

**PERFORMANCE OF SMALL FARMER DEVELOPMENT
BANK AND STATE OF SELECTED MICROFINANCE IN NEPAL**

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DECLARATION

I hereby declare that the work reported in this thesis entitles “**Performance of Small Farmer Development Bank and State of Selected Microfinance in Nepal**” submitted to Central Department of Management is my original work done in the form of partial fulfillment of the requirement for the Master Degree of Business Studies (MBS) under the supervision of Dr. Dilli Raj Sharma.

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Researcher

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LIST OF ABBREVIATIONS

ADB/N	Agriculture Development Bank, Nepal
ADB	Asian Development Bank
CBs	Commercial Banks
CDF	Co-operative Development Fund
CSD	Centre for Self-Help Department
COs	Co-operatives
DLGSP	Decentralized Local Government Support Program
EEC	European Economic Committee
FAO	Food and Agriculture Organization
FI-NGOs	Financial Intermediary Non Government Organization
F.Y	Fiscal Year
GBBs	Grameen Bikas Banks
GGs	Grameen Generalized System
GoN	Government of Nepal
GTZ	German Technical Co-operation
IBP	Intensive Banking Program
IG	Inter Group
JBS	Jeevan Bikas Samaj
MC	Main Committee
MEDEP	Micro Credit Enterprises Development Project
MFI	Microfinance Institutions
NBL	Nepal Bank Limited
NCCC	National Co-operative Consultation Committee

NCDB	National Co-operative Development Board
NRB	Nepal Rastra Bank
OLTA	Outstanding Loan to Total Assets
PAF	Poverty Alleviation Fund
PCRW	Production Credit for Rural Women
PDDP	Participatory District Development Program
PGT	Pre-Group Training
PMFBs	Private Microfinance Banks
PRA	Participatory Rural Appraisal
PSL	Priority Sector Lending
PWR	Participatory Wealth Ranking
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre
RMP	Rural Microfinance Project
ROA	Return on Assets
ROE	Return on Equity
RSRF	Rural Self Reliance Fund
SCCs	Saving and Credit Co-operatives
SF	Small Farmers
SFCL	Small Farmer Co-operative Limited
SFDBL	Small Farmer Development Bank Limited
SFDP	Small Farmer Development Program
SHGs	Self Help Groups
SLO	Saving to Loan Outstanding
SPO	Sup Project Officer
UNDP	United Nation Development Program

UNICEF	United Nation Children Fund
USAID	United States Agency for International Development
VB	Village Bank
VDC	Village Development Committee
WDC	Women Development Section
WEP	Women Empowerment Project
YOP	Yield on Portfolio

CHAPTER ONE

INTRODUCTION

1.2 Background of the study

Nepal is very small country in the world but rich in natural resources. Its area is 1,47,181 square kilometer. Nepal is also land –locked country where many people are farmers. Their main occupation is farming. Out of total population 74 percent people depend on agriculture (CBS 2010/11) and remaining 26 percent people are involved in other occupation. (Primary Report of CBS 2068), 83 percent people are villagers they live in village and remaining 17 percent people live in urban area. In comparison to the people in urban area, the villagers are backward. They are uneducated and poor in health, wealth and shelter. The opportunities and facilities are limited in the urban area so the opportunities and facilities are few in rural area in comparison to urban area.

In the 21st century development farmers need to credit facility to improve agriculture farming and socio-economic position. To achieve this objectives, banks, co-operatives and financial institutions are necessary for development to fulfill these objectives, first of all Agriculture Development Bank was established in 1968 AD as the first credit institutional bank of Nepal to provide credit facilities to small farmer. At that period institutional credit was not sufficiently accessible to the rural populace. In the beginning the bank was established with Rs. 70.5 million authorized capital. It has various sources which are share capital, deposits, credit and debenture. It also taken loan from other financial institutions (National and International). If the history of agriculture is traced institutional credit supply arrangement for agriculture development in Nepal was made in 1963 AD through the co-operatives society. This bank was mandated to cater for the credit needs of the of the co-operatives societies. Agriculture Development Bank was initiated by HMG under the Agriculture Development Act 1967 by incorporating the assets and labializes of co-operatives bank. This step was taken to provide accessibility to the institutional credit in a mass scale to the rural populace of Nepal.

In 1975, the amendments of the Act initiated the Small Farmer Development Program with special emphasis in financing small farmer on group liabilities for enhancing socio-economic condition of rural populace. Further SFDP introduced from micro financing program to provide credit to small in a group approach. Generally, the groups are formed and it

comprises 5-10 members (small farmer) who have same nature of problems such as interest, economic status and live same place.

SFDP was launched by ADB/N to provide credit facility for poverty alleviation. To bring the changes of structure in geographically diversified, traditional agriculture system, more people depend on the agriculture, hidden unemployment in agriculture, low income and poor life style and development of socio-economic status of rural people. To improve such situation SFDP was launched by ADB/N in 2032 B.S. To minimizing the distance of service taking and giving. It was group base organized of poor and small farmer and then it had done social development activities. It provides loan, skill development training to the rural poor people. The main objectives of the program are to improve socio-economic condition of small farmer including women and to reduce rural poverty. The program organized into group at village level and providing them credit, technology, skill development program to the rural poor, for defining small farmers, there are two criteria they area as per capita income and land holding are considered.

Accordingly farmers with their small holding tenants, sharecroppers are to be converted by the program. It operated through the network of 422 sub project offices covering 652 village development committee and provided services to the 2 lakh 10 thousands small farmer family. Program is based on group dynamic approach and group organizers including women organizers who are selected by the Agriculture Development Bank Nepal.

Small Farmer Development Bank

The Small Farmer Development Bank (SFDB), which is now celebrating its tenth year of existence in 2011, was established in Nepal under very special circumstances. The Small Farmer Development project (SFDP) was first piloted in Nepal in 1975 and following its resounding success was adopted for nationwide implementation soon afterwards, attracting enormous sum of foreign aid for its accelerated expansion. This led to excessive recruitment of manpower and adoption of ambitious lending target to use the available resources that in turn led to mounting default in principal in interest payment and to the precipitous decline in recovery rates. This threatened the barely decade old initiative aimed at massive population of the small farmer in the country becoming nearly insolvent. However, since it was the only significantly poverty alleviation initiative in the country at the time ,in 1988,the German Technical Co-operative (GTZ) stepped in with its technical assistance for institutional transformation aimed at converting the SFDP's 445 sub-project officers(SPO) serving 622

VDCs into farmer-managed the co-operatives, the small farmers' co-operative limited(SFCL).The first four such SFCLs came into being in1993, and by year 2000, the number has slowly increased to 118 SFCLs. While the SFCL approach implies lots of economies in lending costs can SFCL after all is only one borrower, except that it borrows millions of rupees in one transaction, it did not attract sufficient attention from the ADBC and its suggestion and initiative and with support from the GTZ, the SFDB was born in 2001 and became operational in 2002.

While the SFDB is charged with half a dozen functions, they include two that have special significant for poverty alleviation of small farmers in Nepal. They are as follows.

- Provide wholesale lending to the SFCL and to other similar micro finance institutions in the rural area
- Promoting income and employment opportunities through such organized institution to contribute to the poverty alleviation in the communities.

Since two tasks clearly require the bank to promote income and employment opportunities towards alleviating rural poverty. They also imply that the bank should go about promoting SFCLs in the country so that they could undertake those tasks on country wide basis. While the Bank's SFCL clientele numbered only 58 in its first year of operation, the total number has since increased to 228 in 40 districts in 2010,now the number of SFCLs are 251 in 2011/12.At present 52 small farmer co-operatives are operating and out of which 15 are transfer to the community (SFDB, Annual Report 2011/12).

After establishing the Small Farmer Development Bank it was operating the subsidiary of ADB/N but now it has made separate identity. it provides the credit facility for downtrodden, women, dalit, janajati, minority group which are extinction and disadvantage group of people, which are especially helped for fruit farming, vegetable farming, pig keeping, goat keeping, meat production, bee keeping and other activities. However, it plays vital role by providing short term and long term loan facilities which improves social and economic status of poor farmer. Target area of it is remote, Terai and Himalayan region. It is giving skill development training as well as other effective program. The program has social component like adult farming planning, drinking water schemes and sanitation assisted by EEC, GTZ, UNICEF and USAID etc (SFDB, Annual Report 2011)

Achievements of SFCL and SFDB

The reason the SFCL approach has a vital role in rural poverty alleviation in Nepal is that its methodology has distinctive merits in term of empowering the poor in the communities to the participate in their own poverty alleviation. Firstly, the SFCLs are three –tiered organization each of the tiers performing mutually complementary functions. At the bottom of the leader comes the small farmer (SF) group that is manageably small, generally composed of 5 to 8 members, and perform vital function for empowerment and poverty alleviation of their members. The SF group meet at least once every month, collect monthly saving from members, assess credit needs of members for their respective income generating activities based on capacity and performance, and recommend same to the inter group (IG) at the ward level which in turn submits the same for approval to the main committee (MC) i.e. the board of directors of the co-operatives. This ensures the jurisdiction of fellow members in SF group to monitor the credit use in the group, resulting in timely repayment of principal and interest. This decentralized management of saving and credit has been instrumental in rendering the members disciplined credit users, a behavior that rewards them with steadily economic success. It is an small group that the poor women and men, who generally remain timid in terms of borrowing and investing for fear sinking deeper in poverty, meet their role models for venturing into income generating enterprises of their own and set themselves on a course to better future.

Secondly, the management of the SFCLs are entirely owned and paid for by the members themselves and due to allow them to hire their own fulltime professional managers who remain at the service of the members all the time. The average SFCL membership works out at 758 members; a hill SFCL 291 members outnumber men both in the hill and a Terai and account for 62 percent of total of total membership. Most SFCLs are professionally managed and even a poorly performing SFCL is doing better than when it for the was an SPO.

The third and major attributes of the SFCL approach is its system of wholesale borrowing mostly from the Agriculture Development Bank and retail it among the members. This enables the SFCLs disburse larger loans to their members, who in turn can make bigger investment in their income generating undertaking. This makes it possible for the SFCL members to stage an early exit from poverty.

Besides, the SFCLs have adopted a large number of saving portfolio for its member, a major one being livestock insurance scheme. Under this scheme, the members borrowing for livestock purchase have to deposit an insurance premium of 5 percent of the total cost of the livestock with the SFCL. And in case of death of the livestock during the period of insurance (which is the period until the loan is paid off), the owner is recompensed for 80 percent of total cost for which it was insured such insurance payment have been a great relief for the unlucky farmers and have prevented them from suddenly sinking into becoming a total pauper.

Besides, unlike in order commercially motivated insurance schemes, the premium payments remain with the SFCL and is used as additional source of funds for lending to its member, thus enabling the members' farmer to get larger sums of credit for their income generating activities than in most other micro finance initiatives. Since most of the SFCLs derive from the SFDP days and have mostly been around two decades old, their own saving too, over the years, have accumulated into a substantial sum, making it a substantial source of credit in its own right too. The outstanding loan with the members from their own source is significantly larger than that from the wholesale lender, the SFDB.(SFDB,2010)

Micro finance in Nepal

Micro – finance plays the role of financial as well as social intermediation. Micro finance is concerned with poor and lower class people which provides financial service for income generally activities. Financial service includes micro loan, micro saving, insurance and remittance. Micro finance is that mechanism which directly provides the service among the poor people. Micro finance is the provision of broad range of financial service such as saving, deposit, loan payment service, money transfer and insurance to poor and low income households and other enterprises which are usually considered non bankable. Micro finance clients are typically self employed low income entrepreneur in both urban and rural area and clients are often traders, street vendors, small farmers' service provides hair dressers and rickshaw driver.

The history of commercial banks is new. The first commercial bank in Nepal by the name of Nepal Bank Limited was established in the year 1937. The Nepal Rastra Bank (Central Bank) came into existence 1956 A.D. Then, followed by a couple of public sector financial institution like Nepal Industrial Development co-portion(1959), Rastriya Banijya Bank (1966) and Agriculture Development Bank (1968).After the adoption of liberalized economic

policy in 1980, a number of banks have come into existence. Nabil Bank Limited (formally Nepal Arab Bank Limited) is the first joint venture foreign bank established in Nepal in the year 1954. (Securities Research Center and Service PVT. Ltd (SRC 2012).

At present, there are rapid expansions of financial market as well as financial activities. Now, there are one central bank, 32 commercial banks, 87 development banks out of which Sanima Bank is upgraded from development to commercial bank, 79 finance companies and 21 micro credit development banks (source; www.nrb.org.np).

Financial activities have been basically concentrated in and around urban areas, rural areas where absolute poverty persists have been deprived of financial service.

The history of microfinance in Nepal is quite new. It was started in the year 1975. The traditional practice i.e. 'prema system', 'Dhikuri', 'Guthiyar', 'Dharma Bhakari', 'Mankya Jya' which are origin of microfinance in Nepal. After the democracy in 1990 and adoption of liberal economic policies by the government, different types of microfinance have been emerged with governmental and non-governmental. Nepal Rastra Bank, Agriculture Development Bank, Rastriya Banijya Bank and Nepal Bank have also operated a lot of microfinance programs. Presently more or less 6000 co-operative institutions are registered in Nepal. Nepal government designed a poverty alleviation program called small farmer development program in 1975. The program was implemented through Agriculture Development Bank. This program is now considered a successful program, in Nepal for poverty alleviation to some extent. Government recognized microfinance as a tool for poverty and thus launched it in the sixth plan.

Small Farmer Co-operated Limited (previous small farmer development programs of ADB/N converted to co-operatives), Small Farmer Development Bank (SFDB), Rural Microfinance Development Centre (RMDC), Gramin Bank replicates, and rural saving and credit co-operatives have been very helpful in meeting the part of the credit needs of small farmers and other small entrepreneurs in rural areas. Micro credit has played a significant role in the present faster growth of income earning of small farmers by providing access to credit in enhancing small scale agriculture income generating activities like vegetable farming, small scale poultry farming, large and livestock rearing and various micro enterprises even in the case of home based micro-enterprises, experience of Micro Credit Enterprises Development Project (MEDEP) implemented by Nepal government suggests that rural non-crop enterprises

are agro-based and micro credit have been effective also in promoting them(SFDB,Annual Report 2010).

1.4 Statement of Problem

It is well known fact that Nepal is agriculture as well as land locked country. Development of Nepal is not possible without development of this sector. But there are many problems in the field of agriculture development. Most of people are illiterate and unskilled therefore, they are not maintaining the modern method of cultivation. They are even using traditional method of cultivation. The overall position or rural farmer is poor the economic standard of the poorest of the poor has to raise their living standard by microfinance.

Nepal is mountainous country with nominal terrace farming is possible. Due to the shape and size of the area, mechanized farming is not possible so rural farmers find it difficult area attempted to reach the subsistence level. Their economic condition is poor and normally per capita income is low. In many aspects agriculture situation is poor. Here the role of SFDB, co-operatives and micro financial institution is becoming important to bring new policies and program for making available loans credit and grants to rural farmers of Nepal. This objective is met by SFDB through small farmer co-operative ltd. and MFIs

There are many obstacles of the Small Farmer Development Bank (SFDB) to achieve its objectives and development of goods. Obstacles are multiple like issue of credit worthiness of small farmers due to small size of holding, lack of institutional supply of credit unstable government policy of handling small credit repayment, adoption of rebate policy to defaulters by the government, lack of adequate and appropriate technology, limited market access due to lack of adequate transportation facility and also lack of adequate property rights to females as a family members hinders in the credit to women. The study tries to seek the answer of the following research questions which are relating to performance and state of selected microfinance in Nepal.

1. What is the position and performance of selected microfinance in Nepal?
2. How they are disbursed and recovered their loan into the different year?
3. How the selected microfinance are being able to utilize the fund?
4. How they are sustaining in the present context and what is their viability in the competence marketing?
5. What is the position of SWOT of the MFIs and how they are managing it?

1.3 Objectives of the study

The overall objectives of the study are to make an assessment of performance of Small Farmer Development Bank and State of Microfinance in Nepal SFDB and micro finance program for poor, down trodden, women, dalit and janajati and poor farmer as a whole Nepal.

The specific objectives of the study are as follows:

- a. To examine the loan performance of SFDB through SFCLs
- b. To identify the trend of loan disbursed, recovered, and outstanding of MFIs
- c. To evaluate financial sustainability and viability of MFIs
- d. To analyze the strength, weakness, opportunity, and threats of MFIs and SFDB

1.4 Limitation of the study

This study is under taken the partial fulfillment of MBS degree and will be under taken within the boundaries' of limit area so there will be some limitation regarding this study, so this work has been conducted within the following limitations.

- a. This study is based on secondary data.
- b. Small Farmer Development Bank has many programs to the poor farmer especially for the agriculture. Among the program this work focuses on small farmer co-operatives program.
- c. The study covers the data from 2006 to 2011 for SFDBL and from 2005 to 2010 for selected MFIs.
- d. Financial and statistical tools and techniques are used for analyzing data.

1.5 Importance of the study

Small Farmer Development Bank, Micro Credit and co-operatives, these all are financial intermediary for poverty alleviation but Small Farmer Development Bank stands for reduction poor situation of farmers in Nepal enables poor to take advantage from opportunities generates self employment, develop micro enterprise, increase the income level, builds self confidence and self esteem, empower the women and poor farmer of Nepal, enhance overall economic growth, enhance domestic saving. Nepal is agriculture base country where as micro finance; micro credit and SFDB have effective mechanism in poverty reduction. These all tools help to improve the life style of poor farmer and other people who are including disadvantage, minority, dalit, janajati and low income people. This financial

intermediary provides the skill development training short term and long term credit facilities and other relevant services.

Nepal is poor country having small area of 1, 47,181 square kilometer. It is divided into three parts; they are Terai, Hill, Mountain from south to north with distinct geographical. Without development equally all area, the national economic development will not possible. To develop Nepalese economy, first of all develop the rural area including agriculture sector. Agriculture is most important profession of Nepalese people because most of the people follow this occupation. So micro financing and small farmer development program play the important role in the Nepalese economy. So the study of small micro financing program, small farmer development program of SFDB is necessary in the 21st century.

1.7 Organization of study

This study is divided into the following chapters

Chapter 1 : Introduction

Chapter 2 : Review of Literature

Chapter 3 : Research Methodology

Chapter 4 : Data Presentation and Analysis

Chapter 5 : Summary, Conclusion and Recommendation

Chapter 1: Introduction

This chapter includes background of the study, statement of the problem, objectives of the study and limitation of the study.

Chapter 2: Review of Literature

This chapter reviews the relevant literature on SFDBL and major four types of MFIs.

Chapter 3: Research Methodology

This chapter includes the details of the sources of data, data collection on process and analysis of financial and statistical tools and techniques.

Chapter 4: Presentation and Analysis of Data

In this chapter tabulated data, figures, chart are analyzed with different tools and technique along with interpretation and major findings.

Chapter 5: Summary, Conclusion and Recommendation

This chapter includes summary, conclusion and recommendation based on research study.

CHAPTER- II

Review of Literature

2.1 Introduction

In term of literature review the literature means works consulted in order to understand and investigate of research problem. "Review" is the process of systematic meticulous and critical summary of the published literature in the field of research.

"A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of our interest" (Haywood and wargg, 1982)

"A literature review is a summary and analysis of current knowledge about a particular topic or area of enquiry."(Willman 2006)

The objective of this chapter is to review the available literature regarding the micro credit program and small farmer development program. This program covers effectiveness for poverty reduction. It is difficult to find the universal meaning of micro-finance due its variation on the basis of location, implementation, institution and program. In general term, micro –finance is defined as the financial services provided to deprived group of people and small entrepreneurs to help them in developing self-employment opportunities and income generating activities, small size loan, compulsory saving, small-scale entrepreneurs diversified utilization and simple and flexible terms and condition are the determining characteristics of its definition. Micro finance as a program serves large numbers of clients focusing on woman, poor family and works gross root level with financial sustainability. According to Word Bank Micro-finance is "the provision of finance services to low income clients including self-employed."

Another micro-finance institution is small farmer co-operatives, rural co-operatives, grameen bank. Now this program conducts by Small Farmer Development Bank. Now small farmer co-operatives, rural co-operatives has operated villagers oriented program like meat production program, at present. Micro-finance program also conduct by SFDB (about 230 SFCLs and 170 thousand from families, as member.)

The main aim of micro–finance (SFCLs, rural micro finance and co-operatives) is to provide quality service to the large number of landless, poor and women of the country. Now, micro-

finance is rapidly growing in Nepal. When the finance is liberalized in Nepal and then increasing financial activities.

2.2 Conceptual Review

2.2.1 Concept of finance, Micro-finance and Micro-credit

Finance is a monetary promise that exchange into cash in the present context for a promise of future reciprocity. Finance is monetary activities which mobilizes the commodities. Credit creates value in the form of loan that is exchanged for promise paid in coming days. Finance has special characteristics and it differentiates from the goods and services provided by the non financial activities of the economy. It relates to social activities, intangible and interchangeable. Finance has plenty of risk and it can minimize only with enhancing the confidence level, confidence is opposite of the risk. However, the confidence level depends on society's general view of the future. Social structure required efforts to achieve and maintain consensus. Legal structure cost gaining the access and social handicaps. Confidence in the investment project is important. In this regard, lenders should know about capacity, capital, character and collateral of clients.

Micro-finance is one of the components of the finance which refers small scale financial services such as small farmer development program, small farmers co-operatives, rural micro finance and micro credit, these all are example of micro-finance. Basically, it has been emphasizing poverty reduction of small farmers, landless people, disadvantage group of people and women empowering in the developing countries like Nepal. Micro finance has emphasized the activities which are collection of domestic saving, investment deposit etc. Now, micro finance is encouraging in rural area especially for meat production, vegetable farming, fruit farming, cattle farming, bee keeping and other related activities.

Micro credit refers to small scale credit targeted towards rural poor people to increase their income level by fully utilizing their internal resources and skill generally it is a short term credit and small in amount.

Overall micro –finance services can help low income people, rural poor farmer, landless, women and reduce the poverty and risk, improve management, raise productivity, obtain higher return in investment, increase their incomes and increase the quality of life.

