IMPACT OF MICROFINANCE PROGRAMME ON POVERTY REDUCTION IN NEPAL

(A Case Study of Paschimanchal Grameen Bikas Bank Ltd.)

A

Thesis

Submitted

By:

Madhav Kumar Poudel

St. Xavier's College

T.U. Registration Number:

3756- '95

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DECLARATION

I hereby declare that the work reported in this thesis entitled, *"Impact Of Micro Finance Program on Poverty Reduction in Nepal (A case study of Paschimanchal Grameen Bikas Bank Ltd.)"* submitted to 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 Studies (MBS) under the supervision of Dr. Shankar Thapa.

Madhav Kumar Poudel

St. Xavier's Campus

T.U Regd. No: 3756-'95

Class Roll No: MBS 012/2009

Date ………/…………/....……

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Abbreviations Used

MF	Microfinance
PGBB	Paschimanchal Grameen Bikas Bank
A.D :	Anno Domini
ADB :	Agriculture Development Bank
B.S :	Bikram Sambat
CB :	Commercial Banks
CGAP :	Consultative Group to Assist the Poor
CMF :	Centre for Micro Finance
CSIDP :	Cottage and Small Industries Development Program
FINGO :	Financial Intermediary Non-Government Organization
GBB :	Grameen Bikash Bank
GON :	Government of Nepal
IBP :	Intensive Banking Programme
ILO :	International Labor Organization
IME :	International Money Express
INGO :	International Non-Government Organization
MCPW :	Micro Credit Project for Women
MFIS :	Micro Finance Institutions
MIFAN :	Micro Finance Association of Nepal
NDB :	National Development Bank
NGO :	Non-Government Organization
NRB :	Nepal Rastra Bank
NRS. :	Nepali Rupess
NSSC :	Neighbourhood Society Service Center
NUBL :	Nirdha Utthan Bank Limited
PCRW :	Production Credit for Rural Women
PSLP	Priority Sector Lending Program
PRA	Participatory Rural Appraisal
RMDC :	Rural Micro-Finance Development Centre
ROSCAs	rotating savings and credit associations
RO :	Regional Offices
RSF :	Rural Self-Reliant Fund
SACOSS :	Savings and Credit co-Operatives
SCGS :	Savings and Credit Groups
SFCLs :	Small Farmers Cooperatives Limited
SFDP :	Small Farmer Development Program
SHGs. :	Self-Help Groups
STI	Second Tier Institution
TSCG :	Traditional Savings and Credit Groups

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CHAPTER I

Introduction

1.1 Background of the Study

After the restoration of democracy in 1990 A.D.Nepal adopted the policy of economic liberalization. Rural banking system which was propounded by Prof. Mohammad Yunus was adopted to uplift the socio-economic condition of Nepalese peoples. The rural banking system started from the fiscal year 2049/2050 B.S. At the beginning 5 Rural Development Banks were established in 5 development regions. After that as the replica of Bangladesh Grameen Bikas Bank many NGOs were established. Later on these NGOs were changed to microfinance development banks and many new microfinance banks have been established. These institutions have circulated credit worth Rs. 50 Arabs to poor class peoples and contributed significantly in increasing their income generation capacities.

Microfinance network now has been spread in 67 districts among 17 lakh families. These institutions provide credit Support in small doses along with training and other related services to people who are resource- poor but who are able to undertake economic activities. Based on the principle of targeting ultra poor women reaching their doorsteps, providing cheap loan to them without collateral (but group assurance) and social empowerment ,microfinance program has been proved effective in alleviating poverty through creating employment. It has been claimed that reduction of poverty level from 50% in 2049 B.S. to 25% at present is due to microfinance put together with remittance. Still the number of people under poverty line is 25%in the country. In this context, there is a great role of microfinance in poverty reduction; therefore the central bank (Nepal Rastra Bank) has given more priority in the expansion of microfinance. Emphasizing the importance of microfinance in poverty alleviation NRB has recently made the provision of providing 15 lakh loans without interest to microfinance companies expanding their branches in 9 remote districts. Likewise, Bank and Financial Institutions (BFIs), have to increase credit to the poor class (priority sector) by 0.5% (previously it was 2.5%, 3% and 3.5%). Microfinance as a means of meeting the credit requirements of the rural peoples is not a new concept and is met both by formal /informal credit sources. There are a large no. of NGOs, Cooperatives and 23 microfinance institutions currently operating in Nepal. There will be a tremendous demand for quality NGOs and institutions in Nepal over the next few years. Because, a majority Nepalese peoples live in rural and remote areas that are still under the poverty line and succumbed to the vicious circle of poverty *(Karki, Rewat Bdr.).*

According to the Asia Pacific Rural & Agricultural Credit Association (APRACA), there are some 800 millions people in the Asia- Pacific region designated as living below the poverty line. The 'Bangkok Declaration on Microfinance (March 6-8, 2002)' affirms that a significant reduction in the no. of poor households worldwide and the sustainable development will be achieved by poverty reduction and project implementation at the grass root level. Considering the scale of poverty, a strong partnership between developing and donor countries for the social and economic improvement of the poor is essential. The goal set by the Millennium Summit in September 2002 in New York to halve the proportion of the world's poor by the year 2015 is enthusiastic and bold target.

The heads of the state and government believe that the goal will not be attained without substantial growth in microfinance policies and various social programs to improve the quality of life of poor households (APRACA, 2002).

The Asian and Pacific Development Centre (APDC) accepted the goal set for Asia-Pacific which required a commitment to render microfinance services to 70 millions of poorest families in the region by 2005.Likewise the micro credit summit of February 1997 in Washington DC, set the goal of reaching 100 millions of the world's poorest families, particularly women, with micro credit for self-employment by the year 2005.Microfinance practitioners argue that the poor not only have the desire but also the capacity to improve their situation. If the poor can't find salaried work, they will create work by capitalizing on their survival skills. They are good burrowers and eager to succeed, and they use credit to either start new activities or expand existing livelihood projects, and generally pay back their loans on time. It is also argued that the paying back of loans on time is directly linked to the institutional sustainability of microfinance organizations.

An indigenous system of managing microfinance in the informal sectors (for e.g. private local money lenders) has existed in Nepal for centuries, but the system of managing microfinance at the local level by the local people was largely ignored until 1987 in the formulation & implementation of microfinance management policies at the formal level. Grass root projects were based on top-down approach. However, the Institutional Development Projects (IDP) of the Agricultural Development Bank was created in 1987. The subsequent increased emphasis on small farmer-managed microfinance programs (e.g. Small Farmer's Cooperatives Limited) suggest recognition of the importance of locally managed microfinance system in serving local needs.

Microfinance programes have become popular worldwide. The statistics presented in the Microfinance Summit held in Veladid of Spain in November 2011 is an evidence to prove that the concept of microfinance is gaining popularity worldwide.

Statement	2000 A.D.	2010 A.D.
Microfinance institutions	1567	3589
Active customers	2 crore 35 lakhs	19 crore
Capital investment	4 00 crores	6500 crores

Source: Microfinance Summit (2011)

The World Bank (WB) and the International Monetary Fund (IMF), focused their approaches to development using the ‘top-down-bottom’ approach through Structural Adjustments Programs which does not actually address the poverty situation of the rural masses leaving development issues in the hands of top Government officials and political actors whose policies do not often reflects the needs and aspirations of the poor grassroots masses. This makes their ‘top-down’ approach on development, questionable. This is where Microfinance comes in. Microfinance approach to development is different. It tackles development problems, using the ‘bottom-up’ approach primarily spear-headed by grassroots activists and NGOs.

Microfinance provides credits for the poor to carry out developmental projects so as to better their lives instead of expecting a trickledown effect which often, does not reach them. It is my contention that those living in poverty, very much understand their problems better. Given the right resources, they definitely will improve the quality of their lifestyles and improve their standards of living. It is thanks to professor Muhammad Yunus, founder of the Grameen Bank (GB) in Bangladesh who got this inspiration through his encounter with a woman making stools out of bamboos during a visit in Bangladeshi Village. Professor Yunus sees Microfinance credit as the key to unlocking human capabilities geared towards poverty alleviation and an improvement in their living conditions. Microfinance, through its bottom-top approach to development in the fight against poverty, has emerged as a potential tool to development.

1.2 Introduction of Microfinance Institution Under Study

Pashchimanchal Grameen Bikas Bank (PGBB) is one of the five Grameen Banks promoted by NRB. The concept of these banks was inspired by the Bangladesh Grameen Bank. Each of these five banks has been assigned one of the five regions of Nepal: Far-western, Mid-Western, Western, Central and Eastern. PGBB is the rural bank for the western region. The bank was established under the Development Banks Act. This Act was replaced in 2004 by the then Govt. of Nepal with an umbrella ordinance called the Banks and Financial Institutions Ordinance, 2004.

Modelled on the Grameen Bank methodology, the mission of PGBB is 'to generate self-employment through micro-credit to the rural poor at their doorstep to reduce poverty level in the western region of Nepal'. The scope of the bank covers 3 zones and 16 districts in Western Development Region.

Inclusion in the Financial Sector:

The Nepal Rastra Bank (NRB) previously owned 61% of PGBB. In 2004, NRB had relinquished its participation in PGBB to allow the institution to become a privatised bank. The participation will be transferred to clients (37%), bank staff (5%), and other microfinance institutions in Nepal (9%). In 2011/012, PGBB has posted a profit of Rs. 274832,000.

The mission of PGBB is to provide microfinance services to the poorest in the region, especially women. The objectives of the bank are:

- To provide micro-credit to the poor
- To encourage the poor to save
- To empower women and develop their leadership skills
- To create opportunities for self-employment.

PGBB has a total equity of NRs 60 millions, invested jointly by NRB, GON and five commercial banks.

Recently the merger process of all the Grameen Banks of Nepal is underway. MOU has been signed and received LOI from NRB. Under the coordination of PGBB Jagat Bdr. Pokhrel a merger committee has been formed with two members from each 5 Grameen Banks. To evaluate the assets & liabilities of the concerned banks Due Diligence Audit is also underway.

1.2.1 Background of Microfinance Operations

There are 16 districts in the region entrusted to PGBB, out of which it is presently working in 13 districts (10 in the hill region and 3 in the plains). The client group that PGBB primarily targets is women except in a small livestock development programme of ADB, where it provides credit to men too. Livestock rearing is, in general, the most popular activity for which its clients borrow.

PGBB follows the same strategy as the Grameen Bank of Bangladesh for credit delivery. It has an outreach to 40,621 members across 276 villages and municipalities. It has 39,646 active borrowers organised into 8,183 groups and 1,154 centres as on 15 July 2005.

Departments include Accounts and Company Secretary, Administration, Internal Audit and Credit. Sections include Planning& Research and Follow up. The staff structure at Head office is quite lean. Each department except Accounts and Credit has only one staff, who is the Head of the Department and has no other extra staff. However, in Accounts there are two Assistants apart from the Accounts Head while in the Credit Department there is a senior assistant along with the Head of the Department. The ED is aided in operational decision-making by the senior management team comprising Heads of these departments.

The AO apart from operating as branches also supervise 3-4 branches in the areas assigned to them. The branches have a Branch Manager, Assistant Branch Manager or Accountant and Field Officers. PGBB has obtained loan funds from commercial banks at a concessional rate of 4% per annum.

The loans have been disbursed by the commercial banks under the “Deprived Sector Lending” requirement, which is mandatory for commercial banks to meet NRB norms. [Overall, banks must hold 3% of their portfolio as loans to “deprived sectors” of the economy].

No. of Offices :

***** Head Office 1 ***** Area Offices 10 ***** Branch Offices 34

***** Unit Offices 5

Areas of Operation :

a) Lumbini Zone : (Rupandehi ,Nawalparasi, Kapilvastu, Palpa Arghakhanchi and Gulmi Districts)

b) Gandaki Zone: (Syangja, Kaski, Tanahu, Gorakha and Lamjung)

c) Dhaulagiri Zone: (Parbat, Baglung, and Myagdi)

Services Offered by the Bank

A) Microcredit: without collateral- max. NRs100000 (One Lakh) & max.300000 (three lakhs) with collateral.

B) Microsaving: Only to its members

C) Remittances: As an agent of different Remmitance companies.

Progress Report till the last of Poush 2069 B.S.

Total no. of members : 60,828

Total investment in the form of loan : NRs. 1,00,18,60,000

Total Savings collection: NRs. 31,55,58,000

Methodology

PGBB provides savings and loans services to low-income clients, using a Grameen Bank methodology. The savings schemes include group savings, centre fund, emergency fund, personal saving and child education saving scheme. Group savings are compulsory savings of 5% of each loan disbursement, with additional contribution of one rupee each week. These savings can only be accessed by members for emergency or education purposes. The centre fund (one rupee per week) is used to build centre meeting buildings. Personal saving are voluntarily savings that attract a 6% interest rate, while the child education saving scheme is a cumulative saving scheme over seven years, used for education purposes.

The credit products include a micro business loan and micro enterprise loan. The micro business loans are provided through groups, using peer guarantee for repayment, and are repayable in 50 weekly instalments. The micro enterprise loan is provided to members having graduated from the micro business loan, requires collateral, and is repayable in monthly instalments over two years.

Poverty Focus

The criteria used by PGBB to select its clients are: limited assets, no sources of regular income, no active loan with another microfinance provider and ownership of less than 0.5 hectares of land. The criteria are in place to make sure that the poorest of the poor are eligible to receive direct support from PGBB. The bank uses Participatory Rural Appraisal (PRA) techniques, employing various demographic measures, to determine whether clients match the criteria or not.

1.2.2 Microfinance policies

Similar to Grameen Bank of Bangladesh, lending is through groups of five-members with up to ten such groups forming a centre, which is the operational unit for the organisation. However, the joint liability of repayment lies with the group and not with the centre. PGBB offers the following microfinance products to its clients

Loan products

PGBB has two loan products, the General Loan and the Micro-Enterprise Loan. While the General Loan is a group-guaranteed product, the individual micro-enterprise loans are backed by collateral.

PGBB collects compulsory savings in the form of group funds. These are collected as 1 Weekly savings of Re1 per member 2.5% of loan amount in the first cycle loan, 4% in second cycle, 3% in third and subsequent cycles (including the Micro-Enterprise Loans) Compulsory savings can be withdrawn up to 50% after the completion of five years of savings by a member. PGBB paid an interest of 6.5% per annum on compulsory savings, which was reduced to 6.0% from January 2005.

It also collects voluntary savings from members. These are completely withdrawable. The interest on these savings was 6% p.a. but was revised to 5.5% in January.

Insurance

PGBB provides a social security scheme. Members have to contribute NRs40 per year to an 'Emergency Fund' managed by PGBB. PGBB promises to forgo the outstanding loan amount in the eventuality of death of the member, pay NRs2000 on the death of the member's spouse and NRs600 as maternity benefit. It also assures a sum of up to NRs5,000 in case of hospitalisation of a member and up to NRs7,000 in case of loss in a calamity. However, these sums are payable subject to the availability of money in the Fund. On 15 July 2005, PGBB had NRs3.0 million in this fund.

Capital Structure

Authorised Capital = 20 Crores

Issued Capital = 10 Crores

Paid Up Capital = 10 Crores

1.3 Statement of Problem

Nepal is known as a poor country despite of its rich natural resources and potential that could be utilized. Almost 26% people are still poor who earn below 1$ only. The rate of poverty reduction is very slow. High population growth rate and low capital income are the main cause of poverty. Although, almost 80 percent population of the country is living in rural sectors and the basic job of people is agriculture. Government's development efforts are more concerned to urban sectors, rural development is seen to be neglected.. Average per capita income of rural people is very low in comparison to urban peoples. Likewise average life expectancy of the rural peoples is less, they have poor access to health-care facilities and sanitation services, educational institutions are concentrated in Kathmandu and other big cities. Due to the widespread poverty there is high infant and maternal mortality, children suffer from malnutrition and have no access to immunization services. It is shameful to confess the bitter reality that the women literacy rate is also very less in comparison to males.

In order to get rid of these problems, Microfinance could be helpful to those people who have no collateral, but willingness, desire and capacity to work for the improvement of their living standard and generating income from small-scale business. Hence, the study will be focused to assess the performance and impact of microfinance programs on the capacity building on decision making power of women with special reference to Paschimanchal Grameen Bikas Bank Ltd. in particular as a case study of Shankarnagar VDC in Rupandehi district.

This study is expected to address these issues:

- To what extent the microfinance programes contribute positively on breaking the vicious cycle of poverty?
- How are women, poors and marginalized peoples benefited from microfinance programs?
- What are the problems faced by beneficiaries?
- What remedies could be there to overcome problems?

1.4 Objectives of the Study

The general objective of the study is to analyze the impact of microfinance on household income and household future vulnerability to poverty. To achieve this there are four specific objectives:

(1) To understand the socioeconomic attributes of households that participate in the Joint Liability Lending microfinance programs

(2) To understand what determines household decisions for the loan sizes that they acquire.

(3) To analyse the impact of microfinance on household income using both cross sectional and pooled data.

(4) To investigate if participation in microfinance programs significantly reduces household vulnerability to poverty.

(5) How can financial services address causes of poverty?

(6) To point out suggestion and recommendations to the stakeholders.

The main objective of the thesis is to analyze the impact of microfinance on household income as well as measure household vulnerability to poverty after access to microfinance. The study is an experimental case of Shankarnagar VDC of Rupandehi district where participants in microfinance programmes and non participant households were studied over time; thus yielding a rich pooled data for analysis. On integrating time dynamics in the analysis, the results indicate a positive and significant impact of microfinance on household income. To this end the thesis argues that there is a role of microfinance on the improvement of household incomes. The thesis also reasserts that providing affordable financial services to the rural population still remains to be an important component of development strategy.

On the other hand the thesis emphasizes that there is need to come up with innovative microfinance institutions that are supportive of their own role in assets accumulation and wealth creation for their clients.

This will involve innovative targeting of potential clients, as well as streamlined microfinance regulations to protect their clients. In particular the study cautions that the ability of households to begin informal sole micro entrepreneurships should not be assumed to be adequate for the improvement of household income. There is need to create a policy framework to spur growth not only in the micro enterprises but also in the overall rural economy that would lead to the creation of employment opportunities and an increment in the agricultural output. This is quite a big task to accomplish and may require more than one particular policy intervention. In essence this calls for both private (microfinance) and public partnerships to create the environment where such poverty reduction objectives could be realized

1.5 Focus of the Study:-

Assessment of the impact of microfinance programmes of the PGBB in poverty reduction is the main focus of the study. The study will be mainly focused in Shankarnagar VDC of Rupandehi district where PGBB is operating its financing activities especially in the form of micro financing. The study focuses on impacts especially on (i) sources, income and savings, (ii) loan sources and sizes, (iii) tangible and intangible assets, (iv) nutritious food consumption, (v) food self-sufficiency, clothing and housing type, (vi) health care measures and education of children, and (vii) participation in social and political events and women empowerment.

1.6 Scope of the Study

The study is focused on:

- History of Microfinance
- Microfinance models
- Outreach – Deepening and expansion of the programs
- Impact of microfinance programs at household level,
- Sustainability of MFIs, and
- Challenges before MFIs

The study includes socio-economic change at the individual and level (such as the family income, household assets, enterprising skills, awareness, leadership, confidence, level, family health, education, etc.)

1.7 Assumptions of the Study:-

The UN Year of Micro credit in 2005 indicated a turning point on Microfinance as the private sector began to take a more serious interest in what has been considered the domain of NGOs. However, with all the excitement about the prospects of the field to contribute to poverty alleviation and the integration of the world's poor into the rapidly evolving global market system, the Consultative Group to Assist the Poorest (CGAP) estimated that microfinance probably reaches fewer than 5 per cent of its potential clients. Although this is a very rough estimate of those not reached by formal financial institutions, it might serve to provide a general idea of what share of the potential clients of microfinance have yet to be reached. India is home to growing and innovative sector of microfinance. With a large portion of the world’s poor, Nepal is likely to have a large potential demand for microfinance.

Micro finance has already made a positive impact on the quality of life of millions of poor people by providing greater access to credit, savings, insurance, transfer, remittances and other financial services which would otherwise are unreachable. Micro finance is a financial service of small quantity provided by financial institutions to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc. that is, any type of financial service provided to customers for meeting their normal financial needs, life cycle, economic opportunity and emerging with only qualification that transaction value is small and customers are poor (SHG-bank linkage programme Micro finance is generally associated with poverty alleviation interventions, income distribution amongst a wider section of population, Purchasing power redistribution where a large number of people do not have enough purchasing power to participate in a market economy. It is associated with savings in small amount and small loans, the affordability, availability, accessibility of small loans in a flexible, sensitive and responsive manner. The availability of timely, adequate uninterrupted finance that cannot provide collateral in a non bureaucratic style

1.8 Significance of the Study

The significance of the study lies on that, it will try to explore the impact and service of micro financing projects for small farmers. Financial services play dual roles: protecting the poor, and promoting their economic well-being and welfare. Therefore, it's essential to find out the relationship between access to financial resources and poverty reduction. Microfinance is one of the most important grass root initiatives in development. The 2006 Nobel Peace Prize was awarded to the founder of the Grameen Bank of Bangladesh Mohmmad Yunus. Empirical studies on how a microfinance scheme operates in a number of selected rural areas in Nepal are embodied in several researches. Microfinance is widely used as an approach to rural development in general and poverty alleviation in particular. Carefully planned and systematically executed empirical studies are required to investigate microfinance programs implemented by various institutions; in order to find out whether such programmes in fact contribute to rural development and poverty alleviation.

Microfinance could be helpful to those people who have no collateral, but willingness, desire and capacity to work for the improvement of their living standard and generating income from small scale business. Hence, the study will be focused to assess the impact of microfinance programes on the capacity building, and decision making power of women with special reference to Paschimanchal Grameen Bikash Bank.

1.9 Limitations of the Study

The impact of microfinance programs in alleviating poverty vary across different contexts depending on a range of factors including specific local conditions. For this reason it is rational to be specific to the scopes covered in carrying out the research. There are different models of micro finance programes and many institutions involving in this field in Nepal.

This research work is sufficiently substantial contribution to the field of rural development and microfinance. This work is a case study of microfinance practices and small farmer undertakings with reference to Paschimanchal Grameen Bikas Bank and in particular the role it has played in poverty reduction endeavour.

Following are the limitations of the study:

- The scopes of the study are focused on the study of the activities of PGGB.
- There may be seen statistical biases, since the respondents will be illiterate peoples.
- The study is based on the opinions expressed by the clients of micro finance, so the reliability of the findings (outcome) depends upon it.
- Study is based upon the sampling method
- The study will focus to assess the impact of micro finance activities carried out by PGGB.
- There is a dearth of consistent set of data relating to various aspects of microfinance.
- There is a dearth of consistent set of data relating to various aspects of microfinance. This has hampered the collection of data as per the prescribed formats

- Collecting time series data from MFIs is again a daunting challenge as many of them do not maintain records the way the information formats demand.
- The performance of Self-Help Groups (SHGs) is not recorded with any agency.

