

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

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## **RECOMMENDATION**

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**A case study of small Farmer Co-operative Limited(SFCL) Baglung ,Nepal**

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## DECLARATION

I hereby declare that work reported in this thesis entitled "**The Practice of Microfinance and its impact**" (A case study of **Small Farmer Co-operative limited (SFCL) Baglung Nepal**) submitted to office of the Dean ,faculty of Management ,Tribhuvan University ,is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.)under the supervision of Prof.Dr.Puspa Raj Sharma of Central Department of Management Kirtipur,Kathmandu.

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## **ABBREVIATION**

ADB/N-	Agricultural Development Bank
APRACA-	Asia Pacific Regional and Agricultural Credit Association
APROSE-	Agricultural Project Services
CB's-	Commercial Bank's
CO-	Community Organization
DLGSP-	Decentralized Local Governance Support Program
EU-	European Union
FINGO-	Financial Intermediaries Non- Government Organization
GA-	General Assembly
GO-	Group Organization
GTZ-	German Technology Co-operation
IDP-	Institutional Development Program
IFAD-	Internal Fund for Agricultural Development
IG-	Inter Group
INGO-	International Non-Government Organization
LDF-	Local Development Fund
MC-	Main Committee
MFI-	Microfinance Institute
MOAC-	Ministry of Agricultural and Co-operative
MOF-	Ministry of finance
MOLR-	Ministry of Land Reform
NCCC-	National Co-operative Consultation Committee
NCDB-	National Co-operative Development Board
NGO-	Non- Government Organization
NRB-	Nepal Rastra Bank

PCRW-	Production Credit for Rural Women
PDDP-	Participatory District Development Program
RUFIN-	Rural Finance Nepal
RM-	Rural Municipality
SCG-	Saving fund Credit Co-operative
SFCL-	Small Farmer Co-operative Limited
SFDBL-	Small Farmer Development Bank Limited
SFDP-	Small Farmer Development Program
SHG's-	Self- Help Groups
SKBBL-	Sana Kisan Bikas Bank Limited
SPO-	Sub Project office
UNDP-	United Nation Development Program
UNICEF-	United Nation Children's fund
WDP-	Women Development Program
WEP-	Women Empowerment Program

# **CHAPTER ONE**

## **INTRODUCTION**

### **1. BACKGROUND**

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."

According to Micro Finance Institution (MFI) MFIs can be non-governmental organizations (NGOs), savings and loan co-operatives, credit unions, government banks, commercial bank or non-bank financial institutions. Micro finance clients are typically self-employed, low income entrepreneurs in both urban and rural area clients are often traders. Street vendors, small farmers, service providers (hairdressers, rickshaw drivers) and artisans and small producers, such as blacksmiths are seamstresses. Usually their activities provide a stable source of income (often from more than one activity). Although they are poor, they are generally not considered to be the "Poorest of the Poor" the meaning of micro finance in this way.

- It is a system of grassroots development finance.
- It deals with the poor people, low income group, the asset less, the marginalized, the exploited and the desperate.
- It provides small loans to meet their diverse needs with simple procedure in homely atmosphere.
- It takes small and petty saving for safe keeping meeting their lump-sum requirement in future.
- It offers other financial services such as micro insurance.

### **Importance of Microfinance**

Microfinance is one such concept that gives the masses and underprivileged section of the society, access to business opportunities and the power to overcome

ossified social structures. Apart from the benefit of creating social equality in business arena, finance (particularly microfinance) acts as an extraordinarily effective in eradicating poverty . Microfinance is defined as an entire range of financial and non-financial services including skill up gradation and entrepreneurial development, rendering to the poor for enabling them to overcome poverty. Financial assistance is provided in the form of small loans, acceptance of small savings and provision of other financial products and services to the poor. The main importances of microfinance are as under.

- It provides the financial services not accessible through the increase and diversifies their economic activities.
- It helps to reduce poverty through microfinance activities.
- It boosts self confidence among the poor.

### **Importance of Microfinance for small farmer in Nepalese context**

Poverty is main problem of world today. Every country faces this problem. This is the main barriers for today's world, without solve it, no one can get really success in every part of country's development. Nepal, a least develop country, also faces this problem. Here 25.6% People are under poverty line (report on CBS 2012 ) Without solve poverty Nepal can't develop the nation. From the various methods Nepalese government and other sectors of Nepal are trying to solve this problem. Microfinance is also one of the sources of it which also help Nepal to reduce the poverty and develop the rural area of Nepal. With the help of microfinance, Nepal gets success in poverty alleviation. Poverty alleviation helps rural development, increase the life standard of people and also give socio-eco status of people in society.

Microfinance, specially, focuses the small farmer in Nepal and how it helps to poverty reduction of country. It help to develop local level small farmers organization, and enhance the financial and managerial capability of grass root organizations through imparting knowledge and skill and how to create confidence among the poor people about saving collection and mobilize rural savings through micro finance activities. Microfinance clear the picture of facing change of society of SFCL.

### **ADB/N and SFCL Baglung district**

Agricultural Development Bank, Nepal (ADB/N) was established in 1968 with the major objective of rural economy development through credit and technical support. The ADB/N has been performing major functions to provide short, medium and long

term agricultural loans to individual farmers, small farmer groups, co-operative societies, corporate bodies and village communities. The organization and management structural of ADB/N including Chairperson nominated from the Ministry of Finance (MOF), Ministry of Agriculture and Co-operative (MOAC), Ministry of Land Reforms (MOLR), Nepal Rasta Bank (NRB), the Co-operative Societies, the Individual Shareholders and the General Manager of ADB/N.

The major programs of the ADB/N are as follows: Agriculture finance program, Commercial Banking program, poverty Reduction program (microfinance). Poverty Reduction program specially related with Micro financing activities. With the help of this program ADB/N give major contribution poverty alleviation of country. Not only that this program help rural development of the country. This research paper also depends upon this program. The major objectives of Poverty Reduction Program are as follows:

- To develop local level small farmers organizations.
- To enhance the financial and managerial capability of grass root organization through imparting knowledge and skill.
- To empower the small and poor farmer through those organization.
- To create confidence among the small farmers about saving collection and mobilize rural savings.

The Small Farmer Co-operative limited (SFCL) Barang and Tarakhola rural municipality is situated in the hilly region of the Baglung district. The agricultural Development Bank Nepal (ADB/N) implemented the Small Farmer Development Program in 1975. At that time, the VDC did not have infrastructure facilities like today. Most of the people were migrants from the hill areas. In the meantime through the program, the people built community roads, irrigation and water supply schemes.

The ADB/N introduced the Institution Development Program (IDP) in the mid nineties. The main objective of the IDP is to transfer the government owned sub-project office (SPO) into a small farmer owned and managed SFCL, was achieved in B.S.2059, 2059 and 2060 respectively with the establishment of SFCL Barang and Tarakhola basti of Baglung. Committees of a part from this, SFCL Baglung districts also provide other innovation financial services to its members, such as Pewa savings for old age and a livestock insurance scheme. Non-financial services include milk collection, irrigation programs, employment generation program, health awareness, literacy program, market management program etc.

## **1. 2 Statement of the Problem**

The agriculture has remained the main stay of the Nepalese economy. However, agricultural production is largely for subsistence and marketable surplus is negligible. More than 60% farmers are small farmer and it is very difficult for farmers to finance on new technology enhancing productivity ( Agri-Census 2010 p.72 ).

Productivity of crops is not satisfactory in Nepal because of the small farmers who constitute the bulk of rural society and which have not been able to participate in the development process because of their innocence, illiteracy, poverty and malnutrition. Hence, the agricultural productivity is decreasing gradually. Consequently, the disparity between big and small farmers has widened. It is notable that there has emerged general agreement among policy makers and economists that in order to improve the socio-economic condition of the people, more attention should be given to small farmer group.

To improve the economic condition, income level should be increased through improvement in agriculture and providing other opportunities. Improvement of agriculture is possible only when improved seeds; scientific technology, fertilizer (chemicals), irrigation facilities, education and other facilities could be made available to farmers. The facilities which are offered by government, do not reach to small farmers because of their poverty and illiteracy. They are so poor that they cannot afford to use new techniques. Moreover, they are not in position to get credit from banks due to lack of good security. These problems of small farmers are so closely knitted that is difficult to settle down easily.

Realizing this, Nepal government has launched many programs for small farmers. Among these, SFDP is one of the important programs particularly designed to uplift the status of small farmers, SFDP along with all related agencies support work to uplift small farmers by solving their existing problems but sometimes remedies may become more dangerous than the disease itself. During the implementation of program various problems may arise, this may hamper the mobilization of the poor. However, such program should be carefully implemented.

ADB/N has been starting SFDP program to enhance the rural people to increase their standard of living. It is very important for ADB to understand the income status of rural people. Most of the rural peoples are illiterate and unable to use their capacity and to assess the surrounding situations. They cannot understand which program is beneficial to them and which is not. The rural peoples are not also economically and socially aware. Their training component are also not so effective and sufficient to aware the local people. The programmers are also not supporting fully the technological assistance to the farmers. Similarly another prominent factor is illiteracy

of women and their traditional thinking, which play an important role in the production. Other problems are transportation, marketing, and communication which are also the important component of production.

Irrigation, seed, fertilizer and insecticides are not available in proper time. This is also a problem for the crop and cereal farmers. In the same way, fodder, grass and grazing land are not much sufficient for livestock farming. Likewise other activities have many specific problems.

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 was 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 strong?
- Is SFCL Baglung help to facing change of society?
- Is alternative leadership developed or not?
- Is sufficient professionalism in entrepreneurship developed? Or not?
- Are the main problems related to do this research?
- Is skill development of small farmer 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. To analyze the impact of SFCL programs in the upliftment of the socio-economic condition of small farmer.
2. To identify effect of SFCL programs in the skill development of small farmers.
3. To analyze the performens of deposit, collection and mobilization of loan of SFCL.

#### **1.4 Significant of the Study**

Nepal Government has introduced a number of different programs to extend financial services to rural people, including women and poor. These include mainly Intensive Banking Programmed (IBP) implemented by Commercial Banks (CBs), Small Farmers Development Program (SFDP) implemented by Agricultural Development Bank, Nepal (ADB/N), Small Farmers Co-operatives Ltd. (SFCL), promoted by ADB/N, Promotion Credit for Rural Women (PCRW), Regional Rural Development Bank (RRDB) and Micro Credit Projects for Women (MCPW) implemented by CBs, although the design of many of these programs were targeted to the minimal. Above these programs, Micro – finance is related to the poverty reduction of alleviation.

Various studies have been 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 VDC level. So present study 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 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 is 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 is taken with some randomly selected farmers, their opinion may not totally match with the opinion of the total population.
4. Data: The study is 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 is based on the secondary data provided by the SFCL and ADB/N

## **1.6 Organization of the Study**

The economic impact of Small Farmer Co-operative Limited (SFCL) is the subject matter of the study. This study has been organized in five separate chapters: Introduction, Review of Literature, Research Methodology, Analysis and Interpretations of Data and Summary Conclusion and Recommendations.

Introduction chapter is the first chapter of the study. This chapter includes general and specific introduction; statement of the problem and objectives as well as importance and limitations of the study towards evaluating the SFCL's performance. This chapter also includes frame of the study. A brief presentation of the concern studies and findings as well as review of various related literatures have been described in chapter two. Chapter three contains the study of research design, source of data, data collection and procedures. Some statistical tools are used to evaluate economic impact of the SFCL. Chapter four include introduction of study area. Chapter five is related to introduction of project area and the pattern of loan disbursement, collection and outstanding data as well as primary data presented, analyzed and interpreted to know the economic impact of SFCL. The data have been presented, analyzed and interpreted with the statistical tools and techniques i.e. percentage, correlation, Gini's-Coefficient, Lorenz Curve and Bar-Diagram. The last chapter five includes summary of whole study, conclusions of the study as well as recommendations.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

Literature review is the simple summary of the thesis. It gives theoretical base for the research and helps us determine the nature of our study case. This chapter followed by theoretical framework, review of related Nepalese study, conceptual framework and concluding remarks.

#### **2.1.1 Theoretical framework**

Small Farmer Development Program (SFDP) was initiated in 1975 with the objective of improving socio-economic conditions of the rural poor including women by bringing them into the mainstream of development process. Group approach is the fundamental basis for program implementation. Households having per capita family income of less than or equal to Rs. 2500 and /or a land holding size up to 0.5 ha. Are categorized as small farm families for providing financial and non-financial services through SFDP.

Credit is provided for different purposes related to production, marketing, and other income/employment generating activities. To develop saving habit among small farmers, group saving and its mobilization is also being undertaken as an integral component. As complementary input to credit and saving services, the target groups of the program are also trained in different areas such as group management and it's functioning, saving mobilization, income generating activities etc. Moreover, social and community development activities are also being undertaken for the welfare of rural people.

Institutional development Program and SFCLs: In view of the few shortcomings of SFDP such as high operating cost and slow growth in outreach, an alternative approach of empowering the target groups was initiated within SFDP framework through Institutional Development program (IDP). Under this approach, small farmers are encouraged to build up autonomous and viable institutions owned, managed and controlled by them. Such autonomous body is named as Small Farmer Co-operative Limited (SFCL) which is registered under co-operative Act. The beneficiaries of SFCLs are provided intensive training in different areas such as office management, book keeping; group functioning etc for capability development and the SFDP's assets and liabilities are ultimately handed over to the SFCL. After the completion of hand over process, the bank provides wholesale credit to these institutions from which loans are provided the target groups.

The initial results of SFCLs are noted to be positive particularly in the areas of financial viability, leadership development, participation and internal resource mobilization and expansion as well as diversification of program activities. Some of the SFCLs are emerging with notable outcome and are capable of replicating Institutional Development Process on their own. Moreover, 11 SFCLs are carrying-out limited banking operation under the supervision of the central bank. One of the remarkable features of SFCLs is low level of operating expenses i.e. only 2.3% of loan portfolio. As per the study carried out by GTZ, these grassroots level institutions have maintained high growth rate in saving collection and continuously increased quality of loan portfolio.

Small Farmers Development Bank: To provide qualitative and effective financial and non –financial services exclusively to SFCLs, ADBN established Small Farmers Development Bank Limited (SFDBL) as its subsidiary development bank in 2002. SFDBL is owned by the Government, ADBN, two commercial banks and SFCLs. However, as per the plan, the shares presently owned by ADBN and the Government will be gradually of loaded to SFCLs. ADBN has envisaged that after next five years, SFCLs will own majority of shares of SFDBL. Consequently, these institutions will be in a position to control the management of this apex level bank.

### **2.2.1 Concept of Micro Finance**

Micro finance has evolved as an economic development approach intended to benefit low- income women and man. The term refers to the provision of financial service to low- income clients, including the self-employed. Financial services generally; including savings and credit, however, some micro finance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation development of self-confidences, and training in financial literacy and management capabilities among members of a group. Thus the definition of micro finance often includes both financial intermediation and social intermediation. Micro finance is not simply banking, it is a development tool.

Micro finance activities usually involve:

- Small Loans, typically for working capital
- Informal appraisal of borrowers and investments
- Collateral substitutes, such as group guarantees or compulsory saving
- Access to repeat and larger loans, based on repayment performance
- Streamlined loan disbursement and monitoring
- Secure saving products

- Raise the income level of small farmers by increasing their production and productivity of on-farm as well as off-farm activities.
- Raise their social status by empowering and involving them in social and community activities.
- Create additional opportunity for employment generation by mobilizing their skill, labor, locally available resources in meaningful and productive manner.
- Adopt the local delivery mechanism of government agencies and other institutions to the needs of the small farmers.
- Develop self-reliance and independent grass-root level organization of the small farmers so that they would be able to organize themselves to plan and carry out the activities for their own development.
- Enable small farmers to develop their own institutions and formulate plan and programs and implement them accordingly at grass roots level

Although some MFIs provided enterprise development services, such as skill training and marketing, and social services, such as literacy training and health care, these are not generally included in the definition of Micro finance.

### **2.2.2 Review of Related Nepalese Studies:**

The term microfinance was not used in earlier part of the history of rural microfinance. It has been found used in Nepal only in the later part of 1990s. Rural credit in Nepal began in 1956 with the opening of Credit Cooperatives in Chitwan Valley to provide loans to the re-settlers coming from different parts of the country. The government through the creation of the Cooperative Development Fund (CDF) arranged some credit support to the re-settlers through those cooperatives. In 1963, the government established the Cooperative Bank, which was later converted into the Agricultural Development Bank Nepal (ADBN) in 1968. The Cooperatives faced problems of shortage of fund for credit disbursement to their members on the one hand and misappropriation of borrowed fund for personal uses by some of their officials on the other. Hence, the government commissioned a fact-finding mission in 1968 to probe the operations of 1489 cooperatives then registered with the Department of Cooperatives and the mission found most of them at defunct stage and recommended for their liquidation.