2.4.5 Historical Overview of Microfinance

The term microfinance was not used in earlier part of history of rural microfinance. It has been found used in Nepal only in the later part of 1990s. Rural credits in Nepal begin in 1956 with opening of credit co-operatives in Chitwan Valley to provide loans to the re-setters coming from different parts of country. The government through the creation of the Co-operative Development Fund (CDF) arranged some credit support to the res-setters through those co-operatives. In 1963, the government established the co-operative bank, which was later converted into the Agriculture Development Bank Nepal (ADB/N) in 1968. The co-operatives faced problems of shortage of fund for credit disbursement to their members on the one hand and misappropriation of borrowed fund for personal users by some of their officials on the other. Hence, the government commissioned a fact finding mission in 1968 to probe the operations of 1489 co-operatives then with the department of co-operatives and the mission found most of them at defunct stage and recommended for their liquidation.

Therefore, the government introduced the Co-operative Revitalization Program in 1971. It authorized the Agriculture Development Bank Nepal (ADB/N) to run co-operatives under its guidance and management. In 1976, 'Sajha Problem ' was launched and the co-operatives were renamed as 'Sajha societies'. The compulsory savings collected under the Land Reform Problem 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 co-operatives. The study found that 94 percent of co-operatives were dealing with transaction of agriculture inputs and 85 percent were also found extending credit. Most of the co-operatives were running at losses and over 75 percent of the outstanding loan was overdue for more than one year.

ADB/N launched the Small Farmer Development Program in 1975. First as pilot at two sites, Sakhuwa Mehendranagar of Dhanusha district in the Terai and Tupche of Nuwakot district in the hills. The strategy was to organize small farmers, tenants and landless laborers into group and strong them receiving mechanism for tapping resources from service delivery agencies. Credit was provided under group. It also focused on developing a habit of thrift and personal savings among the members of the groups. They also started group saving to realize self - reliance in financial resources. A total of 1, 42,711 members who were organized into 19597 group were benefited from the program by July 1991/92.

After the reinstallation of multiparty democracy in 1990, the government appointed a seven member National Co-operative Consultation Committee (NCCC) and dissolved the 'Sajha Centre Committee'. It also provided constituted 11 members National Co-operative Development Board (NCDB) to provide policy directives to the co-operatives. The government enacted a new co-operative Act in 1992 to ease promotion and development of co-operatives as a vehicle of economic development in rural areas. The government also emphasized the role of co-operatives for extending credit facilities and other services to the rural people in its Eight National Plan.

Nepal Rastra Bank (NRB) initiated small sector lending in 1974 directing the commercial banks (CBs) to invest 5 percent 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 required CBs to raise PSL to 8 percent of CBs loans and advance, which was further raised to 12 percent 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 percent and 6.7 percent in the seventh plan periods. Loans under PSL were classified into agriculture, cottage industries and services. Target groups under PSL are low-income family with Rs 2511 or less per capita income per year. The beneficiary must contribute 20 percent of the project cost if the loan size was more than Rs 15000. NBL and RB charged 15 percent to 16 percent interest rates on priority sector loans. They provided loans up to 80 percent of the appraisal value of the collateral for low income and 70 percent 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 group formed by the bank staff without collateral on just group guarantee. The loan limit for such loans was Rs 30000.

The Grameen Bikas model of Bangladesh was replicated in Nepal with the established of Eastern and Far – western Grameen Bikas Bank (GBBs) in 1992. The target group included in Terai farmers with holding less than 1 Bigha (.67 ha) and the hills with holding less than 10 Ropani (.50 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 the NRB and CB representatives and 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 NRB (75%) and by the CBs (25%). The first two GBBs started functioning from the middle of 1993. They charged 20 percent interest rate and the main source of fund CBs. In the meantime, two NGOs-the Nirdhan and the Centre for Self-help Department (CSD) also launched microfinance program 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 realizing the operation and activities of NGOs as microfinance operations. With the enforcement of this Act, two FI-NGOs, Nirdhan and the Centre for Self-Help Development (CSD) also get 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 provision of licensing microfinance banks also as class 'D' banks. As results, 13 microfinance banks have been issued license by the NRB till the date. In order to avail, small whole sale funds to co-operatives and NGOs providing loan to the low income groups, the government had created a fund called Rural Self-Reliance Fund (RSRF) in 1991 with Rs 20 million was contributed from the government. The government with the assistance from ADB/N and NRB also established the Rural Microfinance Development Centre Limited (RMDC) in 1998, to provide larger wholesale loan to MFIs through implementation of the ADB assisted Rural Microfinance Project (RMP). After the operation 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 other wholesale funds to the Small Farmer Co-operative Limited (SFCL) in 2001. With all these institutions and efforts microfinance has gained a new momentum as 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.(source: Rural Microfinance Development Centre)

In such organizations, members collect saving regularly from the group members and that savings are invested income generating activities.

2.4.6 Microfinance Models

There are quite a few prominent models of microfinance in the country. These includes co-operative model, small farmer co-operative model (SFCL), Grameen Bank model and community based organizations (Cos) or Self-Help Groups (SHGs) model. In addition, Production Credit for Rural Women (PCRW) and village banks are also considered separate program/model of microfinance in Nepal. The program like Decentralized Local Government Support Program (DLGSP), Poverty Alleviation Fund (PAF) some other rural development programs have also included microfinance as a component following the (SHG) model. Each model has its historical background and modus operandi of its own. They are as follows.

a. Co-operative Model

Historical background

The history of co-operatives societies in Nepal dates to 1956, when the government first started 13 co-operatives in Chitwan district. In 1963, the government established the co-operative bank, which later was merged into the ADB/N in 1968. Rural based co-operatives were established mainly to distribute loan for agriculture inputs to farmers and trading of agriculture inputs and consumers goods to the local people both in cash and credit. These co-operatives were initially managed by members and supervised by the department of co-operatives; later, in 1973 the government decided to hand over the management of these co-operatives to the ADB/N initially for a period of five years, which was subsequently extended another five years. Later, the management of co-operatives was again handed over the members themselves in 1992.

In 1991, the government of Nepal enacted the co-operatives Act 1992. Under this Act, a group of 25 people from a community can form a co-operative by registering it with the Department of Co-operatives Ministry of Agriculture and Co-operatives. The saving and credit co-operatives (SCCs) do not come under the regulatory framework of the Nepal Rastra Bank (NRB). However, some co-operatives that have been licensed from NRB for limited banking services have been providing service to non-members as well. They come under its regulation and supervision.

Modus Operandi

The SCCs can target all community members in a given locality irrespective of their social and economic status. Twenty five people can get together to run a co-operative in their respective village. Currently, most of the members of these organizations belong to well to do

families who can make saving and the average membership is around 100 per co-operatives. This co –operatives take saving deposits from their members and whoever want to put saving in the co-operative is extended membership. They also provide loan to their members for a number of purpose loan provided to the members have a minimum term three month to three years covering specific areas such as agriculture, housing, micro enterprise or some social purpose. The SCCs are supposed to be self regulated, which often are mismanaged due to lack of control of member over a board of directors and members are not aware of the principles of a co-operative due to lack of membership education. These organizations have not been well regulated and supervised from higher authorities; as a result many of them do not have standard accounting and sound management practices. They also lack good governance. In spite of all these SCCs are considered more suitable financing model for the hills and mountains as they provide both saving and finance services to the members who are the local people in a homely atmosphere without much of bureaucratic process. Due to low cost operation, their interest rates also are lower than other financial institutions.

a. Small Farmers Co-operative Limited(SFCL) Model

Historical background

The ADB/N initiated the Small Farmer Development Program (SFDP) as a pilot project in 1975. The Food and Agriculture Organization (FAO) donated US dollar 3000 to initiated pilot testing of SFDP at two sites, Sakhuwa Mahendranagar in Dhanusha district (Terai) and Tupche in Nuwakot district (Hill). At that time, FAO was providing technical assistance to seven nations of south east and south Asia to implement this program. After finding successful implementation of the program in two pilot sites, the ADB/N expanded the SFDP gradually to 422 sites covering a total of 652 VDCs in 75 districts, which catered around 188000 small farmers' families. The quality of service was somehow affected by the higher speed of expansion without developing the staff capabilities and failure to remain away from political pressure implementation.

Later, an attempt was made with the technical and financial support of GTZ- German Technical Co-operation, Nepal to convert the Small Farmer Development Program, Sub Project Offices (SPOs) into small farmer co-operatives. Institutional development for this conversion was initiated in 1988 under GTZ'S Rural finance Nepal project. In 1993, four SPOs of Dhading district were first registered as Small Farmer Co-operative Limited (SFCL).At present more than 228 SFCLs in 41 districts have been registered covering

139368 members and 111494 borrowers. Out of this, 11 SFCLs are entirely managed by women members and 219 SFCLs are affiliated to the Small Farmer Development Bank Ltd. (SFCL)- a bank established in 2001 to provide wholesale finance to SFCLs. SFCLs model has been honored with pro-poor Innovation Challenge Award-2003, as the best model of poverty alleviation.(SFDB Annual Report, 2008)

Modus operandi

SFCL has a three tiers structure. At the village level, promoters facilitate local household members to form group; at the word level. The farmers groups with common interest and proximity an integrated into inter-group associations and at the VDC level, all groups and inter-groups are represented in the Executive Committee for the operation of SFCL, the Executive Committee is formed of the members selected by the General assembly. The Executive Committee is responsible for hiring the manager and other staffs and for deciding on the rules and regulation needed to ensure the smooth and effective operation of the organization.

The grassroots groups organize regular meetings to collect mandatory saving and loan repayment and application for loan demand. These loan applications are forwarded to their respective inter-groups, which appraide than and forward with recommendations to the Executive Committee for final decision. The SFCL is generally confined to one VDC area and it targets only at the small farmers. The loans are extended mainly with collateral security. They also make some loans without collateral security. However, such cases are less than 10 percent. Each SFCL in an average services around 500 households. SFDB provides them with wholesale loans while the federation of SFCLs regularizes and supervises their financial activities. SFDBL has provided wholesale loans to 219 SFCLs. Some 60 SFCLs are demonstrating very good performance. Some of them have generated sufficient internal resources and are having an annual transportation of Rs 40- 60 million. However, these SFCLs have been borrowing a few hundred thousand rupees from SFDBL just to maintain good relation with it. Some SFCLs have also borrowed from RMDC. It is reported that some SFCLs have also been providing larger size loans to the graduated clients so that they do not lose these clients to other banks and financial institutions. Some also provide enterprise loans larger than the NRB defined ceiling of Rs 15000.

b. Grameen Bank Model

Historical background

The Grameen Bank concept of lending pronounced by Prof. Muhammad Yunus of Bangladesh was introduced in Nepal during 1990s by the government of Nepal and NRB by establishing five regional Grameen Bikas Bank (GBBs) , one each in five development regions of Nepal. During the same time, two national level NGOs namely the Nirdhan and the centre for Self-Help Development (CSD) also launched microfinance program replicating the same Grameen model and later they also established two microfinance development banks, Nirdhan Utthan Bank Limited, SB Bank at Janakpur adopting the Grameen model. Similarly, other prominent NGOs-Chhimek and Jeevan Bikas Samaj(JBS) also started their microfinance program following model. At present, GBBs, Private Microfinance Banks and a host of FI-NGOs and SCCs are also providing microfinance service to the poor.

Modus operandi

This model is comparatively more successful in areas, where the market and road infrastructure is more developed and economic activities are vibrant. It is more feasible in Terai than in the hills and mountains. The approach is based on the formation of peer groups each comprising five members. Three to ten such peer groups from a centre at a particular location-close to a village, where they meet as decided by the members. Each group elects a group chairperson and each centre a centre chief of oversee the activities of group members and maintain group discipline, check utilization of loans and ensure timely repayment of loan installment. In such way, group members collect saving and make demand for loans and also settle the loans or interest due and repay loan installments as per schedule. They do not need to provide collateral security for the loans but need to provide group guarantee for repay with participatory Rural Appraisal (PRA) techniques or participatory Wealth Ranking (PWR) exercise to identify the target groups. After the target groups are identified eligible members participate in a weeklong per-group training (PGT) on microfinance procedures and organization and operation of group and centers. The MFI field staff facilitates the fortnightly or monthly meeting where they also collect mandatory and voluntary savings, loan repayment installments and loan demands from the members and also verifies the utilization of disbursed loans. The GBBs still follow the weekly meeting and other procedures of the traditional Grameen Bank model, while replicating private MF Banks and FI-NGOs have adjusted the model suit their local condition and requirements. Some of the institutions

following Grameen Bank model also have diversified saving schemes such as education saving, pension fund saving, micro-insurance covering risks related to loans, life, health and their livestock as on Grameen Generalized system(GGS).Some dynamic groups also deal with other social problems and issues related to community and take necessary action to resolve.

c. Village Bank Model

Historical background

The village Bank (VB) model was evolved from Latin America and tried out in Nepal between 1968 and 2001 in USAID founded Women Empowerment Project (WEP) through PACT- Nepal. Village Banks are grassroots level financial institutions- community managed savings and credit associations aimed at providing financial services to community women through the mobilization of their own resources and achieve financial self-reliance. They have been promoted by the pact Nepal in collaboration with some local NGOs and co-operatives in the Terai region of Nepal. The project also lent some money to build up the external account of VB, which was then lent to its member. However, they have not been linked up with the financial institution and most such banks have been non-functional after the phase out of the project.

Modus Operandi

A typical VB consists of 40-50 women. It begins with a literacy class of six month where saving credits operation process also was taught. Later, the VB mobilizes members and consumption purpose to the needy women capacity building of banks. A member generally gets Rs 3000 to 10000 at a time. The loan size depends on the amount of the savings available in the village bank. At the end of 10th week the loan cycle must also end. All loans must be paid back to get new loans released. This is also called zero gathering, as old loans are settled and new loans are given in this gathering making a zero balance. Interest is not given on the saving deposits; however, at the end of each loan cycle, benefits from the proceeds are shared in proportion to the saving deposits. Benefits are distributed in the form of saving to the corresponding saving accounts based on a minimum balance kept for at least nine weeks instead of providing cash to the members' depositors. The village banks generally charge 24 percent per annum and interest is collected upfront basis. The management VB is

generally done by the chair, the secretary and the treasurer elected by the members. They keep all the records, minutes and books of account maintained by themselves and all the documents are put in a tin box, tripled locked by all the three officials and opened and locked in the meeting in front of all the members. Things are all kept transparent to the members. Such VBs have not been linked up with any financial institution during the project. However, some VBs have been linked one SCC in Nawalparasi district under RMDC loan support. This model has advantage and suitability in the less accessible and the remote parts of the districts in Nepal.

d. Self-Help Groups(SHG)/ Community Organizations(SOs) model

Historical background

In Nepal there are several forms of informal-help groups such as ‘Dhikuti’, mother groups and many others groups with specific objectives. Mostly, lower middle or middle class people are involved in this type of SHGs. Another most popular informal help group is Ama Samuha (mothers’ group). Mothers groups is mainly formed and activated by the local women with one or more objectives that could be related to income generation aspect and /or removing social evils and bring about positive changes in the society.

Women empowerment is the main objectives of the most mothers’ group. These mothers’ groups organize campaign against alcoholism, injustice to women, girl trafficking and other social evils. They also mobilize their saving and provide credit to the needy members. However, these are not necessarily targeted at the poor. They are very common in the hills and mountains. They have been in practice now for more than 3 decades. They used to be widely practiced in the hills and mountains of Western Development Region.

In India, SHG model is widely applied in a number of states by the banks with a view to extending microfinance services to a large number of poor communities at low cost of transaction. They are also linked with the commercial banks for loan. However, in Nepal SHGs are not tied up with the formal banking institutions as yet except those promoting by WDS. SHGs or Cos are formal and promoted under a numbers of rural development program implemented by different agencies, such as Production Credit for Rural Women (PCRW)-started in 1982), Participatory District Development Program(PDDP) and Decentralized Local Government Support Program(DLGSP) supported by UNDP, and Poverty Alleviation Fund(PAF) funded by the world bank.

Rural Development Programs also organize community organization (Cos) of Self-Help Groups as vehicles for expediting people's participation in the programs such programs focus on, poverty reduction through local capacity building as in DLGSP and PAF. In most cases, SHGs/COs under takes saving and credit activities as well for enterprises development and live hood improvement. In DLGSP, the Cos receives some counterpart funds as seed money to the groups or the Cos for providing financial support to their members of implementing economic activities or entrepreneurial development program. The project also provides various capability enhancement training to the Cos. Some development agencies have converted into saving and credit co-operatives by registering them with the development of co-operatives.

Modus Operandi

The 'Dhikuti' system is very old form of self- help program in Nepal; it has been in operation for more than 4 decades. Closely affiliated and well-acquainted persons form a group and start contributing a specified amount at specified intervals of time. In collection meeting the cash collected is given to one of the needy members for use as per the rules set unanimously by the group. Rules are found generally unwritten but agreed by all in the inception meeting. The number who has used the amount will also continue contributing the time bound amount till all the members get chance to use the money raised in each setting. The essence of this practice is that with small installment contributed by all groups members' one needy member can use a hung sum of money than can accomplish a large activity generating a lasting source of income of income. It is self –help approach to development of the members. In this system, members do not need to pay interest as such but depending on the rule they make. Members may also make rule to enjoy the surplus money by organizing or opening lottery, which provides the lucky ones with surprise prizes.

The Local Development Fund (LDF) under PDDP and DLGSP assists the local communication to get local people organized into community organizations (Cos/SHGs) in various installments VDC. Cos are organized for separate groups for men or women or both. The Cos also mobilizes compulsory and other types of savings. Generally they charge 10-12 percent interest per annum to the borrowers under their lending schemes. Cos conduct regular meetings in which members apply for loans and also collect due installments. Cos determine the interest rates and other terms and conditions of loans if they lend money using their own savings. If a member demands more money than the CO can provide from its saving, the member would have to fill a separate application from addressed to the local development

fund. The CO recommends the loan and forward to the local development fund for approval. Similarly, PAF also organizes local groups of the target families known as Cos through the use of local NGOs. They are provided with seed fund at the rate of Rs 3000 per family members. They are informal groups and net linked up with any financial institution. They also charge about 10 percent per annum. (www.rmdcnepal.com)

2.4.7 Impact of Microfinance

The major impacts of microfinance are as follows:

-) Enhanced confidence level of women.
-) Enhanced leadership capacity of women
-) Enhanced dignity of women in their family and community
-) Created self- employed opportunities for the poor farmer
-) Increased household income and assets of the poor
-) Improved entrepreneurship and occupational skill and their members
-) Improved food security
-) Increased school enrollment of the children of the poor
-) Improved sanitation and health conditions of the children and women
-) Improved the traditional system of agriculture farming
-) Improved accessibility in finance of poor farmer
-) Improved the life standard of dalit, Janajati, downtrodden and disadvantage group of people
-) Increased the production capacity of agriculture sector
-) Contributed to income and employment promotion and poverty alleviation of small farmers and landless people

2.4.8 Special features of Microfinance

Microfinance may be defined as small scale financial service to the poor people of Nepal. It provides the service to the communities who have no collateral offer against the loans they

take but have indigenous skills and strong desire to undertake economic activities self-employment and income generation from the help of microfinance downtrodden women and disadvantage group of people, chance of improvement of their life. There are some features, which are related to microfinance. They are as follows:

-) Provide the loan without and with collateral in small amount
-) Regularly saving collection and mobilization
-) Creating income generating activities such as beekeeping, meat production, pig keeping fruit farming, and vegetable farming
-) Small sized loan generally up to Rs 30000.
-) Loan for short duration generally up to one year
-) Regular monitoring and supervision
-) Limited banking service are provided
-) Operating, management and ownership to the small farmer

2.4.9 Common error and Deficiencies of Microfinance Institutions

The common errors and deficiencies of microfinance are as follows:

-) Substandard pre-group training(PGT)
-) Low level of discipline at the center meeting
-) Non –evaluation of center meeting performance
-) Poor understanding of the members about microfinance program
-) Inclusion of non-poor as members
-) Negative saving balance of members due to over payment
-) Keeping cash over the approved limit
-) Non –reconciliation of bank account
-) Inadequate and inferior supervision and internal audit
-) Inadequate review of internal control report
-) Non –verification of member’s passbooks

-) Withdrawal of one members saving by another member
-) Inadequate loan loss provision
-) Hiding of the overdue loan amount
-) Excess spending over the budgeted amount
-) Lack of regular review of progress

2.4.10 Challenges of Microfinance sector

The history of microfinance is over three decades old. The decades 2000 emerged as a land mark for the institutional development of the microfinance. Till the end of 1990s there were only seven MFIs five German Bikas Bank, which have been owned by government and the Nepal Rastra Bank and a few commercial banks and two NGO, MFIs-Nirdhan and centre for self-help development owned by private social entrepreneurs. Today there are over 60 organizations which are financially viable and institutionally sustainable in providing microfinance service to the needy poor. However, new challenges also have emerged with the passes of time. They are below:

-) Limited Technology use and innovations in microfinance
-) Limited Trained manpower in microfinance institutions
-) Lack of National Information on microfinance
-) Limited capacity of borrowers
-) Poor socio-economic infrastructures
-) High rate of interest

2.4.11 Microfinance service in Nepal

Microfinance is one of the best alternatives to generate self employment. It provides who have no collateral but they have indigenous skills and strong desire to undertake economic activities for self employment and income generation. It provides self employment opportunities to the women and have been economically and socially empowered through increased income from their small project. The MFIs and the wholesale lending institution such as RMDC, and SFDP have have raised the level of awareness and required skill of these women to successful carryout locally feasible income generating activities. Now, by getting

the microfinance services the women the women are strong in economically and socially. They generate income themselves such as they keep goat, buffalo, bee, poultry farming and they save small money day by day and then utilizing proper resources. Thus, microfinance has become strong which means it reduces the poverty especially women. In Nepal, microfinance program is strong rural orientation program which target groups are poor.

The Nepal Rastra Bank (NRB) under “priority sector loan program” directed the commercial banks to provide institutional loan to the priority sector in April 1974. Priority sector loan program is especially for agriculture, cottage industry and other services.

In 1975, the ADB/N started small farmer development program on a pilot basis in two village development committees (VDCs) of the two districts, one in the hill and other in the Terai. While pilot testing became success then the government to expand it to all over the country. The number of sub-projects offices reached 422 covering 652 VDCs by December 1996. Now, SPOs are in the transformation into small farmer co-operatives limited. Small Farmer Development Bank Limited(SFDBL) has also been established in 2001 and became operational in 2002 to provide wholesale loan to SFCLs. 228 SFCLs have been formed with 1,39,368 members and 1,11,194 borrowers. As of April 2009 a saving amount of Rs 916.18 million has been mobilizes a cumulative loan of Rs 4702.08 million to the group members. Out of which Rs 3898.51 million have been recovered leaving Rs 804.29 million as outstanding. The overdue amount stood at Rs 21.36 million and overdue rate at 2.65 percent.