1.10 Organization of the Study:

The study is organized into the following five chapters. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data, Summary, Conclusion and Suggestions.

Introduction: - This chapter includes the introductory framework of the study that contains general back ground, introduction of the study, objectives of the study, statement of the problems, limitations of the study, overview of the PGBB.

Review of Literature:- This chapter deals with the review of previous research in the form of books, journals and unpublished materials. This chapter includes ; Concept of Microfinance, Poverty and Development, Sustainable Microfinance, Perspective of Microfinance, Emergence of microfinance in Nepal, Conceptual review of impact of microfinance in poverty reduction and reviews of past studies .

Research Methodology:- This section is contained in third chapter. It includes research design, nature and sources of data, data collection procedure. Similarly techniques of data analysis especially statistical tools are used to draw the final conclusion of the research.

Presentation and Analysis of Data: - This research study is basically a qualitative and quantitative research. This chapter concern with the application of defined research method on the collected data information, the general results after the application of research method on the data is also analyzed, interpreted and finally the findings are outlined.

Summary Conclusions and Recommendation:-

This chapter is concerned with the discussion of Summary, Conclusion and recommendations. Finally, Bibliography and Appendixes will be shown.

CHAPTER II

Literature Review

2.1 Concept Review of Micro finance

"I firmly believe that we can create a poverty-free world if we collectively believe in it. In poverty-free world the only place you would be able to see poverty is in the poverty museums." -Muhammad Yunus

This chapter will examine the literature on microfinance, poverty, development and sustainable microfinance etc. It will look at the different approaches to microfinance and examine the current debates and issues in microfinance. It will also note the views held by the different professionals, microfinance specialists, lending institutions and bankers.

This research work is sufficiently substantial contribution to the field of rural development and microfinance. This work is a case study of microfinance practices and small farmers' and entrepreneurs' understandings with reference to PGBB and in particular the role it has played in poverty reduction endeavour.

Microfinance is one of the most important grass-root initiatives in development. The 2006 Nobel Peace Prize was awarded to the founder of the Grameeen Bank of Bangladesh Mohammad Yunus. Empirical studies on how a microfinance scheme operates in a number of selected rural areas in Nepal are embodied in several researches. Microfinance is widely used as an approach to rural development in general and poverty alleviation in particular. Carefully planned and systematically executed empirical studies are required to investigate microfinance programes implemented by various institutions, in order to find out whether such programs in fact contribute to rural development and poverty alleviation.

A growing body of research from around the world shows that well developed and inclusive financial systems are associated with faster growth and better income distribution. Finance helps the poor catch up with the rest of the economy as it grows. Finance also helps extend the range of individuals, households and firms that can get a foothold in the modern economy, and it reduces damaging concentrations of economic power. By and large, thanks to microfinance, there is now a growing appreciation of the 'empowerment' dimension of finance, of the extent to which it can give ordinary people and the poor access to opportunity and the ability to escape ossified social structures. It is perhaps this evolutionary thinking that 'building inclusive financial systems that work for the poor' has become the mantra of the United Nations International Year of Micro credit 2005 (Karmakar,K.G.-2010)

The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Christen defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches' .This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others. However many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes.

Microfinance means the provision of small-scale financial products and services to the poor. Microfinance is of ancient origin. Traders and moneylenders have traditionally provided micro credit to the rural poor but charged exorbitant rates, which led to considerable hardship and impoverishment of borrowers; and later this resulted into debt trap, bonded labour, and illegal and forced transfer of entitlement on properties. What we refer to as microfinance today does not include such exploitative practices; rather it refers to "lending to the poor at reasonable but sustainable rates from Government and private institutional sources" (Panda K.Devdutta 2009).

Joint liability lending (JLL) which is the main focus of this study is the sort of microfinance model that is targeted to the very poor in society who cannot even borrow individually but must borrow within a group of other borrowers. Participants of joint liability lending must organize themselves in groups, and act as security for each other's loans. In reality, the group not the individual is responsible for loan repayment to the microfinance institution. The groups use peer pressure and peer monitoring to ensure that loans acquired by members are repaid. This study is mainly focused on participation and access to loans by the poor through Joint Liability Lending microfinance programs. The main interests of the study was to understand how members organized themselves in to borrowing groups; and how these groups operated as institutions, facilitating household access to credit. It was also the interest of this study to understand how households used the credit, and to measure the impact of that credit on household income. Thus going by this formal definition, it is clear that the industry is not limited to the NGO MFIs but also include other institutions like financial co-operatives, ROSCAs, Savings Associations/Clubs, some welfare associations etc.

2.2 The Current Global Perception of Microfinance

In the global arena there is already the impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable and available to many poor households in the future. Many stake holders in the microfinance industry especially donors and investors argue that, "Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor households" (CGAP). The overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by

the scarce and uncertain supply of subsidies from governments and donors. The main underlying assumption in this argument is that microfinance is already good for the clients, and therefore what is really urgent is to make the financial service available to as many poor people as possible. Morduch (2000) correctly points out that this kind of enthusiasm for microfinance rests on an enticing win-win proposition that: Microfinance institutions that follow the principles of good banking will also be the ones that alleviate the most poverty. The assumption being that with good banking practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty (Morduch 2000).

The "win-win" situation both for the investor and the poor can be explained as follows:

The investor in microfinance programs follows good banking practices with the possibility of some profit, while the poor continue to benefit by accessing reliable credit that is assumed to be beneficial to their welfare.

The supporters of the "win- win" proposition stress (mainly by assumption) that the ability to repay loans by the poor is a good indicator that whatever investments the poor make with their micro credit loans must be giving back profits. Given the assumption that microfinance is already beneficial to the poor, the "win-win" proposition further assumes that the amount of household poverty reduced is directly proportional to the number of households reached with microfinance. The "win-win" vision has been translated in to a series of "best practices" circulated widely by a number of key donors including the Consultative Group to Assist the Poorest

(CGAP). CGAP is a consortium of NGOs hosted at the World Bank. Other donor organizations that embrace “best practice microfinance” include, United States Agency for International Development (USAID) and the United Nations Development programme (UNDP) among other key donors. It is important to note that the proposal of a commercial approach to microfinance for the poor has been questioned by socially oriented service providers. Especially the assumptions underlying the “win-win” proposition have raised eye brows among socially oriented service providers who question the validity of such assumptions in the real world.

2.3 Poverty, Development and Microfinance

The term ‘poverty’, ‘development’, and ‘microfinance’ are interconnected. An important issue that has to be resolved under rural circumstance is to define precisely what poverty, development and microfinance mean. It seems impractical to describe microfinance as the tool for rural development unless it is known precisely what microfinance in rural. Development is supposed to achieve (Acharya Y.P.2009:36).

Poverty :-Poverty in simple terms is ‘a state of being in which one is unable to provide for basic human needs, including food, shelter, medicine and clothing’ (Unitus,2005:4). It is a deprivation that can be analysed both in absolute and relative terms. ‘Absolute poverty’ is generally defined as the minimum specified standard of living in terms of nutritional norms and/or satisfaction of other basic needs. Generally, this is expressed by a minimum level of income (e.g. a dollar a day) needed to support a basic standard of living. Those who fall below this minimum level, commonly known as the poverty line, are considered to be impoverished, or ‘poor’

The World Development Report defines poverty as ‘the inability to attain a minimal standard of living measured in terms of basic consumption needs or income required to satisfy them’. The report further states that the poverty line is based on the expenditure necessary to buy a minimum standard of nutrition and other necessities.

‘Relative poverty’ may be defined in relation to some standard of society at a given point in time. It is the level of living of a household in the society compared with the level of living of others in the same society or with some subjective judgment of what is adequate in that society’.

Nepal Living Standards Survey (NLSS II) 2010 estimates the level of poverty at 25.16 percent. The poverty rate is much lower in urban areas (15.46 percent) than in rural areas (27.43 percent).

This indicates inequality in opportunities and access. Disparity in the urban and rural development was one of the reasons for the 12-year long armed-conflict.

The rural poverty (34.6%) is more than three times higher than urban poverty (9.6%). The urban poverty declined from 22 percent to 10 percent while rural poverty declined in a slower rate from 43 percent to 35 percent. NLSS I and II data clearly indicate disparity in the poverty level by ecological belts, geographic and development regions.

It is highest in the mountains followed by hills and lowest in the plain Terai Similarly, household poverty level is related to education, caste, family size and employment status of the household heads. The incidence of poverty is highest in the households having illiterate household heads as well as for those self-employed in agriculture and manufacturing and lowest for self employed in trade and service. It is also recorded that poverty increases with the number of small children in the family.

Microfinance and Poverty

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

(1) Poor people need not just loans but also savings, insurance and money transfer services.

(2) Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.

(3) "Microfinance can pay for itself." Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.

(4) Microfinance means building permanent local institutions.

(5) Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

(6) "The job of government is to enable financial services, not to provide them."

(7) "Donor funds should complement private capital, not compete with it."

(8) "The key bottleneck is the shortage of strong institutions and managers."Donors should focus on capacity building.

(9) Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

(10) Microfinance institutions should measure and disclose their performance—both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institution.

Development

'Development' is 'a highly-contested concept' and has a variety of definitions. There are various concepts and paradigms of development, which need to be critically examined before discussing rural microfinance. According to different scholars development is 'Good change'

- Development means not only "good image" but also all encompassing change, which builds on itself, occurs at both societal and individual levels, and may be destructive as well as creative'
- Expansion of the "capabilities" of persons to lead the kind of lives they value.
- HDI perspective- i.e. development is defined as a process of enhancing people's choices. Three essential elements of development namely, to lead a long and healthy life, acquire knowledge, and have access to resources needed for a decent standard of living are identified at all levels of development (UNDP).
- 'Developing and strengthening the democratic system is an essential component of the process of development'.

2.4 Shifts in Development Paradigms

Over the past 50 years, development thinking has been dominated by a paradigm in which the growth of the overall economy has been believed to lead automatically to wealth trickling down to the poor. A shift in the conventional development paradigms considers that poverty alleviation is 'not just a mechanism to get the poor cross a given threshold of income or consumption, but a sustained increase in productivity and integration of the poor into the process of growth and welfare improvements' For this to occur, the poor should have access to resources, and the policy and institutional framework should enable them to resources, and the policy and institutional framework should enable to utilize such resources effectively (Iddagoda and Dale). More specifically, this new paradigm depends principally on the resources of the poor to help themselves and to boost growth overall. The concept of growth including poverty alleviation entails that increasing the production by the poor and enhancing their income are viable path to macroeconomic growth-which means, 'trickling up' instead of 'trickling down'. Likewise, 'people-centred development', incorporates the idea of both community development and empowerment simultaneously.

The new development paradigm focuses on the poor people. However, such development can occur only, and when one is responsive to the needs of the poor and advantage is taken of the productive potential of large numbers of small –scale producers in rural areas. The question of equality in development is the main issue of development debates. Development that perpetuates today's inequalities is neither sustainable nor worth sustaining (UNDP).

2.5 Microfinance and Poverty Reduction

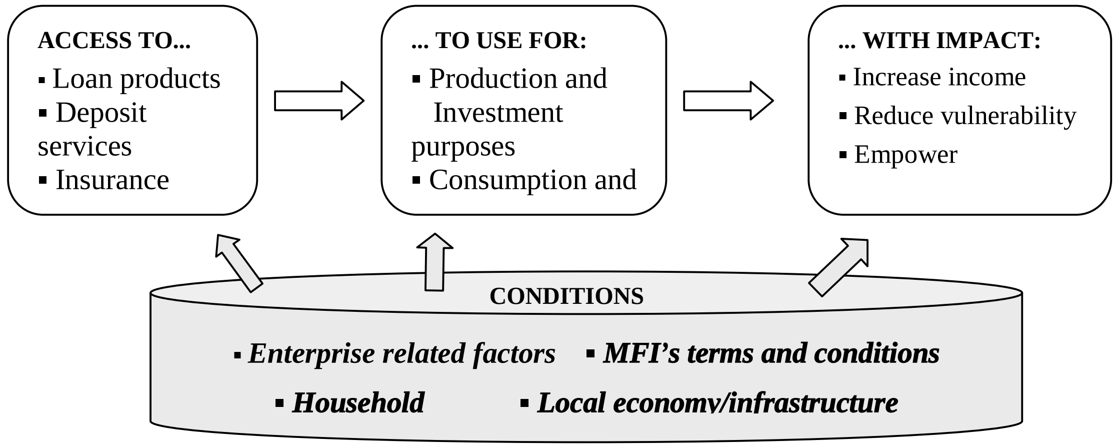
The microfinance industry started as a response to poor people's lack of access to credit. Poor people are normally not seen as interesting clients by private banks – they demand loans as low as 50 US$, and they normally do not own assets suitable for collateral. Hence, private banks perceive poor households as both costly and risky to serve. On the other side, local moneylenders provide collateral-free loans, but they charge very high interest rates. Microfinance institutions (MFIs) use different innovative solutions to reduce transaction costs and substitute for conventional collateral, e.g. solidarity group loans and individual loans based on cash-flow analysis and close monitoring and repayment incentives through progressive lending. Microfinance has traditionally been seen as production credit for entrepreneurs in the informal sector. Over the last few years, a broader vision of microfinance has emerged, that is microfinance as provision of a broad range of financial services to poor people. The new vision is simply recognition of the role of money management at the household level, extensively documented through action research.

The main contribution of financial and banking services -- savings, credit, insurance and money transfers -- is to address people’s financial constraints and facilitate management of money. Use of financial services can be classified into two broad categories: production and investment purposes, and consumption and risk management. Financial services thus play dual roles: protecting the poor, and promoting their economic well-being and welfare. However, various factors can influence the actual outreach of and impact of microfinance programs, as outlined in figure 1 below. For instance, intra-household power structures and property laws can influence women's access to and use of a loan, entrepreneurs' business skills and the viability of the local economy influence the result of an investment, availability of rural roads and electricity condition both MFIs' operations and households' livelihood activities, and MFIs' terms and conditions influence who gets access to financial services.

Studies on the impact of microfinance from different countries have documented positive effects on households' income, women's empowerment, households' investment in childrens' education, and use of health care services.

Figure 1:

The relationship between access to financial resources and poverty reduction



2.6 The Microfinance hype

The 1997 Microfinance Summit called for the mobilization 0f $20 billion over a 10 year period to support microfinance. The United Nations proclaimed 2005 as the "Year of Micro-credit" while 2006 went a score higher to award a Nobel Peace Prize to the largely acclaimed founder of modern microfinance: Prof. Muhammad Yunus and the Bank he founded in the 1970s: the Grameen Bank. The recent publicity accorded microfinance potentially creates an image of an institution that is all success, thus lacking critique.

The relationship between access to financial resources & poverty reduction to justify such significant hype and investment in the name of poverty reduction compared to other alternative investments for the same cause in other programs; it is important that the proposition that "microfinance reaches and helps the poor most" be proven and not just assumed. Until very recently much of the enthusiasm about the positive impact of microfinance had been a matter of assumption. Most of the excitement was based on the great stories on the benefits and success of microfinance that have been told from around the globe and have gone a long way to turn microfinance from a few scattered programs in to a global movement. For example, there are the ever repeated stories of women and their families living at the verge of poverty and desperation, then eventually the lives of the household members take a turn for the better once these women are given the opportunity to access credit. The women usually do not get in to very sophisticated enterprises but rather they may buy some yarn and other sawing supplies, or start any other such humble business venture, and they are already off in to a route course that will see their households lifted out of poverty and can afford better nutrition, health and education for their children. Aghion and Morduch (2005), observe that great anecdotes like these should not be substitutes for careful statistical investigations; there is need to have statistical information if indeed the success stories generally apply to most of the microfinance clients across the board. It is important to understand that these great stories are generally meant to illustrate the potential of microfinance while statistical investigations and analysis are meant to show typical impacts across the board. To many policy makers and donors, anecdotes like the ones described above, coupled with the fact that poor client are able to borrow and repay imply that whatever investments that the poor are involved in are good enough and therefore benefiting them.

2.7 Recent Studies and the Current Research Problem

Rigorous empirical analysis in the issue of statistical impact of microfinance began in the 1990s.The studies so far remain few and the results of these studies are highly provocative. The first school of thought questions the relevance of microfinance as a poverty reducing policy in the first place. (Adam & Von Pische,) argued that “debt is not an effective tool for helping most poor people to enhance their economic condition be they operators of small farms or micro entrepreneurs”. The main argument of Adam and Von Pische is that there are other more important constraints that face small agricultural households and they include product prices, land tenure, technology, market access and risk. It is argued that credit is not always the main constraint for micro enterprises´ growth and development, and that poor people demand a wide range of financial, business development and social services for different business and household purposes. The logical assumption of virtuous spiral of economic empowerment to the household due to microfinance does not in reality exist. This is particularly so given that there exists gender relations in society in relation to loan uses; a scenario that more often that not leaves poor women borrowers highly indebted, and not much wealth to show for it .

Virtuous spiral of economic well being refer to the positive chain of economic wellbeing that is assumed to originate from access to credit by a poor household. For example, access to micro credit may lead to micro entrepreneurship, leading to increase in household income, leading to increased household demand for goods and services and the alleviation of poverty.

Rigorous studies have shown that micro entrepreneurs below the poverty line experience lower percentage income increases after borrowing than those above the poverty line.

Studies have also demonstrated that households below the poverty line tend to use the loans for consumption purposes to a greater extent than households above the poverty line; thus their income should be expected to increase less. Research findings that poor households are likely to use micro credit loans for consumption purposes yet their loan repayments rates are higher tan repayment rates for the formal financial institution, which are normally used by the well off in society is quite intriguing. As though to counter the negative arguments against the impact of microfinance on poverty reduction, other studies have found that microfinance is relevant to poverty reduction not just for the beneficiaries but also there are positive spill over effects to the rest of the community (Khandker 2006). In his study Khandker (2006) uses a panel household survey from Bangladesh and observes that access to microfinance contributes to poverty reduction, especially for female participants, and to the overall poverty reduction at the village level. Pitt and Khandker (1998) find, using data from three programs in rural Bangladesh, that borrowing from group-lending schemes increased consumption of poor households. However, Morduch 1998b has argued that Pitt and Khandker's result reflect program selection effects rather than the impact of borrowing per se.

There are also other studies that seem to support to some extent the relevance of microfinance in poverty reduction. Morduch (1999) argues that microfinance has had positive impact on poverty reduction. However he is keen to add that "Even in the best of circumstances, credit from microfinance programs helps fund self employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It (microfinance) rarely generates new jobs for others and success has been especially limited in regions with highly seasonal income patterns and low population densities (Morduch 1999)". Other similar studies have shown that microfinance may be relevant for poverty reduction, but does not reach the poorest as often claimed. The results from these studies have identified beneficial impacts to the "active poor" but argue that microfinance does not assist the poorest as it is often claimed mainly because it does not reach them (Hulme and Mosley, 1996, Sharma 2000, Kiiru and Mburu, 2007). This group of studies often report mixed results suggesting the possibility of both positive and negative impacts for different households. Coleman (2006) found that microfinance programs have a positive impact on the richer households but the impact is insignificant to the other poorer households. In Coleman's (2006) study, richer households were able to commandeer larger loans to them because they sat in influential positions in the village banks as committee members. Coleman (2006) argued that it is the size of loans that households were able to acquire that was very important in determining the impact of those loans in household incomes. In the same study, many poor women borrowers dropped out of the borrowing programs citing the size of loans as too small to make any significant investments that that can significantly improve their incomes. In his study of Bolivia's Bancosol, Mosley (1996) reports that in any given cohort roughly 25 % showed spectacular gains to borrowing , 60-65% stayed about the same, and 10 to 15% went bankrupt (Mosley 1996). Kiriti, (2005) argues that microfinance tends to indebt too poor women leaving them more vulnerable and exposed. In the study, Kiriti (2005) concentrates on the impact of microfinance repayment on household assets. The findings are that poor households depleted livelihood assets in the course of loan repayment since the income generating activities were not raising enough profits to repay the loans on time. Aghion and Morduch 2005, observe that microfinance can make a real difference in the lives of those served, but microfinance is neither a panacea nor a magic bullet against poverty, and it cannot be expected to work everywhere and for everyone. Much as there have been mixed statistical impacts of microfinance, there also has been no widely acclaimed study that robustly shows strong impacts, but many studies suggest the possibility of good welfare impact (Aghion and Morduch 2005). More research should therefore be directed towards not just specific results but also the context within which particular results are expected. What worked in a particular socio cultural and economic context may not necessarily work the same if the socio cultural and economic conditions are changed in another context. This kind of focus for future research will contribute more to knowledge, for the purposes of policy.

It is within this background that this study is conducted. Specifically the study focuses on the impact of microfinance on poor rural household's income, and household's future vulnerability to poverty. To achieve this, study keenly focuses on household participation and access to credit through Joint Liability Lending (JLL) programs, household credit (cash) allocation and subsequent loan repayment. There is a special reason why the study chose to concentrate on joint liability lending programs other than other models of microfinance. This is because joint liability lending model targets the much poorer population. Poverty reduction is clearly spelled out in many of the objectives of such microfinance models. Not all microfinance institutions have poverty reduction as a primary mission. The microfinance industry today consists of a wide range of institutions serving different market niches with the sole aim of providing small scale financial services to businesses and households traditionally kept outside the financial system; without necessarily having a poverty reduction mission. All the objectives are closely interrelated if we were to have a systematic understanding of the impact of microfinance on household's incomes and household future vulnerability to poverty. To this end, there is need to really understand the attributes of the households that participate in these programs. This will help us to understand whether it is really the poor households that participate or not, there is also need to understand why the households need the loans along the objectives of the lending institution. Finally it is also important to know the impact of the loans on household incomes as well as the participants'´ future vulnerability to poverty.

Microfinance can be defined as ***provision of a broad range of client-responsive financial services to poor people through a wide variety of institutions***. This definition reflects a growing recognition that poor people need and use financial services beyond credit to expand their choices and better manage their financial lives. Microfinance includes rural finance through cooperatives, credit schemes to small-scale fisheries, and credit components in larger projects such as integrated rural development projects. Microfinance is not a panacea for poverty reduction, but one among many necessary interventions to reduce poverty and reach the Millennium Development Goals.

The idea of microfinance is closely associated with the idea of group lending. It refers to small-scale financial services –primarily credit & savings provided to the enterprises where goods are produced, recycled, repaired or sold. It promises to reduce poverty, fight gender inequality and strengthen communities. The roots of microfinance are Rotating & Credit Associations (ROSCA) & Credit cooperatives; they are the precursors of modern microfinance. Microfinance was coined initially to refer to institutions like the Grameen Bank that were focusing on getting loans to the very poor. The focus was explicitly on poverty reduction and social change, and the key players were NGOs. The roots of microfinance can be found in many places, but the best known story is that of Mohhammad Yunus and founding of Bangladesh's Grameen Bank.

