ROLE OF SMALL FARMER COOPERATIVE LIMITED IN WOMEN EMPOWERMENT

(A CASE STUDY OF SMALL FARMERS COOPERATIVE LIMITED SHANKARNAGR RUPENDHI)

A Thesis
Submitted to Central Department of Rural Development in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Arts in Rural Development

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APPROVAL CERTIFICATE

This is to certify that the thesis entitled "Role of SFCL in Women Empowerment" (A Case study of Small Farmers Cooperative Limited Shankarnagar, Rupandehi)" written and submitted by Mr.Dev Hari Subedi has been examined. It has been declared successful for fulfillment of the academic requirements towards the completion of Masters of Arts in Rural Development

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RECOMMENDATION

This is to certify that **Mr. Dev Hari Subedi** has prepared this thesis entitled **"Role of Small Farmer Co-operative in Women Empowerment" (A Case study of Small Farmer Co-operative Limited Shankarnagar, Rupandehi)"** under my supervision and guidance. I hereby forward this thesis for final evaluation and approval.

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This research report is not complete and satisfactory. There are several shortcomings and limitation. I am fully alone responsible for all those.

Dev Hari Subedi

Abstract

Rural Nepal is home to some of the poorest human settlement in the world. Largely agricultural household that rely on farming small plots of seasonally irrigated or rain fed lands or wage labors who work for others, often under semi-feudal conditions. They have few, if any income earning opportunities beyond the relatively meager return of these agricultural activities. To upgrade their economic standing, they need greater access to new methods and technologies as well as credit sources to enable them to borrow against future earning capabilities. The absence of the most modest financial support severely limits poor people's range of opportunities. This is why the idea of organizing people around the material incentives of savings and credit drawing in even the impecunious, yet bankable Nepalese is so attractive. The flow of credit through microfinance however fills only modest gap in poor people's fundamental earning needs that formal banking system is still out of reach for most villagers.

ADBL in that perspective is very delighted to notify that the visionary insight of reduction poverty using micro finance, community development and participating approach is well developed three decade ago by launching farmers centered Small Farmers Development Program(SFDP). It's worthwhile to aver that ADBL is the first institution in Nepal to address the poor people and inspire institution including donor agencies to contribute in poverty reduction venture. The research paper has been designed to know about microfinance and its role in poverty alleviation activities, especially the activities of women in economic development. Since this study is confined to the SFCL Shankarnagar, Shanakrnagar V.D.C., Rupandehi. So the result may not be generalized all farmers of the district or nation wide.

In this research paper the data were collected from two ways i.e. Primary Data and Secondary Data. The primary data collected from field observation and questionnaire, while the responses on formal questionnaires revealed following main points:

The position of small farmers' employment is increasing i.e.80.00%. Provision of clean drinking water used increasable i.e. 76%. Helped to improved toilet in society i.e.60.57%. Small farmers also used improved stove after SFCL i.e.30.29%.

SFCL help to improved literacy position i.e.78.28%. Banking saving, group saving and forest conservations position also increased. By observation tour, small farmers increase their knowledge and other capacity, Health awareness is increasable. After SFCL, make the society more literacy, program oriented, seeking opportunity in local area, make women more aware in their rights, generate employment and help to generate capital to small farmers.

Most of secondary data and information were collected from SFCL Shankarnagar. For the analysis purpose 5 years data will be taken as sample from F. Y. 059/60 to F.Y. 063/64. After Handover Share capital is increased by 144.12%,Share capital increment is fluctuate in F/Y 060/61 it's increased 78.31% than the F/Y 062/63 its increased dramatically 544.49% but in F/Y 063/64 its increased by 31.65%. Profit of SFCL increases every year. Positions of deposits through members are increasing way. The result of total assets turnover ratio give better sign expect last year but hope it will improve. Increasing Deposits positions show the financial viability of SFCL, which is better. The borrow bank loan of SFCL is in decreasing trend it shows that the organization is able to repay the bank loan from internal sources.

The SFCL is facing many problems. Even among those problems, the SFCL is able to bring positive change in the society. Women participation in earning activities is increasing day by day. The leadership quality of women is developing. Due to the earning capacity, the decision power of women is increased. As a result the rural area is developing in various sectors for example road, drinking water, and toilet. Likewise deposit collection, scientific farming, vegetable production, milk production and marketing are remarkable changes. SFCL generating self-employment i.e. operate small grocery shop, vegetable farming.

TABLE OF CONTENTS

List of Tables

List of Figures

Figures No.		Page no.

ABBREVIATION/ACRONYMS

AD	Asian Development Bank
ADB/N	Agricultural Development Bank of Nepal
ADBL	Agricultural Development Bank Ltd.
APRACA	Asian Pacific Regional and Agriculture Credit Association
ASC	Agricultural Service Center
ASARRD	Asian Survey of Agrarian Reform and Rural Development
BOD	Board of Directors
CMF	Center for Micro Finance
CBS	Central Bureau of Statistics
CBs	Commercial Banks
CSD	Centre for Self-help Development
F/Y	Fiscal Year
GBBS	Grameen Bikash Bank
GDP	Gross Domestic Product
GO	Governmental Organization
GTZ	German Technical Co-operation
HDR	Human Development Report
HMG	His Majesty's Government
IDP	Institution Development Program
INGO	International Non-governmental organizations
Ltd.	Limited
MCPW	Micro-Credit Project for Women
MFD	Micro Finance Division
MFI	Micro Finance Institution
MFIS	Micro Finance Institutions
MOAC	Ministry of Agriculture and Co-operative
MOF	Ministry of Finance
MOLR	Ministry of Land Reforms
NCB	National Co-operative Board
NGO	Non-governmental organization
NLS	Nepal Living Standard
NPC	National Planning Commission
NSAC	Nepal South Asia Centre
NRB	Nepal Rastra Bank
RMDC	Rural Microfinance Development Centre
Rs.	Nepal Rupees

RSRF	Rural Self Reliance Fund
RUFIN	Rural Finance Nepal
SBP	Self-help Banking Program
SCC	Savings and Credit Co-operative
SFCL	Small Farmer Co-operative Limited
SFDBL	Small Farmers Development Bank Ltd.
SFDP	Small Farmer Development Program
SPO	Sub-Project Office
USD	United States of America Dollar
VDC	Village Development Committees

CHAPTER - ONE

INTRODUCTION

1.1 Background

Nepal, a geographically small country with 147,181sq.km physical Area, is characterised by its land-locked position and the extremes of its physiographic and ecological features. Physiographical, the country is divided into parallel viz Terai, Hills and Mountain from south to north with distinct topographical and climate features. The Terai belt lives in the southernmost part of the country covering approximately 23 percent of the area; it's considered to be food basket of the country. The middle belt called Hills forms part of the broadest strip covering nearly 43 percent of the area, this belt, which consists of high ridges and steep slopes interspersed with many small valleys along the major rivers and rivulets flowing through this belt. The northern most strips covering nearly 34 percent of the area is the mountain belt including Mount Everest (8,848 m.amsl) and other snow-laden peaks. The altitude of this belt is above3000m.amsl. This belt is not very suitable from the standpoint agriculture because of this cold climate and snow cover for most parts of the year (Agriculture Development Bank, 1996:1).

Nepal continues to remain one of the poorest countries in the world with a per capita GDP of less than 300 US dollar (HDR, 2005). While 78 per cent of its total workforce remains in agriculture, the sector contributes only 39 percent to the country's GDP, clearly underscoring the high degrees of unemployment (5%nationally) and under–employment (47%) in the rural economy. But the surplus labour force, which is generally unskilled due to limited access to social services mainly education, cannot move to nun- agricultural occupations for two reasons. First, the non-agricultural sector remains chronically miniscule due mostly to the country's landlocked position. Secondly, only 20 percent of jobs in the manufacturing sector, otherwise the biggest employer of labour, are for unskilled. Therefore, excess labour continues to remain trapped in largely subsistence agriculture, even as the per capita availability of agricultural land has steadily diminished: 0.6 ha in 1954, 0.24 ha in 1990, and 0.15 ha in 1998(NSAC, 1998). For most people the available holdings are far too meagre to assure them food security, or to buy health services and decent education for their children. The situation is obviously much worse for the landless or near landless people in the rural communities. By the National planning commissions own admission in the Tenth Plan, what growth has taken place in the country has been largely urban centred. This situation has always the explosive core of the country' socio–economic condition, and has been enormously exploited by the Maoist insurgents to augment their ranks in recent years. While the latest Nepal Living Standard (NLS) Survey (2003/04) reported poverty reduction by 11 percentage points between 1995-96 and 2003-04, down from 42 per cent to 30.9 per cent (CBS, 2005), this has been mainly due to the exodus of labour and increase in remittances, and can hardly be attributed to the country's success in development performance (Agricultural Credit Annual Journal, Jan 2007 ADBL, CTI, 27: Vol.40).

Poverty in Nepal happens to be deeply entrenched in the exclusionary forces inherent in its traditional social order, defined mainly by hierarchical caste and ethnic divisions. The 2001 census reported 100 different caste and ethnic groups in the country of which 52 are Indo-Aryan Hindu caste groups and 44 largely Tibeto-Burman casteless ethnic groups, now known as Janajati or "people groups ", the two categories representing 57.5 and 36.4 percent of the population respectively. Besides, the Indo-Aryan groups include a large number of mutually distinct occupational caste groups, which together account for13.6 percent of population and are among the most deprived in country. These groups, now generically referred to as the dalits (oppressed), are either marginal landholders or landless altogether, and traditionally subsisted largely on in kind seasonal payments of food grains and other largesse by higher caste and ethnic households to whom the render their occupational and labour services in a patron- client relationship (Agricultural Credit Annual Journal Vol.40,Jan 2007 ADBL, CTI P:28).

Orthodox Hinduism being the basis of state and inter-ethnic relation, in the pre-1951 Nepal government land grants to the priests, religious teachers, soldiers and members of the nobility and royal family constituted the foundations of the social and political life (Regmi, 1974:22). As a result two Indo Aryan high caste groups, Brahman and Chhetri and one Tibeto-Brahman ethnic group, *Newar,* have historically been the most dominant socially, economically and politically. This caste ethnic bias of distribution of poverty is reflected even in the remittance-induced poverty reduction mentioned above. According to the NLS survey it has once again been the Brahmin, Chhetri and Newar who have benefited the most from such remittance. While the poverty ratio of the" upper Caste"(defined as Brahmin and Chhetri) declined from 34.1 percent to 18.4 percent, and of the Newars from 19.3 percent to 14 percent, the reduction in the case of hill Janajati (represented by Magar, Tamang, Rai Gurung and Limbu in the study) has been only a little over 4 percent points from high of 57.8 per cent to 45.5 percent (CBS, 2006).The contrast in the level of poverty between these categories of caste ethnic groups become even more vivid and telling from their average annual per capita income. While the figure for Newar, hill Brahmin Chhetri and Tarai Brahmin Chhetri for 2004 are Rs.38192, Rs.24,427, and Rs.24,370, the corresponding amount for hill Janajati hill Dalit and Tarai Dalitar Rs.18793, Rs.13340 and Rs.10861respectively (P,& B.K. Shrestha, Microfinance *for Poverty reduction in Nepal: Great opportunities and nagging problem*s, (Agricultural Credit Annual Journal,2007:28; Vol.40).

A great majority of the world's population still resides in rural isolation confronted by problems such as poverty, disease, illiteracy, inadequate resources and such others. About 900 million people of the Asia and the Pacific region are poor. Poverty is still rampant in South Asian region where about half billion people fall under the acute poverty line. In the context of Nepal, it is estimated that about two million household (about 38 percent of the total population) are below poverty line. Incidence of poverty is higher in rural area as compared to the urban and semi-urban area of Nepal. Therefore, reduction of poverty is the main challenge for the development of Nepal, and hence has been the main focussed program in the past as well as present national development plan of the government. To conquer the problem, the Small Farmers Development Program (SFDP) was initiated in 1975. It was, the outcome of the FAO/UNDP joint regional project named "Asian Survey of Agrarian Reform and Rural Development" (ASARRD), which recognized the fact that special efforts were needed to support the poor and disadvantaged groups. As a pilot project in Nepal, it was first tested at Mahendranagar in Dhanusha District (Terai/plain region) in 2032 Bhadra (August 1975) and at Tupche in Nuwakot (Hill region) Districts in 2032 Falgun (February 1976). The Agricultural Development Bank of Nepal (ADBN) was entrusted with the responsibility of executing the project.

One of the distinctive initiatives of the ADBL has been the piloting of Small Farmer Development Program (SFDP) in 1975 whose success led to its rapid expansion all across the country and helped it to attract international funding as well. Under this approach small farmers, Owning less than 0.5 ha. of cultivated land per family or a per capita income of less than NRs.2500 (at 1987/88 price), are identified through a household survey and are organized by the Bank-appointed Group Organizer into mixed or exclusively woman small groups of generally 6-7 members in the villages. Initially, they were extended collateral-free loans for income generating activities on joint liability basis, which meant that if one member defaulted, the rest had to pay. However, when difficulties cropped up, the lending became collateral-based, mainly the land. At its height of its expansion, the SFDP was operational in 459 Sub Project Offices, normally one SPO per VDC, in 1989/90. However, the program began to suffer from mounting management problems and worsening recovery rate. In 1988, with GTZ support, ADBL introduced institutional reform measures and began a new chapter in small farmer development in the country by transforming the SPOs into member- managed cooperatives called Small Farmers Cooperatives Limited or SFCls. The distinctiveness of the SFCLs is that they are three tiered structures. At the grassroots are the Small Farmer Groups that function as the basic level of the cooperative. By mid-July 2006, 200 SFCLs have come into existence with a small farmer membership of 117,094, the total outstanding loan disbursed to them amounting to Rs.1.86 billion and a savings deposit of Rs.563 million. While12 SFCLs are exclusively woman; overall woman's participation in the program stands at 46 percentages (Agricultural Credit, Annual Journal 2007: 30; Vol.40,).

Overview on the Rural Microfinance System of Nepal

a. **Over the past 28 years, the Government introduced a number of programs to extend financial services to the rural people focusing on the poor and women. These** include mainly, the Small Farmers Development Program (SFDP) implemented by the Agriculture Development Bank (ADBN), Intensive Banking Program (IBP) implemented by two national level commercial banks (CBs) and one joint-venture private commercial bank, Production Credit for Rural Women (PCRW) implemented by the CBs and ADBN in partnership with Women Development Department of the Government, Regional Rural Development Banks namely Grameen Bikas Banks (GBBs), and the Micro-Credit Project for Women (MCPW) implemented through the CBs. Evidences indicate that these programs have not been able to substantially outreach the poor households in the country. Less than 20% of the total poor population has been estimated to come under the fold of institutional micro-credit.

b. The Small Farmers Development Program (SFDP), incepted in 1975, has reached out about 200,000 small farmers throughout the country. But even after more than two and half decades of its operation, it failed to attain desired result. Its efficiency and loan recovery rate are found to be very low. As a result, ADBN made a strategy of stopping further expansion of the program and transforming SFDP offices into Small Farmers Cooperative Limited (SFCLs). Now, there are about 180 SFCLs throughout the country, and each has about 500 members. The program could not reach the real poor families, as it requires physical collateral for providing a loan. A Small Farmers Development Bank has also been recently established to cater services to the SFCLs. Under the framework of Intensive Banking Program, PCRW program was initiated in 1982 and has provided loans to about 70,000 women members in 55 districts. Micro-Credit Project for Women (MCPW) program, begun in 1994 has provided loan to around 25,000 women in 17 districts (12 districts and 5 towns). As both PCRW and MCPW programs did not have prudent targeting approach, they could reach only a merger number of the poor women although they could reach the women in general. All the above programs have also been suffered from very low loan recovery, which is in the range of 50% - 80% and have failed to attain financial self-sufficiency in their operations. Besides, the current Maoist movement has seriously affected most of the aforesaid programs.

c. The five Grameen Bikash Banks (GBBs) have been established in regional basis under the sponsorship of the Government and the Nepal Rastra Bank (NRB) with a view to provide microfinance services targeting specially to the poor households. Of these five, two (the Far- Western & the Eastern) were established in 1992, two (the Mid-Western & the Western) in 1995 and one (the Central) in 1996. Two NGOs namely the Nirdhan and the Centre for Self-help Development (CSD) began their microfinance operation in 1993 and 1994 respectively, and recently their microfinance operations have been converted into microfinance development banks namely Nirdhan Utthan Bank Ltd. and Swablamban Bikash Bank Ltd. respectively. Similarly, two other private development banks - Chhimek Bikas Bank Ltd. and Deprosc Development Bank Ltd. have also been licensed by NRB for conducting microfinance operations. All of them are following Grameen model of microfinance system, and are in general called Grameen Bank Replicators (GBRs). They have altogether covered 37 districts mostly in the plain area and provided services to about 270,000 poor rural households till Mid-July 2004. Majority of them belong to the poorest of the poor. The average loan recovery rate of the banks is over 97%. Some of the GBRs have also started their operation in accessible areas of the hills.

d. There are also a large number of NGOs and cooperatives in the country, which have been embracing savings and credit activities as one of their major activities. The NGOs, because of their social orientation, seem motivated to deliver the services to the poor and women, but their institutional capacity particularly to operate microfinance services is extremely low. There are a number of rural cooperatives throughout the country, but they have not been targeted to the poor households and women as their clients. Their size of operation is also small, which is in the range of 30 - 150 members per cooperative. And only a very few of them have got license from NRB for limited banking operations. NRB, from its "Rural Self reliance Fund", has also provided wholesale loan to over 100 NGOs and cooperatives for on lending to their clients. However, their outreach is very limited.

e. In general, the outreach (in both depth and scale) of most MFIs is very low compared to what needs to be done. The major reasons are the lack of adequate institutional capacity of the institutions, limited access to wholesale funds, lack of location specific appropriate model of microfinance operation, lack of conducive policy and legal environment, poor socio-economic infrastructures and somewhere difficult geographical terrain in the country. But, presently, microfinance operations of most MFIs have been slackened off due to the fragile law and order situation in the country.

f. It was long felt that a separate apex organization should be created to play a lead role for the promotion and development of microfinance sector and provide wholesale funds to MFIs in need of fund for on lending to the poor clients. Towards this end, the Rural Microfinance Development Centre Ltd. (RMDC) was established as an apex microfinance organization with the initiative of NRB and the Asian Development Bank (ADB). It was registered in 1998 as a public limited company and has got license from the central bank to operate as a development bank. It has been operational since January 2000. Its promoter shareholders are the Nepal Rastra Bank (the central bank), 20 commercial banks including the joint venture.