The Government of Nepal (GoN) and the NRB introduced GB approach of Bangladesh by establishing two GBBs, one in the far- western development region and another in the eastern development region in the year 1992, soon after 3 years more GBBs were also established each in the remaining three development region. Five private GB- model replicating banks and several Finance Intermediary Non-Government Organization (FI-NGOs), and saving and credit co-operative also came into existence GB approach enhanced the accessibility of the poor to the microfinance service at their door. The group members understand the problems and capabilities of all members, and the loan officer, who goes to provide service at the doorstep and also gets an opportunity to closely assess the reality of the local situation.

Since early 1990s, the government of Nepal (GoN) and the Nepal Rastra Bank have been initiating a number of measures to ensure that supply of credit is made adequately to the targeted families on time and with easy term and condition. GoN also made provision for lending to the MFIs. Rural Self Reliance Fund (RSRF), was also established in 1991 to make

small wholesale to the MFIs. The Rural Self Reliance Fund was also established in 1991 to make small wholesale funds available to start up MFIs and other wholesale institution RMDC was established 1998 to extend larger wholesale funds to MFIs. RMDC has been playing major role in the institutional development of MFIs. RMDC is focusing quality service and sustainability of its partner organization.

In 1992, the government also launched a women focused Microfinance Program, Production Credit for Rural Women through the women development section of ministry of local development with the support of government owned commercial banks for credit ,which has out reached 82416 women. Similarly the government has been making provision of credit component in several donor assisted rural development project also for supporting self – employment promotion and income earning activities. These project include Participatory District Development Program (PDDP), Poverty Alleviation Fund (PAF), Decentralized Local Governance Support Program (DLGSP) and many others which had followed the Self-Help Group (SHG)/ community organization model of micro financing (www.rmdcnepal.com)

2.5 Small Farmer Development Bank Limited

Small Farmer Development Bank was established in July 2001 with an objective to provide the needed loans to the SFCL. At the beginning of time, the promoters of bank were the government, ADB/N and commercial banks. It has authorized share capital of Rs 240 million and paid up capital Rs 128 million in F/Y 2011/12. Now, ADB/N, Nabil Bank Limited, Nepal Bank Limited and 231 small farmer co-operatives are contributing its. Presently, ADB/N is contributing 32 percent of share capital, Nabil Bank Limited 5 percent, Nepal Bank Limited 6 percent and remaining 57 percent contributed by 231 small farmer co-operatives. SFDB is the prime source of funding for SFCLs. Earlier, ADB/N used to provide necessary funding to small farmer development project (SFDPs). SFDB is providing wholesale loan to 251 SFCLs and financial institutions. Through the SFCLs, the SFDB is invested more or less 8.5 billion in the microfinance and 6.5 refunded till 2010/11. Now days, the transaction of SFCLs are expanded as whole Nepal, especially focuses the rural poor people. (Annual Report of SFDB, 2011)

2.3.1 Wholesale lending program of SFDB to the targeted community

The SFDB provides wholesale lending to such people who are including the following criteria, they are as follows:

-) The targeted groups included in Terai the farmers with holding 1 Bigha and Hills with holding up to 15 ropani.
-) Farmers who have no regular income generating activities
-) Micro entrepreneurs
-) Dalit, Janajati, disadvantage group of people, minority and women
-) Taking service from government agencies and banks and financial institutions but fully paid till now

2.5.2 Capacity development training

-) Seminar and training especially for staff
-) Seminar and training for small farmer co-operatives
-) Provide the financial management analysis, co-operative management and skill development training
-) Time and again, co-operative management and business plan training
-) Social community development programs such as education, health, drinking water and environmental protection
-) Provide the remittance services for customer

2.5.3 Vision, Mission and Core Values of Banks

Vision

SFDB's vision is to emerge itself as a successful apex wholesale lending Bank that is financially sustainability and viable, which is established to bring the expected improvement rural poverty, which is owned by various microfinance institutions.

Mission

Its mission is to reach a large number of poor, deprived families, women and poor farmers in Nepal with providing wholesale lending to the small farmers co-operatives and other same nature institutions.

Core-values

-) Neutral from political issue

-) Commitment for service of rural poverty
-) Provide qualitative customer oriented services
-) Transparent the policy and transactions
-) Empowering financial situation

2.5.4 Functions of SFDB

Small Farmer Development Bank is social body which has expanded its activities in overall Nepal through SFCLs and other microfinance institutions. The targeted groups of people are rural poor farmers, disadvantage group, minority group, women and down trodden people. Presently, it encourages rural farmers to produce meat such as goat, pig and buffalo keeping by producing short term and long term loan facility with least cost the other activities are as follows:

-) Wholesale lending to the SFCLs
-) Provide the long term and short term loan facility to SFCLs.
-) Wholesale lending services to the SFCLs.
-) Provide the financial assistance for SFCLs and other micro finance.
-) Continuing consultant and financial assistance.
-) Regularly monitoring, supervision and evaluation of SFCLs.
-) Follow up the NRB guidance.
-) Preparing business plan and implementation.
-) Provide limited banking services.
-) Provide short, medium and long term agriculture loan to small farmers, co-operative societies and village communities.
-) Organize knowledge and skill development training.
-) Provide loan facility with group approach.

2.6 Review of Literature

Microfinance, Micro credit, Rural microfinance, and Small Farmer Co-operatives Program is operated through SFCL are the necessary part of development of rural area as well as

agriculture sector. This is necessary for our country because our country is agriculture country where most of people are farmer but they are poor and low standard. In this sector, fully supported by small farmers co-operative and microfinance institutions. This study has focused on development of microfinance and agriculture sector of Nepal and it emphasis the performance of SFDB through co-operatives. In this situation, various books, journal, articles and unpublished thesis have studied as soon as possible.

2.4.1 Review of books and journals

Easy access to microfinance incredibly helps in rural poverty reduction (ADB, 2003). Easy access should be ensured and enabling environment created for the poor to operate the income generating and micro enterprise of their choice by providing credit, technology and wholesale loan facility. Micro credit should be backed up by the technology package. They may as extra package for the poor like microfinance insurance scheme, health insurance scheme that is partly subsidized by the state or others. The service of microfinance is normally focused on women. Until and unless women are brought into the mainstream for social and economic change, it will not to bring in rural poverty. There are numerous social taboos, which do not allow women to come out the home. These hurdles need to broken which is only possible through social mobilization process of empowerment.

Microfinance allows poor people to protect, diversity, and increase to protect, diversified, and increase their source of income, the essential path out of poverty and hunger (Yunus, 2003:1). The ability to borrow a small amount of money to take advantage of business opportunities, to pay school fees, or to bridge a cash flow gap, can be a first step in breaking the cycle of poverty. Similarly, poor households will use a safe, convenient saving account to accumulate enough cash to buy assets such as inventory for small business enterprise, to fix a likely roof, to pay for health care or to send more children to school (Montgomery and Weiss, 2005:5). Microfinance also helps safe guard poor households against the extreme vulnerability that characterizes their existence, loans, savings, and insurance help smooth out income fluctuation and maintains consumption level even during the loan periods. The availability of financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps or events such as flood or death in the family that can push a poor family into destitution (CGAP, 2003).

In principal, microfinance can related to the chronic poor and the transitory poor in different ways. The condition of poverty has been interpreted conventionally as one of lack of access

by poor households to the assets necessary for a higher standard of income or welfare, whether assets thought of as human (access to education) ,natural (access to land), physical (access to infrastructure), social (access to network of obligations), or financial (access to credit), (Nepalese Management Review, 2009 p. 23-24).

Credit helps the rural poverty reduction, there must be microfinance insurance scheme, and study focuses the following things:

-) Microfinance credit helps to reduce the rural poverty
-) There should be microfinance insurance scheme and health insurance scheme.
-) Microfinance helps to bring social and economic changes of women which reduce the rural poverty
-) Microfinance empowering the women

Most of the MFIs have focused their activities on women empowerment. Empowerment of women may be defined as an increase in participation control and responsibility of women in various facts that affect their lives. These facts may be social, economic, legal and political (Yunus, 1997:3). Women often prove to be more financially responsible with better repayment performance than men; also it has shown that women are more likely than men to invest increase income in households and family wellbeing (Kabeer, 1998-45). Perhaps most importantly, access to financial service an empower women to become more confident, more assertive, more likely to participate in family and community decisions, and better able to confront system gender inequalities. (Hashmi, 1996)

Nepalese women are one of the most socially and culturally vulnerable groups exposed to discrimination at home due to patriarchal structure, to exclusion in the working place due to deficiency in the literacy and skills and to marginalization in the decision making process due to lack of executive and policy experience, non-affirmative action's from government and constitutional flaws. (Bajracharya2005-44, (Journal of Nepalese Business study, 2007 p.16)

Since microfinance is considered as a powerful tool for social economic empowerment of women as well men.

Hashemi and Scheder (1996) observed that survey 1300 clients and non-clients in Bangaldesh showed that credit- program participants were significantly more empowered than non – clients as the basis of their physical mobility, ownership and control of productive assets.

This empowerment increased with duration of membership, suggesting strong program influence. The study also found in some cases that program participation led to an increase in domestic violence. However, overtime men and families become more accepting of women's participation, which eventually led to decrease in violence.

This survey includes the following things

-) Microfinance participants were more empowered than non-clients on the basis of their physical mobility, ownership and control of productive assets.
-) Empowerment increased the duration of membership confidence level of decision making
-) Micro financing program improved decision making, confidence level, physical mobility and ownership
-) More women were participant than the men in credit program

World Bank concludes that credit offers the key element in the modernization of agriculture, not only can credit remove the financial constraint but it may accelerate the adoption of new technique. Credit facilities are also an integral part of the process the commercialization of the rural economy. Success in this respect depends on many factors, including the availability of complementary inputs and services, credit policies and as well managed institutions and appropriate delivery channels.(World Bank, 1975 p.5)

The dollar 20 million rural microfinance project has meets its objective of improving socio-economic status of poor women by enhancing their access to financial and microenterprise development. The project helped establish microfinance institute for providing wholesale microfinance credit and services to participatory financial institution. During the project periods RMDC disbursed microfinance loan worth Rs 1.87 million of which 87 MFIs, in turn provided microfinance services worth Rs 19.4 billion to more than 500000 families spread over the one third of Nepal's 75 districts. The project beneficiaries' average per capita income rose from NRs 51434 to Rs 180089 by the end of project period, which helped reduce poverty especially among women.

When tenth Interim plan put strong emphasis on expanding the rural road network and infrastructure facilities. In this context the ongoing Decentralized Rural Infrastructure and Live hood Project, which approach funds of dollar 40 million in 2004, has to constructed 50 km of districts road and 34 bridge, providing direct employment to about 82000 unskilled

local laborers. Some 68 saving and credit groups have also been formed from among the laborers, with more than 40 participants by women. The group aim to promote live hood and income generating activities benefiting the local community. (Asian Development Bank in Nepal, 2008)

As poverty is an acceptable human rights condition, the ADB has deducted itself to a clear and single minded vision: an Asian and Pacific region free of poverty. To achieve this vision, ADB has identified poverty reduction as it goal. All of ADB's other priorities economic growth, human development, gender development, good governance, environmental management, private sector development and region co-operation should contribute to poverty reduction.

To consolidate its poverty reduction effort ADB in November 1999 adopted poverty reduction strategy. ADB has identified sustainable economic growth, inclusive social development, and good governance as the three pillar of its poverty reduction strategy. The strategy aim at targeted at least 40 percent of ADB'S public sector lending forward poverty intervention. (www.adb.org)

2.6.2 Review of Unpublished Literature

There are some studies performing by different institution and individual in the field of small farmers' development program and development of microfinance in Nepal.

The research is carried out by Minu Shrestha and title "Micro finance in Nepal and Role of RMDC in micro credit Development, along with the specifying the following objectives

-) To examine the microfinance performance of RMDC
-) To examine the RMDC contribution to microfinance development in Nepal

RMDC recovery rate is less than 50 percent. This could be a major problem as a wholesale provider. Small holders do not have easy access to financial service of RMDC. It is because it provides its financial service to only big partner not to other.

Agriculture farming is a fast and recoverable lending for reducing the poverty. Most of them have got the idea about agriculture field. So they can easily use and repay only soft loan is not a way to reduce poverty. Other things like technical assistance and trading to specific field should be supplied along the soft loan. Training to the MFIs should be provided for capacity development and systematic working. (Minu Shrestha, 2005)

The next research is under taken by Bishal Sapkota under the title of “Impact of Grameen Bank on Rural Poor Women”. It is case study of Purbanchal Grameen Bikas Bank. The study outlines the following objectives.

-) To study whether the women taking service from the P-GBB were really poor before taking service.
-) To study the impact of P-GBB on rural women in every field of society
-) To examine changes made by the program before and after its implementation.
-) To study different aspect related to performance of P-GBB

The findings of the study are:

Most of the families are nuclear, there is skill need of awareness, maximum number of borrower are married women (30-40 aged women) high demand of micro credit on rural, women are better borrower than the men. MFIs are so much important as the economic upliftment of the poor women. Likewise, the study also shows that MFIs are playing significant role in the enhancement of social status of women. (Bishal Sapkota, 2000)

The research entitled, “Microfinance in Nepal and case study of SFCL, Anandaban” is carried out Bineswar Prasad Lekhak. The study has designed the following objectives.

-) To study the financial sustainability and viability of SFCL
-) To know the improvement in social-economic status of SFCL clients
-) To know the major problem of SFCL

The research carried out by lekhak has drawn the following findings:

The organization is financially viable and sustainability as well. It is because the cost is effective, repayment is satisfactory, profit is reasonable and resources utilization is optimum. SFCL’s programs are effective to enhance the socio-economic status of its clients. After implementation of SFCL’s program, clients have been started to earn, awareness about development, sanitation, and education has been enhanced. However, organization has faced by different problems lack of alternative leadership, lack of support from agencies, political interference and lack of professionalism (Bineswar Prasad Lekhak, 2007)

Another research has under taken by Krishna Raj Aryal. The research title was “The Microfinance and its impact”. The study was outlined the following objectives.

-) To study the financial sustainability and viability
-) To identify the major problem faced by SFCL
-) To examine the improvement on the status of people

The findings of the study are as microfinance is that tool which reduce poverty level, it makes women empowerment, educated, awareness and creates the opportunities by providing short, and long term loan scheme with and without collateral. Similarly, small farmer's access to financial resources and services could provide greater decision making power, provide confidence and enhance dependency. As a result, small farmer can promote nutrition, health and literacy within their families. The access of microfinance has improved farmers, skill mobility and access of the knowledge.

Miss. Srijana Shrestha concludes her study; the title "Performance of ADB/N with Reference to microfinance in Nepal." The following objectives are outlined:

-) To analyze the trend of internal resources fund collection from group saving and customer fund small farmer development program
-) To analyze ADB/N program and performance regarding microfinance
-) To examine the investment, collection, outstanding and repayment of loan under SFDP
-) To evaluate effectiveness of SFDP and make recommendation to the planner of SFDP

From the help of research has drawn following findings:

While ADB/N launching the SFDP, this program improves the rural poverty, it especially targeted to the small farmers, landless and women. From the help of SFDP of SDB/N, slowly the reducing poverty and improve the socio-economic status of the small/ landless farmer including women. ADB/N is one of the prominent bank of Nepal dealing with the poverty alleviation program through SFDP since 1975 to fulfill own objectives by providing them, basic input such as credit , technology and training in a group approach (Srijana Shrestha, 2005).

2.6.3 Regional Microfinance Conference

For the first time in its decade long operational history, RMDC organized regional conference of microfinance institutions in four different regions. The main objective of this conference was to review the progress and achievements of MFIs and exchange mutual practices, experiences and lessons learnt.

This conference was aimed to encourage microfinance practitioner for healthy microfinance practices targeting to the poorest of the poor. Institutional development, internal control system and internal auditing, interest rate, innovation in microfinance were the areas discussed vividly during the conference.

Microfinance expert, senior officials and board members of the microfinance institution of respective regions and representatives of different commercial banks and the Nepal Rastra Bank participated in the conference. They shared their achievement problem and innovation, made presentation on different issues of the microfinance. The first regional conference, Eastern Regional microfinance conference was held in Biratnagar on January 10 and 11, 2010. Similarly, the Western Regional Conference was held in pokhara on February 4 and 5 succeeding the Western Regional Conference, Mid-western and Far-western Regional Microfinance conference was conducted in Nepalgunj on March 4 and 5, 2010. The Mid Regional Conference, the least one in the series, was held in May 19-20 in Kathmandu.

Altogether around 1000 participants from the Mf sector and other related institutions and government agencies attended in the conference. Two day long program covered a brief presentation on the current status of each participating organization, problems and challenges innovation, initiatives and strategies applied to cope with the problems. It ended with identification of common problem faced by MFIs and way forward with common declarations.

Major common problems identified from the presentation of MFIs are duplication of clients, increasing operational cost, inadequate customer education on microfinance, shortage of fund and capital, lack of inspection and supervision, unionism, surge in overdue amount, unfair competition among MFIs, over financing, lack of loan appraisal skill in the field of staffs, lack of self evaluation practice within MFIs, lack of needed base customer service, degraded security condition, lack of MF service in mountain and hill region and non presentation of service to the poorest of poor on the sound day, expected and practitioners from the MF

industry made on key issues such as outreach expansion to un served areas, financial resources mobilization, human resources development, governance and management.

2.6.4 Research gap

Limited studies have been conducted in Nepal in the microfinance area. The microfinance in Nepal is quite limited. So it's expected that this study on the microfinance to improve the socio- economic status of the landless rural farmers, women and other downtrodden people of our community. There are some studies undertaken by microfinance offices for their own use. Some studies focusing on particular unit have been undertaken by master level students. Mostly the researchers in this field are empirical so it is difficult to clear the picture the performance and state of selected microfinance in Nepal and making suggestion to make more effective. The researcher has made an attempt to study the sustainability and viability of MFIs and also performance and state of microfinance in Nepal. This is especially for the landless farmers, who have low per capita income, women, downtrodden and other backward people of our country. It tries to improve socio – economic position, living standard and also encouraging women to do something. Poverty reduction, improvement of living standard, economic status and women empowerment, these are main issue. However, such objectives fulfill by the MFIs. In this study, the researcher tries to find out performance and state selected MFIs through the different types of loans. Moreover, the sustainability and viability of MFIs is also studied here and it includes SWOT of MFIs too. The researcher could not found the sufficient journal and researcher about this. The researcher tries to add something new in the research study. Under the microfinance sector few researches has been done but none of the research undertaken regarding performance and state MFIs in Nepal, between the SFDBL and selected four types of MFIs i.e. GBBs, PMFBs, FINGOs and co-operatives.

These micro finances play the significant impact on developing economy of Nepal. Every year performance is changing according to the dynamic environment. I hope that this research fulfill the objectives, which are mentioned above.

CHAPTER THREE

Research Methodology

This chapter deals with methodology used in this study. Various tools and techniques are used for analysis and collection of data while preparing thesis report. The research methodology is that technique which helps to achieve the basic objectives and goals of our research problem. The main objectives of the study are to reduce the rural poverty, making women empowerment through the microfinance activities. Now a day, microfinance activities are expanded as a whole Nepal. At present, there are more than 6000 microfinance institutions, which helped especially for rural farmers, women, down trodden and minority group of people. In simple word, micro financing is the process of financing to those who are landless poor, rural farmer, women and family having little per capita income. Microfinance provides short and long term loan facility with and without collateral. In this research study mainly focuses selected four types of microfinance and small farmer development bank limited and their performance, loan overdue, loan recovery, outstanding loan and loan overdue rate. It also focuses the financial sustainability and viability of MFIs.

3.1 Research Design

Research design is a master plan specifying the methods and procedures for collecting and analysis the needed information. (zikmand, 2007) Similarly, research design is the plan, structure and strategy of investigation. The design of the study is descriptive and analytical approach. Research design is conceptual structure. The study tries to focus on performance of SFDB and state of selected microfinance in Nepal. This study mainly focuses selected four types of microfinance in Nepal and briefly describes the loan recovery ,loan disbursement, outstanding loan, loan overdue, loan overdue rate and members' saving. For this purpose this study has adopted, the describe and analyze all those facts and figures that has been collected for the purpose of the study.

3.2 Nature and Sources of Data

The observation, personal contact, telephone contact were made with concerned personnel to get first hand information which served as primary data. These are many ways of collecting data for preparing thesis. The main sources of data used to prepare for this thesis, collected from secondary sources supplemented by primary data recorded from observation and personal contact. These sources have been used in the collection of secondary data.

- a. Tribhuvan University Central Library

- b. Library and documentation of SFDP and RMDC
- c. Various publication of microfinance journal, periodicals and Annual Report
- d. Net and Internet
- e. Observation and visit documentation of microfinance institutions

The presentation of the study is based on authentic secondary data.

3.3 Data processing procedure

Collected information are analyzed, categorized, tabulated and processed as required simple statistical tools and financial tools and techniques are used whichever needed.

3.4 Variables

This thesis takes different variables they are microfinance, loan and agriculture production. Microfinance and loan are independent variables. Agriculture production is dependent variables, which is depend on the loan available to purchase various agriculture, raw material such as seeds, fertilizer etc.

3.5 Population and Sampling

Many MFIs are operating in 75 district of Nepal. Now, there are more than 6000 MFIs. Out of which population, selected four types of MFIs were taken sample of the study namely GBBs, PMFBs, FINGOs and Co-operatives. Similarly SFDB's program and performance were also taken sample of the study.

3.6 Methods of Analysis

This study is describe and analytical in nature, collected data are arranged in table, which is analyzed by using different statistical and financial tools and techniques.

3.6.1 Trend analysis

Trend analysis help to use whether the MFIs and SFDP are improving or not and it also help to know financing sustainability or viability.