Microfinance, as a proponent of the bottom-up approach has been seen as an empowering tool to development (Klugman, 2005) and being defined by the Canadian International Development Agency (CIDA) as the provision of a broad range of financial services to the poor who usually lacks access to formal financial institutions in order to carry out developmental projects so as to improve their lifestyles and be able to plan for the future and cope with emergencies (CIDA, 20O7). It has also been assessed by the Consultative Group to Assist the Poor (CGAP) as '… financial services to poor people have proven to be a powerful instrument for reducing poverty, enabling them to build assets, increase income, and reduced their vulnerability to economic stress'

Loans to poor people by banks have many limitations including lack of security and high operating cost and so Microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality.

Muhammad Yunus a Nobel Prize winner introduced the concept of Microfinance in Bangladesh in the form of the "Grameen Bank". NABARD took this idea and started concept of Micro Finance in India. In this concept, there exists a link between SHGs (Self-help group), NGOs and Banks. The SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations. They are entitled to seek credit from the banks. There is an involvement of the concerned NGO before and even after the SHG-Bank linkage. The SHG-Bank linkage programme, which was undertaken since 1992 in India, had financed about 22.4 lakh SHGs by 2006. It involved commercial banks, Regional Rural Banks (RRBs) and cooperative banks in its operations.

Micro Finance is defined as, **financial services** such as **Saving A/c**, **Insurance Fund** & **credit** provided to poor & low income clients so as to help them to raise their **income** & there by **improve** their **standard of living**. From this definition it is clear that main **features of Micro Financing** are:-

1) Loan are given without security

2) Loans to those people who live BPL *(Below Poverty Line)*

3) Even members of SHG enjoy Micro Finance

4) Maximum limit of loan under micro finance 25,000/-

5) The terms and conditions given to poor people are decided by NGOs

6) Micro Finance is different from Micro Credit- under Micro Credit, small amount of loans given to the borrower but under Micro Finance besides loans many other financial services are provided such as Savings A/c, Insurance etc. Therefore Micro Finance has wider concept as compared to Micro Credit.

"**Micro credit**"- refers specially to small loans

"**Microfinance"-** is the broader term meaning efforts to collect savings from low-income households to provide insurance (micro insurance).

Microfinance is provision of a broad range of client-responsive financial services (loans, savings, insurance) to poor peoples through a wide variety of institutions through cooperatives, credit schemes to small-scale fisheries, and credit components in larger projects such as integrated rural development projects.

Why Microfinance?

Financial services for the poor can be powerful tool for poverty reduction by enhancing the ability of poor people to increase incomes, build assets, and reduce vulnerability in times of economic stress.

Microfinance is the provision of a broad range of financial services to poor and low-income households such as micro-savings, loans, payments/or money transfers and micro-insurance. Microfinance products in the country are micro-credit, medium & small enterprise credit, group savings, project loan and micro-insurance. Although the conventional definition of microfinance is to provide banking services to lower income people targeting the poor and the very poor, the institutional definition of micro-credit in Nepal is the following:

•Central Bank (NRB) in its regulation defines the loan up to Rs. 60,000 by Micro-finance Development Bank (MFDB) as micro-credit.

•Rural Self Reliance Fund (RSRF) recognizes loan up to Rs. 60,000 per borrower given to the deprived sector as micro-credit and a group loan up to Rs. 150,000 given to the members on joint liability for project loans. 2.3 Modalities of Nepalese Micro-finance Sector Micro-finance programs are set up and accelerated in Nepal with diversified methods and modalities. They are deprived vs private sector modality, gender based modality, project based modality, wholesale lending based modality, community Vs deprived sector based modality, etc. The micro-credit programs such as PCRW, MCPW, GBBs Replicates, etc., fall under gender based programs while the programs as RMP,

PAPWT, TLDP, CGISP, etc. comes under project based micro credit programs. The wholesale micro credit programs are RSRF, RMDC, etc. The micro credit activities of SACCOs and FINGOs come under the modality of community/deprived sector based. The financial institutions operating under different models are functioning as a legal entity and have received Nepal Rastra Bank's approval for their operation. Some partner organizations (POs) of Rural Self-Reliance Fund (RSRF), operating in the rural and remote areas are registered with the Department of Cooperatives. Also, a number of NGOs involved in financial intermediation in the informal sector, village banks, self-help groups, etc., are also rendering micro finances services to the rural people. Some of these institutions are promoted and developed by Cooperatives, INGOs, and local people. Nepalese micro-finance sector can be classified as formal and semi-formal. Formal sector model is initiated by government/NRB.

The initiative so far includes the establishment of Rural Micro-finance Development Center (RMDC) and implementation of the programs as Jagriti (Women Empowerment Program), Bisheshwor with the Poor, Intensive Banking Program (IBP), Small Farmer Development Program (SFDP), and Production Credit for Rural Women (PCRW). The semi-formal model is initiated by NGOs, Cooperatives and Micro-finance banks.

Despite the intensification of globalization and satisfactory growth of GDP in the world, poverty and inequality is still prevalent, particularly in the developing world, creating challenges and hindrances to growth. The impact of poverty on the development process was discussed in 1970s by the Eminent Economists Gunar Mydral followed by Paul Steeren, Amartya Sen, Prof. M. Yunus; etc in their intensive research and writings on poverty nexus growth, with reference to developing countries of the world. Economists, social think-tanks and philosophers have realized the importance of microfinance in poverty reduction and have accorded it one of the highest rankings in poverty reduction methodologies. Recently the Nobel Peace Prize was awarded to the pioneer of micro-credit, recognizing its growing importance as one of the effective tools for poverty reduction and peace building.

For nearly four decades in Nepal various agencies have been active in microfinance with Nepal Rastra Bank, the central bank of Nepal, playing a pivotal role in policy-making decisions. A rapid upsurge in micro-finance programs has been witnessed in the last one and half decades. Within this period, Nepal introduced various microfinance programs with diversified methods and modalities including: public vs. private sector modality, project based modality, wholesale lending based modality, community and deprived sector based modality, etc. The programs such as PCRW, MCPW, GBBs, and GBBRs etc. come under gender-based programs. Likewise, the programs namely PAPWT, TLDP, RMP, CGISP etc. come under project based micro credit programs. The activities of RSRF, RMDC, SKBB, etc are solely based on wholesale micro-credit modality. Likewise, the micro credit activities of SACCOs and FINGOs fall under the modality of community/rural based. Despite the various programs conducted throughout the country along with micro-credit facilities, the incidence of rural poverty is still relatively high and there is also great disparity in the distribution of income among the different development regions of the country. This urges all stakeholders of micro finance institutions to work intensively on poverty reduction with their own modalities/philosophies without duplicating each others activities at the grassroots level. As we all know there is a dire need for seed money in the rural economy and this can be met only through collective efforts of all stakeholders involved in the microfinance sector. Additionally, self-reliance and good governance of MFIs also determines the sustainability of microfinance programs.

The outreach of MF activities has been just 0.7 million households, which is only 8.06 percent of the total population living below the poverty line in Nepal. This calls for all MFIs to work intensively on a poverty alleviation drive in the years to come via various microfinance activities along with a credit plus approach as NRB has already mentioned in its monetary policy of FY 2007/08.

2.8 Overview of Nepal's Microfinance Sector

The beginning of the cooperative movement in 1956 marks the start of modern microfinance in Nepal. Soon after, in 1963, the Government of Nepal (GoN) established the first cooperative banks, later converting these into the Agricultural Development Bank, Nepal (ADBN). In 1974, the Nepal Rastra Bank (NRB) mandated that commercial banks invest 5 percent of their deposits in "priority sector" lending and, the following year, ADBN piloted the Small Farmers' Development Program (SFDP) in two districts. This program proved a success, prompting the government to expand it to other parts of the country. In 1982, the GoN also launched a microfinance program oriented towards women called Production Credit for Rural Women (PCRW).

The next major innovation came in 1992, when the GoN and NRB introduced two institutions modelled on the Grameen Bank (GB) in Bangladesh. These Grameen Bikas Banks (GBBs) were established in the east and west of the country, followed by three more in the remaining districts. The sector continued to grow over the next decade, with the advent of private GB-style banks, semi-formal institutions such as Financial Intermediary Non-Government Organizations (FINGOs), Savings and Credit Cooperative Societies (SACCOSs), and Small Farmer Cooperative Limited (SFCLs), as well as the proliferation of informal community-based organizations, self help groups, and others. In response to this growth, the GoN and NRB began taking active measures to ensure the quality of the services provided by these institutions. In 1990, the GoN also attempted to enhance the supply side of microfinance by founding the Rural Self Reliance Fund (RSRF). Another wholesale lending institution, the Rural Microfinance Development Centre Limited (RMDC), was established eight years later and, in 2001, the Sana Kisan Bikas Bank Limited (SKBBL) began wholesale financing to SFCLs and similar organizations. The Centre for Micro-Finance (CMF) also started operating around this time: founded in 2000 to enhance MFI technical capacity and knowledge, improve understanding of the sector through research, and advocate for MFIs nationally and internationally. Finally, 2006 saw the introduction of an act regulating microfinance banks and other formal financial service providers.

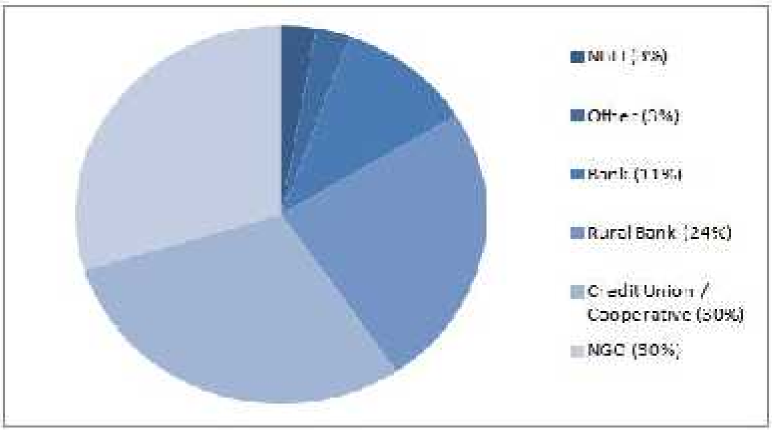
Currently, there are 37 Nepali MFIs with up-to-date financial data on MIX Market. These MFIs comprise over 800,000 active borrowers and more than USD 210,000,000 in loans. Table 1 below provides some basic figures for the sector and Figure 1 shows the distribution of Nepali MFIs by MIX's standard legal status peer groups.

Table 2.1: The Nepali microfinance sector

Indicator	**FY10**	**FY11**
Number of MFIs	38	37
Number of borrowers	773,288	807,312
Gross loan portfolio (USD)	174,138,469	211,245,880
Penetration rate[4]	13.05%	14.19%
Number of female borrowers	679,590	759,999
Number of rural borrowers	452,952	587,271
Deposits (USD)	63,560,182	90,972,948
Number of depositors	1,028,062	1,417,384

Sources: MIX Market, US Central Intelligence Agency (CIA), World Bank.

Figure 2: Nepali MFIs on MIX Market by legal status (FY11)



Source:MIXMarket.

Table 2.2: Development goals and their associated outcome indicators (or proxies)

Development goal	**Outcome indicators**
Poverty reduction	Number of clients below a specific poverty line including sample size and poverty tool used
Employment generation	Number of jobs created including sample size
Gender equality and women's empowerment	Number of individuals participating in nonfinancial women's empowerment services (proxy)
Development of start-up enterprises	Number of start-up enterprises financed including sample size

As we see in Figure 2, only 3 percent of the Nepali MFIs with SP profiles on MIX Market were able to report FY11 outcomes related to two of the most commonly reported goals and none were able to report FY11 poverty outcomes. Obviously, one would hope to see a higher level of outcome reporting but is such a hope realistic? In order to benchmark the alignment between Nepali MFIs' goals and outcome reporting, Table 4 gives the percentage of MFIs from each region citing a particular goal that can also report outcome indicators.[11] While outcome reporting is a challenge across regions, this comparison shows that the rate of outcome reporting related to specific social objectives is even lower in Nepal (except in reference to gender equality and women's empowerment, where it is in fact higher than in any region overall).

Table 2.3: Nepali outcome reporting in global perspective (FY11)

Percent of MFIs citing goal that also report outcomes	**Nepal (n=35)**	**South Asia (n=177)**	**EAP (n=97)**	**ECA (n=188)**	**LAC (n=277)**	**MENA (n=32)**	**SSA (n=161)**	**World (n=932)**
Poverty reduction	**0%**	10%	12%	12%	12%	9%	5%	10%
Employment generation	**3%**	12%	7%	12%	7%	20%	5%	9%
Gender equality and women's empowerment	**47%**	27%	26%	12%	15%	38%	11%	19%
Development of start-up enterprises	**3%**	9%	12%	12%	5%	24%	3%	9%

Source: MIX Market.

2.9 General Features of Microfinance:

a) It promotes credit as a human right.

b) Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women

c) Most distinctive feature of Grameen credit is that it is not based on any collateral or legally enforceable contracts. It is based on "trust", not on legal procedures and system.

d) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.

e) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.

f) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.

g) In order to obtain loans a borrower must join a group of borrowers.

h) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.

i) All loans are to be paid back in instalments (weekly, or bi-weekly)

j) Simultaneously more than one loan can be received by a borrower.

k) It comes with both obligatory and voluntary savings programmes for the borrowers.

2.10 The 11th Three Year Interim Plan's Provisions on Microfinance

The proposed final draft of the Eleventh Three Year Interim Plan (2007-2010) also mentions some aspects of Micro Finance Programs under the headings of Money, Banking, and Credit; that through the meaningful net working of bank, corporate institutions and MFIs, the access of credit will be intensified in rural areas of Nepal during Plan period It also mentions that the mechanism will be developed in such a way so that microfinance activities would be carried out from both private and non-government levels, particularly in rural are as targeting marginalized farmers, petty traders and poor/destitute households members with the means of heterogeneous income generating activities.

2.11 NRBs Monetary Policy and Program Related to Micro Finance

NRB's Monetary Policy of 2007/08 has accorded top priority to micro finance, providing impetus to its cause, importance and relevance especially in poverty reduction efforts. Accordingly, it has urged commercial banks to disburse credit to the deprived sector up to 3 percent of their total outstanding credit. NRB's Monetary Policy also spells out that a directive will be issued to the development banks and finance companies too to disburse credit gradually to the deprived sector in the near future. Similarly, this policy has appreciated the existing single borrower limit cap of rupees 40 thousand for individual and Rs. 100 thousand for micro-enterprises to Rs. 60 thousand and Rs. 150 thousands, respectively. The provision of refinance facilities, provision of loan facilities to small and marginal tea farmers to establish a green tea processing centre from RSRF's Loan, the provision of credit plus the approach to uplift the life of economically deprived small and marginal households through RSRF's credit facilities, the line of credit facilities to the deprived and poor families living in the remote area, etc., are instances of other provisions mentioned in Monetary Policy of 2007/08.

The commercial banks' prime lending rates vary between 11-12 percent per annum for working capital loans and 3 percent per annum on loans to entities qualifying as deprived sector loans under the Priority Sector Credit Scheme. The current interest rate paid on savings accounts with the commercial banks is about 3.3 percent per annum.

2.12 Nepal Rastra Bank (NRB) Directives related to Microfinance Institutions

NRB issued ‘Directives’ for the microfinance institutions with the objective of promoting healthy, organized, transparent and standard operation of microfinance banks. The main features of the ‘Directives’ are summarized under the following headings:

Minimum capital adequacy requirement:

- 4% primary capital (paid up capital, share premium, general reserve, retained earning loss)
- 8% primary and supplementary capital (loan loss provision, asset revaluation reserve and other reserve)

Fund mobilization:

- It can mobilize fund up to 30 times of core capital through group savings, borrowing and debentures.

Compulsory reserve and liquid assets:

- It is required to maintain compulsory minimum reserve of 0.5% of total borrowed fund from NRB or from any other Class A Commercial Bank.
- It is also required to maintain liquid assets of 2.5% of individual, group and special saving of members. The liquid assets are defined as cash reserve at hand, investment in government bonds, investment in NRB bonds and deposit in commercial banks.

Loan loss reserve

Classification of Loans Overdue Period Loan Loss Provision (%)

A. Good Not overdue or overdue up to 3 months 1

B. Substandard 3-6 months 25

C. Doubtful 6 months-1 year 50

D. Bad More than 1 year 100

(Source: NRB Unified Directives)

Expansion of Branch and Geographical Area

- MFDBs must take permission from NRB prior to expanding branches and geographical areas.

Norms of Corporate Good Governance

- MFDBs should clearly spell out rules for the appointment of Board of Directors and CEO and specify their functions and job responsibilities.

Loan Limit to Individual Group Member

- Extension of loan up to Rs. 60,000 per member without collateral security
- Extension of loan up to Rs. 150,000 to individual member for starting microenterprise with collateral security.

Interest Rate and Service Charge

- MFDBs are given freedom to fix interest rate on deposit and loans and advances, service charge and penalty interest rate for overdue loans.

Reporting Requirement

MFDBs, FINGOs and Cooperatives licensed by NRB are required to report to the Financial Institutions Regulation Department and Bank and the Financial Institutions Regulations Department according to the Unified Directives and other directives related to MFIs. If they fail to comply with the prudential norms of reporting or reporting late, they are penalized according to the Bank and Financial Institutions Act, 2006

Non Bank Financial Institution Supervision Department of NRB is supposed to monitor and supervise the operations of the MFDBs and other forms of MFIs. However, owing to the lack of adequate manpower and trained staff it has not been able to discharge these responsibilities effectively and many MFIs are short of complying with the requirements of the NRB Directives.

2.13 Financial Intermediaries Act, 1998

In 1998, NRB introduced the Financial Intermediaries Act in order to regulate the financial intermediary NGOs carrying out microfinance activities. This was claimed to be a significant step in boosting up NGOs to undertake microfinance activities for the poor. However, this Act did not permit FINGOs to accept savings deposits from their clients, which is considered to be a vital aspect for sustainable operation of microfinance services. Consequently in 2001, this act was amended allowing FINGOs also to accept saving deposits from their members. According to this Act, an NGO intending to carry out microfinance activities is required to obtain license from NRB. The FINGOs need to maintain a minimum of Rs. 100,000 as their capital to get license. After receiving license from NRB, they can apply for funds from the wholesale lending institutions, such as RSRF, RMDC and Commercial Banks. The FINGOs are required to renew their license every two years. The NRB is responsible for supervision of the FINGOs to ensure that they are performing well to the interest of the target groups and the institutions that provide them financial support.

2.14 Review of the Past Micro-finance Programs

The government of Nepal and NRB have made great efforts in conducting various rural financial programs since the 1970s decade in poverty alleviation drive led by Micro-financing towards Empowerment of Disadvantaged Groups in Nepal: Innovations and Practices Centre for International Studies and Cooperation (CECI Nepal) Periodic Plans through the aid of different participatory financial institutions such as commercial banks, development banks, rural development banks, saving and credit cooperatives, NGOs micro-finance institutions. The main objective of such initiatives is to improve and upgrade the economic and social condition of rural people especially those living on the abject poverty line. NRB was committed to working for the implementation of priority sector credit program in 1974. Under this, commercial banks were urged to extend 12 percent of their loans towards the deprived sector. The commercial banks could lend to ADB/N, RDBs, Saving and Credit

Cooperatives, and Financial Intermediary – Non-governmental organizations that were the major suppliers of rural micro-finance services. ADB/N is one of the pioneering financial institutions in Asia, which initiated the first group based micro-credit program in 1975, also known as Small Farmer Development Program (SFDP). Under this program, the ADB/N has availed credit to more than 200 thousand micro-borrowers. It had spread out the activities in 650 VDCs of Nepal. From the beginning of FY 1993/94, the ADB/N initiated another innovative approach of developing self-help organizations at grass-root level.

ADB/N had also introduced women centred programs, mainly Production Credit for Rural Women (PCRW), through IFAD fund in 1982 for the upliftment of the economic status of low income rural women. This program was completed in 1998 covering 67 districts and disbursing credit amounting to Rs. 605 million to nearly seventy thousand rural women. Micro-credit Project for Women (MCPW) was another activity in micro-finance sector of Nepal. This program was launched in 1994 with the financial assistance of ADB/M to supplement the PCRW. The main objective of this program was to provide various types of skill oriented trainings particularly to women to undertake divergent income generating activities, institutional strengthening of NGOs and the provision of micro-credit to women. The major outcome of MCPW is that women groups were organized as cooperatives. More than 82 women savings and credit cooperatives were formed and registered at the Cooperative Department, out of which 25 savings and credit cooperatives have been able to become POs of RSRF. Similarly, 27 FINGOs formed by women groups under MCPW have gotten limited banking license from the NRB.

Similarly, as in the case of PCRW, this program was extended to 67 districts and altogether 68,000 women benefited directly or indirectly from this project. The outstanding loan amount under PCRW as at mid-January 2005 stood at Rs. 158.35 million. Women Development Division (WDD), Ministry of Local Development and Nepal Rastra Bank jointly implemented this project. NRB channelled the credit through counselling and participation with commercial banks, Nepal Bank and Rastriya Banijya Bank. Under this program, women of rural and urban areas were provided soft loan on consortium as well as on individual basis to operate agriculture and small enterprises. NRB had paid principal and interest amounting to Rs. 30.5 million and 26.8 million respectively to Nepal Government as of Mid-July, 2005.

At this juncture, Banking with the Poor Program was initiated by an Austrian NGO named Foundation for Development Corporation (FDC) in 1991. The vision of the program was to enhance access of rural poor to credit RBB remained in-charge of executing this program through its 31 branches in18 districts. As of mid-July 1999, this program had extended Rs. 80 million credit approximately to some 9000 poor families through NGOs and rural self-help groups. Besides, the Savings and Credit Cooperatives (SACCOs) and Financial Intermediary Non-Government Organizations (FINGOs) were also involved with the various micro finance activities since the 1980s. Similarly, NGOs are established under the Society Registration Act-1978 in the various district administration offices for the socio-economic activities in Nepal.

