

**IMPACT OF MICROFINANCE ON WOMEN DEVELOPMENT:
A CASE STUDY OF HEMJA VDC, KASKI, NEPAL UNDER
PASHCHIMANCHAL GRAMEEN BIKAS BANK**

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RECOMMENDATION

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Entitled:

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DECLARATION

I hereby declare that the work reported in this thesis entitled **“IMPACT OF MICROFINANCE ON WOMEN DEVELOPMENT: A CASE STUDY OF HEMJA VDC, KASKI, NEPAL UNDER PASHCHIMANCHAL GRAMEEN BIKAS BANK”** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Associate Prof.Dr.RamjeeGautam, of Tribhuvan University.**

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TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Figures	
Abbreviations	
	Page No.
CHAPTER – I: INTRODUCTION	
1.1 Background of study	1
1.2 Micro finance in Nepal	2
1.2.1 Women micro finance in Hemja VDC, Kaski	5
1.2.2 Procedure of Saving and Credit for Women	6
1.2.3 Loan Demand and Processing of Loan	7
1.2.4 Saving Pattern and Other	7
1.3 Focus of the Study	8
1.4 Statement of the Problem	8
1.5 Objective of the Study	10
1.6 Significance of the Study	10
1.7 Limitation of the Study	11
1.8 Organization of the Study	11

CHAPTER – II: REVIEW OF LITERATURE

2.1 Theoretical Review	13
2.2 Evolution of Microfinance in Nepal	16
2.3 Linkages between Commercial Banking and Micro-Finance	18
2.4 Fundamentals Considerations	21
2.5 State and Microfinance Nexus	24
2.6 Role of the Government	29
2.7 State’s Priorities in Microfinance Sector	33
2.8 Importance of Microfinance for Women	38
2.9 Conceptual Review on Women Socio-economic Empowerment through microfinance	41
2.10 Critical Review of Women Empowerment through Microfinance	45
2.11 Review of Related Studies	45
2.11.1 Review of Research Articles	45
2.11.2 Review of Thesis	48
2.12 Research Gap	52

CHAPTER – III: RESEARCH METHODOLOGY

3.1 Research Design	53
3.2 Study Area	53
3.3 Population and Sample	53
3.4 Sources and Collection of Data	54
3.4.1 Primary Sources	54
3.5 Data Analysis Technique	55

CHAPTER – IV: DATA PRESENTATION AND ANALYSIS

4.1 Social Impact of MF program in Women Empowerment	56
4.1.1 Women Empowerment at Household Level	56
4.1.2 Empowerment at External Affairs	59
4.2 Economic Impacts	62
4.2.1 Assets Creation (Physical and Financial)	62
4.2.1.1 Landholding	62
4.2.1.2 Building	63
4.2.1.3 Livestock Holding	64
4.2.1.4 Other Assets	65
4.2.1.5 Savings	67
4.2.2 Food Security	67
4.2.3 Income and Expenditure Pattern	69
4.3 Constraints and Critical Issues of Women Focused Microfinance	73
4.3.1 Constraints faced	73
4.3.1.1 Repayment Pressure	74
4.3.2 Critical Issues	76
4.3.2.1 Exclusion of Bottom Poor Women	76
4.3.2.2 Member or Client Duplication and Its Potential Risk	77
4.3.2.3 Lack of Support Services	78
4.4 Findings	78

CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary	85
5.2 Conclusion	87
5.3 Recommendation	89

Bibliography

Annexure

LIST OF TABLES

Table No.	Title	Page No.
4.1	Magnitude of Empowerment on other Domestic Issues after joining the MF Programme	57
4.2	Empowerment at External Affairs	59
4.3	Number of client's households renovating and building new house	63
4.4	Number of Clients household holding livestock before and after	65
4.5	Number and Percentage of Clients household with Net Addition Of Assets before and After	66
4.6	Number & Percentage of Sample Client Households with Food Sufficiency Status	68
4.7	Number & Percentage women of Sources of Income before and after join in the MF Program	70
4.8	Expenditure Pattern of Sample Clients before and After Participation on MF Program	71

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Magnitude of Empowerment on other Domestic Issues after joining the MF Programme	58
4.2	Empowerment at External Affairs	60
4.3	Number and Percentage of Clients household with Net Addition Of Assets before and After	66
4.4	Number & Percentage of Sample Client Households with Food Sufficiency Status	68
4.5	Percentage women of Sources of Income before and after join in the MF Program	70
4.6	Expenditure Pattern of Sample Clients before and After Participation on MF Program	72

ABBREVIATIONS

ADB/N	Agriculture Development Bank of Nepal
F/Y	Fiscal Year
GBB	Grameen Bikas Bank
GTZ	German Technical Co-operation
NG	Nepal Government
IDP	Institutional Development program
INGO	International Non- government Organization
MCPW	Micro Credit Project for Women
MFI	Micro Finance Institution
MOAC	Ministry of Agriculture and Co-operation
MOF	Ministry of Finance
MOLR	Ministry of Land Reforms
MPA	Master of Public Administration
NGO	Non-Government Organization
NRB	Nepal Rastra Bank
PCRW	Production Credit for Rural Women
PGBB	Paschimanchal Grameen Bikash Bank
RSRF	Rural Self Reliance Fund
ROA	Return on Total Assets
SCC	Saving and Credit Co-operation
SFCL	Small Farmers Co-operation Limited
SFDC	SmallFarmersDevelopmentCenter
SFDP	Small Farmers Development Program
SPOs	Sub- Project Offices

CHAPTER-ONE

INTRODUCTION

1.1 Background of the Study

Micro finance has evolved as an economic development approach intended to benefit low income people. The term refers to the provision of financial service to low income clients including the self-employed. Its main purpose is to serve the needy people in rural areas who have no access to modern physical facilities. Private sector banks do not have branches in such areas. There is an acute need to help by setting up more Rural Development Bank, NGOs & INGOs to extend credit. They can play a vital role in eliminating poverty. Microfinance plays the role of financial as well as social intermediation. It is regarded as "an economic development approach" consisting of the provision of financial services to low income clients. It is not simply banking but a developmental tool too.

Micro finance is the provision of board range of financial services such as saving (deposit), loans payment services, money transfer and insurance to poor and low income households and other enterprises which are usually considered non bankable. It is such a program which provides opportunity to low income groups to save small amount of saving, to receive loans at their doorsteps without or with collaterals in a simple way and at a reasonable interest rate. It also facilitates for small scale financial services such as guarantee, saving, insurance, leasing and remittance. Micro finance is targeted to small size loan for short duration at a slightly high interest rate than market rate to cover all costs and run the project with simple procedure. The special feature of microfinance is financing without collateral on group liability basis.

Micro finance activities usually include:

- Small loans, typically for working capital.
- Informal appraisal of borrowers and investment
- Collateral substitutes, such as group guarantees or compulsory saving.

- Access to large loans, based on repayment performance
- Streamlined loans disbursement and monitoring secured saving products.

Micro finance clients are typically self-employed low income entrepreneurs in both urban and rural areas, and clients are often traders, street vendors, small farmers, service providers, hair dressers, rickshaw drivers and artisans and small producers such as blacksmiths. Usually their activities provide a stable source of income; they are not considered to be the "poorest of the poor".

Microfinance is a tool for empowerment of the poorest. Higher the income, better the asset position of the borrower. It is essentially the promotion of self-employment. The opportunities of wages employment are limited in developing countries. Microfinance helps to increase the productivity of self-employment in the informal sector of the economy. It is generally used for (a) direct income generation (b) rearrangement of assets and liabilities for household to participate in future opportunities and consumption smoothing. It is not just a financing system but a tool for social change, especially of poor. It does not spring from market forces alone, it is potentially welfare enhancing because micro credit is aimed at the poorest.

There are various financial institutions providing financial services to the people. However, many of such financial institutions are focused on urban people who have medium and high income. Although many programs have been implemented for poverty reduction in Nepal, only micro finance program is seen as poor targeted and rural based peoples.

Today, nation is also depending open micro finance activities to get better result and success in the overall development of nation. This research paper helps to evaluate the performance of microfinance activities on poor and deprived society for their upliftment and modernization.

1.2 Micro Finance in Nepal

The history of financial sector development in Nepal is quite new. The first commercial bank in Nepal by the name of Nepal Bank Limited was established in the year 2037. The central bank of the country came in to existence in 1956

A.D. It was then followed by a couple of public sector financial institutions like Nepal Industrial Development Corporation (1959), RastriyaBanijya Bank (1966) and Agriculture Development Bank (1968). After the adoption of liberalized economic policy, in 1980's a number of banks have come into existence. Nabil Bank Ltd. (formally Nepal Arab Bank Ltd.) is the first joint venture foreign bank established in Nepal in the year 1984.

Since then there has been a rapid expansion in the financial market. It is expected that after 2012 some foreign banks would start their operation in Nepal as it has already become a member of WTO.

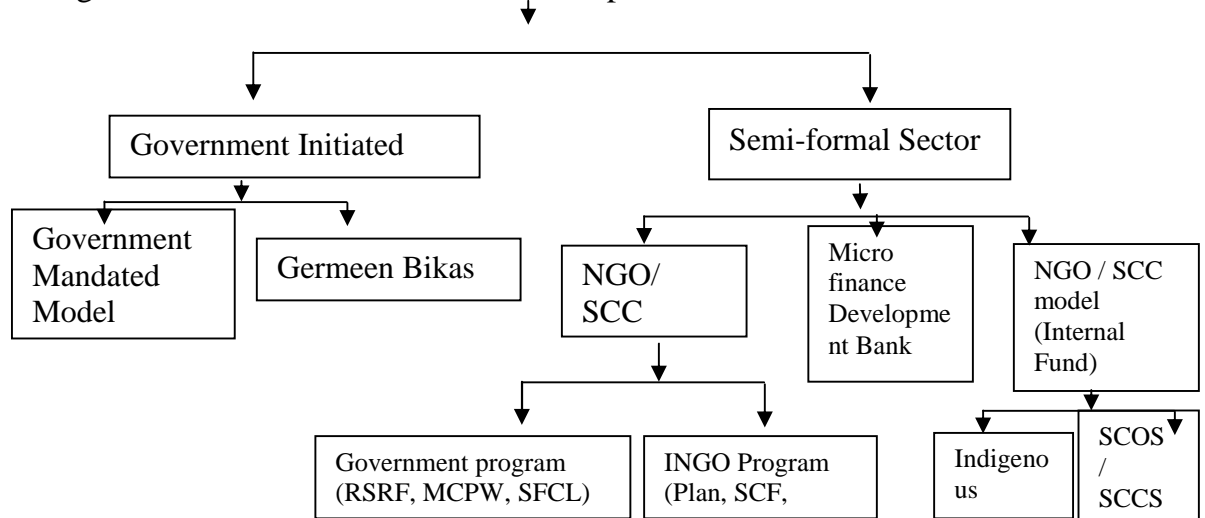
The financial activities have been basically concentrated in and around urban areas. Rural areas where absolute poverty persists have been deprived of financial services. Poverty alleviation program of the government will not succeed unless rural people are served with the necessary financial facilities. In this context microfinance is the only hope, and feasible for them.

The history of microfinance in Nepal is quite new. It was started only in the year 1975. The traditional practice of Dhikuri and 'Guthiyar' can be taken as the origin of microfinance in Nepal. After the restoration of democracy in 1990 and the adoption of liberal economic policies by the government, a number of different types of microfinance institutions have emerged with governmental, non-governmental and donor initiatives. At the same time different types of community based organizations have also been established. Presently there are 6000 cooperative institutions registered in Nepal. Among them about 1600 are saving and credit cooperatives. Nepal Rastra Bank, Agriculture Development Bank, RastriyaBanijya Bank and Nepal Bank Limited have also delivered several microfinance programs. Some of the international non-governmental organizations are also contributing in organizing people, collecting regular saving and investing in income generating activities. These activities on micro finance can be classified as government efforts in micro finance development and NGO or voluntary agencies contribution.

Nepal government designed a poverty alleviation program called small farmer development program in 1975. The program was implemented through

Agricultural Development Bank. This program is now considered a successful program in Nepal for poverty alleviation to some extent. Government recognized micro finance as a tool for poverty alleviation and thus lunched it in the Sixth Plan (1980/81-1984/85). Various programs to ensure poor, particularly women and disadvantaged and marginalized people was designed and implemented during that period. This program gained momentum after the restoration of democracy in 1997 with the establishment and promotion of GrameenBikash Bank and other micro finance institutions like production credit for rural women, micro credit project for rural women, rural self-reliance fund, rural development bank, etc.

Figure 1.2: Micro Finance Sectors in Nepal



Micro credit programs in Nepal have different modalities. Some are community based such as saving and credit cooperatives. Some are sector based such as 'priority sector' program which includes agriculture, cottage and small industries and services, and implemented through commercial banks. Though the history of micro credit started since 1950s, its importance has increased when regional rural development banks were established in 1992 by Nepal government and Nepal Rastra Bank as reapplication of Grameen Bank of Bangladesh, focusing on extremely poor people. The main objectives of RRDB is to empower rural people economically by providing them economic

opportunities which in turn empowers them socially, economically, politically and psychologically.

Nobel peace prize winner of 2006, Mohammad Yunus of Bangladesh, the brain child of Grameen Bank, aptly regards poverty as "The denial of human right. A poor person has no right at all, no matter what one puts into the book" (Yunus, 1987)

Thus poverty is multidimensional in nature. It is the presence of hunger, malnutrition, illiteracy or insufficient education, starvation, frequent outbreak of communicable disease, remarkable poor housing, bare clothing, landlessness and so forth. The dynamics of poverty inequality and nutritional deficiency are related to each other through a complex chain of interactions. This phenomenon reinforces the other, and they are influenced at the same time by a number of other socio-economic parameters.

1.2.1 Women Microfinance in Hemja VDC, Kaski

Western Development Region (WDR) consists of 3 Zones- Gandaki, Lumbini and Dhaulagiri and 16 districts. Kaski is one of the district of Gandakizone. The kaski district consists of 43 village development committees (VDCs) and 1 municipality and 1 sub-municipality. Hemja VDC is one of the VDC of kaski district. Hemja VDC is located 14 km north west to Pokhara sub-municipality, on Bhupiserchan Highway. It is surrounded by Sarangkot VDC to the west. Lamachaur VDC and Pokhara sub-municipality to the east-south or Lahachok VDC to the north.

Literacy rate of Hemja VDC is 73% out of this 58% male and 42% female are literate. There are one campus, 5 secondary schools and 7 Primary schools. It is found that around 5 % of people go for future study mostly Australia, America, UK and Singapore. The economic condition of the people of this VDC is not bad. Most of people depend on agriculture. A negligible portion of this population depends on non-agricultural occupation such as public service, small business, and trade.

Women of these areas are involved in agriculture. It will be beneficial for women if they save small amount of money in a group and invest that in some profitable sector. To make this sector effective different organizations and banks are established within VDC. Some of them include Nirdhan Bank, Swabalamban Bikas Kendra etc. They form a group of women, ranging mostly 4-5 women. They collect some fund according to priority sector. Some sectors of investment are Buffalo Keeping Goat keeping Poultry Farming, Retail Business and other etc. It also forms small women group. Hemja VDC is implementing a Rural- Urban Participatory Program (RUPP) with assistance of UNDP. It is currently being organized in only 4 wards of the VDC. Grameen Bikas is undertaking micro fiancé activities in whole district.

1.2.2 Procedure of Saving and Credit for Women

Credit has gained wide acceptable as a key strategy for poverty alleviation and women empowerment. PGBB accepts the saving as a deposit by opening above different types of account and provides loan on group guarantee and also gives loan on the basis of collateral.

) Concept of group and unit

Beneficiaries are organized into group. In PGBB model 5 persons are required for a group. In each group one is group leader, 4 are members. Similarly, to build a unit 5 groups are required. All the saving and credit activities conduct with reference to group and unit. Each group or unit should arrange a meeting every month before saving and paying monthly installment.

) Credit/Loan with and without collateral securities

PGBB provides the loan on the basis of group-guarantee, without collateral. It also gives loan by taking collateral. Rate of interest is more to collateral basis loan.

1.2.3 Loan Demand and Processing of Loan

The whole process of loan demand and collection is based on group and collateral accountability. The group decides the amount of loan required to members either in case of collateral base or without collateral. Maximum loan amount is Rs. 60,000.

PGBB provides loan in yearly basis. The group member gets Rs. 20,000/- in first year and loan amount is increased by Rs. 10,000/- per year from second year to sixth year. Hence, she gets Rs. 60,000/- in last year.