1.2 Statement of the Problem

Poverty is an unacceptable human condition. It is not immutable; public policy and action can, and must, eliminate poverty. This is what development is all about. Close to 900 million of the world's poor (i.e., those who survive on less than $1 a day) live in the Asian and Pacific region. Nearly one in three Asians is poor. Although the proportion of people below the poverty line had been declining, the trends in poverty reduction have recently worsened. Population growth is also adding to the absolu number of poor. South Asia, one of the poorest sub regions in the world, now has more than half a billion poor people, of who 450 million are in India. The People's Republic of China (PRC) has 225 million poor, and about 55 million more are in Southeast Asia (where in the wake of the Asian crisis, over 10 million have joined the ranks of the poor). Many people in the Central Asian republics have slipped into poverty with the economic disruptions of transition. The small island countries of the Pacific, despite their relatively higher per capita income, remain vulnerable because they are remote, prone to natural disasters, and have limited ability to deal with external economic shocks (Agriculture Development Bank, 2001:3). Until recently, trends in poverty reduction in the region had been positive, especially in East and Southeast Asia. However, since the Asian financial crisis in 1997, declines in gross domestic product of the economies worst affected, and carryover effects in other countries, have stalled progress. Absolute poverty has increased in the crisis-affected countries, and the poor (and particularly their children) have suffered the most. More ominously, the social consequences of the crisis are likely to be felt long after these economies return to solid growth (Agriculture Development Bank, 2001:3). The poor are not a homogenous group. Just as the nature of poverty is diverse, so, too, are its causes and victims. The poor may not have acquired essential assets because they live in a remote or resource poor area; or because they are vulnerable on account of age, health, living environment, or occupation. They may be denied access to assets because they belong to an ethnic minority or a community considered socially inferior, or simply because they are female or disabled. At a broader level, poverty may stem from situations where gross inequality of assets persists because of vested interests and entrenched power structures. Finally, essential assets may not be available to the poor because of the lack of political will, inadequate governance, and inappropriate public policies and programs. The primary responsibility for finding solutions to poverty lies with countries themselves, but success will depend on the united efforts of government and civil society, and on strong and sustained support from the international community. For all stakeholders, the strategies chosen to reduce poverty must be comprehensive enough to address all of its many causes. For this reason, ADB sees the twin pillars of pro-poor, Sustainable economic growth and social development as the key elements in any framework for reducing poverty. Successful achievement of either element requires sound macroeconomic management and good governance, the third pillar. Together, the three pillars result in socially inclusive development.

Poverty reduction has been receiving high priority by in the periodic development plans of Nepal. While the current Tenth plan has enunciated policies and strategies on cooperatives and rural/ micro finance, the Poverty Reduction strategy Paper (2002-2007) provides the most pertinent enabling framework for them. The "four Pillars" of the Strategy as elaborated in the Plan have been:

1. Broad -based, high and sustainable economic growth.
2. Targeted programs for the poor deprived and excluded section.
3. Social Sector development.
4. Good governance

These strategies were designed to reduce poverty level from the then estimated 38 percent to 30 percent by 2007 (NPC, 2002) except that the plan target of poverty reduction has been pre-empted by the findings of the NLS survey regarding remittance-induced poverty reduction mentioned above. The plan has earmarked a total allocation of 100.75 billion rupees for "rural and agricultural credit" during the plan period, and it includes a sum of 11.90 billion to be financed by MFIs. The strategies for achieving this objective include:

- Improvement in the institutional mechanism to expand credit flow through MFIs in rural areas, and
- Gradually hand over the ownership of Rural Development Banks to private sector (NPC, 2002) along this line, the government has also established a Poverty Alleviation Fund, which extends credits through the local NGO/CBO intermediaries in the rural areas.

It should, however, be noted that while the first PRSP strategy of broad- based, high and sustainable economic growth" has generally eluded the country during the last fifty years of planned development effort, the recent successes of the various micro finance initiatives have generated an optimism that the "targeted programs for the poor" that should encompass microfinance initiatives, if properly implemented, could go a long way in significantly contributing to the poverty reduction goals enshrined in the plan. Where the dowry system is prevalent as in several communities in the Terai region, woman also suffer severe harassment, including bride burning often times, at the hands of their husbands and their relatives on grounds of insufficient cash and material gifts from their natal home. While inter-ethnic differences exist in the degree of liberty enjoyed by women, traditionally severe sanctions are enjoyed against their participation in community and public life. The outsides world of politics, government and market contacts remains the exclusive prerogative of men. While there have been a few woman development initiatives, some cantered on micro credit, given the enormity of the problem, there is a need for massive expansion of such interventions before women can be effectively mainstreamed in national development.

Given the structural nature of poverty in Nepal, normal development approaches are largely unequipped to cut through the complex web of these societal barriers that keep poverty deeply entrenched in the lowest rungs of the vertically defined traditional social order in Nepal. This has been amply evidenced by the uneven, urban-centred developments of the past including the remittance-induced poverty reduction. This shows that in order to address the problem of poverty in the country, development approaches have to be specially tailored so as to bring them within their grasp on a sustained basis. In other words, capacity building of the poor themselves should constitute one of the necessary conditions for reducing poverty in the country so that they are able to effectively participate in the various development programs in the country and derive appropriate benefits there from. This is where the distinctiveness of microfinance as an approach to poverty reduction in Nepal carries special relevance for Nepal.

Micro finance is not only a tool for poverty alleviation but also a catalyst which can bring socioeconomic progress of the nation by putting those living in extreme poverty at the centre of development agenda reports the latest Global Report on the State of the Micro Credit Submit Campaign, 2006. Empirical evidences show it is an instrument, which works in synergy with other development interventions as those that promote health, nutrition, and education. Increase in employment and income, food security, empowerment and leadership developments particularly amongst the woman and community development are some of the positive impact of micro credit programs in Nepal (APROSC, 1997, ADB/M, 2003, Poudel and Shrestha, 1998).

1.3 Objectives of the Study

Micro-finance is emerging concept in Nepal. The value of Micro-Finance in Nepal is rising day-to day. Now through Micro-financing activities in Nepal is success to reduce poverty of country. This study aims to briefly survey the micro finance world of Nepal including Small farmer Cooperatives in Nepal. And try to examine SFCL Shankharnagr's achievement of woman development activities, which is one of the pioneer SFCL (micro credit institution) of Nepal, it also tries the highlight the effort of the institute which is operating by the woman and for the woman. The objectives of the study are as follows:

- To examine the changes in society brought by SFCL after its implementation.
- To analyse the role of SFCL Shankharnagar in Women Empowerment.
- To assess the financial sustainability and viability of SFCL.
- To identify the major problems of SFCL/ Shankharnagar Rupandhi.

1.4 Significance of the Study

Micro finance is a complex subject and it means different things to different people. Broadly speaking it has two sides: a protective and a productive side. The protective side focuses on microfinance application that reduces the vulnerability of low-income clients-for example through appropriate savings services, micro-insurance and emergency loans. The productive side of microfinance -and this is the angle most employer' organizations (Eos) will be more interested in looks at the use of appropriate credit, leasing, guarantee, insurance and transfer services for investment, production and growth. Microfinance has sprung up over the past two-decade or so as a result of serious market imperfections and policy failures, especially but not exclusively- in poor economies. The importance of access to finance for investment is a key determinant for the profitability and even survival of enterprises, particularly in those economies with a predominance of micro and small enterprises. Micro finance can make a powerful contribution to employment generation and wealth creation in development transition and developed economies. Conceptually it is driven by the simple idea that individuals need access to affordable financial services that will allow them to make deposits, transfer funds, access insurance and invest in what they consider most important. Often, the lack of access to these services inhibits individuals from managing risk and planning for the future, and does not provide an important buffer for sudden emergencies, business risk, and seasonal slumps.

Microfinance is not something that is uniquely confined to developing or transition economies; it can be a vital source of finance for struggling entrepreneurs in developed countries and be a real springboard to get unemployed people back into the workforce. The real difference with microfinance is that, unlike many development strategies, it is a 'bottom up' process- it is driven by an individual's desire and motivation to climb up the prosperity ladder. It is this individual motivation that leads to high rates of repayment and low defaults. Similarly, involving borrowers in entrepreneurial activities directly builds their skills and indirectly contributes to improved health and reduced risks. So this study has great significance because micro-finance program definitely enhance the economic status of rural poor, disadvantaged and deprived woman of a society. It will enable them to move towards self-reliance through gainful employment and income-generating activities there by developing confidence to become financially independent. One of the main programs of CSD self help banking program (SBP), is to provide loan for the poorest of the poor without collateral securities. SFDP/SFCL has been actively supporting economically and socially by providing various services such as conceptualization, formulation and implementation of poverty alleviation program and project, promotion and development self-help micro- financial system for the poor and disadvantage people, capacity building of the target people, organization of training and workshop, formulation and information both at micro and macro level. However, till now no significant research has been carried out in this area. In addition to these, the present study has some practical relevance. It attempts to find out the ways it bridge the gap between the village women and the men. The increasing participation of the women in economic activities is supposed to enhance their capabilities to change and develop their household and overall economy. More preciously, they will act as qualitative actors of change.

1.5 Limitation of the Study

This Small Farmers Cooperatives program in Shankharnagar area has raised the status of deprived woman. Before the implementation of this program, woman of this area were not very self-confined. The intervention of SFDP/SFCL has been able to create substantial change economics and social level to wipe out backwardness, superstition, traditional values, literacy etc. to a greater extend. In order to raise self -confidence and respect, the SFDP/SFCL has maintained social harmony between development program and activities.

This study focuses mainly to Small Farmers Cooperatives Limited Shankarnagar, Rupandehi. The limitations of the study are as follows:

- Only SFCL, Shankarnagar, Rupendehi is Focused i.e. all the SFCL aren't considered,
- For this study the data of SFCL Shankarnagar taken from F/Y 2058/59 to 2062/63(five Years).
- Few Statistical and Financial tools are used in this study such Diagram, Ratio Analysis and percentage growth.
- The whole study is mostly depending upon secondary data.
- The study also based on primary data collected from direct interview, Group discussion, Correspondence and direct study of the co-operatives records and statements.

The main limitation is time constant, financial problems, lack of more resource books about micro finance (due to highly expensive) and lack of research experience.

1.6 Organization of the Study

The whole study is divided into the following six chapters:

Chapter-I: Introduction

This chapter included Introduction, Background, objectives of the Study, Significance of the study and Limitation of the Study.

Chapter-II: Research Methodology

This chapter explain the methodology of research. This study mainly focused on secondary data, as well as primary data, for the analysis of purpose, obtained by the

official records, published in journals and magazines, books and booklets published by the company, Primary data obtain by personal approach: interview, and financial, statistical accounting tools and formula have been applied to analysis the situation.

Chapter-III: Review of Literature

This Chapter denotes conceptual frame works, Historical Backgrounds of Microfinance in Nepal, Concept and definition of Microfinance, Major principle of micro finance, Importance of Microfinance program, Microfinance or Micro credit, Regulatory and Legal Environment of Nepal, Role of different players, Major empirical studies, Review of research, Work by reviewing some dissertation identifying their findings, Micro finance program in Nepal.

Chapter- IV: Description of Study Area

This chapter is a brief description about study area, related district and VDC. It also tries to give overview regarding the origin of SFCL and its objectives.

Chapter- V: Presentation and Analysis of Data

This chapter is the most important of this study. This presents the analysis of relevant data and applying various statistical tools. Tables and graph are also interpreted to accomplish the objective of the study.

Chapter-VI: Summary Conclusion and Recommendations

This final chapter is the major consideration of this study. Findings, Conclusions and Recommendations are mentions in this chapter. It represents and denotes all thoughts of the research, which must be useful for the welfare of SFCL Shankarnagar, Researcher and Concerned parties.

CHAPTER - TWO
RESEARCH METHODOLOGY

2.1 General Background

Research in common parlance refers to search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. Some people consider research as a movement, a movement from the known to unknown. It is actually a voyage of discovery. According to Clifford woody research comprises defining and redefining problems, formulating hypothesis or suggested solutions collecting, organizing and evaluating data: making deductions and reaching conclusions and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis (Kothari, 2002) Research methodology refers to the various sequential steps (along with a rational, if each step) to be adopted by a researcher in studying a problem with certain object/objects in a view, It would be appropriate to mention that research projects are not susceptible to anyone complete and inflexible sequence of steps and the type of problems to be studied will determine the particular steps to be taken their order too. However, the following steps provide a useful procedural guideline so for as research methodology is concerned (Kothari, 1990:19).

2.2 Research Design

The formidable problem that follows the task of defining the research problem is the preparation of design of research project; popularly know as the research design. "A research design is the arrangement of conditions for collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in procedure" (Kothari, 2002) In fact the research design is the conceptual structure within which research is conducted; it constitutes the blue print for collection, measurements and analysis of data the research design of this study is descriptive as well analytical. A research design is the specification of methods and producer for acquiring the information need. It is the overall operational pattern of framework of the project that stipulates what information is to be collected from it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedure. The basis objective of this study is to find out the sustainability and financial viability of SFCL Shankharanagar and facing change of society after SFCL. Some systematic research methodology has been used.

2.3 Nature and Sources of Data

This study is based on secondary and primary data. Data have been collected from various sources like annual reports and financial statement of SFCL Shankarnagar, monthly bulletin of Bank Samachar, Yearly published Agricultural credit, various published and unpublished periodicals, magazines, dissertation and relevant websites. The researcher has also obtained quantitative information through personal observation and informal talking with various related staff of SFCL.

2.4 Research Procedure

The collected data has been managed in chapter five. The following procedures have been taken in this research study:

- The important books are collected.
- Both primary and secondary data are used.
- Data are described in the light of theoretical aspects or basis.
- The collected data are presented and arranged in tabulation from with the help of MS Excel, percentage diagram, graphical presentation, and ratios.

2.5 Sample and Sampling Procedures

Since the SFDP has handover at FY 2056/57. This study concentrates on FY 059/60 to 063/64, for five-year period only. In FY 063/64, the SFCL Shankarnagr has 700 Member in 127 Groups, Which were universe for the survey purpose. The researcher has taken 175 members as respondents for sample population, which was 25 % of the total population. The sample population composition was 32 respondents were taken out of 127-group leader and 175 respondents were taken out of 700 members (which excludes group leader). To draw the sample a list of group leader and member was prepared with the staffs' help of SFCL Shankarnagr.

The Stratified random sampling was used to select the respondents. About 175 members or 25% respondents were interviewed.

2.6 Data Collection Techniques

In this research paper the data were collected from two way i.e.

A) Primary Data: Primary data were collected from actual field using:

- Questionnaire
- Interview
- Case study

Those data help to analysis the facing change of society after SFCL. Researchers do field survey 2064 when collecting Primary data.

B) Secondary Data

Secondary data were collected from Micro Finance Division and Small Farmers Development Central of ADB/N head office as well as NRB's Micro Finance Division, GTZ, RUFIN, Small Farmer Development Bank Ltd. (SFDBL) etc. Most of secondary data and information were collected from Sample SFCL Shankarnagar. For the analysis purpose 5 years data will be taken as sample from F. Y. 059/60 to F.Y. 063/64.

2.7 Data Analysis Tools

For the purpose of analysis, mainly two tools are used. They are as following

- Financial Tools.
- Growth is percentage based Tools.

Financial tools are help to study financial strength and weakness of the sample SFCL. Growth in percentage based tools help to change of society after SFCL per year i.e. sample five year. A standard formatted questionnaire is use to conduct survey; with the help of that questionnaire interview has taken for primary data. Case study and data management are used as per requirement.

CHAPTER - THREE
LITERATURE REVIEW

3.1 Introduction

In earlier chapter, something about MFIs in the context of Nepal has been already highlighted. Now, in this chapter what others have stated and written regarding MFIs, they are available from libraries documents collection canters and others information managing bureaus. So, I have made and attempt to review useful literature relevant to my study as they provide Ideas, Policies and Data inputs to my analysis. This will help me to avoid duplication and provide guidelines to update and improve my study. This chapter includes review of this following relevant literature.

- Conceptual review of Microfinance.
- Review of Previous study, thesis and project report.

3.1.1 Concept and Definition of Micro Finance

"Microfinance has proved its value in many countries, as a weapon against poverty and hunger, It really can change peoples' lives for the better, especially the lives of those who need it most". Kofi Annan,

a) Finance

Finance is a monetary promises that exchanging into cash in the present for a promise of future reciprocity. Credit creates value in the form of loan in the present that is exchanged for promises pay in the future. Finance has special characteristics and it differentiates from the good and services produced by the non-financial sectors of the economy. It relates to social activities, intangible and interchangeable. By its nature it can use in various purposes and be easily politicized (Micro Finance Development of Nepal Bank Samachar, 2058: 37).

Finance is one of the products of the society. It categorizes into three aspects

- Promises power to in commerce
- Over the allocation of goods and services to consumers and
- Over the use of land, labour and capital for production.

Finance has plenty of risk and it can be minimized only with enhancing the confidence level. Confidence is the opposite of the risk. However, confidence level depends on society's general view of the future, social structure, required efforts to achieve and maintain consensus, legal structure, cost gaining the access and social handicaps etc. Confidence in the investment project is important. In this regard, lenders should be known about three "c" i.e. capacity, capital and character of the clients (Micro Finance Development of Nepal Bank Samachar, 2058: 37).

Micro finance is one of the components of the finance. Basically, it has been emphasizing to poverty reduction through focusing multidisciplinary and multifaceted activities such as collection of domestic in micro enterprises while micro credit emphasizes only the investment of small loan as well (Kriti, 2001: 37).

b) Micro-Finance

It is difficult to find a universal definition of micro-finance due to its variation on the basis of location, Implementing institution and program as well. In simplest term, micro-finance is defined as the financial service provided to the deprived group of people and small entrepreneurs to help them in developing self-employment opportunities and income generating activities. Small size loan, compulsory saving, small-scale entrepreneurs, diversified utilization and simple and flexible terms and conditions are the determining characteristics of its definition. Micro-finance comprises of three 'Cs', its character, capacity and capital. Micro-finance as a program serves large number of clients focusing on woman and works on grass roots level with financial sustainability. According to Shrestha (2001), micro finance is based on the principal of low service cost, simplicity, commitment and long-term sustainability. Furthermore, it is a system at grass-roots development finance, which deals with the poor, low-income, the asset less, the marginalized, and the exploited and desperate people and provides them small loans to meet their diverse needs with simple procedures. Micro-finance, according to World Bank, is "the provision of financial services to low income clients including self-employed. It includes both financial and social intermediation. It is not banking, it is a development tool" (Micro Finance Development in Nepal, 2001: 23).

The history of micro-credit is not a new phenomenon. It existed in human history from the dawn of human civilization in different forms. Human civilizations and people were not equal. From time immemorial, there were fortunate/haves and unfortunates /have-nots. Those who were the group of unfortunates/have- not needed to borrow either for production/trading or for consumption. Money lending was an old institution in the history of humankind. Moneylenders charged exorbitant rates of interest, as lending were risky. Gradually society has been passing from the primitive to the modern age, so its institutions are also changing. Along with money lending, co-operatives, mutual help types of initiative are being develop to provide benefit to the poor. Gradually financial institutions such as banks are in place side by side to help people for investment, production and meeting their various needs.