2.15 Brief History of Microfinance in Nepal

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 1489cooperatives then registered with the Department of Cooperatives and the mission found most of them at defunct stage and recommended for their liquidation. There after, 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 Tupche of Nuwakot 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 reinstallation 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. The Nepal Rastra Bank (NRB) initiated Small Sector Lending in 1974 directing the commercial banks (CBs) to invest 5% of their deposit balance in Small Sector, which was later designated as the "Priority Sector Lending" in 1976. The NRB subsequently initiated "Intensive Banking Program" (IBP) in 1981 to boost up PSL lending to the low income group and required CBs to raise PSL to 8% of CBs' loans and advances, which was further raised to 12% in 1989. The main partners of PSL were the Nepal Bank Ltd. (NBL) and the Rastriya Banijya Bank (RBB) - the two state controlled CBs. The share of NBL and RBB in rural credit supply was 4.1% and 2.4% in the Sixth and 12.3% and 6.7% in the Seventh Plan periods. Loans under PSL were classified into agriculture, cottage industries and services. Target groups under PSL are low-income families with Rs. 2,511 or less as per capita income per year. The beneficiary must contribute 20% of the project cost if the loan size was more than Rs. 15,000. NBL and RB charged 15% to 16% interest rates on priority sector loans. They provided loans up to 80% of the appraised value of the collateral for low income and 70% for the high-income families. However, these CBs provided loans to the group members of Production Credit for Rural Women (PCRW) formed by Women Development Section (WDS) of the Ministry of Local Development and the groups formed by the bank staff without collateral on just group guarantee. The loan limit for such loans was Rs. 30,000. The Grameen Bank model of Bangladesh was replicated in Nepal with the establishment of Eastern and Far- Western Grameen Bikas Banks (GBBs) in 1992. The target groups included in Terai the farmers with holding less than 1 Bigha (0.67 ha) and in the hills with holding less than 10 ropani (0.5 ha), and the landless. It followed group approach in extending credit. Credit discipline was given top priority and loans were extended without collateral security on group guarantee. The board of directors of the GBBs comprised of the NRB and CB representatives and is headed by the Deputy Governor or Executive Director of NRB.

The share capital of the first two GBBs was mainly contributed by the government and the NRB (75%), and by the CBs (25%). The first two GBBs started functioning from the middle of 1993. They charged 20% interest rate and the main source of fund for lending came from NRB and CBs. In the meantime, two NGOs – the Nirdhan and the Centre for Self-help Development (CSD) also launched microfinance programs replicating Grameen model in 1993 and 1994 respectively. The financial Intermediaries Act was enacted in 1998 to regulate the financial intermediaries NGOs (FINGOs) on carrying out microfinance activities. This was claimed to be a breakthrough in legalizing the operation and activities of NGOs as microfinance operators. With the enforcement of this Act, two FI-NGOs, Nirdhan, and the Centre for Self-Help Development (CSD) also got registered under it.

Later 47 NGO got license from the NRB to operate as FI-NGOs. In 2004, the government introduced the Banks and Financial Institutions Ordinance (which was converted into an Act in 2006), which has a provision of licensing microfinance banks also as class 'D' banks. As a result, 13 microfinance banks have been issued license by the NRB till the date. In order to make available small wholesale funds to cooperatives and NGOs providing loans to the low income groups, the government had created a fund called Rural Self-Reliant Fund in 1991with Rs. 20 million contributed by the government. The government with the assistance from ADB and NRB also established the Rural Microfinance Development Centre Limited (RMDC) in 1998, to provide larger wholesale loans to MFIs through implementation of the ADB assisted Rural Microfinance Project (RMP). After the operation of RMDC, several MFIs were added in the microfinance market and the coverage by the microfinance institutions also increased with faster speed. The government had also instituted another wholesaler, the Sana Kisan Bikas Bank Limited (SKBBL) in 2001 to provide wholesale funds to the Small Farmers Cooperative Limited (SFCL) in 2001. With all these initiatives and efforts microfinance has gained a new momentum as an industry. Besides all these self-help groups also were promoted by several rural and community development projects of the government and donors to provide small credit to the self-help group members through grants for seed funds.

The government had also instituted another wholesaler, the Sana Kisan Bikas Bank Limited (SKBBL) in 2001 to provide wholesale funds to the Small Farmers Cooperative Limited (SFCL) in 2001. With all these initiatives and efforts microfinance has gained a new momentum as an industry. Besides all these self-help groups also were promoted by several rural and community development projects of the government (Shrestha Shankar Man, 2009)

Basically following 4 types of organizations seem to engage in MF programs in Nepal:

Informal financial service providers: These include moneylenders, pawnbrokers, savings collectors, money-guards, ROSCAs, ASCAs and input supply shops. Because they know each other well and live in the same community, they understand each other’s financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

Member-owned organizations

These include self-help groups, credit unions, and a variety of hybrid organizations like 'financial service associations' and CVECAs. Like their informal cousins, they are generally small and local, which means they have access to good knowledge about each other's financial circumstances and can offer convenience and flexibility. Grameen Bank is a member-owned organization. Since they are managed by poor people, their costs of operation are low. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders and the members can lose their money.

NGOs

They have proven very innovative, pioneering banking techniques like solidarity lending, village banking and mobile banking that have overcome barriers to serving poor populations. However, with boards that don't necessarily represent either their capital or their customers, their governance structures can be fragile, and they can become overly dependent on external donors.

Formal financial institutions

In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, often can't deliver services to poor or remote populations. The increasing use of alternative data in credit scoring, such as trade credit is increasing commercial banks' interest in microfinance.

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem. For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

CommercialBanks(CBs)

The commercial banks are yet another major source of financial resources for MFIs. The CBs were required by the NRB to lend 3% of their loan and advances to the deprived sector. These banks could either lend out loans to the poor and low income people directly or they could pass on this amount to the MFIs for on-lending to their clients. The category 'A' Commercial Banks (CBs) is required to lend 3% of the loan and advances to the deprived sector. As of mid-July 2008, the loan outstanding of all CBs stands at Rs. 306, 534,100,000. Thus, the fund earmarked under deprived sector lending fund @ 3% comes to Rs. 9,196,023,000 from CBs only. Similarly, the category 'B' Development Banks (DBs), and category 'C' Finance Companies (FCs) are also required to lend out 1.5% and 1% of their loan and advances to the deprived sector, respectively. The development Banks as of July 2008 had an outstanding loan of Rs. 23,699,800,000 and he deprived sector fund @ 1.5% came out to be Rs. 355,497,000 and that of 'C' category finance Companies loan outstanding stood at Rs. 43,370,600,000 of which the deprived sector fund allocation @ 1.0% comes to Rs. 433,706,000.

Thus, the total available fund for deprived sector as of July 2008 from CBs, DBs and FCs totals was around Rs. 9,985,226,000. The GBBs have not been able to fully disburse the funds they receive from the CBs. They are maintaining fixed deposits (fund parking) in the various banks. However, most CBs, DBs and FCs lend deprived sector funds mostly to qualified RMDC partners whom they consider risk free due to its stringent supervision and follow up. The MFIs have been getting loan funds for on-lending from CBs at 3%-6% interest rate depending on the mutual loan negotiations the demand for and the supply of funds and the financial health of the borrowing MFIs. The CBs do not have a system of conducting onsite follow up and supervision operations of the borrowing MFIs to check the utilization of the loans they make. In general, they provide loans for one year and get it renewed for another year, if they find that the concerned MFI’s performance is satisfactory (Shrestha Shankar Man).

CBs’ Criteria for Lending to MFIs

The commercial banks do not have set criteria for lending as such, but they generally provide loans to the MFIs if they meet the following requirements:

1. MFIs such as FI-NGOs and MF banks should be registered with NRB.
2. MFIs need to impress CBs with higher repayment rate and less overdue loans.
3. MFIs need to produce track record of proper use of wholesale loan to creating employment opportunities to its clients generating higher levels of income.

2.16 Preview of Micro-Finance Models and Poverty

To date, Nepal has about three decades of experience in Micro-Finance, which has been exclusively recognized as a poverty-reduction program focused towards raising the income level and social standard of the people living in poverty, particularly women. In due consideration of the success of the micro-finance program in bringing positive impact towards poverty reduction, the 11th Plan (2002-2007) incorporated micro-finance as a major financial tool to achieve the objective of poverty reduction. The micro-finance practices of the organized sector that are prevalent in the country can be grouped broadly into six (6) micro-finance models as follows.

A) Grameen Model

A concept of Grameen bank was evolved in 1992 when the Nepal Government felt the need to establish a separate institution which would take sole responsibility for financing the rural poor and supplementing, to some extent, the rural micro-finance activities of the previously established institutions. The aim of the Grameen Bikas Banks (GBBs), established as a regional development bank in 5 development regions between 1992 and 1996 and operating on the Bangladesh Grameen model, is to engage the targeted rural poor with the appropriate credit delivery mechanism and on a group liability basis.

These banks are the largest MF operators in Nepal. Training as an entry point of banking has been introduced, as a new specialized banking system by Grameen Bikas Bank. Although Nepal Rastra Bank had the major share ranging from 55-70 percent in GBBs, NRB is in the offing to divest its share of all GBBs to the private sector. As a result, Nepal Rastra Bank has been successful in divesting its share in three of five GBBs. Besides the government owned 5 GBBs, 4 MFIs based on Grameen model, and established as a development bank, are operating in the private sector.

The bank provides credit basically for micro level income generating activities on a group guarantee basis to the group members through 2+2+1 system. In a group, there should be 5 women and have less than 1 bigha (0.71 hectare) in terai and 10 ropanis (0.55 hectare) in hills. The interest charged in the disbursed credit is 20 percent and the bank recovers the credit in 50 weekly instalments from the borrowers. As of mid-January, 2007, 5 GBBs have altogether disbursed loans of Rs.13, 406 million to 161,385 female borrowers covering 36,875 groups through 5,207 centres. The activities of five GBBs have been expanded to47 districts of the country. There are four institutions working as replicas of GBBs They have disbursed loans of Rs. 7500 million to 156,958 women covering 39,256 groups through 7,597 centres and have successfully spread their heterogeneous income generating activities to 45 districts of the country.

i.) Swabalamban Bikas Bank Ltd. (SB Bank)

SB Bank (literally means Self-help Development Bank) is a Microfinance Development Bank, which started its operation on January 14, 2002. The Bank's registered (central) Office is situated in Janakpur, Dhanusha, Nepal. Over 13 years ago, Centre for Self-help Development (CSD), an NGO, initiated the Self-help Banking Program based on the Grameen Bank Model with some adaptations in

September 1993. The primary objective of the institution is to provide the disadvantaged section of the rural poor with easy access to credit, which will help them to improve their socio-economic status and make full use of their existing skills and resources. SB Bank targets families having per capita income not more than NPR 4,400 (USD 62) and serves women exclusively. At Mid-January 2007 SB Bank covers 417 Village Development Committees in 15 districts namely Panchthar, Illam, Therhathum, Dhankuta, Sunsari, Udayapur, Saptari & Siraha of Eastern Development Region and Dhanusha, Mahottari, Sindhuli, Sarlahi, Bara, Parsa & Makwanpur of Central Development Region of Nepal. As of Mid-January 2007, SB Bank has reached 69,053 members (families) from its 47 branches. The current outstanding portfolio amounts to NPR 373.64 million (USD 5,262,479). However the cumulative disbursement has reached NPR 3,272.42 Millions (USD 46,090,470) including the CSD/SBP period. The repayment rate has been very satisfactory (99.57%). Savings balance of the members (clients) has reached to NRS 171.59 million (USD 2,416,750).

ii.) Nirdhan Utthan Bank Ltd.

Nirdhan Utthan Bank Limited, "the bank for upliftment of the poor" is a microfinance bank established in November 1998. It was granted a license in April 1999 to undertake banking activities. It provides microfinance services such as loans, deposits, micro-insurance, and remittance services. The lending methodologies are individual lending based on Grameen Bank, Bangladesh model and group lending based on Self-help Group model through a few specified branch offices. As of mid-January 2007, NUBL has succeeded to expand credit to 78,155 member families from its 45 branches, its loan disbursement stood at Rs. 318.3 billion by mid-January 2007.Though, legally established as a company in 1998, the operation of NUBL is a continuation of microfinance services provided by an NGO called "NIRDHAN" which was providing microfinance services since March 1993. NIRDHAN, as an NGO has limited resources and capacity to satisfy the demand of poor people in different parts of the country. Hence, in July 1999,NIRDHAN transferred all microfinance operations to Nirdhan Utthan Bank. NIRDHAN was reoriented to Nirdhan Utthan Bank Limited.

iii.) Chhimek Bikas Bank Ltd.

Chhimek Bikas Bank Ltd is a micro finance development bank providing microfinance service to the poor, the marginalized and the deprived, with a main focus on women living below the poverty line. It was registered with the company Registrar's Office in December 2001 and obtained a license in January 2002 from Nepal Rastra Bank.

iv.) Deprosc Development Bank Ltd.

Deprosc Development Bank (DD Bank) is a microfinance bank working in the central and western region of Nepal. The bank has been promoted by DEPROSC Nepal (an NGO active in microfinance business). The other promoters are Agriculture Development Bank, Nepal Bank, NABIL Bank, Lumbini Finance and Leasing Company, CEAPRED (an NGO) and former bankers having 15-20 years experience. This bank was registered in January 2001. Deprosc Development Bank has been established to provide microfinance services, which are adaptable to local situations, cost effective, and financially viable and sustainable.

B) Small Farmers Co-operative Model (SFCLs)

Agricultural Development Bank of Nepal (ADB/N) initiated a newly developed financing concept on co-operatives known by the name of Small Farmers Co-operative Limited (SFCL) which is, in fact, a convergent form of a 3-decade old Small Farmers Development Project (1976) of the bank, considered the first poverty focused credit program in the country. To meet the wholesale requirement of SFCL for on-lending to small farmers, ADB/N, has established Small Farmers Development Bank (SFDB, 2002). The main objective of transformation of SFDP into SFCL is to ensure the viability and sustainability of Micro-Finance Institutions (MFIs), which would be managed and administered by the members themselves. Many international organizations including IFAD, ADB/M, and CGAP have lent their support to this program in one way or other and GTZ has been continuously providing technical support to help upgrade these institutions. As of mid- July, 2006, a total of 117,094 members (18,365 no. of small farmers groups) were associated with 200 numbers of SFCL in the country. During the same period, however, only 141 SFCLs have taken wholesale loan from SFDB for on-lending to the small farmers with the credit disbursement amounting to Rs.1,347 million. In this model SFDB provides the wholesale loan to SFCL at 9.5 percent interest rate per annum. Whereas SFCLs disburse loan to their clients at the interest rate ranging between 12 to 16 percent per annum and the loan is repaid within 2 to 5 years from the date of disbursement.

C) FINGOs Model

This is the latest form of development in micro-finance in terms of financial intermediary process. It is believed that more than 10000 unregistered NGOs are operating in the country either in the field of micro-finance or in social and community based development activities. However, only 47 NGOs (mid-July 2006) have been permitted license for doing limited banking operation from NRB. Till, mid-July 2006, 51 NGOs are associated with the Rural Self Reliance Fund (RSRF, 1991). After the promulgation of Financial Intermediary Act 1998 (1st amendment 2002), a broader scope has been created for the NGOs to function as financial intermediaries for mobilizing savings and promoting credit activities within the group. In this model, the NGOs disburse loans for micro-finance on a group basis. The interest rate ranges between 18 to 25 percent per annum and the repayment system of NGOs in MFIs on a very short term periodic basis i.e. weekly, fortnightly and monthly.

D) Priority Sector and Deprived sector Credit Model

Priority sector lending model was introduced in early 1974 through the mandatory credit requirement as put forward by the NRB in agriculture, cottage industry and Micro-financing towards Empowerment of Disadvantaged Groups in Nepal: Innovations and Practices Centre for International Studies and Cooperation (CECI Nepal) 13 services sector. This mandatory requirement is presently called Priority Sector Credit Program (PSCP) and Deprived Sector Credit Program (DSCP). Priority sector credit program was renamed later as Intensive Banking program (IBP) in 1981 while Deprived Sector Credit Program was introduced in 1991 by the NRB. Both the programs have provision of direct and indirect financing. Under the direct financing mechanism, commercial banks provide loans to the beneficiary directly as retail lending while under indirect financing, commercial banks act as wholesale micro-financer and the loan-able funds are channeled through MFIs, co-operatives, FINGOs and MFDBs for on-lending to the beneficiaries. Notwithstanding the fact that Nepal is currently passing through a World Bank led Financial Sector Reform Program (FSRP), NRB has opted for a phasing out policy of this priority sector credit program within 5 years starting from 2002/03. It may be recalled that mandatory requirement to flow funds into priority sector credit program was 12 percent of the total credit outstanding, while for DSCP commercial banks are required to finance micro finance sector at least to the tune of 3 percent of their total credit outstanding. Thus, DSCP is also a major source of fund for on-lending purposes to MFIs. In priority sector credit program, the commercial bank charges 4 to 12.75 percent interest rate per annum whereas in DSCP the interest rate ranges between 4 to 11 percent per annum.

E) Savings and Credit Co-operatives (SACCOS) Model

This is a member-based organization, registered with the objective of self-help development among the members. As of mid-April, 2006, around 8,045 co-operatives have been registered with the Department of Co-operatives of which 2,692 are savings and credit co-operatives (SACCOSs) and 447 or 5.55 percent of them are women SACCOSs. Such SACCOSs provide micro-finance services to their members for running income-generating activities. Out of 2,692 SACCOSs only 19 savings and credit co-operatives have received licenses from NRB for limited banking transaction. A separate legal framework called Co-operative Act-1998 governs co-operative societies. Out of the 2,350 SACCOS, 199 savings and credit co-operatives (as of mid-July 2006) are associated with the Rural Self-Reliance Fund (RSRF) as a partner organization (PO). These POs of RSRF, all located at the remote and rural areas have been providing micro-finance services to their members/clients to the tune of Rs.30,000/- per scheme per borrower, which is in line with the upper limit of deprived sector lending as prescribed by the NRB. RSRF is providing wholesale loan to SACCOS at 8 percent interest per annum but there is the provision of a refund of 75 percent of the paid interest back to POs having 100 percent repayment performance with the RSRF. So, net interest charged, in fact, comes to two percent only.

Financing from the RSRF is popular amongst SACCOS and FINGOs. SACCOS at the present juncture could be an alternative vehicle for micro-finance service delivery to the rural targeted people. But in absence of proper regulatory framework and clear-cut supervisory jurisdiction, it may not be so easy to generate faith with financial co-operatives. The regulation on the job of micro-financing may therefore be assigned to a separate institution like NEFSCUN and National Co-operative Development Board or new institutions such as Micro-financing Regulatory and Supervisory Authority.

F) Project-based Micro-financing Model

There were six major donor-funded project-based micro-credit programs. Some of them are still in inactive stage.

- Production Credit for rural Women (PCRW).

- This is the first donor supported micro finance program that was initiated in 1982 and completed in 1997 under two phases covering 26,616 groups and 82,416 poor women.

2.17 Concept of Impact Assessment

Impact assessment is a kind of structured study, which measures the impact on employment, income generation, nutrition, education, health, consumption, business development (micro entrepreneurship) and gender equity on MFI's clients. Impact assessment refers to the assessment of "how financial products and services affected the lives of the poor". Impact assessment is the measurement of the income growth, assets growth and vulnerability reduction of the poor by the microfinance programmes. The indicators for impact assessment are not limited to economic development but extended to development growth like health, education, empowerment, gender etc.

Assessment: Also called evaluation. Assessments include instrumental appraisals, rating exercises, and other activities that may determine how well an institution performs financially, operationally, and managerially". (Source:ACCION)

Assessment is the evaluation activities undertaken to determine how well an organization performs financially, operationally and managerially. (Source: Social Performance Working Group)

According to Simanowitz (2001), the objectives of impact assessment in microfinance are (I) improving methodology/assessment, (II) internal learning, (III) management and (iv) external proving and advocacy. To meet these objectives of impact assessment, three tools are used i.e. (i) quantitative impact assessment. (ii) PRA. Often impact assessment carried out with a systematic mix of these three tools for increasing the effectiveness.

Broadly, there are three categories of impact assessment, and these three categories are:

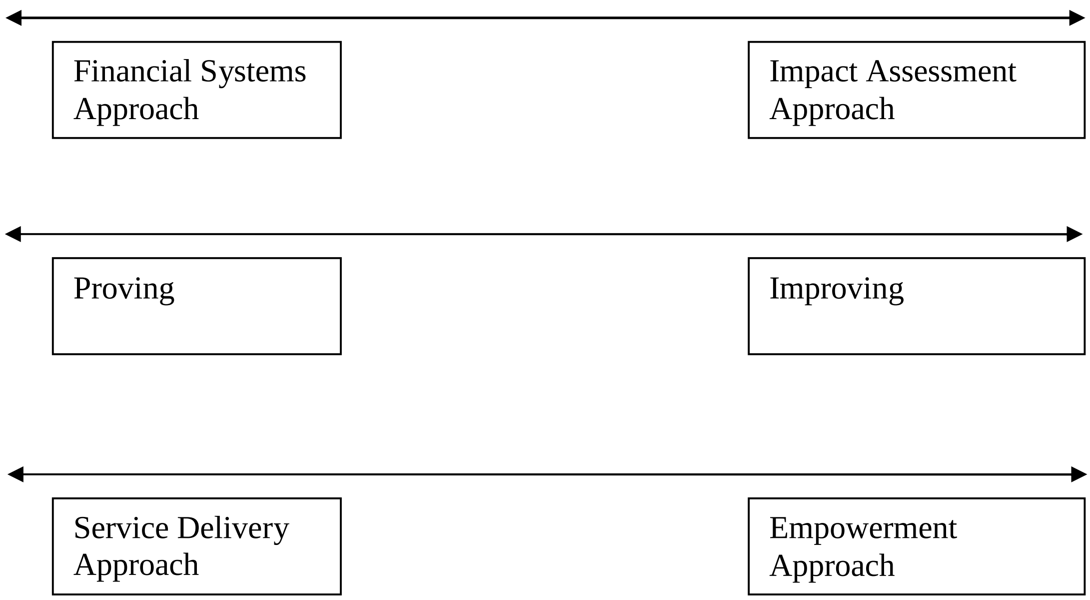
(i) Economic, (ii) Socio-cultural and (iii) Psychological. The economic category includes accumulation of wealth, changes in income, reducing vulnerability, outcome of level of enterprises etc;

The components of impact assessment are: (I) Poverty reduction, (ii) Gender mainstreaming, (iii) Social development and (IV) Institutional development. Poverty reduction can have subcomponents like change in income, saving, assets positions, consumptions (food, social obligations, clothes, education, entertainment etc.). Gender mainstreaming can have subcomponents like women in decision making, participation, business or income generation, network building, etc. Social development has the subcomponents like employment generation, education, health, migration etc.

Impact is defined as ‘the systematic analysis of the lasting or significant changes-positive or negative, intended or not-in peoples lives brought about by a given action or a series of actions’ .Certain studies only focus upon long term impact but it is difficult to link interventions to specific effects and there maybe more attribution error over time. Donors initiate and fund most impact studies, including those about microfinance, with a perspective of tracking the use of money invested. This supply orientation often results in top-down impact assessments, whereby donors lead the approaches and technology development in this field (Premchander,Smita)

There are three different perspectives to microfinance impact assessment. One debate is polarized between the financial systems and the impact assessment approach. Another question the rationale of conducting impact assessments just for ensuring effectiveness of money use (proving) and advocates measures to argument it (improving). Yet another contrasts service delivery with its ability to empower.

