, the lack of statistically significant relationships between NPL ratios and profitability measures suggests the presence of other factors influencing financial performance. This finding echoes empirical research highlighting the multifaceted nature of credit risk in microfinance and the need for comprehensive risk management strategies (e.g., Mersland & Strøm, 2009; D'Espallier et al., 2013).

Moreover, the analysis reveals mixed results regarding the relationship between Cash Reserve Ratio (CRR) and profitability measures (ROA and ROE). While a positive association is observed between CRR and ROE, the lack of statistical significance in the relationship with ROA suggests the need for further investigation. Empirical studies on liquidity management in microfinance have highlighted the importance of balancing liquidity needs with profitability objectives, particularly in the context of regulatory requirements and market conditions (Hermes & Lensink, 2011).

By comparing these findings with empirical studies in similar contexts, policymakers, practitioners, and researchers can gain a deeper understanding of the challenges and opportunities facing the microfinance sector and inform evidence-based interventions to promote financial inclusion and sustainable development

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

Through this financial research, the study hopes to provide light on Nepali microfinance organisations' financial performance as well as the variables that affect their profitability. The results can help players in the industry make decisions and can advance knowledge of the financial dynamics of Nepal's microfinance sector.

A causal research design was selected for this study in order to investigate cause-and-effect correlations between variables. The sixty-three microfinance organizations in Nepal that make up the population of this study will be sampled, with five of them chosen. To ensure participation from corporations with substantial financial resources, a judgmental sampling approach based on the greatest paid-up capital is utilized in the sample phase.

Several financial instruments will be employed to carry out the financial evaluation. To gauge the microfinance firms' liquidity status, the cash reserve ratio (CRR) has been used. The capital need has been determined by the capital adequacy ratio, the asset quality has been determined by non-performing loans, and the profitability has been determined by the Return on Equity (ROE) and Return on Assets (ROA) indicators.

Liquidity, capital, asset quality, and profitability have all been compared using statistical methods like regression analysis and correlation. While regression analysis makes it possible to evaluate the effect of capital sufficiency, asset quality, and liquidity on profitability, correlation analysis will assist in determining the degree of relationship between various variables.

The analysis of financial metrics for microfinance companies in the study reveals mixed results regarding the significance of certain predictors on profitability and equity returns. Specifically, the Non-Performing Loan (NPL) ratio and Cash Reserve Ratio (CRR) do not show statistically significant linear relationships with Return on Assets (ROA), despite observing strong standardized coefficients of -0.634 ($p = 0.251$) and 0.803 ($p =$

0.102) respectively. Similarly, the Capital Adequacy Ratio (CAR) and NPL ratio do not demonstrate significant linear relationships with Return on Equity (ROE), with p-values of 0.658 and 0.450 respectively, despite negative standardized coefficients of -0.272 and -0.447. However, a statistically significant positive relationship is found between CRR and ROE ($p = 0.026$), indicating that maintaining higher cash reserve ratios may lead to improved returns for equity holders. These findings underscore the complexity of factors influencing financial performance in the microfinance sector, with liquidity management playing a potentially significant role in enhancing equity returns.

5.2 Conclusion

Based on the research questions and the findings obtained from the analysis of financial metrics of microfinance institutions (MFIs) in Nepal, several conclusions can be drawn:

Capital Adequacy and Assets Management: The analysis of Capital Adequacy Ratio (CAR) data reveals diverse patterns of fluctuations among microfinance companies in Nepal. While some companies exhibit a general upward trend in CAR, indicating strengthening capital positions, others demonstrate fluctuating trends with varying peaks and dips. This suggests that the level of capital adequacy varies across MFIs in Nepal, reflecting differences in asset management practices and approaches to maintaining regulatory compliance.

Liquidity Position and Management Efficiency: The analysis of Cash Reserve Ratio (CRR) data highlights varied patterns of fluctuations in liquidity management among microfinance companies in Nepal. While some companies exhibit relatively stable CRR levels, others experience significant fluctuations, indicating potential shifts in liquidity management strategies. This suggests that the liquidity position and management efficiency of MFIs in Nepal vary, possibly influenced by factors such as changes in monetary policy, regulatory requirements, and market conditions.

Profitability Position: The analysis of Return on Assets (ROA) and Return on Equity (ROE) data reveals varying degrees of stability and volatility in profitability among microfinance companies in Nepal. While some companies demonstrate relatively stable profitability, others experience significant fluctuations over the five-year period. This

indicates that the level of profitability varies across MFIs in Nepal, influenced by factors such as changes in profitability, leverage, and shareholder equity.

Effect of Capital Adequacy, Liquidity, and Management Efficiency on Profitability: The correlation analysis suggests a strong positive correlation between profitability measures (ROA and ROE) and cash reserve ratios (CRR), indicating that companies with higher returns tend to maintain higher cash reserves. However, other financial metrics such as CAR and NPL ratio do not show significant linear relationships with profitability measures. This suggests that while liquidity management, as reflected by CRR, may have a significant impact on profitability, the relationship between capital adequacy, asset quality, and profitability is less straightforward and may be influenced by other factors.

In conclusion, the findings suggest that microfinance institutions in Nepal exhibit diverse patterns in capital adequacy, liquidity management, and profitability. While some companies demonstrate stable performance and strong financial health, others experience fluctuations and potential challenges. Effective management of capital, liquidity, and asset quality is crucial for enhancing profitability and ensuring the sustainability of microfinance operations in Nepal. Further research and analysis are warranted to explore the underlying factors driving these patterns and to inform evidence-based strategies for enhancing the financial performance and resilience of microfinance institutions in Nepal.