The emergence of microfinance reflects the progressive development of techniques to address the traditional barriers of cost, technology, and institutional bias. On the cost side, the greatest impact has been through the introduction of market-based interest rates for all lending, as well as reduction of transaction costs through group-based operations. In terms of technology, the major change has been the substitution of social for physical collateral. Through group-based processes, pioneered by the Grameen Bank and non-government organizations, lack of assets to guarantee loans is no longer an obstacle to lending to the poor. The greater financial discipline of women is also used in microfinance since they comprise the majority of clients. The bias of formal lending institutions against the poor at times reflects legitimate concerns out transaction costs of small unit operations. However, in many situations this bias is also interwoven with strong class and caste traditions and misguided perceptions of the poor. One solution has been the emergence of a wider range of institutions to bring financial services closer to poor clients.

Microfinance operations frequently depend for their success on mobilizing and organizing the poor so that they can develop sufficient confidence to save, borrow, and invest. Because an acute lack of confidence is a common corollary of poverty, sensitive and trusted agencies must be use for this task; in a few situations, this can be tackle by staff from government agencies or banks. On the positive side, investment in social preparation yields long-term benefits in terms of social and human capacity building. Organizing women and then involving them in microfinance are effective ways to assist and empower poor women. The formation and operation of savings and borrowers groups likewise builds confidence, trust, and social capital to most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products. Traditionally, microfinance was focus on providing a very standardized credit product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks. Thus, we see a broadening of the concept of microfinance--our current challenge is to find efficient and reliable ways of providing a richer menu of microfinance products (Datta, BASIX).

c) Micro Finance and Micro Credit

Microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. Micro credit refers to a small loan to a client made by a bank or other institution. Micro credit can be offer often without collateral, to an individual or through group lending. Micro credit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. The important difference of micro credit was that it avoided the pitfalls of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors towards the building up of local, sustainable institutions to serve the poor. Micro credit has largely been a private (non-profit) sector initiative that avoided becoming overtly political, and consequently, has outperformed virtually all other forms of development lending.

Referring to the distinction between the two terms, micro credit and micro finance, used almost interchangeably in Nepal, Kunwar (2003) suggests that the latter, i.e. microfinance is broader in scope than the former in that it also includes savings. He then elaborates that microfinance includes group formation of the members. Regular savings by the members and availing collateral-free micro credit based on group responsibility including promoting literacy among people. He also maintain that due to the micro credit being collateral-free, it should be short - term, spanning not more than a year, and income earned from it should be enough to repay the principle and monthly interest.

Lidgerwood (1999) has also highlighted the issues of sustainability and access. He maintains that the accessibility of microfinance to the poor people is more important than subsidized credit. The poor too can pay high interest rate to cover the transaction cost of the financial institutions. Therefore, financial institutions should consider the cost recovery and make some profit to make the institutions not only financially viable and sustainable but also for scaling up the loan size (Agriculture Credit Annual Journal, 2007: 27).

The typical microfinance clients are low-income persons that do not have access to formal financial institutions. Microfinance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. Microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income. Access to conventional formal financial institutions, for many reasons, directly related to income: the poorer you are the less likely that you have access. On the other hand, the chances are that, the poorer you are, the more expensive or onerous informal financial arrangements. Moreover, informal arrangements may not suitably meet certain financial service needs or may exclude you anyway. Individuals in this excluded and under-served market segment are the clients of microfinance. As we broaden the notion of the types of services microfinance encompasses, the potential market of microfinance clients also expands. For instance, micro credit might have a far more limited market scope than, say, a more diversified range of financial services, which includes various types of savings products, payment and remittance services, and various insurance products. For example, many very poor farmers may not really wish to borrow, but rather, would like a safer place to save the proceeds from their harvest as these are consumed over several months by the requirements of daily living.

Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change. Poverty is multi-dimensional. By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty. For instance, income generation from a business helps not only the business activity expand but also contributes to household income and its attendant benefits on food security, children's education, etc. Moreover, for women, who, in many contexts, are secluded from public space, transacting with formal institutions can also build confidence and empowerment.

Recent research has revealed the extent to which individuals around the poverty line are vulnerable to shocks such as illness of a wage earner, weather, theft, or other such events. These shocks produce a huge claim on the limited financial resources of the family unit, and, absent effective financial services, can drive a family so much deeper into poverty that it can take years to recover. Micro-Finance is sets of financial services, which mostly includes savings and credit, and often encompasses other services like insurance, directed ultimately benefit the disadvantaged section of the population (referred to as the poor or disadvantaged in this article, though it will mean more than just being economically poor). This is often back up with a variety of support services, which include motivating and organizing the poor, extending financial training, helping them build backward and forward linkages as well as with other support institutions. These services are often referring to as Credit Plus.

Twentieth century witnessed large-scale conscious efforts of social change to" improve the quality of life of the disadvantaged. The concept of micro-Finance emerged from the experiences of these efforts. It was recognize that making

financial services available to the poor is a necessary, though not sufficient, condition for improving the quality of their life. However, it was also observe that in spite of establishment of a large network of financial outlets a large majority of the Disadvantaged had no access to formal financial systems. Therefore, thinkers concerned with development, in different parts of the world, made efforts to make financial services, including savings and credit, available to the disadvantaged. Micro-Finance is a result of the work of such social innovators.

Evolution of the concept of micro-finance is route in the development efforts. Different approaches were adopt to ameliorate the conditions of living of the disadvantaged people, which included efforts like land redistribution, organizing the poor, building economic and political awareness, technology transfer and delivery of a variety of services. With these experiences, it was recognize that increase in the income level of the poor measured in terms of the purchasing power, is a necessary, though not sufficient, condition for improving the quality of their life in the complex economy today. The word "micro credit" did not exist before the seventies. Now it has become a buzzword among the development practitioners. In the process, the word has imputed to mean everything to everybody. No one now gets shocked if somebody uses the term "micro credit" to mean agricultural credit, or rural credit, or cooperative credit, or consumer credit, credit from the savings and loan associations, from credit unions, or from moneylenders. When someone claims micro credit has a thousand year history, or a hundred year history, nobody finds it as an exciting piece of historical information.

3.1.2 Key Principles of micro Finance (From CGAP)

The Poor Need a Variety of Financial Services, not Just Loans

Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit, but also savings, cash transfers, and insurance.

Microfinance is a Powerful Instrument against Poverty

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

Microfinance Means Building Financial Systems That Serve the Poor

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

Financial Sustainability is Necessary to Reach Significant Numbers of Poor People

Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor.

Microfinance is about Building Permanent Local Financial Institutions

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

Micro Credit is not Always the Answer

Micro credit is not appropriate for everyone or every situation. The destitute and hungry that have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tool for poverty alleviation. Wherever possible, such non-financial service should be couple with building savings.

Interest rate Ceilings can Damage poor People's Access to Financial Services

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

The Government's role is as an Enabler, not as a Direct Provider of Financial Services

National governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's savings. The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high-delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. In special situations, government funding for sound and independent microfinance institutions may be warrant when other funds are lacking.

Donor Subsidies Should Complement, not Compete with Private Sector Capital

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

The lack of institutional and human capacity is the key constraint

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

The Importance of Financial and Outreach Transparency

Accurate, standardized, and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative. Bank supervisors and regulators, donors, investors, and more importantly, the poor who are clients of microfinance need this information to adequately assess risk and returns (www.cgap.org).

3.1.3 Microfinance Institution (MFI)

Quite simply, a microfinance institution is an organization that offers financial services to low-income populations. Almost all of these offer micro credit and only take back small amounts of savings from there own borrowers, not from the general public. Within the microfinance industry, the term microfinance institution has come to refer to a wide range of organizations dedicated to providing these services: NGOs, credit unions, cooperatives, private commercial banks and non-bank financial institutions (some that have transformed from NGOs into regulated institutions) and parts of state-owned banks, for example. The image most of us have when we refer to MFIs is of a “financial NGO”, an NGO that is fully and virtually exclusively dedicated to offering financial services; in most cases micro credit NGOs are not allowed to capture savings deposits from the general public. This group of a few hundred NGOs have led the development of micro credit, and subsequently microfinance, the world over. Most of these constitute a group that is commonly referred to as "best practice" organizations, ones that employ the newest lending techniques to generate efficient outreach that permit them to reach down far into poor sectors of the economy on a sustainable basis. A great many NGOs that offer micro credit, perhaps even a majority, do many other non-financial development activities and would bristle at the suggestion that they are essentially financial institutions. Yet, from an industry perspective, since they are engaged in supplying financial services to the poor, we call them MFIs. The same sort of situation exists with a small number of commercial banks that offer microfinance services. For our purposes, we refer to them as MFIs, even though only a small portion of their assets may actually be tied up in financial services for the poor. In both cases, when people in the industry refer to MFIs, they are referring only to that part of the institution that offers micro-finance. There are other institutions, however, that consider themselves to be in the business of microfinance and that will certainly play a role in a reshaped and deepened financial sector. These are community-based financial intermediaries. Some are membership based such as credit unions and cooperative housing societies. Others are owned and managed by local entrepreneurs or municipalities. These institutions tend to have a broader client base than the financial NGOs and already consider them to be part of the formal financial sector. It varies from country to country, but many poor people do have some access to these types of institutions, although they tend not to reach down market as far as the financial NGOs.

3.2 Importance of micro Finance Program

Concepts and perceptions of the provision of microfinance have evolved greatly over the past two decades. While it was initially seen as an informal fragmented activity, there is now an increasing realisation of the importance of microfinance as a component of the overall financial system, serving a huge portion of a country’s population. From providing micro credit to micro entrepreneurs, microfinance entities are expanding into other high-demand services such as micro saving facilities. With the growth of institutional scale and the trend in microfinance to take voluntary deposits from the poor, Despite its rather recent emergences an instrument of national development, particularly for poverty reduction in poor countries, the term, microfinance, has been defined in a wide variety of ways One of the major players in the field, the Asian Development Bank (2002), Has defined microfinance as "the provision of a broad range of financial services such as deposits, loan, payment services, money transfer, and insurance to poor and low income households and their micro enterprises. One of the earlier authorities on the subject, Robinson (1935) has elaborated the subjects as " small scale primary credit and savings provided to people who farm or fish or herd; who operate small enterprises where goods are produced; recycled; repaired, or sold; who provide services, who work for wages or commission; who gain income renting out small amount of land, vehicles, craft, animals or machinery and tools…. at the local levels…. both rural and urban."

More recently, Lidgerwood (1999) has referred to microfinance as an "economic development approach" consisting of "the provision of financial services to low income clients" including women in the society. To that end, microfinance, for him is a kind of service products such as savings, credits, and insurance and payment services, and social intermediation services such as group formation, development of self confidence, training in financial literacy and management capabilities among members of group (Agriculture Cridit Annual Journal, 2001:16; Vol.40).

The main aim of micro-finance program is to provide quality service to the large number of deprived populaces of the country and to ensure the availability of such services to their doorsteps. It is envisaged that Nepalese micro-finance program has not been able to gain momentum towards its sustainable growth due to management challenge being faced by the mushrooming micro-financing institution (MFIs) of Nepal as a result of financial sector liberalization policy of government. Moreover, it tries to provide creative thoughts in order to address the aforesaid challenges. In addition, it presents its significance in poverty reduction endeavour of the government.

Because of these special attributes, microfinance has been a rapidly expanding industry in the world. Based on the compilation of worldwide inventory of MFIs undertaken by the Sustainable Banking with poor project, it is reported that there were about 1000 MFIs in 1995 having been in operation for at least year, and with an outstanding loan of about US $ 7 billion provided to more than 13 million individuals and groups. To paraphrase (Lidgerwood 1999), the special attributes and advantages of Microfinance as an approach to poverty reductions are as follows:

- Micro finance can promote and support the income generation initiatives of the poor.
- It generally promotes the building of financially self- sufficient and locally managed institutions.

- It can provide saving and credit services with greater flexibility and at more affordable prices, a condition necessary for meeting the widely diverse individual- specific needs of the poor people in the communities.
- It can lead on to the emergence of formal financial institutions such as saving and credit cooperatives by expanding the markets for saving credit as well as ensuring profitability.
- Under this approach group liability based on social and peer pressure can substitute the need for physical collateral which normally made credit inaccessible to the asset less poor even as it provide saving services to meet the need of the small savers.
- The methods of microfinance also ensure the maintenance of repayment discipline (Agriculture Credit Annual Journal Vol 40 January 2007 (Shrestha and Shrestha, 2007: 27; Vol.40).

Thakur "SFDP the Pioneer of Microfinance Institution" gives importance of micro financing project are as follows (Micro Finance Development in Nepal Bank Samachar, 2058: 58):

- **To increase the outreach and coverage.**
- **To provide services in easy and quicker manner.**
- **To obtain financial viability and sustainability.**
- **To cover the large chuck of poor community who have to still depend on informal credit market where interest rate is exorbitantly high.**

Shrestha, presenting his paper on "viability and sustainability of Micro-finance Institution" gives the important of Micro-finance a powerful Instrument of poverty alleviation is as follows:

- **It enables the poor to take advantages of existing opportunities.**
- **It builds up their assets.**
- **It generates self-employment.**
- **It develops micro enterprises.**
- **It raises their income.**
- **It builds up their self-confidence and self-esteem.**
- **It empowers them (especially women) economically and socially.**
- **It enhances domestic savings and improves financial market.**
- **It provides escapes route from poverty.**

3.3 Role of Different Players

The government along with all the public and private sector financial institutions contributes to the development of micro finance industry (MFI), each

playing a significant role in its development. However, their roles have to undergo changes and modifications to be able to respond to emerging requirements.

A) Role of Government

Governments have a complicated role when it comes to microfinance. Until recently, governments generally felt that it was their responsibility to generate development finance', including credit programs for the disadvantaged. Twenty years of insightful critique of rural credit programs revealed that governments do a very bad job of lending to the poor. Short-term political gain is just too tempting for politically controlled lending organizations; they disburse too quickly (and thoughtlessly) and they collect too sporadically (unwillingness to be tough on defaulters). In urban areas, governments never really got into the act, and subsidized micro enterprise credit is still relatively rare when compared to its rural counterpart. Now that microfinance has become quite popular, governments are tempted to use savings banks, development banks, postal savings banks, and agricultural banks to move micro credit. This is not generally a good idea, unless the government has a clear acceptance of the need to avoid the pitfalls of the past and a clear means to do so. Many governments have set up apex facilities that channel funds from multilateral agencies to MFIs. Apex facilities can be quite complicated and there are few successful examples in microfinance. Successful apex organizations in microfinance tend to be built on the backs of successful MFIs, not the other way around. Finally, governments can also get involved in microfinance by concerning themselves with the regulatory framework that impinges on the ability of a wide range of financial actors to offer financial services to the very poor.

It's necessary to have a perspectives plan on micro finance -the plan well integrated with the nation's economic development perspective plan with clear-cut objectives, targets and polices and strategies. The plan needs to integrate the micro finance sector with the overall national efforts for poverty alleviation. This is in addition to such integration with other components of rural development such as rural infrastructural development including physical and social infrastructure, rural energy and irrigation system. Specific role of the government, NRB, and the private sector and NGOs/INGOs would have to be spelt out in clear and concise terms, pattern of resource mobilization and the possibility of interring into competitive financial system with conductive regulatory policy and regulatory environment for its development.

The perspective plan should consider expending outreach to the poor and providing quality services as the two most important elements of the overall micro finance policy, apart from strengthening micro finance institutions.

B) Role of the NRB

A study conducted by ADB identified three principal roles for the Central Bank with respect to micro finance such as i.e.

- The Central bank should take the lead in matters to do with the regulation and supervision of licensed banks.
- They should take promotional activities to support micro finance, such as pilot project research data collection and publication, advocacy, and training.
- They should regulate non-banks MFIs that accept voluntary saving from members, when the volumes of savings exceed a certain threshold. However, the nature and depth of the central Bank's intervention differs from country to country depending upon the nature, pattern and status of development of micro finance in the country.

However, in the context of Nepal the NRB's role has to be viewed as one of creating conductive policy and regulatory environment for the development of micro finance system in the country. This involves the preparation of regulatory and supervisory framework for MFIs, providing them with required infrastructure including performance standards and indicators, accounting and auditing standards, and so on. These will serve as a basis to monitor and evaluate their activities.

The Nepal Rastra Bank (NRB), the central bank of the country, has, since a long time, been striving to achieve credit- induced rural poverty alleviation in the country. Two significant approaches adopted by it include requiring the commercial banks to invest in Priority Sector credit and extending equity participation and refinancing supports to rural financing institution such as Agricultural Development Bank Limited (ADBL), Regional Rural Development Banks and the more recently created Rural Microfinance Development Centre (RMDC). Thus, the NRB has, by far, been one of the most important sources of rural finance in Nepal. However, the mandatory stipulation of lending by commercial banks for priority sector is being phased out due to the lack of wherewithal with them to make such investments effective and efficient. But the requirement for 3 percent investment in the deprived sector would continue to be there, and the banks can meet it either by directly lending to the poor or providing wholesale loans to the MFIs, including cooperatives.

The NRB has also been managing a Rural Self-Reliance Fund (RSRF) since 1991 and provides wholesale credit to micro finance organisations such as saving and credit cooperatives and NGOs. Of the total of 8045 cooperatives registered under Department of Cooperatives in 2006, 2,692 have been saving and credit coops and of them 249 from remote rural areas are associated with RSRF for the purpose (NRB, 2006). Because of this NRB facility, these coops are able to provide relatively large loans to its member borrowers for their income generating activities to a tune of Rs.40,000/- per scheme.

C) Role of the RMDC

Rural Micro Finance Development Canter (RMDC) was established as an apex micro finance organization, which became operational since 2000 only. It started with the objective of contributing "to improving socio economic condition of the poor, the landless, and the asset less through increasing their access to resources for productive undertaking and employment." Their specific objectives are:

- To provide wholesale funds to potential and viable micro finance institutions for on-landing to the ultimate borrowers for undertaking their productive activities.
- Help to build and strength institutional capacity of the partner's organization (POs).
- To provide financial and technical supports to MFIs
- To undertake research and development activities to promote new Micro finance products and develop sound practices.
- To strengthen their capacity through training and exposure visits and to act as a financial intermediaries to channelized resources(Hartmut,Schneider, 1997:p.35)

3.4 Review of Major Empirical Studies

3.4.1. Basic Facts about Microfinance

Comprehensive impact studies have demonstrated that:

- Microfinance helps very poor households meet basic needs and protect against risks;
- The use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth;
- By supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being;
- For almost all significant impacts, the magnitude of impact is positively related to the length of time that clients have been in the programme.

The demand for microfinance services is largely unmet. Estimates of the global demand ranges from 400 to 500 million households of which only around 30 million are reported to have access to sustainable microfinance services in 2002. Although many poor and low-income people do not yet have access to financial

services, the number of customers that use microfinance, has grown between 25 and 30 percent annually over the past five years.

