

**Analysis on Performance of Microfinance in
Nepal**

(A Case study of Nirdhan Utthan Bank Limited)

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**ANALYSIS OF PERFORMANCE OF MICROFINANCE INSTITUTION IN NEPAL**” submitted to Office of Dean, Faculty of Management, Tribhuvan university in my original work done for the partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision of Dr. Shanker Thapa of St. Xavier College.

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ABBREVIATIONS

ADB	: Asian Development Bank
ADBL	: Agriculture Development Bank Limited
CSD	: Centre for Self-Help Development
FI-NGO	: Financial Intermediary Non-Governmental Organization
INGO	: International Non Governmental Organization
LLP	: Loan Loss Provision
Ltd.	: Limited
MCPW	: Micro Credit Project for Women
M-CRIL	: Micro- Credit Ratings International Limited
MFI	: Micro Finance Institutions
NGO	: Non-Governmental Organization
NPL	: Non-Performing Loans
NRB	: Nepal Rastra Bank
NUBL	: Nirdhan Utthan Bank Limited
PGBB	: Paschimanchal Grameen Bikas Bank
Pos	: Partner Organizations
RFI	: Regulated Financial Institutions
RMDC	: Rural Microfinance Development Centre
ROA	: Return on Assets
ROE	: Return on Equity
SCC	: Saving & Credit Co-operatives
SFCL	: Small Farmers Co-operatives Limited
SFDB	: Small Farmers Development Bank
SFDP	: Small Farmers Development Program
VDC	: Village Development Committee

CHAPTER I

INTRODUCTION

1.1 Introduction

Nepal is one of the developing countries in the world. The overall populations are educated living with a very low per capita income. Two fifth of the total population are living below poverty line in which the women counts a higher portion. Popularly provoked reasons of poverty are lack of education, gender imbalance and unequal wealth distribution which is also supported through geographical hardship, cast & ethnic discrimination, lack of awareness. Similarly lack of unity, cooperation and people centered programs reflect quality of accountability of the government which has exuberating of the livelihood of women in the country.

More than half of the population survives with income of less than one dollar a day. The annual income growth rate counts only 3.5 percent over the last decade which is even lower than average of other South Asian countries. It reveals low production and productivity and also unequal distribution of wealth. Since women cover around half of the total population, all attributes development index seems quite discouraging. Among which the literacy rate women is only 34.6 percent and participation of women in Council of Ministers is 5.55 percent and in civil services is 8.55 percent. (*National population census2005*)

Most of the Nepalese women are living with limited educational skill and lack opportunities which enforced them only in extensive involvement of household chores and in reproduction. The status of Nepalese women has been deeply affected by the various social factors like religious practices, traditional culture threatening customs and norms. They are always dependent and responsible to the main household generally at three different stages in their lifetime i) parents before marriage, ii) husband after marriage, and iii) son at the old age. Also they are more responsible in social binding not only in maintaining family courtesy but also carrying out day-to-day social, religious, cultural and other family activities. These practices have seriously affected the role, status and overall development of women. After the restoration of multi-party system in 1990, government and donor agencies have launched the popular program "micro finance" with a view to empower the poor, women, and Dalit in both rural and urban areas to raise the economic status in national perspective. Through the micro-finance program, the targeted group were able to earn and save some money

which they have had invested to themselves or for their child and family. With this process, they built up their confidence through exposure of income generating activities. Micro finance scheme also helped women to have access and control over their income which can be considered as a activity illustrating women empowerment. This has played a very positive role in women development including their livelihood, security as income, health, food security, nutrition and also in decision making activity.

The Tenth Year Plan (2002-2007) emphasis on poverty alleviation and micro-finance is expected to contribute to accelerate agricultural growth, reducing poverty and yield better status for women. The success of women benefits their families as well as their societies. Several institutions confirmed the well documented fact that women are more likely than men to spend their profits on household, family needs and saving characteristics. Assisting women therefore generates a multiplier effect that enlarges the impact of institutions activities.

During the 20th century, it has been accepted that micro finance is one of the most significant contributors on poverty alleviation and in women empowerment. Bangladesh is exemplary in cooperative activities. Prof. Muhammad Yunus, The Nobel Prize Winner, is one of the pioneers in cooperative activities who used to provide loan to the poor people through cooperatives without any collateral and in low interest rate. The repayments were available to over 97 percentage of the total loan.

In Nepal, Government has started various micro finance activities to promote and access income generating activities which promotes poor and landless women to the small scale earning activities by providing them an access to credit without collateral or in low collateral. The objectives of these activities are to raise income and involve women in community development process. For better result and its success, micro finance is necessary in our country at present situation not only to empower rural or urban women, but also to get multiplier effect on economic development of the country starting from the lower strata of the society.

1.2 Background of the study

Basic financial services, like credit, savings and insurance, give people an opportunity to borrow, save, invest and protect their families against risk. But with little income or collateral, poor people are seldom able to borrow money from banks and other formal financial institutions. Even

when they do have income or collateral, the amounts they require are often too small to appeal to banks. Instead, poor people tend to rely on informal financial relationships, like village moneylenders, that usually come at a very high cost to borrowers.

Microfinance has attracted much attention in the recent years. Some commentators have brimmed over with enthusiasm and optimism and see microfinance as the panacea to underdevelopment. Microfinance institutions, such as financial cooperatives, financial non-governmental organizations and rural banks among others, can provide poor people with small amounts of credit at reasonable interest rates. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor and low-income households and their micro enterprises. Therefore, microfinance delivery mechanism could help to these poor people who have no any collateral but have willingness to work, and want to do some business from which they will get employment as well as income. Microfinance is one of the development tools, which benefit thousand of the poor people, poor women, micro-entrepreneurs and peasant farmers and anticipate that the industry should transform further as a lucrative business providing financial services for the poor. While targeting the poorest of the poor, microfinance program attract a large majority of women clients. Other microfinance programs have been established exclusively for women, not only because they are more vulnerable than men and represent the poorest of the poor, but because they have proved to be more successful in repaying loans. However, most studies and publications show that small loans and micro enterprises development have a positive impact on the economic empowerment of women.

1.3 A Brief History of Microfinance

The term microfinance was not used in the earlier past of the history of rural microfinance. It has been found used in Nepal only since the late 1990s. Rural credit in Nepal began in 1956 with the opening of Credit Cooperatives in Chitwan Valley to provide loans to the re-settlers coming from different parts of the country. Through the creation of the Cooperative Development Fund (CDF), the government arranged some credit support to the resettles. In 1963, the government established the Cooperative Bank, which was later converted into the Agricultural Development Bank Limited (ADBL) in 1968. The Cooperatives faced problems of shortage of fund for credit disbursement to their members on the one hand and misappropriation of borrowed fund for personal uses by some of their officials on the other. Hence, the government commissioned a fact-finding mission in 1968 to

probe the operations of 1489 cooperatives then registered with the Department of Cooperatives and the mission found most of them at defunct stage and recommended for liquidation.

Thereafter, the government introduced the Cooperative Revitalization Program in 1971. It authorized the Agricultural Development Bank Limited to run cooperatives under its guidance and management. In 1976, 'Sajha Program' was launched and the Cooperatives were renamed as 'Sajha Societies'. The compulsory savings collected under the Land Reform Program of 1964 (2021 B.S) were converted into the share capital of the Sajha Societies. The NRB conducted a benchmark survey in 1983/84 to assess the situation of the cooperatives. The study found that 94% of cooperatives were dealing with transactions of agriculture inputs and 85% were also found extending credit. Most of the cooperatives were running at losses and over 75% of the outstanding loan was overdue for more than 1 year.

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

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

The Nepal Rastra Bank (NRB) initiated Small Sector Lending in 1974 directing the commercial banks (CBs) to invest 5% of their deposit balance in Small Sector, which was later designated as "Priority Sector Lending" in 1976. The NRB subsequently initiated the "Intensive Banking Program" (IBP) in 1981 to boost up PSL lending to low income groups and required CBs to raise PSL to 8% of

CBs' loans and advances, which was further raised to 12% in 1989. The main partners of PSL were the Nepal Bank Ltd. (NBL) and the Rastriya Banijya Bank (RBB) - the two state controlled CBs. The share of NBL and RBB in rural credit supply was 4.1% and 2.4% in the Sixth and 12.3% and 6.7% in the Seventh Plan period. Loans under PSL were classified into agriculture, cottage industries and services. Target groups under PSL were low-income families with Rs. 2,511 or less per capita income per year. The beneficiary must contribute 20% of the project cost if the loan size was more than Rs. 15,000. NBL and RB charged 15% to 16% interest rates on priority sector loans. They provided loans up to 80% of the appraised value of the collateral for low income and 70% for high-income families. However, these CBs provided loans to the group members of Production Credit for Rural Women (PCRW) formed by Women Development Section (WDS) of the Ministry of Local Development and the groups formed by bank staff without collateral on just group guarantee. The loan limit for such loans was Rs. 30,000.

The Grameen Bank model of Bangladesh was replicated in Nepal with the establishment of Eastern and Far-Western Grameen Bikas Banks (GBBs) in 1992. The target groups included the framers in the Terai with holdings less than 1 Bigha (0.67 ha) and in the hills with holdings less than 10 ropani (0.5 ha), and the landless. It followed the 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 the NRB (75%), and by the CBs (25%). The first two GBBs started functioning from the middle of 1993. They charged 20% interest and the main source of funding for lending came from NRB and CBs. In the meantime, two NGOs – the Nirdhan and the Centre for Self-help Development (CSD) also launched microfinance programs replicating the Grameen model in 1993 and 1994 respectively.

The financial Intermediaries Act was enacted in 1998 to regulate the financial intermediaries NGOs (FINGOs) on carrying out microfinance activities. This was claimed to be a breakthrough in legalizing the operation and activities of NGOs as microfinance operators. With the enforcement of this Act, two FI-NGOs, Nirdhan, and the Centre for Self-Help Development (CSD) also got registered under it. Later 47 NGOs got a license from the NRB to operate as FI-NGOs.

In 2004, the government introduced the Banks and Financial Institutions Ordinance (which was converted into an Act in 2006) which has a provision of licensing microfinance banks as class 'D'

banks. As a result, 13 microfinance banks have been issued a license by the NRB . In order to avail small wholesale funds to cooperatives and NGOs providing loans to low income groups, the government had created a fund called Rural Self-Reliance Fund (RSRF) in 1991 with Rs. 20 million contributed from the government itself. The government with the assistance from ADB and NRB also established the Rural Microfinance Development Centre Limited (RMDC) in 1998, to provide larger wholesale loans to MFIs through implementation of the ADB assisted Rural Microfinance Project (RMP). After the operation of RMDC, several MFIs were added to the microfinance market and the coverage by microfinance institutions also increased with faster speed. The government had also instituted another wholesaler, the Sana Kisan Bikas Bank Limited (SKBBL) in 2001 to provide wholesale funds to the Small Farmers Cooperative Limited (SFCL) in 2001. With all these initiatives and efforts microfinance has gained a new momentum as an industry. Besides this, all these self-help groups were also promoted by several rural and community development projects, as well as donors providing small credit to self-help group members through grants for seed funds.

1.4 Evolution of Micro Finance in Nepal

The practice of micro financing has been in existence in our country for a long time. In the villages wealthy people known as 'sahus' & 'mahajans' used to charge very high interest rates ranging from 36% to even 100% for a petty some of loan of Rs.1,000 to Rs.15,000. On default of loans they used to confiscate the land against which the loan was given. They even used the children of the borrower as a bonded laborer to work in their house and farm. This fact has also contributed to the realization of need to the government to setup micro credit institutions to provide loan to poor people without any collateral. Beside village money lenders there were other informal sectors like village co-operatives, informal groups like 'dhikuti' where each member contributes equal sum and from the collective saving loan is given in rotation system in the order of highest bidder in terms of interest for the loan.

In Nepal, the beginning of institutional credit goes back to 1956 when rural credit cooperative was established for the first time in Rapati valley of Chitwan to extend credit to resettle. Co-operative societies having single (credit) and multi purpose function provided credit to members for undertaking income generating activities basically in agriculture sectors. The Co-operative Banks and later the Agriculture Development Bank were established for providing credit to co-operatives and farmers including small entrepreneurs. In 1974, Nepal Rastra Bank (NRB), the central bank of Nepal, directed commercial banks to disburse at least 5 percent of their deposit in credit to small

sectors. Latter, the percentage was raised to 12 percent in the view of the increasing demand for credit by this sector. This sector included agriculture, cottage industries etc, which employed majority of the population and contributed significantly to the national economy. The government implemented production credit for Rural Women and Micro-credit project for women which identify and organize women and link with then the credit disbursed by commercial and development banks. These two programs were exclusively for the women who live below the officially defined poverty level. Similarly, Agriculture Development Bank Nepal Ltd. (ADBL) started a targeted credit program entitled “Small Farmers Development Program (SFDP)” as early as in 1975/76. SFDP has targeted its credit to both the poor men and women population. However, within SFDP, the women are exclusively targeted under a separate women development program where the groups of women are organized and women staff of SFDP links them to access SFDP credit without collateral. The programs has arranged for providing inputs and services for community development integrating it with credit disbursed on a group guarantee basis. Simultaneously, considering very limited share, less than 1 percent in total credit disbursed of commercial banks on agriculture credit, central bank directed commercial banks in 1974 to invest at least 5 percent of total deposits in “Small Sector” to increase flow of bank credit towards developing small farmers, industries and other small sectors. This scheme was known as “Small Sector Supervised Credit” which was renamed as “Priority Sector Credit” in 1976 and further renamed as “Intensive Banking Programs (IBP)” in 1981. With the increasing need of the institutional financing mechanism for rural women, a program to ensure women was started in 1981/82 with the introduction of Women Development Program (WDP) within the operational framework of SFDP. Soon after, in 1982, the Women Development Division (WDD) of the Ministry of Local Development (MLD) introduced in Production Credit for Rural Women (PCRW) project with two public commercial banks NBL, RBB and UNICEF as their partners and the program was specially targeted to women. The micro-finance sectors gained momentum after 1990 with the restoration of democracy and surges in involvement of government, semi-government sectors. As of today, Government of Nepal has introduced Gramin Banking concept in to the country opening five Regional Grameen Bikas Banks. In addition, currently many NGOs have been providing micro-finance services either using Grameen Model or grass-root level institution building model. A few of these are Development Projects Service Center (DEPROSC-Nepal), Social Welfare Council, CEPRED-Nepal or saving and Credit Group models. There is also huge Asian Development Bank funded Micro Credit Project for Women (MCPW) which aims at development mechanism to use NGOs as credit agents to connect clients to commercial banks and the implementation of the project started in 1994. MCPW program is being administered by WDD of MLD and ADB. Thus, under Nepalese circumstances, the micro-finance sectors are complex phenomenon comprising

SFDP, PCRW, IBP, MCPW, Grameen Bank, NGOs and multilateral and bilateral institution initiated program and Saving and Credit Co-operatives.

There are more than 70 institutions (national regional and district level) and 750 saving and Credit Co-operatives are operating in micro-finance services in rural areas of Nepal. Nepal is one of the poorest countries in the world and is one of the least poor in the South Asian Region. Its poverty reduction rate is the lowest in the South Asian Region. Main reasons of this low poverty reduction are; low per capita income, urban concentrated growth, high population growth rate etc. Thirty-one percent population lies below poverty line and most of the poor live in rural areas having no opportunities. Micro-finance delivery mechanisms could help these poor people who have no collateral assistance. They, who have willingness to work and want to start their own business will get employment and eventually earn income from the same. Being the poorest country in the world, major objectives of most of the plans and programs of Nepal are poverty alleviation. Many programs have been as a poor-targeted rural based programs as well as micro-finance have proved to be one of the most significant contributors to poverty alleviation and women empowerment. It has been important means of breaking the various circles of poverty and uplifts the economic status of the poor. Nepal initiated rural micro-finance since 1970 through the establishment of credit co-operatives, implementation of Priority Sector Credit Program and Small Farmers Development Program (SFDP). The goal of micro-finance services is to create income and employment opportunities for the rural poor people providing micro credit and mobilizing savings.

The Ninth Plan of the country has considered rural credit to be the key part of poverty reduction. The Tenth Plan also has emphasized it for poverty reduction in the targeted areas. This micro-finance has expected to contribute to accelerate the growth of agriculture, reduction of poverty and improve the status of women. As the participatory approach to development becomes increasingly accepted, the status of women has improved partly. Micro-finance programs in Nepal have different modalities. Some are community based such as Saving and Credit Co-operatives, some are sectors based such as Priority Sectors Program that includes agriculture, cottage and small industries and services are implemented through the commercial banks. Intensive Banking Programs introduced by NRB focuses on a particular area for its upliftment. The Deprived Sectors Landing Program focuses on poor people. The Production Credit for Rural Women and Rural Development Banks are gender based program, which focused on women. In the same way, such micro-finance program has made it possible for rural women to have access and control over income. It has played a very positive role in women development.