3.6.2 Statistical tools

Karl Pearson's Coefficient of Correlation

It is a kind of statistical tools used for measuring the intensity or magnitude of linear relationship between two variables (say X and Y) denoted by r_{xy} or simply 'r' can be obtained as

$$r_{xy} = \frac{\sum X_1 Y_1}{\sqrt{\sum X_1^2} \sqrt{\sum Y_1^2}}$$

Where,

n = No. of observation in series X and Y.

The value of correlation coefficient 'r' always lies between (-1) to (+1).

If $r = +1$, it can be stated that there is perfect positive relationship between variables 'X' and 'Y'.

If $r = -1$, it can be similarly stated that perfect negative relationship between variables 'X' and 'Y'.

If $r = 0$, which means, there is no correlated between the variables.

Probable error

Probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by PE(r) an old measure of testing the reliability of an observed value of coefficient as it depends upon the condition of random sampling. It is calculated as

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

r = Correlation coefficient

n = no. of pair observation

PE(r) = PE is used to test whether the calculated value of sample correlation is significant or not.

- (i) If $r < P.E.(r)$, then the value of r is not significant.
- (ii) If $r > 6 P.E.(r)$, then r is definitely significant.

(iii) If $PE < 6$ P.E. nothing can be concluded.

Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller CV is said to be more homogenous or uniform or less variable than others and the series, with greater CV is said to be heterogeneous, or less homogeneous or more viable. The coefficient of variation is relative measures with useful in comparing the amount in data groups with different mean.

$$\text{Coefficient of variation (CV)} = \frac{SD}{\bar{X}} \times 100$$

$$\text{Standard deviation (SD)} = \sqrt{\frac{\sum(x - \bar{X})^2}{n}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum X_i}{n}$$

3.6.3 Financial tools used in the study

Return on equity

The return on equity (ROE), measures the return on the owner's investment in the firm. Higher ratio of return on equity is better for owner. It is calculated as:

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit available to common stock}}{\text{Total share holder equity}}$$

Return on assets

The return on assets (ROA), which is often called the firm's return on total assets. It measures the overall effectiveness of management in generating profit with its available assets. The higher the firm's return on assets is better. It is calculated as:

$$\text{Return on Assets (ROA)} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Saving to loan outstanding

Saving to loan outstanding (SLO) shows the relationship between saving and loan outstanding. How much amount has saved by the firm in comparison to loan outstanding? It is assumed that the higher the value of this ratio between saving to outstanding loan. It is calculated as follow:

$$\text{Saving to Loan Outstanding (SLO)} = \frac{\text{Total saving}}{\text{Total outstanding loan}}$$

Outstanding loan to total assets

Outstanding loan to total assets (OLTA) has been derived by dividing outstanding loan by total assets. It is desirable to have OLTA ratio in the range of (70% -80%). It is calculated as:

$$\text{Outstanding loan to total Assets (OLTA)} = \frac{\text{Outstanding Loan}}{\text{Total assets}}$$

Yield on portfolio

Yield on portfolio (YOP) is derived by dividing interest income from loan by average outstanding loan. It is better to have value of this ratio close normal rate of interest charged by the MFI to its loans. It is calculated as:

$$\text{Yield on portfolio (YOP)} = \frac{\text{Interest Income}}{\text{Average outstanding loan}}$$

Debt – equity ratio

Debt –equity ratio is the most widely used leverage ratio to evaluate the long term solvency of a firm. The ratio shows the relationship between debt capital and equity capital and reflects the relative claim on the assets of the firm. Debt includes long term debt and current liabilities. The equity includes common stock additional paid in capital and retained earnings. Debt equity ratio is used as a tool for analyzing financial risk both by creditors as well as by the firm's. A high debt – equity ratio indicates that the greater contribution by creditors than by shareholders in the firm's financing. It is calculated as:

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Debt to total assets

Debt to total assets ratio, it is simply known as debt ratio. It shows the proportion of total debt used in financing total assets of a firm. Low debt – assets ratio indicates that a firm has high amount of equity in comparison to debt. From the creditor's point of view, it is considered good as they receive a cushion of protection against possible losses of the time of liquidation. However, from the firm's management point of view, the firm with low debt ratio is unable to take leverage benefits. It is calculated as:

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Staff expenses to operating expenses

Staff expenses to operating expenses shows the relationship between total staff expenses and total operating expenses. This ratio refers how much fund expenses for working staff in comparison to total operating expenses. Higher percentage of this ratio means firm expend the huge amount of money to the firm's staffs. From the working staff point of view, higher ratio is desirable and vice-versa. It is calculated as follow:

$$\text{Staff expenses to operating expenses} = \frac{\text{Total Staff expenses}}{\text{Total operating expenses}}$$

Operating expenses to total assets

This ratio shows the relationship between operating expenses and total assets. It also refers how effectively managed the operating expenses with respect to total assets. Lower is better for firm. It is calculated as:

$$\text{Operating expenses to total assets} = \frac{\text{Total operating expenses}}{\text{Total Assets}}$$

Earning per share

It is after tax profit, what profit the common share holders earned. It is also derived by net profit after tax by number of shareholders. After tax profit is calculated as: = (EBIT - interest) (1 –tax). It is net profit after tax. Higher earning per share is better for common shareholders.

It is calculated as:

$$\text{Earning per share} = \frac{\text{Net profit After Tax}}{\text{No. of share holder equity}}$$

Operational self sufficiency

This ratio shows the relationship between operating income and operating expenses. It should be equal or greater than 100% for each firm. If this ratio is less than 100%, we can say that operating expenses is greater than operating income. This is situation of loss. It is bad sign of organization. It is calculated as follow:

$$\text{Operating self sufficiency} = \frac{\text{Operating income}}{\text{Operating expenses}}$$

Net income to total income

Net income means profit after interest and taxes and total income refers that amount which includes interest and taxes. This ratio shows the ratio of net income and total income of a firm. Higher the firm's this ratio is better. It is calculated as follow:

$$\text{Net income to total income} = \frac{\text{Net income}}{\text{Total income}}$$

Net income to total assets

Total assets appear the assets side of balance sheet, which includes the fixed assets and current assets. This ratio has been derived by dividing net income by total assets. It is calculated as:

$$\text{Net income to total assets} = \frac{\text{Net income}}{\text{Total assets}}$$

$$\text{Note: Average Outstanding loan} = \frac{\text{Opening Oustandign loan} + \text{Closing outstanding loan}}{2}$$

3.6.4 SWOT Analysis

SWOT analysis helps to find out strength, weakness, opportunities and threats of any organization. This SWOT arises through the business environment. In competitive age, each and every business organization should be analyzed the internal and external environment to achieve competitive advantages. It is also challenging task for every organization. Without SWOT analysis no-one cannot get their objectives. So it is necessary for each organization.

There are two types of business environment, they are internal and external. The internal environment creates strength and weakness. Similarly, external environment brings the opportunities and threats. Whereas internal environment is controllable under with organization but external environment is uncontrollable, which is totally depend on the external factors. So first of all, the firm should study of the external environment in time. After studying the external environment and then analyzing the opportunities and threats.

Environment itself dynamic, so it sometime creates the opportunities and threats. Therefore, it should identify and analyze time to time. After identifying the business environment, the organization should be aware, which brings strength, weakness, opportunities and threats. It is denoted as follow:

S = Strength

W =Weakness

O =Opportunities

T = Threats

CHAPTER-FOUR

Presentation and Analysis of data

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data and information of selected SFDB and four types of microfinance institutions (MFIs). This chapter is major chapter of the research study because this includes details analysis and interpretation of data and detail explanation of available data. The relevant data and information necessary for the research study, which are presented and analyzed keeping objectives, set in mind. This chapter consists of calculation made for the analysis of SFDB through SFCLs and state of microfinance in Nepal. Only four type of microfinance are selected to my study analysis and interpretation of data relating to SFDB and microfinance in Nepalese financial market. To make our study effective useful and precise as well as easily under stable. This chapter categorized in three parts, presentation analysis and interpretation. The analysis based on secondary available. In presentation section, data are presented in term of table, graph, chart, figures and trend and according to our need and requirements. The presented data are analyzed using different statistical and financial tools and technique. At the last result of analysis are interpreted. At last, this chapter provides major and necessary finding which are very useful for the subject matter of the study.

4.2 Presentations and analysis of data

The collected data and information are presented in various tables, charts and graph. The data and information has been presented in most under stable format.

The SFDB provides loans to mainly small farmers' cooperatives. It can also provided loan to other MFIs such as FI-NGOs. It charges on interest rate 9.5% per annum, while per annum to the ultimate borrowers. The SFDB uses its share capital the loan from ADB/N, Nabil Bank, Nepal Bank for financing its clients SFCLs.

SFDBL, besides providing wholesale funds to SFCLs also monitors partners' institution as per the guidelines provided by the central bank and provides technical assistance and capacity building training to partners. Overall, it helps in the process of poverty alleviation by promoting self employment opportunities to small farmers.

It has eight branch offices providing supervision, and other support service to 251 SFCLs. The branch with the support of SFDBL and head office conducted various training program for skill development and capacity building 15658 small farmers. The SFDB with the funding support of RUFIN/ GTZ has also up graded 168 SFCLs and helped of them in preparing their business plan.

4.2.1 Present capital structure of SFDBL

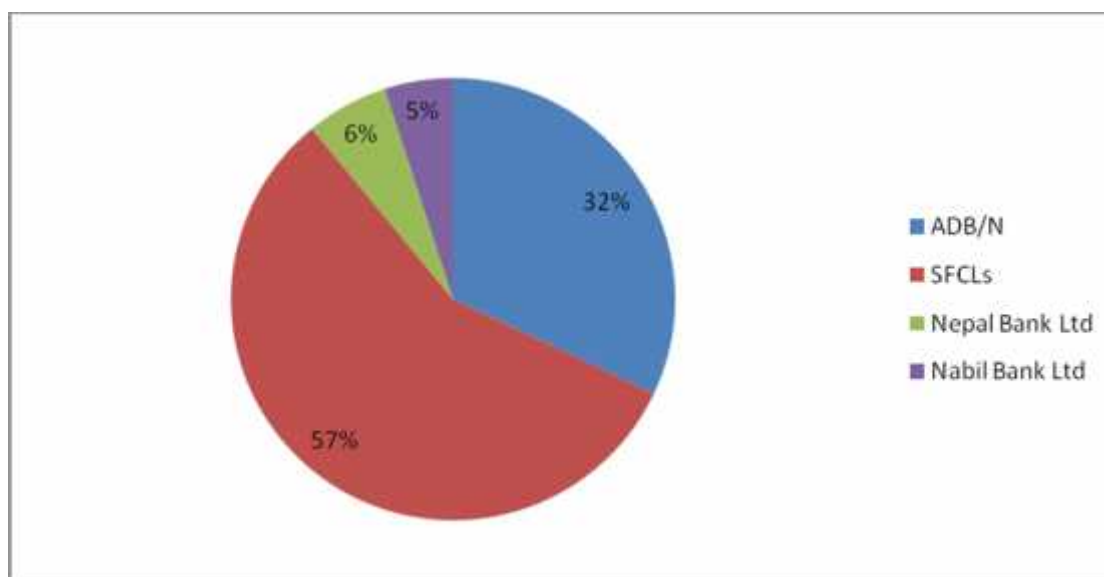
Table No. 4.1
Capital structure of SFDBL

S.N	Name of the Bank or co-operatives	Capital structure
1	ADB/N	32%
2	SFCLs	57%
3	Nepal Bank Limited	6%
4	Nabil Bank Limited	5%
	Total	100

(Source: Annual Report of SFDB)

Figure No. 4.1

Present capital structure of SFDBL



From the above figures, there are many promoters of SFDBL like ADB/L, SFCLs, Nepal Bank Ltd and Nabil Bank Ltd. Presently, ADB/N, SFCLs, Nepal Bank Ltd and Nabil Bank is contributing 32%, 57%, 6% and 5% respectively. Huge amount invested by SFCLs. So SFCLs are the main source of SFDBL. But indirectly its supported by Nepalese government and Asian Development Bank. In this year Nepalese government is allocated huge amount of budget for meat production through by SFDBL. It means government of Nepal is supported to the SFDBL to improve position of rural farmer of our country.

Table No. 4.2

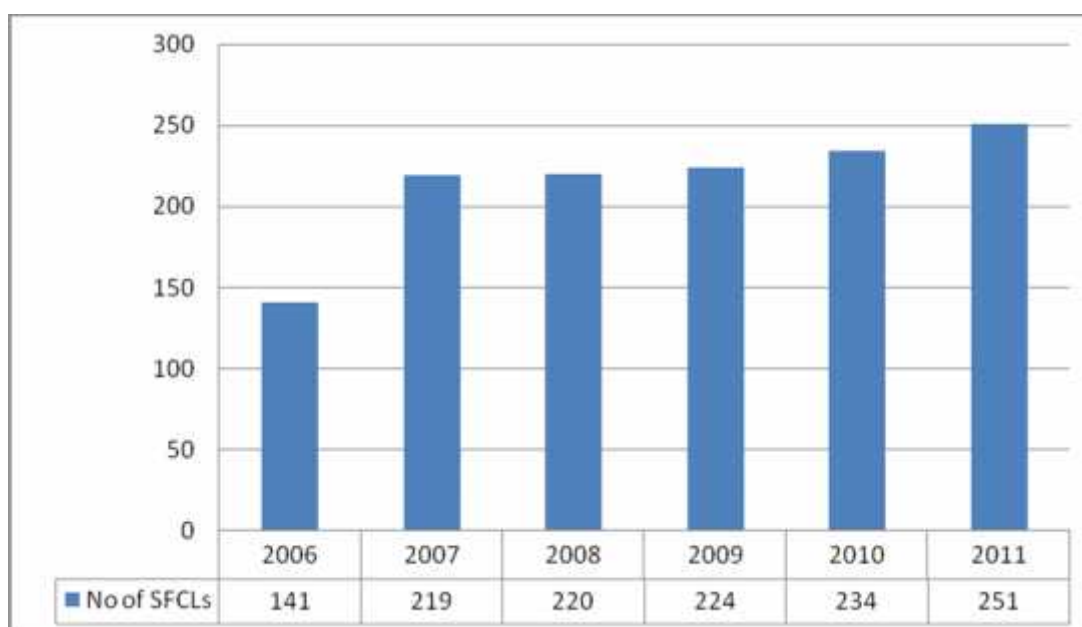
Small Farmers Co-operatives in Nepal

Year	No of SFCLs
2006	141
2007	219
2008	220
2009	224
2010	234
2011	251

(Source: Annual Report of SFDBL)

Figure No. 4.2

Trend of Small Farmers Co-operatives in Nepal



When SFDB was established and then numbers of SFCLs are increasing per year. From 2006 to 2011, the numbers of SFCLs are 141, 219, 220, 224, 234 and 251 respectively. This means services of SFDB's are extended in every year in Nepal. So I can say that, the

services of small farmer are increasing per year. Small farmers' co-operatives are operated by SFDBL. SFDBL is operating last a decade. During this period, no of small farmers co-operatives are slowly raising. Its manly focuses the poor small farmers of Nepal. It is agriculture country but its position is very poor. In this situation, the role of small farmer development bank is very important in our country.

4.2.2 Loan performance of SFDBL

Table No. 4.3
Investment and Outstanding Loan

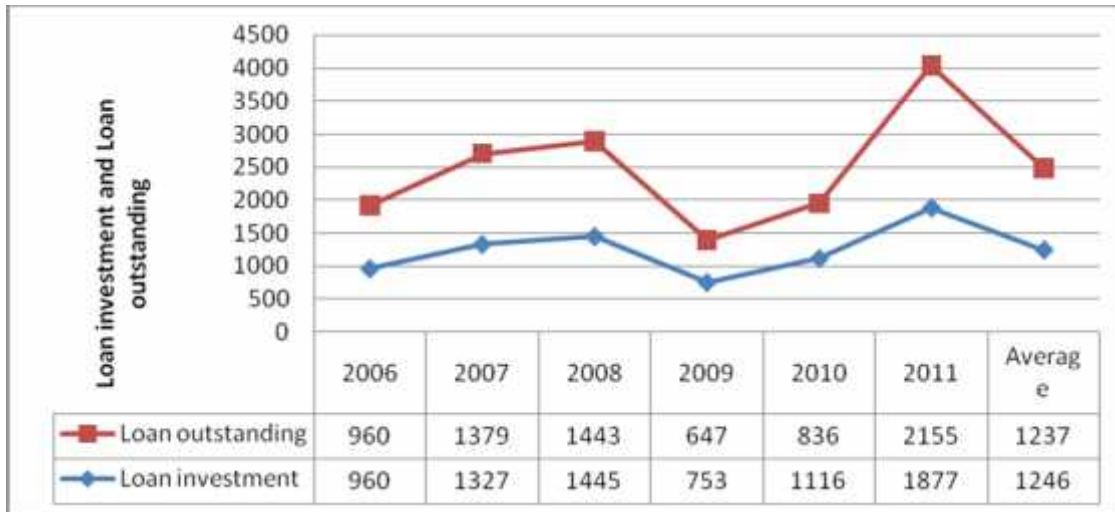
(Amount in Rs million)

Year	Loan investment	Increase / decrease (%)	Loan outstanding	Increase / decrease (%)
2006	960	-	960	-
2007	1327	38	1379	44
2008	1445	9	1443	5
2009	753	-48	647	-55
2010	1116	48	836	29
2011	1877	68	2155	158
Total	7478	-	7420	-
Average	1246	-	1237	-

(Source: Annual Report of SFDBL)

Figure No. 4.3

Trend of Investment and Outstanding Loan



In the above table and figures, investment and outstanding loan, both are increasing trend up to year 2008. But both are reduced F.Y 2009. After this year, again both are increasing within the year 2011. The highest growth rate of loan investment is 68% and lowest growth rate 9% but in the year 2009 growth rate reduced by 48% and then increasing. In the year 2006, there is no growth rate because previous data are not available. The growth rates of loan investment are 38%, 9%, -48%, 48% and 68% from 2007 to 2011. The average loan investment during this period has been Rs 1246 million. Similarly, highest growth rate of loan outstanding 158% and lowest is 5%. But in the year 2009, the growth rate was declined by 55%. The growth rates of loan outstanding from 2007 to 2011 are 44%, 5%, -55 %, 29% and 158% respectively. The average amount of loan outstanding has Rs 1237 million during this period.

After loan is invested to rural poor farmers by SFDB through SFCLs, it should be collected year basis in the proportion to the loan investment.

Coefficient of correlation between loan investment and loan outstanding

Let,

Loan investment =X

Loan outstanding = Y

(Amount in millions)

Year	X	Y	$X_1 = (X - \bar{X})$	$Y_1 = (Y - \bar{Y})$	$X_1 Y_1$	X_1^2	y_1^2
2006	960	960	-286	-277	79222	81796	76729
2007	1327	1379	81	142	11502	6561	20164
2008	1445	1443	199	206	40994	39601	42436

2009	753	647	-493	-590	290870	243049	348100
2010	1116	836	-130	-401	52130	16900	160801
2011	1877	2155	631	918	579258	398161	842724
	x = 7478	Y = 7420			X ₁ Y ₁ =1053976	X ₁ ² =786068	y ₁ ² = 1490954

$$\sum \bar{X} = \frac{\sum X}{N} = \frac{7478}{6} = 1246.33 \approx 1246$$

$$\sum \bar{Y} = \frac{\sum Y}{6} = \frac{7420}{6} = 1236.67 \approx 1237$$

$$r_{xy} = \frac{\sum X_1 Y_1}{\sqrt{\sum X_1^2} \sqrt{\sum Y_1^2}} = \frac{1053976}{\sqrt{786068} \sqrt{1490954}} = 0.9736$$

$$(r_{xy})^2 = 0.9479$$

$$\begin{aligned} \text{PE of } r &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.9479}{\sqrt{6}} \\ &= 0.0143 \end{aligned}$$

$$6PE = 6 \times 0.0143 = 0.0858$$

Correlation Coefficient (r_{xy}) = 0.9736

P.E. of r = 0.0143

Now, $6 \times PE = 0.0858$

Since, $r = 0.9736 > 6 \text{ P.E.}$, r is highly significant. This means there is significant relationship between investment and outstanding loan.

Table No. 4.4

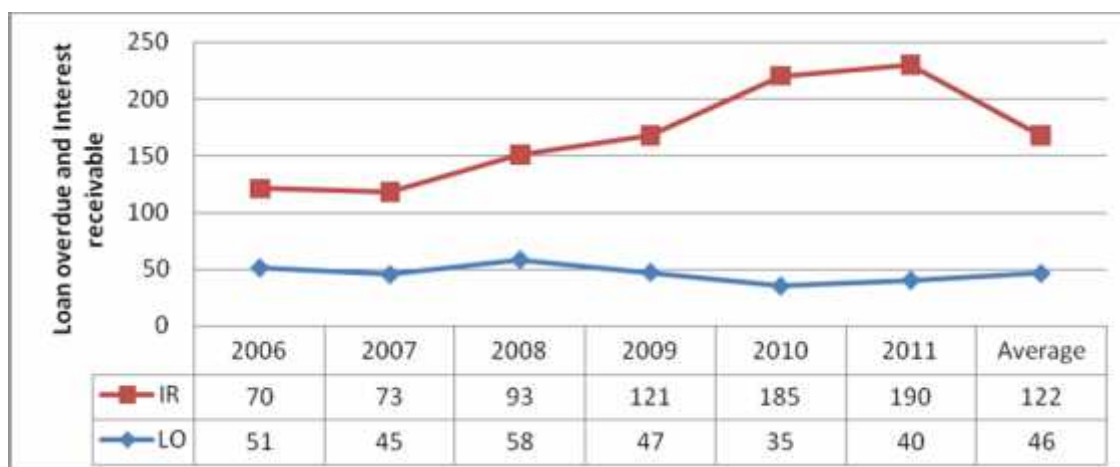
Trend of Loan overdue and Interest receivable

Year	Loan overdue	Increase/Decrease (%)	Interest receivable	Increase/Decrease (%)
2006	51	-	70	-
2007	45	-11.8	73	4.3
2008	58	29	93	27.4
2009	47	-19	121	30
2010	35	-25.5	185	5.04
2011	40	14.3	190	2.7
Total	276	-	732	-
Average	46	-	122	

(Source: SFDBL, Shantinagar, Kathmandu)

Figure No. 4.4

Trend of Loan overdue (LO) and Interest receivable (IR)



Loan overdue may be defined as loan amount to be collected. The amount which is not collected within the given time period that is called loan overdue. Interest receivable is that amount which is on the loan to be received.