Thereafter, the government introduced the Cooperative Revitalization Program in 1971. It authorized the Agricultural Development Bank Nepal to run cooperatives under its guidance and management. In 1976, 'Sajha Program' was launched and the Cooperatives were renamed as 'Sajha Societies'. The compulsory savings collected under the Land Reform Program of 1964 (2021 B.S) were converted into the share

capital of the Sajha Societies. The NRB conducted a benchmark survey in 1983/84 to assess the situation of the cooperatives. The study found that 94% of cooperatives were dealing with transactions of agriculture inputs and 85% were also found extending credit. Most of the cooperatives were running at losses and over 75% of the outstanding loan was overdue for more than 1 year.

ADBN launched the Small Farmers Development Program in 1975 – first as pilot project at two sites, Sakhuwa Mahendranagar of Dhanush district in the Terai and Tarakhola of Baglung district in the hills. The strategy was to organize small farmers, tenants and landless laborers into groups and strengthen their receiving mechanism for tapping resources from service delivery agencies. Credit was provided under group guarantee. It also focused on developing a habit of thrift and personal savings among the members of the groups. They also started group savings to realize self-reliance in financial resources. A total of 142,711 members who were organized into 19,597 groups were benefited from the program by July 1991/92.

After the reinstatement of multiparty democracy in 1990, the government appointed a seven member National Cooperative Consultation Committee (NCCC) and dissolved the ‘Sajha Central Committee’. It also set up a National Cooperative Development Board (NCDB) constituted of 11 members to provide policy directives to the cooperatives. The government enacted a new Cooperative Act in 1992 to ease promotion and development of cooperatives as a vehicle of economic development in the rural areas. The government also emphasized the role of cooperatives for extending credit facilities and other services to the rural people in its Eight National Plan. Nepal undertook poverty alleviation programs various rural development efforts with the view to bringing about rapid improvement in the socio-economic condition of the rural poor. But all the approaches to rural development largely failed to establish distributive justice in sharing the benefits within the Nepalese society. The main beneficiaries of the development programs were found to be the rural elites. The rural poor including women who actually needed genuine support were further deprived.

Then, since mid 1970s, government started undertaking the policies and programs such as Small Farmers Development Program, which was designed as the first target group focused model in Nepal to serve the people specifically below poverty line and then followed by other government, non-government organization (NGOs) and NGOs to implement the poverty reduction programs in similar ways.

After the restoration of democratic government in 1991, the poverty alleviation was accorded high priority and incorporated in its eighth plan as a principle objective to mitigate poverty. The plan has set the target to bring down the incidence of poverty to 42% from 49% by devising policies and strategies of self target programs. This was

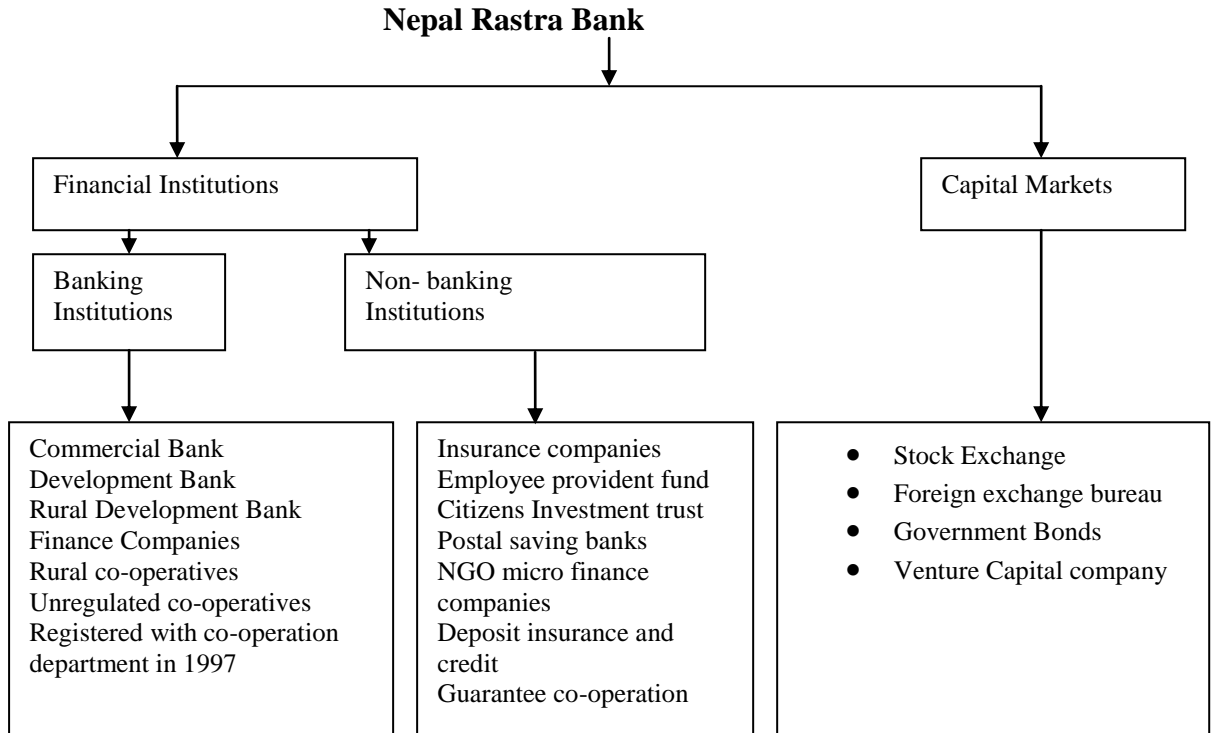
continued in the ninth plan aiming at reducing poverty by 10% point. In the tenth plan also, poverty reduction is being set as the prime objective. The plan has envisaged bringing down the poverty below 30% over the plan period.

### **2.2.3 Microfinance Sector in Nepal**

The history of financial sector of Nepal is not so old. At first in 1937 Nepal Bank limited was establishment, from it the financial sector history of Nepal started. Then after in 1956 Nepal Rastra Bank, in 1959 Nepal industrial Dev. Corporation, in 1966 Rastriya Banijaya Bank and 1968 Agriculture Dev. Bank were establishment in Nepalese financial sector. The above institutions were all owned by the government. Before 1984 the financial sector is closed for foreign institutions but after liberalization policy by government, there opened the way for foreign institutions. From this time foreign joint venture banks establish in Nepal. At first in 1984 Arab Bank Limited opened in Nepal. Thus the new rays for Nepalese financial sector showed and Nepal has had a rapid expansion at financial market since mid 1980's. On account of liberalization policy of government Nepalese financial system has widened and deepened with many more new financial institutions and activities. The country has now many Commercial bank, Development bank, Financial companies, Rural Development Bank, Non-government organization etc. All play vital role for Nepalese financial sector. Total deposit with the financial system has increased by 20 fold in on decade and half for less than Rs.10 billion in 1985 to Rs.220 billion in July 2010. Total credit extended by the financial institutions has been up by 24 fold. From Rs 8 billion in 1985 to Rs 200 billion in July 2010. In Nepal capital market began with the issued shown by Biratnagar jute Mills Limited and Nepal Bank Limited in 1937. In 1976 the securities exchange centre was establishment and first time in 1964 government bond was issued. In 1993 securities exchange centre converted into Nepal Stock Exchange (GTZ, 2003:7-8). An overview at Nepal's financial sector is presented in figure 1st.

**Figure 2.1**

**Overview of Nepal's Financial Sector**

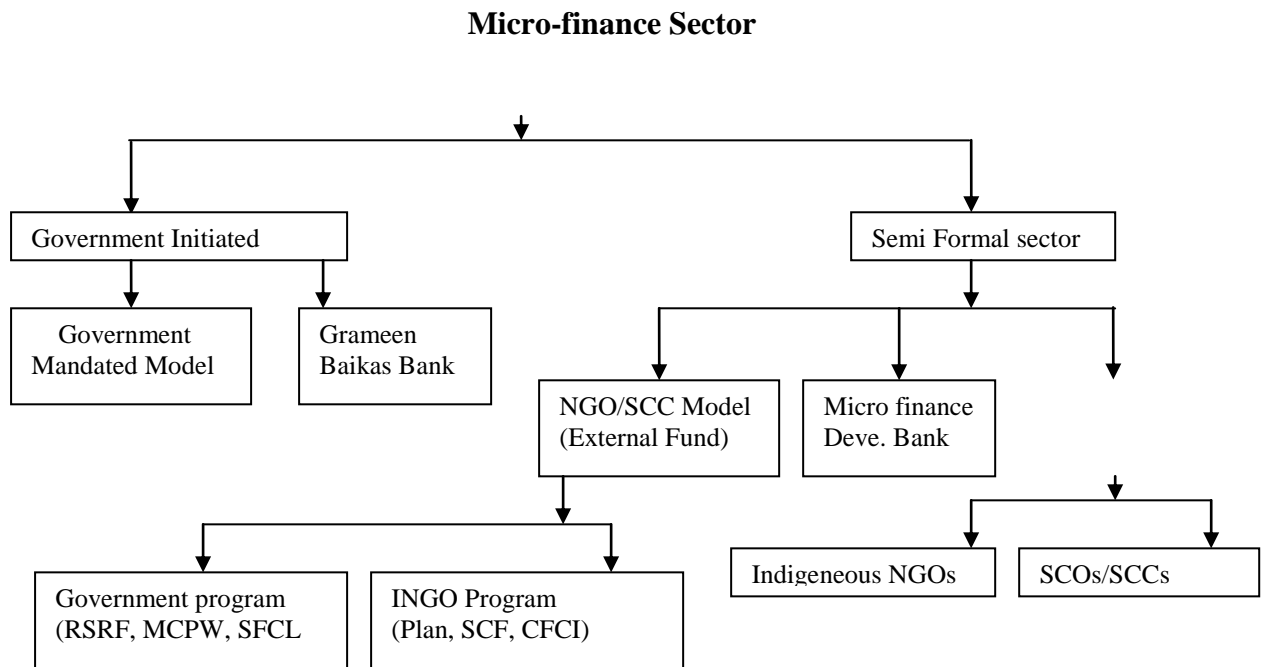


Although in Nepal Financial Sector Position start to make strong day-to-day but all activities surround into urban and sub-urban area. All commercial bank and other institutions depended upon those areas. This made the problem of rural credit showed in Nepal. Without rural credit poverty does not reduction so the value of micro financing activity rising in Nepal. For rural development through micro financing activities the government of Nepal at first designed a poverty alleviation program for microfinance called SFDP (Small Farmer's Development program) in 1975 and implicated through Agriculture Development Bank. This program is now most successful program for Nepal in micro financing activity for poverty alleviation. From this time the activities in microfinance increased day-to-day. Government recognized micro finance as official poverty alleviation program only in sixth plan. Various programs to ensure poor, particularly poor women and disadvantaged groups, access to financial services from organized sector are designed and implemented during that period. The sector gained further momentum after the restoration of democracy in 1991 with establishment and promotion of Grameen Bikas Bank (GBBs) and other from of MFIS (GTZ, 2003:15).

The microfinance sector of Nepal is presented as detail in figure 1.2 below. It is clear that the Nepalese microfinance sector can be classified into two based on institutions involved such as government initiated model and semi-formal sector.

The microfinance in Nepal is presented as below.

**Figure 2.2**  
**Micro finance sector in Nepal**



## 2.2.4 Why is Micro finance growing?

Micro finance is growing for several reasons:

1. The promise of reaching the poor:  
Micro finance activities can support income generation for enterprises operated by low-income households.
2. The promise of financial sustainability:  
Micro finance activities can help to build financially self sufficient, subsidy free, often locally managed institutions.
3. The potential build on traditional system:  
Micro finance activities some time mimic traditional system (such as rotation saving and credit associations). They provide the same services in similar ways, but with greater flexibility at more affordable price to micro enterprises and on a more sustainable basis. This can make micro finance services very attractive to a large number of low-income clients.
4. The contribution of micro finance to strengthening and expanding existing formal financial systems:  
Micro finance activities can strengthen existing formal financial institutions, Such as savings and loan co-operatives, Credit union networks, commercial banks, and even state run financial institutions, by expanding their markets for both savings and credit and, potentially, their profitability.
5. The growing number of success stories: There is an increasing number of well documented, innovative success stories in settings as savers as rural Bangladesh, Urban Bolivia, and rural Mali. This is in stark contest to the records of state run specialized financial institutions, which have received large amounts of funding over the past few decades but have failed interims of both financial sustainability and outreach to the poor.
6. The availability of better financial products as a result of experimentation and innovation:  
The innovations that have shown the most promise are solving the problem of lack of collateral by using group based and character base approaches, solving problems of repayment discipline through high frequency of repayment collection, the use of social and peer pressure and the promise of higher repeat loans, solving problems of transaction costs by moving some of these costs down to the group level and by increasing outreach, designing staff incentives to achieve greater outreach and high loan repayment, and providing saving services that meet the need of small savers.

### **2.2.5 Major Principle of Micro Finance**

Three major principles considered in micro finance those are

1) **Buying of Money:**

Means emphasize to collection of domestic saving for accumulation of financial resources with paying of the reasonable interest rate to the beneficiaries members.

2) **Selling of Money:**

Means investment of the collected domestic financial resources in the micro enterprises/income generating activities with adding the operational cost and plus small margin of profits.

3) **And Earning of the money:**

It means receiving the interest and other income from borrowers and others. Mr. Thakur present on his paper “SFDP the pioneer of micro finance in Nepal” give the Principal of micro finance as follows:

- Only to targeted poor people
- On the basis of group concept (group must self-select on the basis of mutual trust, socio-economic status and friendship. It will be useful in providing peer pressure support joint liability.)
- Short duration loan amount (for productive as well as service oriented small projects.)
- Small amount but regular repayment schedule.
- More priority of women members of the household.
- No fixed, activities it will be decided by the individual on the basis of local need and prevailing skill.
- Regular supervision follow-up and monitoring of the projects.
- Savings and credit together.
- Interest rate, market rate, no subsidized.
- No compulsion for tangible collateral it will be decided by organization of group members

### **2.2.6 Necessity and Importance of the Micro- Finance Program in Nepal**

Micro finance is considered one of the strong instruments for poverty reduction. It is, basically characterized by saving product, small loan, group norms, insurance and money transfer. Presently, it has been well recognized as one of the effective poverty reduction programs in the developing countries. In Nepal, it has been found more successful for amelioration socio-economic condition of the downtrodden populace such as core poor, lower ethnicity and women affecting by vulnerability, unawareness, low bargaining power, inaccessibility of development facilities,

backwardness, illiteracy, disease, low income, less representation in political constituency and unproductive assets are concerned.

Majorities of these people are not accessing the credit easily as due to lack of the collateral. In this respect, MFIs have been providing credit on the basis of group liabilities to such downtrodden people in income generating activities such as vegetable production; livestock raising tea and daily uses shop, marketing of good (better rice, vegetables and fruits) as per their experience and market potentialities. Under this program one group member can earn about NRs. 400-900 net profits in a week in the terai area.

In the social sector, awareness development is found one of the major out comes of this program. In this respect, many MFI members started to join in literacy center, schooling to their children including daughters, participation in the village level elections so for they are elected in ward members, RM chairman and vice chairman. In addition, they are actively involved in community development activities such as construction of village community hall, road, and bridge and drinking water system. By thus, MFIs have been imputing the momentum for poverty reduction endeavor.

Importance of Micro financing project are as follows.

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

Importance of Micro finance in poverty reduction is as presented below:

“In ADB’s view, poverty is a deprivation of essential assets and opportunities to which every human is entitled.”(ADB, 2001). The essential assets may not be available to the poor due to diverse nature of poverty, lack of political will, lack of good governance, and inappropriate public policies and programs. In this contest, Asian Development Bank (ADB) perceives sustainable economic growth and social development as the key components for reducing poverty. Therefore, the investment in micro finance stimulates economic growth, which can reduce poverty by generating, employment and incomes (ADB, 2001). The ADB has recognized micro finance as a powerful tool to promote economic growth, reduce poverty, support human development and improve the status of women. Furthermore, presents the evidence of test result of micro finance practitioners around the world as access of credit to the rural poor has been found to be very effective tool for helping poverty

reduction. It is because micro credit to him poor creates small business opportunities that help to improve the social economic condition of deprived community.

Micro finance is a powerful instrument for poverty alleviation. It enables the poor to take advantage of existing opportunities, builds up their assets, generates self-employment develops micro enterprises, raised income level, builds up self confidence and self eastern, improves purchasing power, women enhances power, empower women, enhances overall economic growth, enhances domestic saving and provide escape route from poverty. In Nepalese contest, even through, micro fiancé has been proven as effective and efficient mechanism in poverty reduction endeavor, most of the micro finance institutions have become unable to reach the poorest (ultra poor) due to their inability to identify and measure them. On the other hand, improving access to financial services has been commonly viewed as strong tool to fight against poverty; however, the outreach of the formal sector credit institutions has been constrained due to high cost of their services delivery. Nevertheless, Micro finance institutions pursue the activities to promote the interest of the poor by providing basic services and contribute to increase in outreach sustainability and effectiveness.