1.5 An Overview of Nirdhan Utthan Bank Limited

Nirdhan, which initially means “people without capital”, was founded as an NGO specialized to microfinance in 1991. The founder of Nirdhan is Dr. Harihar Dev Panta who once served as Deputy Governor of Nepal Rastra Bank. In 1986, he visited Grameen Bank, Bangladesh and was inspired to replicate the bank’s model in Nepal. Despite positive economic growth in the urban sector over the past decades, agriculture has remained stagnant and nine out of ten Nepalese live in the rural areas where infrastructure is lacking and illiteracy is the norm. Some 70% to 80% of the population is poor, and almost half the population, some nine million people, falls into the category of the hard-core poor. Poverty is most severe in the mountains of Nepal. But Dr Pant decided that these scattered, inaccessible communities were too daunting a place to being the Nirdhan project. So in 1993, Nirdhan started its operation in Siktohan in Western Nepal near the Indo-Nepal border as Terai plains has the poor and dense population just like Grameen Bank Bangladesh has. Nirdhan had only one manager and one credit officer for microfinance services in the beginning, but soon it started expansion its operational scale.

Nirdhan obtained a limited banking license from Nepal Rasta Bank (The Central Bank) in 1994 and it was permitted to mobilize voluntary saving only from its member/clients. The growth of operational size was quite rapid and by July 1997, Nirdhan had 8 branch offices, 75 employees and 4481 active borrowers. In November 1998, Nirdhan Utthan Bank Ltd. (NUBL), which means "the bank for upliftment of the poor", was registered with the Company Registrar with the recommendation of Nepal Rastra Bank.

Now, operated under Bank and Financial Institution Ordinance 2013, NUBL provides microfinance services such as Loans, Deposits, Micro insurance and Remittance services to rural poor of Nepal. NUBL is one of the very few MFIs in Nepal that provides such variety of microfinance services. The maximum limit of the loan amount NUBL issues is Rs. 150,000.00 (In Words: One Lakh fifty thousand only) for the period of up to 3yrs as a Micro-enterprise loan and minimum limit of the loan amount issues is Rs. 4,000 for up to period of 2 years as a tube well/ irrigation loan. As of march 2009 record, Nirdhan Utthan Bank Limited (NUBL) is providing microfinance services to 92,542 clients of Nepal through its 75 branches networks, 4 regional networks, and its headquarter.

Goals

The primary goals of Nirdhan Utthan Bank are to:

-) Reach a maximum number of poor households with potential and financial viability by adopting proven delivery mechanism.
-) Develop a well-managed institution with high staff morality.
-) Enhance women's self-respect through social awareness, proper use & on-time repayments of loans, regular savings and provision of related micro-finance services.

Target Clients

Nirdhan Utthan Bank recruits new clients who fit the following targeting criteria for its group based financial services:

-) Own less than 0.25 hectares of irrigated land or less than 0.5 hectares of un-irrigated land per five-person family.
-) House must not have cement walls or ceiling (pucca house). Permanent residents of area.
-) No family members employed in the formal sector.
-) No current loans from other financial service providers.

Product and services

The product and services provided by NUBL are:

Saving Products

Products	Source
Compulsory Saving	Need to maintain Rs. 500 or 10% of loan outstanding whichever is higher
	Rs. 4 per center meeting
Personal / Voluntary Saving	Open to group based client as well as remittance client

NUBL provides 6% interest rate on client saving. *Source: Annual report NUBL*

Loan product

Products	Maximum Limit Rs.	Loan Period
General Loan	60000	Up to 2 years
Fertilizer Loan	10000	1 year
Seasonal Business Loan	10000	6 months

Tube Well / Irrigation Loan	4000	2 years
Pit Latrine Loan	8000	2 years
Homestead Purchase (Ghaderi Loan)	20000	2 years
House Construction Loan	50000	Up to 6 years
House Repair Loan	20000	2 years
Micro-enterprise Loan	150000	Up to 3 years
Bio-gas Loan	20000	Up to 5 years
Foreign Employment Loan	100000	Up to 3 years
Education Loan	50000	Up to 3 years
Emergency Loan	10000	2 years

NUBL charges 10% to 20% interest rate on declining basis.

Source: Annual report NUBL

Other Services

Services	Description
Micro Insurance	Livestock Insurance (Premium = 3% of the loan value)
	Micro-life Insurance (Social Security Fund) (Premium = from Rs 70 to Rs 280 on a yearly basis)
Remittance Service	

Source: Field visit 2069

1.6 Statement of the Problems

The economic condition of the people in Nepal is very poor. Despite ongoing development efforts, poverty remains rampant in Nepal with approximately 25% of the population living below the poverty line. The incidence of poverty is highest in rural areas, particularly in the remote areas.

As discussed earlier that microfinance has emerged as a powerful and most sustainable tool for poverty reduction. Microfinance means the easy access of financial services to low income people, often without physical collateral. Microfinance assists the poor by; a) promoting investment in `assets, b) facilitating activities to earn a livelihood, c) protecting against economic shocks, and d) building social capital and improve quality of life. Even though microfinance is playing vital role in the aspect of poverty reduction; only few academic based analyses has been done in this sector. Higher percentage of the research is done in commercial sector only. Almost all theses submitted to the Faculty of Management of Tribhuvan University are related to the

commercial banks. Therefore, it is necessary and vital to undertake research on microfinance institutions of Nepal in order to find out their financial position as well as how their work has made impact to the lives of clients who are poor and marginalized.

Therefore, this study has focused to assess the performance and the impact of microfinance programmes on the socio-economics status of rural people with the special reference to NUBL, the oldest and biggest microfinance institution of the country.

In a nutshell, the research will try to investigate the following questions.

-) What is the current financial performance of NUBL?
-) Have the positive changes been occurred and empowerment due to increased access to financial services that results from NUBL supported microfinance intervention?

1.7 Objective of the Study

The general objective of the study is to assess the financial performance of Nirdhan Utthan Bank Limited and its impact in the socio-economic status of the lives of target population or clients. The specific objectives of the study are:

-) To analyze NUBL's Financial performance
-) To assess the social impact of credit program of NUBL
-) To examine the performance of bank in change with the socio-economic situation of poor people.

1.8 Significance of the Study

This study is devoted to assess the financial performance analysis of NUBL. Therefore, it provides important guidelines to the management in setting suitable policies and guidelines in future.

As mentioned earlier that a large number of academic researches are based on commercial banks. It means, there are only a few academic researches that have covered microfinance institution and its services. It is sad that microfinance institution which has a significant contribution in poverty reduction, social and economic development of poor people have been left out to a large extent from the academic research. Therefore, this study will fulfil this gap.

Again, there is no any research undertaken of NUBL focusing on both financial performance analysis and social impact assessment. Therefore, this study will cover these two aspects of the bank.

1.9 Limitation of the Study

This study has the following limitations:

-) The analysis and conclusion is made on the basis of the data of five years time period from Fiscal Year 2064/65 to 2068/69 Therefore, the findings reflect only of that time period exclusively;
-) The social impact of NUBL is examined from the field visit and survey undertaken in branch offices located in Butwal of Rupandehi. Therefore, the results may or may not be generalized in other branches of NUBL. It may be also difficult to generalize in other types of microfinance institution of Nepal.
-) The socio-economic changes among the NUBL members have been examined on the basis of their sole responses as there was not any clear way or mechanism to verify their answers, e.g. Income rise. Therefore, the opinions expressed in the field survey were taken as honest and true answers.

1.10 Organization of the Study

The study has been organized into five chapters. They are:

Chapter 1: Introduction

This chapter contains the introduction of the study. It includes general background, statement of problems, objective of the study, significant of the study, limitations of the study and organization of the study.

Chapter 2: Review of Literature

This chapter includes review of related reports and articles, review of related case studies, review of previous thesis.

Chapter 3: Research Methodology

This chapter explains the methodology used in this research to find the result for achieving the objectives set earlier. It includes research design, population and sample, sampling procedure, source of data, data collection procedure, data processing procedure and analysis tools.

Chapter 4: Presentation and Analysis of Data

It deals with presentation and analysis of secondary and primary data. First section covers the presentation of secondary data, which tries to fulfill the first objective of the study. The next part covers the analysis of primary data which tries to fulfill the other objectives of the study. Major findings of the study have been presented at the end of this chapter.

Chapter 5: Summary, Conclusion and Recommendations.

It states summary, findings, conclusions and recommendations of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Review

Nepal is one of the developing country in South Asia with two fifth of the population in absolute poverty. The intensity of poverty is higher among women and low caste communities. The gender empowerment level is even low. The literacy rate of female is almost half to that of male; they have poor health condition; no property rights and no decisions making power. By this, the women have no access to income and employment opportunities. Only five percent of the women labor force is in formal sector job and rests are in informal jobs where the working condition is very difficult.

Poverty reduction is one of the major objectives of the government. According to The Tenth Plan, this is supposed to be attained through broad based high economic growth, social development, targeted program for women and deprived section of society and good governance. For this, specific programs are focused on women. They include education, health, income earning and employment generating activities based on micro finance services.

2.2 Micro Finance

Access to financial services can be an important tool for preventing people from falling into-or moving out of-poverty. As all economic agents, low income households and micro entrepreneurs can benefit from credit, savings and insurance services. These services can help them take advantage of business opportunities, increase their earning potential, build assets and reduce vulnerability to external shocks. Without access to finance from professional service providers, low income, disadvantaged groups have to rely on informal sources of funding such as family, friends or money lenders and may become targets of predatory schemes. Financial exclusion and restricted access to financial services thus reduces the potential welfare of individuals and the productivity of enterprises in an economy. Formal financial markets typically fail to serve the poor, because low income individuals tend to have insufficient traditional forms of collateral. They are often excluded from financial services offered by banks. High transaction costs relative to the small size of loan typically required by the poor also make micro finance unattractive to mainstream formal financial institutions, particularly in remote areas with low population density. As a rule, traditional formal financial service providers, such as banks, thus often fail to serve low income household and micro enterprises (Sylvie K Bououtrot 2002).

Devkota Kriti, (2002) in her book as Micro finance is considered one of the strong instruments for poverty reduction. It is characterized by saving product, small loan, group norms, insurance and money transfer. It has been well recognized as one of the effective poverty reduction programs in the developing countries. In Nepal, It has been found more successful for ameliorating socio-economic condition of the downtrodden populace such as core poor, lower ethnicity and women affecting by vulnerability, unawareness, low bargaining power, inaccessibility of development facilities, backwardness, illiteracy, disease, low income, less representation in political constituency and unproductive assets are considered.

Majority of these people are not accessing the credit easily as due to lack of the collateral. In this respect, MFIs have been providing credit on the basis of group liabilities to such downtrodden people in income generating activities such as vegetable production, livestock, raising tea and daily uses shop, marketing of goods as per their experience and market potentialities.

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

His World Bank report mentioned as micro finance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low income clients, including the self employed Since the 1980s, the field of micro finance has grown substantially. Donors actively support and encourage micro-finance activities focusing on MFIs that are committed to achieving substantial outreach and financial sustainability. Today the focus is on providing financial services only, whereas 1970s and much of the 1980s were characterized by an integrated package of credit and training which require subsidies. Most recently micro finance NGOs have begun transforming into formal financial institutions that recognize the need to provide saving services to their client to access market funding sources, rather than rely on donor funds.

Micro finance refers to small-scale financial services-primarily credit and savings-provided to people who farm or fish or herb; who operate small enterprises or micro enterprises where goods are

produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Many such households have multiple sources of income.

Savings services allow savers to store excess liquidity for future use and to obtain returns on their investments. Credit services enable the use of anticipated income for current investment or consumption. Overall, microfinance services can help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents (*Robinson, 2001*).

In CMF presentation paper-100, Micro finance may be defined as the micro financial services or products such as micro deposit, micro loan and micro insurance to the poor households and micro institutions. Micro finance institutions (MFIs) are the financial institutions that provide micro financial services or products in financial markets.

The Asian Development Bank has defined micro finance as the provision of a Broad range of financial services such as deposits such as deposits, loans, payment services, money transfers, and insurance to the poor and low income households and micro enterprises. Similarly, World Bank defined Micro finance as the provision of financial services to low-income clients, including self employed. It includes both financial intermediation and social intermediation.

In NRB 2012 Brochure, Micro finance is termed as the financial services rendered to the deprived groups of the people and small entrepreneurs in savings, credit, remittance, rural insurance etc to help them in developing self employment opportunities and various income generating activities. The service provided through micro finance can be targeted specifically at the poor and poorest of the poor, significant contribution to the socio economic status of the targeted community and the institutions that deliver these services can develop within few years, into sustainable organizations with steady growing outreach.

So, Micro finance help the economically active poor people by providing small loans which help to expand and diversify their enterprises and increase their incomes. There is substitution of Collateral like compulsory saving or group guarantees to withdraw the loan which attracts such targeted community to be a member of such organizations. Beside such characteristics of micro finance

organizations, some organizations also launch a skill training program and social services too like beautician training, tailoring, health camp etc.

Micro finance originally emerged in the late 1970s as a tool to alleviate poverty in developing countries. Western economies have started to emulate the successful experiences of the developing world. The small enterprise sector constitutes a significant part of developing countries and is an important source of employment. In Western Europe alone, two million enterprises created every year, 90% of which have fewer than 5 employees because in western economies access to external finance for the self employed and for small start up enterprises also remains limited, microfinance schemes have started to emerge as a mechanism to bridge this financing gap in complement to the mainstream banking sector.

Micro finance is best suited to serve the working poor, poverty alleviation also depends on the poor having access to food, shelter, basic social service, a stable political environment and market opportunities. Micro finance should not be miss constructed for a welfare or social assistance tool and cannot replace social programs targeted at deep pocket of poverty. It is generally most appropriate where some forms of economic activity already exist as it may create an excessive debt burden for the destitute (*Sylvie K Bououtrot 2002*).

According to Mrs Bindiya Pradhan and Mrs. Sita Shrestha the Overview of Micro Finance programs in Nepal areas follows:

Priority Sector Credit:

In 1974 Supervised Credit program was initiated under which the commercial banks were required to lend at least 5 percent of their total deposit to such areas specified as the priority sector by the HMG/N. The priority sector program has been emerged as a new form of supervised credit initiated in 1974 under which commercial banks are now required to lend at least 12 percent of their total credit to agriculture, services and cottage industries. Of the total 12 percent, at least 3 percent of loans should be provided to deprived sector people. In the process of financial reform, this provision is going to be phased out. This is because commercial banks feel it as an imposed program and alternative institutions have also come up to take this responsibility.

Small Farmers Development Program (SFDP): The program conducted by Agricultural Development Bank with the assistance of ADB. ADB is one of the pioneering group based micro credit programs initiated in 1975. Its objective is to provide credit and basic resources to develop self-reliance among disadvantaged groups for their own development and their community. The SFDP has availed micro credit to more than 197 thousand micro borrowers, out of which about 40 thousand are female borrowers. It is still the largest poverty-focused micro-credit program in Nepal. By mid July 1999, SFDP had disbursed Rs. 4.82 billion. Now the SFDP are changing into cooperatives. Production Credit for Rural women (PCRW) and Micro Credit Project of Women (MCPW): Production Credit for Rural women (PCRW) under the financial assistance of International fund for Agriculture Development (IFAD) and “Micro credit project for women” with the financial assistance of ADB is the programs launched with the objective of uplifting the socio-economic status of the rural poor women. Nepal Rastra Bank administered these programs by channelizing funds through commercial banks and Agricultural Development Bank. During the project period, Rs. 429.8 million has been disbursed through the participatory banks within the project period.

Rural Self Reliance Fund (RSRF):

The establishment of Rural Self Reliance fund (RSRF) in 1991 was another step taken so far in this regard. HMG/N availed a sum of Rs 10 million in the fiscal year 1990/91 and another Rs. 10 million in the following year. NRB has been managing the fund in such a way that the rural poor people, who are defined as deprived people, can make use of funds for income generating activities. Cooperatives and NGOs are the intermediaries to link between RSRF and deprived sector people. NRB announced in the monetary policy and program for FY 2002/03, a sum amounting to Rs 100 million from NRB profit for FY 2001/02 has been allocated to the self help fund, especially in order to meet the long term capital requirement for specified priority sectors.

Rural Development Banks:

The rural Development Banks are also micro finance institutions focused on women. In ten years time, five Grameen banks in five development region of the country have been able to form more than 34 thousand group comprising 170 thousand members. The maximum amount of loan is Rs 30 thousand per borrower. The total loan disbursed by these banks so far is Rs. 8.9 billion of which Rs 7.6 billion is repaid and Rs. 1.3 is in outstanding. This program covers 43 districts of the country and 966 Village Development Committee. With the loan operation, 153 thousand women have been

taken from the credit. The program is successful in terms of access of women on formal credit although the coverage is very low, even though this program is being successful in mobilizing women for their empowerment and upliftment.