1.2.4 Saving Pattern and Others

PGBB has various saving schemes and others social contribution which are as follows:

- i. Monthly saving:** All members have to compulsion to collect at least Rs. 30/- per month. The compulsory saving should collect a day before the monthly meeting date. PGBB provides monthly 'pass book' to all clients to make the account up to date.
- ii. Pension saving:** It is a new scheme designed by PGBB for those member who are interested to save more money for their future. This account has fixed time duration i.e. 9 years to 4 years. To open this voluntary account the member should collect at least Rs. 50, Rs. 100, Rs. 150 or Rs. 200 per month. The member, who deposits upto 9 years continuously and turnover, will get 150% of deposited amount. Similarly who deposit upto 14 years and close the account will get double of the deposit amount and who deposit till to 16 years, will get pension on monthly basis.
- iii. Disaster saving:** At the disbursement time of loan the borrowers have to save 5% of the total loan amount. This fund will be provided in the time of disaster cased like flood, landslide, fire snakebite, earthquake, thunder etc.

- iv. Member security fund:** The member should save 1% of total loan in member security fund at disbursement time. It is used as compensation fund in the death of borrower or in the case of guardian's death to their family member. The compensation amount is Rs. 1500.

- v. Disciplined member welfare fund**

This fund is created for the disciplined unit. Every disciplined unit can get Rs. 250/- monthly. This amount of money can be used in the work of their needs by themselves such as education, health etc.

1.3 Focus of the Study

Poverty is one of the world's main problems. No countries are free from this problem. Hence it is a main barrier of the development of each country of the world. Being the developing country Nepal is also not far from this problem. Around 38% of people are under the general poverty line. In Nepal from the side of government and from NGO, INGO are trying to solve the problems from various method. Lastly, microfinance is accepted as a better tool for poverty alleviation. Practically it is proving that microfinance is one of most effective weapon to increase the life standard of women which gives high socio-economic status in the society.

This research paper focuses on practices of microfinance for women in Hemja VDC. It is oriented to how the case study helps the poverty reduction with the help of Pashchimanchal Grameen Bikas Bank (PGBB), how it helps to develop local level women's financial condition, how it helps to save small amount of money and its mobilization, what is loan disbursement and recovery condition of PGBB etc.

1.4 Statement of the Problem

The 2002 Financial Sector Study by World Bank revealed that the formal micro finance sector has had limited impact to date in providing financial services to the rural poor. Of the estimated 20 million rural inhabitants, 31% of whom are classified as poor, only about 700, 000 are served by the formal micro finance

institution (MFIs) and the remaining majority of the poor have to look for traditional informal sector like money lenders, family members, friends, landlords etc for the financial support. Commercial banks are undergoing with tough competitions. They're extending their branches within the urban areas and in sub urban area or in only the convenient places. CBs are not directly investing in microfinance due to high cost so they are investing through MFIs and NGOs in such sectors. NGOs have found to be the best way to serve the poor people of rural areas.

Males and females are two wheels of same cart, but in practice we cannot get such consideration. They are ignored in every aspect. Plans or policies consisting women supporting concept are only focusing few aspects of women which are not sufficient to empower women. They are not allowed to take decision though the decision is related to them. If they take part in various programs such as social, education, women related, and then they are perceived badly and pronounced as "*PothiBaseko*". Economically, socially and politically women are dominated by their counter partner. It is so, because Nepal is one of male dominated countries. All property and other financial activities are conducted by male women do not have access to finance, which can be caused to improve their life. Their mobility is made limited by social and family related barriers. So, they do not know about the global movement, which can be beneficial to learn some new idea to improve their comprehensive aspects. They are not allowed to take part in any program by their own desire.

Most of the Nepalese women lack skill and experiences to do new things, it is so, because of illiteracy and lack of proper supports. In rural area of Nepal, the main role of women is to look after the household and bring up children. If wives want to do something new like as business, services their husband other family member restrict them. So, study deals with above maintained obstacles of rural women. After getting support on their doorstep how they react it, is

shown by the result of the work. In the view of the discussion of the problem taken from the above studies, the research questions are as follows.

- What are the economic impacts of the microfinance program in women empowerments?
- What are the social impacts of the micro finance program in women empowerments?
- What are the constraints faced by women clients in micro finance service?

1.5 Objectives of the Study

This research is being made to fulfill the partial requirement for the degree of Master of Business Studies (MBS). We know that every work is started to get a certain outcome which is known as the objective. Without any objective it is worthless to perform any task. Likewise this research also has some clear and distinct objectives beside the part of fulfillment of TU syllabus. The main objectives of the study are as follows:

1. To study the economic impact of the microfinance program in women empowerment.
2. To analyze the social impact of the microfinance program in women empowerment
3. To analyze the constraints faced by the women clients because of the competitive microfinance services.

1.6 Significance of the Study

Every research has aims to gain more knowledge and to add new literature to the existing field. The aim behind this research work is to access the microfinance in Nepal and its effect on socio-economic empowerment of women in Hemja VDC with respect to PGGB. Microfinance concept is very important to low income Nepalese women especially for farmer. From micro financial tools they can directly involve in fund raising programs and can develop themselves.

Today many research studies have been carried out in many developed countries including India, Bangladesh in microfinance. So to the best knowledge of the researcher it will be more significance in Nepalese context. In light of above statement, the researcher believes that the study will explore a virgin field in Nepalese women's' microfinance scenario and add new things to the literature of microfinance sector. It will also contribute scholars, teacher, decision maker, financial planner and other training providers.

In addition to this, the present study has some practical relevance. It is trying to disclose the real condition of women in Nepalese society. The increasing trend to women's participate in economic activities like saving, taking loan etc. helps to develop their personal life and also helps to develop their personal life and also helps to improve overall economy.

On the other hand this study fulfills the academic requirement of degree of master of Business Studies (MBS).

1.7 Limitation of the Study

Every research has its own limitation so it is also not free from limitation. This study has the limited as follows:

-) This study is confined within VDC.
-) The overview of the study has been taken in to consideration only those PGBB programs.
-) Sample of women are taken who are involved in microfinance activities.
-) The study has covered only 150 clients within Hemja VDC.

1.8 Organization of the Study

This study is organized in different chapters and sub-chapters as given below:

Chapter: 1, Introduction

This chapter includes background, management of saving and credit for women, focus of the study, statement of the problem, objectives of the study, significance of the study, delimitations of the study and organization of the study.

Chapter: 2 Review of the Literature

This chapter consists of conceptual framework about meaning, history, trends, importance, principles, loan, saving, investment, role of different players, programs of microfinance in Nepal. This chapter also consists socio-economic background of women in Nepal. On the other hand it consists empirical studies of research articles and dissertations. Lastly it includes research gap.

Chapter: 3 Research Methodology

In this chapter the research design, its methodology has been explained. This study mainly focused on primary data as well as secondary data, for the analysis purpose, obtained by the official records, published in journal and magazines, books and booklets published by the organization.

Chapter: 4 Presentations and Analysis of Data

In the chapter presentation and analysis of relevant data and applying various statistical tools. Tables and graphs are also interpreted to accomplish the objectives of the study.

Chapter: 5 Summary, Conclusions and Recommendations

This final chapter is the major consideration of this study. Findings, conclusions and recommendations are mentioned in this chapter.

CHAPTER - II

REVIEW OF LITERATURE

Literature review is done through journal articles, reports, manuals, workshop proceedings, internet home pages and other studies into microfinance program that are available. This chapter has briefly presented the theoretical review of microfinance in general and conceptual review of socio economic empowerment of women through microfinance, critical review of women empowerment through microfinance, evolution of microfinance in Nepal and profile of PGBB.

2.1 Theoretical Framework

Professor Muhammad Yunus is considered as a leader and innovator in the modern microfinance world. Yunus first tried to connect the poor people with the bank located in the campus. It did not work. The bank said that the poor are not creditworthy. Then he offered to become a guarantor for the loans to the poor. He was stunned by the result. The poor paid back their loans every single time! But he kept confronting difficulties in expanding the program through the existing banks. Several years later he decided to create a separate bank for the poor, to give loans without collateral. In 1983 Grameen bank was started. It now works all over Bangladesh, giving loans to 2.5 million poor people, 95 per cent of whom are women. In cumulative way the bank has given a total loan of about us \$3.75 billion. Financially, it is self-reliant – it has stopped taking donor money since 1995, stopped taking loans from domestic market since 1998. It has enough deposits to carry out its lending program. Impact studies done on Grameen Bank by independent researchers find that 5 per cent of borrowers come out of poverty every year, children are healthier, education and nutrition level is higher, housing conditions are better, child mortality was declined by 37 per cent, status of women has been enhanced. Ownership of assets by poor women, including housing, has improved dramatically. Now the

obvious question that anybody might ask - if poor people can achieve all this through their own efforts within a market environment, why isn't the world doing more of this? Grameen type micro finance has spread around the world over the last two decades. Nearly 100 countries have Grameen type microfinance program. In 1997, a Micro finance summit was held in Washington DC, which adopted a goal to reach 100 million poorest families with micro finance and other financial services, preferably through the women in those families, by 2005. The result is encouraging thus the target has been extended to reach 175 million by 2015.

The biggest problem for expanding the outreach is not the lack of capacity, but strangely, the lack of availability of donor money to help microfinance program get through initial years until they reach the break-even level. Beyond that level, these programs can expand their outreach with loans from the market or from deposits. In most countries micro finance program are not allowed to take deposits by the regulatory bodies. If microfinance program could open the doors for taking public deposits, expansion of outreach could be very rapid because this would free them from dependence on donor money. It is a very strange phenomenon in many countries to see that conventional banks with repayment rate of below 70 per cent are allowed to take huge amounts of public deposits year after year, but microfinance institutions with record of over 98 per cent recovery are not allowed to take public deposits.

The most important step to end poverty is to create employment and income opportunity for the poor. But orthodox economics recognized only wage-employment. It has no room for self-employment. But self-employment is the quickest and easiest way to create employment for the poor. Credit can be self-employed instantaneously. Why wait for others to create a job for you when a person can create his/her own job.

Can we really reduce extreme poverty by half by 2015; the millennium development goal? The answer is probably yes, if microfinance can really

contribute for socio-economic uplift as stipulated. Each human being is too resourceful and intelligent. Poverty and the human species just do not go together. But in reality it has happened because we created wrong mindset, which does not allow poor people to know their own potential. All we have to do is to remove the heavy crust that keeps their abilities unknown to them. Enabling people to explore their full potential is an agenda we must take up seriously, to make sure our efforts to reach 2015 goal become a thumping success.

The several impact studies done in microfinance program show that the program can bring a lot of positive changes in the lives of the poor. However, the fundamental challenge of microfinance is to reach ever-increasing number of poor people through sustainable financial institutions. Ensuring that people, especially those who are very poor, do receive access to financial services is often difficult. Many MFIs have therefore resorted to targeting to ensure that the poor and the poorest of the poor are indeed served. The Consultative Group to Assist the Poor (CGAP) client targeting centre has been designed to provide information on the targeting tools.

Microfinance is generally about providing financial services to poor people, those who lack access to prevailing formal financial institutions. Many microfinance institutions, by working in rural areas or in poor urban neighborhoods, by providing small loans for activities that low income groups would normally engage in, by imposing specific conditions of borrowing such as seeking small regular repayments, ensure that the poor are served and the wealthy are excluded. However, Many MFIs point out that without a more proactive identification of the poor, and especially the very poor and the more vulnerable, they would continue being systematically excluded from financial on increasing the depth of outreach.

2.2 Evolution of Microfinance in Nepal

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually.

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

Microfinance in the form of different informal institutions prevailed since immemorial time embedded with other traditional, cultural and social institutions such as *Dhukuti* originated from *Thakali* community and *Bheja* from *Magar* community. Savings are mobilized as credit under *Dhikuti* whereas under *Bheja*, it is used for community projects and ceremony (Baral, undated). *Pewa*—a patent asset of daughters and women in Nepalese community — is also a popular form of micro savings and credit. Later these different forms evolved as user groups, mother groups and professional credit unions (ibid).

Formal sector financing began with the establishment of credit cooperatives from the government level in 1950s particularly to supply the production support to the farmers. Further, Cooperative Bank established in 1963 was envisioned to supply adequate credit for the agriculture sector. Development financing through ADB was further focus when it introduced a separate program in 1975: Small Farmers Development Program (SFDP) characterized with group collateral. This was an integrated development program approached in tune with Integrated Rural Development Projects (IRDPs) in India and Income Generation for Vulnerable Group Development (IGVGD) in Bangladesh introduced by BRAC and others - BRAC's IGVGD scheme devised in 1986 was considered to be successful and cost effective integrated package reaching the ultra poor (Halder and Mosley, 2004). SFDP, a state sponsored and subsidized developmental credit program, has covered almost whole country. Since 1990s, such groups developed under SFDP were converted into Small Farmers Cooperatives Limited (SFCL) to hand over to the community along with shift in equity is a clear turn from subsidized credit to the concept of sustainable microfinance.

1990s remained one of the most influencing decades in the history for microfinance in Nepal as well. Number of donors, bi-lateral agencies, and international non-governmental organizations (INGOs) supported and subsidized for the promotion of microfinance through operation deficit, seed funds, capacity building and systems development. Considering the enactment of Cooperative Act 1992, thousands solidarity groups were emerged out of which many legalized as Savings and Credit Cooperatives (SCCs). A very few of them also obtained the limited banking license from NRB.

Further during 90s, NRB established Regional Rural Development Banks (RRDBs) with the partly support from government starting from 1992 to replicate the Grameen Bank of Bangladesh (Sinha, 2000). At present, there are

five RRDBs, one in each development region. Following the move, five microfinance development banks (Nirdhan, Swabalamban, Deprosc, Chimek and Nerude) are also established from the private sector after the enactment of Development Bank Act 1996. Besides, during the decade, government, donors, central bank supported programs and many more projects based saving credit activities were and are being practiced. Overwhelmingly, many socio-economic projects and programs also emphasized savings and credit as one major component for poverty alleviation.

In addition to the promotion and facilitation of solidarity groups; savings and credit cooperatives; and intermediary non-governmental organizations to carry out microfinance, many NGOs themselves started implementing microfinance activities once the Financial Intermediary Act 1999 allowed them for retailing. Certain number of SCCs and NGOs also scaled up with subsidized wholesale fund of Rural Self Reliance Fund (RSRF) created in 1991. Considering its astonishing success and over 95 percent repayment rate, this has been scaled up. But, NRB at the moment is in the process of transforming RSRF into a National Microfinance Development Fund. Later in 2000, Rural Microfinance Development Centre (RMDC), in support of Asian Development Bank was established with the aim of providing wholesale fund at competitive rate. Recent development is the policy formulation which is yet to be approved.

2.3 Linkages between Commercial Banking and Micro-Finance

Nepalese economy is distinctly different in its character from the regional economies. Poverty, less developed geographical situation, technological awkwardness, landlocked and dominated by two large economies, etc. are the main features of the Nepalese economy. Most of the population of the country are in the rural areas, where is no enough access of banking facilities. Due to lack of awareness and lack of dependable guidance to the poor, poor are still in very severe condition at many places. From the beginning of the 1970s some programs were introduced focused to rural and the poverty stricken

areas/people but these programs didn't achieve significant result in the area of the poverty reduction. The population below the poverty line is still 38 percent and it is targeted to bring down to 32 by the end of tenth five-year plan. This achievement may be impossible without making proven linkages between overall development strategy and resource availability to micro-finance institutions.

Nepal Rastra Bank was established in 2013 BS (1956). Same year, accidentally 13 credit cooperatives were also established and began to provide some form of micro-financial services to the flood victim families in Chitwan district of Nepal. This was considered as the first institutional introduction of micro-credit in Nepal. In 1969/70 NRB had been conducted the Agriculture Credit Survey, which basically focused to find out the credit need to the rural as well as in agriculture. The Survey found the huge need of credit to the rural people.

Poverty segmented the economic activities within the community, area and region. Now a day's most of the banking activities are concentrated in urban areas due to current insurgency problem. Commercial Banks (CBs) are reluctant to initiate the lending activities in rural areas. As the adoption of economic liberalization policy, government and the central bank refraining to force CBs to be the active lender in the rural areas. In other side there is a large amount of credit demand in this sector. Rural Credit Review Survey 1991 highlights the absence of the formal sector and rural credit need was still fulfilled by the local money lenders; like land lord, shop keeper, village professional money lender, pawn porker, friends, relatives in maximum interest charge. According to the survey 80% credit is fulfilled by the informal sector and 20% only from formal sector about 6% of the creditors are enjoying both the informal and formal sector.

There should be certain linkages between commercial bank and micro-finance. certain delivery mechanism has to be developed, certain development oriented institution and supportive institutions need to be established. Viewing this,

most of the NRB's activities are in favour to this line. Now NRB is directing the phasing out of the priority sector lending program from 2065 (2000), it does not mean that NRB is not supportive to this sector but the only changes style role are changes.