5.3 Implication

Theoretical Implication

The findings suggest that microfinance companies in Nepal exhibit diverse patterns of fluctuations in Capital Adequacy Ratio (CAR) and Return on Assets (ROA). While some companies show stable or improving capital positions, others experience fluctuations or consistent decreases in CAR. This highlights the importance of robust capital management strategies to ensure financial stability and regulatory compliance within the microfinance sector. Theoretical frameworks such as the Pecking Order Theory and Trade-off Theory could be applied to understand how microfinance companies make

decisions regarding capital structure and asset management to optimize financial performance while balancing risk.

The analysis of Cash Reserve Ratio (CRR) data indicates varied patterns of fluctuations in liquidity management strategies among microfinance companies in Nepal. While some companies maintain stable CRR levels, others exhibit significant fluctuations, potentially influenced by factors such as monetary policy changes and market conditions. These findings underscore the importance of liquidity risk management in microfinance operations, with implications for regulatory compliance and financial stability. Theoretical perspectives such as the Agency Theory and Stakeholder Theory can provide insights into how microfinance institutions balance the interests of stakeholders while managing liquidity and operational efficiency.

The diverse patterns of fluctuations in Return on Equity (ROE) and Return on Assets (ROA) highlight the dynamic nature of profitability within the microfinance sector in Nepal. While some companies experience significant declines or fluctuations in profitability, others show relatively stable or improving performance. This underscores the complex interplay between operational efficiency, risk management, and market dynamics in driving profitability for microfinance institutions. Theoretical frameworks such as the Resource-Based View and Institutional Theory can offer insights into how microfinance companies leverage internal resources and external environments to achieve sustainable profitability.

Practical Implication

Practically, microfinance companies in Nepal should focus on strengthening capital adequacy positions to ensure resilience against financial shocks and regulatory requirements. This may involve adopting prudent capital management practices, optimizing funding sources, and monitoring capital ratios closely to maintain regulatory compliance and investor confidence.

Practical implications include implementing robust liquidity risk management frameworks to navigate changing market conditions and regulatory environments effectively. Microfinance companies should assess liquidity needs, diversify funding

sources, and develop contingency plans to mitigate liquidity risks and ensure operational continuity.

To improve profitability, microfinance companies can focus on enhancing operational efficiency, reducing costs, and optimizing asset utilization. This may involve investing in technology infrastructure, improving loan underwriting processes, and diversifying revenue streams to enhance long-term financial sustainability.

Microfinance institutions should integrate risk management practices with strategic planning processes to align financial performance objectives with risk mitigation strategies effectively. This includes regularly monitoring and evaluating key risk indicators, conducting scenario analyses, and adapting strategies to changing market dynamics and regulatory requirements.

By adding other factors that can affect the profitability of microfinance enterprises, future researchers might build on the findings of the current investigation. The study's non-significant associations raise the possibility that there are additional factors at work. Researchers may take into account elements including industry-specific characteristics, management effectiveness, technology improvements, and market competitiveness. A more thorough grasp of the factors influencing profitability may be attained by researchers by including a wider range of variables.

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CHAPTER-I INTRODUCTION 1.1 Background of the Study The practice of analysing a company's financial statements and identifying its strengths and shortcomings financially is known as financial analysis.As a result, financial performance analysis is also known as a financial well-being assessment for each company. Any financial institution must regularly assess its financial health in order to preserve and defend the interests of its stakeholders, including shareholders, lenders, and depositors. International monetary organisations, including the World Bank and the International Monetary Fund, have instructed its member nations to regularly assess the financial health of financial institutions (FIs) in order to improve the financial system. The World Bank is continuously offering technical and financial help to reengineer Nepal Rastra Bank (NRB), restructure Nepal Bank Ltd., and restructure Rastriya Banijya in order to overhaul the financial system. Microfinance is seen as a successful way to provide the underprivileged and disadvantaged segments of society with a range of financial services (Nepal Rastra Bank, 2019). Microfinance is characterised by several key elements, such as lending without collateral, easy processes requiring minimal documentation, a replacement for conventional credit, flexible repayment terms, emergency financial help for group members, targeting impoverished individuals, and group engagement (Momba, 2021). As per the World Bank report of 2017, the number of microfinance clients worldwide has surpassed 200 million. This growth is credited to the government and development partners' recognition of microfinance as a crucial development intervention, as well as its increasing commercialization, which has enabled it to yield significant economic and social benefits. It is anticipated that having access to financing through microfinance organisations may help households engage in income-generating activities and diversify their sources of income, resulting in a sustained increase in their income level. Additionally, it may help stabilise spending, build up household assets, and enhance borrowers' housing, health, and educational opportunities. Furthermore, financial accessibility may be vital to women's social and economic advancement (Hermes & Lensink, 2021Financial services for underprivileged and low-income consumers are sometimes referred to as "microfinance." In actuality, the phrase is frequently applied more narrowly to loans and other services provided by companies calling themselves "microfinance institutions" (MFIs). These organisations often take little or no collateral and offer extremely tiny loans to unsalaried customers using novel techniques developed during the previous 30 years. These strategies include pre-loan savings requirements, collective lending and responsibility, progressively larger loan amounts, and an implicit promise of easy access to future loans in exchange for timely and complete repayment of current loans. 1.2 Problem Statement In Nepal, a variety of microfinance models are operational. The greatest number of microfinance models are found in Nepal. Every model has been successful in what they have done. The primary causes of these models' presence in India might be attributed to the nation's vastness, the diversity of social and cultural groups that inhabit it, the existence of many economic classes, and the robust NGO movement. Nepalese microfinance institutions have embraced a range of conventional and novel strategies to augment