Non Government Organizations (NGO):

A number of NGOs are also running saving credit program along the Grameen model. Center for Self Help development, Nirdhan are some NGOs which runs large scale credit programs. Some of these NGOs are convert themselves into micro finance development banks. Credit is provided by these organizations for micro level income generating activities. They start service with small loans and the size of the loans may expand with consecutive loan cycles. The progress of the client is observed closely and loans are supervised intensively. But this model of lending is successful only when there are nearby markets to generate weekly income, and operate in non-remote hill towns and terai areas. Many other NGOs working in social mobilization and rural upliftment provide credit (*NRB published Mirmire 2068*).

Shakya Dr. Rabindra K. (*NRB published Mirmire 2068*) the factors that led to an increasing interest in micro finance in Nepal are micro finance is gaining an increasing recognition as well as popularity as an effective instrument of poverty reduction. Credit is considered as a vital instrument of economic and social change promoting growth with greater equity. Increasing people's access to all the factors of production, including credit is important for poverty reduction. Micro finance can serve as an effective tool for generating employment opportunities for the poor by using their indigenous skills and potentials. Micro finance provides a fertile ground for Micro finance institutions to substantially mobilize local resources and in inculcating in the poor the habit of savings. It helps the poor participants in micro finance programs to acquire the sense of empowerment in that they can contribute to the society both as a provider of services and as a partner of development. It also help local community to develop their confidence to serve as a change agent for the development of their community, and the availability of micro finance helps utilize the latent capacity of the poor for entrepreneurship and allow them to be more self-reliant, create employment opportunities and engage women in economically productive activities (*NRB published Mirmire 2068*).

The annual report of ADB writes as microfinance industry has been evolving over the last 3 decades. In the early 1980s, it was dominated by nongovernmental organizations (NGOs) that experimented

with innovative programs and attempted to address what they perceived as the failure of markets and governments to provide financial services for the poor. They were heavily dependent on external grant funding. In fact, ADB's first microfinance project supported NGO microfinance institutions in the Philippines. Some of these NGO operations became flagship programs. Grameen Bank in Bangladesh is perhaps the best known, and BRAC has become a giant in the industry not only in Bangladesh but also globally. Their impressive results generated a great deal of interest in microfinance in the broader development community.

Despite the success of these and similar institutions, the majority of the poor is still compelled to rely on informal sources of finance or on self-finance neither of which allows them to take full advantage of economic opportunities. High rates of interest on credit in informal markets-often in excess of 120% per annum-cripple incentives to invest in productive activities, and self-finance does not allow poor households to take advantage of new technology. Closing this wide gap between the massive potential demand for and supply of institutional financial services for the poor on a sustainable basis is the central challenge of developing financial services.

Like most other funding agencies, ADB has supported micro finance for many years. From 1988 to 1999, ADB approved 14 micro finance projects totaling \$260. 10 million, 13 projects with microfinance components valued at about \$106.79 million and 45 technical assistance projects for about \$24.42 million. Recognizing that the industry landscape has changed over the years, ADB began to formulate a microfinance development strategy in 1999 that was approved in May 2000.

According to Shakyia Dr. Rabindra writes as Informal and small scale lending arrangements have long existed in rural areas in Nepal, and they are still continuing. They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations. Their survival is the constant reminder of the fact that institutional credit has still potentialities for its expansion. This is because capital market is still at a rudimentary stage, more so in rural areas and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would burrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending. Complicated loan procedures and paperwork, combined with a lack of accounting experience, limit poor people's access to formal source of credit. Commercial lenders in rural areas prefer to deal mainly with large-scale farmers.

The absence of commercial banks in many rural areas and the inability of the small farmers to get credit in times of need provided room to these non-conventional forms of lending. MFIs are obviously a response to this. Such institutions have not only achieved a degree of success, but they have also managed to attract donor support because of: Easy loan at donor step: Micro finance system is generally characterized by relatively small loans and easily available at their donor step.

The repayment period is relatively short, about a year or so. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, livestock, small enterprises, trading, small craft and processing industries. The administrative structure is generally light and the entire process is participatory in nature.

High repayment rate:

The repayment rate is pretty high. This is attributable to the informal participatory structures, which create an atmosphere in which debtors respect their obligations. Regular meetings reinforce a culture of discipline routine repayments and staffs accountability.

Employment generation:

Micro finance programs have positive impact on employment generation as well (*NRB Published Mirmire 2068*).

Devkota, Kriti(2002) writes in her Micro Finance development in Nepal as the major Principles of Micro Finance are “Buying of money i.e. collection of domestic saving for accumulation of financial resources with paying of the reasonable interest rate to beneficiaries members, Selling of money i.e. investment of collected domestic financial resources in the micro enterprises/income generating activities with adding the operational costs and plus small margin of profits and earning of money i.e. receiving the interest and other income from the burrowers and others”.

Once almost exclusively the domain of donors and experimental credit projects, institutional microfinance has evolved over the years into an industry with prospects for sustainable services and significant opportunities for expansion. ADB formulated its microfinance development strategy to harness this potential. The goal is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their micro enterprises. The strategy focuses on:

- i. Creating a policy environment conducive to microfinance,

- ii. Developing financial infrastructure,
- iii. Building viable institutions,
- iv. Supporting pro-poor innovations,
- v. Supporting social intermediation.

The strategy was formulated in consultation with more than 500 representatives of central banks, ministries of finance, commercial banks in the public and private sectors, cooperatives, nongovernmental organizations, universities, and representatives of other funding agencies. In addition, views were obtained from external experts and organizations such as the World Bank, the Consultative Group to Assist the Poor, and a number of bilateral aid agencies".

Global perspectives on microfinance are changing. Even the meaning of the term "microfinance" has altered. According to CGAP, as recently as a few years ago, it meant, "a credit methodology that employs effective collateral substitutes to deliver and recover short-term, working capital loans to micro entrepreneurs." Today, the term encompasses a broad spectrum of financial services that includes not only micro credit but also savings, insurance, and money transfers. Perspectives on the target group for micro finance have also expanded in recent years to include low-income men, women, and children and the poorest of the poor. The inclusion of the last group seems to have been influenced by the increasing recognition of the link between microfinance and achieving the Millennium Development Goals. Another significant change is that microfinance services are no longer considered a niche market activity that should be confined largely to the development community and carried out solely by specialized microfinance institutions. Today, it is believed that if microfinance is to achieve its full potential, it must be fully integrated into a developing country's financial system with access to vast amounts of human, physical, and financial resources and management know-how.

A few years ago, there was little institutional diversity in the microfinance industry in most Asian countries. Formal financial institutions were only minor service providers in the micro credit market with the exception of Bangladesh and Indonesia. In Bangladesh, Grameen Bank operated side by side with NGOs, while in Indonesia, Unit Desas of Bank Rakyat Indonesia (BRI) was the major supplier of microfinance services along with many people credit banks (Bank Perkreditan Rakyat). Perum Pegadaian, a state-owned pawn company, also provided micro credit to many low income households. NGOs were the dominant suppliers of micro credit in Cambodia, Nepal, Pakistan, Philippines, and a number of Central Asian republics though there even NGOs were reaching only a very small number of low-income households. Many believed that provision of financial services to

the poor could only be done by entrepreneurs with a social mission. The idea of commercial micro finance had not taken root.

This picture of micro finance is changing for a variety of reasons. Among them are the following:

- i) the transformation of NGOs into regulated financial institutions in some countries are their subsequent right growth
- ii) the entry of small existing banks into the industry and the expansion of their micro finance operations
- iii) the entry of new micro finance banks
- iv) the increased role of cooperatives including credit unions
- v) the increased role of established, conventional commercial banks
- vi) the rapid growth of self help groups in micro finance especially in India: and
- vii) the entry of micro financial institutions.

In recent years, small banks have begun to penetrate the microfinance industry in several countries. In the 1990s, only a few rural banks were involved in microfinance in the Philippines, but by the end of 2013 with assistance from ADB and other funding agencies over 175 had entered the industry and were reaching over 500,000 poor households. Their share was over 40 percentage of the total market served by microfinance institutions in the country. In Indonesia, people's credit banks have been making a concerted effort to expand their operations to cover poor and low income households. The cooperative rural banks in Sri Lanka have also evidently increased their role in microfinance services in recent years (*ADB annual report 2013*).

GB created a totally new economic environment by providing self employment to million small hands. When you manage self employment women get income easily and show their talent". Small works are started as drops make ocean. It makes foundation for strong economic basis. If economic foundation is built in participation of women, it makes strong future socio-economic basis (*Nobel Prize recipient Prof Mohammad Yunus at the Nobel ceremony on 10 December, 2006*).

In brochure National Cooperative Federation Ltd. of Nepal brochure, it is mentioned that In April, 1956, the Bakhanpur Credit Cooperative Located in the Bakhanpur village in the Chitwan District under the Central development region was legally registered with the main objectives of raising living standard of the Nepalese people suffered from economic and social exploitation and problems.

A number of various kinds of cooperatives, thereafter registered until today are 2013 (as of February 2013).

Today, the importance of cooperatives has gradually been growing. The popularity of cooperative has increased, especially among the people with limited and low income in the area where pressure of poverty and unemployment is acute. To alleviate poverty and unemployment, the role of cooperative has become essential and vital.

2.3 Need of Microfinance

- J Nepal is one of the developing countries and majority of the poor peoples lives here and depends on agriculture. About 17.6 million people do not have access to credit. Poor people need not just loans but also savings, insurance and money transfer services.
- J Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
- J Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
- J Microfinance means building permanent local institutions.
- J Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

2.4 Policy, Legal and Regulatory Framework

2.2.1 Microfinance Policy

The history of microfinance in Nepal is over three decades old. However, there was not any stated policy of the government on microfinance prior to the announcement of the microfinance policy by the Ministry of Finance of the Government of Nepal in 2013.

The demand for microfinance services by the poor and the destitute is ever increasing in the country. In light of the tremendous achievements made by countries such as Bangladesh, India, the Philippines, Indonesia, Pakistan and other developing countries in the reduction of poverty through massive flow of financial services down to the poorest segment of the rural and the semi urban communities, the government of Nepal, on the advice of the Nepal Rastra Bank promulgated “National Microfinance Policy, 2013” in order to do away with the problems related to organizational and legal issues with a view to smoothly providing microfinance services in the rural areas, increasing the access of the destitute class to such services, creating a healthy and competitive atmosphere among MFIs, and encouraging the private sector to get involved in the task of providing such services on a sustainable basis, Microfinance Policy, 2008 was introduced as a new mechanism to boost up microfinance industry.

It aims to improve the smooth flow of funds to the poorest segment of the rural populace by creating a national fund for microfinance. It also has envisaged establishing a regulatory and supervisory body for regulating and supervising MFIs in the country such that they discharge their services effectively and efficiently. The highlights of the policy are as follows:

1. Enhance the supply of microfinance services to the rural and urban poor to suit to their geographical, social and economic situation.
2. Improve for the smooth flow of microfinance services with or without collateral (group guarantee) to the poor and the destitute by establishing a standard procedure for identifying the target groups.

3. The government will provide necessary help to microfinance institutions for social mobilization, capacity development, organizational development, re-structuring, and will encourage wholesale micro credit providers both from the public and the private sectors.
4. The government will also integrate microfinance with various poverty alleviating programs and projects and will implement these in a coordinated manner.
5. The government will coordinate its activities with the institutions responsible for micro-enterprise development and will assist the targeted poor for their enterprise development.
6. The government will establish relations with microfinance service providing institutions (MFIs) such as Community Organizations (COs), and Savings and Credit Groups (SCGs), by making a legal provision to easily recognize these MFIs.
7. The government will also motivate destitute classes to mobilize their savings in order to improve their access to microfinance services.
8. The government will make the necessary institutional and legal arrangements, and create a separate institution under the direct control of NRB to make the microfinance service providers (MFIs) self-regulatory for timely operation, monitoring, supervision, and evaluation such that they can provide microfinance services to the poor in a sustained manner.
9. In order to mobilize resources for the long term easy access of the poor to microfinance services, a “National Microfinance Development Fund” will be established. Assistance for microfinance from foreign and national donors will be mobilized through this fund.
10. Conduct a survey to know the exact members of existing cooperatives and microfinance institutions, extension of services and access to services.
11. Organize trainings to improve the capacity of people engaged in the microfinance sector.
12. Adopt a policy of relaxation in permitting savings deposits to MFIs based on the services they provided and their share capital status,

13. Adopt a flexible tax policy on the income of MFIs and tax on interest earnings of the poor.

2.2.2 Regulatory Authorities and Regulated Institutions

a. Nepal Rastra Bank (NRB)

The Nepal Rastra Bank is the regulatory body for all types of banks and financial institutions licensed by it and classified as Class 'A', Class 'B', Class 'C' and Class 'D' banks under the Bank and Financial Institution Act 2006 and the Financial Intermediary NGOs registered under the Financial Intermediary Act 1998. In addition to these, some cooperatives which have been given limited banking licenses also come under its control and supervision.

b. The Department of Cooperatives (DoC)

The Department of Cooperatives under the Ministry of Agriculture and Cooperatives is the regulatory body for the Cooperatives societies including saving and Credit Cooperatives registered under the Cooperative Act 1992.

2.2.3 Laws and Regulations

- a. Nepal Rastra Bank Act, 2002
- b. Bank and Financial Institutions Act, 2006
- c. Cooperative Societies Act, 1992
- d. Financial Intermediaries Act, 1998
- e. NRB Directives for Microfinance Institutions, 2013

a. Nepal Rastra Bank Act, 2002

This Act defines the role of NRB in formulating effective policies, developing secure, healthy and efficient payment system, regulating, supervising and inspecting banking and financial institutions and promoting a credible banking and financial system. It prohibits NRB to buy a share of CBs or financial institutions. NRB, however, plays a developmental role through a special fund, the Rural Self-Reliance Fund (RSRF), which operates with an interest rate below market rates. NRB's financing role through RSRF undermines the steady development of other apex institutions in rural and microfinance sectors. The justification for the continued operation of RSRF is based on the need to serve weak institutions that cannot meet the eligibility criteria of other wholesale lending institutions.

b. Bank and Financial Institutions Act, 2006

This umbrella Act, “Bank and Financial Institutions Act” (BAFIA) came into force in 20 and replaced the Bank and Financial Institutions Ordinance (BFIO) of 2004. All the commercial banks, development banks, finance companies, and microfinance development banks are regulated under this umbrella act as Class A, Class B, Class C and Class D institutions, respectively. A small Microfinance Development Bank (MFDB) can be established with a paid up capital of Rs. 10 million to operate in three districts outside the Kathmandu valley. In order to operate in 4-10 districts outside Kathmandu, MFDB has to have a paid up capital of Rs. 20 million and for a national level MFDB the paid up capital must be at least Rs. 100 million. MFDB can increase the number of districts if it can increase paid up capital. In order to adjoin additional district, it is required to increase paid up capital by Rs. 2.5 million. The promoters can retain 70% of the share capital and must float the remaining 30% share to the general public. An MFDB operating in 10 districts with a capital of Rs. 20 million can operate in another five districts in the hills without any additional capital. This act has a provision in which even a foreign bank or FI can provide MF services in the country. Under this act, NRB has the responsibility to supervise the Board of Directors and to take over management in case of the banks own mismanagement. It is also responsible for initiating actions for liquidation if required by circumstances.

c. Cooperative Societies Act, 1992

The Cooperative Societies Act was introduced in Nepal in 1992. Under this Act, cooperatives can be formed with 25 persons as its members. These autonomous institutions are entitled to formulate their own bylaws or operational procedures through their General Assembly (GA) meetings. Each cooperative will have a Board of Directors and an Accounts Committee (AC) consisting of members duly elected by the members through General Assembly using the one-man one vote principle. The term of Board members and members of Account Committee (AC) is also determined by the GA but not exceeding 5 years. The Board appoints a management team or prescribes other body that carries out the day-to-day activities of a cooperative. The AC is responsible for the internal audit and is accountable for the accounting and financial operations to the General Assembly. Under the act, the Department of Cooperatives is fully authorized to register, supervise, appoint auditor, take necessary actions for improvements and reforms and liquidate all types of cooperative societies.

d. Financial Intermediaries Act, 1998

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

e. Nepal Rastra Bank (NRB) Directives related to Microfinance Institutions, 2013

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

Minimum capital adequacy requirement:

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

Fund mobilization:

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

Compulsory reserve and liquid assets:

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

Table 2.1: Loan Reserve Ratio

Classification of Loans	Overdue Period	Loan Loss Provision (%)
A. Good	Not overdue or overdue up to 3 months	1
B. Substandard	3-6 months	25
C. Doubtful	6 months-1 year	50
D. Bad	More than 1 year	100

Source: NRB Unified Directives

Expansion of Branch and Geographical Area

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

Norms of Corporate Good Governance

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

Loan Limit to Individual Group Member

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

Interest Rate and Service Charge

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

Reporting Requirement

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

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

f. Financial Intermediaries Regulation 1999

After the promulgation of the Financial Intermediary Act 1998, Nepal Rastra Bank introduced the Financial Intermediary Regulation in 1999, which was amended in 2003. The regulation has specified that documents be submitted by an NGO to the NRB for obtaining an FI license along with a Rs. 25 license fee. Moreover, this license has to be renewed every two years by paying a Rs.100 renewal fee. FI-NGOs have to classify outstanding and overdue loans in four categories such as good, sub-standard, doubtful and bad, and create a reserve for loan loss provision. There is no need to make provisions for good loans (0-3 months) however for the other categories, the rate of loan loss provision should be 10% for substandard loans (3-6 months), 50% for doubtful (6 months to 1 Year) and 100% for bad loans (above one year) at the end of the fiscal year. The regulation has restricted FI-NGOs from purchasing shares and debentures taking loans from board members or their family members, and purchasing fixed or movable property for commercial purpose without NRB's permission.