In the above table and figure the loan overdue is a zigzag not regular. The highest amount of loan overdue is Rs. 58 million FY 2009 and lowest with Rs. 35 million in FY 2010. The loan overdue has reduced in 2007 by 11.8%. Similarly, the highest amount of loan overdue has reduced in year 2010 by 25.5%. There is no growth in year 2006. In year 2007, 2009 and 2010 the amount of loan overdue is decreased by 11.8%, 19% and 25.5% respectively. But in year 2008 and 2011, the loan overdue is increased by 29% and 14.3% respectively. The average amount of loan overdue is Rs 46 million within the six year period. So I can say that loan overdue has not increased regularly.

Amount of interest receivable has seen increasing rate. In F.Y 2009, the highest rate of interest receivable i.e. 30% and lowest rate is 2.7% in F.Y 2009. The growth rates of interest receivable are 4.3%, 27.4%, 30%, 5.04% and 2.7% from 2007 to 2011 respectively. The average amount of interest receivable has seen Rs 122 million during the six year period. Since huge amount of interest receivable indicates that the SFDB is operating effectively to generate interest income. The overall position of SFDB seems sustainable and viable manner.

Table No. 4.5

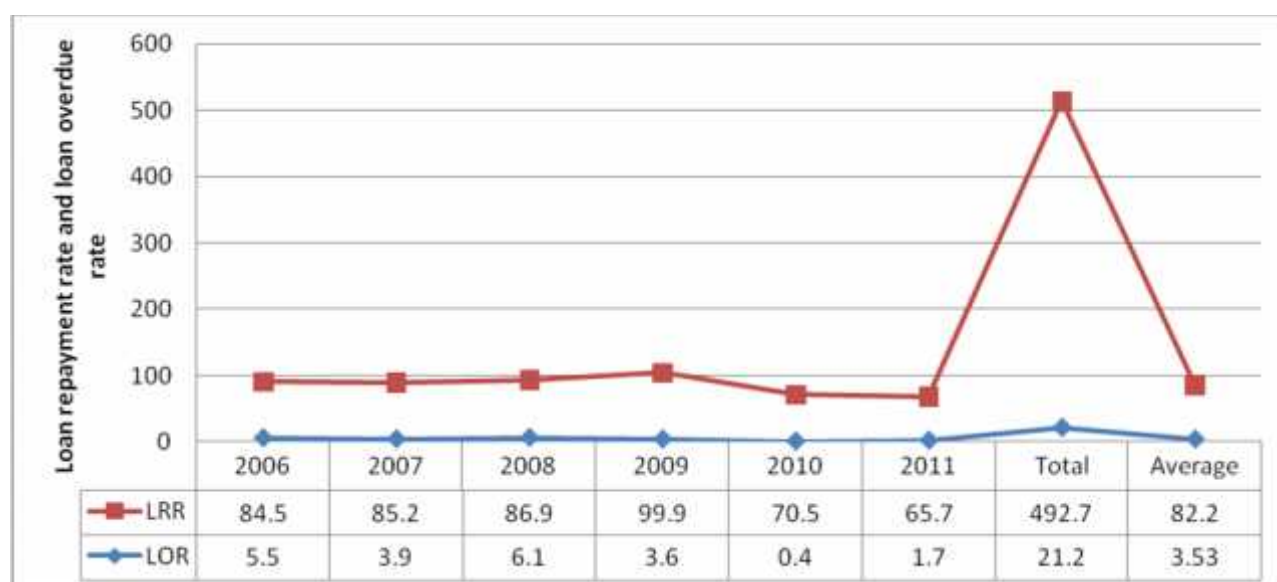
Loan repayment rate and Loan overdue rate

Amount in percentage (%)

Year	Loan Overdue Rate	Loan Repayment Rate
2006	5.5	84.5
2007	3.9	85.2
2008	6.1	86.9
2009	3.6	99.9
2010	0.4	70.5
2011	1.7	65.7
Total	21.2	492.7
Average	3.53	82.2
S.D.	2	11.25
C.V.	56.70%	13.70%

Figure No. 4.5

Trend of Loan repayment rate (LRR) and Loan overdue rate (LOR)



The amount which is not collected within a given time period is called loan overdue. Amount of loan paid by creditors is loan repayment.

From the above figures and chart shows that loan overdue rate has seen very small in percentage which means no huge amount of loan overdue. The bank is collected high amount of loan overdue in given time period. The highest loan overdue rate has 6.1% in F.Y 2008 and lowest rate 0.4% in year 2010. Similarly, loan repayment is slowly increasing up to 2009 and also slowly declining the loan repayment rate. In F.Y 2009, the highest amount of loan is paid by clients or creditors i.e. 99.9% and lowest rate of loan repayment in year 2011 i.e.65.7%.

The average loan overdue rate is 3.53% and loan repayment rate 82.1%.

S.D point of view, S.D of loan repayment is higher than loan overdue rate, which indicates that loan repayment rate is highly fluctuation than overdue loan. Similarly, S.D of loan overdue 2 point is lower than repayment, this reveals that low fluctuation in loan overdue rate.

C.V point of view, C.V of loan overdue rate is 56.7% and loan repayment rate i.e. 13.7%. So loan overdue rate has high degree of variability or is inconsistent and loan repayment has low degree of variability or is consistent.

Coefficient of correlation between loan overdue and loan repayment rate

Let,

X=Loan overdue rate

Y=Loan repayment rate

Year	X	Y	$X_1 = (X - \bar{X})$	$Y_1 = (Y - \bar{Y})$	$X_1 Y_1$	X_1^2	y_1^2
2006	5.5	84.5	1.97	2.4	4.73	3.88	5.76
2007	3.9	85.2	0.37	3.1	1.26	0.14	9.61
2008	6.1	86.9	2.57	4.8	12.34	6.65	23.04
2009	3.6	99.9	0.07	17.8	1.25	0.05	316.84
2010	0.4	70.5	-3.13	-11.6	36.31	9.80	134.56
2011	1.7	65.7	-1.83	-16.4	30.01	3.35	268.96
	$\bar{x} = 21.2$	$\bar{Y} = 492.7$			$\sum X_1 Y_1 = 85.78$	$\sum X_1^2 = 23.78$	$\sum Y_1^2 = 758.77$

$$\sum \bar{X} = \frac{\sum X}{N} = \frac{21.2}{6} = 3.53$$

$$\sum \bar{Y} = \frac{492.7}{6} = 82.1$$

$$r_{xy} = \frac{\sum X_1 Y_1}{\sqrt{\sum X_1^2} \sqrt{\sum Y_1^2}} = \frac{85.78}{\sqrt{23.78} \sqrt{758.77}} = 0.64$$

$$(r_{xy})^2 = 0.4096$$

$$\begin{aligned} \text{PE of } r &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.4096}{\sqrt{6}} \\ &= 0.0163 \end{aligned}$$

$$6\text{PE} = 6 \times 0.0163 = 0.0978$$

Correlation Coefficient (r_{xy}) = 0.64

P.E. of r = 0.0163

Now, $6 \times \text{PE} = 0.978$

Since, $r = 0.64 < 6 \text{ P.E.}$, 'r' is insignificant. That means there is no significant relationship between loan overdue rate and loan repayment rate.

4.2.3 Capacity building training program through the SFDB in 2011

The SFDBL has conducted the capacity building training for the small farmer co-operatives improvement. There have been given essential training program especially for financial analysis, co-operatives management, auditing skill, supervision and monitoring through SFDBL. The training mainly targets for institutional development and improvement.

Table No. 4.6**Detail of Institutional training and seminar**

S.N.	Name of training	Training			
		Training No.	Women	Men	Total
1	Institutional Improvement Seminar	2	44	18	62
2	Accounting training	1	24	1	25
3	Management training SFCL	2	80	0	80
4	Accounting and office management training	9	188	106	294
5	Self-employment loan program training	14	86	357	443
6	Animal health and animal wealth security training	50	1160	806	1966
7	Co-operative management and business plan training	1	39	0	39
8	Seminar for business plan	1	31	38	69
9	Loan investment program for animal keeping	10	142	438	580
10	Visiting Program of SFCL	8	4	54	58
11	Follow up program for SFCL	8	3003	395	3398
	Total	106	4801	2213	7014
	Average	0.64	436.45	201.18	637.63
	S.D.	-	872.8	257.43	-

Source: Annual Report of SFDB, Shantinagar, Kathmandu.

In the above table, I can see that the bank has conducted training and seminar program for financial co-operative training, account inspection skill development training, follow up program, animal health and wealth program. Among the program follow up and animal wealth and health programs are become more effective because most of women and men are participated for this program during the period of 2011, SFDB is operated 11 types of training program and 106 training number. From the training and seminar program only 4801women and 2213 men received the training

knowledge of bank. From the overall training program, most of the women are participated than men. Similarly, institutional improvement seminar only two training centre and 62 people received the training, in the accounting training only 25 people are involved, management training are participated only 80 people and self employment loan program training, 443 people took the training.

4.2.4 Performance Indicators of Small Farmer Development Band Limited

Table No. 4.7

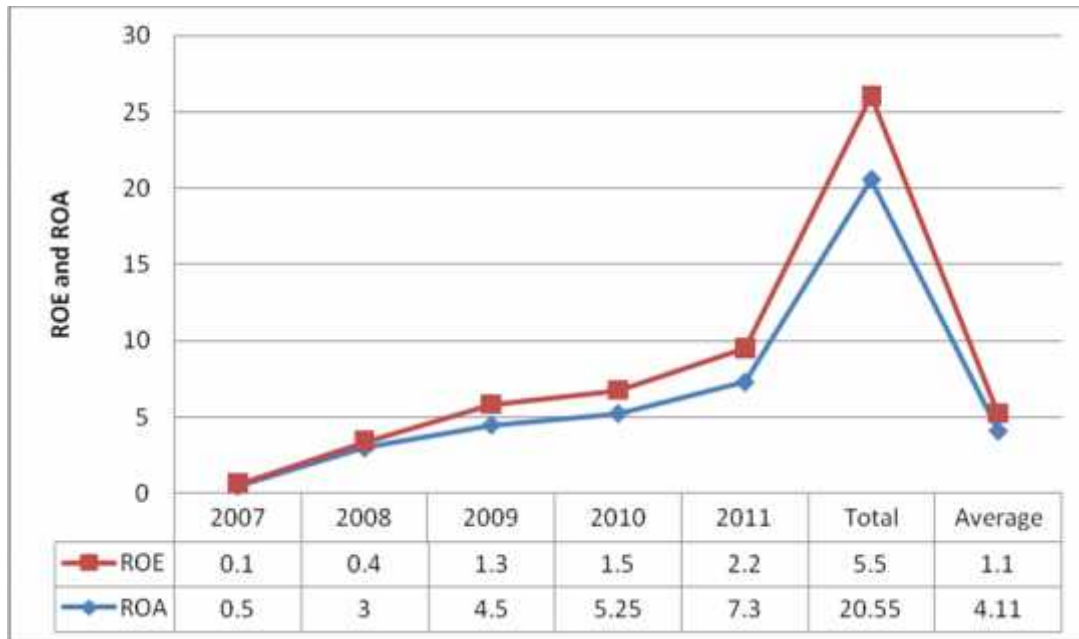
Return on Equity and Return on Assets

Fiscal Year	Return on equity (%)	Return on Assets (%)
2007	0.5	0.1
2008	3	0.4
2009	4.5	1.3
2010	5.25	1.5
2011	7.3	2.2
Total	20.55	5.5
Average	4.11	1.1
S.D.	2.28	0.76
C.V.	55.5	69

(Source: Annual report of SFDB, Shantinagr, Kathmandu)

Figure No. 4.6

Trend analysis of ROE and ROA



Return on equity (ROE): This ratio reveals that how profitability bank has utilized the owner's fund. ROE measures the return on the owners' investment in the firm. For the bank, the objective is to earn profit so as to provide reasonable return to the share holders. Higher ratio of ROE is better for owner and sound and effective management.

Return on Assets (ROA): This ratio shows how the profitability the bank has utilized the assets fund. It measures the overall effectiveness of management in generating profit with its available assets.

In the table and figure, return on shareholders' equity ratio has been derived by dividing net income by share holder's equity. Within 5 periods the highest ROE is in the year 2011 i.e. 7.3% and lowest in F.Y 2007 i.e. 0.5%. Highest ROE indicates that the bank has provided higher return to its shareholders' and lower ROE means that lower return provided to its shareholders.

From the Return on Assets (ROA): It is also increasing trend in every year. The highest ROA is 1.1% in 2011 and lowest is 0.1% year 2007. Higher ROA implies that the bank's investment in total assets offer higher return after recovering all operating expenses, interest and taxes. The overall effectiveness of management is generating profit with its available assets. The bank is providing ROA in increasing rate with its available assets. The higher ROA is 2.2% and lower 0.1% in year 2011 and 2007 respectively.

Table No. 4.8

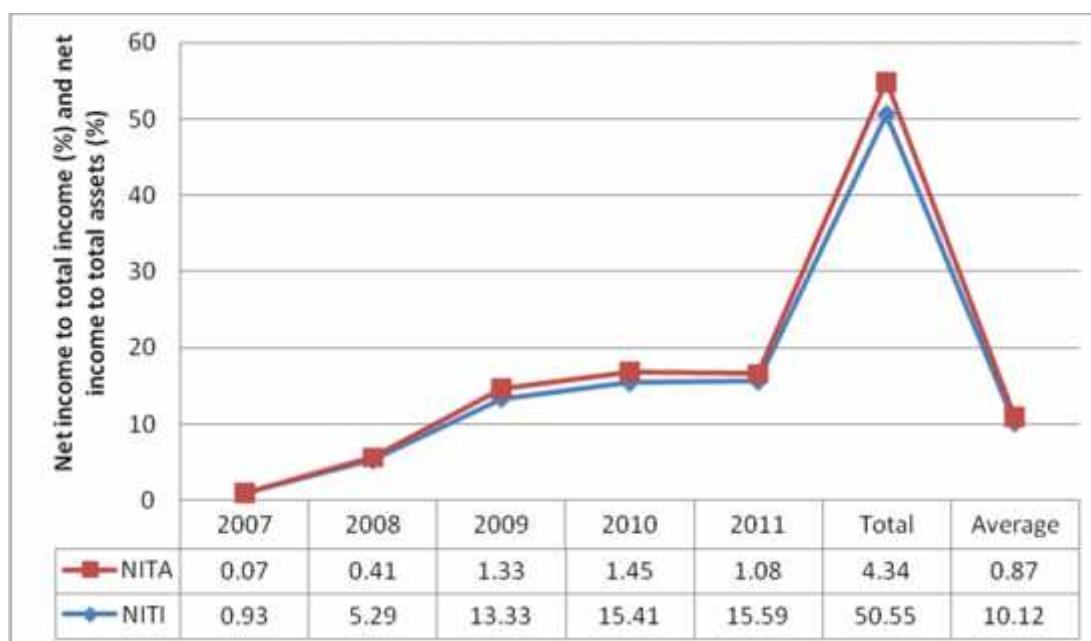
Net income to total income and net income to total assets

Fiscal Year	Net income to total income (%)	Net income to total Assets (%)
2007	0.93	0.07
2008	5.29	0.41
2009	13.33	1.33
2010	15.41	1.45
2011	15.59	1.08
Total	50.55	4.34
Average	10.12	0.87
S.D.	5.93	0.54
C.V.	58.70%	62%

(Source: Annual Report of SFDB, Shantinagar, Kathmandu)

Figure No. 4.7

Trend of Net income to total income and net income to total assets



Net profit refers profit after interest and taxes. Total assets comprises of those that appears the assets side of balance sheet. Net income to total income has been derived by dividing net income by total assets. Similarly, net income to total assets also has been derived by dividing net income by total assets.

In the above table and figures, net income to total income is increasing trend up to 2009. After 2009 there was slightly increasing till 2011. The highest net income to total income ratio is in the year 2011 i.e.15.59% and lowest in the year 2007 i.e. 0.93%. The highest net income to total income indicates that the bank has been successful to generate more profit by the help of total income. In year 201, the bank have been achieved more profit than other years. Similarly, the lowest net income to total income ratio means bank has not been successful to generate to compare the other years.

Net income to total assets ratio, it shows the relationship between net income and total assets. I see that, in F.Y 2010 the bank has greater percentage of net income to total assets ratio i.e. 1.45% and lowest percentage of this ratio is 0.07% in year 2007, this is very small percentage of net income that means the bank is unable to generate profit as compare to other. But it is increasing slowly within the year 2010 and declined in F.Y 2011. There is almost equal in year 2009 and 2010

Debt to Total assets and Debt to Equity Ratio

Debt equity ratio: it examines the relatives' claim of creditors and owners against the bank assets. Alternatively, the debt to equity ratio indicates the contribution of debt, capital and equity capital fund to the total investment. Equity funds include capital, general reserve, general loan loss provision and inappropriate profit and loss balance.

Debt assets ratio: The ratio reflects the portion of outsider's fund financed in the total assets. It signifies the extend of debt financing on the total assets and measures the financial securities to the outsider. This ratio is numerator of short term and long term debt. Debt is that sum of money that must be payable in time. Creditors, bills payable, and debenture are the examples of debt. A high debt to total assets ratio represents greater risk to creditors and share holders vice-versa.

Table No. 4.9

Debt to equity and Debt to total assets

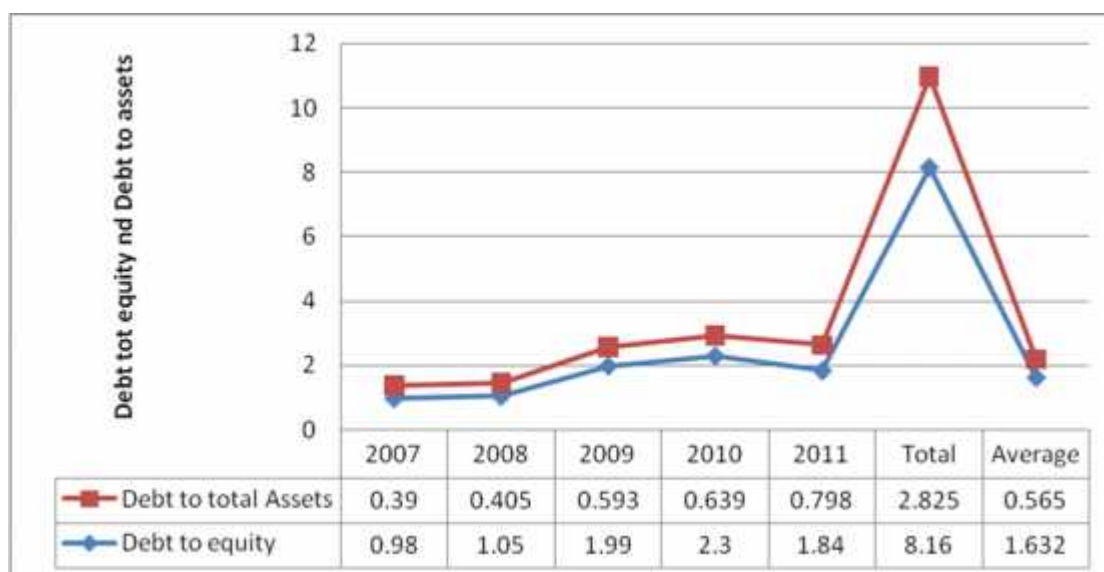
(in times)

Fiscal Year	Debt to equity	Debt to total Assets
2007	0.98	0.39
2008	1.05	0.405
2009	1.99	0.593
2010	2.3	0.639
2011	1.84	0.798
Total	8.16	2.825
Average	1.632	0.565
S.D.	0.526	0.153
C.V.	32.20%	27%

(Source: Annual Report of SFDB, Shantinagar, Kathmandu)

Figure No. 4.8

Trend of Debt to equity and Debt to total assets



Debt equity ratio: It is derived by dividing total debt by total shareholders' equity. The above table shows that the SFDB has highly leverage based on equity capital, after the year

2008 the bank is using higher debt than equity in each year. Which means bank is facing risky situation. The highest debt equity shown the above table in year 2010 i.e. 2.3 times, this means debt financing is more than 2.3 times of its shareholder equity, the lowest debt equity ratio is in 2007 i.e. 0.98, which means debt financing is 0.98 times of its shareholder equity.

Debt to total assets: This ratio has been derived by dividing total debt by total assets. The above table and figures, the highest debt to total assets ratio has seen in F.Y 2011 i.e. 0.798 times or 79.8% and lowest debt to total assets ratio is in F.Y 2007 i.e. 0.39 times or 39%. The highest debt financing is in year 2011. The position of debt is increasing in each and every year. The lowest ratio is in year 2007, which means bank debt financing is only 39% of its total assets.

) **Staff expenses to total operating expenses and total operating expenses to total assets**

Staff expenses to total operating expenses: This ratio implies that how much fund expenses for working staff in comparison to total operating expenses. The management point of view, lower ratio is favorable and in the staff point of view, higher ratio is desirable. The bank and firm should be maintained this ratio because if staff expenses increases the firm's total expenses also increases, which means when total operating expenses in increasing at that time the bank cannot operate properly.

Total operating expenses to total assets: This ratio shows the relationship between operating expenses and total assets. This ratio also implies that how much total operating cost become expenses with respect to total assets. Higher ratio is not favorable for the bank. The banks always try to reduce total operating cost.