3.4 Review of other Studies

Eckart Koch, Ram Chandra Maharjan, Jalan Kumar Sharma, & Ulrich Wehnert to present in a precise form the most significant innovations that emerged from the SFCL system, "A Decade of Pro Poor Institution Building in Nepal" – Innovations and Lessons Learned from the Small Farmer Cooperatives Ltd. (SFCLs) The paper also attempts to outline the most important lessons learnt from a decade of institution building efforts in rural Nepal. The purpose of this paper was to outline in a precise manner some of the innovations and lessons learned that emerged from the SFCL system in Nepal A systems approach, vision and people's ownership have been identified and reconfirmed as important prerequisites of a successful programme approach With the understanding that innovations are "activities that differ significantly from current or recent practice", the following four innovations were proposed:

- **The unique three-tiered structure of the SFCLs that ensures good communication and accessibility to members,**
- **The Sana Kisan Bikas Bank as an emerging apex bank to be owned by its clients,**
- **The farmer-to-farmer replication approach that cuts institution building costs into half, and**
- **The business oriented SFCL federations that provide non-financial support services only.**

Finally, remarkable ten points that summarize in this study experiences:

1. Building sustainable, pro poor institutions, particularly in the field of rural finance, is an excellent vehicle to fight poverty.
2. The process of institution building has to be guided by a vision to be shared by all the stakeholders and should be truly based on the ownership of the people.
3. Views and insights gathered elsewhere are not to be treated as "holy cows". They can be overrun by own experiences based on a special situational context.
4. Multipurpose cooperatives might have competitive advantages over single purpose cooperatives, depending on the environment they are operating in.
5. Early refinancing of self-help organizations may work, provided the self-help spirit is intact and the motivation and interest in keeping up the institution is there.

6. Cooperation with a strong government partner works provided the long-term partnership is really built on trust.
7. Successful institution building programmed will trigger social and economic changes in the villages, which will go far beyond providing, advanced financial services only.
8. Building vertical or apex structures is a prerequisite for long lasting success, but only if these structures provide appropriate and economically sound services and if they are firmly supported by the primary institutions.
9. In times of crisis and armed conflict, good local leadership and management are of particular importance to the survival of grassroots organizations.
10. Building sustainable grassroots institutions needs time and is an ongoing process. Results will not come overnight. Donors wishing to support institutions should have at least a medium-term perspective of 5 years. (Mr.Eckart Koch, Ram Chandra Maharjan, Jalan Kumar Sharma, & Ulrich Wehnert , "A Decade of Pro Poor Institution Building in Nepal" - Innovations and Lessons Learned from the Small Farmer Cooperatives Ltd. (SFCLs) Kathmandu, October 2004)

Kasia Pawlak and Michal Matul's Presented paper at "Realizing Mission Objectives: A Promising Approach to measuring the Social Performance of Microfinance Institutions" organized by Micro finance centre, Impact Act, (November 2003) Kathmandu give the Recommendation and conclusion in this way; The SPM, which is built on the institutional mission in a structured process, performing all the functions and taking into account all the methodological issues, has the following benefits to an MFI, It:

- **Facilitates better business decisions by enabling in-depth analysis of “microfinance trade-offs”, and revealing the best solutions.**
- **Provides information needed to improve the service: it is not static, but is action-oriented thanks to trend analysis, periodic discussion and follow-up. High quality data supports staff in their decisions.**
- **Increases understanding: it is based on clear pathways and robust, contextually adapted indicators.**
- **Opens up new dimensions in client segmentation and target group identification: having a smaller number of strong impact and well-being proxies enables the segmentation of your portfolio by target group variables. In addition, it provides a rich source of data that can later be mined.**
- **Verifies the impact of your programmatic changes: it provides a simple tool for trend analysis that can be used to evaluate the impact of internal changes made to improve performance. It goes beyond current clients, taking exiting**

and rejected clients into consideration. It points to reasons behind product adaptation failure and other inefficiencies.

- Communicates an MFI's social performance to external stakeholders: the system is linked to the mission and uses carefully selected and adapted indicators. In this way, it provides a reliable means to justify and MFI's existence and intervention to external stakeholders. Moreover, it shows them how services are being improved to better fulfil an organisational mission, and demonstrates how their investment contributes to development. Consequently, it allows an MFI to better position itself in a competitive market for funding.
- Is relatively easy to institutionalise, because it is driven by institutional goals and based on actual informational needs and operational capacities of an institution.
- Can be implemented with low additional cost: the SPM can be integrated with existing systems and processes at low cost and with efficient use of time.
- Provides timely information, as it is ongoing and automates.
- Has an infinite range of institutional uses: collected variables can be used for other institutional purposes, such as risk management, staff incentives, identifying new market opportunities etc.

This paper argues that microfinance can be more efficient in reaching the "double bottom line" if it is equipped with a mission-based Social Performance Measurement System. The fact that the SPM System is built on the institutional mission ensures its cost-effectiveness and facilitates its institutionalisation. Successful SPM, an output of a thorough, bottom-up, internal and participatory process, should be integrated with other operational systems and processes. It is based on a mix of routine and ad-hoc components that supports systematic monitoring, research and decision-making. Upfront costs of the SPMS development and implementation, and management of the associated organisational changes are considerably high. However, as the paper argues, this investment is compensated by low usage costs, better allocation of resources and other multiple benefits for an MFI. It not only stimulates an MFI to verify its social mission fulfilment and innovate in the search for optimal solutions to address development needs in a given intervention context, but also can improve its financial condition through client segmentation and risk management leading to increased efficiency, better product development and strategic decision-making on the competitive microfinance markets.

It is well know that the micro-financing practice in Nepal has originated from the traditional practices of cooperatives like Guthi, Dhikuri, and Dharam Bhakari etc. At present, the microfinance market in Nepal is divided into three sectors: formal, semi-formal and informal.

a) Formal Sector

The formal sector has Commercial banks, Development banks, Finance companies and Rural microfinance banks out of which two are wholesale credit providers for MFIs.

b) Semi Formal Sector

The semi formal sector comprises Small Farmer Cooperatives Ltd, Savings and Credit Cooperative Societies (SACCOSs) and NGOs.

c) Informal Sector

The informal sector comprises about 40,000 informal community based organisations such as self-help groups and informal savings and credit organisations. In addition, Rotating Savings and Credit Association (ROSCA) known as "Dhukuti", moneylenders, traders, friends also provide an informal source of finance used by a majority of the poor (www.PSPRFN_micro finance.com).

3.6. Micro credit Programs in Nepal

3.6.1 Historical Background of Nepalese Financial System

The history of modern financial system in Nepal was begun in 1937 with the establishment of the Nepal bank Ltd.(NBL) as the first commercial bank of Nepal. The bank was establishment to render services to the people and for the economic progress of the country. Prior to the establishment of the Nepal Rastra bank (NRB), the central bank of Nepal, there were only 12 branches of NBL. With the establishment of NRB in 1956, the development of the financial system took a momentum, realizing the importance of industrial development Cooperation (NIDC) in 1959. NRB Created the Agricultural Credit Fund in 1959/60 and handed it over to HMG/N for the establishment of the Cooperative bank. With the equity participation of NRB, The Agricultural Development Bank (ADB/N) was set up in 1968 by incorporating the assets and liabilities of the cooperative Bank. HMG/N established Land Reform Savings Corporation (LRSE). It was established to make the credit available to rural people. But LRSE could not extent rural credit to village communities, And ADB/N became the only financial institution for providing the rural and agricultural credit in Nepal till 1974.

The Rastriya Banijya Bank (RBB) was established in 1968 as the second commercial bank of Nepal. From 1962 to 1982, a large number of non-banks financial institution were set up such as the Provident Fund, Insurance Corporation, Stock Exchange etc, the move towards financial liberalization encouraged the entry of joint venture commercial banks and finance companies. Even the non-governmental organizations {NGOs} and the savings and Co-operative Societies (SCSs) have been licensed by NRB for limited banking activities. As a result, the Neplese formal financial system now consist of 20 commercial banks, 5 Rural Development Banks, of the total of 8045 cooperatives registered under Department of Cooperatives in 2006, 2692 have been saving and credit coops and of them249 from remote rural areas associated with RSRF for the purpose (NRB, 2006) Because o the NRB facility, these coops are able to provide relatively large loans to its member borrowers for their income generating activities to a tune of Rs.40000/-.

3.6.2 Micro-Finance System in Nepal

The history of micro financing in Nepal was started in 1956 when for the first time 17 cooperative credit societies were established. They were established to progressively abolish excessive rural indebtedness and contribute to uplift the socio-economic conditions of the rural people. To make financial resource available to these cooperative credit societies, the co-operative bank was established in 1959. Soon it was realized that merely establishing the Cooperatives banks was ineffective to channel funds to the agricultural sector and cooperative societies. As a result, ADB/N was established in 1968 to provide agricultural credit. ADB/N has still remained the foremost rural and agricultural financing institution and accounted for 55 percent of the total rural and agricultural financing institution credit. Commercial banks are the second biggest institutional sources for rural credit. They accounted for 43 percent of the total rural credit. The role of Grameen Vikash Banks (GVBs) in rural-micro financing has recently increased.

3.7 Micro Finance Programs

The three largest banking institutions of the country NBL, RBB and ADB/N have initiated several innovating micro financing programs since 1974/75. The Small Farmers development Program (SFDP), the Intensive banking program (IBP), the production credit for Rural Women (PCRW) program, The Cottage and small Industries (CSI) Project, The educated Unemployed Credit program, the Lead bank Scheme, the Micro-Credit Project for Women, The priority Sector Credit, and the Deprived Sector Credit program, the rural Self- Reliance Fund etc. are the different micro -finance credit programs devoted to the alleviation of the poverty in rural Nepal. The Grammen Banking Financial System is being replicated by 5 GVBs and two NGOs. There are few other NGOs, which have recently initiated the replication of Grammen banking System. There are many NGOs and Credit Cooperatives, which are involved in micro-finance programs. The Rural Micro-finance Development center a new development bank, has been recently established to provide wholesale credit to Grammin bank Replicates (GBRs), NGOs and saving and credit Cooperatives (SCCs). Rural and Micro-credit programs such as ADB funded the Third Livestock Development Project and the Community Groundwater Irrigation Sector Project and IFAD- funded the poverty Alleviation of the Western Terai Project is being implemented from the fiscal year 1998-99. This different micro -finance programs will be separately dealt in the following paragraph.

3.8 Targeted Credit Programs

Collateral based lending practice of commercial banks and development banks (CBs and DBs) deprived the poor people from institutional sources of credit. Similarly institutional credit is also conditional to business types, location and the social status of the borrower. Realizing that expansion of the financial system alone does not necessarily ensure poor people's access to formal credit sources; number of targeted credit programs is initiated. NRB has been playing a crucial role in the promotion of rural financial policy more rural and poor friendly. The major micro finance programs are given below (Agriculture credit Annual Journal Vol 40 January 2007:P-55 ADBL CTI).

3.8.1 Priority Sector Lending Program

NRB introduced the concept of compulsory priority sector lending for CBs in 1974 and it is still continued. The CBs were required to invest 5% of their total deposit liability in priority sector and from 1985 the proportion of PSL is related to total loan portfolio of the CBs. PSl modality reveals NRB commitment to rural finance. The average ratio PSL remained not more than 8% between 1994 and 2004. The Commercial banks (CBs) are required to lend at least 12% of the total loan portfolio to PS and quarter of it (3%) must be invested for deprived sector. The CBs that fails to meet the target have to pay penalty. Interest subsidy is also given (33 to 80% depending upon the loan sizes). CBs can either make direct lending to the people below the poverty line or wholesale financing to the ADB/N, FI-NGOs, Grameen Bikash Bank and licensed Saving and Credit Cooperatives (SCCs). Or they can make share participation in RMDC and GBBs. Government is gradually declining proportion of priority Sector Lending (PSL) and decided to phase completely by

2007. But deprived sector- lending requirements for Commercial banks (CBs) will remain unchanged (Bijaya Shrestha, 1974: PK-D).

Direct benefit from such lending to the hard core poor is questionable. Because at present the PSL is quite broad which include loan extended to ADB/N, Regional Rural development bank (RRDB), Cooperatives and NGOs. It also includes CB's lending to biogas, small hydropower, turbines, and nun polluting vehicles. The anti poverty character of the PSL requirement imposed on the CBS has been completely diluted, except for the fact at least 3% of PSL is directed to the deprived sector (Acharya, 2003). Financing agriculture and micro financing is never a priority area of joint venture CBs. They prefer to pay penalty in case of failure to meet the minimum lending requirement for PSL and DSL (NRB, 2005).

3.8.2 Productive Credit for Rural Women (PCRW)

PCRW was introduced is 1982 with the objective of uplifting the socio economic condition to rural women. The program channels resources using existing banking system. It was implemented by Women Development Division of the government and was operated in 564 VDCs and 28 municipalities of 75 districts. Credit part was canalized by NRB through NBL, RRB and ADB/N. IT provided credit (Rs.933812 thousand) to 82,416 members as of mid July 2001.The outstanding loan amount under PCRW as at mid January 2005 is about 158.4million. UNICEF supported the social component and cost of staffs and main source of fund was IFAD. The project implementation period was already completed in 2001. Non-regulation of the program administration and overdue loans (18%) were the major problem. The program could not reach the poor and dalit women as targeted (Agricultural Credit, 2007:56).

3.8.3 Micro Credit Program for Woman (MCPW)

It is another targeted program implemented to improve socio economic status of women and mainstreaming them in national development through credit. IT is credit plus program, because it provides other support along with credit. The program involves NGOs in delivery of credit. Social mobilization, institutional support of NGOs and training component is taken care by Department of Women Development. MCPW is aimed at lending to women micro enterprises on a larger scale than in PCRW and RRDBs. As of March 2002, it as 14 districts and has benefited 25,000 rural and urban women. The total loan disbursed was Rs.195.2million within the project period. Establishment of 82 women saving and credit cooperatives were organized and 25 of them were registered at the cooperatives Department. 25 saving and credit cooperatives have been able to become partner organization (POs) of RSRF. Similarly 27 FINGOs formed by women groups under the MCPW have got limited banking license. The evaluation report of the programs reveals that it has been able to bring positive changes in social and economic life of the women and also brought synergic effect on other development intervention such as that promote health, nutrition and education. But the coverage of the program is very limited (Agricultural Credit, 2007:57).

3.8.4 Small Farmer Development Program (SFDP)/Small Farmer Cooperatives Limited (SFCL)

SFDP, first targeted program was launched in 1975.SFDP is a new banking model for reaching the poorer section of the community. With the implementation of the program, the history of group based collateral free lending targeted to small and marginal farmers, was initiated in Nepal. Women component was also added in the program in 1981. As of mid July 2006, the program was implemented in 649 VDCs of 75 districts and 183,355 people benefited by the program. Total loan disbursement was 7.8 billion. Total saving collected was Rs.53, 478 thousand. SFCL has been initiated since 1993/94 to institutionalize SFDP. SFCLs are locally owned and managed. There were 228 SFCLs as of mid July 2007 and collected saving equivalent to Rs 563,231 thousand. SFCLs have disturbed loan amount to Rs. 4.72 billion. Total beneficiaries are 117094 (Agricultural Credit, 2007:56).

3.8.5 Rural Development Banks (RDBs) and Other Grammen Bank Replicates Operating in Private Sector

RDBs operated in Grammen Banking Model of Bangladesh, is a major breakthrough in the micro finance sector development in Nepal. There are five RDBs operating in each development regions and is the major micro finance operator in Nepal. In each RDBs the government has major share participation (Rs.195.0 million). Development Bank Act, 1995 and financial intermediaries Act, 1998, has made possible private sector involvement in micro finance business. Centre for Self-help Development, Nirdhan, Deprosc and Chhimek are the major micro finance operator in Nepal, established in the private sector. The performance (as mid July, 2006) of five RDBs and above mentioned four MFIs operating in private is shown by the table:

Table 3.1

Performance of Targeted Credit Programs, 2006

Programs/ Institutions	**Coverage Districts/VDC**	**No. Of Borrowers**	**Performance**	
			Total Loan (Rs Billion)	Total Saving (Rs.000)
SFDP/ADB/N*	**75/649**	**183555**	**7.80**	**53478**
GBB Replicates				
RRDBs**	**45/1018**	**147550**	**13.24**	**374499**
CSD/Nirdhan/Chhemek/Deprosc*	40/1121	130247	6.29	194009
SFCls#	31/105	117094	4.72	563231
Total		578474	31.25	1185217

*Source: * SFDMFD/ADBL, 2006 **NRB, 2006 # Group Fund Balance*

Attaining financial sustainability is major challenge of the RRDBs and these Grameen bank Replicates (Sharma, et.al., 1996, Sharma and Nepal, 1997) because of relatively costly operational modality. At present the fund cost is lower because they are getting soft loan from CBs under the deprived sector credit program. Once the program is phased out the MFIs will have severe fund problem. Under this model the clients have to fallow weekly repayment schedule whether the project generate income or not. The clients with alternative sources of income like wage have advantage in this respect. This model of lending is not successful in the remote hills and mountain having no access to market to generate weekly income. Most of the branches are either located in the terai region or in the hill region located in the near to the towns of in the high way area. Government and Employee Union's interference is another reason for inefficient operation of RDBs.

Follow up and constant backstopping support to help the borrowers to generate income from the borrowed funds is another problem. Quality and the expansion of the program are constrained by too many burdens to the grassroots staffs (Poudyal and Shrestha, 1998). Micro finance programs are suffering from high operating cost. The basic challenges are the determination of interest, which should be based on affordability of clients, operating cost and the comparative interest rate charged by others. Setting a sustainable interest rate is a challenge because it all depends upon various factors such as administrative expenses, loan loss, fund cost and income from investment. Realizing the need for restructuring and privatization, government launched different programs and made available Rs.163 million to cover accumulated loss of four RRDBs in Oct 2001. Voluntary retirement scheme was launched. Divestment of the share of RRDBs is a new step forward towards developing private sector involvement in micro finance activities. However the government has made the policy of retaining 10 % (percent) equity with these banks (Agriculture Credit Annual Journal, 2007: 57; Vol 40).

Table 3.2

Growth of Major Microfinance Institutions from July 2004 to July 2006

S.N	Name of Microfinance Institutions (MFIs)	Outreach	Savings	Loan
1	Rural Development Banks	15%	(-) 3%	21%
2	Microfinance banks	107%	46%	103%
3	Small Farmer Cooperative Ltd (SFCL)	30%	94%	41%
4	Savings and Credit Cooperatives (SCC)	99%	159%	322%
5	Financial Intermediary NGOs (FINGOs)	379%	603%	193%
	Total Average	**74%**	**125%**	**145%**

Source: *Inflation rate During the Period is 5% per year (WWW.PSPRFN_Microfinance.com).*

As shown in the table 3.2 the growth of Microfinance services (from July 2004 to July 2006) is impressive despite the difficult situation due to conflict, microfinance service has recorded a significant growth. The figure shows that during the conflict situation other service providers (government and NGOs) were shrunk from rural areas into city centre and district headquarters but microfinance services grew continuously. However the growth rate varies significantly on the types of MFIs. For example the figure clearly shows that government promoted and managed programs have lower growth rate than private sector promoted and managed.

3.9 Net outreach of MFIs in Nepal

Table 3.3

Net outreach of MFIs in Nepal

Total outreach	1,153,722
Less	
SCCs serving not so poor	(36,000) *3*
Duplication (Estd.10 % of Gross outreach)	(1,15,372)
Net outreach	1,002,350(One million appr.)