-) Most of the resources are in the hand of CBs and people expect that some portion of it should be provided to micro-finance sector.
-) CB's are closing rural branches. Therefore to provide resources to rural poor some form of linkage needs to be set-up.
-) CB's are not willing to deal in small amount so that there is a gap, which needs to be fulfilled.
-) RMDC has been from established from the commercial bank as equity owner and long-term loan by ADB, Manila for onlending purpose.
-) At least 3% of the total credit of the CB's should be provided in the deprived sector, directly or through NGOs, Grameen Bank saving and credit model, Grameen Bank which link to the bank and micro sector.
-) Today's micro sector may grow as larger activity so that CB's should think the micro sector would be the in future market.
-) "Fund from urban and credit to the rural poor" would be the motto of CBs if they foresee the future market.
-) CBs may provide wholesale fund to the micro finance institutions and MFIs to the poor, directly or indirectly, as equity or as lending.

Access to financial services permits individuals and households to better manage the risks and uncertainties they face to save in secure ways, to invest in a business or home, or to cope with or insure against unexpected shocks.

It has been estimated than more than 17.6 million people in Nepal need access to financial services. However, formal financial intermediaries such as commercial banks often do not serve poor households for reasons that include the lack of traditional collateral, high costs of small transactions, and geographic isolation.

Among the continuing challenges faced by developing societies and the international community is to find ways to build the capacity of the micro finance sector to complement the existing informal and private institutions, promote access to those markets for the poor, and help ensure that they are sustainable.

In the past decade, micro-finance has been recognized as a particularly effective development intervention for three basic reasons:

1. The services provided can be targeted specifically at the poor and poorest of the poor.
2. These services can make a significant contribution to the socio-economic status of the targeted community.
3. The institutions that deliver these services can develop, within a few years, into sustainable organizations with steadily growing outreach.

2.4 Fundamentals Considerations

Fundamental considerations that determines the role of state include, but are not limited to level of macroeconomic stability; stage of development of banking system; stage of development of microfinance sector; size of potential microfinance market; geographical diversity; and population density. These fundamentals are discussed hereunder.

Macroeconomic Instability

Ensuring macroeconomic stability is one of the most important tasks for the state. Macroeconomic instability adversely affects overall economic growth and limits productive economic opportunities and potential for expanding sustainable access to financial services. High inflation in particular erodes capital of financial institutions and makes it difficult to mobilize resources to expand services. As a matter of fact, macroeconomic instability increases volatility of interest rates, exchange rates and relative prices and imposes additional costs and risks on financial institutions and their existing and

potential clients. High inflation creates difficulties to harness full benefits of supportive measures and state must be accountable on controlling inflation.

Banking System

Growth and development of microfinance sector essentially depends on stages of banking system development. If banking system is less developed, state should focus on developing a sound banking system to provide traditional banking services prior to establishing a formal microfinance industry. Basic banking services are essential for developing sustainable microfinance although traditional banking institutions may not provide microfinance services directly. On the absence of sound banking system, MFIs experience difficulties in selecting a safe place to park their deposits and manage loanable fund for on-lending to their clients. MFIs will lack confidence on security for their deposits in poorly managed and performing banks where they also have to incur high transaction costs in withdrawing deposits. A less developed banking system also makes it difficult and more costly for MFIs to access funds from banking system, while a more developed banking system can be a significant source of support. Thus, state has a paramount role on developing efficient banking system to facilitate development of microfinance sector.

Stage of Development and Structure of Microfinance Sector

Stage of development and structure of microfinance sector determines the role of state on developing microfinance sector. State has to play crucial role if the microfinance sector is matured and complex to ensure prudent growth and development of sector. Given the industry structure, the state can play an important role by introducing an environment – both policy and legal – for the growth and development of microfinance sector (Charitonenko and Rahman, 2002:42).

Regulation and supervision of MFIs has received much attention in recent years in the literature. Some organizations have warned about rush to regulate because premature and inappropriate regulation can have significant adverse impact as far as growth of microfinance industry is concerned (Christen and Rosenberg, 2000). Rhyne (2001:206) notes that “banking authorities should define regulations for MFIs in advance of their development, thereby risking and choking off potentially crucial innovations and adaptations.”

The microfinance industry has a relatively large potential market and is characterized by too many small-scale suppliers. Although institutional diversity is generally an important characteristic of a robust microfinance industry, institutional proliferation cannot necessarily be considered good for healthy growth and development of microfinance industry. A majority of small-scale service providers are unable to diversify their risks adequately across space and activities that they finance. They also run greater risks of being subject to liquidity problems that in turn affect their service quality and reliability (Fernando, 2001). Most of these small operators have neither adequate capital nor human resources to use new information and communication technologies (ICT) to expand their operations to realize economies of scale. Considering these context and realities, state should provide incentives for consolidation of small-scale institutions while preserving institutional diversity. Such incentives may include, for example, more attractive time-bound tax exemptions for the consolidated institutions (Charitonenko and Rahman, 2002:44).

Size of the Potential Microfinance Market

The size of the potential market matters in defining appropriate role for the state in developing microfinance sector. Geographical aspects and population density influences the size of potential market and significantly determines the role of the state. Enhancing access to sustainable microfinance services is a complex proposition in remote areas with difficult terrain and low population

density where prospects for commercial operations are questionable with available financial technology. In such areas, state can promote either community based operations through NGOs or even offer smart-subsidies for example either on auctioned basis or on the basis of the number of clients reached to commercially oriented suppliers to operate in those areas (Dhakal, 2007).

Rural Infrastructure

Access to rural infrastructure plays an importance role for developing microfinance sector. Microfinance sector grow better quantitatively and qualitatively if basic rural infrastructure deficiencies such as better rural roads, bridges, irrigation facilities, market facilities, primary health care and education facilities are addressed and economic opportunities for rural population are increased and basic financial services are productively used. Such infrastructure also reduces potential risks and transaction costs for financial institutions and provides incentives for innovations, diversification and expansion of microfinance operation (Meyer and Nagarajan, 2001).

2.5 State and Microfinance Nexus

The Microfinance industry in Nepal has evolved through strategies implemented by the Government of Nepal, the bilateral and multilateral development partners, and private sector. Today the industry reaches around 1.2 m clients mainly in Tarai regions and accessible hills. The diversity of retail MFIs is a key feature of Nepalese microfinance industry. Regulated microfinance development banks, cooperatives, financial NGOs, and community-based savings groups provide a wide range of micro finance services (Dhakal, 2007).

History of microfinance is relatively short but eventful in Nepal marked by costly process of trial and errors. Access to financial services is regarded as one of the essential services to address poverty problems in Nepal since the advent

of planned development efforts in mid fifties. The cooperative movement became the first vehicle of Nepalese microfinance industry as 13 cooperatives provided access to financial services to flood victims resettled in Chitwan district. Following the success of these self-help concepts, more societies were promoted in other parts of the country. In parallel, rural finance institutions were established such as the Agricultural Development Bank of Nepal (ADBN), which aimed at providing credit and marketing support to agriculture modernization and development (Manila, 1994).

In 1974, the two state-owned commercial banks, Nepal Bank Ltd (NBL) and RastriyaBanijya Bank (RBB) were directed by NRB to invest at least a portion (first 5% to increase as high as 12%) of their deposit liabilities in the 'small sector'. This marked the beginning of the directed credit system in Nepal. In 1976, the scope of the small sector was broadened to include agriculture, cottage industry and services, and has since then been called the 'priority sector'. The credit didn't reach the poor, as only influential and well-connected people, with collateral, were able to access financial services linked to these programme. This led to the development of targeted initiatives, such as the Intensive Banking Programme (IBP) in 1981, initiated by government and NRB, through partnerships with commercial banks. Under this approach, group guarantee for loan repayment were used instead of physical collateral (AsDB, Manila and NRB, Kathmandu. 1994).

Starting in 1975, the Small Farmers' Development Programme (SFDP), implemented by the ADBN, mobilised farmers groups using a credit plus approach, and as a first experience of group-based lending. Unfortunately, it failed due to political pressure for a fast expansion, overemphasis on credit, high delinquency levels and the overall not satisfactory performance of the system (AsDB, Manila and NRB, Kathmandu. 1994).

In 1982, the Cottage and Small Industries (CSI) Project and the Production Credit for Rural Women (PCRW) provided new directions to priority sector lending, focusing on project viability rather than collateral, and therefore provided a financing window to the poor through commercial banks collaborating with local development organisations. The commercial banks perceived this programme as more of an obligation towards the NRB than a business interest (Manila, 1994).

In 1990, the government of Nepal established Rural Self Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and financial intermediaries for on lending to the poor. The Microfinance Department of Nepal Rastra Bank (NRB) acted as the secretariat of the RSRF and management committee headed by the NRB deputy governor oversees the fund (Sinha, 2000).

In 1992, the government of Nepal, following a recommendation from the NRB, established Regional GrameenBikas Banks (RGBBs) in each of the five development regions of Nepal, modelled on the Grameen Bank methodology. The majority of the ownership of the RGBBs is in the hands of government, NRB and public commercial banks, while other private commercial banks have small equity stakes. During the same period, private initiatives led by NGOs, such as Nirdhan and the Centre for Self-help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication. Other NGOs also gradually opted their participation and involvement in microfinance sector (Sinha, 2000).

In the 1990s, with technical assistance from GTZ, local branches of the ADB/N under the SFDP, started to be reorganised into federations of small farmers groups and transformation of SFDB sub-project offices (SPs) at VDC level into Small Farmers' Cooperative Limited (SFCL); each operating as an autonomous cooperative (Sinha, 2000).

With the promulgation of Development Bank Act in 1995, Nirdhan was the first NGO (1998) to transfer its microfinance portfolio into an autonomous microfinance rural bank namely NirdhanUtthan Development Bank. Since 2000, three other microfinance rural banks were created through the same process first initiated by Nirdhan, with DEPROSC Development Bank (DDB) in 2000, SwabalambanBikas Bank (SBB) Ltd and ChhimekBikas Bank (CBB) in 2001. Acknowledging poor performance of RRDBs under public ownership, NRB started a restructuring program. As of December 2009, four of the five RGGs located in eastern, central, western and mid-western development regions are privatized. The post privatization performance of these RGBBs is yet to be seen (Dhakal, 2007).

With a view to provide a source of wholesale fund to regulated MFIs (MFIs), government facilitated the establishment of the Rural Microfinance Development Centre (RMSC) which later on opened its lending to other microfinance service providers. Further, in order to create assured financing window to SFCLs, the government further facilitated the establishment of the Sana KisanBikas Bank (SKBB) under the Development Bank Act. The SKBB provide wholesale funds to SFCLs (Dhakal, 2007).

Thus the government's direct and indirect interventions supported by donor assisted projects promoted the evolution of the industry. Lessons learned from each initiative were used as a base when designing subsequent strategies (Sharma S. R. and V. Nepal. 1997, Dhakal 2007). Important initiatives in the microfinance sector implemented by the Government are:

-) Credit co-operatives established in the 1950s.
-) Co-operative bank established in 1963.
-) SFDP established under ADB/N (1975).
-) Commercial banks required following priority sector lending directives (1974).

- J The IBP involved commercial banks in micro-credit (1981).
- J Gender based micro-credit – Production Credit for Rural Women (1982).
- J Setting up of Rural Self Reliance Fund (1991).
- J Gender programs refined involving NGOs – Microcredit Project for Women (1994).
- J Replication of Grameen banking model (1992).
- J Co-operative act promulgated to support the credit cooperatives (1992).
- J Government-run MF programs - banking with the poor, Bisheswor with the Poor, Jagriti, Youth Self Employment, etc.

Microfinance regulation is mainly under the Banking and Finance Institutions Act (BAFIA) and the Financial Intermediary Act. MFIs are categorized as ‘D’ type financial institutions under BAFIA and the prudential norms are designed in line with normal financial institutions. Capital requirement is lower for MFIs. 13 microfinance banks, 2 wholesale MFIs and 16 credit co-operatives are regulated under this Act. The Financial Intermediary Act is designed to accommodate non-government organizations under regulation. Even though prudential norms have been designed, follow-up procedures are very weak. The Nepal Rastra Bank has not taken any action for non-submission of reports or non-compliance of regulations and 45 financial NGO’s are licensed under the Act (Dhakal 2007).

Government of Nepal announced National Microfinance policy 2064 on May 4, 2008 and prior to that there was no formal policy as such. But informally or in scattered way government and NRB used to have various policy that governs microfinance operation such as Deprived Sector Lending (DSL) promoting MF by government itself by way of establishing Grameen Banks or emphasis on co-operative development, etc. The policy seeks to assist in poverty reduction through sustainable, simplified and access oriented microfinance services. The objectives of the policy are: increase the access of microfinance services for poor and weak financial status family and women group and conducting

income generating and employment generation work, make microfinance service reliable and accessible through MFIs, help microfinance service supplying organizations to develop required capacity to be established in sustainable and self capable manner, formulate required law related to microfinance, and develop appropriate institutional mechanism to increase the microfinance service and to make such service disciplined (Dhakal, 2007).

Microfinance providers have faced major challenges in extending their services to remote areas. Outreach of microfinance services has been stagnated in recent years as their expansion has been impeded among other by security concerns and lack of proven micro-lending methodologies (Dhakal, 2007).

2.6 Role of the Government

State can have different roles for developing the microfinance sector. Because all roles are not equally effective and some roles may actually harm financial inclusion by discouraging private-sector delivery of services, state need to be well informed of risks and benefits of specific interventions and tailor their use to specific barriers that impede permanent financial services for the poor. For simplicity and proper analysis, their roles are broadly grouped into three: protector role, provider role and promotional role. A discussion on each of these roles follows hereunder.

Protector Role

State should play a protective role for developing microfinance sector. Legal and regulatory environment is the main tool for the state to demonstrate the protective role. Regulation becomes a necessity with development of microfinance sector in order to protect savers, allow MFIs to mobilize external resources and offer them an official recognition against their informal and sometimes unfair competitors. Regulation must strengthen microfinance movement and should not impede its development with rigid rules. Regulation should encourage innovation providing flexibility for institutional forms.

Compared to commercial banks, transparency in financial accounting and objectives of sustainability should be the same among MFIs, but some aspects like liquidity requirements may be stricter given the seasonality of demand, dependency on donors' funds or short-term liabilities. Further, some rules may be more flexible such as recognizing concept of solidarity group as a guarantee and approval of uncollateralized loans. Furthermore, regulation of MFIs requires specific skills and more resources in order that traditional supervisory agencies can enforce prudential regulations. State has limited capacity to regulate mushrooming MFIs and there is a need to consider alternative form of regulators or promote forms of self-regulation, apex institution or third-party. Proper functioning of the protector role of the state is most essential, because it builds trust and addresses imbalances between customers and financial institutions. Regulatory authorities have an important mission of developing appropriate prudential regulations or adapting existing banking regulations to protect solvency of large institutions that collect deposits from poor people, to protect their savings and build confidence on clients. However, regulatory ambitions must be balanced with available capacity to supervise, especially when determining which organizations should face prudential supervision.

The protection role of the state will be more challenging with the introduction of new products and services such as home mortgages, consumer loans, etc., delivery channels such as branchless banking, and players such as nonbank finance companies, telecommunication companies, retailers, etc. Protective regulation must be proportionate or appropriately "light touch" if it is to protect consumers against serious abuse while not prematurely impeding access or innovation. Other examples of effective protection include regulation to increase transparency in the sector.

Provider Role

In certain circumstances state should be engaged as a Provider of financial services to the poor and disadvantaged groups. Given that the performance of

state-owned financial institutions and programs varies, there are cases where state has engaged as a direct Provider of financial services, especially subsidized credit, as one of the least efficient policy interventions for sustainable access. Such a role combines both financial and policy objectives. Although state owned microfinance services providers typically are expected to at least break even, they often do not because of policy objective challenges. Such institution tends to perform relatively better on outreach than profitability. They require massive periodic recapitalizations, demanding extensive public funding that could have served other policy purposes such as health or education or created incentives and support for private institutions to deliver pro-poor finance. Those institutions with stronger outreach often performed better financially. Having the state act as provider of financial services also may create unfair competition by offering subsidized credit and erode payment culture if collections are more relaxed. The state backed institutions can play a more positive role in providing payment or savings services than subsidized credit.

Where an extensive network of financial institutions already exists, role of the state could be to efficiently transform and restructure public institutions to strengthen structure of financial system. Likewise, when no rural banking network exists, there is an important role of the state in creating a minimum banking structure by developing public branches or incentive for commercial banks, where the private sector fails to adequately address demand of specific poorer segments of the population.