2.2.4 Implementation of Laws and Regulations of Financial Intermediaries

a. Cost of regulation

Regulation of microfinance services is a very important task. There is a great need to establish a separate institution to regulate, monitor and supervise MFIs in order to improve their institutional performance. This involves a lot of cost. For this, MFIs also need to bear considerable costs for the registration and renewal of their institution. In Nepal, any bank or a financial company must get registered at the Company Registrar's Office of GoN, before obtaining an operational license from the central bank. To this effect, a bank or a company, if it is a public limited company with an authorized capital of up to Rs. 10 million shall pay a fee of Rs. 15,000, with an authorized capital above Rs. 10 million upto Rs. 100 million shall pay a fee of Rs. 40,000, with an authorized capital above Rs. 100 million upto Rs. 200 million shall pay a fee of Rs. 70,000, and so on. It is presented in Table 30. However, they do not require paying any fee to NRB.

Table 2.2: Paid up Share Capitals and Registration Fees

S.No.	Paid Up Share Capital (Rs.)	Registration Fee (Rs.)
1	10,000,000	15,000
2	10,000,001-100,000,000	40,000

3	100,000,001-200,000,000	70,000
4	200,000,001-300,000,000	100,000
5	300,000,001-400,000,000	130,000
6	400,000,001-500,000,000	160,000
7	500,000,000 and above	@ Rs.3,000 per Rs.10 million share capital

Source: Annual report NUBL

FI-NGOs also get registered at the Chief District Office (CDO), GoN first and then at NRB. The CDO office charges a Rs. 1,000 registration fee and a Rs. 500 renewal fee every year. At NRB, they are required to pay a small amount of Rs. 25 for registration and Rs. 100 for renewal at two year intervals. Cooperatives (SCCs) are not required to pay a fee for registration and renewal. Class "D" banks are not required to pay NRB for a license, nor do they need to pay any annual fees. Moreover, NRB does not charge any fee for its supervision of both MFDBs and FINGOs. However, NRB has a requirement of maintaining liquidity of 0.5% of the total borrowings in the form of deposits at its banking office by the Class "D" banks, on which it does not pay any interest. The current supervision of NRB to MFIs both in terms of quality and quantity is not up to standard. To this effect NRB should improve its supervisory system through the development of professional skills and capacities among its concerned staff and charge an annual fee to MFIs for their supervision.

b. Effectiveness of Self-regulation and Regulatory Authority Supervision

Self-regulation is required for maintaining self-discipline in financial transactions. Self-discipline in financial transactions saves a lot of costs, and makes the transactions more effective and target oriented. Self-regulation devoid of commitment and clear vision on how to proceed, however, could be disastrous. Wrong judgment, misinterpretations of prudential rules and regulations, and frequent manipulation in financial transactions could lead organizations to complete failure, if organizations left for self regulation only.

Cooperatives could be one good example of self-regulated microfinance institutions in Nepal. The Department of Cooperatives, under the Ministry of Agriculture and Cooperatives, requires cooperatives to follow some general principles of cooperatives, however, it has allowed grass roots' level cooperatives to make and follow their own bylaws, rules and regulations. Many cooperatives with well-informed and professional executive members could lead their institution effectively and

come up with good results through the adoption of strict self regulation norms. However, in the absence of proper cooperative education among the executive and general members, there are likely to be serious violations of financial norms and rules contradicting the guidelines provided by the Department of Cooperatives (DOC). There are examples of savings and credit cooperatives, which have been accepting deposits from the general public or non members against the norms fixed by the Cooperative Act 1992 and most of the principles of cooperative have been thwarted. There are a large number of SCCs, which do not maintain proper records and accounting, lack an internal control mechanism, and the funds are being misused by the board officials. There are many cases where the top officials had fled with member/public deposit money. The DOC could not properly monitor such cooperatives, as there is a lack of effective monitoring and supervision and also a lack of adequately trained staff for the supervision of thousand of cooperatives on time.

Similarly, NRB also finds it very difficult to adequately supervise MFIs. It is solely responsible for supervising MFDBs, FINGOs and Cooperatives with limited banking licenses and Cooperatives which are the borrowers of RSRF. NRB supervises these institutions only once every three year, which is quite inadequate to keep these institutions on the right track in their operations and financial management. In the case of RMDC's partner MFIs, they are being constantly followed up and supervised by RMDC's staff, and they seem to be operationally and financially better managed than other MFIs.

The government needs to develop separate regulatory bodies for FI-NGOs and cooperatives, and follow a strict supervision mechanism. Otherwise, many unwanted problems might crop up in their operation causing risk to public deposits. SCCs take huge sums of public deposit money, and there is no institution really responsible for monitoring and supervising the enforcement of prudential norms.

MFI networks such as the Microfinance Bankers' Association of Nepal (MBAN), a network of practitioners such as GBBs and PMFBs, the Microfinance Institutions Association of Nepal (MIFAN), a network of FINGOs, Nepalese Federation of Saving & Credit Cooperative Union Ltd. (NEFSCUN), a network of saving & credit cooperatives, the Centre for Microfinance (CMF), an institution involved in the research and training of microfinance, could be instrumental in developing standards and norms for their MFI members by constantly following up to ensure the compliance by concerned members. They also can play an advocacy role by bringing a conducive policy environment to microfinance in Nepal.

2.3 Review of Research Article

Yunus has shared that micro credit is based on the premise that the poor have skills, which remains unutilized or underutilized. It is definitely not the lack of skills, which make poor people poor. It is believe that the poor do not create the poverty; the institutions and policies, which surround them, create it. In order to eliminate poverty all we need to do to make appropriate changes in the institutions and policies, and / or create new ones. It is also believe that charity is not an answer to poverty. It only helps poverty to continue. It creates dependency and takes away individuals initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty.

As we are aware that about 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or saving, which further fuels the "vicious cycle of poverty" (*Robinson and Marguerite, 2002*).

If the people have limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic saving remains low and again any increase in productivity are promoted. A lack access to financial institutions also hinders the ability for entrepreneurs to engage in new business ventures, inhibiting economic growth and often. The source and consequences of entrepreneurial activities are neither financially nor environmentally sustainable. Microfinance serves as a means to empower the poor and provides a variable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of microfinance in reducing poverty around the world. (*The Microfinance Revolution: Sustainable Finance for the Poor; 2001*)

Therefore, realizing the importance of microfinance United Nations (UN) has declared year 2005 as an International Year of Micro credit with recognition to microfinance as an effective tool for poverty reduction. The International Year of Micro credit 2005 underscores the importance of the microfinance as an integral part of our collective effort to meet the Millennium Development Goals (MDGs), especially the overarching target of having extreme poverty and hunger by 2015. Sustainable access to microfinance helps to alleviate poverty by generative income, creating jobs, allowing children to go school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. The great challenge before us is to address the

constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

Nirdhan Utthan Bank Limited, which is established with an objective of reaching to a maximum number of poor household with potential and financial viability and to develop a well-managed institution has been rated in category a-by Micro-Credit Ratings International Ltd (M-CRIL) on June 2005 which shows good performance.

According to M-CRIL, most of this downgrade is attributed to a drastic fall in the portfolio quality, reduced deployment of assets in loans to clients and also the introduction of stricter assessment standards by M-CRIL in tune with the changing outlook of the microfinance industry.

Research done by Sapkota (2008) found that one of the microfinance activities called Small Farmer Cooperative Limited (SFCL) has been managing their organization more efficiently and effectively as compared to Small Farmer Development Program. Due to access to credit, living conditions have improved for a large majority of SFCL members. Saving habits among group members has increased. SFCLs are able to generate significantly large sums of cash from their internal sources. This program has had a positive impact on social as well as economic well being of the group members. Thus grass-roots level self-help organizations like SFCL has been proved to be an effective means in the process of poverty alleviation.

In context of NUBL, In March 1995, Professor David Gibbons Executive Trustee of CASHPOR Inc concluded in this final evaluation that in Nirdhan Nepal pilot project had been very successful. Clearly there was a strong demand among poor women for Nirdhan's loans and saving services, and Nirdhan had demonstrated its capacity to meet that demand. However, although all of Nirdhan's borrowers are women, most of them do not use the loan themselves. A majority pass on their loans to their husband. Interviews carried out during the field visit tended to confirm the widespread representativeness of the case-studies, particularly in older Siktohan Branch and with borrowers who invested in milk buffaloes. As most Nirdhan are being more fully employed and/or more gainfully employed as a result of the programme, resulting in higher incomes. Paradoxically this has released some of the women from the need to do daily labour on other people's land. Thus employment among some poor women may have been reduced and actually they may have become more dependent upon their husbands. Most borrowers said there had been some improvement in

their level of living as a result of Nirdhan's loans, but not enough time had elapsed and not enough had been borrowed to result in a dramatic improvement (*Todd, 1996*).

While assessing impact of the microfinance program of NUBL by The Centre for Micro-Finance (Pvt.) Limited on May 2006 it was found that the services of NUBL helped clients to move from poor to middle poor as the percentage of middle poor were found less in new clients to clients that have received services for five years and more than five years. In other words clients receiving services for more than five years had less very poor clients. The financial services of NUBL were found to help increase income of NUBL clients and those who were able to extend the existing business or to initiate the new business were able to do so. However, it was found that the financial services of NUBL were useful more to the middle poor and poor than the very poor.

Similarly, Okamoto has found that Nirdhan successfully reached to the poor households though some of their clients are not in the category. The largest group of the clients is so-called the active poor engaging in small business and small scale farming. It is also found that the income structure of farmers in their household has changed and many of them have cash income in some ways, they can accept the scheme with weekly payment. The scheme of weekly payment means encouraging savings effectively after providing loans, thus filling the potential needs for savings. However, Nirdhan is not free from the difficulty of running a microfinance institution. The cost of providing financial services special to the low-income group is still quite high. Increasing the number of clients covered by one unit of staff can be improved to some extent but it also raises the risk with less monitoring by the staff.

2.4 Review of Thesis work

Lekhak (April 2004) Micro Finance in Nepal & The Case Study of SFCL Anandavan, Rupendehi, ADB/N.

This research paper is based on poverty reduction program by then Agriculture Development Bank Nepal (ADB/N).

The major objectives of the study as put down by researcher have been:

-) To study the financial sustainability & viability of SFCL.
-) To know the social changes caused by the SFCL and
-) To find out the major problem faced by the SFCL Anandavan situated in Rupendehi District in Western Terai Region.

Major findings from the study pointed out that borrowed loan position of the SFCL was decreasing with the increase in savings from the member. This shows the increasing dependency towards internal financial resources. There was also significant improvement in the awareness among local people regarding health & environment, education, modern farming method and enhanced women empowerment. It also found out that SFCL is unsuccessful to manage local market and also unable to give technical service to small farmers. There was also insufficient support from line agencies and lack of inspection from Government. Researcher concludes that SFCL was successful for poverty reduction through cost effectiveness, quality investment and timely repayment. It focused on participatory planning, local resource mobilization and empowerment of backward people. He further claimed that integrated development approach incorporating saving, credit, social and community development activities were major outcome of SFCL.

Aryal (August 2006) Impact of microfinance program of Paschimanchal Grameen Bikash Bank on the status of rural women. (A case study of Bayarghari unit office, Syangja).

The main objectives of this study have been laid down as:

-)] To examine the past and present performance of microfinance program of Paschimanchal Grameen Bikash Bank (PGBB) in terms of providing financial assistance to the target groups.
-)] To determine the impact of microfinance on women's economic and social empowerment.
-)] To investigate the problems faced by the beneficiaries.
-)] To point out suggestions and recommendations to the stakeholders.

The study found out that PGBBs income only from the microfinance operations was just enough to meet its financial and operational expenses but the return on its assets was low with 2%. It has low yield to its average portfolio, a low current repayment rate and hence a deteriorating portfolio quality. On social side the awareness among the sampled respondents was found to be increased but indigenous groups and linguistic minorities appeared to be seriously under represented in the microfinance program as suggested by the researcher.

Finally researcher concludes that though most of MFI do not reach remote rural areas and are concentrated in a well-populated and accessible region, there is a considerable variation in the impact of microfinance program on the economic empowerment and social standing of rural women. Most of the microfinance clients make financial decisions on their own. They are gaining self-confidence by attending group meeting and expanding their income generating activities. Rural women were spending a high proportion of their additional income on children's education, food quality and health care.

Acharya (2000) "**The role of Grameen Bikas in alleviation of poverty**" was carried out by taking Pubanchal Grameen Bikas Bank as case study, along with specifying the following objectives:

-)] To find out he changes in financial condition of women before and after participation in the program of Grameen Bikas Bank.
-)] To identify the motivation of peoples toward Grameen Bikas Bank.

-)] To Analyze the financial position of Purwanchal Grameen Bikas Bank over the period of 5 years i.e. Fiscal Year 2049/50 to 2053/54.

His research has drawn the following major findings;

Borrowed loan has significantly diverted the rural women from traditional sector to non traditional sector. Income level of borrower is raised, satisfactory incensement in self-employment. Motivation of people toward bank is positive. Women are uplifted and become conscious in their socio-economic status.

Shrestha (2005) "Micro finance in Nepal and Role of RMDC in Micro Credit Development" was carried out along with specifying the following objectives:

-)] To examine the Micro finance performance of RMDC
-)] To examine RMDC's contribution to microfinance development in Nepal.

Her research work has drawn the following conclusions;

RMDC's recovery rate is less than 50%. This could be a major problem as a wholesale provider. Small holders do not have easy access to financial services of RMDC. It is because it provides its financial services to only its big partners not to other. Agricultural lending is a fast and recoverable lending for reducing poverty. Most of them have got the idea about agricultural field. So, they can easily use and repay these ting of lending at time. Only soft loan is not a way to reduce poverty. Other things like technical assistance and training to specific field should be supplied along with soft loan. Training to the MFIs should be provided to the MFIs for capacity building and systematic working.

2.5 Research Gap

After the review of above literature it is observed that there are numerous studies conducted in the field of micro-finance program in foreign as well as Nepalese context. Almost all studies have attempted to disclose the success and failure of the program. These studies fail to study the economic as well as social impact of any specific programme. These studies are basically based on the overall analysis of the micro-credit program rather than a particular program launched by any specific bank.

Thus this study attempts to evaluate the specific micro-credit program lunched NUBL. It attempts to study the impact of micro-credit program on economic condition of the respondents as well as to examine to what extent the performance of bank in change the socio-economic situation of poor people.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the way to solve systematically about the research problem which includes many techniques and tools, as it is necessary for every study. It refers to the various sequential steps to adopt by a research in studying a problem with certain objectives. The Concise Oxford Dictionary defines research as "A systematic investigation into and study of materials sources etc. in order to establish facts and reach new conclusions". The same dictionary defines scientific as "An investigation according to laid down in exact science for performing observations and testing the soundness of conclusions"(Concise Oxford Dictionary, P-29). Research design is the strategy for conducting research work, which describes the general framework for collection, analysis and evaluation of identified data. Research design is the specification procedures for collecting and analyzing the necessary to help and identify an opportunity such that the difference between cost of obtaining various levels of accuracy and the expected values of the information, associated with each level of accuracy is maximized. (Swarnakar, Shyam, "A Hand Book of Research Methodology", 5th Edition). Research design basically involves the following:

-) Involve decisions on what information to generate.
-) Clarified data collection method.
-) Defines the measurement approach.
-) Defines the object to be measured.
-) Clearly identifies the way in which the data are to be analyzed.

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. Research is the plan structure and strategy of investigation conceived so as to obtain answers to research question and to control variance. Thus research design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. The plan is the overall scheme, which includes an outline of what the researcher will do from writing the hypothesis and their writing implications to the final analysis of the data.

The structure of the research is more specific. It is the outline of the scheme to be used to gather and analyze the data. A true research design is basically concerned with various steps to collect the data for analysis and a relevant conclusion.

