

**GROWTH OF MICROFINANCE AND ITS IMPACT ON  
POVERTY ALLEVIATION**

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## **CERTIFICATE OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “GROWTH OF MICROFINANCE AND ITS IMPACT ON POVERTY ALLEVIATION” 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

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Nishan Karki  
Researcher

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## ABBREVIATIONS

ADB/N	-	Agriculture Development Bank of Nepal
ASA	-	Association of Social Advancement
CECI	-	Central for International Studies for Co-operative
CSD	-	Center for Self-help Development
DDC	-	District Development Committee
DEPROSE	-	Development Project Service Center
FINGO	-	Financial Intermediary Non- Government Organization
INGO	-	International Non-Governmental Organizations
II	-	Increase In Income
LTD	-	Limited
MFDB	-	Micro Finance Development Bank
MF	-	Micro Finance
MFIs	-	Micro Finance Institutions
NBL	-	Nepal Bank Limited
NRB	-	Nepal Rastra Bank
NCD	-	National Co-operative Development Bank
NGOs	-	Non-Governmental Organizations
PAR	-	Poverty Alleviation Reduction
RMDC	-	Rural Micro Finance Development Center
SACCO	-	Saving and Credit Co-operative
CBS	-	Central Bureau of Statistics

## ABSTRACTS

Poverty is not only the issue of least developed countries. It is a global issue where huge amount of investment is poured for reduction of poverty. The main objective of the study is to assess the status of progress achieved in poverty alleviation through microfinance programs of the Microfinance Institutions (MFIs) and /or Self-Help Groups (SHGs) in Nepal. Descriptive research design has been exploratory in the study. This design helps to understand the process of PAF in Bagmati rural municipality Lalitpur District. This study is based on descriptive as well as exploratory research designs. The sampling universe is the total number of people of this Bagmati rural municipality. The members of the team staff of Microfinance Company from this Bagmati rural municipality had been selected by lottery in this study. A purposive sampling technique has been employed for the selection of the study population. But members of a team of staff of Microfinance Company have been used for as respondents. The findings of the study show the importance of microinsurance, training and development initiatives, and remittance services within microfinance programs in facilitating income growth among participants. While microcredit and micro-saving did not show statistically significant impacts in this specific model, they still play essential roles within the broader context of financial inclusion and empowerment. These insights can inform policymakers and practitioners in designing more effective microfinance programs to support economic well-being and income stability among underserved communities.

*Key words: Micro Credit, Micro Saving, Micro Insurance, Training and Development, Remittances, Increase in Income.*

## **CHAPTER- I**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Nepal is a tiny nation in South Asia that is landlocked. Nepal is included in the global list of 46 least developed countries, or LDCs. There are 2,91,92,480 people in total. Of these, 1,42,91,311 (48.96%) of people are men and 1,49,01,169 (51.04%) of people are women (CBS, 2021). The per capita income of the nation is \$1047 USD (CBS, 2020). The poorest nation in South Asia is Nepal.

Due to its low gross national product, low per capita income, low human development indicators, widespread deprivation, and extreme poverty, Nepal is classified as a least developed country (LDC) by the World Bank (2014). Furthermore, there was more poverty in rural than in urban regions. According to recent figures, 47% of rural people live in poverty (UNDP, 2003). As a result, the PAF programme has been operating in 40 districts throughout Nepal in its entirety, and 15 additional districts have been adding pocket regions. The programme places a greater emphasis on integrating women and other marginalised communities, including as Muslims and Dalits, into mainstream development to provide access to basic necessities and socioeconomic opportunities (Dhungana et al., 2023).

One significant tool in the fight against poverty's multifaceted elements is microfinance. One innovation that has helped underdeveloped nations is microfinance. It gives unemployed impoverished individuals the chance to work for themselves, as well as entrepreneurs and farmers who lack bankability due to low income and a lack of collateral. People in poverty have been able to establish their businesses thanks to microfinance, which is crucial in addressing the multifaceted nature of poverty. Microfinance is a breakthrough for starting your own business, making money, and frequently starting to accumulate wealth. It can improve the socioeconomic advancement of those who are weaker and more marginalised, particularly women (Adhikar, 2013).

The notion of monopolistic competition characterised imperfect markets where rivals exist side by side without affecting one another. This is bad because inefficient markets

impose social costs on the global society. For example, lenders may charge more than their marginal costs, operate at capacity, and spend excessive amounts of money on publicity rather than lowering the price of their goods. With reference to the primary United Nations (UN) Sustainable Development Goal (SDG) of ending poverty "in all its forms everywhere" (United Nations, 2017) as well as more focused considerations, this risk of social burden prompts a discussion of microfinance policy and recommendations for future research (United Nations IATF on Financing for Development, 2016). The foundation for that debate is provided in the following section by an overview of our study project thus far and a review of the literature.

Since launching its planning initiatives in 1956, the government of Nepal has been focused on reducing poverty. Its many periodic plans show the policies and initiatives aimed at reducing poverty. As the bulk of impoverished people were seen to be impoverished because they lacked basic necessities, the Sixth Plan concentrated on providing for their needs, while the Tenth Plan prioritised reducing poverty. The plan created the Poverty Alleviation Strategy Paper (PRSP), which is composed of four main pillars: social development, targeted programmes, targeted economic development, and good governance. The Poverty Alleviation Fund (PAF) programme was created by the PRSP to aid the underprivileged. Through income-generating initiatives, raising awareness, and other means in the districts affected by poverty, PAF has been attempting to improve the living conditions of the poorest of the poor. The UN established the Millennium Development Goals (MDG) in 2001, with the aim of achieving progress in several areas by the year 2015, such as ending extreme poverty, ensuring that every child attends primary school, and halting the spread of contagious illnesses (HDR, 2015). Through the establishment of the Grameen Bikas Kendra (Rural Bank Centre) in 52 VDCs across the nation, Nepal Rasta Bank (NRB) started working with the underprivileged. In order to qualify for a loan, the Bank categorised the poor as those who own less than 20 ropanis in the hills and less than 1 hectare (1.5 bigha) of arable land in the Tarai. The bank has started a number of initiatives to reduce poverty, such as lending, credit revolving funds, loan repayment, monitoring and assessment, auditing, and training (NRB, 2022).

The amount of poverty worldwide has decreased significantly over the previous three decades, according to a World Bank report. In 1990, the proportion of the population

living in extreme poverty was greater than half that in 2013. This trend suggests that we could be looking at a world where extreme poverty has been eradicated in less than a generation. However, over a billion people remain impoverished globally, social isolation and inequality appear to be increasing in a number of nations, and a number of pressing and difficult obstacles need to be addressed in order to sustain the current momentum in the fight against poverty. Nepal is the poorest nation in South Asia and among the world's poorest nations overall. Its rate of reducing poverty is really poor. In the final ten years of the 20th century, microfinance has gained acceptance as one of the major drivers of the fight against poverty.

Therefore, this study examines the growth of microfinance and its impact on poverty alleviation. In Nepal, although the rate of poverty alleviation is sluggish, the standard of living can be enhanced relatively quickly in the Hill and Terai regions if an appropriate model is applied. The variety of regulatory acts demonstrates the necessity of licensing, regulating, overseeing, and creating national microfinance policy under a single act for all MFIs.

## **1.2 Problem Statement**

One of the most impoverished nations in South Asia is Nepal. Its rate of reducing poverty is really poor. Nepal is unable to lower poverty because of its low per capita income, concentrated urban growth rate, and rapid population expansion.

Microfinance programmes have the capacity to change the balance of power and give impoverished men and women more influence. Even though women now have more access to financial services than they did ten years ago, their ability to take advantage of this access is frequently still constrained by disadvantages associated with their gender. Even while these organisations are expanding and adding new loan products, a smaller percentage of loans from certain MFIs are going to low-income women. Additionally, even when women belong to the same demographic group and community as males, their average loan quantities are less than those of men (Qadri & Ahmed, 2023).

Additionally, as the microfinance clients originate from underprivileged and marginalised backgrounds, there is a chance that they would utilise the facilities they have been given to address other pressing household issues rather than using them to purchase items or

places that generate money. The study focuses on how the underprivileged and impoverished, particularly women, are improving their living standards and economic status; how microfinance programmes are a tool for empowering women; the various outcomes of microfinance on reducing poverty and empowering women; and the issues preventing women from accessing microfinance (Sulemana et al., 2023).

One of the main things that impedes growth and development of any kind wherever in the globe is poverty. In our nation, poverty is a complicated issue. The fact that one fourth of Nepal's population lives below the poverty line is concerning for the country's development. When it comes to the necessities of life such as food, clothing, and shelter—they are living in extremely deplorable circumstances (Sharma, 2018).

A state of not having enough of a person's fundamental necessities is called poverty. It is a multifaceted concept that includes the ideas of exclusion, difficult or denied access to resources and information, choice and services, denial of fundamental rights, security, and helplessness. Poor people generally don't make use of their enormous ability to advance and expand the country. Put otherwise, poverty is the state of having little to no money. It is the absence of one's own options and necessities, not a crime. "Poverty is greater than death because it is creating death nearly" .

A vital component of economic growth is the role that microfinance plays in reducing poverty, particularly in areas like Nepal's Lalitpur District's Bagmati rural municipality. In this particular geographic area, the dependent variable of poverty alleviation is to be examined and evaluated in relation to a number of independent factors, including microcredit, micro savings, micro insurance, training and development, and remittances. Even with the large number of microfinance institutions and their concerted efforts to reduce poverty in Bagmati rural municipality, a significant section of the populace still faces issues associated to poverty. It is crucial to comprehend the complex interactions and interplay of these important variables in order to develop policies that would effectively reduce poverty in the area in the long run (Ronald, 2020).

The research focuses on how the underprivileged and impoverished, in particular, are improving their living standards and financial status; how microfinance programmes are a tool for generating poverty; and the various outcomes of microfinance on issues impeding

the availability of microfinance for poverty alleviation. In response to the study question about the role of microfinance in reducing poverty:

- What is the present microfinance in poverty alleviation in Bagmati rural municipality?
- Is there any relationship between the Micro-credit, Micro Savings, Micro Insurance, Training and Development, Remittances impact and poverty alleviation in Bagmati rural municipality?
- Weather the Micro-credit, Micro Savings, Micro Insurance, Training and Development, and Remittances impact on poverty alleviation in Bagmati rural municipality?

### **1.3 Objectives of the study**

The key objective of this study is to document the status of progress achieved in poverty alleviation through microfinance programs of the Microfinance Institutions (MFIs) and /or Self-Help Groups (SHGs) in Nepal. Documenting the state of progress made in reducing poverty through the microfinance programs of Nepal's Microfinance Institutions (MFIs) and/or Self-Help Groups (SHGs) is the main goal of this study.