The important of Micro finance a powerful Instrument of poverty alleviation is as below:

- 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 improves their purchasing power and thereby consumption
- It empower them ( specially women) economically and socially
- It enhance overall economic growth
- It enhance domestic savings and improves financial market
- It provides escape route from poverty

Poverty alleviation and the role of co-operatives” in which the role of micro finance is as follow: Realizing the Limitations, shortcomings and weaknesses of the formal financial structure , Govt. of Nepal encouraged the development of Micro-credit

institutions to contribute to the goal of poverty reduction through improved financial saving mobilization and credit extension in Micro level. One of the strategies of Nepal's financial sector reform is to gradually formalize the informal rural financial market besides strengthening micro credits to improve production and employment opportunities in the rural areas. Micro finance according to the World Bank (World Development Report 2008/2009) is "the provision of financial services to low-income clients including self-employed. It includes both financial intermediation and social intermediation. It is not simply banking, it is a development tool". It is also defined as the provision of saving, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. The objectives of Micro financial services are to ensure the availability of these services to the doorsteps of the poor and low-income household. It is an important financial service to uplift the level of income of low-income households. Micro-finance framework, if properly designed and implemented, can thus attain the objectives of poverty alleviation in the developing countries like Nepal.

### **2.2.7 Operational Methodology**

The program follows as well defines specially designed set of implementation, procedures which are discussed below:

#### **I. Project Site Selection:**

Although the poor people inhabit most of the settlements in Nepal, the incidence and depth of poverty varies from village to village. The district level Project implementation Committee, which is responsible for recommending the potential SPO site, takes into account the incidence and depth of poverty in a RM as major criteria for recommendation. Besides some consideration is also given to the possibilities of exhibiting a demonstration effect to other surrounding RM. The SFDP Division makes final selection decision based on the recommendations of SPIC.

#### **II. Recruitment and Training of group Organizers(GO):**

Human input is critical and intensive for the success of this program. Posting a well-trained GO in each SPO site that fills this lacuna, as a central figure of the program, acts as a catalytic change agent. GOs are recruited or selected from among the pool of

ADB/N staff based on their aptitude to work in the most remote rural settings. After the selections, the GOs are provided job orientation and intensive classroom and field based training for a period of three months. The materials covered in the training include the identification process of small farmers, basic principles of informal group organization at the grassroots level; role of a GO; leadership development; need assessment; planning, executing, monitoring and evolutions of project activities; and relationships and linkages between small farmer groups and other service delivering agencies. On the job refresher type training course are also offered to update the GOs on the contemporary developments.

### **III. Identification of Small Farmers:**

The poor identified as small farmers include the low-income producers of agriculture, livestock and aquatic products and refers to tenants, sharecroppers, landless agricultural laborers and small owner operators.

### **IV. Group formation and Orientation**

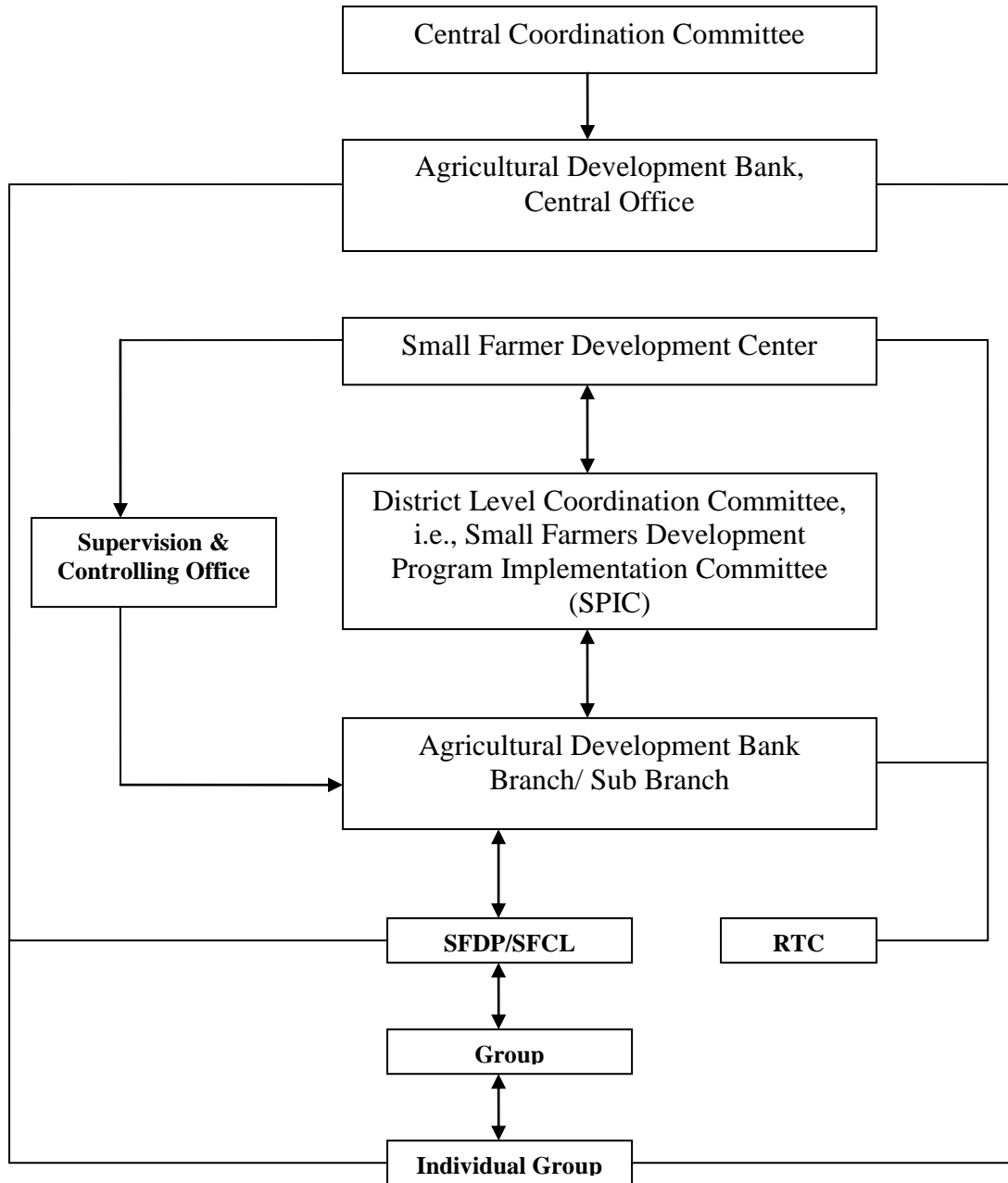
Five to ten small farmers of occupational/ethnic homogeneity are organized into a group. The members themselves select a group leader and other supporting persons. The group members are then oriented with the concept of group dynamics, joint liability etc. Joint liability as a central theme of SFDP hinges on the concept of group pressure on any defaulting member. Member are also trained on identify their needs plan, implements, monitor and evaluate their activities, Emphasis is also given towards development of linkage between groups and line agencies at local/district level. In due course of time, the groups are allowed to federate into inter groups and higher.

### **V. Organizational Framework:**

The organizational structure of SFDP has undergone several changes from time to time in tune with the requirements. The current organizational structure is depicted in figure 2.3

**Figure 2.3**

**Organizational Structure of SFDP**



**2.2.8 Major Activities**

**a. 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.

**b. Social and community development:**

Considering the fact that the process of economic development and social enhancement should be related that they become mutually supportive and reinforcing. So apart from credit, the program incorporates essential social and community development activities such as adult education, population education, parental education, child care center, 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.

**c. 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 2004 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.

**d. 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.

#### **e. 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 50 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.

#### **f. 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. Moreover, 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.

#### **2.2.9 Micro-Finance or Micro-Credit**

ADB/N who Published "The Himalayan poverty, Threat of the world" Write about rural finance and under it. He presents some introduction about "micro-finance or micro-credit, which is presented as below:

Nowadays, in economic development sector, the terms micro-finance, micro-credit, and micro-entrepreneurship are frequently used throughout the world. Every

development planners, NGO activists, development financial institutions are concerned in any way. How the life of poor people can be improved the Grameen bank of Bangladesh is a good example. The world Development Report 1999 reiterates the words of Prof. Mohamed Yunus founder of the bank in its way: When I was arguing that helping a one meal family to become a two meal family enabling women without a change of clothing to afford to buy a second piece of clothing is a development miracle, I was ridiculed. That is no development, I was reminded sternly. Development in growth of economy, they said, growth will bring everything, we carried out our work as if we were engaged in some very unfeasible activities, when UNDP's Human Development report came out we felt vindicated. We were no longer back-street operators; we felt we were in main stream.

Although he was professor of economics, he was not satisfied with his lectures because it couldn't alleviate the poverty. He realized the poverty was human problem rather than economic factor after working with the poor families of the rural areas.

The words micro credit and micro finance resemble the same. But micro-credit means to provide small loan as credit whereas the micro-finance means to provide services of savings and credit both. No loan can be defined on the bases of loan amount of small size. However, micro finance refers to small-scale credit up to NRs.30000.00 targeted toward rural poor. Micro finance is a service, which has to be groups, saving system, skill development and credit facility without collateral or in joint responsibility. This credit should be of short term not exceeding a year.

Likewise, the collection practices can be done in periodic, weekly or monthly as applicable to the local community based on market opportunity. Without taking into account such fundamental element. If any financial institution or the NGO starts lending the small loans considering as micro credit then, there will be certainly occurred the problem of loan collection. There will be no group pressure from the local community of overdue loan from the neighbors even in they are stringed in every community activity. The loan collection of such scattered small loans always become problem to the lender because it is naturally scattered expensive to monitor and time consuming.

Agricultural Development Bank, Katmandu) defines micro-finance with the following salient features. They are:

- Services: small scale financial service loans with no physical collateral/guarantee, savings insurance, leasing, remittances, etc. accessible to poor.
- Providers are informal sources (such as money lenders and shopkeepers), semiformal institutions(such as non-government organizations) and formal institutions (such as development banks, rural banks and co-operatives);

- Modality adopted is typically non-traditional guarantee collateral with gradual increasing loan sizes and characterized by quick and simple procedures; and
- Cost of financial service to be borne, preferably, by clients to ensure long-term sustainability.

The rural finance defines, “Micro-finance comprises formal and informal financial institutions, small and large, that provide small sized financial services (savings, credit and micro insurance) to the poor, Due to higher transaction costs in the micro-finance business. MFIs must use a special financial technology. Some of the elements of this financial technology are:

- Cash-flow analysis, character based lending and nontraditional collateral,
- Social control mechanisms,
- Intensive credit monitoring and stringent loan recovery
- Risk diversification
- Priority on saving mobilization (Bank Samachar, ADB/N)

In Nepal, following are the major micro-financial practices:

- Small Farmers development programs (SFDP) and Small Farmers Co-operative Limited.
- Production Credit for Women
- Grameen Bank
- NGOs/INGOs

The models have their own strengths and weaknesses. It is imperative to make expansion of micro-finance services effectively up to the grass root level. The activities such as Micro-credit World Summit also played a significant role towards its targeting the rural poor of the world. All types of poverty alleviation programmers accommodated the micro-credit as credit plus program.

The micro-finance is a service for low income people organizing them in groups, providing skills and literacy, exercising saving practices and lending small loans in need. Micro-credit, is such service with effective interest rate a minimum operating cost, economy scale, greater mobilization of local resources for self financing and high percentage of repayment for effective recycling of financing resources. The main beauty of group lending is of the possibility of minimization at operation cost.

The main beauty of group lending is the possibility of minimization in operation cost for both sides-lenders and the borrowers. In group lending, the collateral is not a major factor for the loan collection; the group itself becomes group guarantee. It means the loan without tangible collateral. The poor people having no collateral can be united in group and taking loan against joint responsibility. The group pressure enhances the proper utilization of the credit resulting smooth repayment. For qualitative group formation, the numbers of people four or five are enough.

The NGOs as social mobilize can provide the initial support as group formation, savings, and community development activities. This exercise makes the banking loan assessment smooth for the initiation. The concerned bank could lower the interest rate at one or two percent to cover the overhead cost of the NGOs too. This type of wholesale lending helps the lender bank to make realization without default. The bank could save operating cost and increase outreach in other needy area, which could enhance the resources for the rural youths in self-employment activities.

It is true that small farmers get deposit facility; they certainly don't make expand money unnecessarily learn saving habit for the rainy days. The small amount is also saved worthy; poor also become bankable. Such exercise helps both of them to follow strictly the "no saving no credit" principle. In Nepal, this type of saving and credit linkage is found in Dhikuti system.

The wall Street Journal of Agricultural Development Bank Which Pioneered Loans for the poor has hit a repayment snag) reviewed that the bank has helped inspire and estimated 9000 so called micro-lenders with 35 million poor clients worldwide and that income status owes a lot to an almost miraculous loan repayment rate of "over 95% as the bank "website says. Grameen itself defines a loan, as delinquent if it still isn't paid off two years after its due date. Under this term 10% of all the bank's loans are overdue, giving it a delinquency rate more than twice the often-cited level of less than 5%.

These clues make firm that real picture is different than the publicity. However, no one can minimize the efforts done by Grameen Bank for the poor.

#### **2.2.10 Policies and Strategies for the Replication of IDP**

IDP experience of Baglung Districts has stimulated small farmers of other districts too. SPOs have also been assisting small farmers to evolve SF-organizations by forming inter group and main committees. Accordingly, some of the SF-organizations are now in take-off stage and they are likely to take over the management of SPOs within one or two-year period. Therefore, ADBN has devised some policies and strategies to replicate such programs gradually all over the implication of the

institutional development program. These policies/strategies have been in effect from fiscal year 2011/2012. As of now, some potential SPOs have been identified where small farmer organizations have sufficiently advanced to warrant the implementation of IDP in the near future. In due recognition have sufficiently advanced to warrant the implementation of IDP in the near future. The main mandate of the section is to formulate/update policies, facilitate implementation, and carry out follow up and monitoring tasks to gear up the IDP activities towards the stipulated direction. In order to qualify for IDP application, the SPOs must fulfill all the prerequisites listed below:

- ❖ SPOs which have organized ward level small farmer inter group and started the process of developing VDC level main committee:
- ❖ SPOs with outstanding loans exceeding Rs. 2 million:
- ❖ SPOs with less than 20 percent overdue loan:
- ❖ SPOs with over 50 percent repayment rate;
- ❖ SPOs which have already appointed or are in the average of appointing volunteers or paid youth workers and women group organizers:
- ❖ SPOs which can ensure high degree of small farmers participation able to manage the program with minimum support from external agencies:
- ❖ SPOs which have managed at least one promoter in each ward of the SPO work area.

SPOs which could develop autonomous and viable VDC level SF-organization that can sufficiently equip itself to accept the management of SPOs within one and a half year to two years' period.

### **2.2.11 Institutional Development of Small Farmers**

To make the small farmers capable and self-reliant an innovative approach of developing self-help organization of grass-root level was introduced in SFDP through institutional development process. In this process, the small farmers are involved to build up autonomous and viable institutions owned, managed and controlled by themselves, the basic thrust of such endeavor is to empower local people by enhancing their capability to undertake the activities of SFDP through their own autonomous self-help organization, i.e. small farmer co-operative limited (SFCL). In the course of action management undertaken by sub-project office (SPO) is ultimately handed over to SFCL. Upon transformation, SFCL play the role financial intermediaries between the bank and the small farmers by taking wholesale credit from the bank and retailing it to the small farmers as per decision of the main committee of the organization, maintaining minimum 4% spread in the interest rate. The SFCL are however given autonomy to change interest rate on loans from their own capital.

### **2.2.12 Objectives of Institutional Development**

The major objectives of institutional development of grass root level are:

- To make small farmers self-reliant in terms of leadership capability, managerial skill and running the grass-roots organization independently.
- To reduce operating cost of the program through participatory approach.
- To expand and increase the scope of activities, area coverage and participation of beneficiaries in a cost and time effective manner.
- To develop SFS organization in order to promote sustainable financial intermediary linkage between the bank and other small farmers.
- Organizational development.
- Increase in participation of small farmers.
- Significant increase in internal resources.

### **2.2.13 Pre-requisites for Transformation**

Following criteria are to be met by a SPO in order to qualify for its transformation into SFCL.

- Outstanding loan should be more than Rs. three million with overdue less than 20 percent of total outstanding amount.
- Repayment rate should be above 50 percent.
- More than 50 percent of the total SF-families within jurisdiction of a SPO should have been covered by SFDP.
- The employees and the main committee members of SFCL should be trained in their respective areas for program implementation.
- Classification of loan should be completed and the records of loan, saving and other cash related activities should be accepted by the individual small farmers.
- All beneficiary member should agree to purchase share of the organization i.e. SFCL.

### **2.2.14 Transformation Process**

For the development of "SFCL from a SPO" following process is followed:

- Introductory seminar on institutional development process should be held at SPO level.