Promotional Role

State has many options to serve as promoter of financial inclusion. The model of integration of microfinance within public sector enables expansion of outreach among rural population. The development of MFIs as an alternative to deficient role of the state and market incurs lots of constraints that may limit their outreach. Under such circumstances, role of the state can be to invest in

network building: a minimum banking structure can facilitate development of a rural financial system where complementarity between institutions increases outreach and sustainability. In terms of depth of outreach, neither integrated/complementary, nor alternative model of microfinance vis-à-vis the public sector adequately reach the poorest of the poor. This may arise from inherent limitations of microfinance as a tool to reduce extreme poverty. In this case, financial interventions are just part of a range of choices for development assistance seeking to reduce poverty.

For adopting innovations, model that integrates microfinance within public sector can help support its adoption as a public good. The state could play a role in implementing innovations such as microfinance services to agriculture or insurance services. Further, a balance of power must be created between state, local authorities and financial institutions through external control to avoid political intrusion while ensuring a dynamic adoption of innovation and sound financial practices.

Global best practices indicate that MFIs requires subsidies for start-up investment and network building and for other innovations such as micro-insurance schemes. Further, addressing extreme poverty requires complementary services such as infrastructure, education, health, etc. that can be offered through NGOs or state services, but independently from financial services.

Hence, the promotional role of the state can be both direct and indirect. The indirect promotion tools include policies and investments that benefit microfinance industry while not focusing exclusively on promoting fair competition, strengthening payment system, etc. State also may promote microfinance sector more directly by developing a national microfinance strategy, establishing local wholesale facilities that provide MFIs with financial and technical assistance or by supporting so-called deprived sector lending in the selected un-served remote areas.

2.7 State's Priorities in Microfinance Sector

In the context of developing Nepalese microfinance sector, state can play the protector, provider and promotional roles on a priority basis. A discussion on some of the priorities of the state on developing microfinance sector follows hereunder.

Complete Phase-Out of Directed Credit Programs

While it is generally assumed that the old directed credit paradigm is out and the new paradigm of financial system development is dominant and widely accepted, Nepal continue to have significant directed credit programs or have re-introduced in one form or other (Youth Employment Program) to channel credit on sectors considered important for addressing poverty problems. Budgetary funds are used and part of the deprived sector lending resources is diverted on such purposes. Since, these programs insist on loan disbursement and are not very serious about loan recoveries, there is likelihood that the scheme may weaken financial institutions. They also damage potential for sustainable development of microfinance market primarily through weakening of financial discipline among borrowers and reducing incentives for operations by commercially oriented service providers. Therefore, it is essential for the governments to phase out such programs where they exist and stay away from those in future as a policy. The rush to substitute short-cuts for building sustainable microfinance systems is most likely to reduce social welfare of the poor in the long-term.

Support ICT Development in Rural Areas

State's interventions are needed to support use of new information and communication technology (ICT) in rural areas because these can not only expand size of potential markets but also reduce transaction costs and risks for both clients and service providers. This is not only an "appropriate government intervention" but also "a more promising way to encourage sustainable rural

finance than the old paradigm policies to induce more lending in rural areas” (Meyer and Nagarajan Vol. 3, p. 53). Supportive policies by governments are required to deal with emerging “digital divide” between urban and rural areas and enable rural financial institutions to take advantage of ICTs.

Allow more room for Foreign Equity Participation

The state can also make a significant contribution to microfinance industry by liberalizing foreign investments in the industry. In general, most Nepalese MFIs still do not have a capacity to bear foreign exchange risk associated with borrowing in foreign currency. On the other hand many social investors are interested in investing their funds in microfinance industry but are unable to make equity investments in MFIs because of restrictions imposed by the state. For example, foreign equity participation is not permitted in rural banks although these banks suffer from inadequate capital for expansion and have potential to become dominant players in microfinance market. If governments can initially allow and facilitate equity investments by foreign social investors, this market could be more dynamic. The experience of equity investments of such social investors may be used to determine whether microfinance market liberalization should be deepened to include commercial investors.

Reform State-Owned Rural Financial Institutions

Nepal has taken effective measures to reform state-owned rural financial institutions and contributed significantly to sustainable development of microfinance industry. A notable example is the Agriculture Development Bank, two state-owned commercial banks (NBL and RBB), SKBB and GBBs. Notwithstanding these, Nepal continue to rely on state-owned rural financial institutions that adopt old paradigm of subsidized credit and continue to undermine potential for sustainable microfinance. There is a need to take a fresh look at these institutions with a view to either reforming or liquidating them. Emerging evidence appears to suggest that their physical infrastructure can be effectively used to provide financial services for rural population

including the poor, provided that state is willing and committed to introduce and implement essential reforms. The state has mobilized financial and technical support for such reforms from multilateral financial institutions such as Asian Development Bank, World Bank, etc.

Design Approaches to Microfinance Service Delivery

Only MFIs providing specialised and full cost priced financial products and services can provide sustainable financial services to the poor. Yet there has been great debate on approaches to microfinance programme design on aspects like (i) minimalist or integrated (i.e. financial services versus complete business development services) and designed under (ii) welfare or institutional development framework. Debate exist on whether MFIs should offer only financial intermediation (i.e. minimalist) or both financial intermediation and other services. Through MFIs adopting both *minimalist* and *integrated* approaches to microfinance service delivery coexists among MFIs, those MFIs using *minimalist* approach offer only financial intermediation and very much limited social intermediation services. Minimalist bases their approach on the premise that there is a single 'missing piece' for enterprise growth, usually considered to be lack of affordable, accessible short-term credit, which MFI can offer. Historically, micro-credit interventions started in Nepal mid 50s under governments' and donors' support with the objective to reach the greatest number of poor people and to provide them with financial services at a low cost. Initially the modality took a "welfarist approach" or "directed credit approach" in cognizance to wide believe that the key determinant of the poor demand for credit has been is costs and notion that poor lack ability to pay full cost services. The approach played counterproductive to growth and development of microfinance sector in Nepal and led to the evolution of a new approach commonly known as an "institutionalist approach" or "financial market approach" characterized by the will to liberalize financial markets; has strongly influenced financial reforms and emphasized that subsidies led to a worse allocation of financial resources, and to unsustainable institutions. The

proponents of this approach seek to establish institutions offering microfinance services on sustainable and commercial bases. Programme seeking to work under this approach work only with the MFI with proven evidence of viability. Such MFIs are characterized by financial self-reliance, viability, charging high interest rates and reach large numbers of poor. The case of RMDC is the example to cite with. The welfarist approach and institutional approach still co-exist in Nepalese microfinance sector. While those implemented under welfare approaches (SFDP, PCRW, MCPW, etc.) are almost collapsed, those implemented under institutional approaches (RMDC, MDBs, SKBB, FI-NGOs, etc.) are performing better and possess prospects for viability. Those programme started under institutional approach struggle on improving their performance thereby find new sources of external funding to increase their loan portfolio in order ensure their financial viability; and providing services to low-income and poor people to reconcile their economic and social objectives. Hence, available evidence indicates that only those microfinance programmed started under institutional approaches are viable.

Microfinance and Poverty Reduction

There has been substantial progress over the last three decades or so in design and delivery of financial services to the poor on a sustainable basis. The clients' loan repayment capacity is a pre-requisite for any microfinance services to implement well. Clients must have the capacity to repay the loan under the terms by which it is provided. Otherwise, clients may not be able to benefit from credit and rather it will risk them being pushed into debt problems. This sounds obvious, but microcredit is viewed by some as "one size fits all". Instead, microcredit should be carefully evaluated against the alternatives when choosing the most appropriate intervention tool for a specific situation. In general, microfinance services assist the poor to break the vicious cycle of poverty. However, there exist evidences that microcredit is an inappropriate intervention in situations where conditions pose severe challenges to standard microcredit methodologies. In Populations that are geographically dispersed or

nomadic; with a high incidence of debilitating illnesses (e.g., HIV/AIDS), depending on a single economic activity or single agricultural crop or reliance on barter rather than cash transactions, etc. are not suitable microfinance candidates. The presence of hyperinflation or absence of law and order may stress the ability of microfinance to operate. Microcredit is also much more difficult when laws and regulations create significant barriers (e.g. by mandating interest-rate caps) to sustainability of MFIs. Only the strong and innovative MFIs are able to operate even in extremely challenging circumstances. These providers uphold two prerequisites of successful microcredit: discipline both for clients (timely repayment) and institutions (business practices that lead to sustainability); and no subsidization of interest rates. There could be some alternatives to micro-credit that can assist poor to break the poverty trap.

Donor Support on Microfinance Sector

Donors who support financial services for the poor are advised to search out MFIs that are committed to financial self-sufficiency. Sustainability is a cornerstone of sound microfinance. Financially sustainable MFIs can become a permanent part of financial system because they can stay in business when grants or soft loans are no longer available. To promote sustainable providers of financial services to the poor, donors' role has been to build the capacity of the microfinance programming. Donors should acknowledge that many small MFIs require institution-strengthening grants and technical assistance before they can reach the operational and financial self-sufficiency needed to sustain large-scale growth and they should not come forward with their own agenda to promote microfinance.

Capacity building is very much time-intensive and should include designing and implementing a MIS; cultivating strategic and human resource management; developing financial forecasting capability; instituting transparent financial reporting, internal controls, and audit practices; and

implementing a product development process. For NGOs seeking to transform into regulated financial institutions, it also means creating a shareholder organization, attracting equity investment, and forming a strong board of directors.

Tendency of the donors to funding strong MFIs that already have access to commercial and quasi-commercial banks and investments from socially responsible investors (SRIs) need to be discouraged. The principal task of donors should be to identify and bet on promising but riskier MFIs, leaving the known winners to commercial investors. Country-level programming should be adjusted to facilitate funding of global or multi-country MFI networks. These networks provide much-needed technical assistance to their members while supporting industry-wide measures such as performance standards and transparency in financial reporting.

2.8 Importance of Microfinance for Women

Scientific discoveries and revolutions initiated global economic transitions leading to rapid structural changes. A major concern in the Development Economics is to find an answer as to why do different countries or different states within a country grow differently leading to different degrees of income inequalities and poverty. Clark (1995), Diamond (1993), Renshaw (1994), among others, commented that non-governmental organizations (NGOs) are, increasingly promoted as the panacea for correcting all the iniquities and problems encountered when governments in the developing regions of Asia, Latin America and Africa, pursued objectives of rapid economic growth. Economic transition, in many of these countries, has been characterized by a withdrawal of the government, from many sectors of the society, thus fostering a civil society. This connotes a combination between government and market that embraces many types of voluntary organizations is believed to promote citizen involvement and help create a political culture and social capital, necessary to sustain democracy. Many governments impacted by structural

adjustment and economic uncertainties, see NGOs as low-cost providers of services as they themselves are unable or unwilling to provide. The current situations seems to be bringing these three sectors namely, government, private sector and civil society, together in a more meaningful and effective partnerships. The civil society supplements governmental efforts in rural and socio-economic development and transformed their approach from reactive. Intervention towards a more pro-active approach on developmental issues. Participation and decentralization are closely related to each other. Successful decentralization required some degree of local people's participation. Grass root level participation is a theme of longstanding debate that has engaged development theorists, more specifically in developing countries. In developing countries, which consist of dual economy, rural development is a comprehensive exercise designed to transform rural economies, so that they would be equipped with the means to generate income, employment and other facilities needed by the rural poor. Institution building is an important process of development. In the changing context, right kind of institutions need to be worked out that require people's participation, which is essential to provide good governance.

The ultimate aim of participation of people particularly women is the empowerment of women. Capacity building at the grass root level is a pre-requisite of empowerment. Empowerment essentially means decentralization of authority and power which aims at getting participation of deprived sections of people in decision-making process. Thus the empowerment of women cannot be imposed from above. It must grow from the bottom upwards (Wrong, D.H. Power 1995) Voluntary sector has focused on economic empowerment of rural and poor women. The potential of micro-enterprise development, as a strategy for poverty, alleviation is recognized, in many research studies. Many NGOs are instrumental in building a network of microenterprises in rural areas and are providing counseling services to women entrepreneurs. Micro-financing is another form of direct intervention, in enterprise development. Micro-credit

activities by nature involve women, even the means by which micro-credit reaches the poor families are through women's groups. The Self-Help Groups help women network and a mass collective power. Self-Help Groups members save money every week and women empowerment through credit takes place as a result of the enterprise start using the credit. Thus Micro finance serves as a powerful tool in rural development. Savings and credit activities bind the group of women together into a cohesive unit and provide a forum for building people's capacities for both poverty-alleviation and empowerment. NGOs have their intervention on micro-economic development through micro-credit financing. The paper is an attempt to analyze the impact of NGOs' programmes on women empowerment through micro-financing.

Objectives:

1. To evaluate the micro-finance activities in grass root level.
2. To analyze the impact of micro-finance activities on women.
3. To evaluate the role of NGOs in promoting Self-Help Groups and thereby empowering rural women.

Microfinance is a part of development finance rural or urban targeted toward specific groups of people male or female falling in the lower bracket of society. Microfinance is a program which provides opportunities to those who are usually considered non-bankable due to poverty, lack of sufficient property for the collateral purpose and do not have capacity to save small amount of money, receive loan at their doorsteps without collateral in a very simple way which can be used to build their economic foundation and empowerment.

The most important features of microfinance are that many micro credit institutions and agencies worldwide have targeted poor women for their program because poverty is seen in family and in the children of that family. The living standard of children, their food, clothing, education, health, etc clearly depict the status of their family. Everywhere in the world woman has

the responsibility of caring the children and managing the house. If women get money they spend for the food, clothing's, health and education of their children and family members. This is the reason that worldwide an estimated 75 percent of microfinance clients are women. Everywhere in the world the experience have shown that women repay loan better than men and observed that loans to women tend to more often benefit the whole family than loans to men do. Giving women the control and the responsibility of small loans raises their socio-economic status. Microfinance is a powerful instrument for self empowerment by enabling the poor especially women to become economic agent of change.

Prof. Muhammad Yunus, founder of Grameen Bank in Bangladesh says 'For women to be granted the loan has a definite effect on the family. There is no need to do more research on that today. Children benefit automatically with better clothes and food. We can see the situation changing. Men often spend the money on themselves; women spend it on the family. Therefore the microfinance is important for the socio-economic development of poor and rural people through the women empowerment. Women should be encouraged to participate in such programs and they should be empowered.

2.9 Conceptual Review on Women's Socio-economic Empowerment through Microfinance

Rational for emergence and growth of women SCCs was based on formalizing the intra-lending model to credit union operation. Women SCCs lent to individuals (shareholders only) rather than to groups, and the size of loan was usually fixed relative to the amount of the members' savings and/or a fixed ceiling. Loan amounts were tied with members' savings. The observed loan to savings ratio ranged from 0.8:1 to 10:1. Loan ceilings were set; the maximum amount ranged from NRs1, 000 to NRs50, 000. The governing body or the group as a whole made loan approvals. The processing of loan applications and delivery of credit were generally much faster than by FI-NGOs and

participating banks (3 to 4 days compared with up to 1 year for participating banks). Interest rates ranged between 18% and 34%. Reported repayment of loans is also very high; supporting the theory that member “ownership” of funds is an integral part of successful loan recovery. According to Muhammad Yunus, founder of the Grameen Bank, 'women have plans for themselves, for their children, for their home, the meals. They have a vision. A man wants to enjoy himself.' The women's world banking program has found that men will only invest about 40-50 per cent of their earnings into the family, while women will invest 92 per cent of their earnings into their families (NSCDP 1998). Studies conducted in the field to evaluate women's empowerment as a result of access to credit have looked at a variety of measures. Hashemi et al. (1996) in their vigorous study of Bangladesh chose to examine the following as their indicators of empowerment:

-) Geographical mobility,
-) Economic security,
-) Ability to make small or large purchases,
-) Involvement in major decisions,
-) Relative freedom from family domination,
-) Political and legal awareness and
-) Participation in public protests and political campaigning.

A study based in Nepal chose to examine leadership development, confidence, increase in individual expenditure, change in attitude, participation in community activities, and increase in savings amongst women (NSCDP 1998).

Many supporters from women's organizations worldwide have charged micro credit or microfinance organizations with the responsibility of affecting change at the grassroots level. Since women represent a majority of the poorest of the poor, such programs have already targeted them. Economic empowerment has been shown to occur in most microfinance programs as the most natural result of microfinance.

The Grameen Bank and other microfinance organizations specially targeted their loans to female clients. Economic empowerment has been measured in terms of

-) Women having control over the loans, profits and savings,
-) Flexibility or autonomy on decision making on financial matters particularly the expenditure and assets creation.
-) Family assistance in enterprise,
-) Taking products to market and
-) Doing most of the accounting themselves.

The National savings and credit development project in Nepal noted that 86 per cent of the women polled in their study had control over their loan expenditures, and 67 per cent of female respondents had control over the savings generated from their enterprises (NSCDP, 1998). The study based in Bangladesh found that women participating in micro finance programs had higher degrees of economic empowerment than the control group of women with no loans (Hashemi et al., 1996). Many programs claim that there are other social benefits resulting from their income generating activities. Perhaps the most significant of these has been the opportunity for:

-) Women to meet regularly,
-) Build solidarity,
-) Share ideas,
-) Interface with the local officials and development personnel, and
-) Better understand their country's political and power systems.