Table No. 4.10

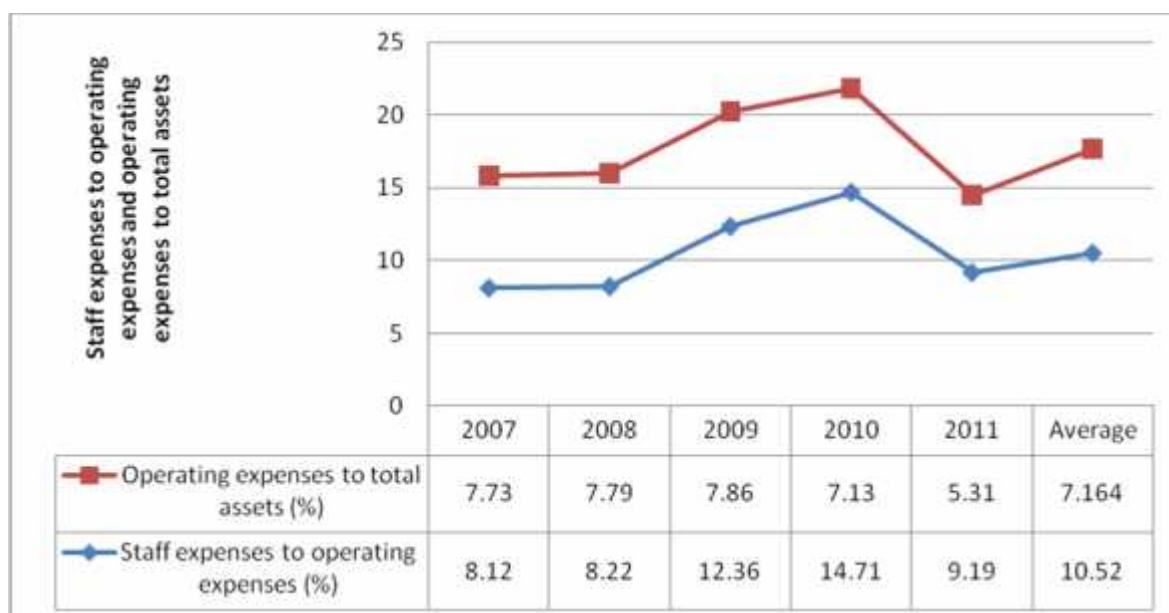
Staff expenses to operating expenses (%) and Operating expenses to total assets (%)

Fiscal Year	Staff expenses to operating expenses (%)	Operating expenses to total assets (%)
2007	8.12	7.73
2008	8.22	7.79
2009	12.36	7.86
2010	14.71	7.13
2011	9.19	5.31
Total	52.6	35.82
Average	10.52	7.164
S.D.	2.6	0.96
C.V.	24.7%	13.4%

(Source: Annual Report of SFDB, Shantinagar, Kathmandu)

Figure No. 4.9

Trend of Staff expenses to operating expenses (%) and Operating expenses to total assets (%)



Staff expenses to operating expenses ratio: This ratio has been derived dividing staff expenses by total operating expenses. Higher staff expenses to operating expenses ratio shown in F.Y.2010 and lower in F.Y 2007. Staff expenses are rising up to F.Y 2007 and declined in 2011. The bank has become more expenses for staff, which is 14.71% of total operating expenses and remaining 85.29% to other banking activities. However, in year 2011 staff expenses is reduced i.e. 9.19 %(which is 9.19 % of total expenses)

Operating expenses to total assets: This ratio has been derived by dividing total operating by total assets. The highest operating expenses to total assets is in F.Y 2009 i.e. 7.86% percentage and lowest in F.Y 5.31%. This ratio is zigzag route, increasing till 2009 and then reducing. After 2009 the bank is maintained this ratio, which means bank effectively manage the operating cost as comparing to the total assets

Table No 4.11

Other performance indicators of SFDBL

Fiscal Year	Yield on loan Portfolio (%)	Operating efficiency (%)	Repayment Rate (%)	Operational Self-sufficiency	Loan loss reserve ratio (%)	Earnings Per Share (Rs.)
2007	8.5	1.4	85.2	101.5	3.9	0.63
2008	8.7	1.2	86.9	107	5.3	5.8
2009	8.4	1.3	99.9	108	5.8	12.32
2010	8.6	1.8	70.5	105	6	14.78
2011	8.8	1.7	65.7	109	6.5	22.58

(Source: SFDB, Shantinagar, Kathmandu)

The SFDBL charges the 9% interest to the SFCLs but the yield on loan portfolio for the five years, trend of improvement in yield on loan portfolio (YLP) coming closer to the interest. Operating efficiency is also positive and more than one. The repayment rate for five years as shown in the table has zigzag route, it is increasing up to year 2009 and then it is declined in year 2010 and 2011 i.e. 70.5 and 65.7% respectively.

The operational self sufficiency should be equal or greater than 90% in the first year, 105% in second and third year, and 110% after third year. The value of operational self sufficiency is positive and improving from a level of 101.5 to 109 from the year 2007 to 2011 respectively.

SFDB is always exposed to the risk that the entire amount disbursed among their clients may not be recovered and are in a state of the risk of loss. In order to cope with such likely situation, the bank sets aside part of their financial income as loan loss provision to be used to cover likely loan loss risks. Loan loss reserve ratio range 3.9% to 6.5% from 2007 to 2011 respectively. It implies that the increase in overdue loan for which the bank has provisioned loan loss reserve of 3.9%, 5.3%, 5.8%, 6%, and 6.5% from 2007 to 2011 respectively.

Earnings per share: It is profit after tax (NPAT), what profit the common share holders earned. A bank can decide whether to increase or reduce the no of share on issue. It is also derived by net profit after tax by no of shareholders. In above table, in year 2011 has highest amount of EPS i.e. Rs 22.58 and lowest is Rs 0.63 in year 2007. The bank has been provided EPS in highly increasing rate to the share holders.

4.2.5 State of Microfinance Institutions in Nepal

My study covers only four types of MFIs; they are GBBs, PMFBs, FINGOs and Co-operatives. The trend of loan disbursement, recovered, and outstanding loan of MFIs are as follows:

Table No. 4.12

Cumulative Loan Disbursement trend

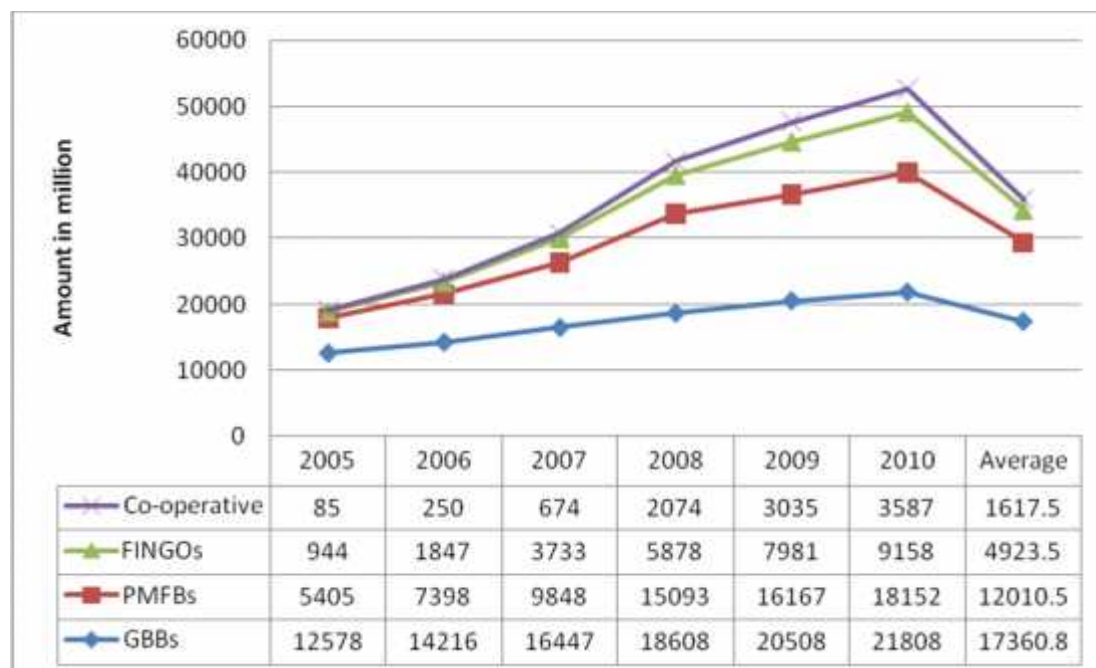
(Amount in millions)

Fiscal Year	GBBs	PMFBs	FINGOs	Co-operative
2005	12578	5405	944	85
2006	14216	7398	1847	250
2007	16447	9848	3733	674
2008	18608	15093	5878	2074
2009	20508	16167	7981	3035
2010	21808	18152	9158	3587
Total	104165	72063	29541	9705
Average	17360.8	12010.5	4923.5	1617.5

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.10

Trend of Cumulative Loan Disbursement trend



From the above table and figure, the cumulative loan disbursed of GBBs and PMFBs increase by 1.73 times (from Rs 12578 million to Rs 21808 million) and 3.36 times (from Rs 5405 million to Rs 18152 million) respectively from 2005 to 2010. Similarly, cumulative loan disbursed figure of FI-NGOs and Co-operatives increase by 9.7 times (from Rs 944 million to Rs 9158 million) and 42.2 times (from Rs 85 million to Rs 3587 million) respectively from 2005 to 2010.

Table No. 4.13

Loan Outstanding Trend

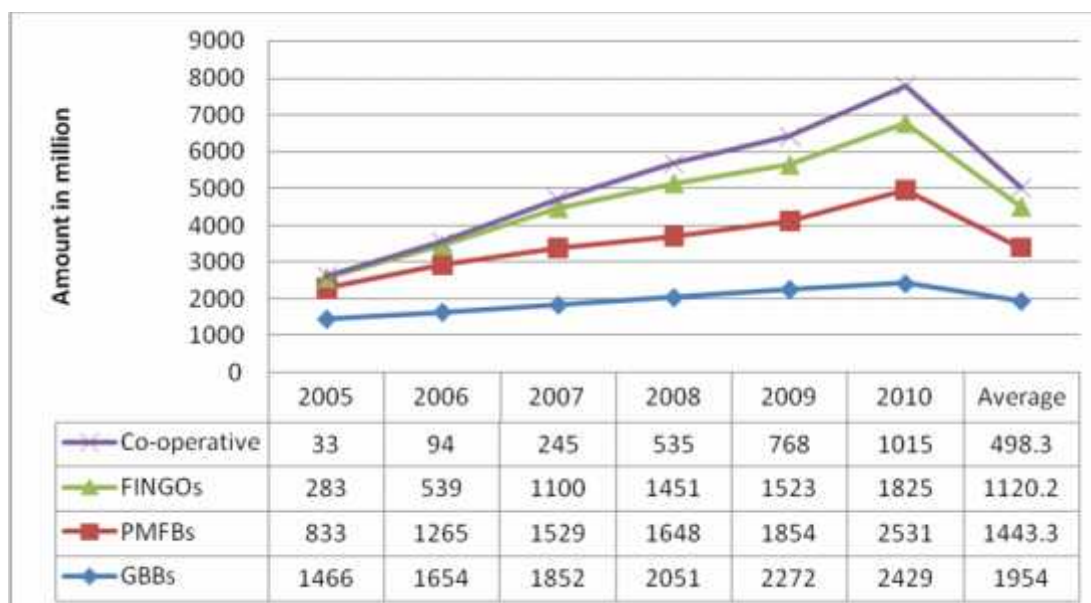
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2005	1466	833	283	33
2006	1654	1265	539	94
2007	1852	1529	1100	245
2008	2051	1648	1451	535
2009	2272	1854	1523	768
2010	2429	2531	1825	1015
Total	11724	8660	6721	2690
Average	1954	1443.3	1120.2	498.3

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.11

Trend of Loan Outstanding Trend



From the above table and figure, outstanding loan amount of GBBs together is always higher than those of PMFBs until 2009 but its scenario has changed in 2010. In this year outstanding amount of GBBs and PMFBs are recovered Rs 2429 million and Rs 2531 million respectively. This indicates that PMFBs progress in disbursement of loan loss surpassed that of GBBs. In case of FI-NGOs outstanding amount of loan is increased from Rs 283million and Rs 1825 million in year 2005 to 2010 respectively. Similarly, Co-operatives have Rs 33million and Rs 1015 million from 2005 to2010 respectively.

Table No 4. 14

Overdue Loan Trend

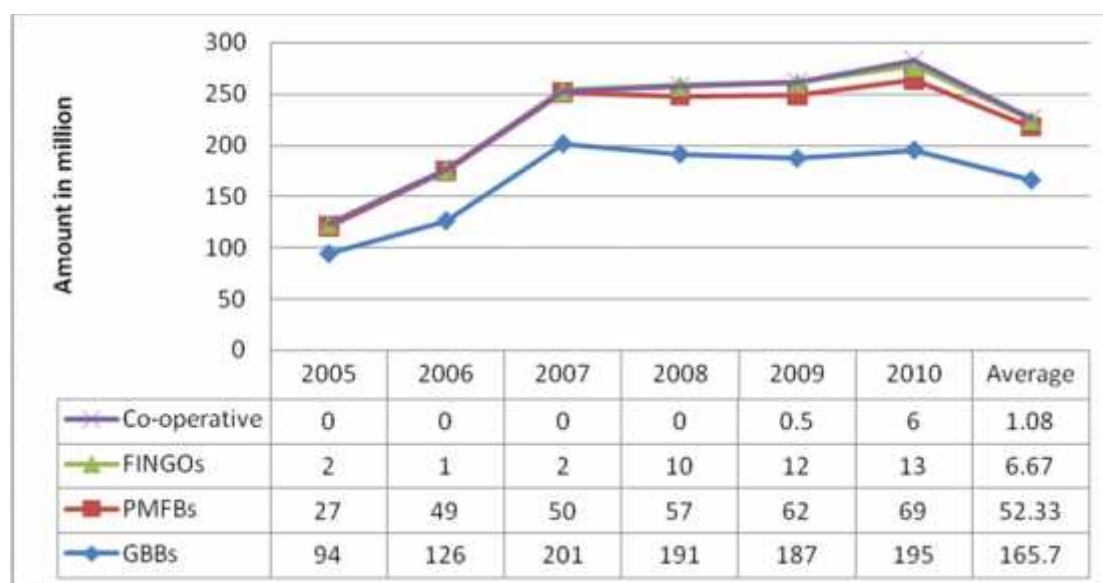
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2005	94	27	2	-
2006	126	49	1	-
2007	201	50	2	-
2008	191	57	10	-
2009	187	62	12	0.5
2010	195	69	13	6
Total	994	314	40	6.5
Average	165.7	52.33	6.67	1.08

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.12

Trend of Overdue Loan



The above chart and figure, the overdue loan for GBBs is steadily growth until 2007 and reduced from Rs 201 million. Again loan reached the Rs 195 million in 2010. As compare to

GBBs, increase in overdue loan and much less in case of PMFBs. The overdue loan is Rs 27 million and it reached Rs 69 million in year 2010. For FI-NGOs, the overdue loan amount has Rs 2 million in year 2005 and Rs 13 million in 2010. There is very few loan overdue of Co-operatives in each year up to 2008 and Rs 0.5 million and Rs 6 million in year 2009 and 2010 respectively.

Table No. 4.15
Cumulative Loan recovery

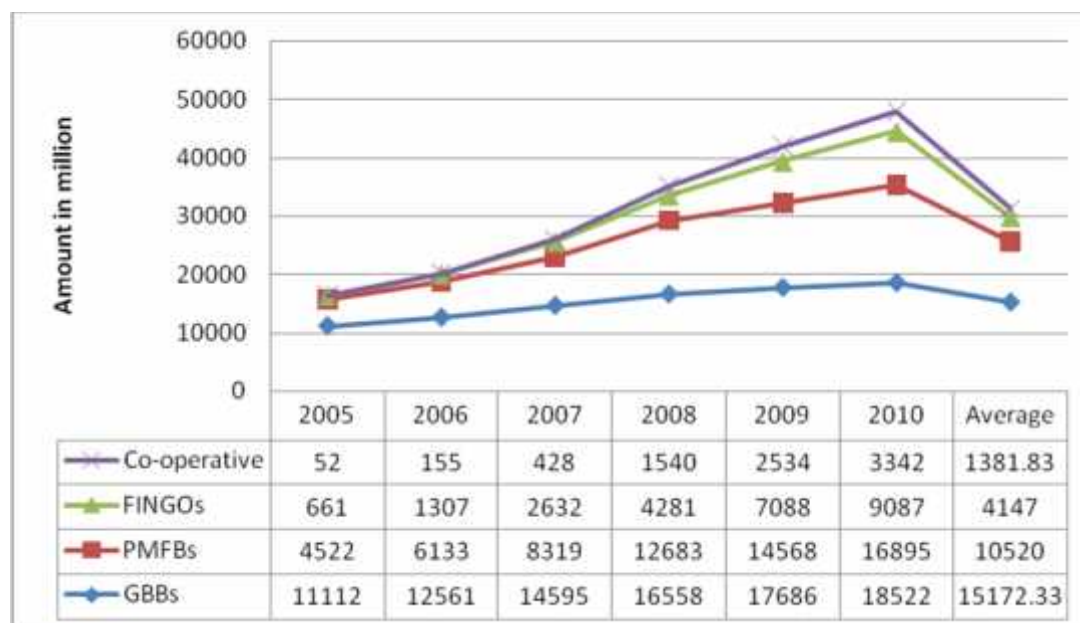
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2005	11112	4522	661	52
2006	12561	6133	1307	155
2007	14595	8319	2632	428
2008	16558	12683	4281	1540
2009	17686	14568	7088	2534
2010	18522	16895	9087	3342
Total	91034	63120	25056	8051
Average	15172.33	10520	4147	1381.83

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.13

Trend of Cumulative Loan recovery



The figures on cumulative loan recovery for all the four categories of MFIs, the cumulative recovery figures for GBBs and PMFBs increases by 1.7fold (from Rs 11112 million to Rs 18522 million) and 7.3 fold (from Rs 4522 million to Rs 16895 million) respectively from 2005 to 2010. The cumulative loan recovered for FI-NGOs increased in this period from Rs 661 million in 2005 and Rs 9087 million in 2010. Similarly, for Co-operatives loan recovered Rs 52 million in 2005 and Rs 3342 million in 2010. The recovery amount of these four categories of MFIs stood at Rs 18522 million, Rs 16895 million, Rs 9087 million and Rs 3342 million respectively for GBBs, PMFBs, FI-NGOs, and Co-operatives within the year 2010.

4.2.6 Financial Performance and sustainability

Microfinance institutions have emerged in large numbers in Nepal in past two decades. But the question of their sustainability is loomed in different corner of financial sector. In the past, the government has initiated some microfinance projects with community development service such as SFDP, PCRW; MCPW etc. These programs are either restricted such as formation of SFCL in case of SFDP and promoted to local Co-operatives, in case of PCRW or gradually died down after the termination of concerned project. MFIs have started with the key objectives to provide microfinance services to the targeted poor in sustainable manner without subsidy or grants supports fully relying on interest income.

Table No. 4.16

Average operating profit of MFIs

(Amount in thousands)

S.N.	Types of MFIs	Operating profit	Total staff	Av. Op. per staff	Total loan officer (No.)	Av. Op. per loan officer
1	GBBs	80540	995	81	475	123
2	PMFBs	150385	1205	125	811	188
3	FI-NGOs	50460	650	78	475	97
4	Co-operatives	22710	185	122	116	175
	Total	304096	3030	410	1777	583

(Source: RMDC, Putalisadak, Kathmandu)

The table indicates that the average operating profit (op) per staff and loan officer. The average operating profit per staff is Rs 81 thousand each for GBBs, Rs 125 thousand each for PMFBs, Rs 78 thousands for each FI-NGOs and Rs126 thousands for each Co-operatives. Similarly, the average operating profit (op) per loan officer found the highest Rs 188 thousand for PMFBs, Rs 175 thousand for Co-operatives, Rs 123 thousand for GBBs and Rs 97 thousand for FI-NGOs.

The average operating profit (op) both per staff and per loan officer is found that the lowest in case of FI-NGOs and highest in case of PMFBs followed by Co-operatives. Operating profit analysis has revealed the PMFBs and Co-operatives performing better than other two types of MFIs.

4.2.7 Trend of Average Income, Expenditure, Profit/ Loss and Net Worth of MFIs

It is also important to assess growth trend of average income, expenditure, profit/ loss and net worth among the different categories of MFIs, these factors make significant effect in the sustenance of their operation. The five year average financial performance with respect to income, expenditure, profit or loss and net worth of major four types (which includes top twenty MFIs) is given below as.

Table No. 4.17

Average income of MFIs for five years

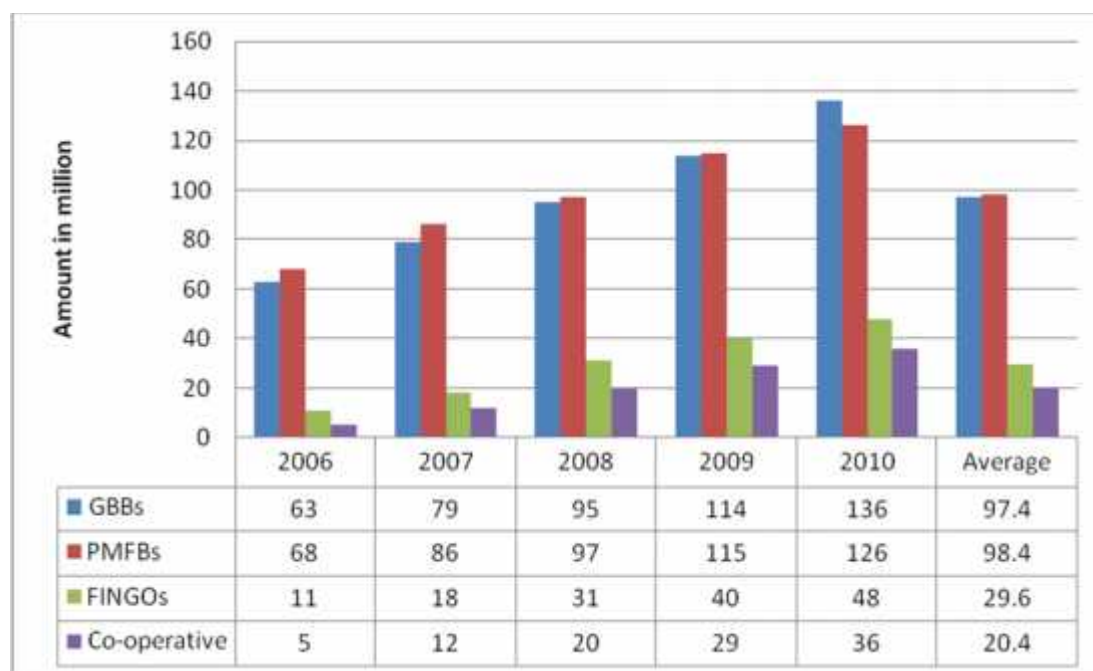
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2006	63	68	11	5
2007	79	86	18	12
2008	95	97	31	20
2009	114	115	40	29
2010	136	126	48	36
Total	487	492	148	102
Average	97.4	98.4	29.6	20.4
S.D.	25.7	20.6	13.6	11.2
C.V.	26.40%	20.90%	45.90%	54.90%

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.14

Trend of Average income of MFIs for five years



From the above table and figure, it represents that the income of four types of MFIs (GBBs, PMFBs, FI-NGOs and Co-operatives). I can see that PMFBs have greater amount of average income. It indicates that PMFBs have been successful to generate more average income than others MFIs. Similarly, the Co-operatives have lower amount of average, this means the Co-operatives have not able to generate more profit as compare to others MFIs.