- At least one inter-group (IG) should be formed and promoter should be developed in each ward of the RM.
- For handing daily operation of the organization, staff from among beneficiary household members should be recruited.
- Main committee of the organization should be formed and institutional laws, by-laws and working manuals should be prepared followed by registration of the organization in the respective district co-operative office and the co-operative act 1992.
- Staff should be trained in different areas of day to day operation such as record keeping, book keeping, account handing, credit operation etc.
- Memorandum of understanding should be signed on behalf of both the parties i.e. the bank and the SFCL, and finally hand over the management undertaken by SPO to the respective SFCL.

## **2.3 Conceptual Framework**

### **2.3.1 Objectives of SFCL**

Basically, improvement of the socio economic condition of small farmers is the main objectives. The specific objectives are as follows:

- Increase their social and economic status.
- Increase self-reliance through organization into groups to initiate, formulate and implement development program for their own benefit.
- Build up a feeling a social solidarity and trust among groups members to raise their voice for different services by different socio economic program like health and sanitation, nutrition, education water supply, family planning etc.
- Mobilize and use the local resources, skill and technology available at the village level to meet the needs of the rural poor.
- Gear up the delivery mechanism to suit the needs of small farmers.

### **2.3.2 Main Features of SFCL**

- To organize small farmers into more or less homogeneous group of 5-12 members around certain nucleus activities.
- To assist these groups in implementation various income raising agricultural and agro-based enterprises and other complementary social programs to make then self-reliant.
- To train small farmers in group dynamic simple accounting resources management and other skill acquisition.

- To promote and disseminate low cost and intermediate technologies alterable by the small farmers.
- To enable small framers to develop their capacity to access the service from the delivering agencies by strengthening their receiving mechanism.
- To integrate different complementary social programmes like population, education, health, and sanitation, nutrition adult education etc. with the help of concerned line agencies.
- To enable small farmers to formulate their own groups plans as a prelude to the concept of eventual planning from below.
- To inculcate a sense of saving among individuals and groups of small farmers.
- To discourage the adoption of all bad habits among small farmers.
- To learn from the well documented implementation experience for replicating the program in new areas.
- To effectively monitor and evaluate the programme activities both from process and performance standpoint.
- To provide credit facilities to these small formers for undertaking income generating activities on a group guarantee basis.
- To encourage low income women to participate in the programme such that at least 25 percent of the groups be women.

### **2.3.3 Identification of the Small Farmers**

There are two basic criteria for the identification of the eligible small farmers in the project area.

#### **1. Land holding criterion**

The definition of small farmers has been developed by ADB/N on the basis of low income producers of Agriculture. Livestock and aquatic products refer to tenants, Share-croppers, landless agricultural laborers, and small owner operators. Initially small farmers were operationally defined as those who owned less than 4 Bighas (2.67 ha) of cultivated land in Terai plains and less than 20 ropanies (1 ha) in the hills and mountains. An enormous variation in the land quality rendered this definition unfit for precise small farmer identification and hence income ceiling was later adopted as the definitional basis.

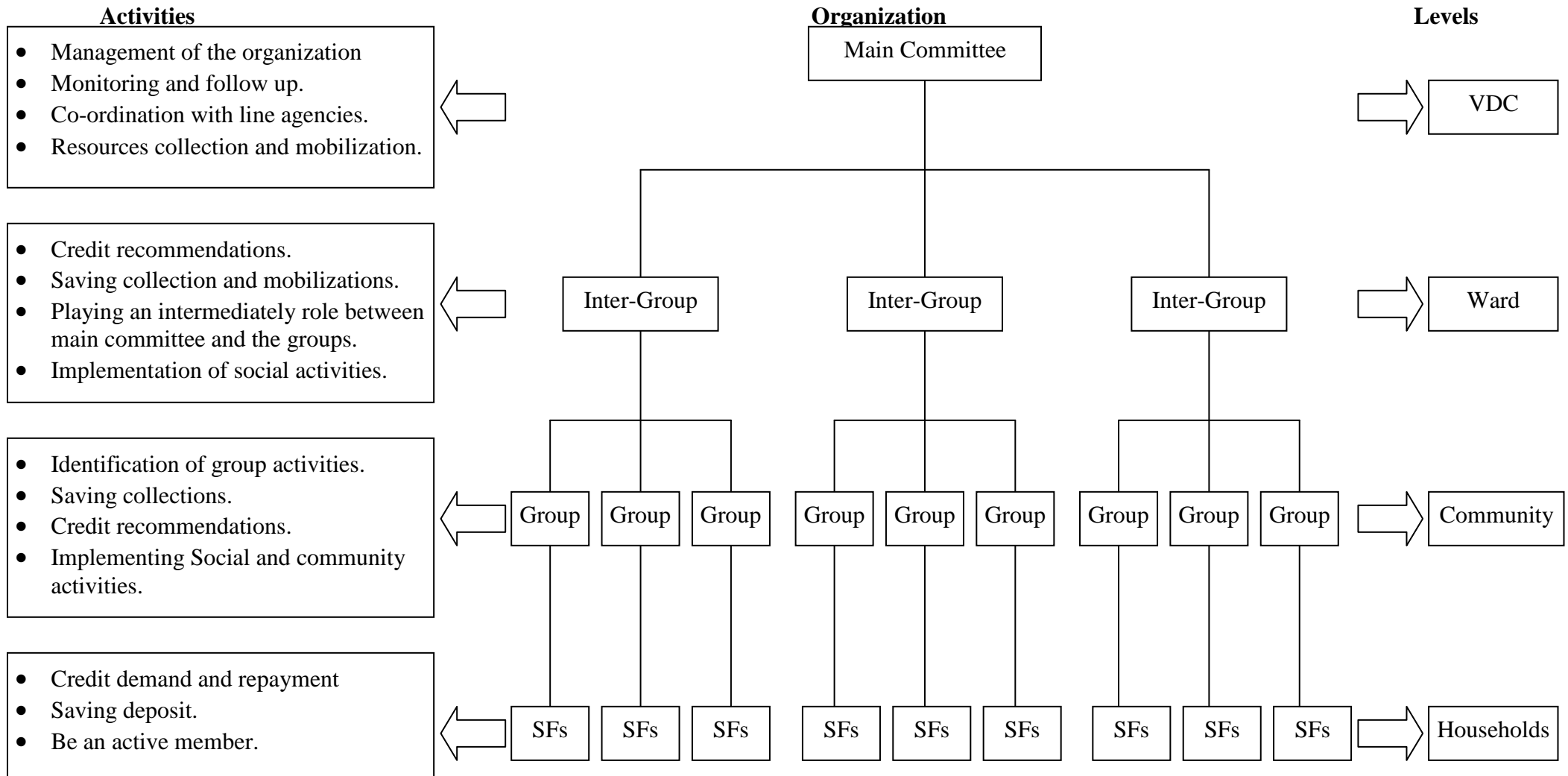
## **2. Income criterion**

It was found that the land criterion is not suitable as it could be affected by family size intensity of land use, management of enterprises and tactical act of land holder etc. therefore this criterion according to which a small formers is identified based on income criterion he/ she earn. A family with a annual per capita income equal to or less than Rs. 2500 is considered as a small farmer, this ceiling is based on 2001 current price.

### **2.3.4 Organizational Structure of SFCLs**

SFCLS have the same general organizational structure as other financial institution, i.e. management body for daily business, a board of directions with a chair person on the top as control organ, and representative of the member- owners the annual general assembly (G.A) ensure that the ultimate control of the co-operative lies within its membership. A unique feature however it's three-tiered structure. Representative of several small farmer groups (SFC) constitute an inter-group (IG). All IG chairpersons or other representative from each IG form main committee (MC).

**Figure 2.4: Organizational Hierarchy of SFCL**



### **2.3.5 General Assembly**

The general assembly (GA) meets once a year after the end of the fiscal year (FY). To conduct this meeting, a quorum of 25 percent of co-operatives members must attend the meeting. To take decisions, at least 51 percent of members must be present, normally, actual attendance for exceeds this numbers.

The major tasks of the GA are to approve the budget plan for the next year, exonerate the management from the previous years, financial report, appoint an external auditor, and present the auditor's report. In addition, the assembly discusses and decides upon new loan and saving policies, strategies for the expansion of SFCL's business, guidelines for the main committee and the distribution of profit. Furthermore, new board member and members of the account and supervision committee are elected.

### **2.3.6 Main Committee**

The main committee is the board of directors, the highest elected body in this member-based organization. It is as a steering committee, ultimately responsible for the SFCL's management. The chairperson usually is a farmer with high prestige and a good reputation. Vice-chairman acts as his or her deputy preferably they can read and write, and in addition to chair person and vice chairperson, there are more than seven members who can read and write. The main committee appoints all SFCL- staff and provides them with terms of reference for the daily management of the SFCL. New members have to be approved, and resignations are accepted by this committee. It ensures the implementation of policy guidelines. It is also in charge of asset management, monitoring the performance of member loan portfolios, and enforcing repayments. In the case of natural disasters, it can also allow for rescheduling of loans.

MC-member does not get any remuneration for their work as long as the SFCL in not profitable. Later allowances can be granted by the decision of the general assembly on the basis of their commitment. Members are elected in every two to three years. During the month MC-meeting, they are asked whether they assume responsibility for loans given out in their respective inter-group.

- **Inter-Groups**

Inter-groups are composed of one representative of each SF-group. The official positions in the inter group are chairperson, vice- chairperson, secretary and treasurer. An inter-group member can be elected s representative in the main committee. These individuals play central roles as mediators between the main committee and SF-group

positioned at a ward level, they co-ordinate community development and saving and loan activities. In cases of new members and formation of new groups, they verify and recommend to the main committee.

Final decision regarding provision of loans to members will in general practice be taken at the IG level, even of the ultimate responsibility lies with the main committee. The inter-group also plays a very active role in the loan enforcement process.

- **Small Farmers Groups**

Small farmers groups are often formed without external help or initiative. A group of people further join the SFDP since they have similar demand for its services; they jointly approach the SFCL and finally get approved by it. SF-groups generally have the following structure; they are headed by the chairperson, and as his or her deputy, the vice-chairperson. These individuals are responsible for convening and chairing meeting, leading discussion and facilitating consensus building. The secretary, mainly obliged to do the paper work, and the treasurer, who bears total responsibility for the group saving account, assist them. Elections are held when the need arises, i.e. someone does not want to or cannot carry out the job any longer. At the monthly meeting of these groups a minimum number of members have to be present. The meetings not only serve the purpose of deciding financial issues, but also make it possible to mutually exchange experience on such issues as farming, sanitation or, environment. The SF-groups also organize social activists.

- **Committees**

A very important sub-committee in the SFCL system is the loan sub-committee, consisting of the chairperson as co-ordination the institutional manager and the representative of inter-group ward committee. On behalf of chairperson, this sub-committee plays a very crucial role in swift and flexible approval of loan demands,

Another committee is the account and supervision committee. Its members are elected by the general assembly and are responsible for internal control. It checks the accounts on a quarterly basis prepare the progress report for the main committee, and the preliminary selection of the external auditor to be approved by the GA. Membership of this committee consists of a co-coordinator and two assistants. Any member of the SFCL can be elected, yet he or she should possess general knowledge of accounting. The co-coordinator must be a board member.

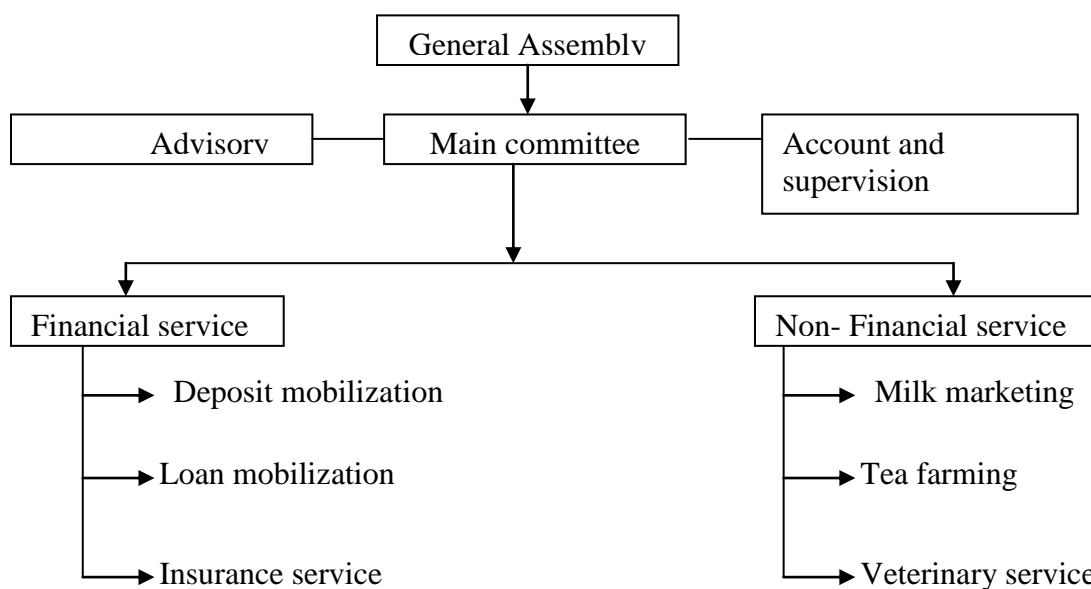
SFCLS offers a live stock insurance scheme there is a livestock insurance committee. Its introduction is supported by a government subsidy paid on premiums. The premium is 5% from members and 5% from government via the ADB/N.

The livestock insurance committee is composed of one member from each ward who is elected by the participants in the scheme. The committee is in charge of managing this scheme. It is responsible for the inspection of livestock and setting of prices, the control over the utilization of funds, and evaluation of compensation claims. The maximum amount refunded in case of death of livestock is 80% of the livestock's estimated value. If death of live stock is due to negligence or carelessness no compensation is paid.

The yearly evaluation of livestock takes into consideration the age, health condition and number of previous deliveries of the particular livestock in question. Premiums are based on this value. Possible livestock to be insured includes buffalo, oxen, lambs and goats. The advisory committee, composed of renowned people from the respective RM, lives the Branch manager of the ADBN and former vice-chairperson of the RM, and other reputed person in the RM level.

**Figure 2.5**

**Service delivery structure**



**2.3.7 Credit Delivery Process**

- **Planning of credit demand of members**

Members have three months time to announce their annual credit demand. These demands have to be broken down according to the different loan sub-categories (e.g. vegetable loan, paddy loan, livestock loan). In subgroup meeting, the annual demands

are discussed and, either approved or doubled each member has to explain in public credit demands. After approval by the group, the same will be repeated at the inter-group in ward level. At the same time the IG- meeting will verify their accounts and past performance record. Finally, all credit demands of members will be present before the main committee to get final approval; therefore, by the beginning of the new fiscal year, the SFDB should be aware of the accumulated credit demands of all SFCLS in the country.

- **Loan disbursement and control of loan use**

At the MC-level the individual loan demand is checked against the annual credit demand the borrower has applied for. It has been reported that it can occasionally be easier to decrease the amount of individual loans at this level since the borrower is not present.

SFCLs (MC, manager in-group) have tried to guard against misuse of funds by not paying out cash, but giving out inputs like fertilizer. This practice, of course, is very much prone to fraud. Sometimes members of an IG will visit a prospective borrower at home before their loan is disbursed. They can group members do not generally require such a visit since all members possess profound knowledge regarding their neighbors anyway.

- **Main Activities of SFCL**

To meet the objectives of the SFCL, various activities are carried out depending upon the needs and potentials of the small farmers. These activities could be classified broadly into 7 cases.