Important psychological benefits have been observed in that women participating in these programs tend to develop an improved sense of self-esteem. In some cases women leaders have emerged and developed their skills and knowledge.

The Grameen Bank, as a pioneer of microfinance programs in South Asia, is also known for being catalyst for social change in Bangladesh. It has added features to its simple group lending model that have led to change in the social and political lives of women. According to AminurRahman, the “Public transcript” of the Grameen Bank is to:

-) Increase women's earning capabilities to bring faster changes in household social economic conditions.
-) Organize women in groups to raise their collective consciousness for social empowerment.

Certain components of the Grameen bank programs have served to help it work toward these goals. The “Sixteen Decisions” of Grameen Bank have tried to expose women to ideas about nutrition and childcare. In addition, the Grameen Bank encourages women who have been repeat borrowers, to take out loans for their homes. One caveat to this program is that women must put the property title in their own names and not their husbands. Over 400,000 men have agreed to allow their wives hold the title to their home because housing is so scarce in Bangladesh. This enables a woman to have more control over her life and can increase her status in her husband’s eyes (UNIFEM).

The Nepali study found that over half of the women participants felt that their families treated them with more respect than before they had joined the program. An additional 40 per cent felt that they were respected as equals to their husbands by their families (Sharma and Upreti: 2003). Therefore, all of these targeted programs focus on poverty alleviation and the enhancement of women’s social and economic status. Micro credit programs have aimed to reduce poverty prevailing among the rural people of Nepal. Credit is believed to remove financial constraints as well as bringing economic power, engaging women in productive work and earn an income, not only to level household consumption, but also for generating savings and future investment.

2.10 Critical Review of Women Empowerment through Microfinance

The strategy of loan to women as a tool of empowerment is quite debatable. Access to and control over resources, participation in the households level decisions making process (Kabeer, 2001) and fulfillment of other gender needs are considered as the empowerment of women through the access to microfinance. Kabeer (2001) explicitly says, '[T]he entire family is much more likely to benefit personally and socially, when loans are directed at women rather than men'. Sample MFI also claims in the same line, 'once the women have their own income (access to and control over resources), it is most likely to help their children for the improvement of nutrition, education and health. In addition, the women in the groups have increased awareness, developed self-confidence, become aware of their rights and have high participation in decision-making process' (DEPROSC-Nepal, 2006).

While the critics say it is merely a strategy to assure higher repayment rather than empowerment. Moreover, Ahmed et al., (2001) have concluded based on their study on Bangladesh Rural Advancement Committee's (BRAC) clients that involvement of women in the microfinance and income generating activities has created emotional distress, anxiety and tension. Symptoms of depression are also reported in some cases. Kabeer (2001) also pointed the intensification of tension within the household because of delay in repayment.

2.11 Review of Related Studies

On the way of conducting this research work, some books, Journals, thesis and publications have been studied to formulate ideas about the subject matter.

2.11.1 Review of Research Articles

sarumathi & Mohan(2011), have conducted Microfinance is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Micro finance through Self Help Group (SHG) has been recognized internationally as the modern tool to combat poverty and for rural development. Micro finance

and SHGs are effective in reducing poverty, empowering women and creating awareness which finally results in sustainable development of the nation. The main aim of microfinance is to empower women. In this paper the role played by Microfinance in women's empowerment are considered into three dimensions namely psychological, social and economical. The objectives of the study is i) to understand the performance of SHG's in Pondicherry region, ii) to analyze the freedom women members get in SHG's, iii) to study the problems women members face in SHG's, iv) to analyze the empowerment of the women psychologically, economically and socially and v) to offer suggestions for the betterment of women's empowerment in SHG's. The study is undertaken in rural areas of Pondicherry region. Both primary and secondary data's are used. Primary data is enumerated from a field survey in the study region. Secondary data is collected from NGOs' reports and other documents. The researcher has used percentage method, simple correlation coefficient, paired t test and cross tabulation for analysis purpose. Analysis showed that there is a gradual increase in the all the three factors among rural women's. From the interaction among the respondents it is noticed that some members are expecting the NGO to come up with more training sessions in income generating activities. All they need is a way to develop their skills and talents by participating in various training programs. There is a definite improvement in psychological well being and social empowerment among rural women as a result of participating in micro finance through SHG program.

Poudel (2013), states that the microfinance institutions (MFIs) in Nepal are constrained in capacity of key technical areas essential to rural finance operations such as accounting, auditing, strategic planning, financial analysis, and portfolio management. This lack significantly limits their potential to expand their client base and outreach to poor households. The number of MFIs with private sector's participation is expanding significantly. The overall impression of microfinance performance indicates that the microfinance clients, the loan portfolio outstanding, and savings are in increasing trend. Despite these efforts, the level of poverty remains unchanged across the rural

households. As a measure of effect of microfinance, with the rise in membership duration, cooking fuel status of the clients is yet to be improved. The current monthly income of control group households is in declining trend at present. The rate of increase in monthly income of experimental group is quite high for the majority of the respondents. The household food sufficiency from household production is more pronounced in experimental group than in the control group. The contribution of other incomes in determining the total income of households is more significant in comparison to agricultural and farm related income raise through the microcredit facilities. The status of female child enrollment in private school has significantly increased irrespective of the level of earning of households

Mula & Sarker, (2013), Carried out the study was attempted to assess the empowerment of women through microfinance. It was conducted in Cooch Behar District of Eastern India. A total of 144 members from 48 groups of twelve blocks (four SHGs from each block) formed the sample size. To assess the impact paired t-test and Impact Index analysis were done. The study revealed that majority of the members was middle aged and belonged to Scheduled Caste farming family. A number of income generating activities were undertaken by the SHGs. The results showed positive change in indicators of economic empowerment like income (65.39%), employment (78.94%), investment (66.25%), savings (120.02%), assets (32.44%) and consumption (5.12%) of the members after joining the SHG. The calculated t-values for the economic indicators were significant at 1% level. It was revealed from multiple regression analysis that investment, employment generation and assets were the factors which influenced the income of the members significantly. The contribution of these variables was 83%. The gain indexes of social and economic empowerment were found to be 29.30 and 36.37 respectively. Briefly, microfinance through SHG seems to be a unique action oriented rural development strategy to tap the gesture for the upliftment in social and economic point of view.

Jain & Jain, (2012), have conducted research on Does Microfinance Empower Rural Women?-A Empirical Study In Udaipur District, Rajasthan states Microfinance has come to play a major role in many gender and development strategies because of its direct relationship to both poverty alleviation and to the empowerment of women. Women are the most crucial elements of the social fabric and are playing a pivotal role in the socioeconomic scenario of Rajasthan. Microfinance programs like the SHGs in India have been promoted for their positive economic impact and the belief that they empower women. Microfinance programs like the SHGs in India have been promoted for their positive economic impact and belief that they empower women. The survey was conducted on around 100 respondents from various SHGs of Udaipur district, Rajasthan and the analysis was done to study the empowerment of women through microfinance. The results strongly demonstrate that on an average, there is a significant increase in women empowerment of the Self Help Groups members. However, social backwardness, indebtedness and presence of other microcredit programs in the same or nearby villages have a significant positive influence on women's participation in this program.

2.11.2 Review of Thesis

Rijal (2005) has conducted a Thesis on Continuity and Sustainability of Community Based Savings and Credit Organizations: A case study of Nuwakot District of Nepal. The thesis has focused on the performance and sustainability of savings and credit cooperatives using the standard indicators - PEARLS - developed by the World Council of Credit Union (WOCCU) taking samples of 13 such cooperatives of Nuwakot.

The thesis finds that women socio-economic empowerment of women has happened in many aspects such as developing savings habit, exposing them to external world, providing them opportunity to organize but concludes that the

continuity and sustainability of the sample savings and credit cooperatives itself is in question.

Poudyal (2005) has written a thesis on 'Micro Finance and Its Impact on Economic Upliftment of Women: A case study of Baluwa VDC of Kathmandu District, Nepal in 2005' with the objectives of evaluating the impact of micro finance on economic upliftment of women and to examine the enhancement in the status of women.

Poudyal has used primary as well as secondary data applying questionnaire as well as observation methods. Data revealed from 72 samples out of 228 members of 7 centres are analysed with correlation, regression and chi-square test.

Her findings include that microfinance has improved their earning and equally stimulated their living standards. However repayment rate of the program is only 80 percent in Baluwa VDC and the loan has not seemed to be utilized on the said purpose. Based on chi-square result, caste and ethnicity does not affect the control over their earnings. Moreover, women do not have their own control on their earning; joint control exists widely in the VDC.

Despite, she concludes that, microfinance program is best way to uplift women economically as well as socially. A country like Nepal cannot mobilize the resources for the optimization of benefits by excluding women from the development model. Hence providing credit for women to income generating activities as well as multi-prolonged strategy with a systematic relationship between income promoting activities and social and institutional development activities would strengthen the entire connection in the solution of the problem to uplift poor women.

A thesis written on Micro Credit: An empowerment and livelihood security scheme for poor women: A case study of Dhapakhel VDC, Lalitpur by Bhattarai (2005) has a comparative study with control group. The sample of 60 households from wards has the objectives of identifying and comparing socio-economic status of women microfinance clients with the control group. Specifically, the thesis attempted to examine livelihood security as well as empowerment of women through micro credit program has used indicators like curtail unproductive benefits, develop savings habit, savings mobilization to assess economic benefit and indicators such as social awareness, lowered social evils, health and sanitation to assess none economic benefits.

The thesis has findings such as: land holding and food adequacy is better among clients; saving habit has increased; client women are more entrepreneurial; widows and other women have face less discriminations, average annual income has increased; and clients women's perspectives, attitude, authority, prestige, knowledge, ability and social relationship have improved.

She further trace out that Grameen Bank program has focused relatively active women rather than poorest of the poor, the increased income has not raised the overall status of women and she further criticized the methodology of microfinance if women has to empower.

Pathak (2001) has carried out a thesis entitled “Rural Finance in Nepal: A case study of Lamatar VDC, Lalitpur” with the objectives of identifying and analyzing the present sources of income generation and expenditure pattern and the relation between them.

He has selected 72 households as sample out of 1295. Data was collected through interview and questionnaires which are presented into charts, diagram and tables.

The thesis is concluded saying agriculture sector contributes about 55 percent of the total income of the households and women contribution to income of the family is as equal to the men member but their share on expenditure decision is very poor.

Regmi(1999) has done the research on 'Women, Micro Credit and poverty alleviation: A case study of Micro-credit project for women (MCPW) in Mangalapur VDC of Chitwan. The research has the objectives to (i) assess the impact of MCPW on beneficiary's earnings and living standard, (ii) examine the improvement in the status of women by MCPW, (iii) evaluate the impact in the context of poverty alleviation, and (iv) suggest with appropriate measures.

The Thesis is doing comparing the women before and after where 70 women samples are taken out of 372. Major indicators used include loan amount, loan disbursement by purpose, income, living standard and women status. Living standard is analysed with consumption pattern - traditional food to none traditional food - clothing pattern. Similarly, women status is reviewed by land ownership by women, none land assets, women's autonomy, control over decision making and relative access to resources .

The major findings of the thesis include: income is raised but at marginal level there are positive social impacts on child education, family planning, sanitation and other social reform; repayment rate of MCPW is low (75 %) where some 20 per cent clients have not paid at all and 50 per cent clients have paid partially. The thesis further criticize that program is biased against poor, loan purpose is not identified well, volume of loan size is not enough. Impotently, the project has not been able to income raising opportunity thus potential use of loan has not happened and women clients need to rely on their husbands therefore, women have further lost their independence.

2.12 Research Gap

From the above literature review it can be concluded that there are various study related in Nepal on the topic of microfinance program. All of the above research studies have identified about the effectiveness of microfinance program in different topics and different areas of Nepal.

However, this study is related to microfinance practices and its impact on women with reference to PGBB in Hemja VDC. Such type of study has not conducted in same topics and same area before. Hence, it could be the new study in related microfinance field. This study has its rationale for fulfilling the gap of studying the performance of PGBB to alleviate the poverty in Hemja area. It also gives the valuable guidelines to PGBB for its better performance in future.

CHAPTER - III

RESEARCH METHODOLOGY

Methodology of this research is a comparative one. Socio-economic empowerment of women is compared based on their status prior joining the microfinance program with the present situation. The study is analytical based on the primary information obtained through field survey. This chapter presents the details of the methodology applied.

3.1 Research Design

Analytical and descriptive approach has been adopted for the purpose of present research. Analytical approach has been utilized mainly to analyze the relationship between income, investment and other variables. Descriptive approach has been used mainly for conceptualization of the research objective and research problem of the study.

3.2 Study Area

The study area is limited within Hemja VDC, kaski. The sample is selected from groups of women. The study covers a period of five years. Analysis is based on the performance of participating people from micro enterprises groups.

3.3 Population and Sample

PGBB has been implementing microfinance program in HemjaVDC out of Kaski among which Hemja VDC is the one where some 1500 women clients (one from each household) are served.

Out of the total population of 1500 microfinance clients of PGBB, 10 per cent clients (150 clients) are selected in this study as sample. The sample is selected randomly among the centers which are formed for more than five years. Prior

to that, samples are categorized base on geographical distance and proximity to the market.

Additionally, frontline credit officers (Field Supervisors) of respective area are also selected as sample to interview.

3.4 Sources and Collection of Data

Data required for conducting this research is basically obtained from primary source conducting field survey. However, secondary source of information is used to some in the relevant areas reviewing official documents, periodic reports of PGBB and other related literature.

3.4.1 Primary Source

This study is based on only primary data. Individual microfinance clients, frontline Field Supervisors and group of microfinance clients were the primary source of information. Besides, key local level stakeholders, Branch Managers and Executive Director of PGBB have remained the primary source of information in the process of preparing key institutional issues, policy issues and their perceptions.

One set of semi-structured questionnaire is prepared in collecting information from individual clients and two focus group discussions (FGD) are conducted with (i) group of women and (ii) front line Field Supervisors (Credit Officers).

Individual visit is done to the primary stakeholders (local service providers, line agencies representatives, relevant donor's representative), Branch Managers and Executive Director for analyzing the policy issues and perceptions on socio-economic empowerment of women.

3.5 Data Analysis Technique

Obtained information is analyzed using the spreadsheet. Different mean based statistical tools and frequency counts are applied as per requirement. Specifically, quantitative analysis tools are applied to assess the economic impacts and qualitative indicators are used to assess the socio-economic empowerment. Generally, tabulation and cross tabulation is done to analyze the casual relations and effects across the relevant variables. Qualitative information is based on observation and perceptions which are analyzed and interpreted by researcher. Further, Qualitative information obtained through individual interview, focus group discussion is blend together with quantitative data to draw implications and conclusions.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In the process of fulfilling objectives of this research, data revealed are tabulated and presented followed by analysis and interpretation in this chapter. Furthermore, the findings of this research are also presented at this chapter. As mentioned in the research methodology, the data are presented and analyzed in accordance with the flow of questions: (i) Socio impacts (ii) Economic impacts and (iii) constraints faced by women and critical issues of women focus microfinance.

4.1 Social Impact of MF program in Women Empowerment

Women empowerment is analyzed at two different stages: (i) household level and (ii) external level. Household level empowerment is assessed through decision making and participation on household affairs, awareness level on basic household issues, access to and control over resources, cooperation and discrimination at household level. External level empowerment is assessed mobility, awareness, exposure, social capital and confidence. Based on these the discussion is as under.

4.1.1 Women Empowerment at Household Level

For analyzing the gender dimensions and empowerment through microfinance among the sample clients, a FGD was done. Surveyed sample clients expressed their autonomy in obtaining membership and purpose of loan to borrow. Selection of MFI, amount of loan to borrow, and spending the borrowed cash are done jointly by husband and wife. In one sense, participation of husband in these crucial decisions can be seen as their support to wives while the. Is might be their domination in the key decisions related to resources.

Particularly, joint decision and involvement of husband in managing regular savings, arranging loan installments and finding coping mechanisms to repay the loan in time might justify husbands taking ownership to the loan. Keeping

cash received from the enterprises by husband—definitely not in favor of empowering women—can be seen along with the role of managing daily household expenditure by them. But, controlling over the decisions related to deposit and withdrawal of personal savings by husband clearly explains the high magnitude of their control over women members' autonomy. Decisions related to personal savings are optional thus member could enjoy the flexibility but they do not.

Furthermore, women expressed their increased level of confidence, increased awareness on other developmental such as education, nutrition, sanitation and increased participation and acknowledgement in the household level decision making process.