(Source: www.PSPRFN_Microfinance.com).

It is estimated that about 50% of total households of Nepal have less than $ 1 per day income and required microfinance services. Thus additional 1.7 million households required microfinance services. This clearly shows MFIs in Nepal should focus for aggressive expansion to reach 1.7 million un-served households.3 SCCs located in city areas of Kathmandu, Lalitpur, Bhaktapur, Kaski, Chitawan, Morang, Banke and Dhanusha districts are mostly serving not so poor. They are providing loan for small and micro enterprises and for consumption purposes. It is estimated that out of total reported male members about 36,000 members (60% of total male members) fall in not so poor category.

The 40% male members are considered microfinance client on the basis of two assumptions: First, generally those who do not have access to formal financial services take these services from cooperative. Second, cooperatives located in above areas are focused not only in city areas and not only focused in not so poor but also focused on poor clients of outskirt rural areas. The micro-finance Department of NRB has played a vital role to develop the microfinance system in Nepal through introducing policy, systems and institutions. It introduced the priority sector (small sector) lending programme in 1975 and the intensive banking programme (lending in small and micro sector) in 1981. It has played an active role for the creation of an enabling legal and regulation environment for microfinance institutions in the country. Further, in 1992, NRB participated in equity and management to develop the Grameen Banking system by introducing regional rural banks as a replication of Bangladesh Grameen Banking model. RUFIN is working with NRB to design the microfinance policy and to develop a rural finance strategy for the country.

3.10 Agriculture Development Bank Ltd. (ADBL)

Formal ADBN has named as ADBL after registering into Company Act and Bank and Financial Institutions Ordinance (BAFIO) – 2004.

With the objective of providing institutional credit to enhance production and productivity in the agricultural sector, the Agricultural Development Bank of Nepal was established in 1968 under the ADBL Act 1967, as a successor to the Cooperative Bank. The ADBL functions as an autonomous organisation under the supervision of the Ministry of Finance of Nepal Government. The bank has been working as the prime rural credit institution for the last four decades. ADBL's principal involvement is development finance. Besides, it has been performing the role of executing agency for the Small Farmer Development Programme (SFDP), one of the biggest poverty alleviation programmes of Nepal. The SFDP is the first group based poverty alleviation programme and began as a pilot test in the Dhanusha and Nuwakot districts of the country in the mid 1970’s.The success of the pilot test in the Terai and the hills with support form FAO\UNDP encouraged policy makers and ADBL to gradually expand the programme. The Sub Project Offices (SPOs) of the SFDP reached 459 in 1993, benefiting two hundred thousand small farmer households in 649 Village Development Committees

(VDCs) of 75 districts. VDC is a smallest administrative unit of Nepal. The objective of the SFDP is to improve the socio economic condition of small farmers in the rural hills and Terai by providing financial and non-financial services. The SFDP's popularity in the rural hills and Terai has led to demands to establish SPOs in the village.

3.11 Doing Business in Nepal

The World Bank gives numerous indicators on doing business in Nepal. In order to launch a business there are 7 steps involved at a cost of 74.1% of Nepal's GNI per capita. The World Bank gives the country a score of 3 on the disclosure Index. There is an official credit registry, covering 1 borrower per 1000 adults. Nepal scores 3 on the Credit Information Index Rating, while the regional and OECD averages are 1.7 and 5, respectively. The World Bank also reports a 2.4% income per capita cost in creating collateral.

3.12 Regulatory and Legal Environment of Nepal

To enforce a contract in Nepal there are 28 procedures involved. It takes approximately 350 days at a cost of 25.8% of debt. Filing for bankruptcy takes an average of five years with a cost of 8% of estate value. The recovery rate for creditors in $ 0.25 per US dollar, compared with the regional average of $ 0.21 and the OECD average of $ 72.1.

The law in Nepal does not actively restrict the function of micro finance. It is necessary, however, to obtain an operating license from the Central Bank that coordinates the licensing with relevant government ministries. Commercial banking institutions are also free to undertake micro finance lending. There is a lack of restrictive legislation when it comes to credit unions in Nepal. The 2004 Bank and Finance Ordinance are responsible for overseeing and regulating any issues pertaining to the micro finance sector in the country.

According to the International Trade Administration of the United States (ITA), the most significant foreign investment laws are the Foreign Investment and One Window Policy of 1992, the Foreign Investment and Technology Transfer Acts of 1992 and 1996, the Finance Act of 2002 and most recent Finance Ordinance 2004 (an annual budget act), the Immigration Rules of 1997, the Electricity Act of 1992, and the Patent Design and Trademark Act of 1965.

3.13 Commercial Banks in Microfinance

Commercial banks too have been playing a role in microfinance, particularly under the stimulus of the NRB, which requires them, as mentioned earlier, to invest 12 percent of their lending to the Priority Sector. There are altogether 20 commercial banks in the country as of July 2006. The total of priority sector lending of commercial banks by mid-July 2003 amounted to NRs.14976.1million. Of this amount, NRs.3101.8 million is in the form of equity participation in microfinance institutions like Regional Rural Development Banks, Rural Micro Development Centre, as well as other banks promoted by NGO Grameen explicators such as Nirdhan Utthan Bank and DEPROSC Development Bank, etc (Manandhar, 2004). Of the total priority sector lending, one third of it is done by the two public commercial Banks namely, Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB). These two Banks have participated in various development programs with strong credit components such as Production Credit for Rural Women, Micro Credit Project for Rural Women and Third Livestock development Project, Intensive Banking Program, Banking with the poor, Biogas Development, Solar Home System, etc (Manadhar, 2004). The Intensive Banking Program, initially called "Small Sector Program" in 1974 and "Priority Sector" in 1976, acquired its present name in 1981 and was mainly promoted by the two banks mentioned above with a view to channalized certain portion of commercial bank lending in rural sector (Shrestha, 1995).

Household with annual per capita income below NRs.2511, are designated as "small families" and become its target group. However, the IBP is being phased out from 2007. The Performance of the commercial banks regarding IBP and Priority Sector lending as of 2000 is given the Table.

Table 3.4

Commercial Banks, Outreach of Priority Sector

(As of mid April 2000)

Banks	Program	Year	Outstanding		Overdue		Overdue %
			no.of Client	Amount	no.of no.of Client	Amount	
RBB	**IBP**	**Mid April 2000**	**20757**	**2284.45**	**4245**	**362.20**	**15.86**
NBL	**IBP**	**Mid April 2000**	**45203**	**1716.95**	**14916**	**682.36**	**39.74**
Joint Venture Bank	**PSL**	**mid jan 2000**		**2635.30**	**NA**	**NA**	**NA**
Total				**6636.7**			

***Provisional**

(Source: Agriculture Credit Annual, 2007:32).

The Table shows that the banks had been accumulating large sums of unpaid loans, which basically suggest their lack of sufficient capacity to deal with microfinance, particularly in terms of small loans disbursed to large number of clients. However, the RBB further launched another microfinance, initiative, Banking with the Poor, in 1991 in cooperation with the Foundation for Development Cooperation (FDC) of Australia, The objective of the program too has been to promote socio-economic self-reliance of the rural poor women as well as to explore the possibility of a viable and sustainable banking mechanism for the CBs. Currently, RBB's 33 branches are involved in the program in 18 districts of Nepal, It is designed to link NGOs and Associations of Self-Help Groups(ASHG) with the bank.

Loan sizes gradually rise based on performance. The first loan is 10,000 rupees, and each time it is raised by 5000 rupees until it reaches the maximum ceiling of NRs.30000.00. The bank interest rate is 14 percent. The recovery rate is 87.71 percent. Altogether 113 ASHGs have been formed consisting of 12013 members as of mid April 2001.The bank has disbursed Rs.115.54 million with a repayment of Rs.59.77 million. However, as part of policy shift, group loan has been discontinued since 2003, and the focus is now on larger wholesale loans provided through financial intermediaries (RBB, 2004), apparently more or less along the lines of SFCL and RSRF (Shrestha and Shrestha, 2007: 32; Vol 40).

CHAPTER- FOUR

DESCRIPTION OF STUDTY AREA

4.1 Brief Introduction of Rupandehi District

Rupedhi district is situated in the lumbini zone of western development region of Nepal. It covers 1360 sq.km. It's touched with Nawalparsi district in east, Kapilbastu in west, Palpa in North and India's Uttar Pradesh in south. It's at the height of 100m.to 1219 m. from the sea -level. Its climate condition is measured 8.75 degree Celsius minimum temperature to 42.4 degree Celsius maximum temperature. It's quite hotter district. The average rainfall of this district is 1391mm. It's rich in rivers and lakes. Some of the major rivers and lakes in this district are follows:

i)Tinau ii) Rohini iii)Danab iv) Kothi v)Danda vi) Mahab

vii) Kanchan viii) Baghela ix) Koilijhang and tal i)Gaidahawa (Bisnupura) ii) Nanda Bhauju Tal (Chilhiya) iii) Gajedi Tal The centre point of this district is Siddharthanagar (Bhairahawa).

It's got five parliamentary election regions with two metropolitan city and sixty-nine VDC. Few VDC's, which are going to be metropolitan city in near future, are Anandanagar, Shankarnagar, Devdaha, Parruha, Lumbini and Saljhandhi.

According to census 2058, there are 360773 male & 347646 female with the total population of 708419. In this district about 117843 households with average family size of 6.01. The population density of this district is 521 per sq.km. And the population growth rate is 3.05 percentages.

In this district, many tourism industry potentiality are remain but not able to being develop infrastructure as required. In this district there are much tourism and religious area such as Lumbini, the birthplace of Lord Buddha, Devdaha, the palace of Manimukundasen, Jitghadi killa, Phulbari and Hills Park etc

4.2 Brief Introduction of Shankarnagar VDC

Shankarnagar VDC is situated in northern side in Rupandhehi district. It does adjoin with Butwal Municipal City. It's far from only five km from Mahendra Rajmarga. It neighbours are Butwal Municipal City in north, Motipur VDC in west, Anaandaban VDC in south and Devdaha & Karhiya VDCin east. It cover area is 856 he. With forest, only forest area is 576 he. Its 9 nine ward of this VDC.

4.3 Populations

According to Shankarnagr VDC, its populations are 14647 of 2876 household. Ward wise populations are given below:

Table 4.1

Populations of Shankarnagar VDC

Ward no.	No. Of household	No. Of female	No. Of male	Total
1	**333**	**795**	**829**	**1624**
2	**231**	**599**	**554**	**1135**
3	**411**	**1110**	**1193**	**2303**
4	**238**	**538**	**471**	**1009**
5	**460**	**948**	**1104**	**2052**
6	**243**	**540**	**586**	**1126**
7	**363**	**993**	**1042**	**2035**
8	**242**	**783**	**783**	**1563**
9	**352**	**854**	**925**	**1779**
Total	**2876**	**7160**	**7487**	**14647**

Sources: Shankarnagar VDC

In this VDC origin castes are tharu, mushar and ahir but the most of the populations of this VDC are migrate from hills like Argakhchi, Gulmi, and Syangja and Prabat districts. so now in the village we found many caste like Brahman, Chhetri, Gurung Magar, Giri, Rai, Chaudhari, Sunar, Yadav,Pathak Thakuri etc.

4.4 Religion and Occupation

Most of the people of this VDC are Hindus. Then after some Buddhist and left are other religious.This VDC's people's main occupations are agricultural and cattle livestock, but now occupation are diversified such as: small entrepreneur, improved livestock's, cultivate vegetables and other skilful work. And few are gone abroad to search job, some are also in government or other services.

4.5 Festivals

Dashin is main festival of this VDC and TIJ, Maghesankrati, Phagupurniya (Holi), Jitiya, Chhata, and Maghi are the pleasurably celebrate here.

4.6 ADBL Linkage with Poverty Reduction

Poverty is a multi dimensional phenomenon and as such its effects and consequences can be analyzed making the use of various factors. In that line, whatever the factors responsible for incidence of poverty, the world is converging towards a common minimum point that micro finance is the unanimous solution to reduce the poverty. It is, indeed, reflected in the Millennium Development Goal (MDG) and also opts to incorporate 175 million poor people by 2015 A.D. with the effective implementation of micro finance program. As prescribed in the report, 750 thousand households have already received microfinance services as of mid July 2006. ADBL in that perspective is very delighted notify that the visionary insight of reducing poverty using micro fiancé, community development and participatory approach is well developed three decades ago by launching farmers cantered Small Farmers Development Program (SFDP). It is worthwhile to aver that ADBL is the first institution in Nepal to address the poor people and inspire other institutions including donor agencies to contribute in poverty reduction venture. Starting concisely, ADBL not only solely initiate the poverty reduction program but also assists UNDP, GTZ, GN and IFAD on the way of executing social mobilization, community and institutional development programs as a part of partnership approach. The table below tries to illustrate these programs in brief (CTR Annual Report 2006/07, ADBN CTR, 2008: 10).

Table 4.2

ADBL assisted Programs and Donors

S.N.	Programs	Donors
1	Micro Enterprise Development Project (MEDEP)	UNDP
2	Decentralized Local Governance Support Program (DLGSP)	UNDP
3	Hills Leasehold Forestry and Forest Development Project	IFAD
4	Production Credit for Rural Women (PCRW)	GN
5	Gulmi Argakhanchi Development Project (GARDEP)	EC
6	Poverty Alleviation Project in Western Terai	IFAD/GN
7	Bishweshwar Among Poor (BAP)	GN
8	Small Cottage Industry	GN
9	Disabled Project	Social Welfare Council

(Source: CTI Annual Report 2008:11)

4.6.1 Emergence

The Small Farmer Development Programme (SFDP) was Nepal's first group based poverty alleviation programme. The programme began as a pilot test in the districts of Dhanusha and Nuwakot in the mid 1970s. The success of the pilot test in the Terai and hills with support of FAO\UNDP encouraged the government and Agricultural Development Bank of Nepal (ADBN) to gradually expand the program. The Sub Project Offices (SPOs) of SFDP reached 459 in 1993, benefiting two hundred thousand small farmer households (i.e. more than 1.2 million below poverty line) in over 649 Village Development Committee (VDCs) of 75 districts. However, due to rapid expansion, the programme faced several problems: high overhead costs, low repayment rate and lack of competent staff. In 1987, the ADBN introduced an action research Institutional Development Programme (IDP) with support of the German Technical Cooperation

(GTZ). The objective of the IDP was to transfer the ADBN run SPOs into fully self administered and managed cooperatives of small farmers i.e. SFCLs. A Small Farmer Cooperative Ltd is a multi-service cooperative designed to deliver primarily financial, but also non-financial services to its members in rural areas. SFCLs are civil society organizations that pool their joint resources to meet basic needs and to defend their members' interests. They are member owned and managed and have an open membership policy towards "poor" farmers.

Small Farmer Cooperatives Ltd organizations and products have been comprehensively researched. An interesting feature that distinguishes SFCLs from other Micro Finance Institutions (MFIs) is their unique three-tiered structure with small farmer groups, at village level inter-groups at ward level and the main committee at VDC level. Small farmer groups are formed as joint liability groups in the village, usually consisting of 5 to 12 members. They allow members to access financial and non-financial services required by the group and/or group members. From each small farmer group within a defined area, one representative member joins the so called inter group. The inter group further validates specific group requests and gives approval and recommendations to the main committee. It also functions as an intermediary between the groups and the main committee. One representative of each inter group joins the main committee at the VDC level. The members of the main committee approve the programme of the SFCL and decide on program implementation. To handle daily operations of the organisation, a manager, an assistant manager and a helper are employed by the SFCL. Either the manager or the assistant manager should be female.

4.6.2 The Feature of the Program

The program comprises of various essential socio-economic development programs together and is the first target-oriented program for the overall development of small farmers. The main features are as follows:

- The small farmers are identified and categorized on the basis of income and expenditure i.e. annual income up to Rs 2500.00 (at 1987/88 prices) per capita. However, to bring the ultra-poor in the mainstream of development, more priority is provided. Ultra-poor is considered as those whose per capita annual income is less than Rs.1200.00
- Program implementation on the basis of group approach.
- Group formation and income bracket. SFDP organizes groups of men and women.
- No discrimination among any community and religion: The small farmer of any community is eligible for group membership.

- Enhanced knowledge and skill of small farmers by organizing different training/workshop.
- Implements saving and credit program together. Group liability and group guarantee.
- Loan on the basis of capacity and capability of the small farmers.
- More priority for women groups.
- Implementation of essential social and Community development program with the involvement of small farmers and other potential agencies.
- Non-small farmers are also benefited from social and community development program (such as drinking water, community irrigation, repair and maintenance of village road and construction of local village to village and link road).
- Empowerment and leadership development in small farmers.
- Service package to women small farmers by the women SFDP (where group organizer is women and only women small farmer is eligible).
- Holistic approach (implementation of economic, social and community development activities together).
- Participatory (involvement of small farmers in planning, programming, project identification, appraisal, project implementation, supervision, follow-up, monitoring and evaluation).
- Have take up (beginning as SFDP) and landing (exit as Small Farmers Cooperative Limited) system.
- Pioneer in poverty alleviation program and worldwide appreciation.

4.6.3 Guiding Principle of the Program

- Moving toward institutional sustainability: Implementation of institutional development program in all remaining SPOs.
- Quality improvement of the program (quality improvements of loan, group, internal resources and staff).
- Financial viability and sustainability of the program.
- Implementation of program in cost effective manner.
- Implementation of essential social and community development activities in order to attain well balance development of the small farmers.
- Leadership development capacity and capability build up of small farmers. Involvement of small farmers in the socio-economic development activities as well as management of the SFDP in order to enabling them to implement the project independently in future.

- Implementation of group saving and mobilization program in order to build up saving habit in small farmers, to realize their saving capacity and strength, to mobilize the saved amount in meaningful emergency and other income generating activities.
- Empowerment of women. Ensuring loan repayment.

Using the group mobilization mechanism, the Group Organizer and Women Group Organizer facilitate effective integration of credit and social/ community development services from the line agencies at the group and community level.

4.6.4. Target Group

The rural small farmer whose income is less than NRs 2500 per capita is considered as target group. Moreover, land less agricultural labour, tenants, sharecropper, fisherman, and others asset less rural people who are depending on agricultural related occupation are considered as small farmers. On top of that, small farmers are further categorized as cited below:

- Poor: annual income between NRs.1800 to NRs.2500 per capita.
- Very poor: annual income between NRs1200 to NRs1800 per capita.
- Ultra poor: annual income less than NRs1200 per capita.

4.6.5. Major Activities

(I) Economic Activities: SFDP provides credit for different purposes related to production, farm mechanization, marketing, and other income/employment generating activities. Credit support has been fruitful in improving the economic status of the small farmers by increasing the productivity and production of agricultural related projects. Moreover, they are benefiting by engaging themselves in small-scale cottage industry with the credit support.

(II) Social and Community Development: Considering the fact that the process of economic development and social enhancement should be so related that they become mutually supportive and re-enforcing. So apart from credit, the program incorporates essential social and community development activities such as adult education, population education, parental education, child care canter, health and nutrition, establishment of drinking water schemes, community hall, school roofing, community irrigation schemes, community plantation and foot trail and gravel road construction, repair and maintenance of village road, Vegetable seed distribution and other appropriate and needy program.