**(1) Economic activities**

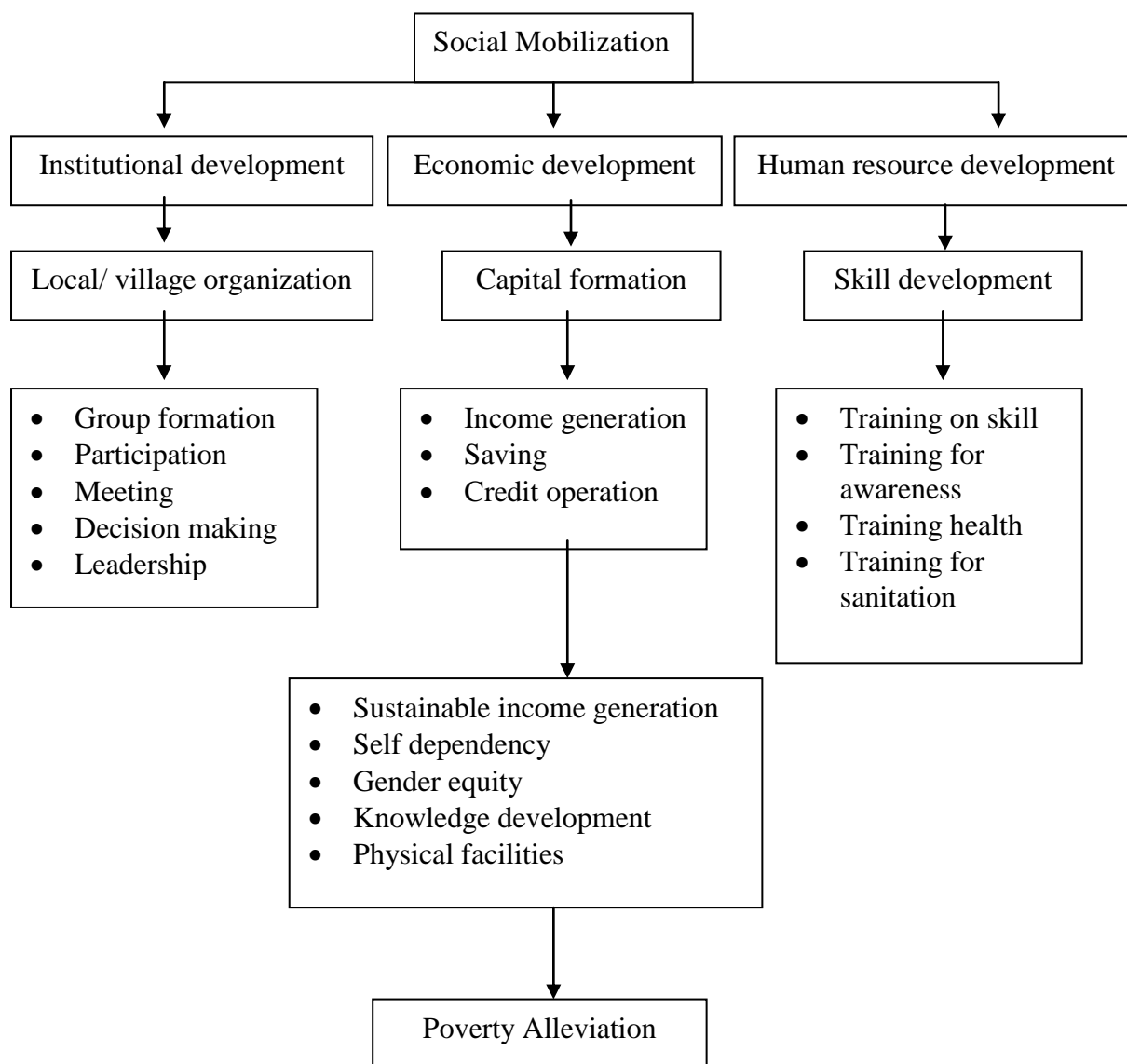
Distribution of land in Nepal is highly skewed in favor of big farmers. So the small farmers are not in position to produce enough for their families from the small size of land holding. So the SFCL are adopted following policies:

1. To grant credit to small farmers for such income generating process which yield very quickly.
2. To grant credit to the small farmer in order to increase their productive assets.
3. To grant credit for the community and family program those are essential for developing the infrastructure for increasing the productivity of the small farmers' families.

4. To grant credit for the formation of capital necessary to enhance the employment as well as production through the maximum utilization of local resources and skills.
5. To grant credit to small farmers considering capability to make its proper utilization. On the basis of the policies described above credit is being granted to the small farmers both male and female at individual group and inter group levels for the different purpose i.e. agricultural production, irrigation, livestock, horticulture, land improvement, cottage industries, marketing etc.

**Figure 2.6**

**ACTIVITIES OF SFCL**



## **2) Social and Community Development Activities**

Social welfare activities are carried out in order to improve the social status and living condition of the small farmer. The social activities initiated by the SFCL are sanitation, health, and nutrition improvement, population education, elimination of the social evils, family planning, child care and maternal welfare with women development program. etc.

### **(3) Group Saving**

Group saving provision is one of the fundamental characteristics of SFCL. The main purpose of group saving is to enable small farmers manage some emergencies such as death, illness etc, some time small farmers use this fund for food consumption when they have scarcity of food.

The main basis of the group saving approach is to help small farmers to save and mobilize their own resources to meet their emergency needs, without having to depend upon the local money lender paying very high interest rates.

### **(4) Livestock Insurance**

Livestock insurance is one of the major activities of SFCL. The basic feature of the scheme is its management through member farmer own associations. Para-Vet nary personnel have been deployed from among the farmers themselves so that the reliance on them would be ascertained at any moment. The important feature of the scheme is self- insurance by livestock owners. It is entirely voluntary. As for the primary it is being replenished by 50 percent matching fund by ADB/N using government's subsidy.

### **(5) Training program**

Training is one of the most important components of the SFCL for human capital formation. The SFCL philosophy which aims at the self reliance approach of rural development must be supported by adequate training program to aid the illiterate group members for the effective operation and implementation of their income generation projects and basic concept of group approach for making the group cohesive and workable in nature.

By importing skill and knowledge to the people directly concerned with the SFCL such as. Line agencies staff, group organizers and associate, small farmers etc. their efficiency in running the SFCL is increased. Various training program have been arranged in different field for these people.

### **(6) Creation of Productive Assets**

Irrigation development program is imperative to increase agriculture productivity and protect small farmers from the vagaries of monsoon. So the SFCL has been emphasizing the construction of irrigation schemes since when the programme was started.

### **(7) Market arrangement**

Various types of marketing arrangements have been made. These differ from one SFG area to another depending on the geographical situation. For example, milk has been sold through milk collection centers established in potential areas by the dairy development corporation at the request of SFCL.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter gives an overview of the research adopted in the thesis. It identifies the thesis's epistemology and theoretical perspective. In this chapter we will study about, research design, source of data, method of data collection, description of variable, and statistical tool adopted.

The SFCL had been implemented for the economic well being of the small farmers in the project area. This study tries to examine the success and problems of the program in the Western Nepal, Baglung district.

Barang and Tarakhola basti have 2166 households of which 1500 are small farmers and land less. Out of them 742 households are involved in SFCL. There are 119 groups of small farmers including 43 female groups organized by SFCL.

#### **3.1 Research Design**

A research design is 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.

A research design is the specification of methods and procedure for acquiring the information needed. It is the overall operational pattern or 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 basic objective of this study is to find out the sustainability and finance viability; of SFCL Baglung and facing change of society SFCL. Some systematic research methodology has been used. This study is based on secondary and primary data. Information was obtained from micro-finance division of ADB/N and field office from manager, other staff and members. Some data and information are collected from telephones, field observations and interviews. Descriptive and inferential financial percentage and statistical procedures are applied in this study. This study has followed descriptive and survey research design.

### **3.2 Selection of Households**

To carry out the impact study of SFCL Baglung district as already said, Barang and Tarakhola basti Project was selected. The analysis has been undertaken in between participants (beneficiary farmers of SFCL and non participants (non beneficiary) farmers of SFCL. For this purpose (55) fifty-five beneficiary families and 50 non-beneficiary families have been selected. The selected families are having land holdings less than 2 Bighas (1.3 ha.) beneficiary and non-beneficiary family were selected from 9 wards of RM assuming each wards as a stratum. Each 105 members of beneficiary and non-beneficiary of sample group were interviewed on the basis of judgmental sampling. To find out facts and real evidences judgmental sampling is adopted from the population of each and every group activities.

### **3.3 Population and Sample**

The population of this study is all the members who are engaged in the concerning activities and the respective activities in Baglung districts. Barang and Tarakhola basti have 2166 households of which 1500 are small farmers and land less are considered as the population. In this study, the total members of SFCL are taken as the population of the study. To find out facts and real evidences judgmental sampling is adopted from the population of each and every group activities. The fifty-five beneficiary families and fifty non-beneficiary families have been selected as sample.

### **3.4 Sources of Data**

Both primary and secondary data were 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 were 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.

### **3.5 Method of Data Collection**

Different methods of data collection were used mainly; the data were collected by interview with group member, local farmers and SFCL staff. The collected data were triangulated for cross verification.

Focus group interview was conducted to collect most of the information. The SFCL and IG chairman, other officials and group representatives and SFCL employees formed the main sources of information for interviewing. At times, interviews were taken. Most of the interviews were conducted in the SFCL offices. Each interview took 2-3 hours. On an average, there were nearly 10 persons in each meeting in each of the SFCL.

#### **3.5.1 Interview**

A set of questions has been prepared and directly asked among the participants. It is also noted that the participants reflected in their experience and lied clearly. The group members are selected randomly according to the above sample size. The actual reflections of participants are focused on the tables.

#### **3.5.2 Questionnaire**

To get facts and figures, questions revealing different aspects of small farmers development programmed are prepared for the chief of the SFDP branch office. Similarly questions are prepared for the participants and for the group leaders. The researcher has been individually approaching to each and every individual selected on the sample basis. Basically interview schedule procedure has been utilized in order to get response from the respondents.

#### **3.5.3 Observation**

Each activity of the group and SFDP are observed for research work. Many important facts and figure has been found by observation of the different activities carried out by the group and SFDP. Actual situations and conditions are understood and informed by the observations.

### **3.6 Description of Variables**

#### **3.6.1 Household**

Household is designed as an economic limit, mortality, poverty and non-institutional. It may consist of single individual alone or more than one member living together.

### **3.6.2 Family**

It is composed of individuals related by blood, marriage and unrelated persons living together during reference year. Those family members who are away from home for six months or more are excluded from this definition.

### **3.6.3 Total Household Income**

The income which is earned by family members from different sources is defined as total household income. In this study, it is the sum total of net income from agricultural production, livestock, labour, business, service, rent, cottage industry and income from borrowing. Total net income is derived by subtracting the expenditure made of cost involved from the total income by the factors.

### **3.6.4 Total Household Consumption**

It includes the expenses on food and non-food items made by the family members of the household within a given time frame.

### **3.6.5 Size of Land Holding**

The land holdings considered as cultivated land, including both the rented and own occupied farm land is classified into two, Khet and Bari.

### **3.6.6 Literate, Educated and Illiterate**

A person with ability to read and write Nepali language is considered as literate and who are SLC or above are considered as educated and otherwise illiterate.

### **3.6.7 Small Farmer**

A small farmer is cultivator, tenant and share cropper, fisherman, landless laborers and those who are engaged in cottage industries whose per capita annual income does not exceed Rs. 2500.

### **3.6.8 Main Occupation**

Main occupation is considered to be that particular occupation which contributes the major share in total income of the household.

### **3.6.9 Group Formation**

At the grass root level, the small farmers are organized into group and one group consists of 5-15 members those belong to small farmers.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

This chapter provides the gathered data and the researcher's analysis and interpretation of the result of the distributed survey. The data are presented in a clear and concise form, most which used graphs and tables. In this chapter result of the data analysis are presented. The data were collected and then processed in response to the problems posed in chapter one. The first part of this chapter is activities of Baglung SFCL followed by, Group formation and Coverage, Group Saving and Mobilization, Loan disbursement and Collection pattern, Impact of SFCL, Comparative study of SFCL, Problems Identification, Popularity of SFCL, and finally Concluding remarks are made.

#### 4.1 Group Saving and Mobilization

Group saving programme of SFCL is one of important programmes. The group members contribute their saving to a fund monthly with a fixed amount decided by the group. The group members demand their saving fund for emergency requirement and production activities. The lending activity, repayment schedule and the interest rate are fixed by the group decision.

The year wise collection of saving fund, mobilization and balance of the fund at SFCL are given in the following table 4.1.

**Table 4.1**  
**Year wise Saving Collection and Mobilizations**

Particular	Hand over	Amount in '000'							Total
		2069/70	2070/71	2071/72	2072/73	2073/74	2074/75	2075/76	
Group Saving Collection	762	398	228	304	485	556	414	307	3454
Group Saving Mobilization	388	171	52	106	296	346	201	112	1672
Balance at SFCL	374	227	176	198	189	210	213	195	1782
Growth Rate of Saving Collection	-	56.7	-42.7	33.4	59.5	14.6	-25.5	-25.8	

Source: SFCL Baglung, 20019.

Table 4.1 clearly indicates that group saving collection in the 1st year after handover shows positive growth rate and thereafter it shows negative growth rate for FY 2070/071.

After 2071/72, saving collection of group shows positive growth which is an indication of efforts made by SFCL. Then there is again negative growth which can be solely attributed to ongoing conflicts in the country. Therefore, to improve the saving collection of group, SFCL should implement successful program to encourage saving habit of non-beneficiary also.

In overall, group saving collection shows mixed trend, i.e. negative as well as positive trend. In average growth rate of saving collection is 32.3% per year.

#### **4.2 Loan Disbursement and Collection Pattern**

One of the main purposes of the present study is to study the loan disbursement and collection pattern of SFCL on various purposes. Since its establishment, the project has tried to improve socio-economic condition of farmers by providing loan on different purposes. Loan disbursement and collection pattern is given in the Table 4.2.

**Table 4.2**  
**Purpose wise and Year wise Loan Disbursement, Collection and Outstanding Pattern**

Purpose	FY	Handover	Amount in Rs. '000'																				
			2069/70			2070/71			2071/72			2072/73			2073/74			2074/75			2075/76		
	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	LD	Coll <sup>n</sup>	O.S.	
Cereel Crops (foods)	861	871	650	108 2	141 0	850	164 2	150 8	1152	199 8	149 7	1149	234 6	197 4	1847	2473	187 0	1760	258 3	170 7	1553	273 7	
Cash Crops	253	195	200	248	600	500	348	850	773	425	753	654	524	842	772	594	756	663	687	504	594	597	
Special crops	26	133	85	74	150	150	74	205	70	209	193	75	327	250	253	324	170	203	291	150	195	246	
Marketing Loans	453	200	103	350	500	341	709	381	619	671	362	262	771	794	681	884	852	579	115 7	649	619	118 9	
<b>Total Short term</b>	<b>1593</b>	<b>139 9</b>	<b>1038</b>	<b>195 4</b>	<b>266 0</b>	<b>1841</b>	<b>277 3</b>	<b>314 4</b>	<b>2614</b>	<b>330 3</b>	<b>280 5</b>	<b>2140</b>	<b>396 8</b>	<b>386 4</b>	<b>3553</b>	<b>4275</b>	<b>364 8</b>	<b>3205</b>	<b>171 8</b>	<b>301 0</b>	<b>2959</b>	<b>476 9</b>	
Livestock	1765	250	296	171 9	364	392	169 1	503	547	164 7	493	507	163 3	586	443	1776	450	368	185 8	200	411	161 7	
Cottage-industry	90	105	85	110	90	80	120	102	93	129	105	82	152	94	85	161	60	73	148	50	69	129	
Irrigation	349	200	75	474	50	70	454	200	90	564	182	92	654	175	99	730	75	55	750	75	63	762	
Agro-tools	1405	250	290	136 5	400	401	136 4	610	716	125 8	594	693	115 9	590	620	1129	200	403	926	246	351	821	
Bio-Gas	99	52	30	121	200	175	146	232	140	238	131	59	310	110	60	360	49	40	369	40	50	359	
<b>Total median term</b>	<b>3707</b>	<b>857</b>	<b>776</b>	<b>378 9</b>	<b>110 4</b>	<b>1118</b>	<b>377 5</b>	<b>164 7</b>	<b>1586</b>	<b>383 6</b>	<b>150 5</b>	<b>1433</b>	<b>390 8</b>	<b>155 5</b>	<b>1307</b>	<b>4156</b>	<b>834</b>	<b>939</b>	<b>105 1</b>	<b>611</b>	<b>944</b>	<b>371 8</b>	
Internal source	0	810	78	732	335	345	922	456	512	866	350	245	971	569	467	1073	410	431	105 2	333	412	973	
Total Loan Disbursement/ Collection/Outstanding	5301	306 6	1892	647 5	429 9	3304	746 0	524 7	4712	800 5	466 0	3818	884 7	598 4	5327	9504	489 2	4575	982 1	395 4	4315	946 0	

Source: SFCL Baglung, 2019.

During 2069/70 to 2075/76 total disbursement is the highest (Rs 10837) in case of cereal crops, it is followed by Rs. 4500 in cash crops (4500) marketing loan (3938) and special crops (1551) respectively. This clearly shows that the focus of SFCL programme is to improve the traditional way doing farming on cereal crops and cash crops. Being an agricultural country, the basic needs of small farmers can be fulfilled by cereal crops and cash crops, so SFCL, Baglung has focused its attention towards cereal crops and cash crops.

In all the cases of short-term financing, there is an increasing trend in loan disbursement and collection pattern except last two fiscal year. The slight decline in the disbursement and collection pattern can be solely attributed to ongoing conflict in the country. Even after the conflict, the small farmers are highly encouraged to participate in the SFCL program.

In case of medium term financing the main focus of SFCL Baglung is on agro-tools, live stock and irrigation respectively. To do farming in an improved manner agro-tools and irrigation plays a vital role which ultimately increases income level and thereby living standard of the farmers.