Figure: 2.1 Spectrums of Different Perspectives on MF Impact



Source: Smita Premchander

2.18 Review of the Previous Theses

Gharana, E. (2001), conducted a research entitled "*Micredit for Women Poverty Reduction: A case study of the Ghaukhel VDC, Bhaktapur*". The main objective of the study was to identify the role of women in microcredit program. He concluded the study on microcredit program for women on beneficiaries earning, living standard, social impacts in terms of child education, family planning, sanitation and other social reforms are positive in Ghaukhel VDC. The program empowers women as self-confidence, as well as increases in literacy and increase their skill to do their own interested income generating activities. Lamsal, T.S. (2005), has done research work on "*Impact of Microfinance Program for Women's Poverty Reduction: A case study of Chartare Youth Club Baglung District".* He concludes that the whole impact of microfinance program is to be associated in multi-dimensional ways. Although the impact of the microfinance program in the field of income generation and living standard is positive, but not satisfactory.

Aryal, Dhurba (2006), has concluded in his thesis "*Impact of Microfinance Program of Grameen Bikash Bank on the status of Rural Women: A case study of Bayarghari Unit Office, Syangja*" that the level of women's self-confidence has increased, which implies that women are making more decisions on their own. If women make decisions on financial resources, household well-being improves. Rural women spend a high proportion of their additional income on children's education, food quality and health care.

Pandey (2009), In the thesis *"Impact and Implementation of NRB Directive"* The main objectives of his study were:

a) To examine the implementation of NRB directives by commercial banks of Nepal.

b) To find out the impact of NRB directives on commercial banks.

c) To make necessary recommendations as far as possible.

The major findings of his study were:

a) The researcher has observed about the protection of the deposits of public because of the reduction in the loan exposure to the single unit, the reporter states that due to the new directives

b) The reporter laid down about the changes in the directives will bring prosperity to the shareholders, depositors, employees and the economy of the country as a whole.

c) NRB that the NRB should issued directives only after doing the proper homework. NRB must strengthen the functioning of Credit Information Bureau.

d) NRB to try to avoid ambiguity in the directives that are found there in the present directives and to come up with straightforward directives leaving no loopholes that can be manipulated.

2.19 Research Gap

Out of the 5 MF institutions established together PGGB is only the one which is operating well. PGGB is able to implement MF programmes to its clients successfully and been able to gain profit. It is only the Microfinance Company running in profit. Till date, no study has been made to assess the impact of MF programmes launched by PGGB to its clients and members. This thesis aims to fulfil this gap.

CHAPTER III

Research Methodology

3.1 Introduction

Research methodology describes the method and process applied in the entire aspects of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. The methodology adopted in this study is as discussed below.

3.2 Research Design

As per the nature of the study, the study will follow case study, field study, descriptive & analytical research design. The case study research design describes about the present status, past experiences of clients of microfinance programs. It is expected to explore more about qualitative information from few experienced entrepreneurs & their unique experience.

A true and complete research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It allows the researcher to take an appropriate measure and direction towards the predetermined goals and objectives. This study is descriptive research based on qualitative and quantitative data. A research design with techniques and systematic steps of the research helps to identify necessary data, information and collect them as per the requirement of the investigation.

3.3 Nature and sources of Data

The primary source of data will be questionnaire, field visit and interaction with different respondents, in particular the clients of microfinance co. under study.

Data from secondary sources also are used. The sources of such data are annual report of PGBB 2011/2012. In addition, supportive data and information have been taken from articles, newspapers, journals etc. Supplementary data information are collected from a number of institutions and authorities like NRB, ministry of finance. Some of the data also have been taken from websites. Moreover, the relevant literatures were collected from St. Xavier's College library, unpublished reports and documents from various sources.

3.4 Population and sample size.

Among the various microfinance beneficiaries of PGGB, the beneficiaries of Shankarnagar VDC of Rupandehi district are considered as sample.

3.5 Procedures of Data Analysis

The study will be based on both analytical and descriptive approach. Statistical analysis tools will be used. The following techniques will be followed in analyzing the data:

- Collection of relevant information
- Classification and tabulation of data
- Analysis and interpretation of data using various statistical tools
- Identification of data suited to fulfil the purpose of the study
- Derive conclusions based on the analysis of data.

3.6 Statistical Tools for Data Analysis

Following statistical tools will be used for the analysis of relevant data:

- Hypothesis testing
- Paired t-test for difference of means
- Chi-square test
- Test of significance for difference of two proportions (Z-test)
- Average
- Standard deviation.

1. Hypothesis-1:

H0: P1=P2 i.e. There is no significant change in occupational pattern from agriculture to others before and after involving in microfinance program.

H1: P1≠ P2 i.e. there is significance change in occupation pattern from agriculture to others before and after involving in microfinance program.

2. Hypothesis-2

H0: P1=P2 i.e. There is no significance change in average income before and after joining microfinance program.

H1: P1≠ P2 i.e. There is significance change in average income before and after joining microfinance program.

3. Hypothesis-3

H0: P1=P2 i.e. There is no significant difference in proportion of sanitation (drinking water and toilet) facilities used by respondents before and after joining microfinance program.

H1: P1 ≠ P2 i.e. There is significance difference in proportion of sanitation (drinking water and toiled used) facilities used by respondents before and after joining microfinance

4. Hypothesis-4

H0: P1=P2 i.e. There is no significance difference in school enrolment of children before and after join in microfinance program.

H1: P1≠ P2 i.e. there is significance difference in school enrolment of children before and after joining microfinance program.

3.7 Procedures of Data Collection

The study will be based on both analytical and descriptive approach. Statistical analysis tools will be used. The following techniques will be followed in analyzing the data:

- Collection of relevant information
- Classification and tabulation of data
- Analyze and interpret the date various statistical tools will be used;
- Identification of data suited to fulfil purpose of the study;
- Derived conclusion based on analyzed data.

3.8 Statistical Tools Used

3.8.1 Hypothesis Testing

Testing of hypothesis is one of the most important aspects of the theory of decision making. It consists of decision rules required for drawing probabilistic inference about the population parameters. It often involves deciding at any given point of time whether a given population parameter is the same as before, as claimed or has changed. In this regard we can say that one of the most important applications of statistical inference is test of hypothesis. To test whether the assumption is right or not a sample is selected from population. Sample statistic will be observed, the difference between the sample mean and population will be hypothesized, and then test will be done whether the difference is significant or insignificant.

According to the data type used data used and research methodology different types of hypothesis test can be used. In regard of this research paper, mostly data are comparative analysis of testing the significance associated before and after joining microfinance program. In this contest the statistical tools such as Chi square (χ^2), paired t-test, Test of Significance for difference of Two Proportion (Z-test) will be used as test of significance as per the requirement.

3.8.2 Paired t-test for Difference of Means

When two samples are independent of each other then this types of test will be used. However, there are many situations where the samples are dependent in each other. For example, if we are testing the income generation of respondents, testing of socioeconomic empowerment of women before and after involving in microfinance program and so on then data under the microfinance program before and after involving on MF are related to each other. In such situation, we are concerned with the difference between the pair of related observations instead of the value individual observations.

Pair t-test for difference of means can be applied when

i. The sample size is equal. That is $n_1=n_2=n$ (say)

ii. The same set of samples is treated twice on the same subject matter.

iii. The sample observations (x1, x2,……,xn) and (y1,y2,……..,yn) are fairly dependent by making the pairs of observations(x1,y1), (x2,y2)…..(xn,yn) correspond to the 1st, 2nd, …..,nth unit respectively.

Steps:

Step-1 Setting hypothesis

H0: i.e. there is no significant difference in the observations before and after involving in MF program

H1: i.e. there is significant difference in the observations before and after involving in MF program.

Step-2

Compute the test statistic: Under H0, test statistic is

$$t = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{\bar{d}}{\sqrt{\frac{s^2}{n}}}$$

Where d=X-Y= Difference between two set of observations

$\bar{d} = \frac{d}{n}$ = Mean of the difference

And $s^2 = \frac{1}{n-1} \sum (d - \bar{d})^2$

$$= \frac{1}{n-1} \left[d^2 - \frac{(\sum d)^2}{n} \right]$$

Step-3

Obtain the tabulated value of t for (n-1) d.f. at 5% level of significance according as whether the alternative hypothesis is one tailed and two tailed test.

Step-4

Decision: Make a decision by comparing the calculated value of t with the tabulated of t. if calculated value of t < tabulated t, it is not significant and H0 is accepted. Otherwise, it is rejected.

3.8.3 Chi-Square Test

Chi-square test is a non-parametric test because it depends only one the set of observed and expected frequencies are degree of freedom. Chi-square is a test, which describes the magnitude of difference between observed frequency and expected (theoretical) frequencies under certain assumptions. In other words, it describes the magnitude of the discrepancy between theory and observation. It is defined as.

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where; O = Observed frequencies

E = Expected frequencies

This test is good for nominal or ordinal scale of measurement. Nominal scale of measurement deals with the data, which can only be classified on to categories. Whereas the ordinal level of measurement assigns different ranks to above categorized data.

3.8.4 Test of Significance for difference of Two Proportions (Z-test)

For comparing and analyzing difference between two populations in terms of some categorical characteristic, Z-test is used to test the difference between two populations based on the difference between the two sample proportion, whether it is significant or not.

Compute the test statistic:

$$Z = \frac{P_1 - P_2}{PQ\left(\frac{1}{n_1} + \frac{1}{n_2}\right)} \sim N(0,1)$$

Where p = the common population proportion under H0 is unknown and we have its unbiased estimate provided by both samples taken together which is given by

$$\hat{P} = \frac{n_1 P_1 + n_2 P_2}{n_1 + n_2} = \frac{X_1 + X_2}{n_1 + n_2}$$

and $\hat{Q} = 1 - \hat{P}$

If P is unknown, then test statistic is

$$Z = \frac{P_1 - P_2}{\sqrt{\hat{P}\hat{Q}}\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}$$

Decision: if Zcal < Ztab, then the hypothesis is insignificant so accept H0.

3.8.5 Average:

The average measures condense a huge unwieldy data into a single value which represents the entire data. Since an average represents the entire data, its value lies between the two extreme observations, i.e. the largest and the smallest items in case of this paper i.e. income specifically represents. Hence Average represents the central value among large data. Average represents whole data in equal distribution although it is not actual value.

3.8.6 Standard Deviation

The standard Deviation is powerful and useful measuring tools in dispersion in order to measure the size of deviation from the average. Standard deviation is the positive square root of the average mean of the squares of the deviations of the given observations from their mean. It is denoted by sigma (σ). Thus if X1, X2, ………, Xn is a set of n observations then the standard deviation is given by:

Where n= Total number of observations (Panta, P. R.)

3.8.7 Coefficient of Variation (C.V.)

It is the relative measure of dispersion based on standard deviation. Since standard deviation is by far the best measure of dispersion, for comparing the homogeneity or heterogeneity of two of more distributions we generally compute coefficient of standard deviation. C.V. is defined as:

$$\text{C.V.} = \frac{\pm}{x} \mid 100$$

For comparing the variability of two distributions we compute the coefficient of variation for each distribution. A distribution with smaller C.V. is said to be more homogenous of uniform or less variable then the other and the series with greater C.V. is said to be more heterogeneous of more variable than other.

CHAPTER –IV

Data Presentation and Analysis

4.1 Impact Assessment of Respondents from MF program:

International aid donors, governments, scholars, and other development experts have paid much attention to microfinance as a strategy capable of reaching women and involving them in the development process. The influence of society over the range and exercise of choice also means that if we seek to promote empowerment, we must also consider factors affecting women’s status and rights as a group. microfinance programs promote social solidarity at some level, most microfinance organizations tend to focus their attention on promoting changes at an individual level—a woman who, for instance, is now able to send her children to school, negotiate lower prices for her raw materials, or even dream bigger dreams for herself, her family, and her business. The achievements of individual women can have a powerful impact on the way women are perceived and treated within their communities, but the levels of empowerment individual women may achieve are usually limited if women as a group are generally disempowered. For that reason many organizations also include elements designed to uplift women and communities as a collective rather than just as individuals. Any development process that are implemented has been measured their success or failure in their specific objectives. Here, socioeconomic status of sample respondents will be analyzed as per the changes in various topics such economic, social as well other various indication with regarding to decision making capacity, education level, occupation and as far as possible topics has been studied .This study is expected to conclude with the changes real life style of women who are involving in MF program of PGBB at Shankarnagar village of Rupandehi districts.

4.2 Age Composition of Respondents

Table-4.1

Age group of Respondents(in Year)	No of Respondents(f)	Mid Value(x)	fx	Percent (%) Represent of age group
20-30	64	25	1600	30.48
30-40	58	35	2030	27.62
40-50	66	45	2970	31.43
50-60	16	55	880	7.62
60 -70	6	65	390	2.86
Total	210		7870	100

Source: Field Survey 2013

Calculation:

Mean age of sampled respondents who are involving in microfinance program:

$$\bar{X} = \frac{fx}{f} = \frac{7870}{210} = 34.47 \text{ Years} \approx 37 \text{ years}$$

Observing the age structure of sampled respondents, it was found that most of the respondents were in the age group of 40-50 years and followed by 20-30 years which represents 31.43% and 30.48% respondents respectively. In this regard we can say that the proportion of young group women's involvement in MF program is significantly. The age group 30-40 represents 27.621% respondents. In comparison of these three age group with the age group of 50-60 and 60-70 is negligible which represents only 7.62% and 2.86% respectively. In this respect of participation of respondents of old age group is negligible involvement in MF program. This might because of physical and economically incapability for income generating activities of these age group women. But, different age groups from 20 to 50 are almost equal proportion on involvement in MF program. According to the provision of bank only married women are involved in this program so that below the age of 16 might not be involved in this program.

Accordingly it is also found that those women, whose age is 25 years, are involving in this program since seven or eight years. In this regard it can be concluded that women who are 16 but married are involved in this program.

4.2.1 Marital Status of Respondents:

As we already discuss about the importance of microfinance program for the reduction of poverty and increment the social status of poor people. Most of the countries in the world are implemented the microfinance program, and use as a success and effective tools for poor women rather than men, Such as Grameen Bikash Bank of Bangladesh is also actually initiated for poor rural women. So most of the microfinance program in the world and within our country is implemented for poor married women. Therefore member or clients of microfinance program of PGGB are also 100 percent married women. By adopting this policy bank could not give the entrance of unmarried women.

This is because bank feels that it might be increase the value of outstanding after the married of clients. Although 100% clients are married women, their status might be changed after marriage towards divorce, widow and living as separate. Hence, researchers try to identify the specific marital status of respondents on the following table

Table 4.2

Marital Status of Respondents

Marital Status	No. of Respondents	Percentage (%)
Married	190	90.05
Widow	16	7.583
Separate	4	1.896
Divorced		
Total	210	100

Source: Field Survey 2013

Table 4.2 Shows that 90.05% of sampled respondents were married women living with who have their husband similarly 7.58% respondents are living as widows and 1.89% women are living separate although they have their husbands and 0.0 % of respondent is divorced.

4.2.2 Distribution of Respondents according to Caste or ethnicity:

Caste and ethnicity is also one of the most important indication of the impact of microfinance program because by studying this we can somehow identify how effectively women related to marginalized community are involved or not in microfinance program or whether they get benefit from microfinance program or not

Table 4.3

Distribution of Respondents according to Caste or ethnicity

S.NO.	Caste	No of Respondents	Percentage (%)
1	Brahmin	30	14.29
2	Chhetri	18	8.57
3	Tharu	50	23.81
4	Gurung	18	8.57
5	Magar	30	14.29
6	B.K./Kami	24	11.43
7	Damai	6	2.86
8	Muslim	10	4.76
9	Madhesi	18	8.57
10	Thakuri	2	0.95
11	Newar	2	0.95
12	Sarki	2	0.95
	Total	210	100

Source: Field Survey -2013

From table 4.3 we can observe that 14.29% respondents are form Brahamns, 8.57% are from Chhetri. Similarly 15.19% respondents are from Tharu community, 23.81% are other caste of Madeshi such as Gupta, Yadav community, and 7.62% are from Chaudhary community. Other community groups such as Muslim are 8.57%, Gurung are 4.29%, from Magar community 14.29% respondents are engaged in this program apart from above indication 15.24% women are from dalit groups.

4.2.3 Education Level of Sampled Respondents:

Education plays key role for the empowerment of every people in society and helpful for the improvement of economic status. Educating and providing awareness among women is itself on of the most importance program. Hence before entering on microfinance program, bank provides the training about the methods of paying loan instalment, compulsory saving, personal saving and how to invest the loan amount for profit making field. Not only has this bank provided very important knowledge at least writing her name by taking pen. This is the most valuable knowledge for those women who didn't know even writing her name by herself. This makes very significantly positive impact in society as well as in society. Writing her name they have known the importance of education which affects positively towards their children by sending their children to school.

Table 4.4

Education Level of Sampled Respondents

Level of Education	No of Respondents	Percentage (%)
Illiterate	106	50.48
Literate	44	20.95
Below SLC (6 and Above)	46	21.9
S.L.C.	12	5.71
Intermediate	2	0.95
Total	210	100

Source: Field Survey- 2013

Table 4.4 Shows that the allocation of respondents according to the level of their education. It is observed from the table that 50.48% of women are illiterate; however they are able to write their names after the involvement in microfinance program. Out of 210 respondents 20.95% are simply literate, 21.90% respondents are literate who had studied at least up to 6^{th}, finally 5.71% and 0.95% respondents are fully literate who had passed SLC and intermediate level class respectively. Due illiteracy of clients' majority of respondents seem innocent and believe every activities even for knowing about how much saving in bank in her account is to ask for bank staffs. They believe that bank and staff of bank is god for them because they provide loan as per their needs but they didn't know how much interest is charged and how much loan amount is due.

4.2.4 Head of the Family / Household:

Our society is male dominated society. In this regard we can easily understand that role of household head in family play very important role for the up gradation of women's status in the family as well as in society. This result that she can involve every steps of decision making role in family which makes very valuable experience for other works outside the house such as build up confidence. Hence researcher wanted to identify how many women are leading as a head of family member.

Table 4.5

Head of the Family Household

Head of Family	**No of Respondents**	**Percentage (%)**
Respondent herself	54	25.71
Husband	138	65.71
Others	18	8.57
Total	210	100

Source: Field Survey-2013

From the direct interview and questionnaire, out of 210 respondents majority number replied that their husband is the head of family member which replicate 65.71% respondents. Out of 210 respondents 25.71% respondents replied they themselves are the head of family. But 8.57% respondents replied that neither husband nor herself be the family head. According to them father in law or son or daughter be the family head.

It is to be noted that family head related to respondents herself are mostly from hilly regions community group's family. So that terain community group's women are more back ward than hilly region's women. Respondents from hilly region can take some how openly and confidently rather than terain respondents.

4.2.5 Total number of economically active and dependents in respondents household:

Table 4.6

Economically active population in respondent's households

Particulars	No of Persons in the sample respondents households	Percentage %
Total no children 14 and below	386	32.01
Total no of adult 15 and above	820	67.99
Total No of person in the sample respondent's house	1206	100
Economically active person:	402	33.33
Overseas	44	3.65
Pension getting	4	0.33
Army	16	1.33
labour	56	4.64
Government job	10	0.83
Private job	36	2.99
others	236	19.57

Source: Field Survey-2013

In the above table it is identified that there are 1206 members in 210 respondents' households. It is also clearly view that only 33.33% are economically active person who earn income any way and feed their family. Similarly, only 10 persons are government job holder but in low grade of job. 44 persons are going for overseas, 16 persons are doing job in Nepal and Indian army job.There was no one in top class government job who are basically involved in planning and procedure holder, 10 person who are engaged in government jog are peon and that class level of job. Out of 1206 people 386 are below 14 and 14 years that represent 32.01% of total members. Other profession indicates that especially business, agriculture, households and other profession apart from above mentioned. Finally we can easily understand that there is large number of dependent person in sampled respondents households. Especially, in Terai communities more people are dependent than in hilly regions.

4.2.6 Size of respondent's family member:

The size of family has impacts on the economic status of the family. The greater the family no, more source of income is required obviously. Also, the burden of internal housework increases to females. The size of family determines the socioeconomic condition and livelihood of the family. The bigger family needs higher financial resources then the small family.

Table 4.7

Size of respondent's family member

	Family Size	**Percentage(%)**
Up to 4 (small)	52	24.76
4 -9 (medium)	142	67.62
9 to 12 (large)	14	6.67
13 and above (very large)	2	0.95
Total	210	100

Source: Field Survey-2013

Referring the table 4.7 of the sample beneficiary most of the respondents had medium class families with the member size of 4 to 9 i.e. 67.62 %. In the same way 24.76% of respondents were found in the class of small size family. There were 6.67% respondents who had large family.

4.2.7 Number of Children Going to School:

Table 4.8

Number of Children Going to School

Particulars	**Before**	**After**	**Changed**
Son	232	248	16
Daughter	188	198	10
Total	420	446	26

Source: Field Survey-2013

Hypothesis testing for finding out the impact on school enrolment

Ho: P1=P2 i.e. program doesn't affect to respondents sending for their daughter to school

H1:P1<P2 i.e. program affect to respondents sending for their daughter to school

We have,

n1= 420 n2=446

X1= 188 X2=198

Where, n1= Total number sample respondents who sent their daughter in school before involving in MF program.

n2= Total number sample respondents who send their daughter in school after involving in MF program.X1 and X2 = Total number sample respondents who send their children in school involving in MF program before and after involving MF program respectively.

P1=Sample proportion of respondents who sent their daughter in school before involving in MF program == $\frac{x_1}{n_1} X \frac{188}{420} X 0.4476$

P2= Sample proportion of respondents who sent their daughter in school after involving in MF program = $\frac{x_2}{n_2} X \frac{198}{146} X 0.4439$

Test Statistic under H0 =P1=P2=P, the test statistic is

$$\bar{X} \; X A \Gamma \frac{h \quad F_1 d}{N} X 55 \Gamma \; \frac{Z774}{210} \; | 10 \, X 18.14$$

$$Z \; X \frac{P_1 Z P_2}{\sqrt{\hat{P}\hat{Q}} \; \frac{1}{n_1} \Gamma \frac{1}{n_2}}$$

Since P is unknown, we use its unbiased estimate $\hat{P}$ and $\hat{Q}$ instead of P and Q

Where $\hat{P} = \frac{n_1 P_1 \Gamma n_2 P_2}{n_1 \Gamma n_2}$

$$= \frac{X_1 \Gamma X_2}{n_1 \Gamma n_2} = \frac{188 \Gamma 198}{420 \Gamma 446} = \frac{386}{866} X 0.4457$$

$\hat{Q}$ =1- $\hat{P}$ =1-0.4457 = 0.5543

$$= \frac{0.0037}{\sqrt{0.2471 \,|\, 0.00925}} X \frac{0.0037}{\sqrt{0.002284}}$$

$$= \frac{0.0037}{0.04779} X 0.0774$$

Tabulated value of Z at 5% level of significance for Left tailed test is 1.64. That is, Z0.05 = 1.64

Conclusion: since Zcal <Ztab i.e. 0.0774<1.64 hence H0 is accepted it means H1 is rejected

It indicates that there is no significance difference in sending daughter to school by their parents before and after the involvement in MF program. In other words, the pattern of sending school to daughter before and after the involvement in MF program is same.