3.2 Research Design

This study is mainly based on micro-finance program on a case study of Nirdhan Utthan Bank limited. It intends to find out socio economic impact and financial performance benefit in specific study area. A descriptive research design has been applied to analyze and interpret the quantitative and qualitative data collected from the concerned field. Primary and secondary data are used for the study of banks financial performance as well as socio economic impact.

3.3 Population and Sampling

Nirdhan utthan bank has 18 branches in Rupendehi district. Out of 18 branches Butwal branch was selected for this study. The Butwal branch covers 65 microfinance centers. For this study 9 centers were purposively selected. But it does not considered the entire member involved in centre for the purpose of study. Due to limited time and resource information among 337 members the study has been confined to only 111 members via Simple random sampling method.

3.4 Nature and Source of Data

The present study is based on both primary and secondary data. Primary data is collected from the field survey and secondary is collected from NUBL's published reports and bulletins. Regarding the literature review, various libraries and internet websites were consulted.

3.5 Method of Data Analysis

The collected information and data has been categorized and tabulated according to the objective of the study. Then it has been analyzed and interpreted through financial and statistical tools.

The financial tools are

a) **Liquidity Ratio:**

This ratio analyzes the financial performance of the organization; liquidity ratio is of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio. A high liquidity ratio of the organization shows its higher financial strengths.

b) **Current Ratio:**

A Current Ratio is the quantitative relationship between Current Assets and Current Liabilities. Here, the current ratio shows us how well a company is able to pay off its short-term debt using its most liquid assets. These include cash, and marketable securities, account receivable, inventories and so on. On the other hand, Current Liabilities refer to those obligations which must be paid with in an according cycle. These include accruals, account payable, notes payables and so on. As a conventional rule the ratio 2:1 is employed as a standard of comparison. Current ratio less than 2:1 is typically considered very low and indicates financial difficulties.

c) **Debt-Equity ratio (D/E ratio):**

This Ratio is the simplest and best known measure of capital adequacy as it measures the overall leverage of the institution. The Debt/Equity Ratio is of particular interest to lenders because it indicates how much of a safety cushion (in the form of equity) there is in the institution to absorb losses. Changes in the Debt/Equity Ratio are often more important than the absolute level of that indicator. If the debt to equity ratio increases rapidly, the MFI may be approaching its borrowing limits, which in turn will force it to curtail growth. Also,

rapid increase in debt funding is bound to put pressure on an MFIs margin. The terms on which an MFI borrows also influence how much debt it can safely carry. If much of its liabilities consist of very long-term donor funding, a high Debt to Equity Ratio obviously represents less of a risk, than short-term lines of credit would.

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

Return on Assets (ROA) is an overall measure of profitability that reflects both the profit margin and the efficiency of the institution. Simply put, it measures how well the institution uses all its assets. Return on Assets is a fairly straightforward measure. However, as in the case of ROE, a correct assessment of ROA depends on the analysis of the components that determine net income, primarily portfolio yield, cost of funds and operational efficiency. Supervised MFIs, which can more easily access commercial funding sources, are more highly leveraged and therefore manage to earn good returns on equity despite a relatively low returns on assets.

e) **Total debt to total assets ratio:**

This ratio measures the financial soundness of creditors. A low debt ratio measures the sufficient caution against the liquidation. Owners are interested in a high debt ratio because it signifies their earning on the one hand and enables them to maintain their control over the corporation on the other hand.

f) **Return on equity ratio:**

This ratio measures the profitability position of firm with respect to equity investment. It provides information to management and investors about the rate of return earned on invested equity. It is good for the organization to be the return of equity high. Higher the ratio, the more efficient the management

g) **Operating Expenses:**

This ratio is calculated by dividing all expenses related to the operation of an institution (including all the administrative and salary expenses, depreciation and board fees) by the period average gross portfolio. Interest and provision expenses, as well as extraordinary expenses are not included. This ratio provides the best indicator of the overall efficiency of a lending institution. For this reason, the ratio is also commonly referred to as the efficiency ratio: it measures the institutional cost of delivering loan services. The lower the Operating

Expense Ratio, the higher the efficiency of an institution. Portfolio size, loan size and salary incentives can help put efficiency levels into context. Portfolio size matters, but not as much as is often assumed.

Small MFIs can become more efficient simply by growing. The operating expenses of rural micro lenders are obviously much higher since their clients are more widely dispersed. Operating costs are strongly correlated to salary levels, as is to be expected in a highly labor-intensive industry. Here it is important to distinguish between cases where an MFI underpays its staff and where it simply operates in a low cost environment. Staff attrition rates and comparison to salary levels in commercial banks help make that distinction. Contrary to popular belief, salary levels in MFIs are not much different from those of banks.

h) Borrowing per Staff ratio:

This ratio is calculated by dividing the total number of borrowers of an institution by the total number of staff. Total number of borrowers is defined as individually identifiable borrowers who have at least one current outstanding loan with the institution. The ratio captures the productivity of the institution staff the higher the ratio the more productive the institution. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money. Low staff productivity usually does not mean that staff works less, but they are tied up in excessive and time-consuming paperwork and procedures.

i) Loan and Advance to Total Deposit and Borrowing Ratio:

This ratio measures the utilization of resources (total deposit and borrowing) into the bank lending toward the people. High ratio is good indicator of its utilization.

Statistical tools

a) Z- Test (Two Proportion test)

Z-Test is used to test the significance of parametric test for sampling of attributes.

Z- Test is used under the following assumptions;

When sample size is 30 or more then 30

Then sample have been drawn form normal population.

Then sample are independent.

It is a significance test of great practical utility is the test of significance of proportion or percentage in which the population is divided in to two mutually disjoint classes representing the qualitative characteristics in such a way that one possesses a particular attribute and other does not possess that attribute. The same method is use for testing of significance of sample proportion or percentage as is used for testing of sample mean except in respect of finding the standard error of proportion which is used in place of standard error of sample mean for computation of test statistics used for decision making. Same time in statistical investigation, a problem arise in respect of determining whether the two sample proportion could have been drawn from the same parent Population or whether two sample proportions differs significantly or not. To verify this assumption, we use Z-Statistics.

Let n_1 and n_2 denote the size of large sample and Let X_1 and X_2 which denote the observed number of one event.

Now, P_1 = observed sample proportion of event A before credit program= X_1/n_1 .

P_2 = observed sample proportion of event A after credit program= X_2/n_2 .

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

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

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

In this study we have used this test to test preoperational change in various elements of socio-economic impact. All the tests are based on the critical value at 5% level of significance.

b) Mean (Average)

Simply a mean of a set of observation is the sum of all the observation divided by number of observation. Arithmetic mean is also known as arithmetic average, when we use step deviation method for continuous series we calculate mean by using following tool.

$$\bar{X} = \frac{\sum fd}{N}$$

Where,

$$\bar{x} = \text{Xmean}$$

a X assumed Z mean

$$d \otimes X \frac{X Z a}{h}$$

$X = \text{midpoint}$

$$\text{Or, } x = \frac{\text{lower limit} + \text{upper limit}}{2}$$

h X class Z size

N X f X total Z frequency

This calculation is done to know the before and after income change of respondent.

c) Coefficient of Variation (C.V.)

The relative measure of dispersion based on the standard deviation (Absolute measure) is known as C.V., it show the per unit risk associated with per unit extra income.

It is calculated by using

$$C.V. X \frac{\dagger}{\bar{X}}$$

Where, \dagger X s tan dard Z deviation

$$\text{or } X \dagger X h x \sqrt{\frac{fd \otimes}{N}} Z \frac{fd \otimes^2}{N}$$

h X class Z size

$$d \otimes X \frac{X Z a}{n}$$

a X assumed Z mean

X X midpo int

$$\text{Or, } x = \frac{\text{lower limit} + \text{upper limit}}{2}$$

C.V is independent of unit. So, two distribution cal bitterly be compared with the help of C.V. for their variability. Less the C.V. more will be the uniformity, consistency etc and vice versa. In this study we have used C.V. to test the consistency of income of respondent after involving credit program.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The purpose of this chapter is to present, interpret and analyze the available data of NUBL. To fulfill the objective of the research, the secondary and primary data were analyzed using following methods and techniques. The interpretations were explained and elaborated in the chapter accordingly.

4.2 Financial Analysis

Financial management assures that there is enough liquidity to meet an MFIs obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office function, decisions in this area can directly affect the bottom line of the institution. Errors in liquidity or foreign exchange management, for example, can easily compromise an institution with efficient credit operations and otherwise sound management. The importance of adequate liquidity, and hence of financial management, grows further if the MFI has mobilized savings from depositors. Financial management can have a decisive impact on profitability through the skill with which liquid funds are invested. Finally, managing foreign exchange risk and matching the maturities of assets and liabilities involve financial management. Both are areas of great potential risk for an MFI and underline the importance of competent financial management.

4.2.1 Liquidity Ratio

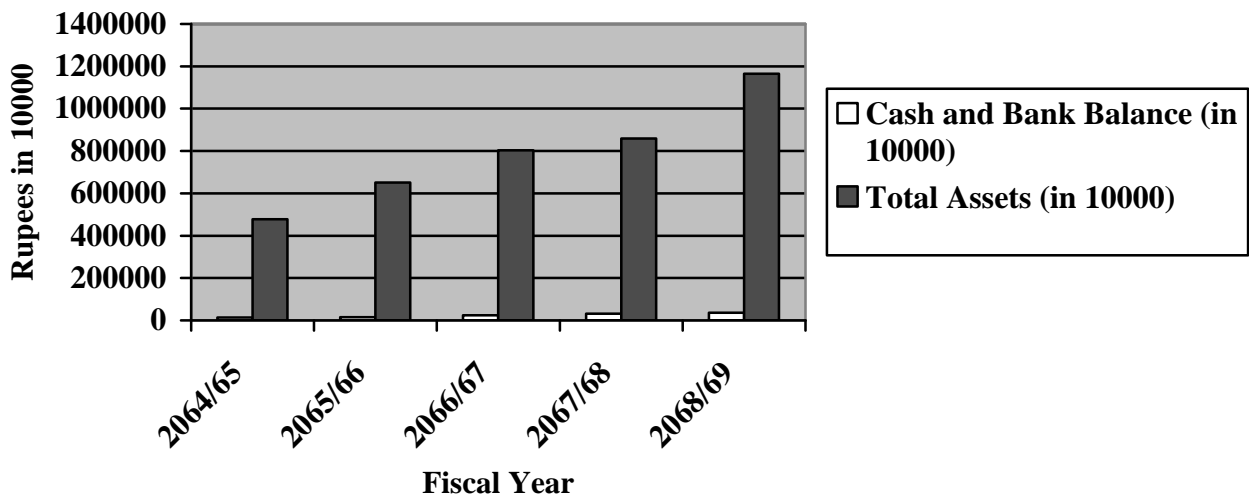
The Liquidity Ratio indicates the institution's ability to meet short-term liabilities and unforeseen expenses. The ratio is so heavily influenced by the particular circumstances of each MFI that it is nearly impossible to construct benchmarks of good or bad practice. An MFI may prefer to maintain a very high Liquidity Ratio (>25%) because it foresees high demand for its loans, or because it worries about instability. But high levels of liquidity can also indicate that an MFI is managing its funds poorly. The Liquidity Ratio is calculated by dividing total cash and readily marketable investments by total assets. The calculation of the Liquidity Ratio for the period of 2064/65 to 2068/69 is exhibited below:

Table 4.1: Calculation of Liquidity Ratio

Fiscal Year	Cash and Bank Balance	Total Assets	Ratio in percentage
2064/65	12,938,346	477,164,043	2.71
2065/66	14,606,877	650,306,055	2.25
2066/67	23,445,085	802,547,076	2.92
2067/68	31,826,058	858,993,291	3.71
2068/69	35,470,967	1,164,613,976	3.05
Average	118,287,333	3,953,624,441	2.99

Data reference: NUBL's Annual Report

Figure 4.1: Cash and Total Assets



The Table 4.1 shows that liquidity ratio of NUBL is in increasing trend from 2064/65 to 2068/69 with a ratio of 2.71% to 3.71% respectively. This indicates that NUBL's ability to meet short-term obligation is good. However, in 2065/66, the ratio with 3.05% is decreased by little percentage. As the difference is little, it is less be to worry because the five year's average liquidity is 2.99%. The 2066/67 is very close is very close to the average ratio.

4.2.2 Current Ratio

A Current Ratio is the quantitative relationship between Current Assets and Current Liabilities. Here, the current ratio shows us how well a company is able to pay off its short-term debt using its most liquid assets. These include cash, and marketable securities, account receivable, inventories

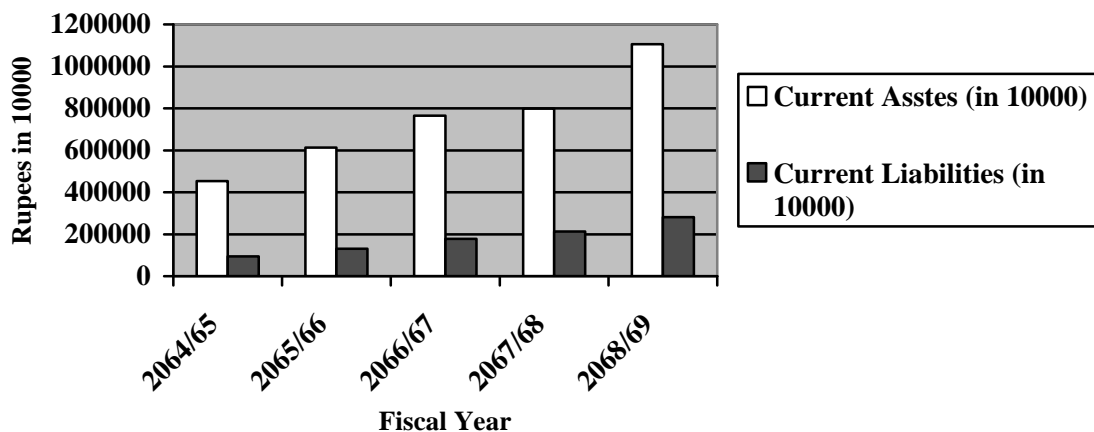
and so on. The Current Ratio is calculated by dividing current assets by current liabilities. The current ratio of NUBL for the period of 2064/65 to 2068/69 is exhibited below:

Table 4.2: Calculation of Current Ratio

Fiscal Year	Current Assets	Current Liabilities	Ratio
2064/65	452,784,151	94,537,320	4.79
2065/66	612,214,415	130,785,969	4.68
2066/67	765,370,897	178,306,227	4.29
2067/68	799,020,322	213,266,329	3.75
2068/69	1,105,356,241	281,950,551	3.92
Average	3,734,746,026	898,846,396	4.16

Data reference: NUBL's Annual Report

Figure 4.2: Current Assets and Current Liabilities



The above Table 4.2 shows that NUBL has always exceeded the current liabilities for the study period of five years from 2064/65 to 2068/69. The bank has the highest current ratio of 4.79 in the 2064/65

with an average current ratio 4.16 during the study period of 2064/65 to 2068/69. In general terms; the bank has been able to meet its short term obligations. The above analysis indicates that the bank is in sound liquidity position.

4.2.3 Debt Equity Ratio

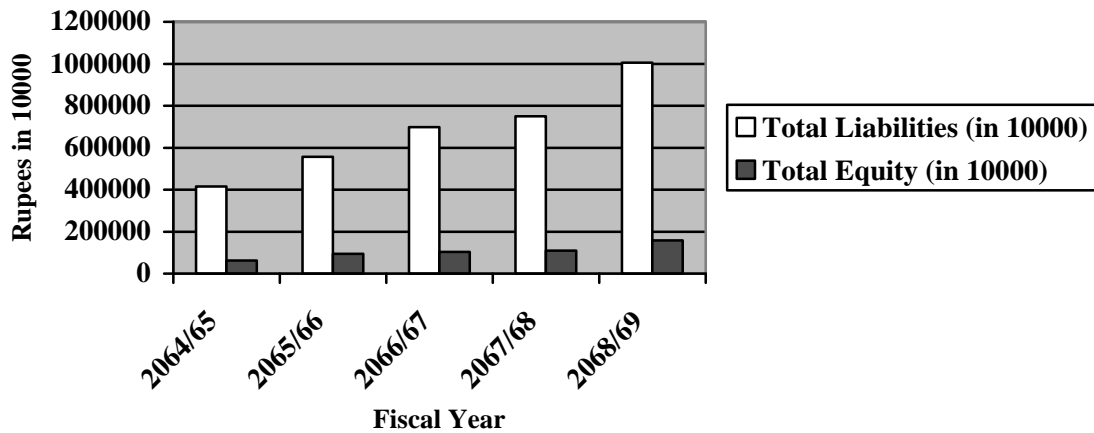
The Debt/Equity Ratio is the simplest and best known measure of capital adequacy as it measures the overall leverage of the institution. The Debt/Equity Ratio is of particular interest to lenders because it indicates how much of a safety cushion (in the form of equity) there is in the institution to absorb losses. The Debt/Equity Ratio is calculated by dividing total liabilities by total equity. The debt equity ratio for the 2064/65 to 2068/69 is calculated below:

Table 4.3: Calculation of Debt Equity Ratio

Fiscal Year	Total Liabilities	Total Equity	Ratio
2064/65	415,176,766	61,987,278	669.78
2065/66	556,455,375	93,850,680	992.92
2066/67	698,842,802	103,704,273	673.88
2067/68	749,554,503	109,438,788	684.91
2068/69	1,005,805,409	158,808,568	633.35
Average	3,425,834,855	527,789,587	649.09

Data reference: NUBL's Annual Report

Figure 4.3: Total Debt and Total Equity



As we know that higher debt/equity ratio is very good indicator to attract borrowers, therefore, the Table 4.3 shows that the year 2065/66 is very fruitful to NUBL because of higher percentage ratio 992.92%. The calculation shows ups and down in debt/equity ratio in the different years respectively. The five year's average debt equity ratio is 649.09% which is closer to the year 2066/67 with 673.88%. However, in year 2068/69 the ratio is lesser than average percentage.