Not just the least developed nations face poverty. Poverty alleviation is a global issue that has attracted enormous investment. One programme designed to combat poverty by creating localised economic opportunities is microfinance. Microfinance is a means of revenue generation for economically disadvantaged indigenous people, particularly women. It offers services for microsavings, modest loans, insurance, and transfers, along with a range of programmes for developing one's capacities (skill development training). Evaluating the MFIs programme held in the Lalitpur District of Bagmati rural municipality is one of the study's main goals. This study, in particular, concentrated on the following issues:

1. To assess present microfinance in poverty alleviation in Bagmati rural municipality;
2. To examine the relationship between the Micro-credit, Micro Savings, Micro Insurance, Training and Development, Remittances impact and poverty alleviation in Bagmati rural municipality;

3. To analyze the Micro-credit, Micro Savings, Micro Insurance, Training and Development, and Remittances impact on poverty alleviation in Bagmati rural municipality.

#### **1.4 Rationale of the Study**

The study's reasoning is based on the idea that women cannot be considered empowered unless and until they experience benefits that are both qualitatively (such as control over loans and income from income-generating activities) and quantitatively (such as increases in income, employment, and expenditures). If the women's loan has merely provided financial support for the home without granting them authority over resources, it might not be meeting the unique needs of each particular woman. Should this be the case, credit intervention does not empower the customer.

Even with MFIs expanding quickly in Nepal, the majority of them are still unaware of how their actions affect sustainable development, especially when it comes to environmental resources. Within this framework, the current investigation will close the knowledge gap by examining changes in a community's financial, social, human, and natural (land) capital that occur both directly and indirectly. It also recognises the shifts in important study domains, like the state of customers' livelihoods and the effects of microfinance programmes on resource management.

The study's findings may provide valuable information for the nation's policies aimed at reducing poverty. The conclusions at different levels may be pertinent to the line ministries, the microfinance sectors, and several other agencies that are involved, as well as to financial sector organisations like the central bank for structural adjustment programmes. Policy makers and interested scholars in the field of microfinance will also benefit greatly from the concept, causes, and appropriate policy measures for poverty alleviation being brought to light in the context of national and international experiences. Ultimately, it is anticipated that the study will provide insightful feedback that will enhance the program's design, delivery, and product while offering the required recommendations. The proposed actions may be essential to achieving the targets for reducing poverty outlined in the Tenth Plan, which outlines the Millennium Development Goals for ending poverty. Moreover, the insights drawn from the study's point of view may be more beneficial for programme evaluation and redesign.

### **1.5 Limitations of the study**

The focus of the study is the Bagmati rural municipality of Lalitpur District. Owing to scheduling and financial constraints, the study's attempt to accurately depict people's entire economic activity is compromised, and the overall impact of the MF is not examined.

The study has the following limitations:

1. Primary data and information gathered during the field visit form the basis of the study. The short-term analysis, which compares a small number of variables and instruments.
2. The Bagmati rural municipality of Lalitpur District is the primary focus of the study. A restricted number of instruments, including field surveys, interview schedules, focus groups, interviews for critical information, and observation, are used to gather data for the study.
3. Instead of obtaining information from the field based on responses, information is gathered during the interview from those who are available at home. After gathering information, there has been no verification. This information is based in part on the key information viewpoints and the focus group discussion.

## **CHAPTER-II**

### **LITERATURE REVIEW**

#### **2.1 Theoretical Review**

Additionally, the government implemented a 20-year Poverty Alleviation Plan from 1997 to 2017, with the goal of bringing poverty down to 10% by the completion of the programme. Nevertheless, the poverty statistics indicated earlier suggest that this goal will not be accomplished by 2017. In order to reduce poverty in a sustainable way, three things must happen: (i) faster and more widespread economic growth that benefits the poor will create jobs and raise rural incomes; (ii) fair improvements in basic social services will improve human development; and (iii) excellent governance.

Numerous community-oriented policies and programmes with various goals pertaining to economic growth, national development, nation-building, or just development were implemented throughout Africa. Examples of well-known initiatives in and outside of Africa include the green revolution, the agricultural development projects (integrated rural development projects), the special rural development programme in Kenya, and the Operation Feed Yourself initiative in Ghana. The majority of these programmes and policies were created with the intention of improving the socioeconomic standing of the rural populace. According to Rashid and Kumar (2023), microfinance programmes have been seen as a special way to reduce vulnerability and so help accomplish the Millennium Development Goals. The key to escaping hunger is for the impoverished to diversify and augment their sources of income through microfinance. Diversity increases a person's resistance to shocks from the outside world. The study of poverty alleviation was not a recent development. Instead, the spatial variations in poverty levels among actual units are reviewed. Poverty is a universal condition that has varying effects on people, nations, and continents. People experience it at different times and stages of life, in varied depths and intensities (Touré, 2024). Based on income or consumption line, poverty is most frequently measured. If someone's daily consumption is less than \$1 USD, which is the minimum required to meet basic necessities, they are deemed to be impoverished. The poverty line is the name given to this lowest point (The World Bank, 2022).

According to the Central Bank of Nigeria (1999), poverty has defined as "a state in which an individual has limited access to social and economic infrastructure such as education, health, portable water, and sanitation; and consequently, has limited chance of advancing his or her welfare to the limit of his or her capabilities." It also includes not being able to meet social and economic obligations, lack of gainful employment, assets, and self-esteem.

When Sulemana et al. (2023) stated, "don't ask me what poverty is because you have met it outside my house," they provided a methodical definition of the condition. Count the holes in the home by taking a look at it. Take a look at my kitchen tools and my attire. Take note of everything you observe as you look at it. Poverty is what you perceive. The word "micro-finance" describes a variety of strategies for providing financial services to underprivileged individuals. According to Irobi (2008), microfinance is the supply of financial services, such as savings, microleasing, microinsurance, and payment transfers, to low-income and economically active households so they can develop their small businesses or engage in income-generating activities. A segmental definition of microfinance is a type of financial intervention targeted at the low-income segment of a particular society. Credit services make up the majority of the intervention, but savings, insurance on credits, and savings are also possible. In addition, Robinson (2001) described microfinance as providing the underprivileged with loans, savings accounts, and other essential financial services. Microfinance developed as a strategy for economic development aimed at helping the underprivileged members of a community, both male and female (Rahman, 2023). The World Bank (2022) defines the phrase as the provision of financial services, such as credit and savings, to the underprivileged. Thus, microfinance banks are organisations created to offer financial services to the underprivileged. Non-governmental organisations, savings and loan cooperatives, loan unions, government banks, commercial banks, and non-bank financial institutions are examples of microfinance institutions (Ronald, 2020).

Through privately held businesses, the strategy aims to provide low-income people, the economically engaged poor, and micro, small, and medium-sized businesses with sustainable access to financial services. According to Otero (1999), the goal of microfinance is to establish an institution that provides financial services to the impoverished, who are neglected by the formal banking sector. Previous research on

microfinance has assessed whether microcredit programmes, like those that are widely used in Nigeria, are accessible to the relatively poor and vulnerable. According to recent research, microfinance has a favourable influence on the first six of the seven Millennium Goals (Irobi, 2008). These findings support the notion that microfinance is a potent instrument for reducing poverty. Amin, Rai, and Topai (2003), for instance, highlight how microfinance can assist those who are impoverished and confirm that it has benefited both those who are below and over the poverty line. Furthermore, Hossain (1988) discovered that Grameen members who are impoverished and landless have an average household income that is 43% greater than that of marginal landowners in his study "Credit for the Alleviation of Rural Poverty in Bangladesh" (Qadri & Ahmed, 2023).

### **2.1.1 Microfinance**

The term "microfinance" describes the wide variety of financial services that are offered to low-income and impoverished households and their microbusinesses, including deposits, loans, payment services, money transfers, and insurance. Microfinance encompasses not just financial services but also non-financial support like business advisory and training. In Tanzania's rural and urban areas, licenced commercial banks, regional and rural unit banks, savings and credit cooperative societies, and a number of non-governmental organisations (NGOs) whose micro-credit delivery operations are funded and supported with technical assistance by international donors are the main providers of financial services to the poor and low-income households (Gupta & Sharma, 2023).

Formal microfinance programmes (MFps) are governed by the nation's financial authorities and comprise rural banks, agricultural development banks, certain commercial banks, and financial enterprises with dedicated microfinance windows. semi-formal MFps governed by non-financial authorities (unregulated village banks and credit, cooperatives for savings and credit). Ungrouped Rotating Saving & Credit Associations, savings and credit associations with permanent loan funds, doorstep deposit collectors, and the numerous self-help groups with some restricted financial activities are examples of informal MFps governed by customary law and peer pressure (Nyanda, 2015).

Before the early 1980s, when organisations like Grameen Bank effectively extended small loans to a wide number of people, microfinance organisations were barely known

(Qadri & Ahmed, 2023). Beginning in 1976 with a 27 USD loan from Muhammad Yunus to 42 individuals, microcredit has expanded to become an international endeavour with a loan portfolio of 43 billion dollars.

After that, the effects of microfinance institutions were not as noticeable until the 1990s, which saw an acceleration in the global microfinance industry's expansion. The 1990s are referred to by Dichter as the "microfinance decade." With more than 10,000 microfinance institutions operating in numerous nations, microcredit has grown to serve 500 million borrowers annually, generating €50 billion in revenue. Muhammad Yunus's visionary mission of helping the poorest of the poor is, according to Touré (2024), evolving into a system that no longer functions as a compensatory social institution as was his intention, but rather as a self-sustaining business that lends low-cost money while offering investors a respectable return.

The argument made by those who support microfinance is that the sector has been crucial to development, particularly in developing nations. Since microfinance provides productive capital to the impoverished who are shut out of the official banking system, it aids in the exodus of people from poverty. According to Bandura (1997), when the impoverished are able to use natural resources to produce things or provide services, they will feel more capable. He goes on to say that once they reach their goals through their labour, having the cash to accomplish this will boost their confidence and sense of worth. Sara (2011) affirms that microfinance, particularly for women in developing nations, is a potent instrument for empowering the impoverished globally. D'espallier et al. have characterised microfinance as an effective strategy that promotes peoples' gender equality (Vishwakarma & Mujjoo, 2023).

Microfinance is the provision of financial services to the impoverished in the form of modest loans to initiate or grow their small business. This could raise their standard of living by increasing their earning potential and empower women by giving them the ability to make financial decisions and reduce poverty. Poor business owners and low-income households without collateral or without access to traditional bank loans can apply for microfinance. In addition to helping already-existing businesses expand by diversifying their operations and addressing poverty among the impoverished in emerging

nations, microfinance programmes were established with the goal of fostering microenterprises (Farooq & Akhtar, 2024).

Microfinance is defined as the provision of financial services, including deposits, loans, payment processing, money transfers, and insurance, to low-income and impoverished households and their microenterprises by the Asian Development Bank (ADB), located in Manila. As a result, microfinance involves providing financial services like savings, loans, and insurance to impoverished people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. Schreiner and Colombet define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks” (Mayman et al., 2024).

The definition of microfinance was aptly summed up by the 2000 Microcredit Summit Campaign: "Microcredit is about much more than access to money." It's about giving people power over their means of subsistence. It is about women rescuing themselves from vulnerability and poverty. It is about empowering individuals in their homes, villages, and nations on an economic and political level (Shakya, 2016).