4.2.8 Causes of change in the enrolment of children in school

Education for children by parents is most essential for children's bright future. Most respondents replied to researcher that although they are illiterate they will teach or proved study opportunity as much as possible until and unless their children desire to study. Although there is no significant different in changing the level of going children in all together, but while going for direct interview, most of the respondents send their children to school after involvement at least primary level. Due to the long time involvement in microfinance program might affect the proportion of going and leaving school of children are almost equal proportion.

Table 4.9

Causes of change in enrolment of children in school

Reasons	No of respondents who answered	Percentage
Due to age of children	50	23.81
Due to the increments of income	22	10.48
I have known importance of education	32	15.24
Due to marriage of child (Daughter)	32	15.24
Due to marriage of child (son)	6	2.86
Getting Job	4	1.90
Not interested by child	28	13.33
Due to Poverty of family	22	10.48
Due to illness of child or family	8	3.81
Overseas Job	6	2.86
Total	**210**	**100.00**

Source: Field Survey-2013

In an another part 15.24% or 32 respondents replied that their children leave school due to the marriage of their daughter where as 2.86% or 6 respondents replied that their children or son leaving their school due to marriage , 1.9% or 4 respondents replied their child leave school due getting job. 13.33% or 28 respondents replied leaving their children due to not interested of studying because of failed in class of older age rather than their friends studying in their same class. Similarly, 10.48% or 22 respondents replied that due to lower poverty level, their children leave going for school. They have to support their family for income generating work. 3.81% or 8 and 2.86% or 6 respondents replied due to the illness of family member and going children for overseas job respectively.

4.2.9 Pattern of paying loan:

As per the rules of Bank, respondents should pay their loan at least in 25 instalments whatever the loan they get; it is basically implicated for general loan. So respondents should pay loan on fortnightly or weekly on instalment basis.

Table 4.10

Pattern of paying loan

Types	**No of Respondents**	**Percentage (%)**
Paid Fully	22	10.48
Paid Partially	188	89.52
No Paid Yet	0	0
Total	**210**	**100**

Source: Field Survey-2013

In this regard researcher asked the question whether respondents pay their loan timely and regularly or not. Out of 210 respondents 22 (10.48%) respondents replied to researcher that they had already paid their loan fully and now they don't take any loan from bank and 188 (89.52%) respondents paid their loan partially and timely. Finally no respondents replied that they don't paid loan till now. Most respondents replied that they had taken re-loan after completing first loan paying in one-year period. It is noted that clients could not get loan repeatedly in toilet, hand pump topics.

4.2.10 Sources of paying loan:

In order to take regular financial support (especially loan) from bank every respondents should pay their loan in time at any cost as per the rules and regulation of bank. Respondents take loan for various purposes, but sources of paying loan might be different such as income earned from investing loan, borrowing from friends of other institutions.

Table 4.11

Sources of paying loan

Sources	No. of Respondents	Percentage (%)
Income earned from Investing loan	140	66.67
Taking Loan From Other Institution	6	2.86
From Mutually income	6	2.86
Other Sources(other family's income/salary)	52	24.76
Doing labor	6	2.86
Total	**210**	**100**

Source: Field Survey-2013

According to table 4.11 mostly 140 (66.67%), respondents replied that they paid loan instalment from the income earned from investing loan and 2.86% replied that they paid loan by borrowing money from other Financial institution or friends. Similarly 2.86% respondents said that they had paid their loan from mutual income earned by husband and wife, 24.76% respondents stated that they didn't have sufficient money to pay for loan instalment, so they had to beg money their husband or other economically active person of her family member.

4.2.11 Causes of Changes in Income of Respondents:

Most of the respondents replied for researcher that they had increased their level of income after the involvement. But due to the various causes such as increase in credit in business and death of cattle, some respondents faced loss. In the 9 year period of involving in microfinance program some had changes their economic condition dramatically and some faces loss after few years, however they increase their level of economic condition in their family after the involvement of microfinance rather the before involving in this program. But some did not improve their level economic condition even in 9 year period of involvement microfinance program.

Table 4.12

Causes of Changes in Income of Respondents

Reasons	Number of Respondents	Percentage (%)	Remarks
Business Expansion	46	21.90	Increased
New Business estd.	42	20.00	Increased
Increasing in Production of Agriculture	32	15.24	Increased
Others/labour Rate increase	28	13.33	Increased
Getting job	42	20.00	Increased
Decrease In Sales	6	2.86	Decreased
Illness of Family Member	6	2.86	Decreased
leaving business due to loss	6	2.86	Decreased
Death of cattle	2	0.95	Decreased
Total	**210**	**100.00**	

Source: Field Survey-2013

Researcher found that 21.9% respondents replied their income was increased due to the expansion of business and 20% respondents replied their business had established new business which was the reason of increasing income. Similarly 15.24% respondents income was increased due to the increment in agricultural production or cattle which is directly affected by microfinance programme operated by bank, 20% respondent's level of income was increased due to getting job by their family member such as overseas job . it is noted that bank has provided to their clients as foreign employment loan maximum of Rs.100000. but 13.33% of respondents replied that their level of income is decreased due to the increment of wages rates. This might be the unaffected for respondents from microfinance program. But some workers bought instruments by taking loan from bank and started to work so that their level of income was increased. In spite of above answers 20 respondents replied that the level of was increased after joining on this program but now it is decreasing. On this scenario 2.80% respondent replied that their sales had been decreased so that their level of income wad decreased 2.80% respondents replied that causes of decreasing income is the illness of their family members, and 2.80% replied that they leave their business due to loss on providing more credit, finally 1 respondents replied her cattle was resulted for death.

4.2.12 Income Generation of Sampled Respondents:

Women have been shown to spend more of their income on their households; therefore, when women are helped to increase their incomes, the welfare of the whole family is improved. Women's increased income benefits their children, particularly in education, diet, health care, and clothing. Apart from this; woman's role in the economy is an important determinant of her ability to provide health care services, education and safe housing for herself and her family. It also has an impact on her decision-making power, as well as her ability to speak and act against inequalities, injustice, and violence in her home as well as in the community. The ownership of working capital is a means to building a woman's confidence, self-respect, and the capacity to use her voice to shape

her life and the lives of her family members. In this context, income generation makes significant role for the empowerment of women. So income generation of respondents before and after involvement in MF program of PGBB has been presented in following table:

Table-4.13

Annual Income in view of respondents

Annual income	Mid value	Before involvement			After involvement			Increment (Y-X)
Rs. In (000)	(x)	F_1	$F_1x=X$	%of respondents	F_2	$F_2x=Y$	% of respondents	
0-10	5	130	650	61.9	52	260	24.76	-390
10-20	15	34	510	16.19	36	540	17.14	30
20-30	25	16	400	7.62	22	550	10.48	150
30-40	35	4	140	1.9	10	350	4.76	210

40-50	45	4	180	1.9	14	630	6.67	450
50-60	55	4	220	1.9	8	440	3.81	220
60-70	65	2	130	0.95	6	390	2.86	260
70-80	75	2	150	0.95	6	450	2.86	300
80-90	85	0	0	0	4	340	1.9	340
90-100	95	4	380	1.9	14	1330	6.67	950
Above 100	105	10	1050	4.76	38	3990	18.1	2940
Total		210	3810	100	210	9270	100	

Source: Field Survey-2013

As depicted in the above table130 (61.90%) respondents are below the annual income group of below Rs 10000 and 34 (16.19%) respondents were below the income group between Rs 10000 to Rs 20000 before joining in MF program. In this sense we can say that before involvement in MF program almost 83% of respondents are below the income level of 20000. Rests of them are above the income group of Rs 20000. This is however significantly decreased to 24.76% respondents on below Rs 10000 income earner group after involvement in MF program. In above only 130-52= 78 respondents decrease group of below Rs.10000 income earner. Member in this group is decreased because rest income group is increased. In this regard we can say that MF program operated by PGBB has been significantly affected its clients in income earning. But even now almost 43% respondents are below the poverty line.

Table-4.14

Comparative Analysis of Income Generation of Respondents

Annual income	Mid value (x)	d=(x-55)/10	Before involvement			After Involvement		
			F_1	F_1d	F_1d^2	F_2	F_2d	F_2d^2
0-10	5	-5	130	-650	3250	52	-280	1400
10-20	15	-4	34	-136	544	36	-144	576
20-30	25	-3	16	-48	144	22	-66	198
30-40	35	-2	4	-8	16	10	-20	40
40-50	45	-1	4	-4	4	14	-14	14
50-60	55	0	4	0	0	8	0	0
60-70	65	1	2	2	2	6	6	6
70-80	75	2	2	4	8	6	12	24
80-90	85	3	0	0	0	4	12	36
90-100	95	4	4	16	64	14	56	224
Above 100	105	5	10	50	250	38	190	950
Total			$\sum F1$ 210	$\sum F1d$ -774	$\sum F1d^2$ 4282	$\sum F2$ 210	$\sum F2d$ -228	$\sum F2d^2$ 3368

Source: Field Survey-2013

Before involving in MF program

1. Mean:

$$\bar{X}_1 \, \mathrm{X} \, A \, \Gamma \frac{h \quad F_1 d}{N} \, \mathrm{X} 55 \, \Gamma \, \frac{Z774}{210} \, | 10 \, \mathrm{X} 18.14$$

2. Standard Deviation:

$$\pm_1 \, \mathrm{X} \sqrt{\frac{F_1 d^2}{N} \, \mathrm{Z} \, \frac{F_1 d}{N}^2} \, | \, h \, \mathrm{X} \sqrt{\frac{4282}{210} \, \mathrm{Z} \, \frac{Z774}{210}^2} \, | 10$$

$$= \sqrt{f 20.39 \, \mathrm{Z} 13.59 \mathrm{A}} | 10 \, \mathrm{X} 26.09$$

3. Variance $(\pm_2{}^2) =$ $(26.09)^2 = 680.69$

4. Coefficient of Variance (C.V.1) = $\frac{\pm}{X} \, | 100 \, \mathrm{X} \frac{26.09}{18.14} \, | 100 \, \mathrm{X} 144 \, \%$

After Involvement:

1. Mean $\bar{X}_2 \, \mathrm{X} \, A \, \Gamma \frac{h \quad F_2 d}{N} \, \mathrm{X} 55 \, \Gamma \, \frac{Z228}{210} \, | 10 \, \mathrm{X} 44.1$

2. Standard Deviation $\pm_2 \, \mathrm{X} \sqrt{\frac{F_2 d^2}{N} \, \mathrm{Z} \, \frac{F_2 d}{N}^2} \, | \, h \, \mathrm{X} \sqrt{\frac{3368}{210} \, \mathrm{Z} \, \frac{Z228}{210}^2} \, | 10$

$= 44.1$

3. Variance $(\pm_2{}^2) = (38.05)^2 = 1482.25$

4. Coefficient of Variation (C.V.2) $\frac{\pm_1}{\bar{x}_2} \, | 100 = \frac{38.15}{44.1} \, | 100 \, \mathrm{X} 87.3 \, \%$

Table-4.15

Statistical Summary

Statistic	Before involving	After Involving	Result
Mean	18.14	44.1	Increased
Standard Deviation	26.09	38.5	Increased
Variance	680.69	1482.25	Increased
C.V.	1.44	0.873	Decreased

Source: Field Survey-2013

From the above conclude table we find that the average annual income is increased by Rs.44.1-18.14=Rs25.96 thousand after the involvement in MF program. Similarly, standard deviation of income after involving in MF program is also increased. In spite of high dispersion of income it is more homogenous or consistent or uniform in income after involving rather than of before involving in MF program this is because of decreasing in C.V. This indicates that members of PGBB's income are more consistent after involving in MF program.

Table-4.16

Hypothesis Testing for different classes of total income before and after involvement in MF

X	Y	d = Y- X	d^2
650	260	-390	152100
510	540	30	900
400	550	150	22500
140	350	210	44100
180	630	450	202500
220	440	220	48400
130	390	260	67600
150	450	300	90000
0	340	340	115600
380	1330	950	902500
1050	3990	2940	8643600
Total		5460	10289800

Source: Field Survey-2013

Hypothesis:

H0: µx = µy i.e. the average income level of households before and after the involvement in MF program is same.

H1: µx < µy i.e. the average income level of households after the involvement in MF program is significantly increasing.

Test statistic: under H0 is

$$t \text{ X} \frac{\bar{d}}{\sqrt{\frac{S^2}{n}}} \quad \text{Where, } \bar{d} = \frac{d}{n} \; and \; S^2 = \frac{1}{n \text{ Z} 1} \quad d^2 \text{ Z} \frac{d^2}{n}$$

$$\text{We have } \bar{d} \text{ X} \frac{d}{n} = \frac{5460}{11} \text{ X} 496.36$$

$$\text{And } S^2 \text{ X} \frac{1}{n \text{ Z} 1} \quad d^2 \text{ Z} \frac{d^2}{n} = \frac{1}{11 \text{ Z} 1} \quad 10289800 \text{ Z} \frac{(5460)^2}{11} = 378982.72$$

The test statistic is:

$$t \text{ X} \frac{\bar{d}}{\sqrt{\frac{S^2}{n}}} = \frac{496.36}{\sqrt{\frac{378982.72}{11}}} \text{ X} \frac{496.36}{\sqrt{34452.98}} \text{ X} 1.89$$

Hence t=1.8909

Degree of freedom (d.f.) = n-1 = 11-1 = 10

The tabulated value of t for 10 d.f. at 5% level of significance for left tailed test is 1.812

Hence t tab= 1.812 and tcal = 1.8909

That is t0.05 (10) =1.812

Decision: since the calculated value of -'t' is greater than the tabulated value of-'t', it is significant and H1 is accepted which means that the average income of sampled respondents after the involvement in MF program is significantly increasing.

4.2.13 Occupation of Respondents Before and After Involvement in Microfinance:

The relevant information shows regarding to the occupation of respondents before and after the involvement of microfinance. Here researcher tries to specify the relevant information regarding the occupation of respondents before and after the involvement of microfinance program.

Table 4.17

Occupation of Respondents Before and After Involvement in Microfinance

Types of occupation	Before involvement		After Involvement	
	No. of Respondents	Percentage	No of Respondents	Percentage
Trade, commerce and shop	16	7.62	50	23.81
Fruits shop	4	1.90	6	2.86
hotel	4	1.90	18	8.57
Tailoring	2	0.95	4	1.90
cosmetic	0	0.00	6	2.86
Paan Pasal	0	0.00	2	0.95
Cattle rearing	18	8.57	74	35.24
Agriculture(landlord)	66	31.43	16	7.62
Household	78	37.14	12	5.71
vegetable production	0	0.00	4	1.90
Job	4	1.90	0	0.00
Furniture	2	0.95	2	0.95
wages/labour	14	6.67	12	5.71
Overseas	0	0.00	2	0.95
Child	2	0.95	0	0.00
Fisheries	0	0.00	2	0.00
Total	210	100	210	100.00

Source: Field Survey-2013

Table 4.17 shows, that there was significant change in the level of occupation of respondents before and after their involvement in MF program. Especially, income of the Women who are involved in household work without any payment is significantly decreasing. Rearing cattles is significantly increasing apart from this other doing self-business is also significantly increasing after the involvement in MF program.

Household work is decreasing to 5.71% from 37.14% and taming cattle is significantly increasing to 35.24% from 8.57%. Not only has this self-business such as trade and business, fruits vending, tailoring, hotel etc. are also significantly increasing to 42.15% from 12.37%. Other specific professions of respondents are also given in the table. Among them 6% respondents are blue colour labors.

Although professions of respondents are showing more specifically but while testing hypothesis, tested is only related to topics in two groups i.e. self business (i.e. Trade, commerce and shop, Fruits shop, hotel, Tailoring, and cosmetic) and Agricultural occupation which includes cattle, landlord and vegetable production in Agricultural sector Hypothesis testing of occupation regarding to respondents:

Table-4.18

Occupational changes in Respondents

Occupation	No of Respondents					
	Before Joining in MF	After Joining In MF	Shift from Household	Shift from Child	Shift from Job	Shift from Labour
Trade, commerce and Fruits Shop	20	56	36			
Agriculture (Livestock),Landlord	84	96	12			
Service business(Hotel,Tailoring ,Parlor/cosmetic)	6	30	16	2	2	2
Total	110	182	66	2	2	2

Source: Field Survey-2013

Ho: P1=P2 i.e. there is no significance difference in agricultural occupation of respondents before and after joining microfinance program

H1:P1≠ P2 i.e. there is significance difference in agricultural occupation of respondents before and after joining microfinance program.

We have,

n1= 110 n2= 182

X1= 84 X2=96

Where,

n1= Total number sample respondents whose occupation was trade and commerce, agriculture and service business before involving in MF program.

n_2= Total number sample respondents whose occupation was trade and commerce, agriculture and service business after involving in MF program.

X_1 and X_2 = Total Number of respondents whose main occupation is related to agriculture before and after involving MF program respectively.

P_1 = Sample proportion of respondents whose occupation is agriculture before involving in microfinance program = $\frac{x_1}{n_1} = \frac{84}{110} \text{X} 0.7636$

P_2 = Sample proportion of respondents whose occupation is agriculture after involving in microfinance program.

$= \frac{x2}{n2} = \frac{96}{182} \text{X} 0.5275$

Test Statistic under H0 =P1=P2=P is

$$Z \text{ X} \frac{P_{1Z}P_2}{\sqrt{\hat{P}\hat{Q}\left(\frac{1}{n_1} \Gamma \frac{1}{n_2}\right)}}$$

Since P is unknown, we use its unbiased estimate $\hat{P}$ and $\hat{Q}$ instead of P and Q

Where $\hat{P} = \frac{n_1 p_1 \Gamma n_2 p_2}{n_1 \Gamma n_2} = \frac{X_1 \Gamma X_2}{n_1 \Gamma n_2} = \frac{84 \Gamma 96}{110 \Gamma 182} = \frac{180}{292} \text{X} 0.6164$

$\hat{Q}$ = 1- $\hat{P}$ = 1-0.6164 = 0.3836

$$Z = \frac{0.7636 \text{Z} 0.5275}{\sqrt{0.6164 \,|\, 0.3836 \left(\frac{1}{110} \Gamma \frac{1}{82}\right)}} = 4.0221$$

Tabulated value of Z at 5% level of significance for two tailed test is 1.96.

That is, Z0.05 = 1.96

Conclusion:

Since the calculated value of Z is greater than the tabulated value of Z, it is significant and H0 is rejected and H1 is accepted which means that there is significant change in respondents occupation from agriculture to others before and after the involvement of MF program.

4.2.14 Saving Pattern of Sampled Respondents:

Pattern of saving indicates that what the situation of saving condition of respondents before and after the involvement in Microfinance program. According answer replied by each respondent only 24 respondents out of 210 respondents were engaged in saving pattern in other various groups. After the involvement on microfinance program 83.82% respondents replied that they have saving in bank and 34 respondents replied that they don't have saving in bank. But those women who are involved in bank must have compulsory or group saving of Rs. 4 every fortnight and they have to keep Rs. 9 in every meeting also every client should keep 5% of loan amount in saving in her group fund saving account. In this sense, more of less every client have saving in their account in bank.

Table 4.19

Saving Pattern of Sampled Respondents

Particulars	Before Involvement		After Involvement	
	No of Respondents	Percentage (%)	No of Respondents	Percentage (%)
Saving	24	11.43	176	83.81
Not Saving	186	88.57	34	16.19
Total	210	100	210	100

4.2.15 Level of Satisfaction of Sampled Respondents:

Satisfaction is the level of acceptance of value or services provided by the service provider. If a person purchases a cycle value Rs 4000 and thinks he is satisfied, but the next person can give higher value worth Rs. 5000 or lower value of Rs3000 for the same level of satisfaction from the same cycle.

Satisfaction is the measure of value of goods or services in terms of investment i.e. having a Nepali food is a simple hotel costs Rs.50 where as the cost of same food could be more than Rs500 in luxurious restaurants, it depends upon the nature and economic status of the person where and how he will be satisfied.

Table 4.20

Level of Satisfaction of Sampled Respondents

Particular	No of respondents	Percentage (%)
Yes	126	60
No	14	6.67
I don’t know	50	23.81
Satisfied	14	6.67
Don’t want to reply	6	2.86
Total	210	100

Looking upon the respondents response 60% of the respondents are satisfied by the services provided by the banks where as 6.67% respondents are not satisfied by the services provided and the return value generated from loan 23.81% respondents don't care about the services of the banks, this means that they do not like to measure the value of service they are satisfied because the other people are satisfied, where as there are 6.67% respondents are quite satisfied but not at all. There are very negligible respondents who don't well prepare for the expression of their satisfaction.

4.2.16 Pattern of Expenditure of Income by Respondents:

Level of power delegated in a family for the decision of purchase impacts for the responsibility of expenditure also; it depends upon the nature of work divided on the family member. Expenditure related to purchase of land is authorized only for the member who has full authority where as purchase of daily used goods like fruits, oil, spices, salt, sugar etc are normally done by the person who is responsible for kitchen works or in household works. Sometime expenditure is done only who is generating income. Generally person who is responsible for income is taken right for the expenses.

Table 4.21

Expenditure Pattern of Respondents

Particular	No of Respondents	Percentage (%)
Independently	90	42.86
Depending on Others	50	23.81
Mutual Understanding	28	13.33
I don't Have any right to Spend	42	20.00
Total	210	100

Referring to table 4.21 there are 90 (42.86%) people who do expense independently this shows that if a person does income she independent for expenses. 50 (i.e.23.34%) respondents does their expenses by depending on others especially on their husband and other family members where as 28 (i.e.13.34%) respondents does their expenses on mutual understanding with their husband. This shows that 168 (i.e. 80%) respondent out of 210 has taken part on the decision on expenses that they earned. This proves that if you generate income you got the right for expenses. Though the social structure of hierarchy in a family has seen for the expense right, the above data shows that hierarchy was made because the first person in the hierarchy is responsible for income generation and financial portfolio management in a family. But when other member takes part in the income generation process, then he also takes right for the expenses. From the analysis of this data we can say that the social hierarchy for expenses was due to their responsibility of income generation but it can be changed if other could generate in income.