From the S.D point of view, GBBs have higher S.D with 25.7 point; it implies that the GBBs have high fluctuation (less homogeneity) in generating average income than others MFIs. Similarly, Co-operatives have lower S.D i.e. 11.2 point, it refers C-operatives have low fluctuation (more homogeneity)

Form the C.V point of view, Co-operatives have higher C.V with 54.9%, it shows that Co-operatives have highest degree of variability or is inconsistent in generating average income. Similarly, PMFBs have lower C.V 20.9%, which means PMFBs have lower degree of variability or is consistent in generating average income.

Table No. 4.18

Average expenditure of the MFIs for five years

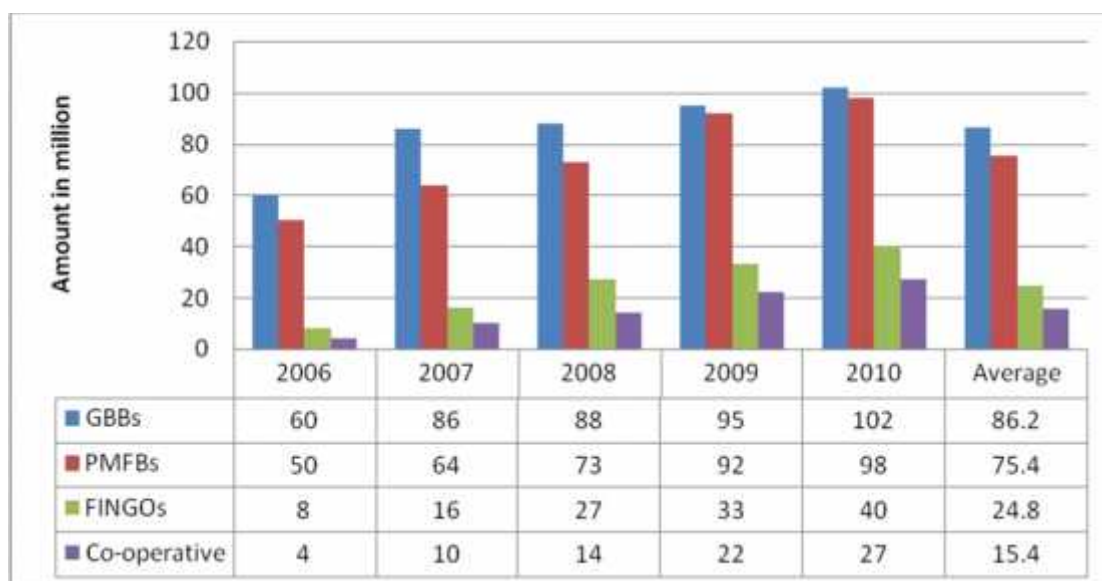
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2006	60	50	8	4
2007	86	64	16	10
2008	88	73	27	14
2009	95	92	33	22
2010	102	98	40	27
Total	431	377	124	77
Average	86.2	75.4	24.8	15.4
S.D.	14.3	75.4	11.5	8.2
C.V.	16.60%	23.50%	46.40%	53.20%

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.15

Trend of Average expenditure of the MFIs for five years



From the above chart and figure shows the average expenditure of MFIs for five years. I can see that the Co-operatives have lower expenditure, which refers Co-operatives managed their expenses properly but GBBs have more expenses than other MFIs, it means GBBs could not maintain the expenses successfully.

From the S.D point of view, PMFBs have the highest S.D OF 17.7 point. Next there are GBBs with S.D 14.3 point; FINGOs with 11.5 points and Co-operative have 8.2 points. It implies that PMFBs and GBBs have high fluctuation (less homogeneity) in expenditure and other FI-NGOs and Co-operatives have less fluctuation (more homogeneity)

From the C.V point view, Co-operatives have highest C.V of 53.2%. Next there are FINGOs with C.V of 46.4%, PMFBs with 23.5% and GBBs have 16.6%, where it is lowest C.V among the MFIs. Co-operative have highest C.V, it means Co-operatives have high degree of variability in average expenses. Similarly, GBBs have lowest degree of variability in average expenses.

Table No. 4.19

Average profit / loss of MFIs for the five years

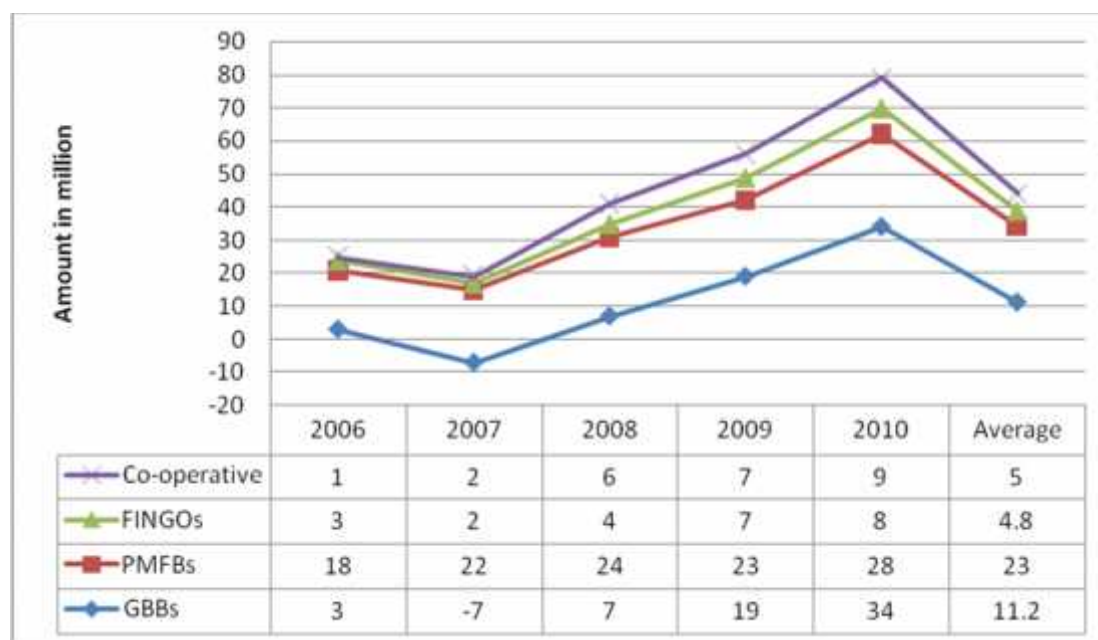
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2006	3	18	3	1
2007	-7	22	2	2
2008	7	24	4	6
2009	19	23	7	7
2010	34	28	8	9
Total	56	115	24	25
Average	11.2	23	4.8	5
S.D.	11.4	3.2	2.3	3.03
C.V.	101.80%	13.90%	47.90%	60.60%

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.16

Trend of Average profit / loss of MFIs for the five years



From the above table and figure, it represents the profit and loss of MFIs for the five years. I can say that PMFBs have a highest profit with Rs 115 million, GBBs with Rs 56 million, Co-operatives with Rs 25 million and FI-NGOs have only Rs 24 million profits. Among them, profits of PMFBs seem highest so it has better performance by gaining high profit in the microfinance market.

From the S.D point of view, GBBS have the highest S.D of 11.4 point. Next there are PMFBs with 3.2 point, Co-operatives with 3.02 points and FI-NGOs with 2.3 points. This implies that GBBS have high fluctuation (less homogeneity) in generating profit. In the same way, FI-NGOs have less fluctuation (more homogeneity)

From the C.V point of view, GBBS have highest C.V of 101.8%. Next there are Co-operatives with C.V of 60.6%, FI-NGOs with C.V of 47.9% whereas PMFBs have lowest C.V of 13.9%. Which implies that GBBS have inconstant and PMFBs have lowest C.V is constant.

Table No. 4.20

Average Net worth of the MFIs for five years

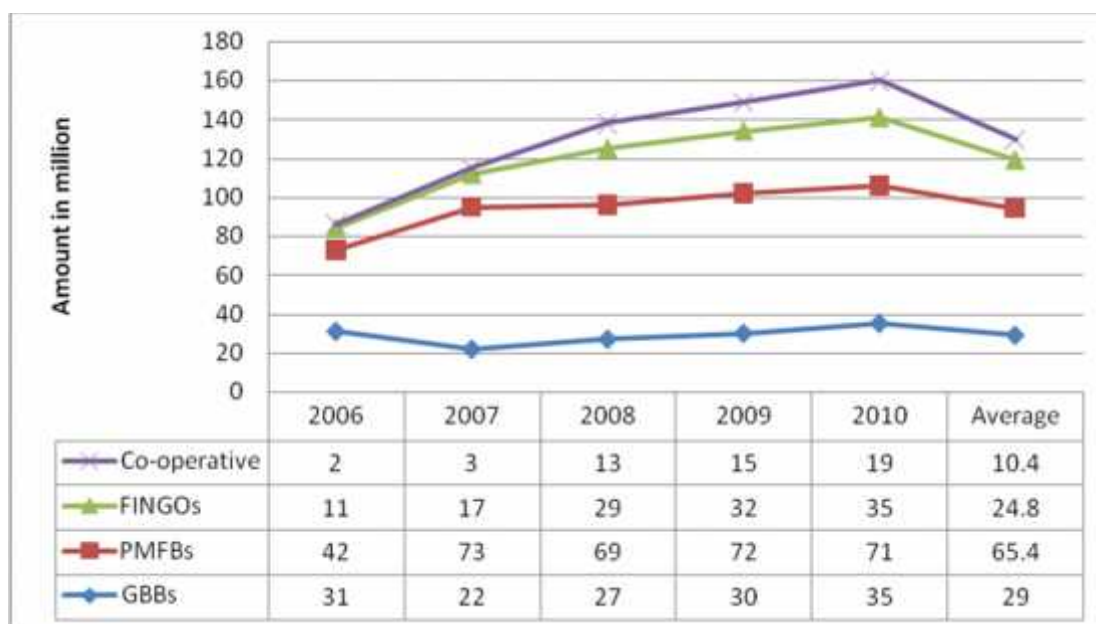
(Amount in million)

Year	GBBs	PMFBs	FINGOs	Co-operative
2006	31	42	11	2
2007	22	73	17	3
2008	27	69	29	13
2009	30	72	32	15
2010	35	71	35	19
Total	145	327	124	52
Average	29	65.4	24.8	10.4
S.D.	4.3	11.8	9.2	6.7
C.V.	14.80%	18.00%	37.10%	64.40%

(Source: RMDC, Putalisadak, Kathmandu)

Figure No. 4.17

Trend of Average Net worth of the MFIs for five years



From the above table and figures, it represents that the net worth of the MFIs for five years. The PMFBs have highest net worth with Rs 327 million and GBBs, FI-NGOs and Co-operatives have Rs 145 million, Rs 124 million and Rs 52 million respectively.

From the S.D point of view, PMFBs have the highest S.D of 11.8 points. Next there are FI-NGOs with 9.2 point, Co-operatives with 6.7 points and GBBs with 4.3 points. This means PMFBs have high fluctuation(less homogeneity) and GBBs have low fluctuation (more homogeneity)

From the C.V point of view, Co-operatives have highest C.V of 64.4%. Next there are FI-NGOs with C.V of 37.1%, PMFBs with C.V of 18% and GBBs with C.V of 14.8%. Which implies that Co-operatives have inconstant and GBBs have lowest C.V is constant.

The ratio such as saving to loan outstanding (SLO), outstanding loan to total assets (OLTA), yield on portfolio (YOP), return on equity (ROE), return on assets (ROA) of four types of microfinance institutions as of mid July 2010 are calculated. These ratios provide some clues on whether the MFIs could sustain their financial service operation or not.

Table No. 4.21

Ratio analysis of MFIS

Name of MFIS	SLO	OLTA	YOP	ROE	ROA
GBBS	39%	72%	23%	9.07%	0.93%
PMFBS	40%	73%	24%	10%	1.02%
FI-NGOs	34%	71%	21%	7.22%	0.59%
Co-operative	38%	61%	22%	16.9%	1.1%

(Source: RMDC, Putalisadak, Kathmandu)

) **Saving to Loan Outstanding (SLO):**

The four types of MFIs have the capacity to bear 34% of their loan outstanding from their saving. This is true for all MFIs because all MFIs have more capacity to bear their loan outstanding from saving.

) **Outstanding Loan to Total Assets (OLTA):**

It is desirable to have OLTA ratio in the range of (70-80). The minimum desired level is 70%. PMFBs have 73%, GBBS 72%, FI-NGOs 71%, and Co-operatives have only 61%. The Co-operatives have short of 9% minimum desired level. This means Co-operatives do not have adequate loan outstanding to earn interest income to support its operational expenditure.

) **Yield on Portfolio (YOP):**

This ratio is derived by dividing interest income by average outstanding loan. It is better to have value of this ratio close to the normal rate of interest charged by MFIs to its loan (20%). PMFBs, GBBS, Co-operatives and FI-NGOs have 24%, 23%, 22% and 21% respectively. All MFIs have good loan portfolio.

) **Return on Equity (ROE):**

The ROE ratio should be near to the market interest rate on saving (9%). The ratios for Co-operatives, PMFBs, GBBS and FI-NGOs have 16.9%, 10%, 9.07% and 7.22% respectively. The Co-operatives, PMFBs, GBBS are better whereas FI-NGOs have not met the market interest rate.

) **Return on Assets(ROA):**

The value of each MFI should be positive. The higher value of this ratio is the situation for sustained operation of microfinance services. The value for Co-operatives has the highest ratio i.e. 1.10% followed by PMFBs 1.02%, GBBs 0.93% and FI-NGOs with 0.59%.

4.2.8 SWOT analysis chart

Strength:

-) Strong financial support by ADB/N and ADB etc.
-) Some working staffs are experienced and knowledgeable. This is due to training and capacity development program
-) Remittance services are available through MFIs
-) Increasing microfinance services in every parts of country
-) Group members are committed and active
-) Encouraging the women, disadvantage group of people and other downtrodden people
-) Especially focusing the women
-) Monitoring and promoting the client's activities
-) Improving entrepreneurship and occupational skills of women and their members
-) No physical collateral is taken a loan within certain limit
-) Enhanced leadership capacity of women
-) Managing self employment loan program

Weakness:

-) Limitation of loan amount for the clients
-) Lack of modern technology, innovation within the MFIs sector
-) Not regular supervision, inspection, and monitoring client's activities
-) Especially providing the service to the high level income group people really not for poor
-) Nepotism and favoritism affected the its activities
-) Due to the staff and manager relationship, providing amount could not collected in time

Opportunities:

-) There is scope for granting more credit in rural areas
-) Many hills and mountain regions are not operating microfinance program so establishment of many SFCLs program and other microfinance services are feasible in these area
-) Decentralized training program is effective for expand the microfinance services
-) Co-coordinating and co-operating with national and international agencies for development of microfinance services

-) Possibility of promoting women entering into income generating enterprises given their high repayment rate and their special skill of livestock and other agriculture farming

Threats:

-) Lack of adequate and appropriate technology dissemination
-) Limited market access for development the microfinance services
-) Lack of irrigation facilities focused on poor and small farmers
-) MFIs and SFCLs especially focus the women but women have not adequate property rights
-) There is also lack of professionalism among some of the MFIs. They lack of a matching pool of knowledge and skill requires for running MFI program as a business
-) Most of the MFIs do not have business plan and lack the strategies to achieve the sustainability in their operation
-) Increasing overdue loans of MFIs required them to make sufficient funds provision for bad and doubtful loan which brings the high cost of operation and decreased the profitability
-) Unstable government policy brings the MFIs problem such as shortage of money and financial crises

4.3 The major findings of the study

The major findings of the study are derived by the help of data presentation and analysis which are given as:

1. Present capital structure of SFDBL

There are many promoters of SFDB such as ADB/N, SFCL, Nepal Bank Ltd and Nabil Bank Ltd contributing 32%, 57%, 6%, and 5% of share capital respectively. The highest amount of share capital is invested by SFCLs. This shows SFCLs are main sources of SFDBL, which contributing important role to extend the micro services in Nepal.

2. Loan performance of SFDBL

) Loan investment and loan outstanding

Loan investment and loan outstanding both are increasing trend. The highest growth rate of loan investment is 68% and lowest growth rate of loan investment is 9%. Similarly the highest growth rate of loan outstanding 158% and lowest growth rate is 5%. But in the year 2009, loan outstanding is reduced by 55% which means huge amount of loan is paid by clients or service holders. Increase amount of investment implies that the SFDB is invested huge amount for the rural poor women, disadvantages group of people in the community.

) Loan overdue and interest receivable

The highest amount of loan overdue has in F.Y 2008 i.e. Rs 58 million and lowest amount of loan overdue Rs 35 million in years 2010, the highest rate of loan overdue is 29% in F.Y 2008 and lowest decreasing rate of loan overdue is 25.5%. The average loan overdue during the six year is 46%.

The amount of interest receivable is increasing trend and highest growth rate of interest receivable 30% in F.Y 2009. The lowest rate in year 2011 i.e. 27%. The increasing trend of interest receivable means the bank is running in financially sustainable and viable manner

) Loan overdue rate and loan repayment rate

The loan overdue rate has increased in very small percentage, which means there is no high amount of overdue loan under the SFDB. The bank is collected high amount of loan in given time period. The highest overdue rate is 6.1% in F.Y 2007 and lowest rate 0.4% in year 2010.

The loan repayment is slowly increasing. The high rate of loan repayment in year 2009 i.e. 99.9% which is approximately 100 so in this year all loan paid by the creditors. Lowest rate is 65.7% in F.Y 2011. The overall loan repayment seems better position because most of the loan paid by the service holders.

Coefficient of correlation between loan investment and loan outstanding is found highly significant which shows increase in investment is followed by same degree of increment in loan outstanding i.e. $r_{xy}=0.9736$, where $\delta PE=0.0858$.

Coefficient of correlation between loan repayment rate and overdue rate is seen insignificant. That means there is no significant relationship between loan overdue and loan repayment rate i.e. $r_{xy}=0.64$, where $\delta PE=0.978$

3. Capacity building training program

This training program conducted by SFDBL is more effective through financial analysis, co-operative management training, auditing training, skill and supervision and monitoring program. Training mainly for institutional development of SFCLs. The SFDB is mainly operated 11 program among them animal health and wealth program and follow up program and training is more effective because more members are participated these program. The program which is conducted by SFDB, more women are participated than men in overall training and seminar program of SFDB.

4. Performance indicator of SFDBL

) Return on Equity (ROE)

ROE measures the return on the owner's investment in bank. During the five year period the SFDB is provide highest ROE in year 2011 i.e. 7.3% and lowest in year 2007 i.e. 0.50%. The average ROE is 4.11%.

) Return on Assets (ROA)

This ratio measures the overall effectiveness of management in generating profit with its available assets. The ROA has been increasing trend. The highest ROA is in F.Y 2011 i.e. 2.2% and lowest 0.1% in F.Y 2005. Higher ROA means that bank has generated more profit by utilizing available assets in year 2011. Similarly, lower ROA refers lower return from the assets. The average ROA during the five periods is 0.76%.

) Net income to total income ratio:

This ratio is also increasing rate, which is steadily growing. It means bank is able to generate net income in every year. The highest net income is 15.41% in year 2011 and lowest 0.93% in year 2007.

) **Net income to total assets:**

It is very slowly increasing up to 2009 and decreased in year 2011 (from 1.45% to 1.08%). In year 2010, there is greater percentage of net income to total assets. I can say that bank is unable to create net income in year 2011 than 2010 by utilizing available assets.

) **Debt to Equity ratio:**

The bank is highly leveraged because using position of debt is higher than equity. But in year 2007 debt is 0.98 times of equity which means equity is greater than debt. In F.Y 2008, debt is 1.05 times greater than equity position and F.Y 2009, debt also 1.99 times greater than equity. In each and every year debt is higher than equity except 2007. The average debt equity ratio is 1.632 times.

) **Debt to total assets ratio:**

The trend of debt to total assets ratio has been growing rate in each and every year. In F.Y 2007 the debt to total assets ratio 0.39 times of total assets. Few year after this ratio reached 0.798 times the year was 2011. Time and again, the position of debt is slowly walking in comparison to assets. The average position of debt to total assets ratio is 0.565 times during the five periods.

) **Staff expenses to operating expenses:**

This ratio shows the relationship between bank's operating expenses and total staff expenses. This also increasing rate (from 2007 to 2010) but in the year 2011 staff expenses reduced by 5.52% from 14.71%, which means the SFDBL managed staffs in effective way then reduced the expenses. The highest staff expenses to total operating expenses is in year 2010 i.e. 14.71% of total operating expenses and remaining 85.29% expenses for other banking transactions. The lowest of this ratio is 7.73% in year 2007. The average staff expenses to total operating expenses have seen 10.52%.

) **Operating expenses to total assets:**

This ratio also shows how effectively managed the operating expenses with respect to total assets. The highest ratio is also zigzag trend not regular. The highest quantity of amount is expenses in year 2009 i.e. 7.86% of total assets. Similarly, lowest expenses has been in year 2011 i.e. 5.31% and average of this ratio is 7.164.

5. **Loan position of MFIs**

) **Loan disbursement trend:**

The loan disbursement trend of major four types of MFIs seems in increasing. Among them FI-NGOs and Co-operatives are providing the highest amount of loan to the clients than GBBs and PMFBs. The loan disbursement figures of FI-NGOs and Co-operatives increased by 9.7 times (from Rs 944 million to Rs 3584 million) and 42.2 times (from Rs 85 million to Rs 3587 million) respectively from 2005 to 2010. Similarly, cumulative loan disburse of GBBs and PMFBs increased by 1.73 times (from Rs 12578 million to Rs 21808 million) and 3.36 times (from Rs 5405 million to Rs 18152 million) respectively from 2005 to 2010.