4.2.4 Total Debt to Total Asset Ratio

Total debt to total assets ratio measures the financial soundness of creditors. A low debt ratio measures the sufficient caution against the liquidation. Essentially it tells us what portion of the

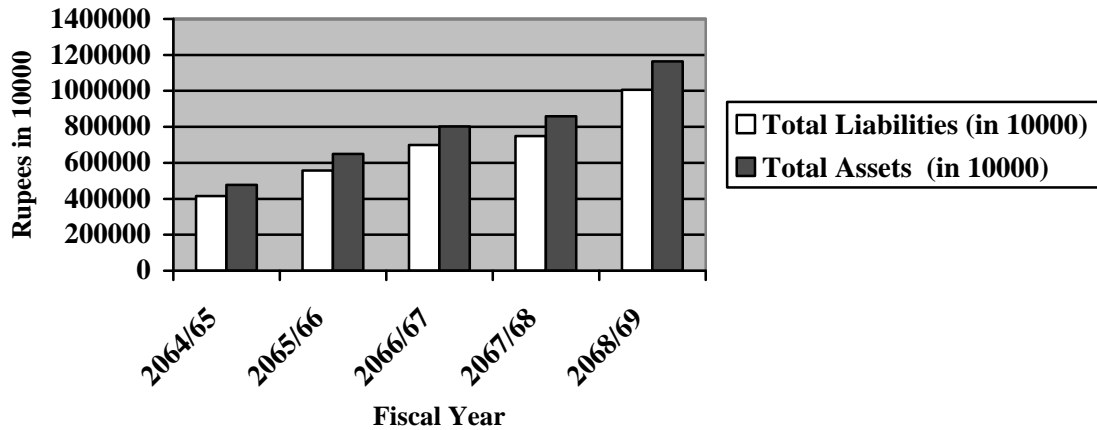
company's assets is financed through debt. The Total Debt to Total Asset Ratio is calculated by dividing total liabilities by total assets. The calculation of total debt to total asset ratio is exhibited below:

Table 4.4: Calculation of Total Debt to Total Asset Ratio

Fiscal Year	Total Liabilities	Total Assets	Ratio in (%)
2064/65	415,176,766	477,164,043	87.01
2065/66	556,455,375	650,306,055	85.59
2066/67	698,842,802	802,547,076	87.08
2067/68	749,554,503	858,993,291	87.26
2068/69	1,005,805,409	1,164,613,976	86.36
Average	3,425,834,855	3,953,624,441	86.85

Data reference: NUBL's Annual Report

Figure 4.4: Total Debt and Total Asset



The above Table 4.4 shows that the total debt to total asset ratio lies at the range of 85% - 90%. There has not been huge differences in the year of five years for instance the ratio of year 2064/65; year 2066/67 and year 2067/68 are found 87.01%, 87.01% and 87.26% respectively. It is seen that NUBL has able to maintain the expenses. The average of five year's expenses is 86.85% to which the year 2065/66 is very close with the average ratio of 86.36%.

4.3 Profitability Position

Profitability indicators such as return on equity and return on assets, tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that an MFI has a high return on equity says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particularly the case for profitability indicators. To understand how an institution achieves its profits (or losses), the analysis also has to take into account other indicators that illuminate the operational performance of the institution, such as operational efficiency and portfolio quality.

4.3.1 Return on Asset (ROA)

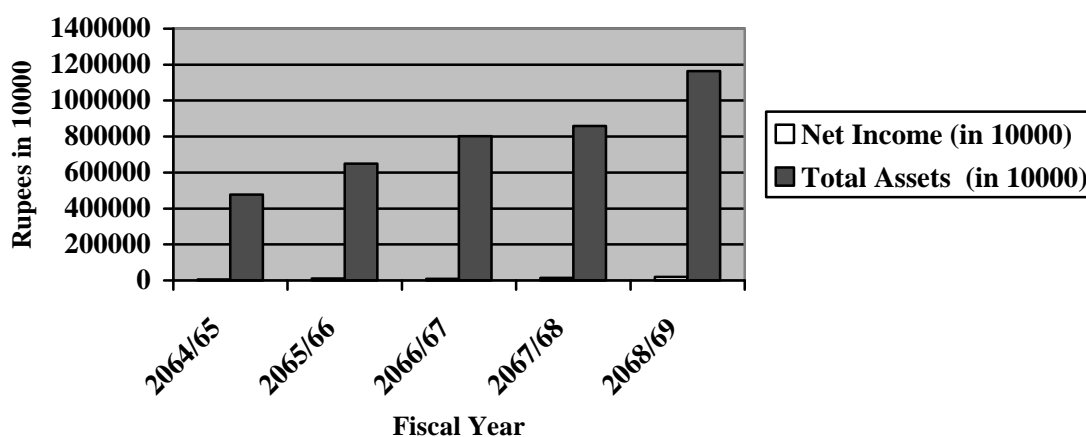
Return on Assets (ROA) is an overall measure of profitability that reflects both the profit margin and the efficiency of the institution. Simply put, it measures how well the institution uses all its assets. Return on Assets is calculated by dividing net income (excluding any donations) by period average assets. The calculation of ROA is exhibited below:

Table 4.5: Calculation of Return on Asset

Fiscal Year	Net Income	Total Asset	Ratio in (%)
2064/65	4,898,493	477,164,043	1.03
2065/66	10,163,327	650,306,055	1.56
2066/67	8,390,062	802,547,076	1.05
2067/68	13,778,326	858,993,291	1.60
2068/69	18,973,324	1,164,613,976	1.63
Average	56,203,532	3,953,624,441	1.42

Data reference: NUBL's Annual Report

Figure 4.5: Net Income and Total Asset



The above Table 4.5 shows that ROA of NUBL differ from maximum of 1.63% in the year 2065/66 to the minimum of 1.03% in the year 2064/65 with an average of 1.42% during the period of five years from year 2064/65 to 2068/69. The mid years of NUBL is also shows the good performance with the ratio of 1.56% and 1.60% respectively however, the performance in the year 2066/67 with 1.05%.

4.3.2 Return on Equity (ROE)

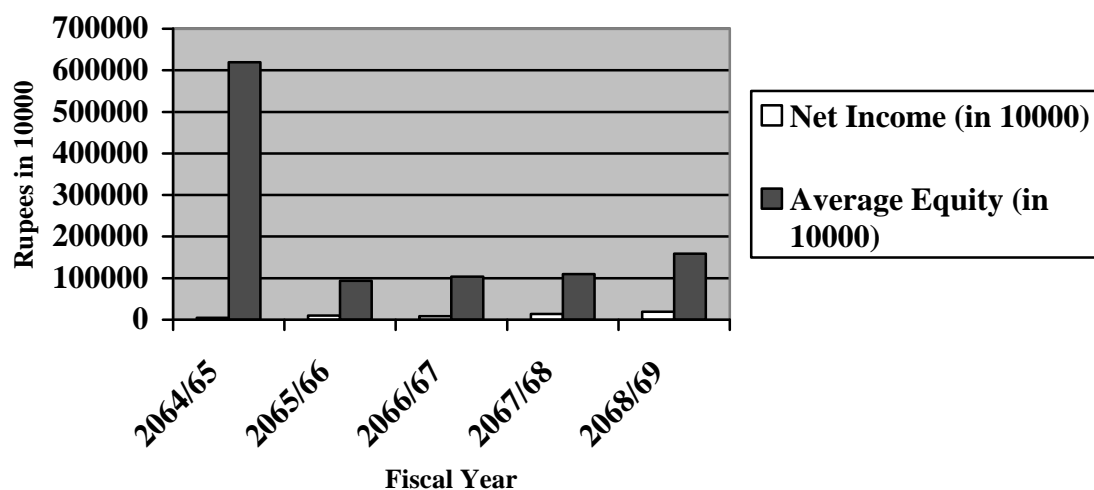
Return on equity ratio measures the profitability position of firm with respect to equity investment. It provides information to management and investors about the rate of return earned on invested equity. Return on Equity is calculated by dividing net income (excluding any grants or donations) by period average equity. The return on equity is calculated as exhibited below:

Table 4.6: Calculation of Return on Equity

Fiscal Year	Net Income	Average Equity	Ratio in (%)
2064/65	4,898,493	619,787,278	7.90
2065/66	10,163,327	93,850,680	10.83
2066/67	8,390,062	103,704,273	8.90
2067/68	13,778,326	109,438,788	12.59
2068/69	18,973,324	158,808,568	11.95
Average	56,203,532	1,085,589,587	5.18

Data reference: NUBL's Annual Report

Figure 4.6: Net Income and Average Equity



The above table 4.6 shows that the profitability of the institutions is higher at the year 2064/65 because of maximum ROE 12.59% which is much more greater than the average ratio of 5.18%. The minimum ROE can be seen in the year 2064/65 with 7.90%. The ROE trend after year 2064/65

is in an increasing way but in the year 2068/69, the ratio is decrease by 0.64%. Overall, the profitability of NUBL seems motivating.

4.4 Efficiency and Productivity

Efficiency and productivity indicators are performance measures that show how well the institution is streamlining its operations. Productivity indicators reflect the amount of output per unit of input, while efficiency indicators also take into account the cost of the inputs and/or the price of outputs. Since these indicators are not easily manipulated by management decisions, they are more readily comparable across institutions than, say, profitability indicators such as return on equity and assets. On the other hand, productivity and efficiency indicators are less comprehensive indicators of performance than those of profitability.

4.4.1 Operating Expenses

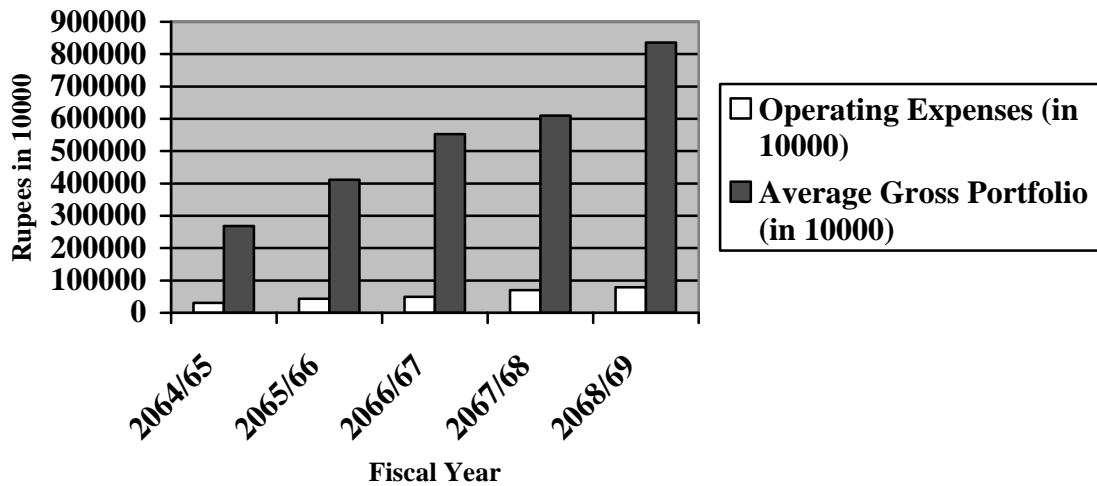
This ratio provides the best indicator of the overall efficiency of a lending institution. For this reason, the ratio is also commonly referred to as the efficiency ratio: it measures the institutional cost of delivering loan services. The lower the Operating Expense Ratio, the higher the efficiency of an institution. Operating Expenses Ratio is calculated by Operating Expenses divided by Average Gross Portfolio. The operating expense is calculated as per exhibited below:

Table 4.7: Calculation of Operating Expenses

Fiscal Year	Operating Expenses	Average Gross Portfolio	Ratio in (%)
2064/65	30,967,514	268,850,737	11.52
2065/66	43,643,352	411,198,781	10.61
2066/67	49,456,838	552,397,100	8.95
2067/68	70,326,779	610,035,490	11.53
2068/69	78,658,279	835,936,015	9.41
Average	273,052,762	2,678,418,123	10.20

Data reference: NUBL's Annual Report

Figure 4.7: Operating Expenses and Average Gross Portfolio



As lower the operating expenses ratio, higher the efficiency of an institution, the year 2066/67 is the efficient year for NUBL with the minimum ratio of 8.95%. However, in the year 2064/65 with 11.52% and year 2067/68 with 11.53%, the ratio is higher as compare with the respective years. The average ratio of operating expenses is 10.20% which is acceptable when compared as per international institution's standard.

4.4.2 Borrowing per Staff

Total number of borrowers is defined as individually identifiable borrowers who have at least one current outstanding loan with the institution. This ratio is calculated by dividing the total number of borrowers of an institution by the total number of staff. The calculation of borrowing per staff is calculated as below:

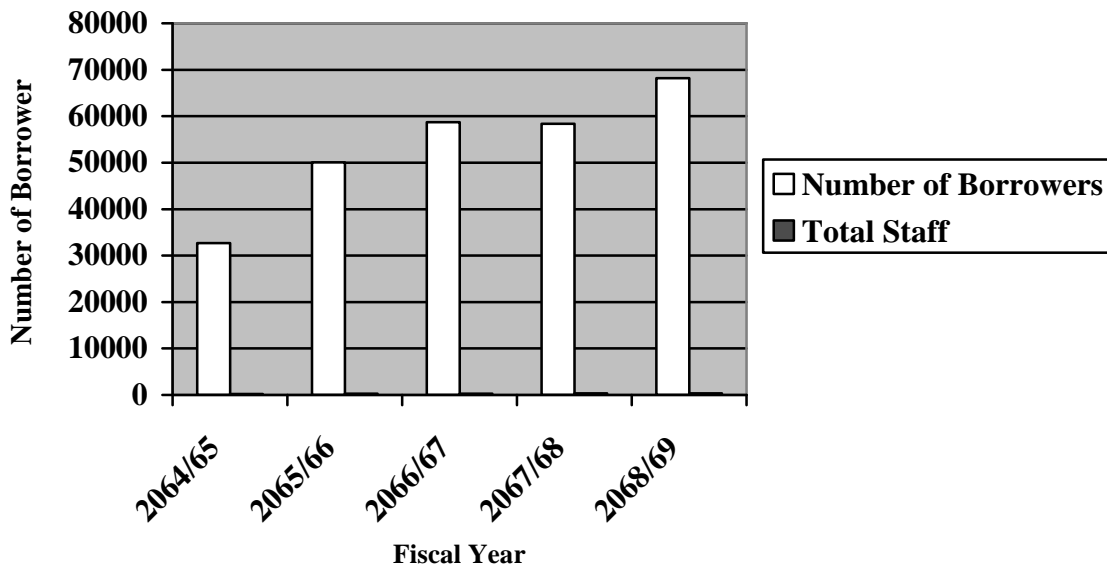
Table 4.8: Calculation of Borrowing per Staff

Fiscal Year	Number of Borrowers	Total Staff	Borrower per Staff
2064/65	32,678	229	143

2065/66	50,063	241	208
2066/67	58,679	275	213
2067/68	58,354	322	181
2068/69	68,203	369	185
Average	267,977	1436	187

Data reference: NUBL's Annual Report

Figure 4.8: Number of Borrowers and Total Staff



The above Table 4.8 shows that the maximum number of borrowing per staff is 213 in the year 2066/67. The average number of borrowing per staff is 187. The year 2064/65 and year 2067/68 are seen less efficient year for the NUBL with the number of 143 and 181 respectively which is also very less than the average figure. However, there might be the other factors like changes in the political situation might affect the efficiency of NUBL.