Even 42 (20%) of respondents are now allowed to spend their income because of the social hierarchy and the power delegated to the individual member in the family.

4.2.17 Involvement in Social Works

The definition of the concept of empowerment is highly contentious in the context of development and social movements around the world. In general, each definition strives to define and describe the ways in which power is expressed, both in social interaction and personal relationships. The concept of empowerment becomes extremely important in the context of sustainable development and how it is related to women. In many historically male- dominated, it is important to address the issues of women’s status and rights in order to enable them to make the best uses of their resources. Gender equality and women’s empowerment will have a large and positive impact on national, community, and household economies. It is also necessary to increase the well-being, self-confidence, and respect of women throughout their personal and social networks. Discussing on a topic is a measure of confidence level of people with the content and power. Normally the cooperative discussion is made for the development of society, through infrastructure, like dig well, constructing road, improving society's education, sanitation, conserving forest etc. The confidence level can only increase if a person can involve in social activities.

Table 4.22

Involvement in Social Works

Particulars	Number of Respondents			
	Before Involvement on MF Program		After Involvement on MF Program	
	No.	Percentage (%)	No.	Percentage (%)
Yes	12	5.71	56	26.67
No	198	54.29	154	73.33
Total	210	100	210	100

Source: Field Survey -2013

Referring table 4.22 women involvement in social works before involving in MF Program was 12 (i.e. 5.71%) whereas after involvement the number of respondents involved in social works is 56 (i.e. 26.27%). This shows that the confidence level of respondents had increased after involving in the MF program for social works but the increment level is not satisfactory.

4.2.18 Society's Attitudes towards Respondents:

Women face numerous practical and structural obstacles in becoming active as economic actors, and when they succeed, they are underpaid compared to men and often locked into low-paid jobs. In most developing countries, women and girls have the highest illiteracy and poverty rates, and the lowest opportunities to acquire the education and skills necessary to fulfil their economic potential. Their economic activities, as a result, tend to orientate around unpaid or low-paid jobs. Gendered social norms and stereotypes about women's conduct and lifestyle impose further constraints. Within the household, women are usually financially dependent on male family members and lack decision-making power and control over household assets. Structural barriers, such as women's lack of legal rights to land or resources, are further barrier.

Table 4.23

Response of Society towards Respondents

Response	No of respondents
Positively	26
Negatively	12
I don't know	22
Total	60

In this overview researcher asked those women who are mostly need to go outside for their various work purpose about the response of society towards her because of going outside many times and involving in various discussion activities . In this regard 26 women replied they society and her family is positive on her activities and they accept her activity of self –dependent activities, 12 respondents replied being a women going outside and involving in various activities alone is very tough society as well as family didn't support and they try to scold to those women. similarly 22 respondents replied that they don't care about society saying but family member providing full support on activities, replying I don't know means that somehow acceptance of her activities on outside household activities.

4.2.19 Respondent's Sources of drinking Water:

Drinking water is heart of life we can have known that without pure drinking water human life would be in critical situation. From various health researchers and specialists stated that mostly diseases to human are transfer from drinking water. Apart from this every household activity are stopped with water, in this regard water every people should get to use water easy and efficiently. Finally we can say that water is the primary importance of human life. Although Nepal is the second largest country in the world in sources of water people of this country even now are suffering from getting drinking water. There are many place where the people are spending their time almost a day for single pot of drinking water.

Table 4.24

Respondent's Sources of drinking Water

Sources of Water	Before joining MF Program		After Joining MF Program	
	No of Respondents	Percentage (%)	No of Respondents	Percentage (%)
Hand pump	122	58.10	144	68.57
Tap(Gov)	10	4.76	18	8.57
Public Tap	12	5.71	16	7.62
Nothing	54	25.71	18	8.57
Boring	12	4.76	14	5.71
Total	210	100	210	100

Source: Field survey 2013

As Referenced to the table, 122 respondents relied on Hand Pump before they involved in MF program and this number has been increased after involvement. Consequences of increment is due to the change of source of water by the people who did not used any source, from the table people who did not had fixed water source before involvement in MF program is 54 this has been reduced to 18. In the same way trend of using other different permanent source of water has been increased, it is because people who did not used fixed source started getting new source e.g54-18=36 respondents started using fixed water source after involving in MF program and this value has been divided in different source sector Hand pump, tap, public tap and Boring. This shows that MF program has improved for good water system. Also referencing to the PGBB loan system they provide loan to Hand pumps only, from the table 144-122 = 22 people has started using Hand pumps as a new source of water. I.e. 61% respondents who got the new permanent water source started using Hand pumps. From this we can decide that MF program has improvised for having permanent water source.

Hypothesis:

H0: i.e. there is no significant change in sources of water used by respondents before and after the involvement in MF program.

H1: i.e. there is significant change in the use of sources of water used by respondents before and after the involvement in MF program.

Using hand pump	**Before involving MF program**	**After involving MF Program**	**Total**
Yes	156	192	348
No	54	18	72
Total	210	210	420

Calculation

O	**E =** $\frac{RT \times CT}{N}$	**O - E**	**$(O - E)^2$**	**$\frac{(O - E)^2}{E}$**
156	174	-18	324	1.86
54	174	18	324	1.86
92	36	18	324	9
18	36	-18	324	9
∑ O = 420	∑ E = 420			$\sum \frac{(O - E)^2}{E}$ = 21.72

Test Statistic under H0 is:

$$¡^{2}\ \mathrm{X}\ \frac{(O\,\mathrm{Z}\,E)^{2}}{E}$$

Where, O=Observed frequency E= expected frequency

E can be calculated by using the following formula:

$$E\ \mathrm{X} \frac{CT \mid RT}{N}$$

Where,

CT= Column Total RT = Row Total d.f. = (r-1) (c-1) =(2-1) (2-1)=1

Tabulated value of ¡^{2} at 5% level of significance for 1d.f. is 3.84

Result: Since the calculated value of 2 c is greater than critical value of tabulated value of ¡^{2} i.e. ¡^{2} Cal (21.72) > ¡^{2} (3.84). Hence H1 is accepted which indicates that there is significance difference in sources of water used by respondents after involvement rather than before involvement of MF program. In regard we can say that level of using sources of water used by respondents is increasing trend.

4.2.20 Sanitation used by Respondents:

Table 4.25

Toilet Used by Respondents

Particular	Before joining MF Program		After Joining MF Program	
	No of Respondents	Percentage (%)	No of Respondents	Percentage (%)
Only toilet	50	23.81	110	52.38
Toilet and Bathroom	38	18.10	46	21.91
Bathroom Only	0	0	4	1.90
Nothing	122	58.10	54	23.81
Total Sum	210	100	210	100

Source: Field Survey -2013

Viewing the above table 122(58.1%) respondents had no toilet and bathroom before involvement in MF program however the involvement in this program of bank respondents having no toilet has decreased to 50(23.81%) after the involvement .similarly before involvement in this program only 50 (23.81%) respondents used toilet only and 38(18.1%) respondents used both toilet and bathroom) . It means almost 42% respondents used toilet before involvement. Accordingly 110(52.38%) respondents replied that they used toilet only,46(21.9%) replied that they used both toilet and bathroom but 54(25.71%) respondents even replied they had no toiled although they are involving in MF program . It noted that after the one period completion of involvement in MF program can get toilet land if they desire and they had paid their loan timely. By studying the above table we can assume that MF program helps to control pollution in some extent which is existed from toilet.

Hypothesis:

H0: There is no significance difference in the number of user and non user of toilet before and after the involvement in MF program;

H1: there is significant difference in the number of respondent who are using toilet before and after involvement in AMF program.

Using Toilet	**Before involving MF program**	**After involving MF program**	**Total**
Yes	88	156	244
No	122	54	176
Total	210	210	420

Calculation

O	**E = $\frac{RT \times CT}{N}$**	**O - E**	**(O – E)^2**	**$\frac{(O-E)^2}{E}$**
88	122	-34	1156	9.47
156	122	34	1156	9.47
122	88	34	1156	13.3
54	88	-34	1156	13.3
∑ O = 420	∑ E = 420			$\sum \frac{(O-E)^2}{E}$ = 45.2

Test Statistic: under H0, the test statistic is:

$$¡^2 \text{ X } \frac{(O\,Z\,E)^2}{E}$$

Where, O=Observed frequency E= expected frequency

E can be calculated by using the following formula:

$$E \text{ X} \frac{CT \mid RT}{N}$$

Where,

CT= Colum Total RT = Row Total d.f. = (r-1) (c-1) =(2-1) (2-1)=1

Tabulated value of ¡ ^{2} at 5% level of significance for 1d.f. is 3.84

Result: since the calculated value of ¡ ^{2} is greater than critical value of tabulated value of ¡ ^{2} i.e. ¡ ^{2} Cal (45.2) > ¡ ^{2} (3.84). Hence H1 is accepted which indicates that there is significant difference in the use of toilet after involvement than before involving in MF program.

4.2.21 Impact in Decision making:

Respondents were asked if their decision-making had increased in five key areas. While it would be expected that these changes would be greatest for the best educated and the better off, a remarkably large percentage of the poor and uneducated reported they had more authority in the household. After the involvement in MF program mostly decisions are made on mutual understanding and discussion. Majority group of respondents replied whatever the activities is going to happening or planning in house, after the involvement in MF program she would be called for discussion for those topics.

Table-4.26

Women's role in decision-making

Decision Making Areas	Before involving on MF Program		After Involving on MF Program	
	No of Respondents	Percentage (%)	No of respondents	Percentage (%)
Sending school for children	80	38.1	166	79.05
Going outside house	60	28.57	166	79.05
Selling and buying assets	56	26.67	138	65.71
Family Planning	98	46.67	172	81.90

The respondents were asked if their decision-making had increased in five key areas. While it would be expected that these changes would be greatest for the best educated and the better off, a remarkably large percentage of the poor and uneducated reported they had more authority in the household. After the involvement in MF program mostly decisions are made on mutual understanding and discussion. Majority group of respondents replied whatever the activities is going to happen or planned in house, after the involvement in MF program she would be called for discussion for those topics.

4.3 Major Findings

With reference to the 210 sampled respondents of PGBB at Shankarnagar village of Rupandehi, average age of participants is 37, which shows that majority group of respondents, are below the age of 40. Although MF program is for poor household and to improve their economic and social status, bank has involved only married women. The clients of this bank are 100% married but their status might be changed after the change in their marital status (i.e. divorced, separated, widowed). It means that the eligibility criteria for membership are marriage. Bank has involved every woman in inclusive model from all castes and ethnicity (i.e. Brahmins to indigenous groups). Majority of women group are illiterate that means they only know to write their name after joining in MF program. However, for bearing the office and other administrative costs bank is also shifting its lending portfolios to the economically sound women of the society as well.

Male supremacy in the society is being broken gradually and women are gradually empowered. Almost 65.75% households are headed by respondents husband however it has been improved that female are found to be the head of the family member, almost 28% which is positive sign. Out of 210 respondents who were interviewed it is found that there are1206 members altogether. Only 402 peoples are engaged in earning activities in different sectors. Middle class family members' group is found in majority among 210 sampled respondents, which represents 5-9 members in a family.

It was found that, awareness towards educating for children increased in number after joining in MF program but while doing hypothesis test of Z test at 5% significant level there is no proportional change, significantly in sending respondent's children to school. Causes of change in the number of children sending to school was due to the age factor of child, importance of education known by respondents, only this due to the increment of income is also the cause of sending their children to school. Most of the respondents changes their annual average income rather than before involving in MF program. This indicates that MF program provides direct benefits to its clients. Although majority group replied that they had increased their income after involving in MF program, some respondents replied that they got loss due to the death of their cattle and loss on business. Annual average income of respondents was Rs. 18.14 and Rs. 44.1 before and after involving in MF program respectively, which shows that the level of income is significantly increasingly. But in conclusion those people who are joining on business activities rather than agriculture (cattle, landlord) earn more income. It is also said that those respondents who commenced their business such as hotel, trade and commerce and other self-business holder changed their lifestyle very significantly. Most of the respondents spend their income for the household purpose and education of their children. Due to these reasons savings are not effective. They even replied that due to these reasons they are unable to save their income. Most respondents replied that the causes of increment in level of income were due to expansion and establishment of business or increment in agricultural production. Some of them also replied that they had increased there labour rate and probability of getting job. In my opinion those respondents whose income was increased due to the increment in labour rate and getting job are not the impact of MF program. 33.33%. 9.53% respondents replied that sampled respondents improve their living standard after joining MF program. Majority group of respondents replied that they were involved in participation in household decision making after the involvement in MF program which shows that while the level of income increases then they are able to take part in decision making role and they were respected by their family. Apart from this, 83.81% respondents replied that they had increased the pattern of saving after involving in MF program however only 11.43% respondents replied that they improved their pattern of saving before involving in MF program. This is the significant stride of respondents in regard of saving pattern.

It is noted that after involving in MF program respondents could change their occupation very significantly. Especially those respondents who were engaged only in households tasks are significantly changing their occupations.In spite of this, occupation of self-business was also significantly increasing which made respondents drastic improvements in their economic status and their social respects. The hypothesis (Z) and chi-square tests have proved that there was significant change in proportion of agricultural occupation and overall occupation rather than before involving in MF program. The result implies that there is decrease in the proportion whose occupation was agriculture but increased in proportion of self-business.

With regard to water and sanitation, respondents have significant strides in using sources of water. In this topic more than 25% respondents had no conformed sources of water before involvement in MF program but this was significantly decreased to 8.75% which indicates that after involving in microfinance program respondents uses their fixed sources of water. This is the positive impact seen after the involvement in MF program. Accordingly, 122 (58.1%) of respondents had no toilet but after involving in MF program toilet non users decreased to 54 (23.841%) of respondents which indicates that it is the positive impacts on using water and sanitation by respondents after the involvement in MF program. Chi Square on this both topics resulted that there is significant changes in using of sources of water and user of toilet. In this regard we can say that loan provided by bank on these headings is successful.

In overall, from the field survey and calculations as shown above loan amount, occupation, income, saving pattern, spending of income, education level of children have been taken as variables and analysis and presentation of data on these show that there is significant positive impact of PGBB on the income level, employment, poverty alleviation, entrepreneurship talent in poverty ridden people, saving, living standard of poor women and their property etc. however in case of education level there is no change before and after the involvement in MF program. In our country, women who were supposed to under productive and idle resource for the society at large, and the families in particular, became positive and earning members, similarly, it has neglected many myths about development, about baking, and poor peoples.

CHAPTER V

Summary, Conclusions and Recommendations

5.1 Summary and Conclusions

There are many types of financial institutions like development banks, commercial banks, finance companies, rural development banks etc. Among the many financial institutions Paschimanchal Grameen Bikas Bank has played crucial role in poverty alleviation through its banking services. This bank has mainly concerned with deprived sectors. Bank collects deposits from group, persons and savings account and utilizes its funds on agriculture, trade, and industry, especially for deprived groups and women of rural areas.

The study is conducted to asses the impact of microfinance programs in poverty reduction. The study aims at examining the impacts of microfinance programs to uplift the economic and improve the overall quality of life of the beneficiaries.

Both primary as well as secondary data are used in this study. The primary source of data is the annual reports of the PGBB of 2011/2012. In addition supportive data and information have been collected from articles, newspapers, and published records of NRB. Some of the data are taken from the related websites as well. Moreover the relevant literature are collected from St. Xavier's College library, economic journals, previous research works, theses and unpublished reports and documents from various sources. Different types of statistical tools have been used to achieve the objective of the study.

While all microfinance institutions aim at increasing incomes and employment, in developing countries the empowerment of women, improved nutrition and improved education of the borrower’s children are frequently aims of microfinance institutions.

About one billion people globally live in households with poor capital income of less than one dollar per day. The policy maker and practitioners who have been trying to improve the lives of that billion face an uphill battle. The hope is that poverty can be alleviated and that economic and social structures can be transformed fundamentally by providing financial services to low income households. Poor people use loans, deposits, and other financial services to reduce their vulnerability, cash opportunities, and increase their earnings. Indirectly, microfinance improves schooling, health, and women’s empowerment.

Microfinance programs have the potential to transform power relations and empower the poor-both men and women. In well-run microfinance programs, there is a relationship of respect between the provider and the client that is inherently empowering. As a consequence, microfinance has become a central component of many donor agencies' and national governments' gender, poverty alleviation, and community development strategies. However, that simply putting financial resource in the hands of poor women is not enough for empowering and improving.

Women's greater access to financial resources and services could provide greater decision-making power in terms of money and their households. Where this power lies may have significant implications for families and communities. Mostly women contribute their full financial resources for their families where as men rarely do so.

When women are given decision-making power, they generally make decisions that will be optimal for their families. As a result, women will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas men may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family.

Contribution of women in economic activity and control over income due to the access to micro-finance has improved their skills, mobility. Status of women within the community for decision support and idea generation has also been enhanced.

These changes are reinforced by group formation, leading to wider movements for social and political change. The financial self-sustainability paradigm and the poverty alleviation paradigm assume that social and political empowerment will occur without specific interventions to change gender relations at the household, community or macro levels.

The main factors determining the level of women's economic and social empowerment in a country are its cultural and legal environment, and national policy on women's rights and poverty alleviation. Initiatives organized by micro-finance institutions for the provision of financial services and for policy and legal reforms are key elements for achieving greater economic and social empowerment.

A large number of poor people throughout the world are engaged in income generating activities in order to make ends meet for themselves and their families. Many others have established micro or small-scale businesses, but most of them operate within the informal economy where they lack any form of social protection, and where their livelihoods – and sometimes even their lives – may be at risk. Microfinance can give tools to manage risk. It is also a valuable resource in enabling people to take their first steps in making items for sale, engaging in trading activities, or providing services within their local communities. However, little has been done to explore the potential synergies between the provision micro-finance and micro and small enterprise (MSE) development

Changing attitude of people is an important as the material achievement through community development during the initial stages of development. It is better to make more and more participation of women and indigenous community for the quick development of the country. Realizing this government has conducted many programs that are especially empowered those indigenous community and women through various institutions. Regarding to this, Government has provided conducive environment to those institutions and NGOs, which are working in these groups of people.

Microfinance program is the most successful program for the improvement of living standard and socially as well as economically empowered of these groups of people and women.

From the study of PGBB it is found that there is impact of microfinance, which has played a role for increasing the income of household after being participated on Microfinance program. Result of increasing income of client, their role has been found to be increased in decision making areas such as family planning, children's marriage, buying and selling property, and sending their daughters to school—all areas of decision making traditionally dominated by men. Not only economic empowerment but also self-confidence has been increased after the involvement in MF program. Their involvement in social discussion women's organization and political discussion has also been increased although it not so much rapidity. Similarly, women can invest and make expenses their income independently as per their desire.

About one billion people globally live in households with poor capital income of less than one dollar per day. The policy maker and practitioners who have been trying to improve the lives of that billion face an uphill battle. The hope is that poverty can be alleviated and that economic and social structures can be transformed fundamentally by providing financial services to low income households. Poor people use loans, deposits, and other financial services to reduce their vulnerability, cash opportunities, and increase their earnings. Indirectly, microfinance improves schooling, health, and women's empowerment.

Microfinance programs have the potential to transform power relations and empower the poor-both men and women. In well-run microfinance programs, there is a relationship of respect between the provider and the client that is inherently empowering. As a consequence, microfinance has become a central component of many donor agencies' and national governments' gender, poverty alleviation, and community development strategies. However, that simply putting financial resource in the hands of poor women is not enough for empowering and improving.

Women's greater access to financial resources and services could provide greater decision-making power in terms of money and their households. Where this power lies may have significant implications for families and communities. Mostly women contribute their full financial resources for their families where as men rarely do so. When women are given decision-making power, they generally make decisions that will be optimal for their families. As a result, women will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas men may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family.

Contribution of women's to increased economic activity and control over income due to the access to micro-finance has improved women's skills, mobility, and access to knowledge and has supported for making them their own networks. Status of women within the community for decision support and idea generation has also been enhanced.

These changes are reinforced by group formation, leading to wider movements for social and political change. The financial self-sustainability paradigm and the poverty alleviation paradigm assume that social and political empowerment will occur without specific interventions to change gender relations at the household, community or macro levels.

The main factors determining the level of women's economic and social empowerment in a country are its cultural and legal environment, and national policy on women's rights and poverty alleviation. Initiatives organized by micro-finance institutions for the provision of financial services and for policy and legal reforms are key elements for achieving greater economic and social empowerment.

A large number of poor people throughout the world are engaged in income generating activities in order to make ends meet for themselves and their families. Many others have established micro or small-scale businesses, but most of them operate within the informal economy where they lack any form of social protection, and where their livelihoods – and sometimes even their lives – may be at risk. Micro-finance can give tools to manage risk. It is also a valuable resource in enabling people to take their first steps in making items for sale, engaging in trading activities, or providing services within their local communities. However, little has been done to explore the potential synergies between the provision micro-finance and micro and small enterprise (MSE) development changing attitude of people is an important is the material achievement through community development during the initial stages of development. It is better to make more and more participation of women and indigenous community for the quick development of the country. Realizing this government has conducted many programs that are especially empowered those indigenous community and women through various institutions. Regarding to this, Government has provided conducive environment to those institutions and NGOs, which are working in these groups of people.

Microfinance program is the most successful program for the improvement of living standard and empower the women groups socially as well as economically. The Nepalese microfinance sector has one third of estimated demand for microfinance services and has build on external borrowings and client deposits to fund a steadily growing loan portfolio. Poverty alleviation is the main target of government in developing countries. In the process of development, Nepal has adopted a free market economy, especially after the restoration of democracy in 1990. Under the free market economy, NGOs are put forward for the development of country as a part of private sector. It is realized in many nations that the importance of women's participation in the development and need for their advancement.

It is found from the study of PGBB that there is some impact of microfinance in increasing the income of household after involvement in Microfinance program. Result of increasing income of client, their role has been found to be increased in decision making areas such as family planning, children's marriage, buying and selling property, and sending their daughters to school—all areas of decision making traditionally dominated by men. Not only economic empowerment but also self-confidence has been increased after the involvement in MF program. Their involvement in social discussion, women’s organization and political discussion has also been increased though it is not satisfactory.