This section covers some basic information regarding the definition, development, and present practices of "microfinance," as well as the methods used by numerous organisations that engage in this line of work. In order to familiarise readers with this topic, a brief overview of some of the most well-known and prosperous microfinance organisations globally will be provided. The Bangladesh Rural Advancement Committee (BRAC), Shore Bank, and Grameen Bank are these. Microfinance is the provision of financial services to economically active low-income households, such as credit (loans), savings, microleasing, microinsurance, and payment transfers, to enable them to take part in income-generating activities or to develop and grow their small companies. Once more, MF is described as a type of financial intervention that targets the underprivileged segment of a certain community. Credit services make up the majority of the intervention, but savings, insurance on credits, and savings are also possible.

Microfinance (MF) has developed into a strategy for economic development aimed at helping the underprivileged members of a particular community, including both men and women. The phrase refers to "provision of financial services" (including credit and

savings) to "the poor," under the World Bank definition. The purpose of microfinance banks is to offer financial services to the economically engaged poor. Nongovernmental organisations (NGOs), credit unions, government banks, commercial banks, savings and loan cooperatives, and non-bank financial institutions are examples of microfinance institutions (MFIs) (Hotman et al., 2024). Through privately held banks, this strategy aims to provide low-income earners, the economically engaged poor, and micro, small, and medium-sized companies (MSMEs) with sustainable access to financial services.

This programme provides small loans to households without access to banks in the formal sector. One noteworthy characteristic of microfinance is its apparent success in intentionally reaching out to low-income women residing in various socioeconomic contexts. For example, the Association of Social Advancement (ASA), one of Bangladesh's most well-known microfinance organisations, has given US\$200 million to female borrowers only. In Malawi, women borrowers receive 95% of the loans made available by the Malawi Muzdi Fund. Over 200,000 low-income women have received loans from Women's World Banking since 1979. Locations such as Asia, Africa, and Latin America also have similar cases. These impoverished people's lives are greatly improved by the lending facilities. Their quality of life has increased, and they may now access more sustainability, increased market share, and overall corporate growth potential (Touré, 2024).

Microfinance is the provision of financial services to economically active low-income households, such as credit (loans), savings, microleasing, microinsurance, and payment transfers, to enable them to take part in income-generating activities or to develop and grow their small companies. Once more, MF is described as a type of financial intervention that targets the underprivileged segment of a certain community. Credit services make up the majority of the intervention, but savings, insurance on credits, and savings are also possible. Microfinance (MF) has developed into a strategy for economic development aimed at helping the underprivileged members of a community (male and female). The phrase refers to "provision of financial services" (including credit and savings) to "the poor," under the World Bank definition. The purpose of microfinance banks is to offer financial services to the economically engaged poor. Non-governmental organisations (NGOs), credit unions, government banks, commercial banks, savings and loan cooperatives, and non-bank financial institutions are examples of microfinance

institutions (MFIs) (Ledgerwood, 1999). Through privately held banks, this policy aims to provide low-income earners, economically active impoverished individuals, and micro, small, and medium-sized businesses (MSMEs) with sustainable access to financial services. This programme provides small loans to households without access to banks in the formal sector. One noteworthy characteristic of microfinance is its apparent success in intentionally reaching out to low-income women residing in various socioeconomic contexts. For example, the Association of Social Advancement (ASA), one of Bangladesh's most well-known microfinance organisations, has given US \$200 million to female borrowers only. In Malawi, women borrowers receive 95% of the loans made available by the Malawi Muzdi Fund. Over 200,000 low-income women have received loans from Women's World Banking since 1979. Locations such as Asia, Africa, and Latin America also have similar cases. These impoverished people's lives are greatly improved by the lending facilities. Their quality of life has increased, and they may now access more sustainability, increased market share, and overall corporate growth potential (Saran, 2009). Microfinance is the banking of the unbankable, making credit, savings, and other vital financial services accessible to millions of people too impoverished to get traditional bank services usually due to the latter's inability to provide adequate collateral (Rahman, 2023).

### **2.1.2 Models of microfinance**

#### **1. Grameen model**

Prof. Mohammed Yunus established the Grameen model in Bangladesh, with women from low-income families serving as the primary borrowers. In this strategy, a bank manager and employees go to villages to inform the locals about the goals and methods of the bank's operations. In the initial phase, two of every five group members get a loan. After then, the groups are observed for a month to make sure they are abiding by the bank's regulations. Only when the first two borrowers have paid back their loans in full, including interest, during the fifty-week loan period may the remaining group member take out a loan. This puts pressure on the team to maintain accurate individual records (NRB, 2014).

#### **2. Group model**

Under this concept, other members exert pressure on a member who is having trouble repaying a loan so that the member can make the repayment as quickly as possible. If,

however, it fails, the entire group will reimburse the loan on that member's behalf (Johnson & Rogaly, 1997).

### **3. Individual model**

This model does not need any group to formulate as micro loan is provided directly to the individual. So there is no peer pressure for repayment (NRB, 2023).

### **4. Community banking**

The majority of organisations using this banking model are NGOs and others, who use it to introduce community development programmes and foster community growth. To address this, formal or semi-formal institutions are established in the community to provide microloans and educate the populace about various financial practices, including income generation and saving (NRB, 2023).

### **5. Bank guarantees**

In this model, a commercial bank assumes the role of a lender, arranging loans from internal sources using member deposits or from external donors or government agencies. Direct loans are given to people or self-organized groups. Banks and NGOs can donate to international guarantees funds established by numerous international organisations including the UN to launch microfinance initiatives (NRB, 2023).

### **6. Rotating saving and credit associations**

This arrangement is set up such that a number of people give a certain amount each month. Then, using a lottery or other agreed-upon manner, this gathered sum is lent to another member, who will repay it with regular or additional monthly contributions (NRB, 2023). Qadri and Ahmed (2023) states that this savings and credit paradigm is highly prevalent. According to him, the group's members are typically friends and neighbours, and they are well-liked by the public and offer a chance for social engagement.

### **7. Village banking model**

The Foundation for International Community developed this paradigm in the middle of the 1980s (FINCA). Village Banks are locally run credit and savings organisations that were founded to help people save money, develop a local self-help group, and give access to financial services in rural areas (Otero & Rhyne, 1994). A village bank typically has between thirty and fifty members. Self-selection is the basis for membership. The bank is funded by loans from the MFps as well as internal member fund mobilisation.

### 2.1.3 Experience of Some Micro Finance Models.

The informal approach is based on the idea of groups. The strategy functions best in situations when donor-sponsored credit is looked upon by groups with weak credit and savings commitments. This creates administrative issues when the groupings are not cohesive and are not voluntary, even if it functions better with a group that willingly forms a revolving savings and credit association (Besley, Coate & Loury 2024). (i) The group concept—informal lending to the poor—was the foundation of the Grammen Bank experience.

It was established to help Bangladesh's landless population (ii) get financing that was not available through the official commercial banks' lending programmes. Because the groupings were voluntary and cohesive (landless), the programme proved successful. Since then, the programme has been connected to an official microcredit model. It uses peer pressure from other Grammen group members, tight monitoring, and group assurances as operating mechanisms. The model has shown to be quite effective both as a bank for the underprivileged and as a social movement founded on awareness and training principles, thereby enabling the impoverished to participate actively in society. About 1.5 million impoverished people received services from the Grammen Bank as of 1999. It also helped link 60, 000 tiny village banks together and supplied about \$480 million to its clients for emergency finances, small-scale trade, construction, backup funds, or local production credit.

Since non-governmental organisations (NGOs) typically follow gender-specific and sector-specific motivations and adopt the Grammen principles, they are also classified as informal models. There are unions for traders, farmers, and women, among other groups. The Women Finance Association has the most successful microcredit programmes in Ghana and the Gambia. There were reports of a high repayment rate for the programmes. In 1999, the programme in the Gambia rewarded depositors with interest rates that were higher than the market, specifically between 20 and 50 percent. The village assemblies, not the official institution, set the high interest rate. The assemblies convene to determine the interest rate, the kinds of savings instruments, and the makeup and duties of credit committees. The level of service provided by Ghanaian and Gambian programmers is comparable to the financial sector, notwithstanding their informal credit model of operation (Hotman et al., 2024).

Esusu: An informal microcredit project that operates in most West African nations, Esusu is a revolving loan plan that originated in Nigeria. The organisations established to run the rotating programmes do so willingly. Members contribute a set amount of money on a regular basis. One participant gathers all of the contributions from everyone at each interval. Each participant takes a turn until the cycle is finished, at which point it is restarted. Esusu serves as a savings mechanism for those who take their turn later. Strong programmes have been implemented to help the target demographic, especially market women in both rural and urban markets, reduce poverty. The East Esusu group has a well-known leader, and NGOs attempting to set up microfinance programmes in metropolitan areas frequently utilise the Esusu as a model.

### **The Formal Model**

The majority of formal institutions that provide credit to the underprivileged have not been effective, which is why the formal microfinance model is based on formal financial institutions like commercial banks, rural/village/community banks, etc. Their failure was attributed to their lack of understanding of the impoverished and to the absence of a stronger bond between the formal and informal sectors of society. One example of a methodology that has been successful in transitioning from an informal to a formal one in providing microcredit to the underprivileged is the Grameen experience. It's been discovered that the impoverished have relatively little credit requirement in comparison to what the formal model can handle, and that the recurring issue of having no collateral also plays a minor role.

Formal microcredit providers have discovered that reaching client groups physically is costly and high in per-client costs. This is partly due to underdeveloped infrastructure, which drives up the cost of providing even the most basic necessities. Furthermore, the majority of microfinance programmes have limited capital bases and lack access to the kind of funding necessary for meaningful scaling up. This is the reason why microcredit could not be effectively provided by commercial banks or development banks, nor could they be considered an alternative to unofficial lending. Nigerian Industrial Development, the Nigerian Agricultural and Cooperative Bank case. Bank and Peoples' findings, which were quite recent, underlined the serious issues with utilising the formal approach as a means of reducing poverty.

The Linkage Model: The previously stated innovation was built upon a framework for connecting informal savings collectors with official institutions. The banks' willingness to learn more about the informal sector and their sincere attempts to fortify group schemes contributed to the microcredit program's successful recovery. The recent meagre formation of the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) by the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria, and Family Economic Advancement Programme (FEAP) serves as one example.

Additionally, the CBN-backed Bankers Committee plan, which mandates banks set aside 10% of their profit before taxes for equity investments in small-scale businesses, will only indirectly contribute to reducing poverty through joint ventures or the lending window. In Ghana, the informal savings collectors established a registered association with which the bank transacted, providing the structure for connecting them to the country's biggest commercial bank.

The percentage of emu depositors who are able to obtain credit facilities from their emu collectors has increased as a result of this connection. In the two years that the Ghana model was in use, the percentage of loans to deposits increased from 9% to 60%. The plan was developed in response to the finding that more deposits were frequently the result of collectors lending more money. By creating policies to address issues like mistrust, ignorance of informal agents, and bias, formal banks can better strengthen their relationship with the new NACRDB institution. These factors make formal banks' involvement in informal microcredit riskier (Touré, 2024).