(III) Community Surface Irrigation Program (CSIP): Community surface irrigation development is a highly prioritized and demanded program by the small farmers. The SFDP has been emphasizing the construction of irrigation schemes at community level with active participation of small farmers from initiation to evaluation stage of the program. As of mid July 2000 the program has benefited over 25900 hectares of land of more than 29437 households through 564 schemes. The recently conducted study on "Effectiveness of CSIP" indicates that there is significant improvement in socio-economic change of the beneficiaries farmers after completion of the project. It is mainly due to positive change in cropping pattern, crop diversification, increase in land value, change in food habit and positive thinking in child education especially girl child.

(IV) Environment Conservation: Environmental promotion and conservation is another important activity initiated by the program with the support of UNICEF. The main sense of the environmental activities in SFDP is to reduce pressure of workload on women and strain on environment. As most of small farmers are badly affected by the deforestation i.e. lack of fire wood, timber for housing and furniture, fodder for livestock, drying of drinking water sources, more time to collect fodder and other materials from the forest, depletion of soil fertility and other more. Activities implemented in this program are as community plantation, distribution of saplings of fruit and fodder and timber tree, leasehold fodder and forest program, plantation to protect the sources of drinking water and irrigation canals, drinking water schemes, construction of convenient latrine and smoke less stove, bio-gas plant, use of compost manure and other appropriate program to promote the environmental conservation programs.

(V) Gender and Development: **Considering the low socio-economic status of rural women, Women Development Program (WDP) was initiated to discern the concerns and cater to their special needs in 1982 as an integral part of SFDP. Aimed at providing the basic services to rural poor women, Women Development Program (WDP) is being implemented in all of the SPOs in general and intensively in 36 SPOs. Altogether more than 30 thousand women small farmer members are being provided with services to enable they undertake various on-farm and off-farm income generating activities. More priority to women members is given in group formation and implementation of program. At present 5 Women SFDP is in implementation one in each development region, where women group organizer is deputed. These SFDP provides services only to women group members. Overall performances of women group members are better as compared to their counterpart.**

(VI) Livestock Insurance: **One of the main portfolios of loan of small farmers is livestock. Its share in total outstanding loan is about half. Among livestock, share of milking cow and buffalo, she-calves are much more compared to the rest. Although, profit from livestock is more and is preferred by small farmers it is more risky compared to their other business. Because, in case of sudden death of cow/buffalo farmers have to face series of problems in one hand and bank has to face problem in loan repayment in other hand. More over, insurance program encourages farmers for raising improved breed and supports in generation of internal resources. Therefore, ADBN has provided special arrangement for the insurance of small farmer's livestock by their own committee. Support of Government in terms of providing 50% subsidy in premium is highly appreciable and it motivates small farmers toward the program.**

4.6.6 Institutional Development Phase

In order to implement the program financially viable and sustainable manner by empowering the grass-root level organization of small farmers so that they can implement the program by themselves, ADBN has initiated Institutional Development Program (IDP). It is an innovative approach developed within the SFDP Program and is based on the participatory approach.

ADBN has planned to implement this program in all SPOs and gradually hand over these SPOs to the small farmers. Bank has adopted specific package for SPOs selected for the IDP process and general package for SPOs trying to enter in the process of IDP. As of mid-July 2004, 161 SPOs have been handed over to the organization of small farmers i.e. Small Farmers Cooperative Limited (SFCL) and 75 are in the process of IDP. Various study reports reveal that performances of SFCL are quite encourage able and are comparatively better than other such program. Significant improvement in internal resources, decrease in operational cost, operational and financial viability is some of the major achievements made by SFCL. Moreover, the local small farmers administer it and all staff is from the family of small farmers. Therefore, they are more responsible and performance oriented.

Up until January 2007, 214 SFCLs have been established, of which 203-sub project offices of ADB/N have been transformed into SFCLs and 11 SFCLs grew by replication. These SFCLs serve estimated 130,000 member households reaching 700,000 poor. SFCLs have captured a significant share of the formal/semi-formal rural financial market. The SFCLs have followed a strong path towards profitability with impressive growth rates in terms of deposit mobilization and increases in revenue. An ADBN/GTZ study in 2001 (Wehnert & Shakya) showed that from a sample of 33 SFCLs, the average financial self sufficiency ratio had increased from a poor 39% by mid July 1997 to 118% by mid July 2000, putting SFCLs in the category of successful microfinance institutions. Over the last couple of years however, business climate and security environment have deteriorated due to the Maoist conflict, adversely affecting the performance of SFCLs. infrastructure facilities like today. In the mean time through the program, the people built community road, irrigation and water supply schemes. In the Agriculture Development Bank Nepal (ADB/N) introduced the institution Development Program (IDP) in the mid nineties. The main objective of the ADB/N is to transform the government owned sub-project office (SPO) into a small farmer owned and managed SFCL was achieved in 2057 with the established of SFCL Shankarnagar, the second SFCL in this district. SFCL Shankarnagar also provides other innovation financial services to its members such as Pewa savings for old age and livestock insurance scheme, Provision of drinking water, managerial training, ward building construction and public toilet construction. Non-financial services include accounting training, employment creation program, health awareness program, marketing program etc.

Due to the progress with the SFCL programme, ADBN decided to transform all of their remaining Sub Project Offices into SFCLs. This decision laid the grounds for ADBN to establish an apex bank to look after SFCLs, and focus in future more on the commercial and development banking activities.

One final task, however, remains to be done: To establish a separate financial institution as an apex-bank, which would take over the refinance operations from ADBN with regard to the SFCLs and similar organisations. Thus, the Small Farmer Development Bank (Sana Kisan Bikas Bank - SKBB) was registered in July 2001 with the company registrar office. The bank received the operating license from the Nepal Rastra Bank in March 2002. It is expected to start its lending operations initially from three area offices by November 2002. The paid-up capital of the bank amounts up to US$ 1.5 million. The biggest shareholder at present is ADBN, the SKBB Articles of Association, however state that the majority of the shares will be offloaded to private investors within the next five years. The Board of Directors is composed of three representatives from ADBN, one from a commercial bank, one from the Ministry of Finance and two representatives from the Small Farmer Cooperatives Ltd. Besides the refinance facilities provided through the SKBB, SFCLs still need technical assistance and guidance in future. In order to achieve full autonomy from external support, SFCL federations will provide non-financial services to its members such as training, consultancy, supervision and auditing. ADBN, SKBB, SFCLs and GTZ are working at present on a sustainable federation concept.

4.6.7 Status of SFCL

The study of SFCL status during last five years exhibits sharp increasing trend in all aspects such as the number of SFCL, group members and individual members. The data for the last five years clearly states a consistent growth rate with annual trend of almost 24 SFCLs following 228 numbers in 2006/07 as compared to 128 in the base year. Similarly, the group members and individual members also increased sharply to the tune of 2530 (11.7 %) and 14820 (10.29 %) per annum respectively. (CTI Annual Report 2007:12).

Table 4.3

Status of SFCL

Particulars	Fiscal Year					Trend	
	2059/60	2060/61	2061/62	2062/63	2063/64		
	2002/03	2003/04	2004/05	2005/06	2006/07	Annual	Percent
No. of SFCL	**128**	**161**	**184**	**199**	**228**	**23.8**	**10.4**
Group	**11383**	**13653**	**16113**	**18365**	**21678**	**2530.2**	**11.7**
Male	**6867**	**8060**	**9061**	**9881**	**11122**	**1033.1**	**9.3**
Female	**4516**	**5593**	**7052**	**8484**	**10556**	**1497.1**	**14.2**
Member	**75430**	**90155**	**104711**	**117094**	**136064**	**14820.7**	**10.29**
Male	**45291**	**53009**	**58917**	**62894**	**69221**	**5774.5**	**8.3**
Female	**30139**	**37146**	**45794**	**54200**	**66843**	**9046.2**	**13.5**

Source: CTI Annual Report

Stating precisely, the group number has marked almost double compare to the base year. In case of individual member, male participation has materialized consistent growth rate, however, an impressive growth is acknowledged in case of female participation accounting more than double head count with nearly 50 percent. However, female participation in-group and individual member was materialized only 40 percent each in the base year.

4.6.8 Status of Loan Portfolio

Loan portfolio of the SFCL has demonstrated linear and steady growth rate over the five years except for the recovery rate. All the business activities like lending, principal & interest collection and outstanding loan have accounted significant growth compared to the base year.

Table 4.4

Business Trend of SFCL

(Rs. 000)

Portfolios	Fiscal Year					Trend	
	2059/60	2060/61	2061/62	2062/63	2063/64		
	2002/03	2003/04	2004/05	2005/06	2006/07	Annual	%
Investment	**503709**	**608653**	**872149**	**1020737**	**1316530**	**203772.6**	**15**
Principal Collection	**406330**	**507514**	**687593**	**888282**	**1088935**	**174597.8**	**16**
Interest Collection	**131214**	**167438**	**217668**	**271579**	**297027**	**43576.7**	**15**
Outstanding	**1105917**	**1340675**	**1600288**	**1856079**	**2202640**	**270885**	**12**
Recovery Rate (%)	**69**	**69**	**74**	**78**	**81**	**3.3**	**4.1**

Source: CTI Annual Report

As a matter of fact, investment in the credit for the farmers has increased from Rs. 503.7 million in 2002/03 to Rs. 1316.5 million in 2006/07 with the advantage increment of Rs. 203.8 million or 15 percent per year. During the five year of study period, the loan investment has registered more than two and half fold. This data meticulously stresses high accessibility of credit components for the rural farmers. Other loan activities such as principal collection and interest collection have also displayed outstanding increment trend of Rs.174.6 million and Rs.43.6 million respectively. In the mean time, the outstanding loan has materialized an impressive growth rate with the average increment of Rs.270.9 million. The credit outstanding portfolio is almost double during the study period, which is the blistering example of ADBL's commitment to serve the poor (CTI Annual Report, 2007:19).

CHAPTER - FIVE

DATA PRESENTATION AND ANALYSIS

5.1 Introduction

This chapter attempts to analyze the information received from the questionnaires, observations, case study, field survey and informal discussions. Especially analysis process and contents are determined as per set of objectives for the study. It consist Small Farmer's participation, share capital, profit, employment opportunity, social awareness, impact on income, consumption, saving, property, health, education, changes in custom and society.

5.2 Secondary Data Presentation and Analysis

Secondary data were collected from Micro finance Division and Small Farmers Development Central of ADB/N head office as well as NRB's finance division. Some secondary data and information were collected from NRB, RMDC, GTZ, RUFIN, Agricultural Development Bank Nepal, Small Farmer Development Limited, SFCL Shankarnagar reports etc. For the purpose of analysis of data four years will be taken as sample from FY 059/60 to 063/64 or Five years only. These data help to prove the main objective of this research.

Table 5.1
Small Farmers Participation in SFCL Shankarnagar, Rupenehi after handover

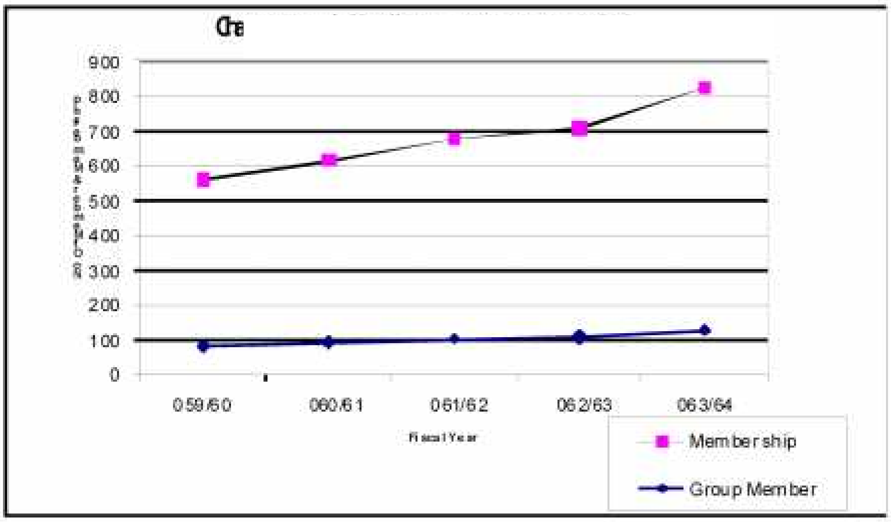
Particulars		Before Hand over	FY 059/60	FY 060/61	FY 061/62	FY 062/63	FY 063/64
Group Member	**Female**	**48**	**79**	**90**	**100**	**107**	**125**
	Male	**4**	**3**	**2**	**2**	**2**	**2**
	Total	**52**	**82**	**92**	**102**	**109**	**127**
Member ship	**Female**	**286**	**457**	**507**	**561**	**584**	**684**
	Male	**28**	**21**	**16**	**16**	**16**	**16**
	Total	**314**	**478**	**523**	**577**	**600**	**700**
Increased Membership	**In No.**		**164**	**45**	**54**	**23**	**100**
	In %		**52.23**	**9.41**	**10.33**	**3.99**	**16.67**

Source: Financial Statement of SFCL Shankarnagar

The first table shows the growing stage of no. of participation of small farmers in SFCL Shankarnagar after handover, Small farmer's participation in SFCL after handover is in increasing way, which is clear from above table. It gives better sign. In those five years, every year number of participants growing an account of better performance of SFCL in society. Female participation is higher in every year than the male. There are two reasons, first is the main objective of the institution is to promote women participation and second is management is on women's hands. From management committee to working staffs are women, so they are motivating to participation. This also proved that SFCL help to empower the women from various aspects.

Figure 5.1

Trend of Small Framers Participation SFCL



After handover FY59/60 Small farmers participation increased by 52.23 percentages, SFCL handover in F.Y. 056/57, in comparisons of handover year it seems more increase because it's comparison of F.Y. 056/57 to 059/60. In F.Y. 2060/61 increasing percentage is less than early year because the management focused its activities on repayment of default loan, member's skill development and capacity building activities. In F.Y. 2061/62 Small farmers participation was slightly increase by10.33 percentages. But it is sure that in coming year the participation in SFCL will increase.

5.2.1 Share Capital of SFCL, Shankarnagar

The Share capital is one of the main internal sources of SFCL Shankarnagar, which help to make self-sufficient in internal resource. The share capital of SFCL Shankarnagar is as follow:

Table 5.2

The Share Capital of SFCL Shankarnagar

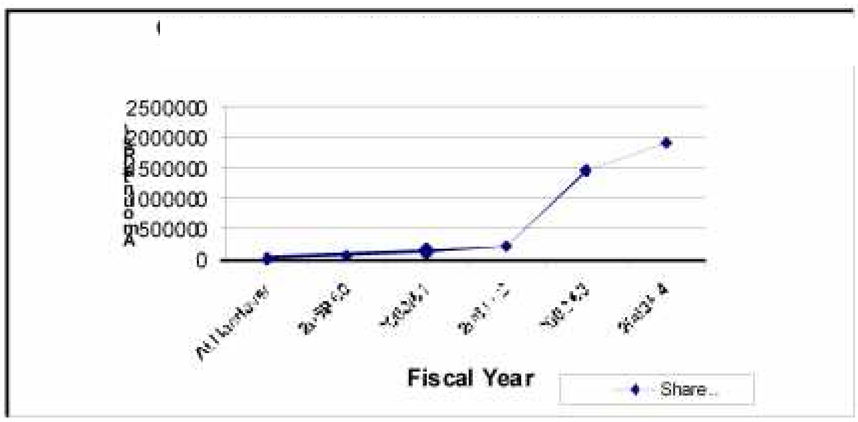
Fiscal Year	Share Capital (Rs.)	% Increase
At Handover	34000	0
2059/60	83000	144.12
2060/61	148000	78.31
2061/62	227000	53.38
2062/63	1463000	544.49
2063/64	1926000	31.65

Source: Financial Statement of SFCL Shankarnagar

The position of the Share Capital of SFCL Shankarnagar is positive. It is increasing order, which give good sign for financial position. That shows financial position of SFCL is increasing every year. After handover FY59/60 share capital increased by 144.12 percentages, SFCL handover in FY 056/57, in comparisons of handover year it seems more increase because it's comparison of FY056/57 to 059/60. In FY 2060/61 increasing percentage is less than early year. In FY 062/63 share capital increased dramatically by 547.35percentages. Percentages of increment are the highest because in that year increased members took more number of shares, which affect the share capital. Although in other fiscal year number of small farmers involved in SFCL increased but that was not much like FY 2063/63 so a percentage of growth is less than this year. Increasing percentage of share capital is presented as below by diagram:

Figure 5.2

Share Capital of SFCL Shankarnagar, Rupandehi



5.2.2 Profit after SFCL

Profit stands for the success of program without profit no institution go head, whether it is profit oriented or service oriented. Although, SFCL Shankarnagar is service oriented but it also gets profit from its activities, after handover and its profit was in increasing way, which is given below:

Table 5.3

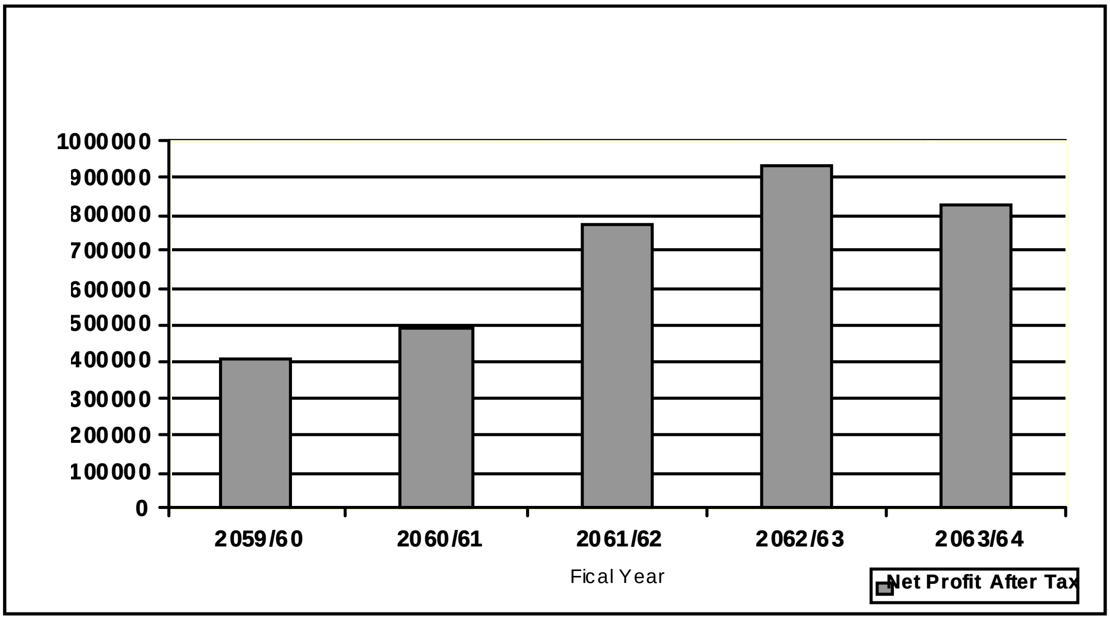
Profit of SFCL Shankarnagar

Fiscal Year	Net profit after tax	Increase	% Increase
At Handover	**0**	**0**	**0**
2059/60	**408000**	**408000**	**0**
2060/61	**490000**	**82000**	**20**
2061/62	**774000**	**284000**	**58**
2062/63	**938000**	**164000**	**21**
2063/64	**829000**	**-109000**	**-12**

Source: Financial Statement of SFCL Shankarnagar

Figure 5.3

Profit of SFCL Shankarnagar



Now the profit-earning situation of SFCL is in better position. In F.Y.059/60 profit is Rs.408000 the second year after handover, in F.Y. 2060/61 the increase is RS.82000.00 in the percentage 20%. In fiscal year 2061/62 increasing rate is higher than ever five year. In percentage it seems 58%. In fiscal year 2062/63 the profit is not decreasing but in percentage it seems decreasing order than previous year. In the fiscal year 2063/64, the profit is decreasing order then previous year So that the growth rate is negative. In this year profit earn in Rs.829000, but in comparison on the previous year profit it seems negative. Profit also helps to measure the financial position of SFCL. Here it shows that, the financial position of SFCL is better.