4.4.3 Loan and Advance to Total Deposit and Borrowing Ratio

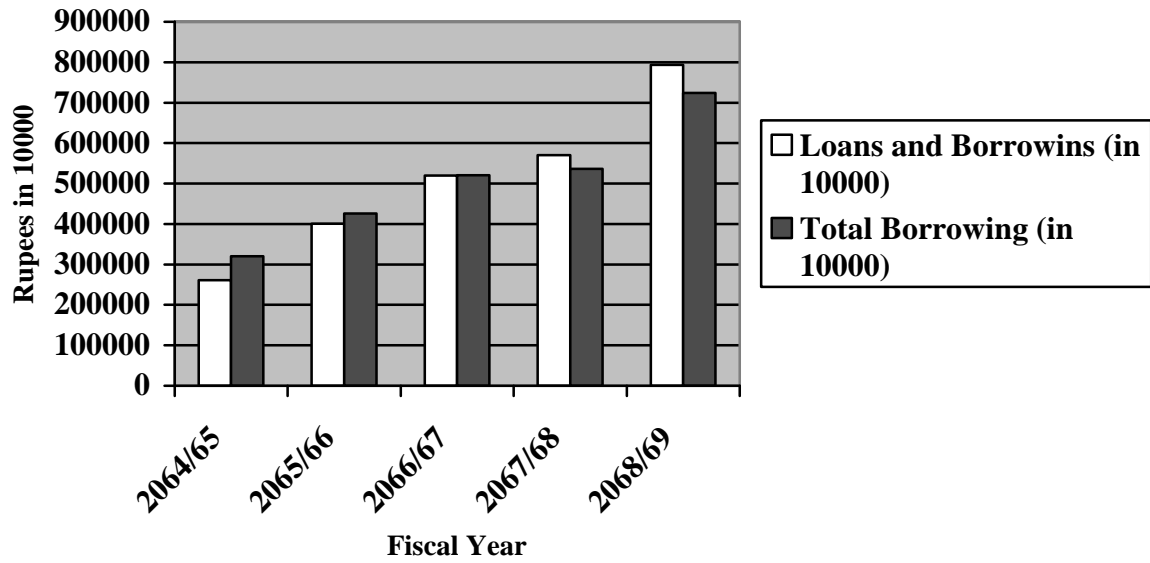
This ratio measures the utilization of resources (total deposit and borrowing) into the bank lending toward the people. High ratio is good indicator of its utilization. Loan and Advance Total Deposit and Borrowing Ratio are calculated by dividing loan and advance by total borrowing. The Loan and Advance to Total Deposit and Borrowing Ratio is calculated as below:

Table 4.9: Calculation of Loan and Advance to Total Deposit and Borrowing Ratio

Fiscal Year	Loan and Advance	Total Borrowing	Ratio in (%)
2064/65	261,310,794	320,639,446	81.50
2065/66	400,366,350	425,669,406	94.06
2066/67	520,014,523	520,536,575	99.90
2067/68	569,945,120	536,288,174	106.28
2068/69	793,865,455	723,854,857.97	109.67
Average	2,545,502,242	2,526,988,458.97	100.73

Data reference: NUBL's Annual Report

Figure 4.9: Loan and Advance and Total Deposit and Borrowing

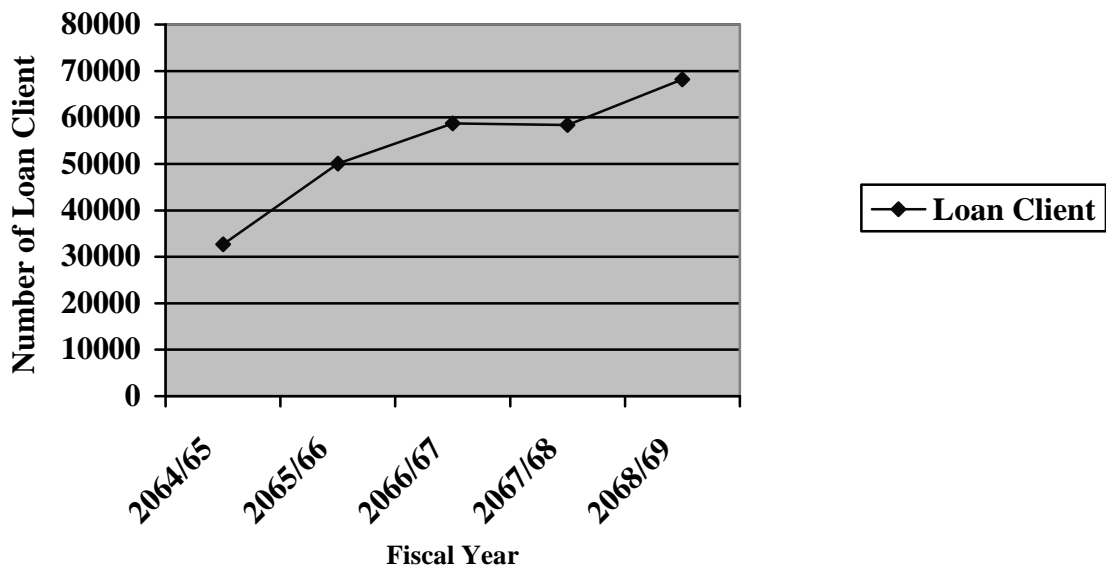


The above Table 4.9 shows that utilization of the resources differ from maximum of 109.67% in the year 2065/66 to the minimum of 81.50% in the year 2064/65 with an average of 100.73% during the period of five years from year 2064/65 to year 2068/69. The trend has shown that utilization of the resources is in increasing trend with the ratio of 94.06%, 99.90% and 106.28% respectively. Hence, the utilization of the resources is improving in the yearly basis.

4.5 Social Impact Analysis of Credit program

Before presenting analysis of the NUBL's Social impact, the trend of client's number has been shown here.

Figure 4.10: Trend Analysis of Loan Clients



The above figure 4.10 shows that the total number of borrowers has also been increasing each year. The total number of active borrower is 32,678 in the year 2064/65 and after five year the number of borrower is increased to 68,203. Thus, it has positive correlation between total numbers of active clients.

NUBL provides credit to its members for productive activities such as goat raising, pig raising, poultry farming, starting business etc. The socio economic impact of credit program include various subheading like as various condition of respondents in various issues like saving, significance of changed income after involving Credit program, occupational change dueto involvement in Credit program, various patterns(consumption, clothing,). Testes of such subheading are presented below sequentially.

4.5.1 Occupational Status of the Respondents

This section is deals with the occupational changes of respondent after involving Credit program. For the calculation purpose we have categorized occupation of respondent in to two groups like as traditional occupation (agriculture, buffalo keeping and wage) and modern occupation (goat keeping, poultry forming, small business, hotel etc).

Table 4.10: Occupational Status of the Respondents

Occupation	Before involvement	After involvement

Traditional level (agriculture, buffalo keeping and wage etc).	X1=82	X2=58
Modern level (goat keeping, poultry forming, small business, hotel etc).	29	53
Total	N1=111	N2=111

Source: Field survey 2069

Hypothesis test,

Null Hypothesis (Ho): $P_1=P_2$: there is no significant change in proportion of respondent, whose main occupation was traditional before involving Credit program.

Alternative Hypothesis (H1): $P_1>P_2$ there is significant decreased in proportion of respondent whose main occupation is traditional after involving Credit program.

Tabulated value of Z =51.57 (From Appendix-4)

Critical value, of Z at 0.05 level of significant for one tail test is 1.960.

Result:

Since tabulated value of Z is lower then calculated value so null hypothesis is rejected and alternative hypothesis is accepted. So proportion of respondent whose main occupation is traditional before involving Credit program has been decreased significantly.

4.5.2 Changed Income level of Respondent

The changed income level of respondent before and after involving the credit program of NUBL is analyzed below:

Table 4.11: Income level of respondent before and after joining Credit program

Annual Income in (Rs)	No. of Respondent Before credit program	No. of Respondent After credit program
Below 1000	8	1
1000-2000	19	4

2000-3000	13	17
3000-4000	18	8
4000-5000	20	14
5000-6000	5	9
6000-7000	1	14
7000-8000	7	11
8000-9000	3	4
9000-10000	7	7
10000-11000	2	5
11000-12000	2	4
12000-13000	0	0
13000-14000	1	1
14000-15000	3	6
15000-16000	1	0
16000-17000	0	2
17000-18000	0	0
18000-19000	0	0
19000-20000	1	4
Total	111	111

Source:
Field
survey
2069

**Table
Summary
and After
Income**

**4.12:
of Before
Joining
Level of**

Respondent

	Before	After	Result
Mean Income (Rs)	4754.55	7000	Increased
C.V. (%)	78.41	62.23	Decreased

(From
5)
figure
positive

Apendix-
Above
shows the

impact mean income of respondent after credit program is increased to Rs 7000 and C.V. is decreased to 62.23% percent which gives positive result to us. It means increased income is more consistent than previous income. Their economical condition is improving after Credit program.

4.5.3 Saving

Savings has been acknowledged as an integral part of the micro-finance program. Experience shows that, the savings service is equally important to poor as credit service. Savings has developed ownership in the participating members, act as collateral to the loan disbursed, help to maintain

credit discipline, establish savings habit, provides flexibility, generates confidence among them, increase risk bearing capacity of borrowers and control unnecessary expenses.

Table 4.13: Purpose of Saving

Category	No. of Respondent	Percentage (%)
Household Need	17	15
Children education	29	27
Feast and festivals	11	9
Pay back the loan	21	19
Health expanses	16	14
Capital formation	17	17
Total	111	

Source: Field survey 2069

Table No 4.13 shows that, 15 percent respondent use saving for purchase of household need. Very little no of people use their saving to celebrate feast and festivals, which is not income generating works. 27 percentage respondents were using their saving for the purpose of children education and 14 percent for health expanses. This helps to increase the life expectancy and literacy level of the family.

4.5.4 Consumption Pattern

This section deals with the consumption style of respondent. Is Credit program are becoming effective to improve consumption pattern of respondent? This will be answered.

Table 4.14: Consumption pattern of Respondent

Field 2069	Conditions	Before	After
	Traditional fooding :like pulse, rice and bread in regular meal		67
Non- traditional fooding: addition of egg, meat etc. in traditional fooding.		X1=43	X2=52
Total		N1=111	N2=111

*Source:
survey*

Hypothesis test,

Null Hypothesis (Ho): $P_1=P_2$ there is no significant impact of credit program on standard of living of the people

Alternative Hypothesis (H1) = $P_1 < P_2$: there is significant impact of credit program on standard of living of the people

Calculated Value of $Z = 18.38$ (From Appendix-6)

Critical value, of Z at 0.05 level of significant for one tail test is 1.960

Result:

Since, calculated value of Z is higher than tabulated value of Z so alternative hypothesis is accepted. So, there is significant improvement in the proportions of respondent in the concern of consumption patterns after involving Credit program.

4.5.5 Clothing Pattern of Respondent

This heading deal with the clothing pattern of respondent, the main significance of this heading is to whether program is supporting to change then clothing pattern of respondent.

Table 4.15: Clothing pattern of respondent

Conditions	Before	After
Problem on regular clothing as per necessity(normal)	19	6
Do not have problem on regular clothing as per necessity(improved)	$X_1=92$	$X_2=105$
Total	$N_1=111$	$N_2=111$

Source: Field survey 2069

Hypothesis test,

Null Hypothesis (Ho): $P_1=P_2$: there is no significant difference in the population proportion of respondent whose clothing pattern was improved, after involving Credit program.

Alternative Hypothesis (H1): $P_1 < P_2$: there is significant decline in the population proportion of respondent whose clothing pattern is improved after involving Credit program.

Calculated value of $Z = 65.12$ (From Appendix-7)

Critical value, of Z at 0.05 level of significant for one tail test is 1.960

Result:

Since calculated value exceed the tabulated value of Z so we have evidence that population proportion of respondent whose clothing pattern was improved after the arrival of Credit program have increased significantly.

4.6 Evaluation of Bank's Performance to change socio economic situation

Nirdhan Utthan Bank Limited (NUBL) provides credit to its members for income generating activities such as goat rising, pig rising, poultry farming, starting shops, etc. The income level of the people after the involvement in credit group is increasing significantly. It has been found that there is a significant correlation between the number of years they have involved in the groups and the size of income they have made. As they become older members, the more they can earn. It would be two reasons behind it. Firstly, as they become older members, the more credit loan they can receive so that the investment becomes bigger which can return higher income/profit. Secondly, the confidence and experience increases in the following years which do have impact on business and its income. Due to this there is significant reduction of loan taken from local landlords who charge a high rate of interest. Being economically self-dependent the confident level of the respondents has been increasing and they are now slowly changing their occupation pattern. This is positive impact of micro lending of MFIs. Similarly the consumption patterns of respondents are far better than previous. They are improving their consumption level, which is positive impact to improve lifestyle of rural people.

4.7 Major Findings of the Study

On the basis of data analysis, the following major findings have been made.

- The liquidity awareness of NUBL is very good. From year 2064/65 to year 2067/68, the percentage of liquidity ratio is in increasing trend. This might be because of internal political situation of Nepal during that period. NUBL has maintained the risk of liquidity accordingly and as a result we can see that it started to decrease in the year 2068/69 maintaining the average level.
- The debt equity ratio of NUBL seems in fluctuating trend. As higher debt equity ratio is prefer to attract borrower, here it is very high in the year 2065/66 and the gap between the results of the remaining years are also seems very high. However, NUBL has tried to

maintain the average level of debt/equity ratio.

- Even though, NUBL could not maintain the average level of current ratio in the year 2067/68 to year 2068/69, the bank has capacity to meet its short term obligations and is in sound liquidity position. However, it has crossed the limit of 2:1 standard of current ratio position which might always not be favorable because of unsatisfactory debt collection and idle cash balance.
- The total debt to total assets ratio is in positive/negative fluctuation trend. The analysis found that in average 87% of the institution's assets is financed through debt. As the microfinance institution is purely runs under funding and shareholder's equity so the higher percentage of ratio is justifiable. However, it can be maintainable.
- The return on equity which measures the profitability of the institutions seems higher in the year 2067/68 with 12.59%. Besides, the year 2065/66 and year 2068/69 are also profitable for NUBL. However, the performance of the institutions is weak in the year 2064/65 and year 2066/67 with ratio of 7.90% and 8.90% respectively.
- The return on assets which measures the productivity of the assets is strong in the year 2068/69 with 1.63%. The analysis has shown that the ratio asset is in fluctuation trend from the year 2064/65 to year 2067/68. Thus, effective utilization of the total fund supplied varies yearly basis.

- It is found that NUBL can manage the operating expenses efficiently in the year 2066/67 with 8.95% where as the higher expenses ratio is found in the year 2064/65 with 11.52%. However, the analysis shows that differentiation of the five year period's ratio is found positive and of 1%.
- The efficiency of the staff in distribution of the loans found slightly less productive however, low staff productivity usually doesn't mean that staff works less, there might be other factors for instance political situation, management issues which have affected the lending efficiency. The year 2066/67 was productive for NUBL with 213 borrowers per staff.

In the case of Social Impact Analysis

- NUBL is quite popular as the number of clients/group members are in the increasing trend.
- Income level of respondents is increased to Rs 7000 from Rs 4755 after involving credit program. Since C.V. is decreased to 62.23% from 78.41. So, increased income is more consistent then before involving credit program.
- Being economically self-dependent the confident level of the respondents has been increasing and they are now slowly changing their occupation pattern. This is positive impact of micro lending of MFIs.
- Consumption patterns of respondents are far better than previous. They are improving their consumption level, which is positive impact to improve lifestyle of rural people.
- Clothing pattern of respondents has been improved significantly.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Microfinance is a powerful lever to provide credits and deposits possibilities to poor individuals who are largely ignored by commercial banks and other lending institutions. By focusing on small amounts and easing collateral requirements microfinance institutions are better equipped to target poor individuals or group who need resources to finance small scale investment.

In other word, microfinance is defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally define poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

With a mission of to extended financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner Nirdhan Utthan Bank Limited has been formed in 1991 as a Nirdhan NGO. In 1993, Nirdhan started its operation in Siktohan in Western Nepal near the Indo-Nepal border as Terai plains has the poor and dense population. In 1998, NUBL which means the bank for upliftment of poor was registered with the Company Registrar with the recommendation of Nepal Rastra Bank.

This study examine the financial performance of NUBL and its impact of microfinance program on the socio economic status of poor people. The researcher has used the financial tools and statistical tools to make this study more effective and informative. The study has covered five years data from year 2061/62 to year 2065/66 of NUBL and also the opinion of NUBL members about the impact of NUBL works.

5.2 Conclusion

From the analysis of the five years figures and its major finding we can found that the year 2064/65 was very strong for current ratio. In the same way, the year 2065/66 was very much strong for debt

equity ratio. The year 2067/68, was strong for liquidity ratio and total debt to total assets ratio. For NUBL, the year 2066/67 was average year where the entire ratio is neither in higher position nor in lower position. On the other hand, when we compared the profitability position for the period of five years, year 2067/68 is very strong in context of profitability where as the year 2066/67 is a least earning year. The year 2068/69 is strong for utilization of the assets. For NUBL, the year 2065/66 and year 2066/67 are seems average year in the context of profitability.