The loan disbursement and collection pattern clearly indicates that the loan disbursement in agro-tools, livestock, irrigation bio-gas and cottage industry are after handover are Rs 2890, Rs 2846, Rs 9,57, Rs. 814 and Rs 606 respectively whereas total collection in cases of agro-tools livestock irrigation bio-gas and cottage industry are Rs 3474, Rs 2964, Rs 544, Rs 554 and Rs 567 respectively.

**Table 4.3**  
**Disbursement and Collection Growth Rate**

Fiscal Year	Loan Disbursement	Growth amount	Growth rate	Collection	Growth amount	Growth rate
	2270	-	-	1634	-	-
2069/70	3066	796	35%	1892	258	15%
2070/71	4299	1233	40%	3304	1412	75%
2071/72	5247	948	22%	4712	1408	43%
2072/73	4660	-587	-11%	3818	-894	-19%
2073/74	5984	1324	28%	5327	1509	32%
2074/75	4892	-1092	-18%	4575	-752	-14%
2075/76	3954	-938	-19%	4315	-260	-6%

Source: SFCL Baglung , 2019

The table 4.3 shows mixed trend in loan disbursement and collection pattern. This indicates that SFCL is facing some difficulties which should be overcome by implementing other various programs. Beneficiary as well as non-beneficiary should

be encouraged to take part in SFCL programme so that they can perceive direct impact on their income level and living standard by taking part in SFCL programme. With this effort, growth rate can be maintained at comfortable level.

The table 4.3 shows the trend loan disbursement and collection pattern.

**Table No. 4.4**  
**Trend on Loan Disbursement and Collection Pattern**

Rs. In 000

Short term	At Hand over		Disbursement		Collection		Outstanding	
	Amount	%	Amount	%	Amount	%	Amount	%
Cereal crops	861	16.24	10837	33.76	8961	32.07	2737	28.93
Cash crops	253	4.77	4500	14.02	4156	14.87	597	6.32
Special	26	0.5	1251	3.89	1031	3.68	246	2.60
Marketing	453	8.55	3938	12.27	3202	11.45	1189	12.57
Total	1593		20526		17350		4769	
Livestock	1765	33.29	2746	8.87	2964	10.61	1647	17.42
Cottage industry	90	1.70	606	1.88	567	2.04	129	1.36
Irrigation	349	6.58	957	2.98	544	1.95	762	8.05
Agro-tools	1405	26.5	2890	9.00	3474	12.44	821	9.68
Bio-Gas	99	1.87	814	2.55	554	1.98	359	3.79
Total	3708		8113		8103		3718	
Internal Source			3463	10.78	2490	8.91	973	10.28
Total	5301	100	32102	100	27943	100	9460	100

Source: SFCL Baglung, 2019.

The above table 4.4 clearly shows that out of total disbursement for cereal crops account for 33.76%, followed by cash crops 14.02% and marketing 12.27% respectively.

In case of medium term loan agro tools account for 9%, livestock account for 8.87% and irrigation account for 2.98% out of total loan disbursement.

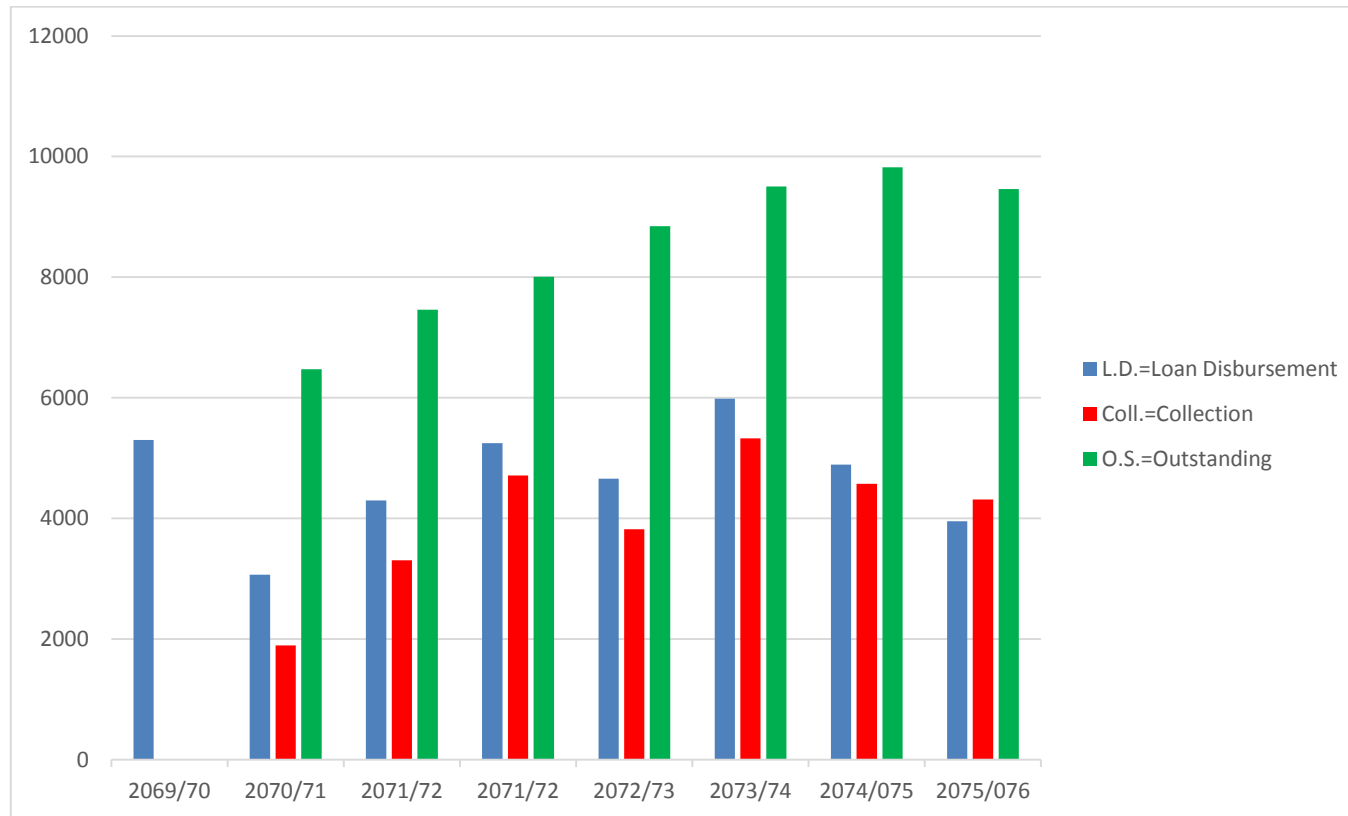
But the trend in outstanding has increased in case of cereal crops (from 16.24% to 28.93%), cash crops (from 4.77% to 6.33%) special crops (0.5% to 2.60%), marketing loan (from 8.55% to 12.57%), irrigation (from 6.58% to 8.05%) and Bio-gas (from 1.87% to 3.79%).

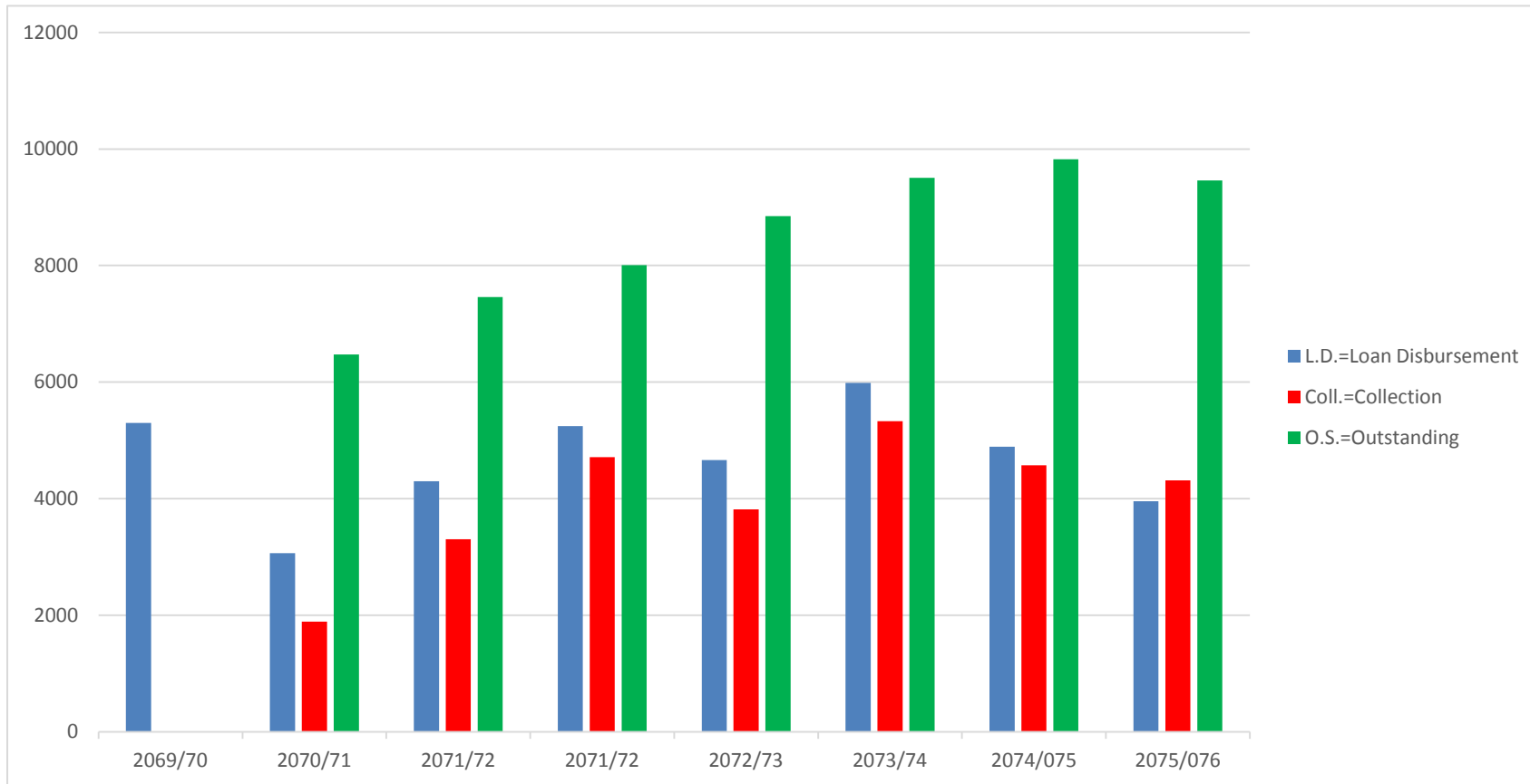
On the other hand, outstanding has decreased in case of livestock (from 33.29% to 17.42%), cottage industry (from 1.70% to 1.36%) and agro-tools (from 26.50% to 8.68%).

In order to examine the correlation between year wise loan disbursement and collection pattern, correlation coefficient has been calculated. As seen in the appendix 2, the correlation coefficient between loan disbursement and collection is 0.873. It is shows that the high degree of positive correlation between the loan disbursement and collection. The solution is satisfactory one because generally the loan collections are the sources of investment so this notion is working here. The calculation of correlation coefficient is shown in Appendix-II by using SPSS computer software.

Thus, Table 4.5 indicates that collection policy of SFCL is satisfactory.

**Table 4.5**  
**Year wise Outstanding, Investment and Collection**





The table 4.5 indicates that after launching SFCL program the loan disbursement , collection and outstanding all are in increasing trend. But in recent year 074/075 and 075/076 the ratio between these three factors is very fluctuated then starting year . In year 2069/70 and 070/071 the loan disbursement and collection in approximately in between 4000 and 6000 , and collection was in between 6000 and 8000 . But in last few years ,those all things have increased but not rationally with collection. Collection is highly increased then previous year and loan disbursement and outstanding are fluctuated but not increased like collection.

### 4.3 Impacts of SFCL

#### 4.3.1 Impact of Employment

One of the major objectives of the programme is to generate additional employment opportunity among participant (beneficiary) small farmers. Thus, assessment of employment situation under the economic undertaking is the key instrument in order to measure the impact of the cooperative. The impact of the programme on employment has been assessed in terms of man days of employment per year of beneficiary person. The total of workers has been computed 8 hours per day per worker. The table 4.6 shows the average annual day of Employment of person (man) of Baglung SFCL's participant families.

**Table 4.7**  
**Average Annual Days of Employment**

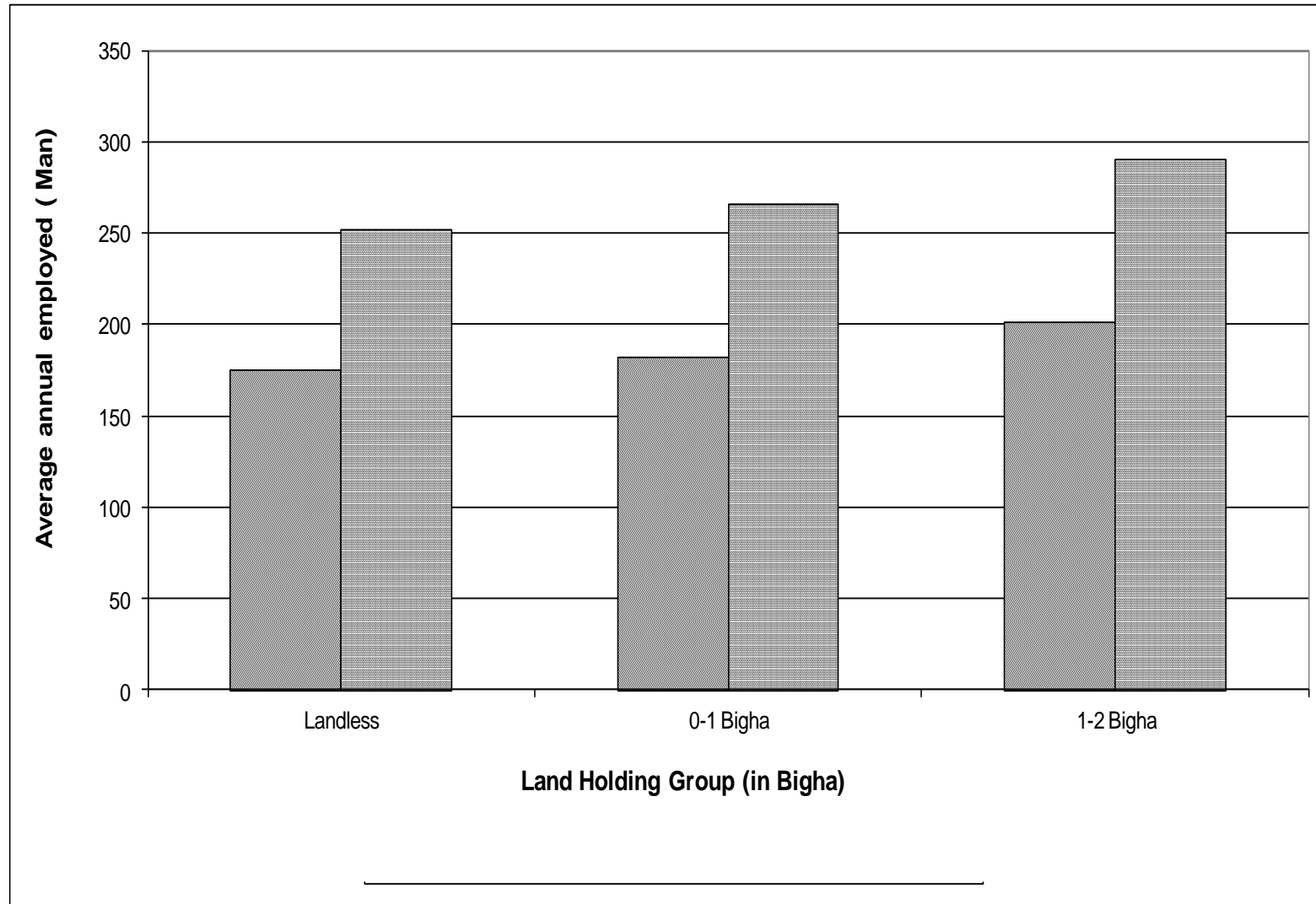
Land holding group (in bigha)	Before Hand over 2069/70 (Figures in man days)					After Hand over 2075/76					% increase
	Agri	Live stock	Labour	Other	Total	Agri	Live stock	Labour	Other	Total	
Landless	15	24	128	8	175 (31.36%)	23	49	165	15	252 (31.18%)	44
0-1	35	42	93	12	182 (32.61%)	52	79	115	20	266 (32.92%)	46
1-2	103	59	21	18	201 (36.02%)	143	97	24	27	290 (35.8%)	44.27
Total					558 (100%)					808 (100%)	

Source: Field Survey, SFCL Baglung, 2019.