### **Donors Model**

The microcredit programme has benefited greatly from the contributions of donors, especially those from abroad like the UNDP who work through NGOs. The Ekpuk (family) model, an alternate microcredit delivery strategy put out by Union Gabriel and Ito O. Ibanga (1997), functioned flawlessly inside an extended family framework and was especially effective in a few villages in Akwa Ibam State. Nonetheless, it is imperative to promote the utilisation of formal credit institutions, including community banks and NACRDB, for this loan distribution system. Strong nonbank financial institutions with a lower default risk will benefit from it (Farooq & Akhtar, 2024).

#### **2.1.4 Poverty and Micro Finance**

We characterised poverty as a level of income (or, more broadly, wellbeing) below a socially acceptable threshold, and microfinance as one of several creative financial products aimed at drawing the impoverished as savers or borrowers. When it comes to comprehending poverty, it is easy to distinguish between individuals who are impoverished for an extended period of time, or the "chronic poor," and those who only become impoverished momentarily due to unfavourable events, or the "transitory poor."

One can further differentiate within the category of chronic impoverished people those who are so disadvantaged socially or physically that they will always live in poverty in the absence of welfare help (referred to as the "destitute") and the larger category of impoverished people who are impoverished due to a lack of resources and opportunity. Additionally, households in the non-destitute group can be distinguished based on the degree of poverty (the extent to which they fall below the poverty line), with those who are substantially below the line being referred to as the "core poor," who are occasionally classified based on the irregularity of their income.

Microfinance can, in theory, have distinct implications for both the transient and the chronic (non-destitute) poor. Conventionally, poverty has been understood to mean that impoverished households do not have access to the resources needed for a better standard of living or welfare, whether those resources are considered to be human (such as education), natural (such as land), physical (such as infrastructure), social (such as networks of obligations), or financial (such as credit) (World Bank, 2022).

The lack of collateral that the impoverished can provide to traditional financial institutions, in addition to the numerous complications and expensive expenses associated with working with a large number of tiny, frequently illiterate borrowers, make it easy to understand why they do not have access to credit. Due to their limited financial resources, the impoverished are forced to rely on loans from friends and relatives or moneylenders who charge exorbitant interest rates. Microfinance organisations try to get beyond these obstacles by implementing creative strategies including regular savings plans and group lending, in addition to fostering strong relationships between its underprivileged clients and the employees of the respective institutions. As previously said, there is a vast array of potential links and methods that can be used. It is easy to make the case for microfinance as a means of reducing poverty. It is suggested that if credit availability is

increased, impoverished people can finance profitable endeavours that will lead to an increase in income, so long as there are no other legally imposed restrictions.

For the chronic poor who are not destitute, this is a path out of poverty. Microfinance offers the prospect of loan during times of need to the transitory poor, who are susceptible to income fluctuations that could push them over or under the poverty line. In certain cases, it also offers the chance for regular savings by a household. The distinction between the needs of the chronic and transitory poor for credit for "promotional" (that is, income creating) and "protection" (consumption smoothing) purposes, respectively, is oversimplified in practice because the chronic poor will also have short-term needs that must be met, whether they are due to income shortfalls or unexpected expenditures like medical bills or social events like weddings or funerals. This avoids sharp declines in family expenditures by drawing on such credit. Given the low and unpredictable nature of their income, one of the most intriguing generalisations to come out of the microfinance and poverty literature is that the core poor, who make up the poorest of the chronic poor, will borrow primarily for protection. According to some research, this group will only very limitedly benefit from microfinance schemes since they are too risk averse to borrow for promotional initiatives, or investments in the future (Hotman, 2024).

The belief that microfinance primarily benefits the less fortunate poor has gained significant traction and was reiterated in the World Development Report on Poverty (World Bank, 2022). In addition to the risk aversion theory mentioned earlier, several alternative theories have been proposed to explain this result. The interest rates that low-income borrowers pay are a related concern. Although these will frequently not be sufficient to enable complete cost-recovery given the high cost per loan of small-scale lending, the majority of microfinance programmes offer interest rates that are nearly market-clearing. Even putting aside the risk-aversion argument, it's possible that the core poor cannot afford such high rates due to a lack of complementary inputs; in other words, even if they have less capital, their marginal returns may be lower than those of the better-off poor. The core impoverished will either not use the service or use it but run into financial troubles if they cannot afford the exorbitant interest rates.

The extremely impoverished may also be excluded by other group members when group lending is utilised since they are viewed as a negative credit risk, endangering the group's

standing overall. On the other hand, in situations where loan officers are professionals, they could deny loans to the extremely impoverished due to concerns about repayment risk. Many believe that these factors taken together account for microfinance's inability to reach the core poor.<sup>4</sup> Even in cases where microfinance does manage to reach the core poor, the strategy may not always be effective when donor or government funds are needed to subsidise the microfinance institutions involved. Since money can be transferred between households, the way a loan is used doesn't really matter. What matters is how much it costs to transfer money through a microcredit institution for every dollar that is received by the target group. This can be compared to the benefit-cost ratio of other programmes that target the core poor, like workfare, food subsidies, integrated regional development initiatives, and so on. Such comparisons need to consider the leakage rate, or the advantages to the non-poor, in addition to the administrative expenditures involved.

The subject of MFIs' impact on the poor, and especially the core poor, is obviously of major policy concern, especially in light of the emerging trends in the industry and their potential to dilute the MFIs' original concentration on poverty. One could argue that if these institutions are made to serve mainly low-income people and have high payback rates, then more in-depth research is unnecessary. This kind of thinking is deceptive for several reasons. Morduch (2003) notes that while this argument may be true, the data in Hulme and Mosley's book cannot be used to infer this since the arithmetic basis for their comparison of income changes for different categories of borrowers, biasing their results in favour of their conclusion. First, there is no guarantee that only the poor will be served unless strong eligibility is established. The Income Generation for Vulnerable Group Development (IGVGD) programme, implemented by BRAC in Bangladesh, is a significant effort to tackle this issue. It integrates livelihood protection measures, such as food aid, with livelihood promotion measures, such as microcredit and skills training. Microcredit is thus offered as a component of a package deal.

After reviewing the data to determine the extent to which the program's benefits truly reach the core poor, Rashid and Kumar (2023) come to the conclusion that while the programme was more successful than more traditional microcredit schemes, many target households were still missing requirements that were enforced, such as land ownership. A common tactic is to put off the non-poor by making them attend meetings on a regular

basis or by making them feel bad about belonging to a credit group for the impoverished. These disincentives don't have to be effective, and eligibility requirements that are in place might not be followed. Second, high payback rates might not accurately reflect the ability to repay (if, for instance, loans from moneylenders must be taken out in order to return the microcredit), but rather could be the result of social pressure within a group or family. Third, even if MFPs truly help the impoverished, the question of how economically advantageous this method of reaching the poor is in comparison to alternatives remains, given that public monies are needed to support the MFI. It makes sense to try to determine how these loans would affect the target group's welfare for precisely these kinds of reasons.

However, determining the precise connection between microfinance services and the decrease of poverty is not simple. It takes more than just observing a group of borrowers to determine who has overcome poverty by tracking changes in their income following the use of microcredit. A thorough examination of the counterfactual—that is, how income, or whatever metric is employed, with a microcredit compares to what it would be without one, with the availability of credit being the only distinction in both scenarios—is necessary for an accurate assessment. A control group that is empirically equivalent to the credit beneficiaries, participating in the same productive activities, unaffected by credit, and whose income (or other metric) can be tracked over time to compare with that of the credit recipients is needed. Furthermore, assessments should, in theory, provide for the possibility of reversals, with households falling back below the poverty line in the event that the productive activities supported by the credits are unsustainable, in order to account for changes over time. Research grounded on a rigorous counterfactual reveal far fewer microfinance gains than unadjusted 'before and after' comparisons, which mistakenly credit microcredit for all increases (Vishwakarma & Mujjoo, 2023).

## **2.2 Empirical Review**

### **Nepalese Articles**

Limbu (2014) examined how MFIs helped low-income women in Bayarban V.D.C. The study employed a descriptive research approach, and the information gathered was both qualitative and quantitative. According to the report, women's economic standing improves when they join MFP. Where their child could attend a private school, how they could update their home's decor, how they could replace the conventional fuel used for

cooking, etc. It was decided that they made an economic contribution to their family, society, and country. The study suggested that households' restricted access to the credit market be biased against low-income neighbourhoods and groups. Therefore, it is advised that in order to further the government's strategy for equitable and inclusive growth, the financial institutions be provided with the necessary policies and products.

Maharjan (2016) examined how microfinance could help impoverished societies in Nepal by reducing poverty. The study analysed the data and looked at the association between factors using the simple and cross-tabulation methods. The study's key findings show how more community members are participating in income-generating activities for their daily needs and how community infrastructure development is becoming more patriated, both of which directly and indirectly promote livelihood activities. The study's conclusions indicated that community members must actively participate in the fight against poverty before the PAF's approach can be implemented strictly. According to the report, the treasurer should take less time to gather savings accounts and complete other activities.

Wasthi (2016) analyzed the data gathered from primary and secondary sources to analyse the effects of PAF's infrastructure development initiatives in Shikharpur VDC. According to the study, the PAF has made more investments in income generation than in the construction of community infrastructure. It was determined that they had been able to introduce several entrepreneurship development activities thanks to the programme. According to the report, the PAF has to invest more in the development of community infrastructure, including drinking water, rural roads, micro hydro, school buildings, and other social and economic infrastructure, as these investments will pay off in the long run.

Dahal (2017) examined the households and evaluated the changing remittance habits in the Dhikurpohkari VDC in Kaski District. Primary data were employed in the study, and data collection methods included focus groups, questionnaires, KII interviews, and household surveys in addition to in-person interviews. According to the study, the majority of the ethnic group chosen for sample families was Brahmans (about 50%). The survey came to the conclusion that all families with members who have worked abroad now had better economic and social circumstances. The study suggested that the primary focus should be on making low-cost lending facilities easily accessible and on offering skills and trainings prior to migrant labour.

Risal (2018) examined the indebtedness and the state of microfinance institutions in Nepal. The population data was analysed and interpreted using the descriptive analytical research design, which was employed in this study. The study discovered that there are differences in the microloan services provided by different microfinance organisations. According to the study's findings, microfinance is a new type of organisation that operates globally primarily with the goal of eradicating poverty. The study suggested that in order for microfinance institutions to continue providing microfinance services and achieving their goal of reducing poverty, they should develop policies, strategies, and a regulatory framework that sets a benchmark for the amount of debt that can be incurred.

Chaudhary (2018) examined the main problems with Nepal's strategies for reducing poverty. The study employed secondary source analysis methodologies to examine the five-year plans from the outset. According to the study, there has been a slight decrease in microfinance for poverty in recent times; nevertheless, the criteria for measuring poverty has not changed to reflect price increases. It was determined that one of the most crucial strategies for reducing poverty is planning. One of the economic issues that less developed nations deal with is poverty. According to the several programmes that the nation put forth, poverty decreased.