Table 4.1
Magnitude of Empowerment on other Domestic Issues after joining the MF Programme

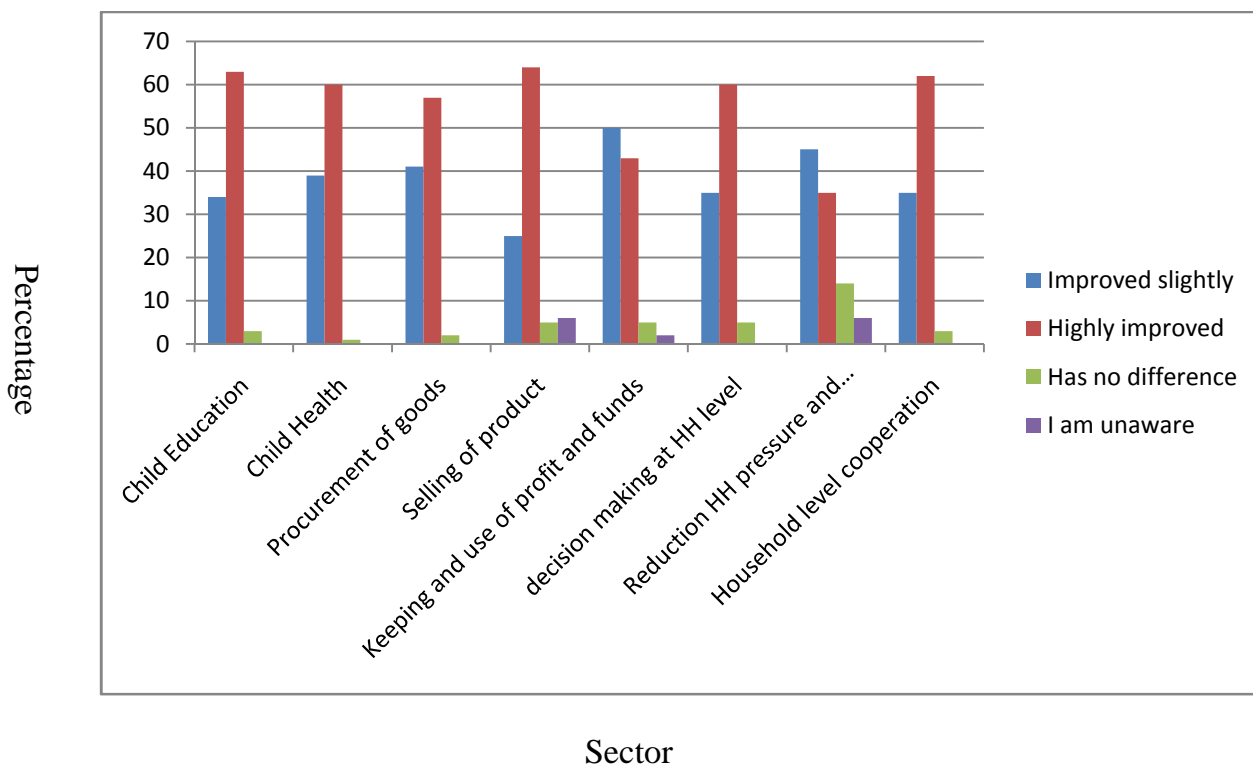
S.N	Issues	Improved slightly		Highly improved		Has no difference		I am unaware		Total of Respondents	
		Number	%	Number	%	Number	%	Number	%	Number	%
1	Child Education	51	34	95	63	4	3	0	0	150	100
2	Child Health	59	39	90	60	1	1	0	0	150	100
3	Procurement of Goods		41	85	57	3	2	0	0	150	100
4	Selling of Products	38	25	96	64	7	5	9	6	150	100
5	Keeping and use of profit and funds	75	50	65	43	8	5	2	2	150	100
6	Decision making at HH Level	52	35	90	60	8	5	0	0	150	100
7	Reduction on HH pressure & Discrimination	68	45	52	35	21	14	9	6	150	100
8	Household level cooperation	52	35	93	62	5	3	0	0	150	100

Source: Field Survey, December 2013

The survey shows that some 63 percent sample clients expressed highly improved child education situation. Similarly, some 60 percent clients expressed the highly improved knowledge on child health and therefore their health situation. Likewise, the microfinance program has impacted to a larger scale for around 57 - 64 percent sample clients on procurement of household good and selling of their products. Remarkably, almost 95 percent sample clients mentioned that the household level cooperation has increased and family level discrimination has been reduced. Exceptionally, 1 per cent sample clients mentioned that participation on microfinance program has not make any difference on household level discrimination. Despite these, the strategic needs such as structural issues, power dynamics within the household, traditional roles of women and ownership to land and other assets are still under ambiguity which has not covered in this study. To make it clear, meaningful and understandable above data presented in the graphical form:

Figure 4.1

Magnitude of Empowerment on other Domestic Issues after joining the MF Programme



4.1.2 Empowerment at External Affairs

Women empowerment that begins from the household level will not be institutionalized unless it is reflected to the external affairs. In order to identify the impacts of microfinance on women regarding some strategic needs of women and developing of social capital which ultimately ensures the women empowerment, sample clients were interviewed whether there has been improvement or not. Responses of 150 sample women clients have been summarized below

Table: 4.2
Empowerment at External Affairs

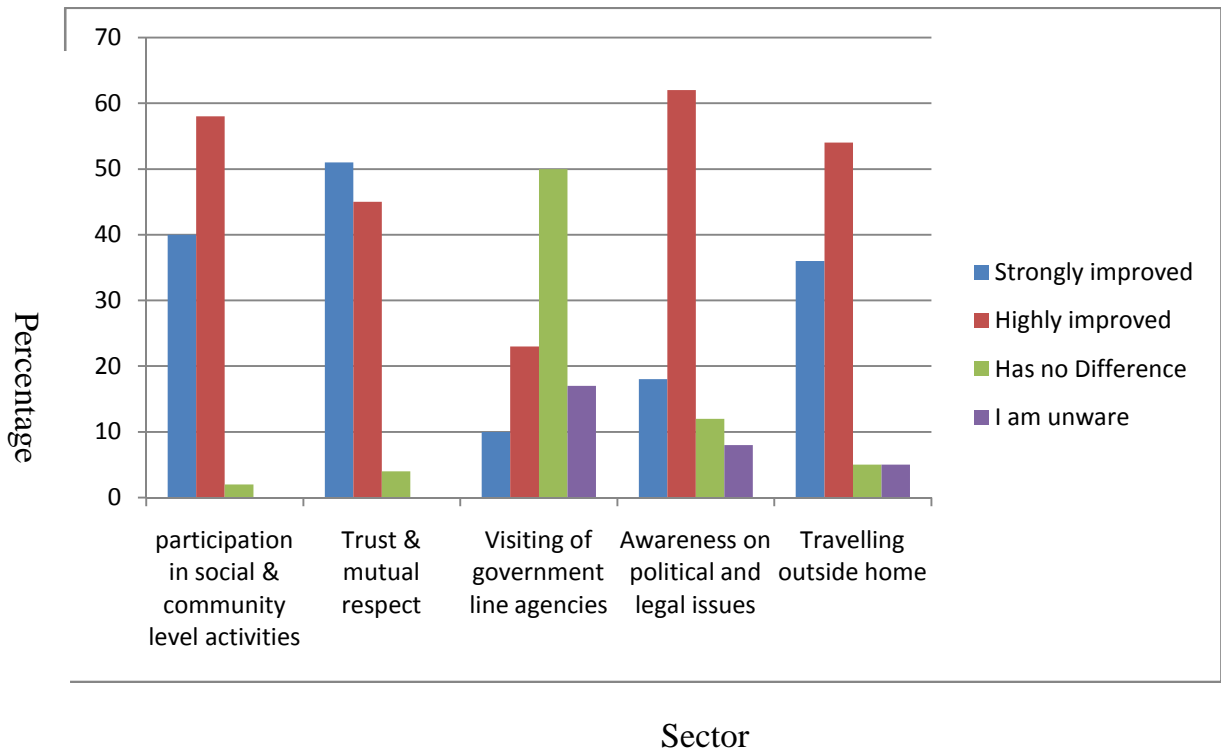
S. N	Issues	Improved slightly		Highly improved		Has no difference		I am unaware		Total of Respondents	
		Number	%	Number	%	Number	%	Number	%	Number	%
1	Participation in social and community level activities	60	40	87	58	3	2	0	0	150	100
2	Trust and mutual respect	77	51	67	45	6	4	0	0	150	100
3	Visiting of Government & other line Agencies	15	10	35	23	75	50	25	17	150	100
4	Awareness on political and legal issues	27	18	93	62	18	12	12	8	150	100
5	Travelling outside home	54	36	81	54	8	5	7	5	150	100

Source: Field Survey, December 2013

The above table can be presented flowing graphical presentation:

Figure: 4.2

Empowerment at External Affairs



Participating sample clients have increased social capital. Almost all sample clients (98%) mentioned their increased participation on social and community level activities however the magnitude varies among them. Trust and mutual respect are also increased to 96 per cent sample clients. Exceptionally, around 33 per cent sample clients mentioned visiting of government and other developmental line agencies to put pressure and demand support services have not happened. For those, who mentioned it has happened is also at low magnitude. Only 10 per cent sample clients mentioned it has happened with higher magnitude. Based on this result, we can say that women participating on microfinance have increased their social capital however the magnitude varies among them.

Social capital as defined earlier, the reciprocal cooperation, trust and respect among the community people, exposure and participation on the social and community level activities and visit of line agencies to put pressure and

demand services were also asked. The field survey result in this area is found to be very much optimistic expect in one.

Awareness on political and legal issues such as political ideology, voting rights, political parties, women rights, child rights are slightly improved to 62 per cent sample clients whereas 12 per cent sample clients find there has no improvement in those issues. Some 19 per cent clients in fact are unaware of the issues as such thus replied as they are unaware.

Among sample respondents 54 per cent said their traveling outside home has increased slightly where as 36 per cent respondents mentioned it has increased substantially. Exceptionally, microfinance has not improved to the traveling of 5 per cent women clients.

Beside, microfinance clients have enhanced their understanding and capability in many areas. The increased awareness and confidence on various aspects of life skills and economy are presented below as mentioned by sample women during the individual survey and focus group discussion.

Women's Perceptions on the Benefits of Microfinance Program

-) Made them able to handle various monetary transactions.
-) Made awareness of the harmful effects of narcotic drugs and timely reduction of its uses so as to save one's life and property.
-) Made us more up to date in the field of economic development and social engagement.
-) Taught the importance of money.
-) Realized the importance of investments and savings.
-) Helped in participating on economic transaction - taking loans.
-) Knowledge about handling responsibilities. Uplift the rural and the backward class people.
-) Enhanced the awareness about nuclear family.

-) Taught the importance of time and time management.
-) Involved in social program and knowledge about economic scenario of the region.
-) Made them capable and self sufficient so as to share the similar screen as the Made us more disciplined and mannered.
-) Taught the importance of child education.
-) Other educated people.
-) Brought about the feeling of community living.

4.2 Economic Impacts

Economic impacts of microfinance on women are measured through some of the visible indicators that sample women have felt. The physical assets - land, building, livestock and other household amenities, savings - income and expenditure patterns, food security, loan borrowing, repayment, Employment and vulnerability are measured and analyzed.

4.2.1 Assets Creation (Physical and Financial)

Land, livestock and home to live are the three major assets which significantly affect the overall position of a poor household. Fundamentally, these three are the indicators that PGBB has been using in identifying a women to be their member. Therefore, measuring impacts of microfinance seems much more relevant using them thus has analyzed the changes revealed in the surveyed sample clients.

4.2.1.1 Landholding

Land is the primary assets that everyone asserts to have it since this is the primary source of livelihoods in the agricultural country like Nepal. The microfinance program itself is focus on landless, marginal landholders and deprived people. The survey revealed that majority of clients does not have sufficient land for cultivation. Probably all the clients have their own home and somehow little kitchen garden before involving in the microfinance program.

After involving in such micro financing program also there is no differences found in creating the fixed assets like landholding. This shows that the impact of microfinance doesn't show any positive movements for adding the land. May be being the VDC within the valley they might not be able to add the land. So from the survey done, it is found that the clients are not able to add the land after the involvement in the provided microfinance programs.

4.2.1.2 Building

Home to live poses higher value to anyone in other parts of the country and the world. According to the interviewed women, they value home in their life mainly on the two grounds (i) from the safety and comfort, and (ii) social value. They prefer to improve the quality of house by changing their roof, making ground cemented, plastering the walls etc. Women feel proud to say and show that changed the thatch roof into the CGI sheet. During the interview, the obvious happiness could be observed because of this improvement

Among the sample clients, merely 15% have renovated their home prior joining the program but during the survey, it revealed that almost all clients have renovated their home. In that sense, the microfinance program has been very much helpful in making them prosperous.

Table 4.3

Number of client's households renovating and building new house

Particulars	Status Before		Status After	
	Number of respondents	Percentage	Number of respondents	Percentage
Clients having home	150	100%	150	100%
Clients renovated their home	37	25%	113	75%

Source: Field survey, December 2013

PGBB does not provide loan or home repair and maintenance thus there is no chances of using the loan fund for this purpose and monitoring of loan utilization is also very much strict thus it is apparent that the revenue generated is used for this purpose which signifies the benefit of joining microfinance program.

4.2.1.3 Livestock Holding

Holding livestock is an integral part of livelihoods in any rural parts of Nepal like in rest of the developing world. Livestock provides revenue as well as safety measures. Probably that is why; rating the household level prosperity with the number of animal head hold is very common in Nepal. The similar notion applies to the type of livestock hold. Large animal like buffalo and ox represents the magnitude of wealth and security compared to small scale livestock such as goat and chicken. Therefore, this study has analyzed the changes taken place in these different types of animals. Among the surveyed clients also, keeping animal is an integral part of their life. The survey revealed that there has been significant improvement in their livestock holding but due to the lack of their own sufficient land and animal feeding problem there is no clients holding large animals like cow and buffalo but mostly they've small scale livestock like goat and chicken. After joining the microfinance program it is found that some clients have taken initiation in keeping pigs and chickens and making them the source of income generation.

Table 4.4

Number of Clients household holding livestock before and after

Number of Clients household holding livestock	Before		After	
	Number of Respondent	Percentage	Number of Respondent	Percentage
Large livestock (Cow, Buffalo and Ox)	18	12%	21	14%
Medium size livestock (Goat, Pig and Sheep)	33	22%	44	29%
Small scale livestock (Chicken and Duck)	27	18 %	45	30%

The above table shows that sample women involved in different types of livestock holding before and after entering PGBB programs. Before entering the program only 18 (12%) women were holding large livestock (Cow, Buffalo and Ox) but after the number reached 21 (12%). 33 (22%) women were holding medium size livestock (Goat, pig, and Sheep) before and after they were 44 (29%). And 27 (18) women were holding small scale livestock (Chicken and Duck) before and they were 45 (30%).