The Table 4.7 reveals that employment opportunity of the beneficiary families increased after the handover. The employment of the landless families has increased

by 44 percent as against 46 percent of families holding land 0-1 bighas and 44.27 percent of the 1-2 bigha (0.68-1.3 ha) landholding families. The share of the landless families, 0-1 bigha land holding families and 1-2 bigha (0.68-1.3 ha) land holding families before handover were 31.36 percent, 32.61 percent and 36.02 percent respectively, which has turned into 31.18 percent 32.92 percent and 35.89 percent in 2067/68 respectively after handover. The increase of the employment has been due to intensive cropping when irrigation facilities were extended and secondly where more crops were grown both by the application of fertilizer and irrigation and so more labour is needed for weeding, harvesting operations etc. Increase in employment of small farmers can be presented as in the diagram:

**Figure 4.1**  
**Average Annual Days of Employment**



### 4.3.2 Impact on Income

The main objective of SFCL is to increase the economic condition of small farmers. To fulfill this objective various income generation activities are carried out by SFCL Baglung. The change of income of household during hand over (FY Magh 2069) to FY 075/76 is shown by the income impact of SFCL on small farmers.

The impact of income of the SFCL on small farmers has been assessed in terms of average earning per year by beneficiary households.

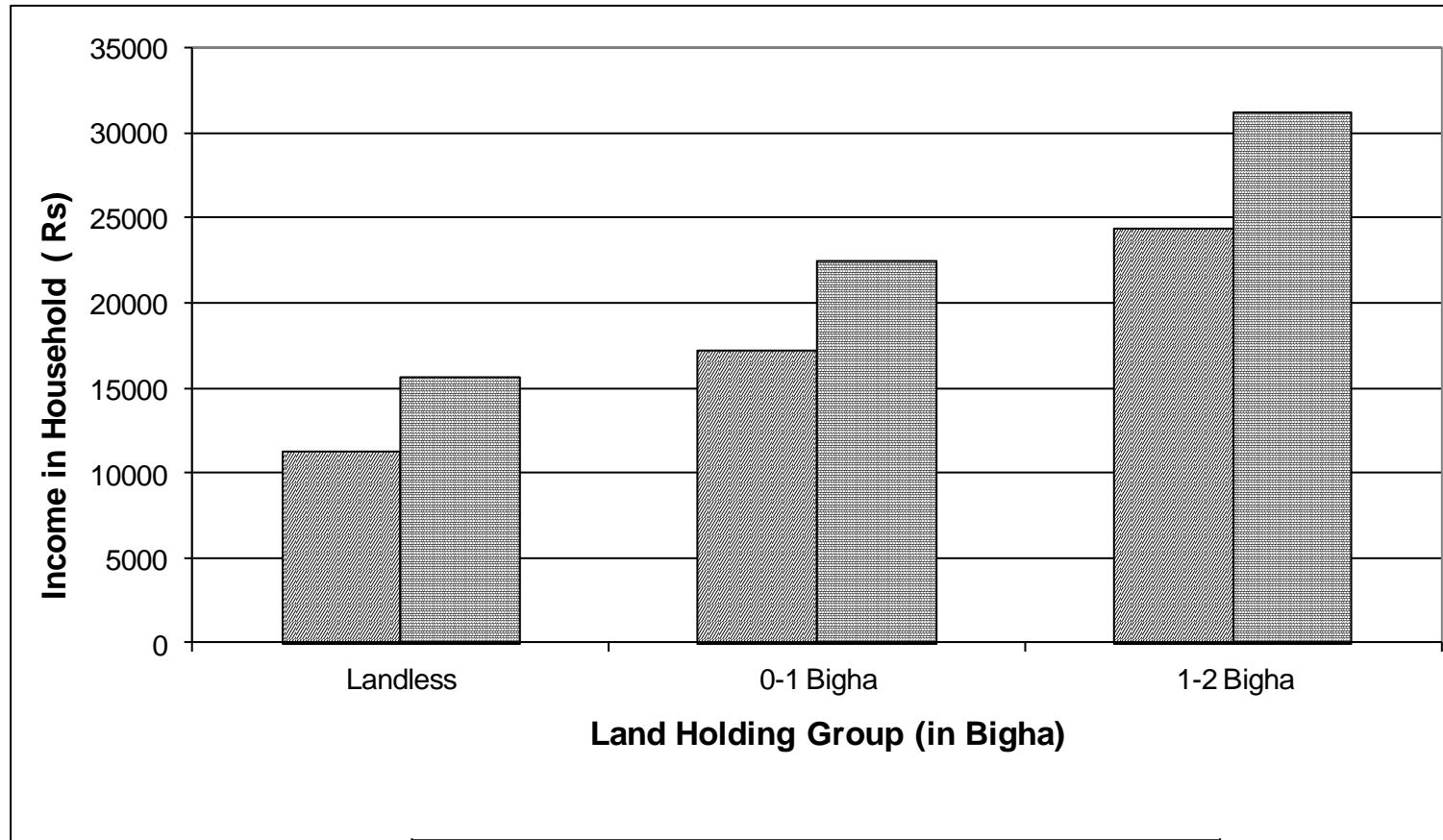
**Table 4.8**  
**Average Annual Income of Households**

Land holding group (in bigha)	Before Hand over 2069/70					After Hand over 2075/76					% increase in annual income
	Agri	Live stock	Labour	Other	Total	Agri	Live stock	Labour	Other	Total	
Landless	3400	2200	3650	2040	11290	4980	3325	4520	2890	15715	39.07
0-1	9750	2640	2010	2850	17250	12750	3630	2630	3610	22500	30.43
1-2	16840	3510	525	3225	24400	21510	4480	640	4550	31200	27.86

Source: Field Survey 2019.

The table 4.8 shows that average earning increased in all households groups in 2067/68 as compared to handover period (Magh 2069). The largest percentage increased (39.07%) in income is shown in the landless group and the lowest percentage increase (27.86%) in income in the landholding groups of 1 to 2 bigha. This shows that the level of income in all groups has been increased due to SFCL and is more successful to low income group than others. This can also be shown in the following diagram:

**Figure 4.2**  
**Average Annual Income of Households**



### 4.3.3 Impact on Income Distribution

The ranking of the size distribution of income in programme area at the time of handover to 2075/76 is presented in the following table.

**Table 4.9**  
**Relative Share of Income Received by Various Group in Project Area**

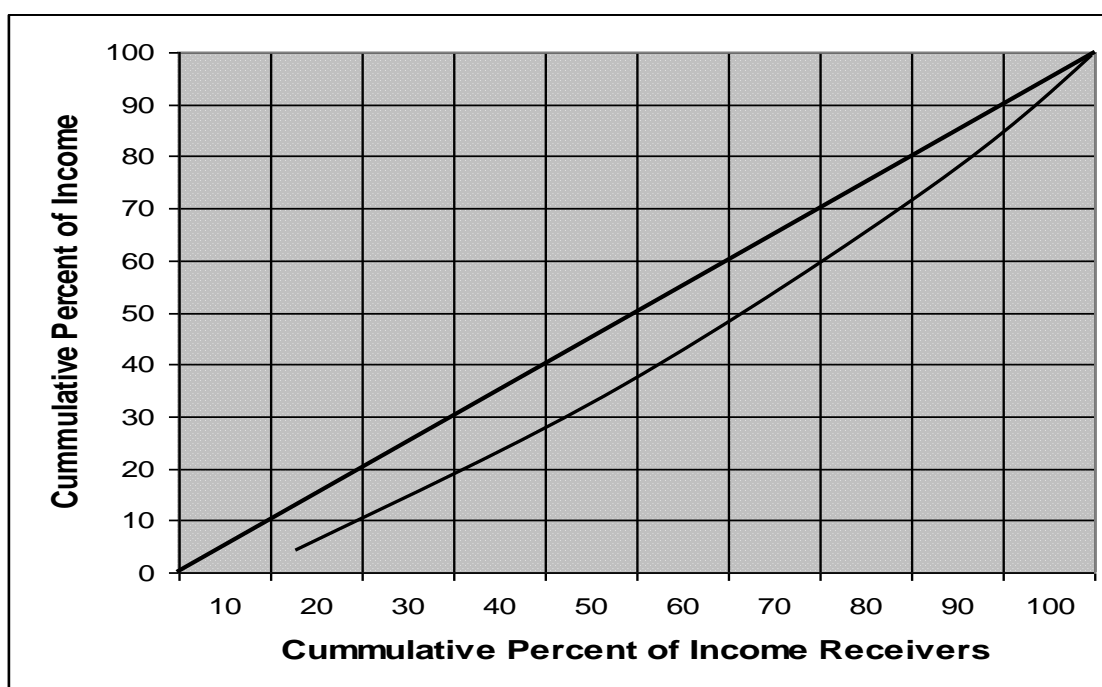
Land holding (Bigha)	Frequency	Cumulative Percentage	Income of H.O. Period (Rs. '000)	Cumulative % of income of HO Period	Income of 2075/76	Cumulative percentage of income 2075/76
Landless	10 (18.18)	18.18	79.18 (10.55)	10.55	110.00 (11.29)	11.30
0-1	25 (45.45)	63.63	327.75 (43.78)	54.36	427.5 (43.87)	55.16
1-2	20 (36.37)	100	341.6 (45.64)	100	436.8 (44.84)	100
Total	55 (100)	100	748.35	100	976.30 (100)	100

Source: Field Survey SFCL Baglung, 2019.

Table 4.9 clearly indicates that at the time of handover the share of income received by landless families were 10.55 percent which has been increased to 11.30 percent in 2075/76. On the other hand, the share of income received by landholding group 1 to 2 bighas (0.68 to 1.38 ha.) dropped from 45.64 percent to 44.84 in 2067/68. This increase in the share of the landless families and the decline in the share of largest landholding group of programme from handover time to 2075/76 indicates an improvement in the distribution of income in the project area over study period.

**Figure 4.3:**

**Lorenz Curve of Handover Time**



The data in the figure 4.3 are used to draw the Lorenz Curve shown. The Table 4.13 shows that the Lorenz curve 2075/76 lies above the Lorenz curve of handover time. Since the Lorenz curve of 2075/76 lies above the Lorenz curve of handover time period and the average income in 2075/76 seems to be more equitably distributed than that in the handover period. The SFCL has reduced the income gap in the case of beneficiary families in Baglung SFCL.

The data in the figure 4.3 are also used to calculate the Gini Coefficient. The value of the Gini Coefficient are 0.1243 and 0.1136 in handover period (2069/70) and 2075/76 respectively. Since the Gini Coefficient of 2075/76 is less than handover period, the income distribution in 2075/76 is more equal than in the time of handover period of the SFCL. The calculation of the Gini Coefficient is shown in Annex I.

#### **4.4 Comparative Study between Beneficiaries and Non-Beneficiaries of SFCL**

##### **4.4.1 Economic Indicators**

The economic indicators of small farmers are production of high yield variety (HYV) of crops, cash crops, cropping intensity, use of fertilizer and pesticides, working capital, average income of all sources and employment condition, which are shown in the table 4.10.

**Table 4.10**  
**Economic Indicators of Small Farmers in Baglung**

SN	Particular	Beneficiary	Non-Beneficiary	Mean difference
1	Percentage of area under HYV to total operated area	69	58	11
2	Percentage area under cash crops to total operated area	43	30	13
3	Cropping intensity (percentage)	82	46	36
4	Percentage of household who uses fertilizer	75	55	20
5	Percentage of household who uses pesticides	45	20	25
6	Percentage of borrowing loan from SFCL to total loan borrowing	95	25	70
7	Average income (000)	24.33	19.33	5
8	Per man per annum employed	304	264	30

Source: Field Survey, SFCL Baglung, 2019.

Table 4.10 shows that with the inception of the SFCL scheme, in average the economic indicators have shown better conditions of beneficiary small households as compared to non-beneficiary small households in Baglung.

The above table clearly reveals that the cropping intensity of beneficiary is in a better position as compared to the non-beneficiary. This is due to the participation in the programme conducted by the SFCL. Similarly, in case of borrowing beneficiaries are able to borrow more as compared to non-beneficiaries. Thus, we can derive a conclusion that SFCL has direct impact on economic indicators of small farmers.

#### **4.4.2 Social Status**

##### **4.4.2.1 Literacy level**

The literacy programme has been included as an essential component in SFCL. It is designed to raise the awareness of small farmers, give them functional information and problem solving skills and teach them reading, writing and literacy.

Considering the prevalence of the high-degree of illiteracy in the rural areas. SFCL realizes the need to conduct the literacy programme so as to promote a sustained social and economic development of rural community. The rural people must be one to initiate positive change, if real development is to take place in the rural areas.

One of the objectives of the study is to analyze the role of SFCL to increase literacy rate of small farmers. The literacy rate of small farmers both participant in SFCL and non-participant in SFCL are given in the table 4.11.

**Table 4.11**  
**Literary Rate of Small Farmers in Baglung**

Category	Beneficiary SFS			Non-beneficiary SFS		
	Male	Female	Total	Male	Female	Total
Literate	102 (41.8)	59 (24.2)	161 (66)	80 (29)	36 (13)	116 (42)
Illiterate	30 (12.3)	53 (21.7)	83 (34)	69 (24.4)	92 (33.3)	160 (58)

Source: Field Survey SFCL 2019.

Table 4.11 shows that literacy rate among females is lower than male in both types of small farmers. But the female group who joined the SFCL has a higher literacy rate than non-beneficiary female group. The table also clearly shows that participant small farmers are 66 percent literate whereas non-participant farmers are only 42 percent literate. The participant small farmers, 161 number out of 244 are literate in which 102 (41.8%) are male and 59 (24.2%) are female. In the case of non-participant small farmers 116 out of 276 are literate in which 80 (29%) are male and 36 (13%) are female. The sources of education of small farmers are shown in the table 4.12.

**Table 4.12**  
**Sources of Education of Small Farmers**

Source	Participant SFS		Non-participant SFS	
	No.	%	No.	%
Formal (School, Campus)	112	69.56	102	87.9
Informal (Adult education and other)	49	30.44	14	12.1
Total	161	100	116	100

Source: Field Survey SFCL Baglung 2019.

Table 4.12 shows that 112 number of participant small farmers got their education from formal sources i.e., from school and campus, 49 member are educated from informal i.e., adult education programme and other source by SFCL. In the case of non-participant SFs 87.9 percent formally literate and 12.1 are informally. The difference between informally literacy member of beneficiary small farmers and non-beneficiary small farmers is 18.3%. That means 18.3 more persons out of 100 are informally literate from the SFCL. It reflects that SFCL has played a vital role in education among small farmers.

#### **4.4.3 Health Status**

The situation of health condition can be seen by adoption of family planning devices, drinking water, sanitation and method of treatment by SFs.

#### 4.4.3.1 Family Planning

To control population within a certain limit is also an important goal of SFCL. Family planning helps to improve the health condition of both the mother and child. The family planning status of the small farmers both participant and non-participant in SFCL is depicted in the table 4.13.

**Table 4.13**

#### **Adoption of Family Planning**

Categories	Total No.	Adoption of Family Planning	Percent	Non-adoption	Percent
Participant Small Farmers	55	32	58.18	23	41.82
Non-Participant Small Farmers	50	12	24	38	76

Source: Field Survey SFCL Baglung , 2019.

The table 4.13 shows that 58.18 percent of participant small farmers (beneficiary SFs) has adopted family planning method including permanent as well as temporary. But only 24 percent of non-participant small farmers has adopted the family planning method.

#### 4.4.3.2 Drinking Water

The provision of clean drinking water is an essential step in improving the health of poor communities. In Nepal, the high rate of infant and child mortality is due to contamination of drinking water. It is commonly accepted that the general health of the rural people substantially improves by the provision of safe drinking water. Since 1984 SFDP of ADB/N has been establishing water supply system. In the study area, the most common source of drinking water is tube well. And, after handover to SFCL, the trainings programs and other activities have been made to aware the people of the area.

#### 4.4.3.3 Sanitation

The cycle of infections and diseases is mainly the result of poor sanitation practices. Facilities for the disposal of human excreta are usually not found in the villages. Improved sanitation with an aim of increasing standard of health is one of the activities introduced under SFCL.

In Baglung, the use of latrine by small farmers is shown as table 4.14.

**Table 4.14**  
**Categories wise use of Latrine**

Categories	Participant SFs		Non-Participant SFs		Total
	No	Percent	No	Percent	
Modern latrine (Safety)	40	72.72	15	30	55 (52.38%)
Tradition (Open)	15	27.28	35	70	50 (47.62%)

Source: Field Survey SFCL Baglung , 2019.

The table 4.14 clears that the use of modern latrine by participant small farmers are higher than non-participant small farmers. The use of safety latrine of participant SFs has reached to 72.72 percent against 30 percent of the non-participant families.

#### 4.4.3.4 Treatment Methods

The treatment method of diseases shows the level of health education of small farmers. Mostly illiterate villagers believe local faith healer (Dhami-Jhankri). The treatment method of diseases is shown in the table 4.15.

**Table 4.15**  
**Treatment Methods Adopted**

Categories	Method of Treatment		Source of Knowing Modern Method		
	Modern	Local	SFCL	Villagers	Self
Participant SFs	39	16	20 (51.28)	7 (17.94)	12 (30.78)
Non-participant SFs	26	24	-	14 (53.84)	12 (46.15)

Source: Field Survey SFCL Baglung 2019.