Dhungana et al. (2023) evaluated the economic impact of microfinance in Nepal, with a particular focus on Manamaiju VDC. They found that women's economic status had increased as a result of their income-generating activities and that the microfinance programme had strengthened their sense of social empowerment. Both qualitative and quantitative methods were used in the study's data analysis. According to the survey, they had a better social-economic standing than people who did not have loans. The study came to the conclusion that microcredit is a useful instrument for improving the socioeconomic standing of the underprivileged, especially women. According to the survey, the loaners were requesting that the loan amount be increased; efficient methods for identifying the underprivileged and focusing loans on them should be created; training should be given; and frequent follow-up should be carried out.

### **International Articles**

Charles, James, and Hamed (2011) examined the degree of microfinance bank operation in the nation-building process through poverty alleviation. In this paper, the empirical association between the disbursement of microfinance loans and the alleviation of poverty

was investigated using the chi-square test, F-test, and T-test. The difference between individuals who use and do not use microfinance institutions was discovered by the study. According to the study's findings, microfinance institutions can effectively combat poverty and provide credit to the underprivileged. The study suggested that if more work is done on planned outreach and depth, microfinance may prove to be a more effective technique for long-term poverty eradication.

Akhtar et al. (2012) examined the impact of microfinance on the long-term link between poverty and economic indicators in Pakistan. The unit root enhanced Dickey Fuller test was employed in the study to verify the stationary data, and Johansen's cointegration test was used to examine the long-term connection. According to the study, there is a correlation between poverty and all economic components, indicating that economic performance metrics are useful markers of poverty. The study came to the conclusion that, both at the 1% and 5% significance levels, there is a substantial long-term association between the examined economic indicators and poverty. Therefore, in order to break the cycle of poverty, policymakers should concentrate on initiatives aimed at raising literacy rates and educating the public about the advantages of education.

Tilakaratna (2012) examined the characteristics and dynamics of client ship, paying particular attention to multiple client ship. The study made use of the explanation of the field research locations chosen and the rationale behind the choices. According to the survey, there is variation among MFI clients in terms of the types and quantities of financial services they use. The study came to the conclusion that this chapter's empirical evidence demonstrates a notably high degree of financial institution outreach in Sri Lanka, along with a notable degree of multiple client ship in the industry. The study suggested that there should be an increasing convergence in the country's regions and income categories' access to financial services.

Owalobi (2015) analyzed into the characteristics and procedures of microfinance as well as its ability to reduce poverty. The impact of microfinance on reducing poverty was examined by data analysis, qualitative methods, frequency distribution, cross tabulations, Logit, and OLS regression analysis. The study discovered that the perspective of service users supports microfinance's ability to reduce poverty. The study's conclusions suggested

that a stronger emphasis be placed on how the various components and methods of microfinance contribute to the development of capacities.

Hayleeyesus (2016) examined financial intermediation and provided assistance for the nation's efforts to reduce poverty. The research employed a mixed method approach, collecting both primary and secondary data. According to the findings, Ethiopian MFIs are doing comparatively better when measured against Grameen Bank and the median performance of African MFIs. The study came to the conclusion that Ethiopian MFIs are performing well and that the market is evolving. According to the survey, Ethiopian MFIs could either increase their efforts in enhancing deposit collection or examine and adjust the required deposit rate while considering the ability of borrowers to make payments.

Arp, Ardisa, and Ardisa (2017) examined the global impact of microfinance programmes designed to reduce poverty in developing nations. The study triangulates the views of borrowers with those of formal and informal lenders by interviewing market participants. The study discovered that informal intermediation and inadequate human resource management reduce the efficacy of formal microfinance. The study came to the conclusion that informal intermediation was both a possible (future) component of sustainable solutions and a serious (present) problem.

Hossen, Miah, and Ruhi (2019) examined the deliberate actions of national governments, non-governmental organisations (NGOs), and donors who see microfinance as a useful tool for ending poverty have also contributed to the consistent growth of the micro finance concerned parties. The descriptive analysis based on secondary data was employed in the study. According to the study, microfinance has gained widespread acceptance as a means of eradicating poverty in underdeveloped nations like Bangladesh. It was determined that microfinance has a significant influence in reducing poverty. According to the report, in order for microfinance institutions to play a bigger part in reducing poverty, they need adopt appropriate policies and practices and advice borrowers to use their loans appropriately.

Muhammad (2020) analyzed into how microfinance may help end poverty. It's possible that nobody would contest the idea that microfinance can be an extremely helpful tool for the advancement of people's lives, societies, economies, politics, and countries. Both

descriptive and econometric methods have been used to analyse primary data from KMBL's clients in the Sargodha area (BLR). It is quite simple to conclude that microfinance significantly and significantly contributes to the alleviation of poverty based on empirical assessment. The descriptive statistics clearly show that as the duration of microfinance increases, programme households of Khushhali Microfinance Bank Limited escape poverty. 42.67% of comparison homes do not participate in the microfinance programme and are hence impoverished. In contrast, the percentage of borrower families that are not impoverished rises as the duration of microfinance increases and the poverty status of programme households decreases as a result of participation in microfinance activities. Thus, the decline in the poverty rate demonstrates the efficacy, feasibility, and importance of the microfinance initiative started by KMBL in the Sargodha district. There are fewer impoverished homes as the length of microfinance rises, but there are more non-poor households. Thus, in the Sargodha district, microfinance effectively contributes to the alleviation of poverty.

Chomen (2021) examined the Oromia Credit and Saving Sharing Company (OCSSCo) as an example in order to assess the contribution of microfinance organisations to the eradication of poverty in Ethiopia. This study demonstrates how the beneficiaries' standard of living was raised by the OCSSCo's intervention in the study region. The study found that following enrollment in the institution, the beneficiaries' income rose, their dietary intake improved, and the majority of them were able to purchase the supplies and resources they needed to provide for their children's education. Aside from this, the majority of beneficiaries claimed that after joining the institution, they formed the practice of saving voluntarily. This suggests that the microfinance organisations worked to raise the beneficiaries' income by implementing appropriate monitoring and follow-up procedures. Nevertheless, despite these successes, the majority of these study area microfinance beneficiaries vehemently disagree with the interest rate charged by the institution when they take out loans.

Miled (2022) examined in the literature for its ability to reduce poverty from both a theoretical and empirical perspective. For this reason, we used panel data for 2005 and 2011 as well as cross-country data for 2011 to concentrate on the idea that microfinance lowers poverty. Our econometric findings constantly show that the ratio of the poverty head count to the per capita microfinance loan is strongly and negatively correlated with

it, whereas the consumer expenditure is favourably and significantly correlated with it. In fact, after adjusting for the effects of other influencing factors, a nation with a higher gross loan portfolio per capita of MFIs tends to have lower rates of poverty and higher consumption expenditures. The GDP per capita, the percentage of credit in GDP as a gauge of an economy's financial growth, international openness, and the inflation rate of US dollars are other elements that help reduce poverty.

Rashid and Kumar (2023) examined the relationship between macroeconomic factors and microfinance on poverty on three different levels. According to the study, microfinance helps to alleviate extreme poverty, and literacy is a key factor in reducing poverty. The empirical work for this study is based on secondary data for the years 2005 to 2013, and a panel data regression model will be used to analyse a sample of six SAARC countries that were chosen for the investigation. The study suggested that homes should be improved through microfinance for the purpose of reducing poverty.

Hotman et al. (2024) researched on the emphasis on reducing poverty in Nigeria, ordered a study on the country's poverty assessment. The study made advantage of the World Bank group's and the IMF's initiatives in Nigeria to reduce poverty, and section four provides a microfinance model and set of guidelines that Nigeria may adopt given its expertise with financial intermediation. According to the study's conclusion, the article stressed how important microfinance is as a technique for reducing poverty. The study suggested that the programme to reduce poverty might be supported by microfinance for poverty alleviation that increases revenue from oil windfall.

## Meta-analysis table

Author(s)	Article Name	Objectives	Methodology	Findings
Chomen (2021)	Microfinance Institutions and Poverty Alleviation in Ethiopia	To assess how microfinance institutions contribute to the fight against poverty in Ethiopia.	Case study of Oromia Credit and Saving Sharing Company (OCSSCo)	OCSSCo's intervention raised the standard of living for beneficiaries in the study area.
Rahul et al. (2021)	Changes in Microcredit Financing Patterns Before and After COVID-19	To examine how financing patterns for microcredit changed before and after COVID-19.	Study of consumer financing purchase behavior in Bangalore's Micro Finance sector	The study outlines various conclusions related to financing patterns.
Gupta and Sharma (2023)	Microfinance and Poverty: A Comparative Analysis	To analyze how microfinance reduces poverty for different types of impoverished people across countries.	Comparative analysis across different countries	The relationship between poverty and microfinance varies depending on the country.

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Suman et al. (2020)	The Challenges of Loan Utilization  among Fishmongers	To investigate the challenges fishmongers  face in utilizing loans for business information.	Interviews with fishmongers	Fishmongers reported difficulty in  controlling and regulating the use of loans.
Yaseen (2016)	Gender Profile and Microcredit Utilization	To analyze the gender profile of respondents using microcredit facilities.	Gender analysis of microcredit users	78.0% of respondents were female, and they used microcredit facilities to improve their standard of living.
Bangoura et al. (2016)	The Relationship Between Microfinance and Poverty in Developing Nations	To analyze the relationship between microfinance and poverty in developing nations.	Panel analysis (crosssectional time series data)	The study provides a better understanding of the relationship between microfinance and poverty than previous research.

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Muhamad (2015)	Microfinance's Implications for Policy and Practice	To explore the ramifications of microfinance for policymakers, academic institutions,	Policy analysis	Significant implications for women too poor to access financial services.
Salakpi (2015)	The Role of Credit Unions in Serving the Underprivileged	To assess the role of credit unions serving underprivileged communities.	Study of credit union in operations	Credit unions serve a wide range of people, especially the underprivileged, by providing loans and accepting savings.
Herath (2015)	Impact of Credit and Credit-Plus Services on Household Income	To compare income changes between households with credit and credit-plus services and those without.	Comparative study	Noteworthy distinction in income increases between households with credit and credit-plus services and those without.

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Aslam (2014)	Microfinance Impact on Clients in Pakistan	To study the impact of microfinance on clients in selected districts in Pakistan.	Sample study of four wellknown IsMFIs in ten districts	Positive impact on IsMFI clients in terms of economic status and empowerment.
Limbu (2014)	Microfinance's Role in Women's Economic Empowerment	To evaluate the role of microfinance in improving women's economic and social empowerment.	Case study of microfinance in programs for women	Women have been empowered economically and socially, contributing to their families, society, and nation.
Adhikari and Shrestha (2013)	Microfinance Impact on Clients in Pakistan	To study the impact of microfinance on clients in selected districts in Pakistan.	Sample study of four wellknown IsMFIs in ten districts	Similar findings to Aslam (2014) regarding positive impacts on clients' economic status and empowerment.