4.2.1.4 Other Assets

In addition to the land and livestock, possessions of other basic assets were also analyzed in the study. The field survey revealed that 90 percent client households have purchased television within this five year period but before entering PGBB program it was 60 percent. Similarly, 80 percent have constructed toilet at their home premises but before 65 percent. Having well is also one of the priority areas of women since this reduces the work load of women in one hand and improves the sanitation and hygiene situation of the household on the other. Besides, use of water resources for kitchen gardening is also preferred by sample women. The survey revealed that some 63 per cent households have installed well at their home yard but before 55 percent. Besides, most of the clients utilize the loan by investing in shop where the

family members could get involved in it. According to the survey about 55% they take loan to start a business especially a small scale shop before 35 percent. It can be presented with the help of table and figure below

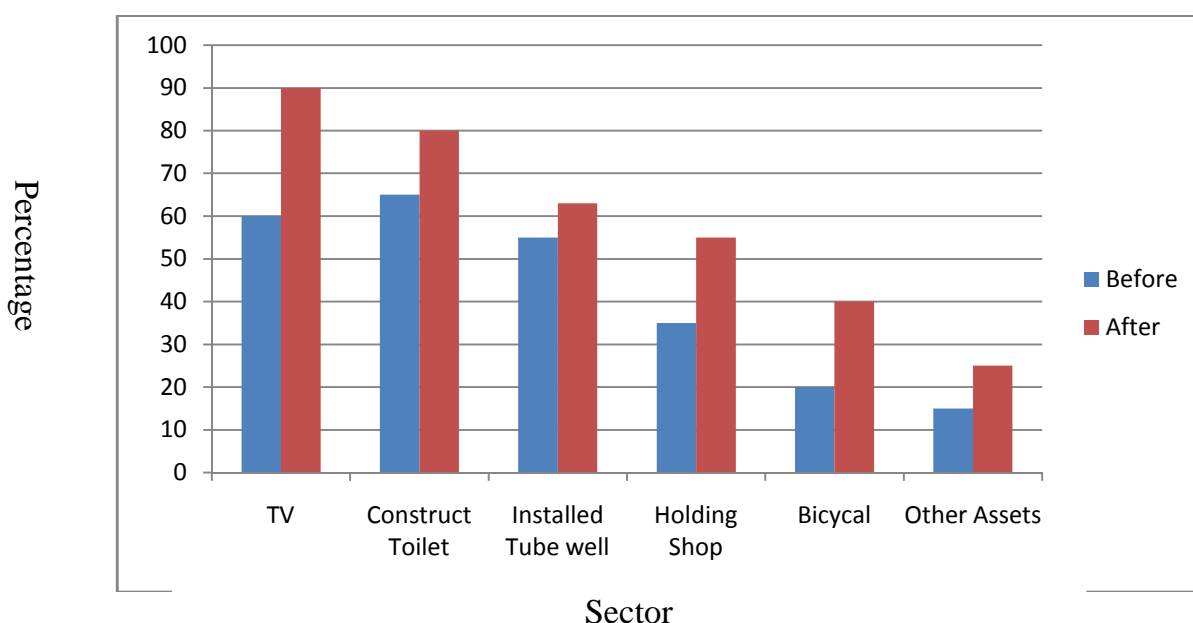
Table 4.5
Number and Percentage of Clients household with Net Addition of Assets before and After

Number of Clients household with Net Addition of Assets	Before		After	
	Number of Respondent	Percentage	Number of Respondent	Percentage
TV	90	60	135	90
Construct Toilet	98	65	120	80
Installed hand tube well	83	55	95	63
Holding Shop	53	35	83	55
Bicycle	30	20	60	40
Other Assets	23	15	38	25

Source: Field survey, December 2013

The above table can be presented by following graphical presentation:

Figure 4.3
Percentage of clients' households with Net Addition of Assets before and after



4.2.1.5 Savings

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. Poor are bankable and they would have active participation in savings program, if proper savings products are designed and implemented. 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 to women, generates confidence among them, increase risk bearing capacity of borrowers, control unnecessary expenses and make program sustainable in long run. There are five types of savings products that sample women are participating i) Compulsory monthly group savings @ Rs. 30 per month (Rs. 50/- to open the account) ii) Personal savings at individual level iii) Loan guarantee fund, 4 per cent of the loan disbursed, iv) Centre fund collection managed by centre itself and v) Child savings. These products have helped sample women to generate quite a significant amount.

4.2.2 Food Security

Level of food security directly reflects the economic impacts on a particular household. Food security has been broadly defined with two perspectives. The first, production from own land and the second is to be able to buy from the market from their other regular earnings. But in the case of Hemja VDCs no one is depended on the food by their production because of sufficient land for cultivation. Often these two are defined by different terminology: food sufficiency and food security. Here the food security is calculated considering their own production and the capacity to buy from their regular business and sale of other agricultural products but has definitely excluded the coping mechanism adopted to buy food. The status of food security is shown following table and figure:

Table: 4.6

Number & Percentage of Sample Client Households with Food Sufficiency Status

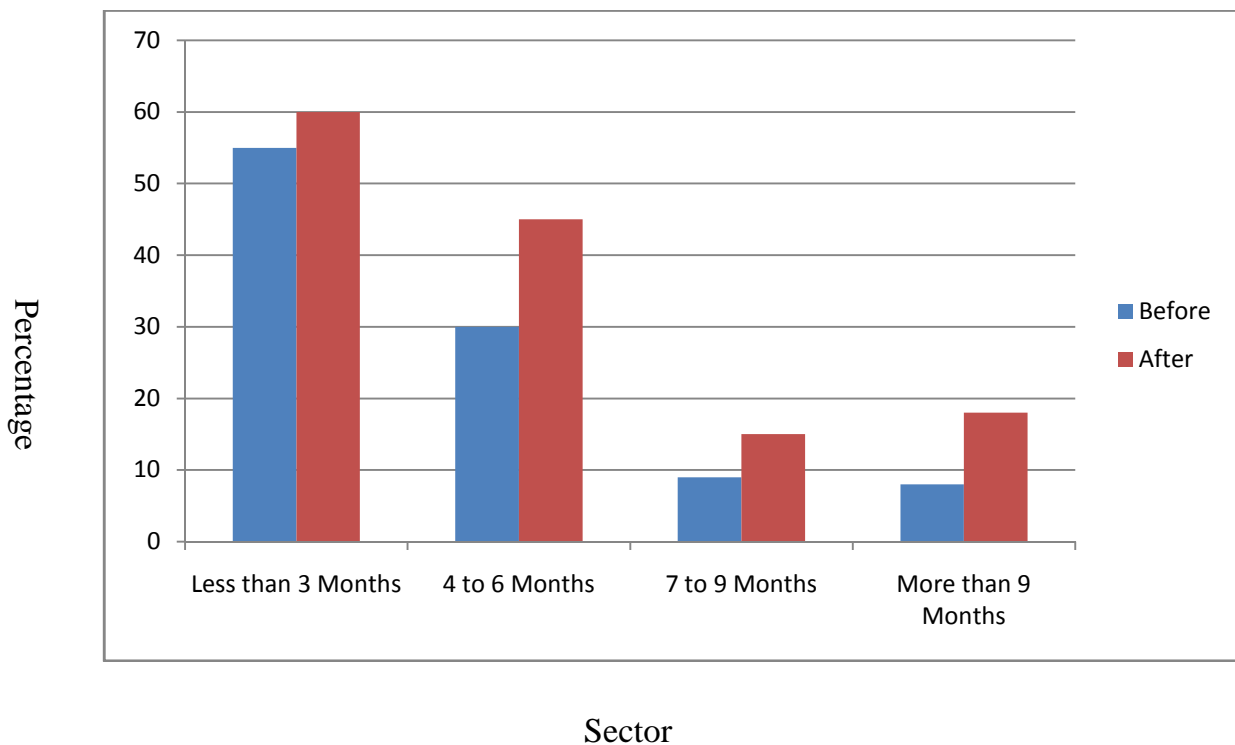
Clients Household with food Sufficiency status	Before		After	
	Number of Respondent	Percentage	Number of Respondent	Percentage
Less than 3 Months	83	55	90	60
4 to 6 Months	45	30	68	45
7 to 9 Months	14	9	23	15
More than 9 months	12	8	27	18

Source: Field survey, December 2013

The following Figure also shows percentage of sample client Households with food Sufficiency status:

Figure: 4.4

Percentage of Sample Client Households with Food Sufficiency Status



Here in the table and figure above, we can observe the significant change in the food security situation of sample women. Prior joining the program there were some 55 percent households with less than 3 months food from their own production and earning. Similarly, there were some 30 percent households had food for only 4 to 6 months, however this has remained constant but there has been a great shift in the category having food for 7 - 9 months and more than 9 months. Percentage of households having food for more than 9 months was merely 8 per cent where as at present some 18 per cent households have food for more than 9 months. The case is similar with 7 to 9 months food sufficiency category. In an average sample client's families had food for 4 months before joining the program where as at present they have food for around 7 months with the net increment of food for 3 months. It seems that the microfinance program has significantly improved their food security situation. Based on this analysis, we can suggest that clients of all categories have a significant shift having food for higher months than before joining the program. The survey has revealed that all most all clients have adopted some means of coping mechanisms.

4.2.3 Income and Expenditure Pattern

Analysis of sources of income among the surveyed women clients shows that there has a slight shift. Daily wage earning and the sale of live stocks products were the main source of income before joining the program but after joining the microfinance program the survey shows that the sources of income has shifted to the small scale business and the sale of agricultural products. The pattern of income is shown below before and after joining to the microfinance program.

Table 4.7

**Number & Percentage women of Sources of Income before and after join
in the MF Program**

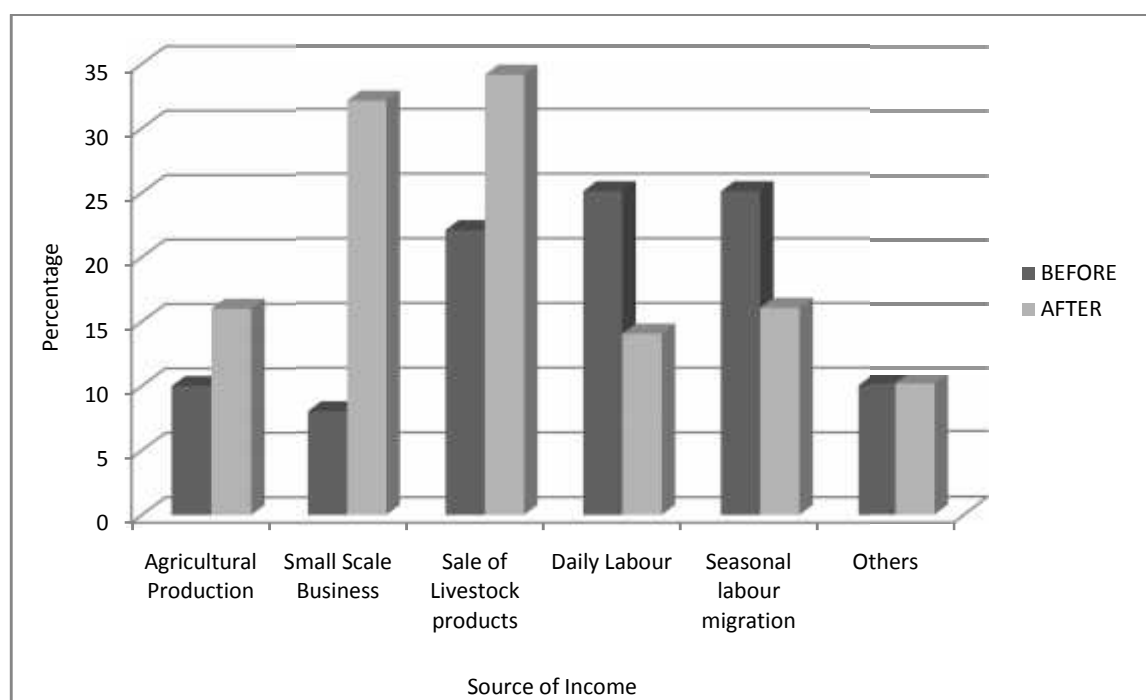
Pattern	BEFORE		AFTER	
	Number	%	Number	%
Agricultural Production	18	12	27	18
Small Scale Business	9	6	42	28
Sale of Livestock products	29	19	47	31
Daily Labour	36	24	18	12
Seasonal Labour migration	33	22	15	10
Others	14	9	15	10

Source: Field survey, December 2013

The following figure also shows the percentage of sources of income before and after join in the micro finance program.

Figure 4.5

**Percentage wise Distribution of Sources of Income Before and
After Joining the MF Program**



The analysis seems very much consistent with the notion of microfinance program that has financed for agricultural production, small scale business and livestock development. The same is the findings on increment of small scale business and increased number of livestock. Therefore, we can say, microfinance services have contributed towards generating own income from small scale business, agriculture and livestock holding thereby reducing the burden of daily labour.

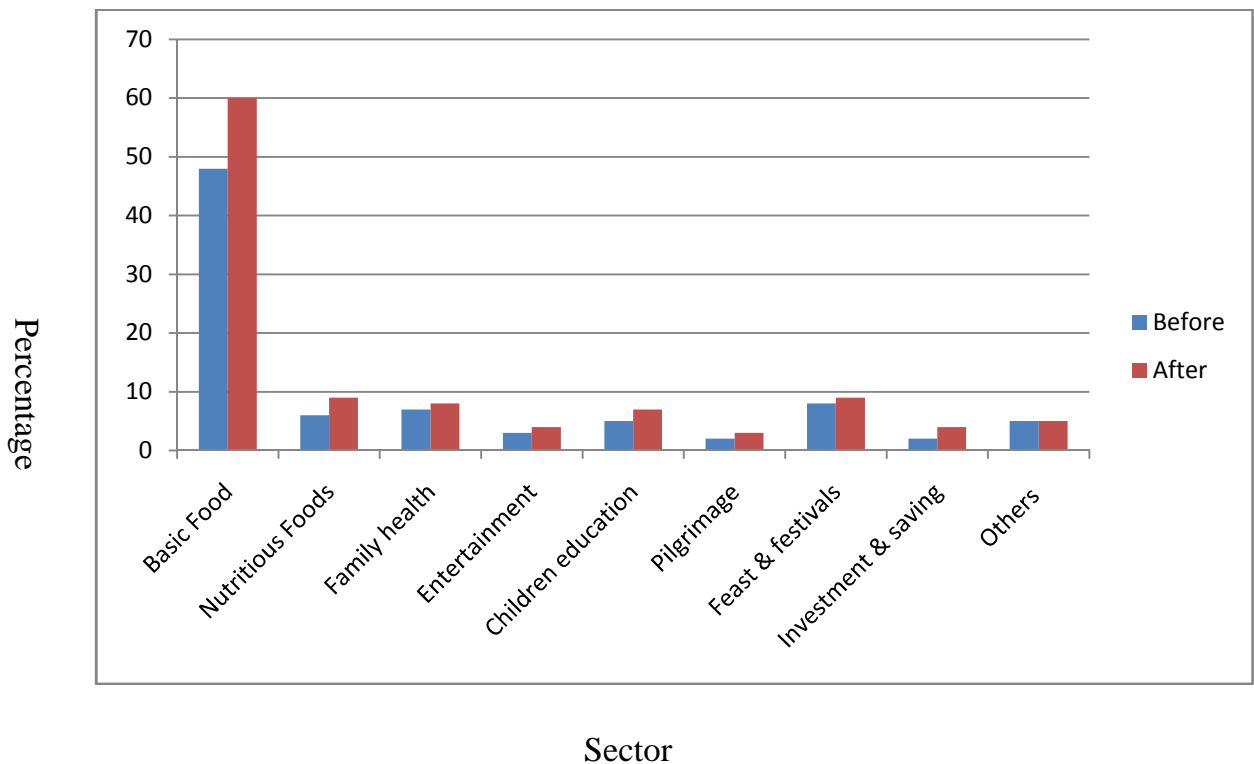
Expenditure pattern is analyzed to have an impression how the expenditure among the surveyed clients have changed because of having additional revenue. The general accepted principle about the expenditure is that higher the poverty and deprivation, higher is the proportion of expenditure done for food and basic amenities. The pattern of expenditure is shown below before and after joining to the microfinance program

Table 4.8
Expenditure Pattern of Sample Clients before and After
Participation on MF Program

Pattern	BEFORE		AFTER	
	Number	%	Number	%
Basic Food	72	48	90	60
Nutritious Foods	9	6	14	9
Family health	11	7	12	8
Entertainment	5	3	6	4
Children education	8	5	11	7
Pilgrimage	3	2	5	3
Feast & festivals	12	8	14	9
Investment & saving	3	2	6	4
Others	8	5	8	5

Source: Field survey, December 2013

Figure 4.6
Expenditure Pattern of Sample Clients before and After
Participation on MF Program



Here the charts show in the expenditure pattern. Expenditure done on acquiring basic food before and after is 48 percent and 60 percent respectively. Similarly, expenditure on nutritious food such as meat, milk, fruits and fresh vegetables is increased by around 3 percent. Likewise, increment on expenditure proportion has taken place in children's education, investment and savings, and other unidentified areas.

The reduction on expenditure on client's, her husband's, and children's health shows relatively better health position of the clients family members which perfectly coincides with the increment of expenditure on nutritious food. The analysis further shows that, saved proportion of expenditure likely to have invested for children's education. Moreover, the requirement of spending less amount of their earning for basic food shows their increased income. However, the analysis also shows trivial changes on the expenditure made on entertainment and pilgrimage.

4.3 Constraints and Critical Issues of Women Focused Microfinance

In the process of analyzing the critical aspects, constraints faced by women are captured and analyzed. Moreover, the field survey has revealed further critical issues related to women focus microfinance for their socio-economic empowerment and poverty reduction which are discussed at length here below. Some of these are even related to policy issues whereas some are related to the pressure faced by MFIs and market phenomena.

4.3.1 Constraints Faced

Despite the number of positive socio-economic impacts that women sample clients have enjoyed from microfinance, they are facing number of constraints since the microfinance program is a discipline based thus every activities has to be done with limited flexibility. Major constraints face include, the increased pressure, tension, difficulty in time management, difficulty in taking care of child, pressure of arranging loan installments, risk of need to fulfill fellow members loan installment if someone fails. The details of the constraints faced by sample clients are presented in the table below.

Major Constraints Faced by the Sample Clients

-) Discussions which extend till late in the evening have created problems at home as elderly members do not allow females to be out that late.
-) Women are facing problems if they need to go out however, there is a provision of forwarding application. If application is not put in time, we have to pay penalty.
-) Entire process has to be done by the females and under their presence which put them in pressure and made them worry as they have their family and children to look after. Further, problems are seen to feed and send children to school.
-) Since it is a joint effort of the entire village and all has to be present together to work thus has become more problematic and difficult.