The table 4.15 shows that about 61.90 percent of the respondents use modern health services (health post, hospitals and clinics) and the rest 38.1 percent resort to local faith healers. Encouragement for the use of modern medicine is derived from SFCL 51.28 percent followed by self consciousness 30.78% and villagers cum friends 17.94% in the case of participant SFs. In the case of non-participant small farmers 53.84 percent respondents are encourage by villagers and friends. Practices of employing the services of local Dhami-Jhankri is higher in non-participant small farmers group than that of participant small farmers.

#### 4.5 Problems Identification

This section tries to interpret the problems of Baglung SFCL. In order to meet the objectives of the study questionnaire was developed for collecting necessary information from the concerned sources. The following table deals about the problems presented by responses at the time of field survey and the table has represented number and percentage of responses at Baglung showing the problems of higher

interest rates and complicated official procedure together responses representing an objectionable trait.

**Table 4.16**  
**Problems of Baglung SFCL**

Problem	Sample Size	No. of responses	Percentage
Higher interest rate	55	20	36.36
Complicate official procedure	55	25	45.45
No problem at all	55	10	18.19

Source: Field Survey, SFCL Baglung , 2019.

From the above table 4.16 it is cleared that out of 55 beneficiary respondents, 36.36 percent respondents problem is higher interest rate. Similarly 45.45 and 18.19 percent respondents indicated the problem of complicated official procedure and no problem at all respectively.

#### **4.6 Popularity of SFCL**

It is necessary to know that whether the programme is in favour of small farmers or not. The popularity of SFCL is the major objective of this study. Attitude of the small farmers who have joined the programme towards SFCL determines the popularity of it. So the following table shows the attitude of small farmers.

**Table 4.17**  
**Attitude of Small Farmers in Baglung SFCL**

Attitude	Sample size	No. of respondents	Percentage
Positive	55	48	87.27
Negative	55	7	12.73

Source: Field Survey, SFCL Baglung, 2019.

From the above table 4.17 it is cleared that only 12.73 percent or 7 persons out of 55 respondents have a negative attitude. This might be the case of decrease in the income level due to misuse of loan. This controversy could have cropped up due to their inefficiency in loan investment.

#### **4.7 Causes of Non Participation in the Programme**

SFCL programme is the concept developed for the upliftment of the socio-economic status of small farmers, even if, in the study area some of the small farmers did not join the programme. So it is necessary to know why they did not want to join in the

programme. Causes of these small farmers who did not join the programme are presented below.

**Table 4.18**  
**Causes of Non-participation**

S.N.	Causes	No. of respondents	Percentage
1.	No Knowledge	22	44
2.	Difficult procedure	18	36
3.	Due to difficult in group formation	10	20
	Total	50	100

Source: Field Survey, SFCL Baglung, 2019.

Causes of non participation in the SFCL programme of Baglung cleared from the above Table. There are so many causes but effective causes which inspired to stay without join is difficulty in procedure or process for 36 percent out of 50 respondents 20 percent of respondents reveals their problem that is difficulty in group formation and 44 percent of the total respondents did not know about SFCL programme. The percentage of participants will be increased in large amount, if above mentioned problems will be reduced from the side of SFCL.

#### **4.8 Concluding Remarks**

From the analysis of the data collected from various sources following remarks can be made:

- The evaluation studies of this program have positive impact on social as well as economic well being of the beneficiary population. This study has clearly demonstrated the ability of the programme to meet its objectives and social and economic upliftment of rural poor. Thus the overall feedback derived from the analysis is summarized below.
- 85.34% population out of total population depends on agriculture in the study area. The SFCL Baglung has also launched non-credit activities. The only purpose of this scheme is the capital formation.
- From this study, it is clearly that the maximum loan has been distributed on cereal crops which are 33.76%. Similarly, the second field, loan disbursement has been done on cash crops which are 14.02%. So it can be concluded that the farmers are more interested in the production of cereal crops and cash crops rather than the other activities.
- The highest proportion of loan collection sectors are cereal crops, cash, Agro-tools marketing and livestock which are 32.07%, 14.87%, 12.44, 11.45% and 10.61% respectively. Likewise the lowest proportions of loan collection sectors are irrigation, Bio-Gas and cottage industry which are 1.95%, 1.98% and 2.04%

respectively.

- The level of income of participants has been increased by 39.07% in case of landless, 30.43% in case of small farmers holding 0-1 bigha and 27.86 percent in case of small farmers holding 1 to 2 bigha.
- After handover the program the overall position of the income gap of beneficiary family has reduced as indicated by the Lorenz curve.
- After handover of the program average annual days of employment of small farmers have increased because of successful participative program implemented by the SFCL.
- After handover of the program, the study reveals that the literacy rate of beneficiary small farmer is found to be greater (i.e. 66%) as compared to the non-beneficiary farmers (i.e. 42%) which is an indication of social awareness and increased enrollment of children (both boys and girls) in school.
- After handover of the program, beneficiary small farmers are highly encouraged to adopt family planning, use of modern medicine treatment, and use of safe drinking water. The study shows that 58.18% of participants' families adopt family planning as compared to 24% of non-participant families. Similarly 72.72% of participant families use modern latrine as compared to 30% of non-participant families.
- After handover of the program, the formation of group has increased (from 95 to 119) similarly coverage of members (male as well as female) has increased from 614 to 742.
- Savings collection and mobilization of funds have increased substantially after handover of the program. The group saving collection at handover was Rs. 672 thousand which is Rs. 3454 thousand on 2067/68, which means total savings have increased by more than 3.5 times of savings at handover. Similarly SFCL have increased by more than 3.5 times. This clearly shows the activities of small farmers have increased as compared to the non-participation farmers.
- In spite of its popularity, there are still some corners which are criticized by non-participating small farmers. Out of total 50 respondents the causes of non-participation is 44% due to lack of knowledge, 36% due to difficult procedure and 20% due to difficulty in group formation.
- At last, it can be said that the performance of SFCL Baglung is very satisfactory after handover of the program.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

The Small Farmer Development Programme (SFDP) has been implemented as a poverty alleviation programme in Nepal by the Agricultural Development Bank, Nepal (ADB/N) since 1975. The main objective of the programme is to improve the socio-economic condition of the small and landless farmers including women, and to eliminate rural poverty by providing them the basic inputs such as credit, technologies and training in group basis.

SFDP is considered as one of the effective agricultural and rural development programmes in delivering services to the rural poor by seeking their direct participation especially in the socio-economic development front. This led to the realization of a need to conceive an institutional development programme aimed at evolving local self-help organization of the poor, which can take upon retail delivery of services on their own interest. For this, institutional development programme experimentation, a five-year field based "Action Research" project was designed in fiscal year 1987/88 by the effort of ADB/N and GTZ, which was implemented in a few SFDP in Baglung district. This followed a continuous process of training group leaders, promoters and community workers commensurate with the objective of handing over the operational responsibilities of SFCL.

The crucial fact that has been conceived at present is that small farmers who constitute the largest segment of the population have always been bypassed from the mainstream of development process in almost all underdeveloped countries. Although certain progress towards the development of economy has been made due to planned efforts, yet the benefits of development have largely been derived by the relatively well-to-do sector. The gap between large and small farmers has continued to widen. Under such circumstances, economists have arrived at the consensus that the pace of development could be augmented through the participation of income and employment assumes to be significant.

Positive impact of programme is improvement of socio-economic status of the rural poverty led to the expansion of the programme all over the country. However, as a financial institution, the Bank is more cautious about strengthening as well as making financial viability of the programme considering this fact; ADB/N has initiated the consideration of SFDP in which some non-performing and non-viable SFDP merged in the neighboring performing SFDP or branch/sub branch of ADB/N as unit.

The Small Farmer Co-operative limited (SFCL) Barang and Tarakhola basti is situated in the hilly region of the Baglung district. The Agricultural Development

Bank Nepal (ADB/N) implemented the Small Farmer Development Program in 1975. At that time, the RM did not have infrastructure facilities like today. Most of the people were migrants from the hill areas. In the meantime through the program, the people built community roads, irrigation and water supply schemes. Social activities implemented by SFCL not only supplement economic activities but also integrate all development activities.

It is found that men and women have a vital and equal role in family economy, the men and women need to be equally encouraged joining the programme of cooperative. At the time of handover Magh 2069 there were 31 females groups with 215 members and 64 males groups with 399 members. By FY 2075/76 the number of female group had reached 43 whereas male groups were 76.

Group saving programme of SFCL is one of important programmes. The group members contribute their saving to a fund monthly with a fixed amount decided by the group. The group members demand their saving fund for emergency requirement and production activities. The lending activity, repayment schedule and the interest rate are fixed by the group decision. Since its establishment, the project has tried to improve socio-economic condition of farmers by providing loan on different purposes.

During 2069/70 to 2075/76 total disbursement is the highest (Rs 10837) in case of cereal crops, it is followed by Rs. 4500 in cash crops (4500) marketing loan (3938) and special crops (1551) respectively. This clearly shows that the focus of SFCL programme is to improve the traditional way doing farming on cereal crops and cash crops. Being an agricultural country, the basic needs of small farmers can be fulfilled by cereal crops and cash crops, so SFCL, Baglung has focused its attention towards cereal crops and cash crops.

In all the cases of short-term financing, there is an increasing trend in loan disbursement and collection pattern except last two fiscal year. The slight decline in the disbursement and collection pattern can be solely attributed to ongoing conflict in the country. Even after the conflict, the small farmers are highly encouraged to participate in the SFCL programme.

In case of medium term financing the main focus of SFCL Baglung is on agro-tools, live stock and irrigation respectively. To do farming in an improved manner agro-tools and irrigation plays a vital role which ultimately increases income level and thereby living standard of the farmers.

The loan disbursement and collection pattern clearly indicates that the loan disbursement in agro-tools, livestock, irrigation bio-gas and cottage industry are after handover are Rs 2890, Rs 2846, Rs 9,57, Rs. 814 and Rs 606 respectively whereas

total collection in cases of agro-tools livestock irrigation bio-gas and cottage industry are Rs 3474, Rs 2964, Rs 544, Rs 554 and Rs 567 respectively.

## **5.2 Conclusion**

The evaluation studies of this program have positive impact on social as well as economic well being of the beneficiary population. This study has clearly demonstrated the ability of the programme to meet its objectives and social and economic upliftment of rural poor.

Out of total population 85.34 percent depends on agriculture in the study area. The SFCL Baglung has also launched non-credit activities. The only purpose of this scheme is the capital formation. From this study, it is clearly that the maximum loan has been distributed on cereal crops which are 33.76%. Similarly, the second field, loan disbursement has been done on cash crops which are 14.02%. So it can be concluded that the farmers are more interested in the production of cereal crops and cash crops rather than the other activities.

The highest proportion of loan collection sectors are cereal crops, cash, Agro-tools marketing and livestock which are 32.07%, 14.87%, 12.44, 11.45% and 10.61% respectively. Likewise the lowest proportions of loan collection sectors are irrigation, Bio-Gas and cottage industry which are 1.95%, 1.98% and 2.04% respectively.

The level of income of participants has been increased by 39.07% in case of landless, 30.43% in case of small farmers holding 0-1 bigha and 27.86 percent in case of small farmers holding 1 to 2 bigha. After handover the program the over all position of the income gap of beneficiary family has reduced as indicated by the Lorenz curve. After handover of the program average annual days of employment of small farmers have increased because of successful participative program implemented by the SFCL.

After handover of the program, the study reveals that the literacy rate of beneficiary small farmer is found to be greater (i.e. 66%) as compared to the non-beneficiary farmers (i.e. 42%) which is an indication of social awareness and increased enrollment of children (both boys and girls) in school. After handover of the program, beneficiary small farmers are highly encouraged to adopt family planning, use of modern medicine treatment, and use of safe drinking water. The study shows that 58.18% of participants' families adopt family planning as compared to 24% of non-participant families. Similarly, 72.72% of participant families use modern latrine as compared to 30% of non-participant families. After handover of the program, the formation of group has increased (from 95 to 119) similarly coverage of members (male as well as female) has increased from 614 to 742.

Savings collection and mobilization of funds have increased substantially after handover of the program. The group saving collection at handover was Rs. 672 thousand which is Rs. 3454 thousand on 2075/76, which means total savings have

increased by more than 3.5 times of savings at handover. Similarly SFCL have increased by more than 3.5 times. This clearly shows the activities of small farmers have increased as compared to the non-participation farmers. In spite of its popularity, there are still some corners which are criticized by non-participating small farmers. Out of total 50 respondents the causes of non-participation is 44% due to lack of knowledge, 36% due to difficult procedure and 20% due to difficulty in group formation. In conclusion, it can be said that the performance of SFCL Baglung is very satisfactory after handover of the program.

### **5.3 Recommendations**

The achievement of SFCL is to uplift the socio-economic status of small farmers and overall impact of program is found to be positive. However, it has also some drawbacks which have to be overcome so as to meet the requirements of those small farmers who are still facing some problems in spite of having different privileges provided by it. In spite of its effort only 742 members out of 1500 members are beneficiary till now. So following measures should be implemented.

1. Importance and concept of the SFCL must be publicized to the small farmers through mobilizing the staff of SFCL and RM members with kind behaviour
2. Arranging discussion programs about SFCL in different places in different times and adult literacy, healthy, sanitation such effective program must be carried out. That may encourage to the non participant small farmers to participate in the program.
3. The official process of loan disbursement should be made simple and effective. There must be adequate fund available in order to support the projected program. Existing interest rate seems to be high so it should be reduced. So that more farmers can enjoy the outcome of the program. Providing more incentives such as providing grant, reduction in interest rate etc, to the farmers who take loans so that more farmers would join the program.
4. Management and administration efficiency should be enhanced so as to launch the program smoothly and meet the target within a specified time period.
5. Technical assistance on new farming methods should be introduced for raising the productivity of the local farming and group participation should be systematized by establishing a proper co-ordination among the participants and the officials.
6. The Small Farmer Co-operative Limited has not provided any managerial and technical training for its recourse utilization for the small farmers. So it should conduct training programmes.
7. The group formation system of SFCL is not praiseworthy. The number of male and female is equal in its total population but the number of groups of male is double of female groups. So it has not formed its groups equally. Hence, it should reorganize its groups according to its population category.
8. The SFCL has not started this programme toward agriculture market management.

Without proper agricultural market, the investment in agricultural sector may be worthless. Any way we hope for all small farmers to grasp the opportunity provided by SFCL to uplift their social and economic status.

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## QUESTIONNAIRE

This questionnaire is developed for the purpose of thesis writing. The descriptions given below will be kept secretly. Therefore, I request kindly to write the true statements without any hesitation.

1. When SFCL Programmed has has been launched in Barang/Tarakhola basti ?  
Ans:.....
2. Please differentiate between the large and small farmers on the basis of land and income in cash?  
Ans:.....
3. What are the processes of forming a group?  
Ans:.....
4. What sex you give more preference while forming a group?  
Ans:.....
5. What are the criteria to be a group member?  
Ans:.....
6. How many groups are being formed so far?  
Ans:.....
7. What are the main objectives of the program?  
Ans:.....
8. What activities are being conducted?  
Ans:.....
9. What are the objectives of forming a group?  
Ans:.....
10. What kinds of trainings are provided to the farmers?  
Ans:.....
11. What are the criteria to select the participants for the training?  
Ans:.....
12. How many participants utilize the knowledge of the training?  
Ans:.....
13. What types of economic/social activities are carried out in Barang/Tarakhola ?  
Ans:.....
14. What benefits does the farmers can get form this program?  
Ans:.....
15. What do you think about the future of the program?  
Ans:.....
16. How do you invest loan to the farmer?  
Ans:.....
17. What is the maximum and minimum limit of loan amount?  
Ans:.....
18. In which purpose there is high demand of loan?  
Ans:.....
19. What is the rate of loan Overdue & default?  
Ans:.....
20. What are the major problems that you are facing to implement this program?  
Ans:.....
21. Dou you think that this program can run for a long time?  
Ans:.....

22. What are your suggestions to conduct the SFCL program effectively in the future?

Ans:.....

Name:.....  
Post:.....  
Office:.....  
Address:.....  
Phone no:.....

.....  
**Signature of Data  
Collector**

### QUESTIONNAIRE ( For Group Members)

This questionnaire is developed for the purpose of thesis writing. The descriptions given below will be kept secretly. Therefore, I request kindly to write the true statements without any hesitation.

From when the SFCL activities are started in your basti?

Ans:.....

1 Are you involving in its activities, if yes, when and what kind activities?

- Name of Activities:.....
- From:.....(dd/mm/yy)

2 What are the process of forming a group ?

Ans:.....

3 Please tick(√) mark against your qualification.

a) Literate

b)SLC passed

c)Intermediate Pass

d) Bachelor passed

e) Master degree pass

f) Others

4 Do you take any training from SFDP program? If yes, please specify the name and duration of training.

Ans:.....