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Al-Sham (2013)	Microfinance's Role in Women's Empowerment	To examine how microfinance programs improve women's economic standing.	Case study of microfinance programs for women	Women have gained more social and economic power, contributing financially to their families, society, and nation.
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### 2.3 Research Gap

Above review of the literature on microfinance, it is evident that the majority of the studies concentrated on reducing poverty. A number of research looked at the behaviour of undergrads, graduates, and all people to investigate the connections between their background traits, financial behaviour, financial awareness, and financial literacy. Studies with the demographic variables have been conducted.

A study should be conducted to support the claim that microfinance has harmed people rather than liberated them, allowing them to be financially independent and less dependent on others. Microfinance institutions have come under fire for forcing the poor into tiny debt traps with exorbitant interest rates and harsh recovery techniques. who are compensated depending on repayment rates and who hold positions of authority locally occasionally resort to aggressive and even violent methods to collect installment payments on their microloans. The reviewer also recommends conducting research to ascertain the degree to which microcredit has aided customers in making better decisions and promoting their revenue in order to raise their standard of living. Research void regarding "Microfinance's role in reducing poverty." This research differs greatly from previous theses. I thoroughly edited, coded, and processed the data for this study using questionnaires and comparative tables to assess the subject.

Thus, from an academic and policy standpoint, this study will benefit all interested parties, scholars, professors, students, businesspeople, and the government. I hope that this study will be useful to others in the linked subject in the future.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

There are various ways and methods utilised in research. To find the relationship between microfinance and its impact on poverty alleviation, the multiple regression analysis has employed. Since the purpose of the study is to examine how microfinance affect poverty alleviation of peoples, a quantitative approach has adopted. With the use of statistics, tables, and other tools, this strategy seeks to fully solve an underlying task and analyses the outcomes. This chapter presents the general structure for the study, including data collection, presentation, and analysis, all of which contribute to achieving the study's goal. The examination of the framework and literature evaluation under progress.

#### **3.2 Research Design**

In this study, a descriptive research design was employed. Descriptive and casual comparative research designs serve as the foundation for this investigation. While a casual comparative research strategy was employed to gather data regarding respondents' opinions and thoughts regarding the programmes, their issues, their participation, etc., a descriptive research design was utilized to analyses qualitative information about the subject field.

#### **3.2 Population and Sample**

The entire population of this Bagmati rural municipality is the sampling universe. In this study, the team members of the Microfinance Company from the Bagmati rural municipality were chosen at random.

The research population has been chosen using a purposive sampling technique. However, respondents have been part of a Microfinance Company staff team. Similar to this, it is essential to observe communities in the following areas: vegetable farming, animal husbandry, Kirana shops, entrepreneurship, hotel businesses, tailoring, leadership, gender participation, child enrollment, fruit cultivation, revolving fund management, regular meetings, credit status and saving, group management, hard-core poverty and

women, use of toilets, growing fruit trees, environmental sanitation, gender equity, food habit practice, etc.

According to NPHC (2021) there are 2739 homes in total, and 549 of those households receiving microfinance service. Total population of the Bagmati rural municipality was 11,353 residents. In which 50.21 percent are male and remaining 49.79 percent are female. So, the population of the study was the total population are who receiving microfinance service, but 432 responders make up the sample. A total of 432 persons have been chosen from the population and distributed the questionnaire. From the respondents only 400 of the 432 received questionnaires as a distribution were the respondents. Using judgements sampling techniques, the sample is chosen.

### **3.3 Nature and Sources of Data**

Both primary and secondary data were used in this investigation. The necessary information is gathered from the field. The Lalitpur district's study on the contribution of microfinance to the elimination of poverty is based on primary sources. By using the Lalitpur district's microfinance client's questionnaire, the researcher herself gathered data from the respondents.

### **3.4 Data Collection and Processing Procedure**

Based on secondary data gathered from microfinance reports that the sample firms entered into the database made available on their individual websites, the study was conducted. People's relationships, causes, and consequences correlations between microfinance factors have been the main source of data. The primary data sets are the source of the sets of information for the microfinance variables.

Tools and procedures are crucial in the data collection process. Primary data had been gathered through the use of focus groups, semi-structured interviews, structured questionnaires, observation, and unstructured interviews.

A format was created for the purpose of gathering the quantitative data that was necessary for the study and for sampling households. The questionnaire addressed the socioeconomic state of the households, landholding, profession, decision-making systems of the households, and other topics. The format was produced by including multiple questions and inquiries, such as the demographic structure of the household and land

ownership. These formations were taken in order to talk with the household leader, whoever happened to be available.

Using a variety of techniques, semi-structured or unstructured interview questions from the interview guide were used to gather primary data from important information. The purpose of the interview was to cross-check the information from the questionnaire.

The importance of microfinance in reducing poverty has been discussed in interviews with regard to its impact on local activities such as development, living standards, and user groups' revenue. Information was gathered for this procedure from a variety of sources, including PAF members, locals, politicians, the secretary of the municipality, chairpersons of user groups, social workers, and teachers in the area.

Using an observation guide, eighty individuals chosen through purposive sampling were visited in order to monitor socioeconomic shifts and the role played by PAF activities across a range of industries. Additionally, it is on file. Understanding what had just occurred in the research area was really helpful. It also assisted in substantiating the statements provided by the interviewees.

### **3.5 Data Analysis and tools and techniques**

The paper will mostly use secondary data in order to meet the goal. Descriptive statistics and correlations will be used to analyse the data that has been obtained. Two ordinary least square models will be used in the empirical study to provide a thorough examination of the impact of microfinance on reducing poverty in the Bagmati rural municipality.

A descriptive analysis was performed on the quantitative data. The majority of the quantitative data, including the study area's demographic makeup, age, sex, population's composition in terms of literacy and education, and ethnic distribution, are tabulated and have undergone analysis. After incorporating the qualitative data, interpretations were produced.

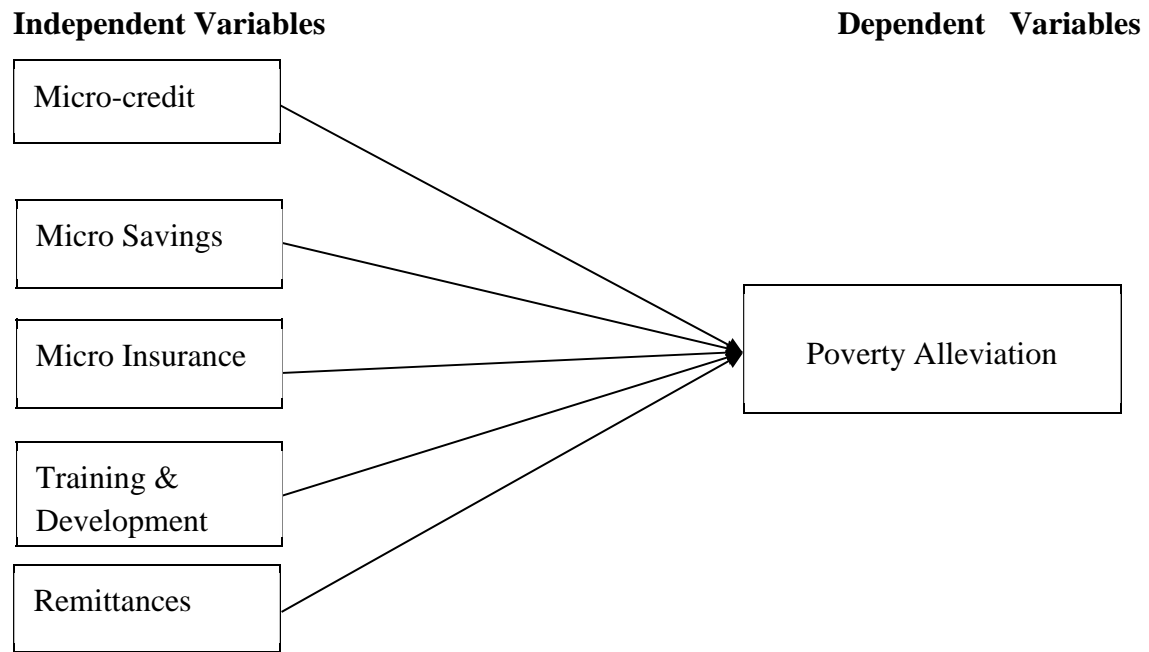
The summary of descriptive statistics related to the primary data analysis—which is based on questionnaire survey responses—is used in this study. The results collected are described using descriptive statistical methods such as mean, standard deviation, and percentage. Data are displayed in a table format, which facilitates data analysis and comprehension. Data analysis based on the proportion of respondents who answered a survey. The information gathered is utilized to compile the students' scenario. The goal of

the acquired data is analysis. Using SPSS22 tools, the gathered data are processed, analyzed, and interpreted.

A variable is a property, number, or quantity that changes over time or assumes different values depending on the circumstances. Dependent variables can only take various values in reaction to an independent variable, but independent variables can take varied values and can also cause equivalent changes in other variables. These are the two main categories of variables. The variables of economic status (measured by income and debt), human resource status (measured by health and education), and living environment (measured by housing conditions) were used to operationalize poverty. The following factors represented the poverty alleviation index and living standard index: housing conditions, number of children attending school, and health spending. To obtain the aggregate indicators, household-level data was gathered for these variables.

### **3.6 Research Framework and Definition of Variables**

A conceptual framework has been constructed to comprehend the impact of microfinance institutions on the well-being of their clients. This framework is depicted in Figure below. This was created using the results of a preliminary examination of the literature on the effects of microfinance. The microcredit services, saving services, nonfinancial services, social services, client and small business characteristics, and client welfare make up the six main components of the conceptual framework. Figure 1 is a diagrammatic representation of the framework that shows the suggested linkages and mediating elements examined in this thesis, taking into account the understanding of poverty and microfinance in this study.



*Figure 1* Research Framework

*Source: Chomen (2021)*

### 3.6.1 Definition of Variables

The provision of financial services to low-income individuals and the impoverished generally with the aim of increasing their income levels and improving their standard of living is known as microfinance. Among them are the following:

#### **Micro-credit**

These are the provision of small loans to clients for business purposes. Microfinance encompasses a broad offering of financial services for low-income communities, while microcredit specifically means small loans for people below the poverty line.

#### **Micro Savings**

Savings can help them accumulate assets which could be used for business and household purposes while also earning interest on savings. They can earn interest on savings and use the assets they collect for both household and business objectives with the aid of savings. In order to better serve their communities, microfinance organizations can grow and expand thanks to the capital formation that savings deposits bring.

#### **Micro Insurance**

Since all business owners confront risks, financial institutions must guarantee different types of businesses by implementing diverse policies to lower the risks associated with operating firms.

**Training and Development**

Financial institutions provide a range of training courses to give their clients the knowhow and abilities they need to operate their businesses successfully.

**Remittance**

Nepal received remittance amounting to Rs. 794.32 billion in FY 2022/23, which translates into a remittance to GDP ratio of 20.80 percent (Economic Survey, 2023). Consequently, Nepal is seemingly a remittance-based country with remittance inflow amounting to more than a quarter of the country's GDP.