If we see, the utilization of the resources was efficient in the year 2066/67 in terms of operating expenses and borrowing per staff. In the same way, the year 2068/69 was productive in terms of loan and advance to total deposit and borrowing For NUBL, the year 2067/68 was average year where majority of the ratios neither falls in higher position nor in lower position. The NUBL's contribution to its members is found satisfactory. Their income has been positively in a growing trend. Majority of the members have increase income through various income generating activities. Being economically self-dependent the confident level of the respondents has been increasing and they are now slowly changing their occupation pattern. This is positive impact of micro lending of MFIs. Similarly the consumption patterns of respondents are far better then previous. They are improving their consumption level, which is positive impact to improve lifestyle of rural people.

5.3 Recommendation

On the basis of the study on financial performance and social impact analysis of NUBL and the major findings of the study, the following recommendations are made for NUBL's efficient performance:

- J In analysis of financial management ratio, NUBL has strong capacity to fulfill it's liquidity as it has maintained the margin twice much higher. This might led institution toward non-productive and unforeseen losses due to forfeit in opportunity cost. Besides, definitely higher lending rate increases the institution's profitability but there is also equal chance of leaving the members for profitable interest.

- J The better efficiency and utilization of the resources will be achieved if the result is stable rather than in fluctuating trend. Therefore, NUBL should need to be strong in monitoring and evaluation area. Similarly, the capacity of its own staff needs to build up according to the need and timely manner for the future projection.

- J More income generation related trainings need to be provided to the group members so that they can best utilize of loan and raise more income/profit.

- J Credit program are helpful to the poor to enable them to finance specific private income-generating activities to increase their income. However, it is vitally important to ensure that the loan facilities provided to the poor are not utilized for consumption purpose. The actions of such borrowers if imitated by other poor people could produce a negative impact on the future growth of MF. So, respective MFI is recommended to adopt proper monitoring evaluation and feedback mechanism.

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Appendix 1: NUBL's Five Year's Balance Sheet as on Ashad 1

Particulars	64/65	65/66	66/67	67/68	68/69
Assets					
Cash and Bank Balance	12,938,346	14,606,877	23,445,085	31,826,058	35,470,967
Cash in Vault (Including Cash in Transaction)	515,932	595,861	762,804	1,214,448	1,631,594
Non-interest bearing bank deposits	12,422,415	14,011,016	22,682,281	30,611,609	33,839,373
Call deposits in commercial banks	39,776,949	42,389,069	64,748,301	75,090,896	131,499,141
Investment	127,579,777	144,755,240	141,453,166	100,506,439	115,465,681
Government Bonds	120,000,000	120,000,000	120,000,000	38,725,000	38,725,000
Investment in shares	-	6,523,200	6,523,200	7,323,200	7,623,200
Investment in approved staff retirement	2,579,777	3,232,040	4,929,966	9,458,239	24,117,481
Fixed Deposit	5,000,000	15,000,000	10,000,000	45,000,000	45,000,000
Loan Outstanding	268,850,737	411,198,781	552,397,100	610,035,490	835,963,015
Group Member Loan	247,996,685	384,245,385	503,777,887	590,221,947	811,157,919
Micro Enterprise Loan	14,822,859	19,661,517	40,813,891	18,877,487	24,144,580
Group Fund Loan	6,031,192	7,291,879	7,805,323	936,057	660,516
Less: Loan Loss Reserve	(7,539,942)	(10,832,431)	(32,382,577)	(40,090,371)	(42,097,560)
Net Loan Outstanding	261,310,794	400,366,350	520,014,523	569,945,120	793,865,455
Staff Loans	3,305,029	5,224,337	9,446,443	15,707,180	24,591,010
Other Current Assets	7,873,255	4,872,542	6,263,379	5,944,630	4,463,988
Receivable	7,349,807	4,238,052	5,575,377	4,901,695	3,325,096
Inventory	523,448	634,490	688,001	1,042,935	1,138,892
Total Current Assets	452,784,151	612,214,415	765,370,897	799,020,322	1,105,356,241
Property And Equipment	29,106,037	45,181,159	47,409,227	67,963,930	70,560,210
Fixed Assets (at Cost)	29,106,037	45,181,159	47,409,227	67,963,930	70,560,210
Accumulated Depreciation	(5,029,990)	(7,377,923)	(10,643,160)	(14,025,899)	(17,077,840)
Net Property And Equipments	24,076,047	37,803,237	36,766,067	53,938,031	53,482,371
Expenses to be written-off	303,845	288,404	410,112	6,034,938	5,775,365
Premium on purchase of national saving certificate				5,745,783	5,266,968
Share issue expenses	303,845	288,404	410,112	289,155	508,397
Total Assets	477,164,043	650,306,055	802,547,076	858,993,291	1,164,613,976
Liabilities					
Current Liabilities	94,537,320	130,785,969	178,306,227	213,266,329	281,950,551
Client Savings	80,211,605	177,449,140	161,326,686	182,054,272	245,020,337
Other current liabilities	14,325,715	13,336,829	16,979,541	31,212,058	36,930,214
Long Term Liabilities	320,639,446	425,699,406	520,536,575	536,288,174	723,854,858
Long-term Borrowing	320,639,446	425,669,406	520,536,575	536,288,174	723,854,858
Total Liabilities	415,176,766	556,455,375	698,842,802	749,554,503	1,005,805,409
Equity	61,987,278	93,850,680	103,704,273	109,438,788	158,808,568
Paid up Equity	9,920,500	19,888,400	27,444,300	32,933,160	78,928,124
Proposed bonus share		2,500,000	5,488,860	6,528,396	21,071,876
General reserve	1,589,943	3,622,608	5,300,621	8,056,286	11,850,951
Capital reserve	8,360,833	9,840,422	10,070,418	11,409,892	11,860,018
Institutional Development Fund	35,888,523	47,618,790	45,209,815	42,183,539	33,901,391
Retained Net Profit (Loss)	6,227,479	10,380,460	10,190,259	8,327,515	1,196,208
Total Liabilities and Equity	477,164,043	650,306,055	802,547,076	858,993,291	1,164,613,976

SOURCE: Annual report NUBL

Appendix 2: NUBL's Five Years Income Statement as on Ashad 15

Particulars	64/65	65/66	66/67	67/68	68/69
Financial Income					
Interest from current and past due loan	39,704,515	61,936,401	86,819,438	107,409,808	126,755,655
interest from investment and bank deposit	15,331,456	12,758,932	12,850,115	15,514,366	8,938,610
Other income	766,284	2,432,543	1,160,525	1,620,943	3,557,091
Total Financial Income	55,802,255	77,127,876	100,830,078	124,185,116	139,251,356
Financial Cost					
Interest on Borrowings	15,094,455	15,723,359	19,062,854	22,912,490	23,953,389
Interest on saving Deposit	3,680,763	5,163,817	7,419,228	9,073,007	11,200,312
Total Financial cost	18,775,218	20,887,176	26,482,082	31,985,497	35,153,701
Gross Financial Margin	37,027,037	56,240,700	74,347,996	92,199,619	104,097,655
Loan loss expenses	5,049,679	9,016,680	21,863,814	7,741,354	6,268,963
Provision for loan losses	5,049,679	9,016,680	21,863,814	7,741,354	6,268,963
Net Financial Margin	31,977,359	47,224,020	52,484,181	84,458,265	97,828,692
Operating Expenses					
Salaries and allowances	21,170,831	28,529,388	32,150,328	51,898,293	58,519,912
Office operating expenses	8,993,015	13,102,865	15,905,480	16,997,789	18,356,246
Training expenses	803,668	2,011,099	1,401,030	1,430,696	1,809,121
Total Operating Expenses	30,967,514	43,643,352	49,456,838	70,326,779	78,685,279
Net Income from operation	1,009,845	3,580,668	3,027,343	14,131,486	19,143,413
Grant Income					
Income from Grants for credit services	5,004,808	9,684,737	8,009,537	6,492,390	9,924,578
Total Grant income	5,004,808	9,684,737	8,009,537	6,492,390	9,924,578
Profit/loss from Extra-ordinary Activities			1,421,059	1,290,362	1,552,308
Net Income Before Bonus & Income Tax	6,014,653	13,265,406	12,457,939	21,914,238	30,620,299
Provision for bonus	601,465	1,205,946	1,132,540	1,992,203	2,783,663
Net Income before Income Tax	5,413,187	12,059,460	11,325,399	19,922,035	27,836,636
Provision for income tax	514,694	1,896,133	2,935,337	6,143,709	8,863,312
Net income after Income Tax	4,898,493	10,163,327	8,390,062	13,778,326	18,973,324
Appropriation					
available profit till this year	7,207,178	16,390,806	19,199,733	23,968,585	27,361,528
General Reserve	979,699	2,032,665	1,678,012	2,755,665	3,794,665
Proposed cash dividend	-	1,477,680	1,733,324	5,566,317	1,109,046
Proposed bonus share	-	2,500,000	5,488,860	6,528,396	21,071,876
Staff related reserve				138,188	189,733
Previous year's tax adjustment	-	-	109,277	652,504	-
Retained Profit	6,227,479	10,380,460	10,190,259	8,327,515	1,196,208

SOURCE: Annual report NUBL

Appendix 3: Principal Indicators at least for previous 5 years

Particulars	Indicators	64/65	65/66	66/67	67/68	68/69
Percentage of Net Profit / Gross Income	Percent	8%	12%	8%	10%	13%
Earning Per Share	Rs.	49.36	51.10	30.57	41.84	24.04
Market Value per Share	Rs.	100	100	103	110	148
Price earning Ratio	Ratio	2.03%	1.96%	3.37%	2.63%	6.16%
Dividend (including bonus) on share capital	Percent	0%	20%	26%	36.73%	28.1%
Cash dividend on Share Capital	Percent	0%	7.4%	6.3%	16.9%	1.41%
Interest Income/ Loan & Advances	Percent	16.4%	18.2%	18%	18.42%	17.53%
Staff Expenses / Total Operating Expenses	Percent	66.5%	66.5%	67.4%	75.79%	74.37%
Interest Expenses on Total Deposit and Borrowings	Percent	4.7%	4.4%	4.3%	5.28%	5.25%
Exchange Gain / Total Income	Percent	0%	0%	0%	0%	0%
Staff Bonus / Total Staff Expenses	Percent	2.8%	4.1%	3.4%	3.74%	4.76%
Net Profit / Loan and Advances	Percent	2%	3%	2%	2.37%	2.39%
Net Profit / Total Assets	Ratio	1%	2%	1.2%	1.66%	1.63%
Total Credit / Deposit	Percent	335.2%	350.1%	342.4%	335%	341%
Total Operating Expenses / Total Assets	Percent	6.7%	7.9%	6.9%	8.47%	0%
Adequacy of Capital fund on Risk Weighted Assets		7%	9%	8.9%	8.08%	11.77%
a. Core Capital	Amount in '000	17,738	36,391	48,424	55,845	113,047
b. Supplementary Capital	Amount in '000	2,592	3,985	5,327	6,612	8,330
c. Total Capital Fund	Amount in '000	20,330	40,376	53,751	62,457	121,377
Liquidity (CRR)	Ratio	215%	150%	117%	106%	106%
Non-performing credit / Total Credit	Percent	3.61%	3%	6.67%	6.73%	4.78%
Weighted Average Interest Rate Spread	Percent	11%	12%	13%	13%	13%
Book Net Worth	Rs.	17,737,922	93,850,680	109,438,788	109,438,788	119,281,310
Total Shares	No	99,205	198,884	274,443	329,332	789,281
Total Staffs	No	229	241	283	322	369

SOURCE: Annual report NUBL

Appendix 4: Occupational Status of the Respondents

Null Hypothesis (Ho): $P_1=P_2$: there is no significant change in proportion of respondent, whose main occupation was traditional before involving Credit program.

Alternative Hypothesis (H1): $P_1>P_2$ there is significant decreased in proportion of respondent whose main occupation is traditional after involving Credit program.

Test of statistics

$$Z = \frac{P_1 - P_2}{\sqrt{\hat{P}\hat{Q} \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{Where } \hat{P} = \frac{X_1}{n_1} = \frac{52}{111} = 0.4685 \quad \hat{Q} = \frac{X_2}{n_2} = \frac{58}{111} = 0.5225$$

$$\hat{Q} = 1 - \hat{P} = 1 - 0.6306 = 0.3693$$

$$z = \frac{0.4685 - 0.5225}{\sqrt{0.6306 * 0.3693 \left(\frac{1}{111} + \frac{1}{111} \right)}}$$

$$Z = -1.57$$

Appendix 5: Income level of respondent before and after joining credit program

Annual Income in (Rs)	Mid Point (X)	$d \times \frac{x - Z_{9500}}{1000}$	Before			After		
			F1	F1d'	F1d' ²	F2	F2d'	F2d' ²
Below 1000	500	-9	8	-72	648	1	-9	81
1000-2000	1500	-8	19	-152	1216	4	-32	256
2000-3000	2500	-7	13	-91	637	17	-119	833
3000-4000	3500	-6	18	-108	648	8	-42	252
4000-5000	4500	-5	20	-100	500	14	-70	350
5000-6000	5500	-4	5	-20	80	9	-36	144
6000-7000	6500	-3	1	-3	9	14	-42	126
7000-8000	7500	-2	7	-14	28	11	-22	44
8000-9000	8500	-1	3	-3	3	4	-4	4
9000-10000	9500	0	7	0	0	7	0	0
10000-11000	10500	1	2	2	2	5	5	5
11000-12000	11500	2	2	4	8	4	8	16
12000-13000	12500	3	0	0	0	0	0	0
13000-14000	13500	4	1	4	16	1	4	16
14000-15000	14500	5	3	15	75	6	30	150
15000-16000	15500	6	1	6	36	0	0	0
16000-17000	16500	7	0	0	0	2	14	98
17000-18000	17500	8	0	0	0	0	0	0
18000-19000	18500	9	0	0	0	0	0	0
19000-20000	19500	10	1	10	100	4	40	400
Total			111	-522	4006	111	-275	2775

SOURCE: Annual report NUBL

Where, 9500 is assumed mean

1000 is class height (class size)

Calculation of Mean and C.V. before joining credit program

A) Mean

$$\bar{X}_1 = \sum \frac{fd'}{N_1} * h$$

$$= 9500 \sum \frac{fZ522A}{111} * 1000$$

$$\bar{X} = 4754.55$$

B) C.V.

$$C.V. = \frac{\sqrt{\frac{1}{N_1} \sum fd'^2 Z - \frac{fd'}{N_1}}}{\bar{X}_1} * h^2 * 100$$

$$= \frac{\sqrt{\frac{1}{111} * 4006 Z \frac{Z522}{111}^2 * 1000^2}}{4754.55} * 100$$

C.V. = 78.41%

By applying above formula and process the Mean average and C.V. after involvement in credit program is,

Mean $\bar{X} = 7000$ and C.V. = 62.23%

Appendix 6: Consumption pattern of Respondent

Null Hypothesis (Ho): P1=P2 there is no significant improvement in the proportions of respondent in the concern of consumption patterns before involving Credit program.

Alternative Hypothesis (H1) = P1<P2: there is significant improvement in the proportions of respondent in the concern of consumption patterns after involving Credit program.

Test of statistics

$$Z = \frac{P1 - P2}{\sqrt{\hat{P}\hat{Q} \left(\frac{1}{n1} + \frac{1}{n2} \right)}} \quad \text{Where } \hat{P} = \frac{X1}{n1} = \frac{43}{111} = 0.4279$$

$$\hat{Q} = 1 - \hat{P} = 0.5720$$

$$Z = \frac{0.3873 - 0.4684}{\sqrt{0.4279 * 0.5720 \left(\frac{1}{111} + \frac{1}{111} \right)}}$$

$$|Z| = 18.38$$

$$Z = 18.38$$

Appendix 7: Clothing pattern of respondent

Null Hypothesis (Ho): P1=P2: there is no significant difference in the population proportion of respondent whose clothing pattern was improved, after involving Credit

program.

Alternative Hypothesis (H1): $P_1 < P_2$: there is significant decline in the population proportion of respondent whose clothing pattern is improved after involving Credit program.

Test of statistics

$$Z = \frac{P_1 - P_2}{\sqrt{\hat{P}\hat{Q}\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \quad \text{Where } \hat{P} = \frac{X_1}{n_1} = \frac{92}{111} = 0.8288$$

$$\hat{Q} = 1 - \hat{P} = 0.1712$$

$$Z = \frac{0.8288 - 0.9459}{\sqrt{0.8288 * 0.1712 \left(\frac{1}{111} + \frac{1}{111}\right)}}$$

$$Z = -65.05$$

$$|Z| = |65.05|$$