5.2.3. Position of Bank Loans, Deposits and Loan and Advance

Bank loan is major sources of SFCL to provide Loans to its members. Bank loans is associated with Agricultural Development Bank was transfer to Small Farmer Development Bank Limited (SFDBL) when it was established, which has taken before SFCL or in SFDP's level. Deposit helps to increase internal source, SFCL depends upon saving also, which is collected monthly from its member in certain amount, fixed by SFCL. From both sources bank loans and deposits, SFCL provide loans and advance to its members. The comparative position among bank loan, deposit and loans and advance of SFCL Shankarnagar is as follows:

Table 5.4

Bank Loan, Total Deposits and Loan and Advance

Fiscal Year	Bank Loan	Total Deposits	Outstand Loan and Advance
At Handover	**0**	**728000**	**3353000**
2059/60	**5969000**	**2943000**	**9753000**
2060/61	**4129000**	**4653000**	**10188000**
2061/62	**2689000**	**7057000**	**11497000**
2062/63	**2300000**	**9734000**	**15822000**
2063/64	**1000000**	**11897000**	**18548000**

Source: Financial Statement of SFCL Shankarnagar

The position of Bank Loan, total deposits and loans & advance also show the financial viability of SFCL. It is analysis in this way:

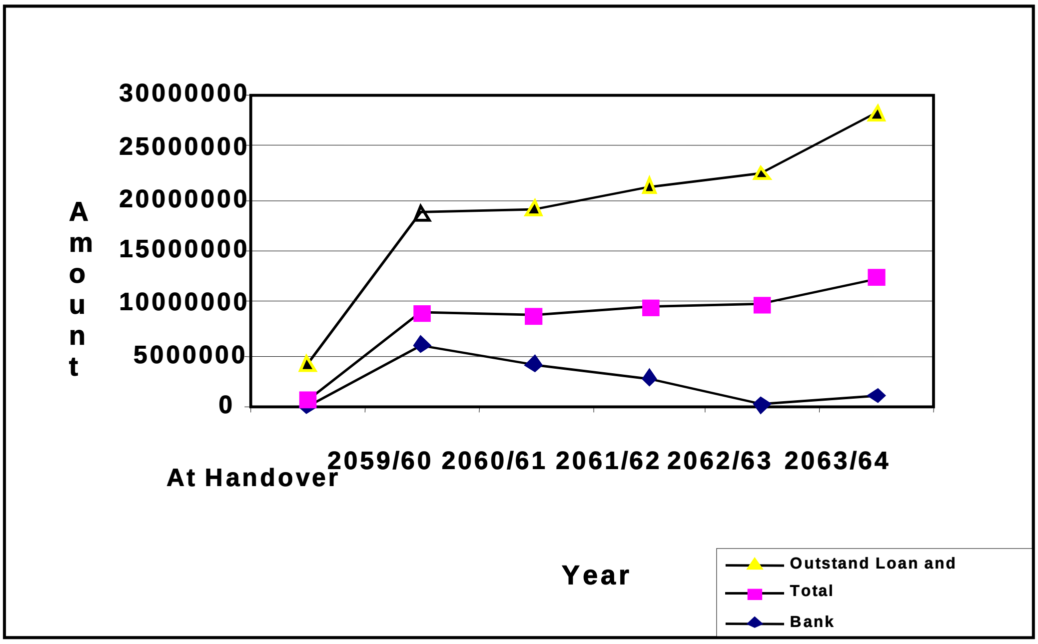
A) Bank Loan

Bank loan is that types of loan, which get from Agricultural Development Bank Nepal's now Sana Kisan Bikash Bank Limited (SKBBL) in Nepal. If it increases it shows SFCL is not in strong position of increasing internal sources. Small farmers on its internal sources and if borrowed loan decrease it show positive position for SFCL because it show the financial position of SFCL is strong. Here, in FY 2059/60 bank

loan of SFCL is Rs.5969000, which is in increasing order. In the beginning, there is no enough infrastructure, no sufficient sources of investment in SFCL. But in further fiscal year slowly bank loan is decreased. It's decreased FY 2059/60 to FY 2063/64. In amount it's decreased on Rs.5969000 to Rs.1000000 or its mean SFCL is able to repay bank loan by generating internal sources. The reasons for such good result are good investment policy of SFCL and increasing internal sources.

Figure 5.4

Trends of Bank Loan, Deposits and Loan & Advances



B) Total Deposits

Deposits show after SFCL the small farmers save per month regularly and certain deposit in SFCL after his/her expenses. Increasing term of deposits shows, strong financial position of small farmers and SFCL. Here from FY 2059/60 to 2063/64 every year's deposits were in increasing trend. In first FY 059/60 deposits of SFCL is Rs.2943000, then it was increased to Rs.4653000, Rs.7057000, 9645000 and increase to Rs.11550000 i.e. F.Y.060/61,061/62,062/63 and 063/64 respectively.

C) Loans & Advance

As outstanding loans increase so, the SFCL's performance could be analysis. The outstanding loans was increasing per year, it was good for the organization, at the handover period loan and advance Rs.3353000. then every year increasing in F.Y.059/60 to 063/64 respectively Rs.9753000 to Rs.18548000. Here bank loans are decreasing, total deposits and outstand loans & advance were increasing trend so it's justify the financial institution is running successfully.

5.2.4. Analysis of Various Ratios

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the item of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as 'the identification quotient of two mathematical expressions' and as the relationship between two or more things. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of firm. For find out of financial sustainability and viability of SFCL, researcher wants to use these ratios:

1. Current ratio
2. Return on total assets ratio
3. Return on Fixed assets ratio
4. Return on Shareholders Fund
5. Loan and advance to total deposit ratio
6. Loan loss ratio
7. Return on loan and advances ratio
8. Return on equity ratio
9. Credit risk ratio

1. Current Ratio

The current ratio is calculated, dividing current assets by current liabilities. Current assets include cash and those assets, which can be converted into cash with in a year, such as marketable securities, debtors and inventories. Thus, current liabilities include creditor, bill payable, accrued liabilities, short-term bank loan, income tax liabilities, and long-term maturity in the current year. The current ratio is measures of the form's short-term solvency. The standard size of current ratio is 2:1. It shows that current assets or liquidity position of SFCL is less than standard size. In second year, it is better because it maintains the standard size of current ratio, which is 2:1, Third.

Current Ratio= Current Assets/Current Liabilities

Table 5.5

Calculation of Current Ratio

F/Y	Current Assets	Current Liabilities	Ratios	Analysis
At Handover	**43000**	**20000**	**2.2:1**	**Better**
059/60	**80000**	**33000**	**2.4:1**	**Good**
060/61	**96000**	**41000**	**2.3:1**	**Good**
061/62	**216000**	**71000**	**3.0:1**	**Danger**
062/63	**13452000**	**9730000**	**1.0:1**	**Better**
063/64	**17212000**	**12878000**	**1.3:1**	**Better**

Source: Financial Statement of SFCL Shankarnagar

2. Return on Total Assets Ratio

Return on total assets ratio shows the assets position of SFCL. This ratio shows form's ability in generating profit from all financial resources committed total assets. Calculation of the return on total assets is as follows:

Return on Total Assets =Profit/ Total assets

Table 5.6

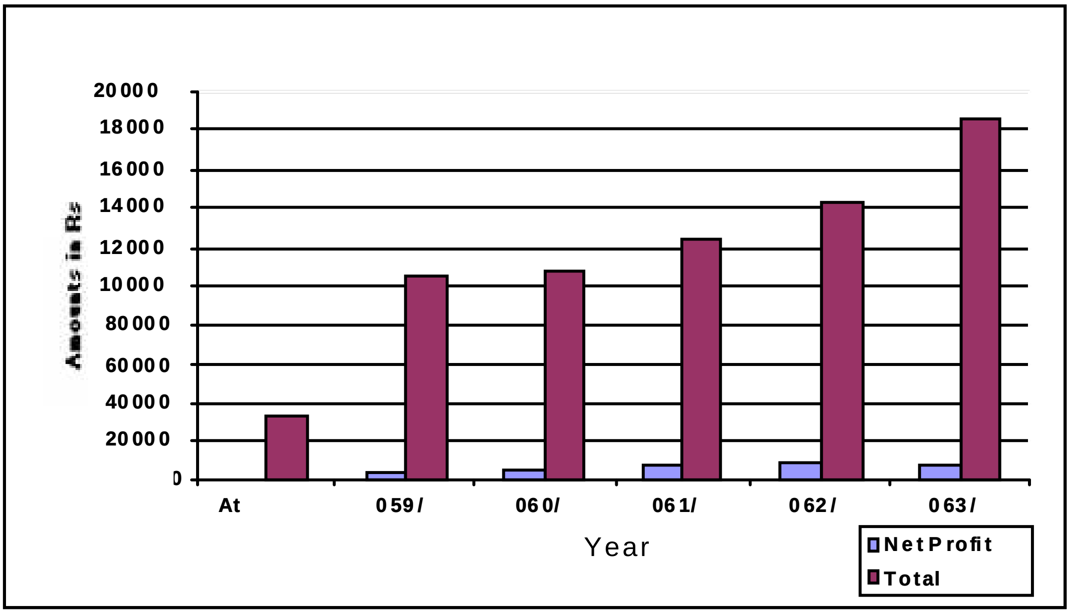
Calculation of Return on total Assets Ratio

F/Y	Net Profit after tax	Total Assets	Ratios
At Handover	**0**	**3428000**	**0.00 Times**
059/60	**408000**	**10333000**	**0.04 Times**
060/61	**490000**	**10777000**	**0.05 Times**
061/62	**774000**	**12516000**	**0.06 Times**
062/63	**938000**	**14379000**	**0.06 Times**
063/64	**829000**	**18576000**	**0.04 Times**

Source: Financial Statement of SFCL Shankarnagar

Figure 5.5

The diagram of Profit and Total



Return on assets is increasing trends till fiscal year 062/63 but in fiscal year 063/64 it decrease by 0.04 times. It shows the return on assets is fluctuating no stable. Fiscal 062/63 fixed assets ratio is increasing because the SFCL investing in office building construction.

3. Return on Fixed Assets

This ratio shows how fixed assets helps the generate profit, how much fixed assets is suitable for the institute. It shows financial position of the institute is over capitalize. Undercapitalize in the better position. It is calculated by:

Return on Fixed Assets = Profit/ Fixed Assets

Table 5.7

Calculation of Return on Fixed Assets Ratio

Fiscal Year	Net Profit After Tax	Fixed Assets	Ratio
At Handover	0	32000	0.00
059/60	408000	342000	1.19
060/61	490000	335000	1.46
061/62	774000	602000	1.29
062/63	938000	927000	1.01
063/64	829000	1364000	0.60

Source: Financial Statement of SFCL Shankarnagar

Return on fixed assets (ROFA) of the SFCL on different fiscal five year is flexible. In F/Y 059/60 and 062/63 ROFA is increasing but in fiscal year 063/64 it is decreasing seriously due to fixed assets is increased. It is necessary to balance in ROFA.

4. Return on Shareholders Fund

Return on Shareholders Fund can be calculated using following formula

Return on Shareholders fund = (NPAIT/SF) *100

Table 5.8

Calculation of Return on Shareholder' Fund Ratio

F/Y	Net profit after tax	Shareholder's Fund	Ratios
At Handover	0	1006000	0
059/60	408000	1725000	23.65
060/61	490000	1994000	24.57
061/62	774000	2935000	26.37
062/63	938000	3051000	30.74
063/64	829000	3152000	26.30

Source: Financial Statement of SFCL Shankarnagar

5. Loans and Advance to Total Deposit Ratio:

The ratio is calculated to find out, how successfully the SFCL is utilization of their total deposit on loan and advances for profit generating purpose. Greater ratios imply the better utilization of total deposits. This ratio can be obtained by dividing loans and advances by total deposit. This can be stated as:

Loan and advance to Total Deposit ratio = Loans and Advances/ Total Deposit.

Table 5.9

Calculations of Loan and Advance to Total Deposit Ratio

F/Y	Loan & Advance	Total Deposit	Ratios
At Handover	3353000	728000	4.61
059/60	9753000	2943000	3.31
060/61	10188000	4653000	2.19
061/62	11497000	7057000	1.63
062/63	12713000	9734000	1.30
063/64	15664000	11897000	1.32

Source: Financial Statement of SFCL Shankarnagar

6. Loan Loss Ratio

This ratio shows the possibility of loan default of a SFCL. It indicates how efficiently it manages its loans and advances and makes efforts for loan recovery. Higher ratio implies higher portion of non-performing loan in total loan and advances. This can be state as:

Loan Loss ratio= Total Loan Loss Provision/ Total Loan and Advances

Here the numerator indicates the amount of provision for loan loss.

Table 5.10

Calculations of Loan Loss Ratio

F/Y	Loan Loss Provision	Loan & Advance	Ratio
At Handover	**0**	**3353000**	**0**
059/60	**61000**	**9753000**	**0.63**
060/61	**55000**	**10188000**	**0.54**
061/62	**87000**	**11497000**	**0.76**
062/63	**127000**	**12713000**	**0.99**
063/64	**156000**	**15664000**	**0.99**

Source: Financial Statement of SFCL Shankarnagar

The loan loss ratio was increasing. As loans and advance increase loan loss provision also increase in F Y 2059/60 is 63 percentages, the ratio was F.Y.062/63 is 99 percentages and 99 percentages in F.Y. 063/64 respectively.

7. Return on Loan and Advances Ratio

This ratio indicates how efficiently the SFCL has employed its resources in the form of loan and advances. This ratio is computed dividing net profit (loss) by loan and advances. This can be expressed as:

Return on Loan and Advances Ratio = Net Profit/Loan and Advances

Table 5.11

Calculation Return on Loan and Advances Ratio

F.Y	Net Profit	Loan & Advance	Ratio
059/60	408000	9753000	4.18
060/61	490000	10188000	4.81
061/62	774000	11497000	6.73
062/63	938000	12713000	7.37
063/64	829000	15664000	5.29

Source: Financial Statement of SFCL Shankarnagar

8. Return on Equity Ratio

Net worth refers to the owners' claim of a SFCL. The excess amounts of total assets over total liabilities are known as net worth. The ratio measures how efficiently the SFCL has used the funds of owners. This ratio is calculated by divining Net profit by Total Equity capital (net worth). This can be stated as:

Return on Equity Ratio = Net Profit/ Total Equity Capital

Here total equity capital includes shareholders reserve, including P/L a/c, share capital.

Table 5.12

Calculation of Return on Equity Ratio

F/Y	Net Profit after Tax	Total Equity Capital	Ratio
059/60	**408000**	**1725000**	**23.65**
060/61	**490000**	**1994000**	**24.57**
061/62	**774000**	**2935000**	**26.37**
062/63	**938000**	**3051000**	**30.74**
063/64	**829000**	**3152000**	**26.30**

Source: Financial Statement of SFCL Shankarnagar

9. Credit Risk Ratio

Credit Risk Ratio measures the possibility of that will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to SFCL. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. Here dividing total loan and advances by total assets derives ratio. This can be stated as:

Credit Risk Ratio = Total Loan and Advances / Total Assets

Table 5.13

Calculation of Credit Risk Ratio

F/Y	Loan & Advance	Total Assets	Ratios
059/60	9753000	10333000	0.94
060/61	10188000	10777000	0.95
061/62	11497000	12516000	0.92
062/63	12713000	14379000	0.88
063/64	15664000	18576000	0.84

Source: Financial Statement of SFCL Shankarnagar

Credit risk ratio of SFCL was flexible. In F. Y. 2060/61 was 0.95 and F. Y. 061/62 decrease to 0.92, F.Y. 062/63, F.Y.063/64, its decrease in 0.84. The SFCL should balance credit risk ratio to minimize credit risk.

10. Growth Ratios:

To examine and analyze the expansion and growth of the SFCL business, the following growth ratios are calculated:

a. Growth ratios of total deposits
b. Growth ratios of loan and advances
c. Growth ratios of net profit

Table 5.14

Calculation of Growth Ratios

F/Y	Total Deposit	Loans & Advance	Net profit	Total Growth ratios		
				Total Deposit	Loans & Advance	Net profit
058/59	**1774000**	**7691000**	**449000**			
059/60	**2943000**	**9753000**	**408000**	**0.60**	**0.79**	**1.10**
060/61	**4653000**	**10188000**	**490000**	**0.63**	**0.96**	**0.83**
061/62	**7057000**	**11497000**	**774000**	**0.66**	**0.89**	**0.63**
062/63	**9734000**	**12713000**	**938000**	**0.72**	**0.90**	**0.83**
063/64	**11897000**	**15664000**	**829000**	**0.82**	**0.81**	**1.13**

Source: Financial Statement of SFCL Shankarnagar

Growth ratios shows growth position of SFCL Shankarnagar. Total Deposit was growing in F.Y.2059/60,060/61and 061/62 were increasing trend i.e. respectively. Where as growth ratios of loans and advances was not in same direction or mostly flexible. In the case of net profit growth ratios that was moderate. Earlier increasing and decreased till negative and slowly increasing direction.

5.3 Primary Data Presentation and Analysis

Primary data, which is collected in actual field, by field observation method as well as questionnaires method those data help to describe the objective of facing changes of society after SFCL. Those data are related with employment opportunity, providing of clean drinking water, improved toilet, saving participation, literacy program, role of SFCL Shankarnagar in women empowerment etc.

5.3.1 Employment Opportunity after SFCL

After SFCL mostly people get opportunity of employment in different field by the help of SFCL program, which is presented below:

Table 5.15

Employment Opportunity after SFCL

SN	Description	Number	Percentage
1	Increase in Employment	140	80.00
2	Decrease in Employment	12	06.86
3	I don't Know	23	13.14
	Total	**175**	**100.00**

Source: Field Survey 2064

We researcher talk face to face with small farmers they find out that after SFCL most of then gets the opportunity of employment in various fields. Out of 175 small farmers 140(80 %) farmers said that after SFCL they could increase in employment. 12 (6.86 %) farmers decrease employment and 23 (13.14 %) farmers told they don't know about employment, In Conclusion SFCL get opportunity small farmers to take employment. i.e. 80% which gives good sign and it shows SFCL help to change and generate employment.