**Poverty alleviation**

The primary goal of microfinance services is to empower the underprivileged by providing a range of financial services to their clientele. The following elements have a part in achieving the aforementioned goal:

It goes without saying that as employment prospects arise, the unemployed will be able to obtain newly generated jobs, and those who previously held temporary work may now obtain permanent positions. This will undoubtedly result in an increase in both personal and governmental income. Improved use of the loans provided to MFI clients typically results in business expansion, which in turn creates job possibilities for the general public.

## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

Through an empirical analysis of the information gathered from the respondents, this chapter seeks to accomplish the study's goals. The goal of this chapter is to summarize the findings from the study technique and data analysis covered in chapter three. Based on the research questions and hypotheses, the data results are analyzed. On the basis of primary data obtained from the 400 respondents, the study tried to examine the effect of role of microfinance on poverty alleviation in Lalitpur district. This chapter includes the demographic profile of respondents, descriptive statistics of variables and testing of hypothesis and discussion of the result obtained through analysis. Respondent's profile summarized basic information such as gender, educational level, age, family member etc. Under the analysis mean value, standard deviations, correlation and regression of corresponding items of the research variables are analyzed. Finally, hypothesis is discussed in order to meet the objectives of the study. The data are presented with tables to make it convenient to interpret.

#### **4.1 Demographic Profile of Respondents**

The demographic analysis and interpretation of the gathered data are covered in this section. A total of 400 participants were chosen for the study, and each participant works for a bank. This section includes a demographic profile that includes information about age, gender, education level, and annual income. The respondent's demographic profile is displayed in the table.

##### **4.1.1 Gender of Respondents**

The gender of respondents is classified into male, female and others. The frequency distribution and percentage composition of different genders is shown in Table 1.

Table 1

*Gender of respondent*

Gender of respondents	Frequency	Percent
Male	246	61.5
Female	154	38.5
Total	400	100.0

Table 1 shows the gender distribution of respondents of the study. Among the 400 total respondents, 246 individuals identified as male, comprising 61.5% of the total sample, while 154 respondents identified as female, making up the remaining 38.5%. This gender breakdown provides important demographic information about the study's participants and highlights the gender diversity within the sample.

**4.1.2 Age of Respondents**

The Age of respondents is classified into below 20, 21-30, 31-40 and above 40. The frequency distribution and percentage composition of different genders is shown in Table 2.

Table 2

*Age of respondents*

Age of respondents	Frequency	Percent
20-30	64	16.0
31-40	197	49.3
41-50	85	21.3
50 & above	54	13.5
Total	400	100.0

Table 2 provides an overview of the age distribution among the surveyed respondents. Out of the total 400 respondents, the majority fall within the age range of 31 to 40, with 197 individuals representing 49.3% of the sample. The next most populous age group is 41 to 50, which comprises 21.3% of the respondents, followed by the 20 to 30 age group

at 16.0%. Lastly, there are 54 respondents aged 50 and above, making up 13.5% of the total sample.

#### 4.1.3 Education Status of Respondents

The education status of respondents is classified Bachelor's degree, Doctoral degree, High school and Master's degree. The frequency distribution and percentage composition of different education level of respondents is shown in Table 3.

Table 3

##### *Education Level*

Education Level	Frequency	Percent
Valid Bachelor's degree	227	56.8
Doctoral degree	54	13.5
High school	21	5.3
Master's degree	98	24.5
Total	400	100.0

Table 3 presents the educational backgrounds of the surveyed respondents, offering insights into their levels of education. Among the 400 total respondents, the largest group holds a Bachelor's degree, with 227 individuals, representing 56.8% of the sample. The next most common educational attainment is a Master's degree, comprising 24.5% of the respondents, followed by individuals with Doctoral degrees at 13.5%. A smaller portion of the sample, 5.3%, has a High School education.

#### 4.1.4 Members in Family

The members in family of respondents are classified into 2 members, 3 members, 4 members and more than 4 members. The frequency distribution and percentage composition of respondents is shown in Table 4.

Table 4

*Members in Family*

Members in Family	Frequency	Percent
Valid 2 members	69	17.3
3 members	60	15.0
4 members	181	45.3
above 4 members	90	22.5
Total	400	100.0

Table 4 provides information about the composition of family sizes among the surveyed respondents. Among the 400 total respondents, the majority of them have four members in their families, with 181 individuals, representing 45.3% of the sample. The next most common family size is having more than four members, accounting for 22.5% of respondents. A substantial portion of the sample consists of families with two members at 17.3%, and families with three members at 15.0%.

**4.1.5 Annual Income Before Involvement**

The annual income before involvement is classified into 0-100,000, 100,000-300,000, 300,000-600,000 and 600,000 and above. The frequency distribution and percentage composition of annual income before involvement of respondents is shown in Table 5.

Table 5

*Annual Income Before Involvement*

	Frequency	Percent
0-100,000	21	5.3
100,000-300,000	168	42.0
300,000-600,000	141	35.3
600,000 and above	70	17.5
Total	400	100.0

Table 5 presents data on the annual income levels of respondents before their involvement in a microfinance program. Out of the total 400 respondents, the most significant portion falls within the income range of 100,000 to 300,000, with 168 individuals, accounting for 42.0% of the sample. The next most common income category is 300,000 to 600,000, encompassing 35.3% of the respondents. A smaller percentage of individuals, 17.5%, reported annual incomes of 600,000 and above. Lastly, 5.3% of the respondents reported annual incomes within the 0 to 100,000 range.

#### **4.1.6 Annual Income After Involvement**

The establishment of your enterprise is classified into 0-100,000, 100,000-300,000, 300,000-600,000 and 600,000 and above. The frequency distribution and percentage composition of establishment of your enterprise of respondents is shown in Table 6.

Table 6

##### *Annual Income After Involvement*

	Frequency	Percent
Valid 0-100,000	94	23.5
100,000-300,000	17	4.3
300,000-600,000	175	43.8
600,000 and above	114	28.5
Total	400	100.0

Table 6 provides data on the annual income levels of respondents before their involvement in a microfinance program. Among the 400 total respondents, the largest group falls within the income range of 300,000 to 600,000, with 175 individuals, making up 43.8% of the sample. The next most common income category is 0 to 100,000, encompassing 94 individuals, or 23.5% of the respondents. A significant percentage of individuals, 28.5%, reported annual incomes of 600,000 and above. Lastly, a smaller portion of respondents, 4.3%, reported annual incomes within the 100,000 to 300,000 range.

## 4.2 Descriptive Statistics

This part of research explains the descriptive analysis of the data collected from the respondents through the questionnaires during the research process. Descriptive analysis explains the data with the help of statistical tools and measures. Those statistical measures are mean, frequency and standard deviation. This mean and standard deviation are presented in the tabular form. For this study “Five Point Likert Scale” questions were asked to bank employees which scaled from:

- 1- Strongly Disagree
- 2- Disagree
- 3- Neutral
- 4- Agree
- 5- Strongly Agree

### 4.2.1 Mean and standard deviation of all variables

The mean and standard deviation of independent and dependent variables are shown in Table 7.

Table 7

#### *Descriptive Statistics*

	Minimum	Maximum	Mean	Std. Deviation
MC	1.00	5.00	3.4195	1.09403
MS	1.00	5.00	3.4515	1.16208
MI	1.00	5.00	3.3970	1.22284
TD	1.00	5.00	3.4035	1.15587
RE	1.00	5.00	3.1925	1.24141
II	1.20	5.00	3.3675	1.09994

Table 7 presents descriptive statistics for several variables associated with a microfinance program, providing valuable insights into how respondents perceive and engage with different aspects of the program. The mean values offer a measure of central tendency, representing the average level of satisfaction or experience among the 400 surveyed individuals. For instance, the mean satisfaction level for microcredit and microsaving is relatively consistent at around 3.42 and 3.45, respectively, indicating a moderate level of contentment with these program elements.

However, when considering Micro Insurance (MI), the mean satisfaction score of approximately 3.40 suggests a similar moderate level of satisfaction. Still, the relatively high standard deviation of approximately 1.22 indicates considerable variability in responses, signifying that opinions and experiences regarding microinsurance vary significantly among respondents.

Similarly, Training and Development (TD) garners a mean score of approximately 3.40, reflecting a moderately positive perception among respondents. Meanwhile, Remittances (RE) receive a slightly lower mean of approximately 3.19, suggesting a relatively lower level of satisfaction compared to other program components. Notably, the high standard deviation of approximately 1.24 for remittances highlights a wide range of opinions and experiences among respondents.

Finally, Increase in Income (II) yields a mean of approximately 3.37, indicating a moderate level of satisfaction regarding the program's impact on income levels. Importantly, the lower standard deviation of approximately 1.10 suggests a degree of consensus among respondents regarding the program's effectiveness in this aspect.

### **4.3 Inferential analysis**

This section's goal is to outline the methodology for evaluating the empirical data and testing the hypotheses developed in the preceding chapter. Through the application of inferential statistics, researchers can draw conclusions or extrapolate findings from sample data to the entire population. It makes it possible to infer population values from one or more observational samples. To ascertain whether observed differences between groups or variables are true or the result of random variation, inferential analysis tests hypotheses. It generates new data by extrapolating generalizations and predictions from samples. There are two analytic tools in this section, which are:

#### **4.3.1 Correlation analysis**

To determine the relationships between the variables, correlation analysis was examined. The relationship between the many independent and dependent variables related to the research is ascertained using Pearson's Correlation analysis. Any two variables' linear correlation is measured.

Table 8

*Correlations*

	II	MC	MS	MI	TD	RE
II	1					
MC	.789**	1				
MS	.793**	.912**	1			
MI	.823**	.924**	.938**	1		
TD	.814**	.913**	.932**	.933**	1	
RE	.787**	.863**	.828**	.858**	.860**	1

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

The correlation analysis in Table 8 provides valuable insights into the relationships between the dependent variable, Increase in Income (II), and the independent variables, including Micro Credit (MC), Micro Saving (MS), Micro Insurance (MI), Training and Development (TD), and Remittances (RE), within the context of a microfinance program. The correlation between II and MC is approximately 0.789, indicating a robust positive relationship. For every unit increase in satisfaction or perceived positive impact in microcredit services, there is a nearly 0.789 unit increase in reported income, on average. Similarly, II also exhibits a similarly strong positive correlation of approximately 0.793 with MS, suggesting that individuals who report higher satisfaction with micro saving services tend to experience a corresponding increase in income.

The correlation between II and MI is even stronger, at approximately 0.823. This signifies that respondents who perceive positive experiences with microinsurance also report significant increases in their income. II's correlation with TD is approximately 0.814, indicating that training and development opportunities provided by the microfinance program are associated with notable income increases among satisfied participants. Finally, the correlation between II and RE is approximately 0.787, implying that individuals who benefit from remittances services within the program also report substantial increases in their income.