5.2 Outcomes of the Study

From the field study and direct interview with 210 respondents it is revealed that most of them had taken loan for livestock and agricultural purposes like goat farming, pig farming, buffalo farming etc. But the output regarding on these topics is very low due to the lack of specific knowledge of farming technique and improved varieties of crops. So that livestock sickness and death of them makes economic burden to borrowers rather than of getting profits. Due to these problems, instead of getting economic empowerment they are bound to face economic as well as social problems. Not only these sectors new comers who want to establish their own business also were in loss due to the lack of proper knowledge on the specific business which they intend to do. Remaining on these investing problems of loan by respondents, client’s bank should give proper care and training to them so that they will not incur loss from that loan. Therefore, to solve the problems on livestock farming the following suggestions are recommended:

a. Healthy livestock should be supplied to burrowers.

b. Necessary vaccine should be arranged timely.

c. Although there is a provision of insurance, most clients are not doing insurance. So that compulsory insurance policy should be implemented for those cattle that are bought by borrowing loan from bank.

- PGBB should develop practical and varied training courses related to skill development, entrepreneurship development, income generation and business promotion as per the need of particular community.
- To supervise the use of loan and to provide effective skill to advice on the management of the loan, field staff should be trained regularly. So that the clients of the program received technical as well as managerial guidance to manage microfinance program. Direction should be give to that loan officer either the loan is invested on specific topics or not. Not only this either the loan amount is invested by other family member of not. This should seriously supervise because if other family member invests loan for their purpose then women will never upgrade her lifestyle. So that providing loan to women is not the complete solution of reducing poverty.

- There is need to shift the program from agricultural base to small & cottage industry and other business promoting activities because these types of business are more effective than agricultural based occupation. Because of the operational costs, clients could not get benefit from agriculture.
- The credit facilities should conveniently be extended to the rural girls and women who have genuine desire to obtain the financial assistance for undertaking the income generating activities to uplift their social status. Such process of making girls economically independent will help to discourage the tradition of early marriage, multi-marriage and other social and economic discrimination and evils towards girls. However, the loan should be granted on the basis of guarantee of the other family members to avoid the problem of follow up after the marriage of the girls.
- Those communities who are especially socially backward such Muslim community's women, lower caste women are better enforced to involve under this program. It means it is not the means of boycotting other community groups of women.
- There is the marketing problem, it was indeed observed that there were marketing constraints to solve the farm produce, mostly in vegetable farming.
- Women produce vegetables with expensive cost but in the time of selling there is problem of market. They are bound to sell their products below the cost price, this must be solved. It means for selling women's product effectively in the market favourable environment should be created.
- It is desirable to create an appropriate legal framework for microfinance and microfinance institutions in general. Specific fiscal advantage could be granted to those microfinance institutions that have a stronger impact on the status of women.

5.3 Benefits and Limitations of MF Programs

Benefits

The benefits of microfinance are that it helps to manage the assets of the poor and generates income. Through microfinance institutions such as credit unions, financial non-governmental organizations and even commercial banks poor people can obtain small loans and safeguard their savings. The limitations of microfinance are that through this savings plan participants are losing money by having to pay a fee. The user can also pay back their loans whenever they chose therefore encouraging a borrower to have various outstanding loans. The lender is also vulnerable in that there is no guarantee of the loan being repaid in the given arranged timeframe, and the consequences to defaulting are not defined.

When looking at a micro-finance initiative, there are three main benefits and limitations for the model. These are based on a basic micro-finance initiative though they can be applied to many variations. When looking at the three benefits and limitations, they revolve around three key ideas, poverty, mistrust, and promoting change.

A micro-finance initiative wishes to address these issues in a positive way. For example, micro-finance can be an alternative program to address poverty reduction where the tools needed to raise an individual or a family out of poverty is given to them directly. In a micro-finance project these tools include money primarily, and may also be accompanied with a savings program, and financial help. Along with poverty reduction, a micro-finance initiative can aim to avoid a general sense of mistrust between the citizens and their national banks. The money in this case, is not coming from a bank, but rather within the community which allows those participating to foster social capital and community cohesion. Lastly, a microfinance initiative can promote larger poverty reduction movements by increasing the financial knowledge of the average citizen.

Limitations

However, these initiatives are not free from limitations. The money may not end up in the right places, resulting in distrust to all who have interest in monetary programs, and could potentially ruin the chance of any further microfinance projects becoming successful. Secondly, when creating a microfinance project, time may be an issue. What happens when the program is finished and the people who were participating are still in the verge of poverty? In this case, an on-going program is deemed. To see what would be an appropriate choice with regards to time, the community must be assessed before the project is put in place.

There are two ways in which the needs of the poor are not being met by micro finance. Firstly, the poor need to store savings for the long run; such as for their retirement, widowhood or for their heirs but the examples such as saving up, down and through do not directly meet these needs. Secondly, the poor’s ability to save fluctuates with time and so they may not be able to save the fixed rate of saving.

These two shortcomings are difficult for the poor and they often get excluded or exclude themselves. Poor people have to take a risk to turn their savings in to large lump sum of money because there is no perfect system that would protect their deposits. For example, there is a lack of trust among the members and the organizer; most community micro finance projects only include family and close friends and do not reach beyond that. Also, there is no or very little growth in the amount of money that they save if saving up but if saving down, there is an interest rate that the members have to pay.

The major benefit of microfinance projects is that it allows low income families to save their money; most of the poor live day to day with the little money that they earn and cannot afford to save. Poor people need such alternatives in order to turn their savings in to large lump sums or receive large sums and pay monthly with low interest rates. Banks and other money lending institutions have high interest rates and simply won't extend loans to poor people with little or no assets or employment. Microfinance helps the poor people get access or save funds over a period of time with low interest rates. Also, the poor could solve their own issues by working together as a community and this creates trust and social capital in their communities. It also leads to stability and growth in their households, as well as their communities.

5.4 Impact Assessment of Microfinance Programs

A very few researches have been undertaken in the past for measuring the impact of microfinance in Nepal. The study is based on both primary and secondary data, and focused on measuring impact on outreach of microfinance programs and their coverage of the poor, social and economic changes noticed among beneficiaries, gender empowerment, and sustainability of microfinance institutions.

The study estimated the outreach of microfinance covering 35.25% of the poor. However, the outreach was not confined to the poorest of the poor, as they constitute only 68.6% of the total microfinance borrowers. It is interesting to note that 84.1% of the sample reported that they could make profit from the first loan and receive profits at decreasing rates from the succeeding loans. A small proportion of sampled households (24.4%) also felt improvement in their social and economic conditions after their participation in the microfinance programs.

A change in principal occupation among the sampled households was also noticed particularly from agriculture to petty trading. Dependence on agriculture reduced from 56% to 48%, while dependence on petty trading increased from 11.1% to 32.2%. The respondents witnessed some positive changes in their possession of assets like better-roofed houses, radio, television, bicycles, hand-pumps, etc. They also noticed improvement in their food self-sufficiency status after enrolling in the microfinance programs. The frequency of consumption of nutritious food items, such as fruits, eggs, meat and fish has also increased. Due to the program efforts, the literacy rate among the members of microfinance programs has risen from 52% to 89.8%. The proportion of the respondents knowing about HIV/AIDS and its transmission mode has also been found increased and many of them were made aware by the microfinance programs about their health care facilities.

With the program, the gender division of works is also getting less value and the men also started performing activities which were considered to be the responsibility of only women, such as cooking, washing utensils, taking care of babies, etc. The percentage of women reporting the increased control over income has also increased from 13.3% to 19.1%. However, this study has indicated that microfinance programs have not been effective in contributing to the reduction of poverty level as MFIs have not been able to extend their outreach to the ultra poor and the poor in the hills.

5.4.1 Impacts of Microfinance on the Client

- Empowers the women socially and economically.
- Enhances confidence level of the women.
- Enhances leadership capability of the women.
- Enhances dignity of the women and their family.
- Creates self-employment opportunities for the poor and the women.
- Increases household income and assets of the poor families.
- Improves entrepreneurship and occupational skills of the women.
- Increases school enrolments of the children of the poor families.
- Improves food security of the poor families.
- Improves health conditions of the children and the women.

5.5 Challenges in Micro-Credit Delivery in Nepal

Nepal has a varied topography at varied development stages, a mix of different cultures and different ethnic groups, which challenges the successful delivery of micro-finance. The major challenges are:

1. Formulating a micro-credit delivery mechanism that is better suited to the people in hills and mountains.
2. Successfully extending the outreach to the hills and mountains.
3. Redesigning existing programs of the formal MFIs to better target the poorest.

Critics say that micro credit has not increased incomes, but has driven poor households into a debt trap, in some cases even leading to suicide. They add that the money from loans is often used for durable consumer goods or consumption instead of being used for productive investments, that it fails to empower women, and that it has not improved health or education. The available evidence indicates that in many cases micro credit has facilitated the creation and the growth of businesses. It has often generated self-employment, but it has not necessarily increased incomes after interest payments. In some cases it has driven borrowers into debt traps. There is no evidence that micro credit has empowered women. In short, micro credit has achieved much less than what its proponents said it would achieve, but its negative impacts have not been as drastic as some critics have argued. Micro credit is just one factor influencing the success of small businesses, whose success is influenced to a much larger extent by how much an economy or a particular market grows.

5.6 Recommendations

Analysis of various information regarding the program by primary as well as secondary sources, on the basis of the above findings, conclusion and researcher's field survey experience, the following suggestions & recommendations have been presented.

During the last decade of the 20th century micro-finance has been accepted as one of the most significant tool for poverty alleviation. In Nepal, the poverty reduction rate is slow, if a proper model of microfinance is used in the hill and terai regions the standard of living could be raised very quickly. The diversity of regulatory acts shows that it is necessary to cater to all MFIs under one act for licensing, regulating and supervising and needs to make National Policy in micro finance. In Nepal, experience shows that private sector managed MFIs are better off than government owned MFIs. So, it has become necessary to handover all Grameen Banks to the experts of micro-finance.

More focus should be given in identifying the target groups and support to financing projects with less risks and high returns. It would be better if one woman got loan only from one MFI removing unhealthy competition among MFIs. The MFI needs to dig out the capacity and preparedness of the clients and provide them with appropriate loan amount. The MFIs may also need to provide skill development and other managerial capacity development training o such clients. The study also suggests making local politicians and policy makers well aware of the beauty of microfinance programme such as its small size loans, frequent repayment of instalments, service at the door step and gradual capacity building of the clients. PGGBL and its partners need to collaborate jointly and contribute at their respective levels to educate the stakeholders.

The study reveals that the clients are misled by local politicians and other stakeholders especially with regard to the interest rate without understanding the beauty of the microfinance program such as its small size loans, frequent repayment of instalments, service at the door step and gradual capacity building of the clients. Therefore, it is very essential to create awareness on the microfinance programmes among all types of stakeholders. So stakeholders are to be educated.

More focus should be given to identifying the target groups such that more number of ultimate poor women are included compared to those who are categorized as middle or lower middle class by Nepali standard.

Although loans are provided in the name of women for their economic and social empowerment but in reality some respondents replied that loans are often utilised for their husband’s personal purpose. In this reality women will never be uplifted and they will not be self-dependent and could not generate their self-confidence. So that effective supervision should be done by bankers to ensure that the loan amount is invested in purposed field and they are really benefited from the microfinance program.

In order to lessen the problems and overcome the challenges, the study makes the following recommendations for the consideration of the policy makers, the practitioners and the other stakeholders.

(1) For reaching the poorest of the poor it is necessary to expand services to far flung remote areas and deepen the services down to them.

(2) Appropriate technologies should be introduced to get advantage of the local potential such that the poor can get sizable profits and return out of their loan proceeds.

(3) Technology that provides comparative advantage of the remote areas should be made available for harnessing benefits from high value but low volume crops

such as herbs, vegetable seeds. Hence, researches and investigations have to be made for financing high value low volume crops suitable for harnessing local potentials and credit programs should be linked up with technology diffusion.

(4) With the growth of MFIs, it is needed to have matching number of institutions that can provide capacity building training to the MFIs. The government should come up with programs providing capacity building of the new MFIs such that they could develop professionalism and provide quality microfinance services to the poor. It should also encourage institutions like PGGB to continue their MFI-capacity building activities with provision of the required funds to support such activities.

(5) It is also essential to maintain peace and security in the country in order to provide security to the MFIs, which would be stationed at remote locations for providing microfinance services to the poor.

(6) The ‘will’ to carry out MF services alone is not sufficient if the MFIs do not have expert hands at work. The staffs must have professional knowledge and skills to provide quality services to the poor. The MFIs have to encourage carrying out their duties but many of them lack a matching pool of knowledge and skills required for expanding and expediting their MF programs. Therefore, it is suggested to give more focus on developing professional skills to the staffs of MFIs.

(7) The government should also exempt tax on income made by MFIs serving the downtrodden masses of the remote corners of the country. It should also wave taxes on the interest earnings of the poor from their savings deposits in the MFIs to encourage them for keeping more savings.

(8) The MFIs should be given legal authority to collect savings deposits from the clients as well as non clients in the remote districts to cultivate savings habits among the local people and also to raise internally financial resources generated by MFIs. The larger MFIs should be allowed by NRB to raise deposits from the non members to a certain limit. However, they should not be allowed to operate banking counters as the commercial banks.

(9) In order to avoid staff corruption and racketing, MFI top management should be vigilant and watchful of staff behaviour and relationships with clients and other vested interest groups. To this effect, they need to avoid duplication and overlapping of loans with other MFIs. They have to come up with required

products and sizes of loans to address the needs of their clients. They also should pay attention to improving follow ups and checking of branches and clients.

(10) The Nepal Rastra Bank should allow expansion of area coverage to the licensed FINGOs and the new MFIs to operate in districts which have thin coverage of microfinance and restrict new operation of MFIs in the overcrowded urban canters and Terai districts.

(11) The seed money provided by the government through different development programs, such as PAF, PCRW, etc should be channelled through MFIs such that the program impacts are sustained for longer period. MFIs would continue to provide funds to the registered cooperatives formed out of the project groups even after the termination of the projects.

5.7 Conclusions

The study provides information on changes in expected magnitudes and directions. Some changes in loan transactions with outside sources need also to be taken as positive impact. MF services have improved the credibility of clients. Changes in income generation are remarkable and sustainable in nature. There are more such changes of income in the vicinity of commercial towns due to market access for the products. Transactions were found higher than one could expect from initiating MF clients. It is perhaps due to rapid capacity development or targeting lower middle class rather than downtrodden groups. Impact on adoption of health care measures, education, and participation in social works is also remarkable. Finally, the microfinance programme has greatly empowered the participating women primarily through economic improvements and gradually through involving them in social and political activities. The study has made an attempt to quantify improvements in their participation in social, political and empowerment activities. Under social activities, changes were observed with respect to their participation in community works, feeling of untouchables, respect from family and society, and access to institutions. Under political activities changes were observed with respect to membership in political organization, participation in awareness campaigns, delivering public speeches and feeling of leadership development. Changes were observed in topics like access to resources, improvement in speaking ability, decision making at household level and overall empowerment.

The micro-financing area in Nepal includes largely participation of private sector. So the role of government, NRB and micro-financer should be defined as early as possible. Now our ultimate challenge is poverty. This is the challenge of the government and private sector. For the fair implementation of micro-finance in Nepal, the government's role should be as a guardian and referee so that all players can play fairly.

Moreover, mushrooming numbers of MFIs should be checked now and should be brought under the single umbrella. Now commercial banks and ‘C’ class financial institutions are also seen attracted to the MF scope. If possible all MFIs should be merged together.

Lessons Learnt

1. Poor people are bankable and creditworthy.
2. Micro loans make big differences to the poor.
3. A group is a cost effective vehicle of micro loan delivery.
4. Micro loans should be collateral free.
5. Micro loans and savings services should go hand in hand.
6. Women are the effective channel of microfinance operation.
7. Microfinance is an effective instrument of women's economic and social empowerment.
8. Microfinance institutions can be viable and sustainable with appropriate rate of interest on their loan.
9. Microfinance is a professional business not an amateur's task.
10. Institutional development of MFI's is prerequisite for the growth and expansion of microfinance services.

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APPENDICES

APPENDIX- A

Field Questionnaire for the interview:

I'm a student of Masters Program at St. Xavier's college, Kathmandu, Tribhuvan University, Nepal. I have designed the following questionnaire for the study of the Impact of Microfinance on the marginalized and underprivileged section of the society in Nepal. It is required for my thesis work as an integral part of my study.

I would highly appreciate if you fill this two-page questionnaire. It will take approximately 10-15 minutes. I expect your kind cooperation in this respect.

1. What is your gender?

   a. Male ………… b. Female ……………

2. What is your age?

   a. (20-30) b. (30-40) c. (40-50) d. (50-60) e. (60-70)

3. What is your educational qualification ?

   a. Illiterate b. Literate c. below SLC (6 and Above)

   d. S.L.C. e. Intermediate

4. How many family members do you have?

   a. Up to 4 (small) b. 4 to 9 (medium)

   c. 9 to 12 (large) d.13 above (very large)

5. Did you have any business experience before entering this program?

   a. Yes b. No

6. What is the source of your initial capital?

   a. Personal Savings b. Friends and relatives

   c. Loan from MFIs d. Others

7. What amount of loan you have received as a help from any of the MFIs in Nepal (Amount in Nepalese Rupees)?

   a. Less than 5 thousand b. (5-10) thousand

   c. More than 10 thousand

8. What is your Marital Status?

   a. Married b. Widowed c. Separate d. Divorced

9. Who is your Head of the Family in your Household?

a. Myself b. Husband c. Others

10. What is the Total number of economically active person in your household?

a. Overseas b. Pension getting c. Army d. Labor

e. Government job f. Private Job g. Others

11. What are the Causes of change in the enrollment of children in school?

a. Due to age of children Due to the increments of income

b. I have known importance of education (Daughter)

12. What are your Sources of paying loan?

a. Income earned from investment b.Taking Loan from Other Institution

c. Doing labor

13. What are the Causes of Changes in your Income?

a. Business Expansion b.New Business Estd.

c. Increasing in Production from Agriculture d.others/labor Rate increase

14. How do you spend your income?

a. Independently b. Depending on Others Mutual Understanding

c. I don't have any right to spend

15. What is your attitude towards Society after involvement on MF program?

a. Positive b. Negative c. I don't know

16. What is your Sources of drinking Water?

a. Hand pump b. Tap (Gov) e. Public Tap f. Nothing

g. Boring

17. What type of Sanitation system you used?

a. Only toilet b. Toilet and Bathroom

c. Bathroom Only d. Nothing

18. Which of the following decision making role you play after involvement in MF program?

a. Sending children to school b. Participation in social works

c. Selling and buying assets d. Family Planning

APPENDIX- B

List of Tables

Table: 1.1

Description of Ownership of Share of PGBB

Statement of shares	Units	Percentage (%)	No. of shareholders
1. Founder subclass 'Ka' 1			
a) Govt. of Nepal	1,08,900	10.89	Founder 1
b) Nepal Rastra Bank	66000	6.60	Founder 1
Founder subclass 'Ka' 2			
c) Nepal bank Ltd.	33,000	3.30	Founder 1
d) Rastriya Banijya Bank	33,000	3.30	Founder 1
e) Himalayan Bank Ltd.	33,000	3.30	Founder 1
f) Nepal Bangladesh Bank Ltd.	33,000	3.30	Founder 1
g) Nepal Investment Bank Ltd.	16,500	1.65	Founder 1
Founder subclass 'Ka' 3			
a) Nirdhan Utthan Bank Ltd.	66,000	6.60	Founder 1
b) Group members of the Bank	2,61,811	26.18	12,893 peoples
c) Employees of the bank	8,789	0.88	194 peoples
Total	6,60,000	66.00	13,095 peoples
2. Common groups	3,40,000	34.00	1170 peoples
Grand Total	10,00,000	100	14,265 peoples

Table: 1.2
Snapshot of PGBB Ownership Structure

	Organization name	Estd. (1995)		Offload (2006)		10% Bonus (2009)		Mid –July 2010		Targeted	
		S A	%	S A	%	S A	%	S A	%	S A	%
1	Government of Nepal	99000	16.5	99000	16.5	108900	16.5	108900	16.5	108900	16.5
2	Nepal Rastra Bank	336000	61.0	60000	10.0	66000	10.0	66000	10.0	66000	6.6
3	Rastriya Banija Bank Ltd.	30000	5.0	30000	5.0	33000	5.0	33000	5.0	33000	3.3
4	Nepal Bank Ltg.	30000	5.0	30000	5.0	33000	5.0	33000	5.0	33000	3.3
5	Nepal Bangladesh Bank Ltd.	30000	5.0	30000	5.0	33000	5.0	33000	5.0	33000	3.3
6	Himalayan Bank Ltd.	30000	5.0	30000	5.0	33000	5.0	33000	5.0	33000	3.3
7	Nepal Investment Bank Ltd.	15000	2.5	15000	2.5	16500	2.5	16500	2.5	16500	1.7
8	Wmen Group members	-	-	238200	39.7	267822	39.7	261822	39.7	261822	26.2
9	Nirdhan Utthan Bank Ltd.	-	--	60000	10.0	66000	10.0	66000	10.0	66000	6.6
10	Employees	-	-	7800	1.3	8778	1.3	8778	1.3	8778	0.9
11	Public Issue	-	-	-	-	-	-	-	-	340000	34.0
	Total	60000	100	600000	100.0	660000	100.0	660000	100.0	100000	100.0

APPENDIX- C

Terms and Concepts Used in the Study

Credit: A contractual agreement, in which a borrower receives something of value now, with the agreement to repay the lender at some date in the future.

Credit delivery models: These are the path through which micro finance/credit flow from apex level institutions to ultimate SHG members.

Expended: It is the total amount that is been forwarded from the micro finance providing institutions to the SHGs.

Interest: The charge for the privilege of borrowing money, typically expressed as an annual percentage rate.

Loan: When a lender gives money or property to borrower and the borrower agrees to return the property or repay the borrowed money, along with interest, at a predetermined date in the future

Lending:To provide (money) temporarily on condition that the amount borrowed be returned, usually with an interest rate.

Micro finance: Provision of thrift, 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.

Micro financial providers: Micro financial providers are those, which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi -urban or urban areas for enabling them to raise their income level and improve living standard which may also includes non-governments.

Micro credit: Refers to a small loan to a client made by a bank or other financial institution.

NGO: Non-governmental organization, which is an informal supplementary credit delivery mechanism for lending at group level

Over dues: It is conceptualized as the non- repayment of any part or full amount of loan by the borrower to any financial institutions with in the time specified for the repayment.

Repayment: The act of returning money received previously.

Saving: Refer to the various kinds of deposit amount of the farmers/ beneficiaries and others kept in any financial institutions.

Self employment: The status of an individual who rather than accepting a position as an employee of another person or organization choose to go into business for him or herself.

Self help groups: These are voluntary groups come together for obtaining loans from financial institutions in order to employ income generating activities to improve their standard of living.

Impact Assessment: A research activity undertaken with objective of attributing observed outcomes to organizational activity. Impact is determined by counterfactual. Determining counterfactual in turn requires comparing the treatment group to a valid control group. (Source: Social Performance Working Group)

Outreach: To broaden institutional services for the poor.