) **Cumulative loan recovery trend:**

The loan recovery amount of GBBs, PMFBs, FI-NGOs and Co-operatives have Rs 18522 million, Rs16895 million, Rs 9087 million and Rs 3342 million respectively during the six year period. The GBBs have recovered the high amount of loan during this period and Co-operatives recovered small amount of loan in comparison to others MFIs.

) **Loan outstanding trend:**

The outstanding loan amount of GBBs together has always higher than PMFBs within 2009 and the scenario has changed in 2010. In this year outstanding amount of GBBs has lower than PMFBs. This indicates that PMFVs of loan surpassed that of GBBs. The amount of loan outstanding is increasing within F.Y 2008 and decreased in 2009, again increased in 2010 in case of FI-NGOs. Similarly, loan outstanding amount of co-operatives have increased from Rs 33 million to Rs 1015 million respectively from 2005 to 2010.

) **Trend of loan overdue:**

The overdue loan of GBBs is steadily growing up to 2007 and reduced from Rs 201 million to Rs 187 million (from F.Y 2007 to 2009) and again increased to Ra 195 million in year 2010. This means GBBs have not maintained the overdue loan; increasing trend of loan overdue is bad symbol of financial sustainability and

viability. As compare overdue loan, PMFBs have less overdue than GBBs. In case of PMFBs the overdue loan was Rs27 million in year 2005 and it reached Rs 69 million in year 2010. For FI-NGOs the overdue loan begins from Rs 2 million to Rs 13 million during the six periods. Which means the overdue loan of FI-NGOs is increasing in small in amount. But in case of Co-operatives before the F.Y 2009 there was very few amount of loan overdue.

6. Average operating profit of MFIs

The average operating per staff is Rs 81 thousand each for GBBs, Rs 125 thousand each for PMFBs, Rs 78 thousands for each FI-NGOs and Rs 126 thousands for each Co-operative during the F.Y 2010. Similarly, the average operating profit per loan officer is found that, Rs 188 thousands for PMFBs, Rs175 thousands for Co-operatives, Rs123 thousands for GBBs and Rs 97 thousands for FI-NGOs.

7. Trend of average income, expenditure, profit and loss and net worth

) Average income

Among four types of MFIs, PMFBs have greater average profit than others MFIs. In average GBBs, FI-NGOs, Co-operatives have Rs 97.4 million, Rs 29.6 million and Rs 20.4 million respectively from F.Y 2006 to 2010.

S.D point of view, GBBs have higher S.D than other MFIs. It implies that GBBs have high fluctuation in generating average income but Co-operatives have lower S.D. which means low fluctuation (more homogeneity) in generating average income.

C.V point of view, the Co-operatives have higher C.V i.e.54.9% it shows that Co-operatives have high degree of variability or is consistent in generating average income. In the same way, PMFBs have lower C.V i.e. 20.9%, which means PMFBs have low degree of variability in generating average income.

) Average expenditure:

Within the boundary of MFIs, Co-operatives have lower expenses i.e. Rs 77 million in an average. This refers the Co-operatives have reduced the expenses and apply the cost leadership strategy. In the same way, GBBs have high amount of expenses, it means GBBs could not maintain cost.

S.D point of view, GBBs have highest S.D of 11.4 point and lowest 2.3 point under the FI-NGOs. The higher S.D represents the high fluctuation in average expenditure and lower S.D means low fluctuation in average expenditure.

C.V point of view, the Co-operatives have highest C.V of 53.2% and FI-NGOs with C.V of 46.4%, PMFBs with 23.5% and GBBs have 16.6% whereas GBBs have lowest C.V i.e.16.6%. Similarly, the Co-operatives have high degree of variability in average expenses and GBBs have smallest degree of variability.

) **Average profit or loss:**

Profit is essential elements of each and every financial institution. Without profit any organization could not operate. Among the MFIs, PMFBs have highest average profit with Rs 115 million, GBBs with Rs 56 million, Co-operatives with Rs 25 million and FI-NGOs have Rs 24 million. PMFBs have highest profit, which refers PMFBs have better performance by generating high profit in the microfinance market. The FI-NGOs have seen poor situation with income point of view during the five years.

S.D point of view, GBBs have the highest S.D of 11.4 point. Next there are PMFBs with S.D 3.2 point, Co-operatives with S.D 3.02 point and FI-NGOs with 2.3 point. It means that GBBs have high fluctuation (less homogeneity) and FI-NGOs also have low fluctuation (more homogeneity) in generating average profit.

C.V point of view, GBBs have highest C.V of 101.8%. Next there are Co-operatives with C.V of 60.6%, FI-NGOs with C.V of 47.9% whereas PMFBs have smallest C.V of 13.9%.

) **Average net worth:**

PMFBs have highest net worth with Rs 327 million. Similarly, GBBs, FI-NGOs and Co-operatives have Rs 145 million, Rs 124 million and Rs 52 million respectively. Since PMFBs have highest amount of net worth where as Co-operatives have lowest net worth amount. The amount of net worth includes share capital, general reserve, general loan loss provision, and inappropriate profit and loss balance.

S.D point of view. PMFBs have highest S.D of 11.8 point. Next there are FI-NGOs with 9.2 points, Co-operatives with 6.7 points and GBBs with 4.3 points.

From the C.V point of view, Co-operatives have highest percent of C.V i.e. 64.4% and next there are FI-NGOs with C.V of 37.1%, PMFBs with C.V of 18% and GBBs with C.V of 14.8%.

8. Ratios selected of four types of MFIs

The ratio provides some guidelines weather the MFIs could sustain their financial service operation or not.

) Saving to loan outstanding ratio (SLO)

The four types of MFIs have the capacity to bear 34% of their loan outstanding from their saving. This is true for all MFIs, the GBBs, PMFBs, FI-NGOs, and Co-operatives have 39%, 40%, 34% and 38% respectively. The PMFBs have more capacity to bear their loan outstanding from saving.

) Outstanding loan to total assets ratio (OLTA)

It is desirable in the range of (70-80). The minimum desired level 70% of total assets. The PMFBs have 73%, FI-NGOs 71%, and Co-operatives have only 61%. The Co-operatives have short of 9% minimum desired level. Which refers Co-operatives have not adequate loan outstanding to generate interest income. Similarly, PMFBs have higher OLTA ratio, it means that PMFBs have also adequate loan outstanding to create interest income.

) Yield on portfolio (YOP)

It is better to have value of this ratio close to the normal rate of interest i.e.20%. PMFBs, GBBs, Co-operatives and FI-NGOs have 24%, 23%, 22%, and 21% respectively. Since PMFBs have higher YOP, which shows this microfinance creates the highest interest income by the loan outstanding.

) Return on Equity (ROE)

This ratio should be near to the market interest rate on saving (i.e. 9%). The Co-operatives, PMFBs and GBBs have greater than market interest rate. Which means, these MFIs have earned more net income by utilizing equity fund again these three

MFIs have provide net income to the share holders equity. On the other hand, FI-NGOs have lowest percentage of ROE. This implies that FI-NGOs would not able to provide sufficient income to the share holders.

) **Return on Assets (ROA)**

The value of ROA should be positive for each MFI. Co –operatives have highest i.e.1.1% followed by PMFBs i.e. 1.02%, GBBs 0.93% and FI-NGOs 0.59%. FI-NGOs have lower ROA than other MFIs and Co-operatives have highest ROA.

CHAPTER-FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATION

This chapter is the important to the research study because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendation. In summary parts revision or summary of all four chapters is made. In conclusion parts, research is summed up and in recommendation is made for improving the present situation to the concerned areas.

5.1 Summary

The overall development of country cannot be imagined without development of MFIs and other financial sector. Nepal is agriculture country till now here most of the people depend on the agriculture but their financial structure is poor. So there is necessary for development of agriculture. To improve such situation of Nepal MFIs have played most significant role by providing services. MFIs also help to improve women life style, minority and disadvantage group of people. So, Nepalese government should promote this sector through grants, donation, and consultant services. Now, numbers of microfinance are rapidly increasing with strong competition. MFIs encourage the agriculture farming such as bee keeping, poultry farming, meat production, milk production, vegetable and fruit farming, and other activities. These activities may be raised self employment opportunities and increase the income level of rural poor women and men.

Under this study, researcher have tried to cover the various aspect of SFDB and selected microfinance institutions covering maximum six year data. In the first introduction chapter, the study report has tried to give history, general concept of microfinance and SFDB and different model of microfinance in Nepal. In this chapter also included statement of the problem, significant of the study, objectives and its limitations. During the research work review of several literature, thesis and journal have been studied with related to my research work. And as per requirement, internal material from website also visited. This works are compiles in the second chapter the titles, "Review of literature".

For this study, researcher has gathered the required data basically from annual report published by the considered MFIs and SFDBL for the same year data. And also internal website of MFIs and SFDBL is used for the required data analysis which is related to performance of SFDB and state of microfinance in Nepal. Some financial ratios, statistical tools such as mean, S.D, C.V, correlation of coefficient and probable error are followed for this research work, the chapter, "Research Methodology".

Data relating to activities of SFDB and four types of MFIs have been considered and presented in figures and table as far as possible and tried to be interpreted in the study report logical way. Data are analyzed, applying financial and statistical tools and major findings of the study have been listed. All these work are compiled in fourth chapter titled, "Presentation and analysis of data."

5.2 Conclusion

Nepal is underdeveloped country not only Asia but also in the world, where more people is below the poverty line. It is also villagers' country. In comparison to urban people, only limited people are poor in urban but large number of populace are poor in rural area. So without reducing the poverty the country could not go in the way of development. First of all, reduce the poverty from the village area.

It is also agriculture country; more or less 70% people depend on agriculture. And economic status is very poor, landless and below the poverty. In 21st century, farmers are using traditional system of agriculture because they have no any new idea. In this situation there should be adopted the new technology and innovation providing different credit facility as well as training by the government of Nepal and other agency. In this age too, the position of women are backward and most of them are uneducated. Here populations of women cover approximately sixty percent of total population but they are still back and poor. To solve this problem microfinance institution play the important role in Nepal.

In Nepal microfinance are operating last two decades. The microfinance and same nature of SFDB activity help to reduce the rural poverty. The poverty reduction program have undertaken by the different MFIs. ADB/N is the prominent institution of Nepal dealing with the poverty alleviation program in Nepal through SFDP since 1975. This is first government exercise for poverty alleviation. The main objectives of this program was to improve the socio-economic condition of the small and landless farmers and to reduce rural poverty by providing them basic inputs such as credit , technology and training approach.

Last a decade; poverty alleviation program is conducted by the SFDBL through SFCLs and some microfinance institutions by providing development training and different kind of short and long term loan facility and Capacity development training to small farmer, women, down trodden people and disadvantage group of people in our community. Loan is especially provided for the agriculture development and they generate employment opportunities from own agriculture business which increase the income as well as life too. The loan investment and repayment trend of SFDB is increasing trend and some ratios are satisfactory level.

The four types of MFIs (GBBs, PMFBs, FI-NGOs, and Co-operatives) are also launching the rural poverty alleviation program. They also focus the group saving, provide the loan facility in small

quantity to the rural poor, women and also small farmers of Nepal. Loan disbursement, loan outstanding, loan recovery trend are seemed satisfactory. Similarly, saving to loan outstanding (SLO) have capacity to bear the loan outstanding from their saving, outstanding loan to total assets ratio have short of 9% to recovered the minimum desired level which is co-operatives but other three achieved the minimum desired level. ROE is good position of all and ROA is also positive of all four MFIs.

Hence, SFDB and MFIs play the vital role to improve socio-economic condition, position of women and agriculture sector of Nepal. This microfinance has a strong role as an instrument for poverty alleviation program.

5.3 Recommendation

Based on the analysis, interpretation and conclusion the some of the major recommendation are as follows:

1. First of all increase the value of business to identify population by providing them necessary amount of loan to the needy farmers, women etc. The population identification helps to know who the needs of finance and who need not finance.
2. The bank increases the amount of loan investment to expand the services but always be cared to collect this invested amount. The bank more emphasis should be given to loan of short duration as they are easily repayment and it should be collected yearly basis in the proportion to the loan investment.
3. Credit facility should be extended to the rural people who give strong desire to obtain financial assistance for undertaking income generating activities to uplift social status. However, the loan should be provided to the basic guarantee of the family member and group security.
4. Government of Nepal, NRB, and ADB/N should increase the amount of investment and also encourage the investor to invest in the SFDBL and MFIs.
5. MFIs should be real invested in the target group and real fields. Time to time supervision, monitoring and guideline should be done by MFIs.
6. Continuous leadership training, skill oriented awareness program should be done to the poor farmers, women, minority people, staffs and managers of SFCL. Financial undisciplined can be controlled by NRB, ADB/N, SFDB and microfinance institution through inspection, supervision, monitoring, directing, controlling and guiding the activities of MFIs.
7. Creation of feeling of ownership should be generated among service holders through training and seminar program.

8. Shareholders are also real owners of the organization. But they do not seem to be happy with the low rate of return on equity. It is recommended that the management should emphasis on the maximizing wealth of share holders by maximum utilizing share holder's equity.
9. The extensive use of debt capital sometime bring failure situation because debt must be payable in given time period. So debt holders are not real owner of the organization, it must be payable interest and principal within the time period. So management team should be care in using debt. Therefore, it is suggested to MFIs to assess the assets before accepting volume of deposits. On other hand, if MFIs want to take leverage benefits it should be increase but it is risky.
10. Expenses are the great determination to increase or decrease the profitability position of MFIs. Overstaffing and interest expenses on deposit should be controlled; this increases the expenses and reduces the profit. Thus it is recommended that the bank should try to reduce the overstaffing and higher interest bearing expenses such as fixed deposit, saving deposit and others.
11. Appropriate technology and innovation should be introduced by the MFIs in area of agriculture.
12. It is also essential for peace, security and political stability within the country.

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Appendix -1

Small Farmer Development Bank Limited

As at Asadh 32, 2068 (As at July 16, 2011)

Balance Sheet

Capital and Liabilities	This Year Rs	Previous Year Rs	Assets	This Year Rs	Previous Year amount
Share Capital	128787600	128787600	Cash	1199685.56	428260.40
Reserve and Funds	269674317.83	234036405.97	Nepal Rastra Bank balance	12000000	4500000
Debenture and Bonds	-	-	Bank Balance	71838484.52	37785113.75
Borrowing	2155092266.97	836721909.78	Money at call and Short notice	624405760.34	56040155.65
Deposit Liability	-	-	Investment	127010000	117019555
Bills Payable	-	-	Loan advance Bills Payable	1832247733	1083561846
Proposed and Payable dividend	-	-	Fixed assets	9985950.66	2184663.71
Income tax Liability	656912.56	3060186.18	Non Banking Assets	-	-
Other Liability	145528868.28	107814120.94	Other Assets	21052351.56	8900628.36
Total Liability	2699739965.64	1310420222.87	Total Assets	21052351.56	8900628.36

Appendix-2

Small Farmer Development Bank Limited

Profit and Loss Account

For the period Sharawan1, 2067 to Asar 32, 2068

(July 16, 2010 to July 16, 2011)

Particular	This Year Rs	Previous Year Rs
Interest income	185053963.07	121554850.82
Interest expenses	104577833.49	61376183.15
Net interest income	80476129.58	60178667.67
Commission and discount	113357.33	1549915.09
Other operating income	1239481.11	427266.27
Foreign exchange income	-	-
Total operating income	81828968.02	62155849.03
Personal expenses	13168640.04	13735299.22
Other operating expenses	9714634.41	7031935.85
Exchange losses	-	-
Operating profit before loss provision	58945639.57	41388613.96
Provision for losses	15868574	11254590.26
Operating profit	43077119.57	30134023.69
Non operating gain or gain or losses	-	-
Reserve from loan loss provision	3173540	-
Profit from regular operation	46250659.57	30134023.69

<i>Extra ordinary operational gain loss</i>	-	-
Net profit from wholesale operation	46250659.57	30134023.69
Provision from employees bonus	4204605.42	2739456.70
Income tax provision	12976078.04	8354701.19
) This year	12969030	8696465.07
) Previous year	-	-
) Deferred tax income/expenses	(2951.96)	(341763.88)
Net profit	29069976.11	19039865.80

Appendix-3

Small Farmer Development Bank Limited

Profit and loss Appropriation Account

For the period Shrawan 1, 2067 to Asadh 32, 2068

(July 16, 2010 to July 16, 2011)

Particular	This Year Rs	Previous Year Rs
Income		
Retained earnings previous year	21756732.38	10293774.68
Profit this year	29069976.11	19039865.80
Exchange equalization fund	-	-
Total	50862708.49	29333640.48
Expenditure		
Net Retained loss last year	-	-
Net loss of current year	-	-
General reserve fund	5813995.22	3807973.16
Contingent reserve fund	-	-
Institutions development fund	-	-
Dividend equalization fund	-	-
Employee related fund	1453498.81	951993.29
Proposed dividend	-	-
Proposed bonus share	-	-

Special reserve fund	-	-
Exchange equalization fund	-	-
Capital redemption fund	-	-
Capital adjustment fund	-	-
Institutional improvement fund	2906997.61	1903986.58
Replacement fund	872099.28	571195.97
Investment adjustment fund	10000	-
Deferred tax reserve	2951.96	341763.88
Last year adjustment	-	(4.78)
Total	11059542.88	7576908.38
Retained earnings or loss	39767165.61	21756732.38

Appendix-4

Small Farmer Development Bank Limited for the period of Sharawan 1, 2067 to Asar
32, 2068

(July 16, 2010 to July, 2011)

Cash flow statement

Particulars	This Year Rs	Previous Year Rs
Cash flow from operating activities	(1269067143.62)	(196356392.87)
Cash inflow	171756932.07	113843124.61
Interest income	171604388.49	112079905.66
Commission and discount income	113357.33	1549915.09
Foreign exchange transaction income	-	-
Income from loan write off	-	-
Other income	39186.25	213303.86
Cash outflow	135293887.74	89869956.40
Interest expenses	99964608.36	61007076.91
Personnel expenses	12126968.04	12506541.22
Office operating expenses	7820007.72	6412639.33
Income tax payment	15382303.62	9943698.94
Other expenses	-	-
Cash flow Before change in working capital	36463044.33	23973168.21
Increase and decrease in Current Assets	(1341895296.93)	(176666023)
Increase and decrease in money at call and short notice	(568365604.69)	170063107.24

Increase and decrease in short term investment	-	-
Increase and decrease in loan and bills payable	(761380921)	(363394275)
Increase and decrease in other Assets	(12148771.24)	16665144.97
Increase and decrease in Current liability	26365108.98	(43663538.29)
Increase and decrease in deposits	-	-
Certificates of deposits	-	-
Increase and decrease in short term borrowings	-	-
Increase and decrease in other liabilities	26365108.98	(43663538.29)
Cash flow from Investing Activities	(6200147.06)	(11011602.59)
Increase and decrease in term investment	(9990445)	(19973133)
Increase and decrease in fixed assets	(9659276.64)	(513414.75)
Income from long term investment	13449574.58	9474945.16
Dividend income	-	-
Others	-	-
Cash flow from Financing Activities	1327592086.61	194809563.05
Increase and decrease in long term borrowing	1308370357.19	195976626.63
Increase and decrease in share capital	-	5658100
Dividend Payment	-	-
Increase and decrease in other liabilities	9221729.421	(158496.92)
Increase and decrease in subsidized/ refinance loan from NRB	10000000	(6666666.66)

Income / loss from change in exchange rate in cash and bank balance	-	-
Cash from total activities of the year	42324795.93	(12558432.41)
Opening cash and bank balance	42713374.15	55271806.56
Closing cash and bank balance	85038170.08	42713374.15

Appendix-5

Indicators of Small Farmer Development Bank Limited

Particular	Indicators	2007	2008	2009	2010	2011
Net profit / net income	%	0.93	5.29	13.33	15.41	15.59
Per share income	Rs	0.63	5.80	12.32	14.78	22.57
Per share market income	Rs	-	-	-	-	-
Price earnings ratio	Ratio	-	-	-	-	-
Dividend in share capital	%	-	-	-	-	-
Cash dividend in share capital	%	-	-	5.26	-	-
Interest income/ loan and borrowing	%	9.08	9.21	9.19	11.01	10.59
Staff expenses / total operating expenses	%	8.12	8.22	12.36	14.41	9.19
Total income	%	-	-	-	-	-
Staff bonus/ total staff expenses	%	8.12	8.22	20.01	19.94	31.93
Net profit/ loan borrowing	%	0.08	0.49	2.01	1.71	1.55
Net profit/ total assets	Ratio	0.07	0.41	1.33	1.45	1.08
Total operating expenses / total assets	Ratio	7.73	7.79	7.86	7.13	5.31
Risk weighted assets(capital funding adequate)						

a) Primary capital	%	15.17	14.85	36.37	28.70	12.90
b) Complementary capital	%	1.31	1.36	0.79	0.89	0.86
c) Total capital	%	16.48	16.21	37.16	29.59	13.76
Capital reserve ratio	Ratio	-	-	-	0.54	0.56
Weighted average interest rate spread	%	2.36	2.44	1.84	3.17	4.03
Book net worth(per share)	Rs.	189.89	192.22	275.69	281.72	309.39
Total share	No	1198591	1231295	1231295	1287295	1287876

Appendix -7

Selected four types of MFIs

S.N	Name of the MFI
	GBBs
1	Eastern –GBBs, Biratnagar
2	Central –GBBs, Janakpur
3	Western –GBBs, Butwal
4	Mid western –GBBs, Nepalgunj
5	Far western –GBBs, Dhangadi
	PMFBs
1	Nirdhan Utthan Bank Limited, Bhairahawa
2	Chhimek Bikas Bank Limited, Hetauda
3	Swabalamban Bikas Bank Limited , Janakpur
4	Nerude Laghubitta Bikas Bank Limited, Biratnagar
5	District Development Bank Limited, Chitwan
	FINGOs
1	Development Project Service Centre Nepal, Kathmandu
2	Forum for Rural Women Ardency Development, Sunsari
3	Jeevan Bikas Samaj, Morang
4	Centre for Self –Help Development, Kathmandu
5	Mahuli Community Development Centre, Saptari

6	Nepal Rural Development Organization, Parbat
7	Centre for Women and Development, Saptari
	Co-operatives
1	Sahar Nepal Saving and Credit Organization, Jhapa
2	Women Co-operatives Society Limited, Kathmandu
3	Karnali Saving and Credit Organization, Jhapa