### 4.3.2 Regression Analysis

Regression analysis makes the assumption that there is a causal link between two or more variables, whereas correlation analysis makes no such assumption. The effects of one

independent variable on one dependent variable are displayed by simple linear regression, but the effects of several independent factors on one dependent variable are displayed by multiple linear regression. The degree of association between two variables is all that correlation analysis can reveal. Regression analysis is therefore performed in order to gain a deeper comprehension of the degree of correlation between two or more variables. The impact of several independent factors on a single dependent variable is examined using multiple regression analysis. Consequently, the impact of numerous independent variables on the commercial performance of SMEs in Lalitpur is examined using multiple regression analysis. The statistical multiple regression model was created using the suggested research model and went like this:

$$II = \alpha_1 + \beta_1 MC + \beta_2 MS + \beta_3 MI + \beta_4 TD + \beta_5 RE + e_i$$

Where,  $\alpha_1$  = Constant Intercept of the Regression and  $\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  are the coefficient of regression

II = Increase in Income (Dependent variable)

MC = Micro credit,

MS = Micro saving,

MI = Micro Insurance,

TD = Training and Development, RE = Remittances and  $e_i$  = Error term

The following tables show the findings from the model summary, analysis of variance (ANOVA), and beta coefficients of the impact of independent factors on the contribution of microfinance to the decrease of poverty in the Lalitpur district.

Table 9

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 <sup>a</sup>	.709	.705	.59714

a. Predictors: (Constant), RE, MS, MC, TD, MI

R Square, measures the proportion of the variance in the dependent variable (Increase in Income, II) that can be explained by the predictors in the model. In this case,  $R^2$  is approximately 0.709, suggesting that roughly 70.9% of the variability in income can be

accounted for by the combination of the included predictors. The Adjusted R Square value, adjusted for the number of predictors in the model, provides a more conservative estimate of the proportion of variance explained. It helps prevent overfitting. Here, the Adjusted R Square is approximately 0.705, indicating that even after adjusting for the number of predictors, the model still explains about 70.5% of the variance in income.

Table 10  
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	342.247	5	68.449	191.963	.000 <sup>b</sup>
	Residual	140.491	394	.357		
	Total	482.737	399			

a. Dependent Variable: II

b. Predictors: (Constant), RE, MS, MC, TD, MI

The ANOVA table helps assess the overall significance of the regression model. In this case, the low p-value (Sig. = .000) associated with the F statistic indicates that the model is highly significant, suggesting that at least one of the predictors (RE, MS, MC, TD, MI) significantly contributes to explaining the variance in Increase in Income (II).

Table 11  
Coefficients

Unstandardized coefficients

Model	B	Std. error	t	Sig
(constant)	.711	.101	7.066	.000
MC	-0.21	.082	-.251	.802
MS	0.23	.085	.266	.790
MI	.343	.086	3.966	.000
TD	.225	.086	2.621	.009
RE	.225	.052	4.358	.000

a. Dependent Variable: II

Table 11 presents the coefficients resulting from a regression analysis that aims to understand the relationships between the dependent variable Increase in Income (II) and the independent variables: Micro Credit (MC), Micro Saving (MS), Micro Insurance (MI), Training and Development (TD), and Remittances (RE).

The coefficient for Micro Credit (MC) is -0.021. This coefficient represents the change in the estimated value of II for a one-unit change in MC while holding all other variables constant. The negative sign suggests a small negative relationship, although it is not statistically significant ( $p = 0.802$ ), indicating that changes in microcredit do not have a significant impact on II in this model. The coefficient for Micro Saving (MS) is 0.023. This coefficient represents the change in the estimated value of II for a one-unit change in MS while holding all other variables constant. Like MC, the relationship between MS and II is not statistically significant ( $p = 0.790$ ).

The coefficient for Micro Insurance (MI) is 0.343. This value suggests that a one-unit increase in MI is associated with a 0.343-unit increase in II, holding other variables constant. This relationship is statistically significant ( $p < 0.001$ ), indicating that MI has a positive impact on II. The coefficient for Training and Development (TD) is 0.225. This value indicates that a one-unit increase in TD is associated with a 0.225-unit increase in II, holding other variables constant. This relationship is statistically significant ( $p = 0.009$ ), suggesting that TD has a positive impact on II.

The coefficient for Remittances (RE) is 0.225. This value suggests that a one-unit increase in RE is associated with a 0.225-unit increase in II, holding other variables constant. This relationship is statistically significant ( $p < 0.001$ ), indicating that RE has a positive impact on II.

#### **4.4 Discussion**

This study found that micro credit has a negative and statistically insignificant impact on increase in income of Bagmati rural municipality. In the same way Muhammad (2020) also found that micro credit has a negative and statistically insignificant impact on increase in income. But in the contrary, Chaudhary (2018) found that micro credit has a positive and statistically significant impact on increase in income. Similarly, the results of this study show that micro saving has positive and insignificant impact on increase in income of Bagmati rural municipality. But in the contrary, Wasthi (2016) found that

micro saving has negative and significant impact on increase in income. But this result supported by Chomen (2021) and found that micro saving has positive and insignificant impact on increase in income.

Likewise, the results of this study show that micro insurance has positive and significant impact on increase in income of Bagmati rural municipality. But in the contrary, Hossen, Miah and Ruhi (2019) found that micro insurance has negative and insignificant impact on increase in income. But this result supported by Hayleeyesus (2016) and found that micro insurance has positive and significant impact on increase in income. Similarly, the results of this study show that training and development has positive and significant impact on increase in income of Bagmati rural municipality. But in the contrary, Maharjan (2016) found that training and development has negative and insignificant impact on increase in income. But this result supported by Miled (2022) and found that training and development has positive and significant impact on increase in income.

Lastly, the results of this study show that remittances has positive and significant impact on increase in income of Bagmati rural municipality. But in the contrary, Chomen (2021) found that remittances has negative and insignificant impact on increase in income. But this result supported by Risal (2018) and found that remittances has positive and significant impact on increase in income.

## **CHAPTER-V**

### **SUMMARY AND CONCLUSION**

#### **5.1 Summary**

The objective of this study is to assess the status of progress achieved in poverty alleviation through microfinance programs of the Microfinance Institutions (MFIs) and /or Self-Help Groups (SHGs) in Nepal. This study is based on descriptive as well as exploratory research designs. Descriptive research design has been used to gather round qualitative information about the research area and exploratory design is used for collecting information about respondent's views and ideas about the programs, their problems, their participation, etc. The sampling universe is the total number of people of this Bagmati rural municipality. The members of the team staff of Microfinance Company from this Bagmati rural municipality had been selected by lottery in this study. There are 10 ward and households in Bagmati rural municipality. There are altogether 4124 households and the numbers of microfinance receiving households are 741. The population of the study is 4124 peoples of Bagmati rural municipality but belonged to 432 people of respondents are sample. Out of the population, 732 peoples have been selected. 432 questionnaires distributed to the peoples, 400 were the respondents. While selecting samples the economic as well as poor diversities were balanced.

The correlation analysis shows the relationships between the dependent variable, Increase in Income (II), and several independent variables within a microfinance program context. These variables include Micro Credit (MC), Micro Saving (MS), Micro Insurance (MI), Training and Development (TD), and Remittances (RE). The findings suggest significant positive correlations between II and these independent variables. For instance, II and MC exhibit a strong positive correlation, implying that higher satisfaction with microcredit services is linked to increased reported income. Similarly, II is positively correlated with MS, indicating that greater satisfaction with micro-saving services is associated with higher income.

The correlation between II and MI is notably strong, suggesting that positive experiences with microinsurance lead to significant income increases. II also shows a substantial positive correlation with TD, highlighting the positive impact of training and

development opportunities provided by the microfinance program on income. Furthermore, the correlation between II and RE indicates that individuals benefiting from remittance services within the program report substantial income increases. Regarding the individual coefficients, while MC and MS coefficients suggest small relationships with II, these relationships are not statistically significant, indicating that changes in microcredit and micro-saving do not significantly impact II in this model. In contrast, MI, TD, and RE have statistically significant positive impacts on II. An increase in MI, TD, or RE is associated with corresponding increases in II, emphasizing the importance of these factors in driving income growth within the microfinance program.

## **5.2 Conclusion**

The study revealed strong positive correlations between II and several key factors. Firstly, higher satisfaction with Micro Credit (MC) and Micro Saving (MS) services was associated with increased reported income. However, these relationships were not statistically significant, suggesting that changes in microcredit and micro-saving do not significantly impact II in this specific model. On the other hand, Micro Insurance (MI), Training and Development (TD), and Remittances (RE) emerged as influential factors in income growth. Positive experiences with microinsurance were strongly correlated with significant income increases. Similarly, individuals who benefited from training and development opportunities within the microfinance program reported notable income growth. Additionally, those receiving remittance services within the program also experienced substantial income increases. These relationships were statistically significant.

These findings underscore the importance of microinsurance, training and development initiatives, and remittance services within microfinance programs in facilitating income growth among participants. While microcredit and micro-saving did not show statistically significant impacts in this specific model, they still play essential roles within the broader context of financial inclusion and empowerment. These insights can inform policymakers and practitioners in designing more effective microfinance programs to support economic well-being and income stability among underserved communities.

### **5.3 Implications**

#### **Managerial Implications**

The strong positive correlation between Micro Insurance (MI) and income increase highlights the potential of microinsurance to provide financial security and enhance income generation for program participants. Microfinance institutions should promote and expand microinsurance offerings.

Training and development opportunities within microfinance programs have a positive impact on income. Therefore, program managers should invest in skill-building and capacity development initiatives to empower participants and improve their income prospects.

Remittances (RE) play a crucial role in income growth for program participants. Microfinance institutions should facilitate and promote remittance services to help recipients capitalize on these financial inflows.

Encourage participants to explore various income-generating activities. This can help mitigate the potential limited impact of microcredit and micro-saving on income in certain contexts.

Regularly assess the impact of different program components on income to ensure that the program remains relevant and effective. Adjustments may be needed based on evolving participant needs and external factors.

Policymakers should create an enabling environment that supports the development and sustainability of microinsurance and other financial services within microfinance programs. This includes appropriate regulations and incentives.

#### **Research Implications**

Conduct more in-depth studies to explore the reasons behind the lack of statistical significance for microcredit and micro-saving in this model. It may uncover specific contextual factors that influence their impact on income.

Microfinance institutions should adopt a holistic approach, considering the interplay of various financial services and non-financial support to create a comprehensive strategy for income generation and poverty alleviation among program participants.

This study has used the dependent variable, Increase in Income (II), and several independent variables within a microfinance program context. These variables include Micro Credit (MC), Micro Saving (MS), Micro Insurance (MI), Training and

Development (TD), and Remittances (RE). But in future research may conduct with taking other independent variables.

This research was based on Bagmati rural municipality, Lalitpur district. Other research may conduct with the different district or country.

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ABSTRACTS

**Poverty is not only the issue of least developed countries. It is a global issue where huge amount of investment is poured for reduction of poverty** . The main objective **of the** study is **to** to assess **the**

**status of progress achieved in poverty alleviation through microfinance programs of the Microfinance Institutions (MFIs) and /or Self-Help Groups (SHGs) in Nepal**

**Descriptive research design has been** exploratory **in the study. This design helps to understand the process of PAF in**

Bagmati rural municipality Lalitpur District.

**This study is based on descriptive as well as exploratory research designs**