

**THE PRACTICE OF MICROFINANCE AND ITS IMPACT:  
A CASE STUDY OF SMALL FARMER CO-OPERATIVE  
LIMITED (SFCL) BAGLUNG, NEPAL**

**A Thesis Proposal**

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## 1.1 Background of the Study

Micro finance is type of banking service that is provided to unemployed or low income individuals groups who would otherwise have no other means of gaining financial services. Ultimately the goal of micro finance is to give the low-income people an opportunity to become self sufficient by providing a means of saving money, borrowing money and insurance.

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

For some, microfinance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also saving, insurance and fund transfer." Many of those who promote microfinance generally believe that such access will help poor people out of poverty, including participants in the microcredit summit campaign. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Microcredit is one of the aspects of microfinance and the two are often confused. Critics may attack microcredit while referring to it indiscriminately as either 'microcredit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact. Proponents often claim that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is to enhance financial inclusion.

Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not

employed by the formal financial sector. “The Term micro finance is used to describe the aberrations a micro finance institution, a micro finance project is a micro finance component of a project, when referring to an organization providing micro finance services, whether regulated or unregulated.”

## **1.2 Statement Of the Problem**

Different international nongovernmental organizations are funding to encourage the program. The organizations also has doubt on is SFDP program beneficial to increase income of rural people. If the program is really beneficial for the rural people the investment of those INGOS will increase and it will be highly beneficial for the rural people.

For last couple of years, the SFCL Baglung will not rated as the best performing SFCL, according to ADBN evaluation criteria. So, this research paper tries to prove the following issues:

- Is financial viability and sustainability of SFCL will be strong?
- Is SFCL Baglung will be help to facing change of society?
- Is alternative leadership will be developed or not?
- Is sufficient professionalism in entrepreneurship will be developed? Or not?
- Are the main problems will be related to do this research?
- Is skill development of small farmer will be developed?

## **1.3 Objectives of the Study**

Considering the importance of the agriculture and the problems of small farmers, the study of the SFCL is very contextual and significant. The main objective of SFCL is to improve the economic conditions and to standardize their standards; so, we need to study the investment, training components, participants of target group and the operational methodology of SFCL. The study of the SFCL keeps great importance. The study intends to know the working operation and earning abilities of the small farmers broadly. It tries to know the objectives of the SFCL are going to be fulfilled and the influence and impact of this programmed in the society. To change the nature of society micro finance is emerging concept in Nepal. The value of micro finance in Nepal is raise day-to-day. Now through Micro-financing activities Nepal succeeded to reduce poverty of country. So tenth plan take objective only one i.e. poverty alleviations from 31.5 to 25.6 percentage within coming five years. That is not joke for government but micro finance help to fulfill it. This research paper also surrounds it. This research paper does a case study of SFCL in Baglung district. The Specific objectives of the study are as follows:

1. Will be analyze the impact of SFCL programs in the upliftment of the socio-economic condition of small farmer.
2. Will be identify effect of SFCL programs in the skill development of small farmers.
3. Will be analyze the performens of deposit, collection and mobilization of loan of SFCL.

#### **1.4 Significant of the study**

Various studies will be made on SFDP, which are reflected in Nepal Rastra Bank and APROSC report. These studies cover a large area and results are not specific to identify the problems faced by the specific area. However, this study is mainly concerned with the RM level. So present study will be provides substantial data relating to the socio-economic condition of small farmers of Baglung area, which, may be used to measure the successes of the implementation of the program.

More than hundreds of SFDP are handed over as SFCL and till now millions of rupees have been disbursed on small farmers even after handover. Therefore, the impact of study is essential to measure its benefit and to trace the way for maximizing the effectiveness of such program. In order to do so, this study will be a clue for the measurement.

#### **1. 5 Limitations of the Study**

These studies will be mainly focus SFCL Barang and Terakhola RM of Baglung .The limitations of the study are as follows:

1. Time period: An analysis made on the basis of short time period may not take absolutely correct picture of the organization.
2. Focus of the study: The study will be only focus on financial performance of the SFCL. The most important social part of the program is not studied in details
3. Answer of the respondent: As the questionnaire will be taken with some randomly selected farmers, their opinion may not totally match with the opinion of the total population.
4. Data: The study will be highly depending upon secondary as well as primary data. The data collection system in the field level is no scientific and perfect.

5. The study will be based on the secondary data provided by the SFCL and ADB/N

## **1.6 Research Methodology**

### **Research Design**

A research design will be a plan for the collection and analysis of data. It presents a series of guide posts to enable researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, conceptual clarity, and methodology, survey of literature and documentation, bibliography, data collection, listing of the hypothesis, interpretation, presentation and report writing.

### **Sources of Data**

Both primary and secondary data will be used in this study, secondary data were obtained from ADB/N, APROSC, Nepal Rastra Bank, Central Bureau of Statistics, Barang and Tarakhola RM Office, Publication of Institutional Division of ADB/N Head Office related Journal books and SFCL itself.

Primary data will be collected from the sampling survey through a questionnaire pertaining to stated objectives. As far as possible all members of sample groups were tried for an interview but only 105 persons were interviewed. Researcher himself was involved in the field survey. Information derived from the field survey had been plotted in master chart and then necessary primary data for the study were taken out from this chart.

## **1.7 Organization of the Study**

This study has been divided into the following five majors chapters .

### **Chapter 1 Introduction**

This chapter contained Background of the Study, Brief overview of Micro finance, Statement of the problems, Objectives of the study, Signification of the Study and Limitation of the study.

### **Chapters 2 Review of Literature**

These chapters deals with the review of literature of related study. it contained conceptual review and reviews of major studies related with the research.

### **Chapter 3 Research Methodology**

This chapter contained the research methodology used in this study. It included Research Design, Nature and Sources of Data, Period Covered, Data Processing Procedure, Financial and Statistical tool for the study.

### **Chapter 4 Presentation and Analysis of Data**

Various related data are gathered. the collected data are computed as required by the research objectives. In this chapter the different types of data are interpreted and analyzes with the help of various analytical tools and techniques folloes by major finding of the study.

### **Chapter 5 Summary, Conclusions and Recommendations**

This chapter covered Summary, Conclusions and Recommendations, Bibliography and appendix are included in the last part of the report.

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