5.3.2 Effect in Health and Health Awareness after SFCL

After SFCL, people of our society also know about health awareness and they improve themselves to care health. From different ways such as they treatment (purify) water before use it, and they wash their hands before take meal etc. The data belong to those activities are presented as below.

Table 5.16

Effect in Health and Health Awareness after SFCL

SN	Description	Number	Percentage
1	Clean Drinking Water	133	76.00
2	Improved Toilet	106	60.57
3	Improved Fire Stove	53	30.29
4	Construct Dung	28	16.00

Source: Field Survey 2064

When, researcher tried to find out the effect on health and health awareness after SFCL in those areas using questionnaires method. In total 175 it is find that in 133 small use clean drinking water that is 76 % and they find 42 farmers were not know about clean drinking water. About 106 (60.57%) farmers used improved toilet and 39.43% are not use it. 53 (30.29%) small farmers used improve fire stoves and 69.71% used traditional methods to cook food and 28 small farmers construct dung. Clean drinking water, construct dung, improved toilet used data give the positive sign. It helps to control the disease, although improved fire stove capacity cannot more improved but it also give positive sign and hope that in future it can be improved.

5.3.3. Effect on Other Social Status after SFCL

SFCL also give positive sign in other field of society with the help of its people improve themselves in different fields. Some effect at SFCL in society is collected questionnaires methods as below:

Table 5.17

Effect on other Social Status after SFCL

S.N.	Description NO	No of participation	Yes		No	
			Number	%	Number	%
1	Literacy Program	175	137	78.28	38	21.72
2	Group Saving Participation	175	175	100.00	0	0.00
3	Banking Service	175	175	100.00	0	0.00
4	Forest Conservation	175	121	69.14	54	30.85
5	Improved Feed and Fertilizer	175	113	64.57	62	35.42
6	Observation Tour	175	159	90.85	16	9.14
7	Livestock Insurance	175	78	44.57	97	55.42
8	Market Management	175	79	45.14	96	54.85
9	**Training of saving**	175	127	72.57	48	27.43
10	**Technical Service**	175	78	44.57	97	55.43
11	**Women Education**	175	169	96.57	6	3.43
10	Training of group mobilization	175	60	34.28	115	65.72
11	Group or Cooperative Mgmt.	175	35	20.00	140	80.00
12	Training about HIV/aids	175	65	37.14	110	62.86
13	Cultivation of Bananas	175	75	42.85	100	57.15

Source: Field Survey 2064

After SFCL activities, group-banking participation, banking service are improved 100% because all175 small farmers give the positive answer, they are benefited by banking service, and group saving. Money saving attitude helps them to increase earning capacity.

Literacy program is also in positive way although 137 small farmers give positive answer but 21.72 % are out of them. Literacy program improve means increase knowledge and understanding power.

Forest conservation program is also increased after SFCL, i.e.69.14%. Forest conservation means save the environment, make the life healthy and growth the productivity.

Improved feed and fertilizer used percentage also increased because 113 small farmers give positive answer. This shows modern farming used in Shankarnagar V.D.C. after SFCL.

Training of small farmer in various field also give positive sign. Training makes man perfect and increase skill in different field then after SFCL out of 175,127 in saving, 79 in market management, group mobilization in 60, related HIV/aids in 65, Group/ Cooperative management in 35 Small farmers take training from SFCL in different fields which give awareness and change the society in positive way.

5.3.4 Role of SFCL for Women Empowerment in the Society

The SFCL Shankarnagar has women managed and mostly woman participated institution. All the activities are concentrating to women development and welfare of women groups. The SFCL has operate many managerial and skill development programmers, encourage women to participate in earning activities like scientific farming, vegetables farming, cattle farming, small glossary shop operation etc. After initiate this institution, help to women to improve and organize in-group to increase earning capacity and develop skill to live, it help economically and technically support to empower women. These entire tasks, makes women aware to their rights and authority in the society and women education rate is also increase by96.57%, so now women empowerment is increased in this area due to SFCL activities.

5.4. Major Findings

After the analysis of secondary data and primary data these result is find out:

5.4.1: From Secondary Data

Share capital position of SFCL is increasable which give best sign.

- Small farmer's participation in SFCL after handover is increasing.
- After Handover Share capital is increased by 144.12%,Share capital increment is fluctuate in F/Y 060/61 it's increased 78.31% than the F/Y 062/63 its increased dramatically 544.49% but in F/Y 063/64 its increased by 31.65%.
- Profit of SFCL increases every year. In fiscal 063/64 its decrease but not so seriously. Due to increasing in fixed assets.
- Positions of deposits through members are increasing way.
- Borrowed Bank Loan position is decreasing per year.
- The position of current ratio is right way in coming year when position of nation about peace is improved.
- The result of total assets turnover ratio give better sign expect last year but hope it will improve.
- The return on fixed assets turnover ratio is fluctuating so the management should use fix assets properly to maintain the good position.
- Return on shareholders fund is also increased.
- Loan and advance to Total Deposit ratio is flexible during study period.
- Loan loss ratio is normal just to meet legal provision.
- Return on equity ratio and Return on loan and advances ratio are satisfactory.
- Credit risk ratio better.
- All growth ratios show better sign.
- Increasing Deposits positions show the financial viability of SFCL, which is better.

- The borrow bank loan of SFCL is in decreasing trend it shows that the organization is able to repay the bank loan from internal sources.

5.4.2 From Primary Data

The primary data collected from field observation 2064 Falgun, and questionnaire method gave these:

- The position of small farmers' employment is increasing i.e.80.00%.
- Provision of clean drinking water used by small farmers is increasable i.e. 76%.
- SFCL help to improved toilet in society i.e.60.57%.
- Small farmers also used improved stove after SFCL i.e.30.29%.
- SFCL help to improved literacy position i.e.78.28%.
- Banking saving, group saving and forest conservations position also increase after SFCL.
- Small farmers also used improved seed fertilizer after SFCL.
- By observation tour, small farmers increase their knowledge and other capacity.
- Health awareness is increasable on small farmers.
- After SFCL, make the society more literacy, program oriented, seeking opportunity in local area, make women more aware in their rights, generate employment and help to generate capital to small farmers.

CHAPTER-SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Nepal is least developed country with a per-capita income of only US $250 and most of the people live in poverty, which can also be extended to the study area. The extreme level of poverty, and different geographic circumstances made the delivery of financial service to the poor particularly challenging. Limited income generating opportunities result in low incomes and reduced saving capacity. Farmers in Nepal are significantly poorer than others, have little access to education and have less control over economic decision. They are predominately confined to domestic and agriculture activities and have few economic opportunities, working mostly as semi-skilled general wageworkers. For economic development both men and women most have equally participation, so that it can mobilize women's in the main stream of development. Access to micro-finance services has proven to contribute towards poverty alleviations and the empowerment of women. However, this must be in a sustainable and efficient manner, ensuring continued access to financial services over the long-term.

In Nepal, two quite different types of micro finance services, the informal or the non- institutional sources and the formal or the institutional sources. The informal sources are money lenders, landlords, traders and friends and relatives while formal sources are consists mainly of (i) banks such as CBs ADB/N, Small Farmers Development Bank Ltd., Chhimeki Development Bank Ltd., RDBL (ii) Targeted Credit Programs such as IBP, SFCL, PcRw, MCPW (iii) Credit cooperatives and (iv) NGOs such as CSD. Micro-finance program initiated by the government of Nepal are generally inefficient (Grameen Bikas Bank). This study confine to contribution to micro credit by Small Farmer Cooperative Limited, Shankarnagar Rupandehi.

6.1 Summary

On the basis of discussions stated in chapter five Presentation and Analysis of data, the summary of finding is presented in this chapter.

After the analysis of primary data and secondary data these results have obtained.

- Small farmer's participation of SFCL after handover is increasing. But in FY 2062/063 it is increased less than early because the management focused its activities on repayment of default loan, member's skill development and capacity building activities. But it is sure that in coming year the participation in SFCL will increase.

- The position of the share increasing positively so it is good sign for SFCL. Ii helps to increase internal sources.
- Profit of SFCL increases every year but in 063/64 profits increment rate is negative due to political, Maoist problem also affect SFCL. However Last FY 061/062 it is good i.e. increase by 58%.
- Position of deposits through members is increasing way.
- Borrowed Bank loan is decreasing.
- The position of current ratio at begging best then of good for 3 years, at last it was danger but it will take right way for further year when position of nation about peace is improved.
- The result of total assets turnover ratio at give better sign expects last year but hope it will improve.
- The return on fixed assets turnover ratio is increasing and decreasing status so the management should use fix assets properly to maintain the good position.
- Return on Shareholders fund is also increased.
- Loan and advance to Total Deposit ratio is flexible during study period.
- Loan Loss ratio is normal just to meet legal provision
- Return on equity ratio and Return on loan and advances ratio are satisfactory.
- Credit risk ratio better.
- All growth ratios show better sign.
- Increasing Deposits position shows the financial viability of SCFL, which is better.
- The borrow bank loan of SFCL is in decreasing trend it shows that the organization i able to repay the bank loan from internal resources.

From collected the primary data field observation and questionnaire method giving those results the primary data collected from field observation and questionnaire method giving that result.

- The position of small farmer's employment is increasing i.e. 80%.
- Provision of clean drinking water used by small farmers is inerasable i.e. 76%
- SFCL help to use improved toilet in society i.e. 60.57%
- Small framers also use improved stove after SFCL i.e. 30.29%
- SFCL helps to improved literacy position i.e.78.28%
- Banking saving, group saving and forest conversation position also increase after SFCL.
- Small farmers also used improved seed fertilizer after SFCL.
- By observation, tour small farmers increase their knowledge and other capacity.

- Training program is increasing which make more efficiency small farmers.
- Health awareness is increasable on small farmers.
- Local market management is also give positive sign.
- Small farmers improve in technical service i.i.44.57%.
- Mainly this program decreases unemployment.
- Women education rate is increase by 96.57% after SFCL activities.
- Increase in modern agriculture system.
- Make the society more literacy, program oriented, busy and improve life style and standard of small farmers.
- Women are aware on their rights and capacity so women empowerment in increase in the Shankarnagar V.D.C Rupandehi.

As this cooperative start to work in the society employment opportunity, social awareness, impact on income, consumption, saving attitude, property, health, education, women participation in social work etc. are changes positively in custom and society.

6.2 Conclusions

From the discussion of all reported data and information, a sharp conclusion appears as followings:

Small Farmer Co Operative Limited Shankarnagar Rupandehi is a women driven and mostly women participating micro finance institution. This SFCL stands in first position in the Rupandehi district and third position in national level in F.Y. 2060/061 and in 061/062. The SFCL Shankarnagar is leading and example cooperative in the Rupandehi District. The present chairmen are chairman from 2057 in Small Farmers Development Program Period. As Shankarnagar SFDP hand over to Community in 2057, the women leadership getting progress day by day. They are able to increase deposits, women participation. As well as the institution able to decrease Agriculture Development Bank loan. It is increasing internal sources deposits and profit so on share capital. All these indicators show the SFCL is being self sustainable.

The SFDP promoted by ADB. The ADB operate SFDP and the handover to community then it becomes SFCL. The ADB has many objectives and areas to work but SFDP has to focuses to small farmers. So the SFDP objectives were in shadow. To focuses SFDP and SFCL activities a separate organization is realized so in 2058 Small Farmer Development Bank Limited was established. The SFDP bank Limited is a socialized to handle SFDP and SFCL only. By B.S 2059 Marg 3, SFD bank limited takes care of all the activities related to

SFDP and SFCL. Now it is very easy to SFCL to work with SFD bank limited because SFCL fells own bank to Sana Kisan Bikash Bank Limited.

The SFCL is facing many problems. Even Among those problems, the SFCL able to bring positive change in the society. Women participation are earning activities is increasing day by day. The leadership quality of women is developing. Due to the earning capacity, the decision power of women is increased. In other word over all activities of SFCL Shankarnagar is helping in women empowerment of these areas. As a result the rural area is developing in various sectors for example road, drinking water, and toilet. Deposit collection, scientific farming, vegetable production, milk production and marketing. SFCL generating self-employment i.e. operate small grocery shop, vegetable farming.

The SFCL has many advantages. It is playing very important role within rural women rather than man because men have access in other micro finance institution.

6.2 Recommendations for Further Research

Since this study is confined to the Small Farmers of the Shankarnagar village development committee, Rupandehi. So the result may not be generalized for all farmers of the district.

On the basis of the above findings, conclusions the researcher's field survey and experience during the research period, it is recommended that the comparative study of Small Farmer Cooperative Limited operating in this Rupandehi district should be conduct to find the real contributions of SFCL in poverty alleviation in the Rupandehi district. Further study should concerned to find the way how the uniqueness qualities of this cooperative can be use to lend at low cost to its members to poverty alleviation and what factors can help to this cooperative to be well known for best practice with new creation in micro finance system among all SFCL.

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Instruction:

Please tick mark (/) in appropriate place and put your views in the quest

Please answer the following question correctly:

Date: ....

Name: ....

Address: ....

Municipal/V.D.C.: ....

Ward No : ....

1. Employment opportunity after SFCL

What do you think on Employment after SFCL?

Increase ( )

Decrease ( )

I don't know ( )

2. Effect in health and health awareness after SFCL

(A) Is SFCL helping to provide of clean drinking water?

Yes ( ) No ( )

(B) Are you using improved Toilet?

Yes ( ) No ( )

(C) Are you using improved fire stove?

Yes ( ) No ( )

(D) Are you using Dung?

Yes ( ) No ( )

(E) Is SFCL conduct any medical check campaign?

Yes ( ) No ( )

(F) Is SFCL has run any health awareness program?

Yes ( ) No ( )

3.Effect on other social status after SFCL

Is SFCL helping in the following aspects of society

Literacy Program	Yes ( )	NO ( )
Group Saving Participation,	Yes ( )	NO ( )
Banking Service	Yes ( )	NO ( )
Forest Conservation	Yes ( )	NO ( )
Improved Feed and Fertilizer	Yes ( )	NO ( )
Observation Tour	Yes ( )	NO ( )
Livestock Insurance	Yes ( )	NO ( )
Market Management	Yes ( )	NO ( )
Training on group operate	Yes ( )	NO ( )
Technical Service	Yes ( )	NO ( )
Nadi Niyantran (Flood Control)	Yes ( )	NO ( )
Control Women Trafficking	Yes ( )	NO ( )
Training on Deposit collection	Yes ( )	NO ( )
Training on cooperative	Yes ( )	NO ( )
Training on Market management	Yes ( )	NO ( )
Training on Accounting	Yes ( )	NO ( )
Training on Livestock insurance	Yes ( )	NO ( )

2.Social Characteristics of SFCL membership

A. Caste/ Ethnic Group: ....

B. Age group : ....

C. Sex : ....

D. Education : ....

E. Martial Status : ....

i. Married ( )

ii. Unmarried ( )

iii. Divorce ( )

iv. Widowed ( )

v. Separated ( )

F. Land Ownership

I. Owner

Area: .... Bigha .... kattha .... Dhur ....

II. Landless

Living Standard of the respondents before and after Borrowings.

What is your consumption pattern?

SN	Particulars	Before Program	After program
1.	**Feeding:**		
a.	Traditional Feeding like rice, pulse, vegetable.		
b.	Non-traditional Feeding by adding meat, fish egg, milk. etc. in traditional Feeding		
2.	**Clothing:**		
a	Dirty and Rough		
b	Clean		
c	Simple and clean		
d	Expensive and clean		
3.	**Sheltering: House made of :**		
a	Wood, Soil and Straw		
b	Wood soil and Tile		
c	Brick, cement and iron rod		
d	Other types		

6. Are you success to debt reduced after becoming member? ....

7. Have you got any training? Do you think it as useful for you? ....

8. Do you think the present service of SFCL is satisfactory? ....

9. Do you think the program should continue? ....

10. Role of SFCL in Women Empowerment in this Society.

a. Are you feeling in increase in managerial capacity?

Yes ( ) No ( )

b. Are you participate in Social and group workshop?

Yes ( ) No ( )

c. If you get political leadership, do you accept?

Yes ( ) No ( )

d. Is SFCL motivating you in social works?

Yes (   ) No (   )

APPENDIX-A

Survey Questionnaire

Socio-economic Background of Members in

Small Farmers Co-Operative Limited Shankarnagar, Rupandehi

Small Farmers Co-operative Limited,

Shankarnagar, Rupandehi

Dear respondent,

I have been writing thesis on "Micro Finance in Nepal and its Influence in economic and social condition (a case study of Small Farmers' Co-operative Limited Shankarnagar, Rupandehi) in partial fulfilment of the requirements for the Award of the Degree of Master of Arts in Rural Development. I have needed your response on questions asked you. I have sent you some questions regarding operation of SFCL hoping your timely and real response. Your co-operation has great value for this researcher.

Thank You

Dev Hari Subedi

Researcher

T.U. Kritipur

APPENDIX-B

Basic Key Financial Indicators of Small Farmers' Cooperative Ltd. Shankarnagar, Rupandehi Nepal (Rs.000)

SN	F/Y	Current Assets	Fixed Assets	Total Assets	Current Liabilities	Net Profit	Share Capital	Share holders 'Fund	Bank Loan	No of Shareholders		
										Female	Male	Total
0	**At handover**	**43**	**32**	**3428**	**20**	**0**	**34**	**1006**	**0**	**286**	**28**	**314**
1	**059/60**	**80**	**342**	**10333**	**330**	**408**	**83**	**1725**	**5969**	**457**	**21**	**478**
2	**060/61**	**96**	**335**	**10777**	**41**	**490**	**148**	**1994**	**4129**	**507**	**16**	**523**
3	**061/62**	**216**	**602**	**12516**	**71**	**774**	**227**	**2935**	**2689**	**561**	**16**	**577**
4	**062/63**	**13452**	**927**	**14379**	**9730**	**938**	**1463**	**3051**	**2300**	**584**	**16**	**600**
5	**062/64**	**17212**	**1364**	**18576**	**12878**	**829**	**1926**	**3152**	**1000**	**684**	**16**	**700**

SN	F/Y	Outstand loans Advance	Total Deposits	Investment	Loan Collection	Loan Loss Provision	Interest Collection	Interest Collection Rate
0	At Handover	3353	728	0	0	0	0	96 %
1	059/60	9753	2943	10013	7951	61	1554	100 %
2	060/61	10188	4653	9301	8866	55	1825	100%
3	061/62	11497	7057	12755	11446	87	2084	100%
4	062/63	12713	9734	15822	13817	127	1857	100%
5	063/64	15664	11897	18548	15597	156	2063	100%

Sources: Various year Financial Statements of SFCL Shankarnagar Rupandehi, Nepal