-) Taking loans and borrowing money has increased irrational feelings amongst the sample females because the loan has been passed in their name.
-) Regular meetings and discussions have brought difficulty in managing household activities.
-) Male counterparts are keeping less interest and wanted to be free from any household responsibility which has increased out tension.
-) Delay in paying the installment by any member brings about heated discussions and arguments amongst the village members. Often this has led to social conflict and unrest.
-) The installments need to be paid on specified days. Even if female are ill, it has to be managed anyway which is difficult.

Among the various constraints faced by women the most affecting constraint is the pressure of repayment. This has been discussed at length here below.

4.3.1.1 Repayment Pressure

Maintaining repayment rate more than 95 percent is considered as good among MFIs. PGBB has succeeded to maintain its repayment rate at more than 99 per cent. PGBB further claims selection of borrowers, increased borrowers knowledge on program, their commitment to repay in time, group peer pressure, centre discipline, loan utilization and credit worthiness of the borrowers, commitment of the Field Supervisor (Credit Officers), good CGT and GRT, enterprise feasibility analysis are the key elements to obtain higher repayment.

However, discussion with sample clients and PGBB itself reveal that it might have been possible mainly because of two reasons: group guarantee enforcement and back fold strategies adoption. Group guarantee includes taking responsibility of repaying by rest four members of same group if one member fails.

Fellow members partly contribute in cash or allow transfer her personal savings to repay others loan as a reciprocal help. If this does not happen and the client remains absent, all the members of the centre—including members from other group - make defaulter's home visit to collect the installment. Sometimes, members are also threatened to seize physical assets as practiced in some MFIs in Bangladesh (Devine, 2003). Unless the default installment is received, the centre meeting of that day does not close formally. This definitely forces clients to repay the loan in time. But such practices not only create tension and harassment but also affect the social image of the clients. However, PGBB has never used security force for repaying default loans so far. Rather, in some genuine cases of project failure, deaths, natural calamities and blockades, repayment dates are also rescheduled.

Back fold strategies applied include transferring of installment equivalent amount from the centre savings - centre savings is a sum of money accumulated from the penalty from clients and staff for different reasons and regular deposit of members to that specific savings product.

This fully remains under the control of centre management which is often mobilized as supplementary loan and emergency loans - which helps maintaining cent percent repayment. Once the client brings default installment, centre savings is returned. This option seems more amicable since it fulfills the requirement of PGBB as well as gives a solution to the client. Application of these types of strategies seems popular therefore the repayment rate is higher. The repayment rate to a certain extent indicates the sustainability of MFIs but client's adoption of coping mechanisms to repay and the capital output of their investment are not generally considered. Maintaining higher repayment rate ignoring these possibilities might put them at risk thus indicates a challenge of sustainability in the long run. Besides, repayment rate alone might not reflect the actual portfolio position because of loan write off and default ageing policies.

4.3.2 Critical Issues

In addition to the above mentioned major constraints faced, women focused microfinance consists of some critical issues which need to be duly considered. These include the (i) exclusion of bottom poor women, (ii) client duplication and its potential risk and (iii) lack of support services. Further detail discussion on each of these is done here under.

4.3.2.1 Exclusion of Bottom Poor Women

While discussing the issues of none participation or exclusion of bottom poor women in the microfinance, interviewed PGBB Field Supervisors explained following eight major reasons: (i) their fallback position is weak so more probable to default their loan; (ii) they normally do not have experience of handling enterprises including livestock raising and marketing; (iii) their loan absorption capacity is low so outstanding portfolio will be lower thus impacting negatively the financial viability of MFIs; (iv) cost of providing services are high because they need rigorous effort to bring into the methodological track, for example they might need more than seven days Compulsory Group Training (CGT); (v) they are instable because of not having permanent home and cultivable land which increases the risk of default; (vi) they have higher chances of loan being used for consumption purposes which again increase the default risk; (vii) they are irregular in the group meetings; and finally (viii) they are often not being helped by fellow members—absence of social capital—in fulfilling their installment if they became unable. That is why their access is denied. Despite these all, access to microfinance is also hindered by political unrest: restriction on mobility and blockades in general.

These reasons question the microfinance services to deprived bottom poor women. Intensive implementation of preparatory and capacity building program, arrangement of support services and re-distribution of resource base seem urgent for which external support and government intervention and

incentive mechanisms are must. Otherwise, it is highly probable that desperate poor women are excluded from the microfinance services.

4.3.2.2 Member or Client Duplication and Its Potential Risk

Discussion with microfinance Filed Supervisors revealed that there is a competition among MFIs to serve large number of clients thus prevail client duplication. ‘The most prominent implication of MF competition discussed within the MF industry even in Bangladesh is also the "overlapping"—a term whose definition itself has undergone changes over the years. The term was first used very broadly to denote similar service-providing NGOs working within a geographical area. In recent times, the term is used to indicate multiple microfinance membership at the level of the household’ (Martin, undated). Client duplication has fundamental two perspectives. For MFIs, it is a fast track to attain sustainability but risky option as it increases default possibility. For clients it is an option to cross finance projects and enjoy the fungibles but remains the risk of falling into debt trap. Both might enjoy it looking forward the bright part but may fall into the downside.

MFIs in Hemja have overestimated the need and potentiality of a client in the process of sharing targeted market. This has happened in most of the Latin American countries resulting over-indebtedness of clients thereby degrading the portfolio of all MFIs in the market. Similarly, research in Bangladesh also shows higher repayment rate in remote areas where the alternatives are fewer (Morduch, 1999). If the magnitude of client duplication is increased, it will result impending disaster. This will be further worse if a Field Supervisors or a branch continues to assign with targets on outstanding portfolio or number of member to attain financial viability. However, MFIs are not alone responsible for duplication since clients always secure an option to go to informal money market.

One of the major clients perspective identified from the study of Bangladesh is that ‘multiple membership is a short-term attempt to cross-finance and manage repayment regularity--- it fails to be sustainable for most clients’ (Martin, undated: 2). Uganda has also faced deteriorating repayment caused by multiple loans (de Janvry et al., 2005).

4.3.2.3 Lack of Support Services

PGBB with donors support has carried out limited quantity of preparatory and support services. These include: awareness raising campaign; vaccination campaign; literacy programs; information, education and communication sessions; and skills development training. Technical inputs and marketing arrangement as support services after the credit are also provided. These programs because of low in quantity have not had visible impacts but have spread a positive impression to join PGBB. Besides, microfinance members have not obtained such support services from the government system because of various reasons. These include: limited financial and human resources; no working incentives to the staff; limited tools, equipments and machineries; and poor coordination and collaboration arrangements in the government system. Whatever level of support is available, local elites and those having better social capital with this sector exploit them. In this way, sample women clients are excluded from this support services.

Principally under the market economy, private sector should render Business Development Services (BDS) but they are confined at the district headquarter if any. Virtually, microfinance clients have no access to BDS therefore; issue of access to such support services to the microfinance clients becomes more pertinent.

4.4 Findings

Land holding, numbers of livestock, quality of home to live and possession of other household amenities have increased among the sample surveyed clients.

Moreover, vulnerability has decreased, food security has been increased, and health, child education and sanitation situation are improved. Importantly, livelihoods pattern of microfinance clients has been shifted from wage base to the agriculture and self-employment base. Awareness, capability, confidence and social capital have also been significantly improved. In general, the survey has revealed that socio-economic conditions of the sample clients have substantially improved. The detail of the research finding is as follows.

Landholding

The survey revealed that the micro- finance program has not shown a significant effect on the client's landholding position. Almost all the clients have their own home to live but not sufficient land to cultivate except some vegetables. After involving in such micro financing program also there is no differences found in creating the fixed assets like landholding. This shows that the impact of microfinance doesn't show any positive movements for adding the land. May be being the VDC within the valley they might not be able to add the land. So from the survey done, it is found that the clients are not able to add the land after the involvement in the provided microfinance programs

Building

Home to live poses higher value to the sample clients thus prefer to improve the quality by changing roof, making ground cemented, plastering the walls etc. Women feel proud to say and show that changed the thatch roof into the CGI sheet. Among the sample clients, 25 percent clients have renovated home. In that sense, the microfinance program has been very much helpful in making them prosperous

Livestock Holding

Number of livestock holding households has also improved. Prior joining the program, only 18 percent clients have any small scale livestock where 22 percent clients used to have medium livestock but after joining the microfinance program it has changed to 30 percent and 29 percent respectively.

This shows that after joining the microfinance program some clients have taken initiation in keeping pigs and chickens and making them the source of income generation.

Other Assets

Quite a size sample clients have created other household assets for example, 90 per cent client households have purchased television 80 per cent have constructed toilet at their home premises and some 63 percent households have installed hand tube well at their home yard. Similarly, 55 percent household have also purchased bicycle and 40 percent clients have started small scale business.

Savings

Sample clients are enjoying five different types of savings products- i) Compulsory monthly group savings @ Rs. 30 per month (Rs. 50/- to open the account) ii) Personal savings at individual level iii) Loan guarantee fund, 4 per cent of the loan disbursed, iv) Centre fund collection managed by centre itself and v) Child savings. These products have helped sample women to generate quite a significant amount

Food Security

Food security situation has significantly changed. Prior joining the program, 55 per cent clients had food for only less than 3 months among which around half of them have increased food sufficiency at present. Percentage of households having food for more than 9 months were merely 8 months where as at present some 18 clients households have food for more than 9 months. .

Around 83 per cent clients are still adopting some means of coping mechanisms among which wage earning is one of major, however period required to manage through coping mechanism has decreased. Some 14.9 per cent clients even have to borrow around Rs. 1521 per year locally to buy food

which was around 42.6 per cent before. The average amount of such borrowing has also reduced by 50 per cent.

Income pattern

Income source structure has also changed. Previously, daily wage was covering 30 per cent earning whereas at present it is reduced to 12 per cent. 9 per cent of earning from agriculture has increased to 14 per cent making them less dependent on wage earning. Similarly, 25 per cent earning that comes from selling of livestock products has increased to 40 per cent. Small scale business has become another important source of income after joining the micro-finance program, prior joining the program it was just 6 per cent but after joining it has increased to 30 per cent. Microfinance services have contributed towards generating own income from small scale business, agriculture and livestock holding thereby reducing the burden of daily labor.

Expenditure Pattern

Expenditure done on acquiring basic food has been decreased by 15 per cent from 60 to 45 and expenditure on purchasing of nutritious food such as meat, milk, fruits and fresh vegetables is increased by around 5 per cent from 5 per cent to 10 percent. Likewise, expenditure proportion on children's education, investment and savings, and other unidentified areas has increased.

The reduction on expenditure on client's, her husband's, and children's health might represent relatively better health position of the client's family members which perfectly coincides with the increment of expenditure on nutritious food.

Loan Borrowing, Repayment and Employment Generation

Loans are obtained mainly for: (i) small business (ii) vegetable farming and (iii) animal husbandry. The survey has revealed that this program has created employment for 1.5 persons in an average. Further discussion with the women clients revealed that they themselves and their husbands are involved in the

business, enterprises and cultivation related to their investment done from the borrowed fund. In some cases where women have invested for business has created employment for four persons of the family.

Empowerment at Household Level

Sample clients are autonomous to make decisions related to obtaining membership of MFIs, and selecting purpose of loan to borrow. Decisions related to managing regular savings, arranging loan installments, volume of loan to borrow, spending borrowed cash, and finding coping mechanisms to repay the loan in time and the like are jointly done by clients and their husbands. Sample clients' husbands take the responsibilities of managing daily expenditure and involve in doing enterprises but at the same time keep cash received from sale of products and do the decisions related to deposit and withdrawal of optional savings solely.

Despite these, women expressed their increased level of awareness and confidence on many issues and increased participation and acknowledgement in the household level decision making process. Around 63 per cent sample clients expressed highly improved child education situation and 60 per cent clients expressed the highly improved knowledge on child health therefore children's health situation are also improved.

Likewise, the microfinance program has highly improved the capacity of 56 - 58 per cent clients on household level procurement and selling. Remarkably, almost 95 per cent sample clients mentioned that the household level cooperation has increased and family level discrimination has been reduced.

Social Capital and Empowerment at External Affairs

Awareness on political and legal issues such as political ideology, voting rights, political parties, women rights, child rights are slightly improved to 62 per cent sample clients whereas 12 per cent sample clients find there has no

improvement in those issues. Some 19 per cent clients in fact are unaware of such issues.

Participating sample clients have increased social capital. Almost all sample clients (96%) mentioned their increased participation on social and community level activities however with varied magnitude. Trust and mutual respect are also increased among 94 per cent sample clients. Exceptionally, around 29 per cent sample clients are not visiting any government and other developmental line agencies to put pressure and demand support services. For those, who mentioned it has happened is also at low magnitude.

Major Achievements Gained by MF Clients

Increased awareness and knowledge on education, health, sanitation, family harmony, enterprises handling; enhanced skills of financial transactions and trade; being more responsible and disciplined; realization of disadvantages of social evils and bad habits are some of the major achievements gained by sample clients.

Major Constraints Faced by MF Clients

Despite number of advantages, sample clients are facing many constraints since the microfinance program is a discipline based thus every activity has to be done with limited flexibility. Women are burdened with household as well as external works since participation on microfinance program does not excuse them from completing household works rather responsibility of loan related enterprises is added. Constraints face include the increased pressure to manage household finance, difficulty in managing time among home, children, enterprises and participation on community activities, and risk of need to repay others default loan are some of the constraints faced by sample women. Above all, the pressure of repayment is the major one.

Critical Issues

In addition to these difficulties, there are number of critical issues related to women focus microfinance. These include (i) there exists high probability of excluding bottom poor women because of not having resource base and social capital, (ii) the present microfinance program can put them into dept trap because of unhealthy competitions among the MFIs, and (iii) sample clients, even though they participate on microfinance program, are deprived from any business development and support services to strengthen their micro enterprises to come out of poverty.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter has summarized the research in general followed by conclusions of the study. Based on the findings and conclusion some recommendations are also put forwarded to be considered by PGBB in particular, and policy makers, academicians, researchers and microfinance practitioners in general.

5.1 Summary

Government of Nepal amongst others has envisaged that access to microfinance to women not only impact on socio-economic life of women but also empower them effectively thereby reducing the poverty therefore, has promoted it. MFIs are also expanding their services targeting to women with the same notion, however MFIs have a pressure of sustaining their program through the attainment of financial viability. Therefore, the interest of having good microfinance - better repayment - may have direct negative effect on socio economic empowerment of women. At the same time, the debate on microfinance whether it should be completely business oriented or it should carry some social responsibility of social development, capacity building, linkage and coordination also exist. Thus this thesis is conducted with the objectives of exploring consequences of such microfinance targeting to women through analyzing socio-economic empowerment and the critical issues prevailed.

In order to fulfill its broader objectives, it has three different objectives which have focused on economic impacts; thereafter women empowerment at household and external level; and the constraints and critical issues of such women focused microfinance for poverty reduction. It has considered the physical and financial assets, food security, borrowing and employment creation and vulnerability as major indicators to analyze the economic impacts.

To fulfill the objective of analyzing women empowerment, their participation and decision making at household level, awareness on health education, sanitation, financial transaction, family cooperation, discrimination, exposure, traveling, social capital and confidence are analyzed. Observations and perceptions are analyzed for tracing out the constraints and critical issues.

The study based on comparative analysis is done with 10 per cent sample 150 clients) of PGBB coverage in Hemja VDC of Kaski district. Data required is collected from the field survey with randomly selected samples. Individual interview of samples using semi structured questionnaire and focus group discussion are done. Individual interview of concern stakeholders, academicians and PGBB executives are also done. Simple statistical tools such as percentage, mean, frequency counting are done for quantitative data where as observation, interpretation and perception analysis is done for qualitative information.

Data received are presented in tabular form, bar diagram and pie charts comparing pre and post situation. Magnitude of empowerment on qualitative information is presented on a categorical basis - no impact, low, high, very high impact. General observations and perceptions are interpreted and summarized in boxes and paragraphs.

Participating sample clients have increased social capital. Almost all sample clients (96%) mentioned their increased participation on social and community level activities however with varied magnitude. Trust and mutual respect are also increased among 94 per cent sample clients. Exceptionally, around 29 per cent sample clients are not visiting any government and other developmental line agencies to put pressure and demand support services. For those, who mentioned it has happened is also at low magnitude.

However, the research done within a very short period taking samples from only one VDC of one district using limited methods and approaches might not represent the whole microfinance industry of the country; its findings could be useful not only to PGBB and the participating clients but also to the policy makers, decision makers, academicians and other microfinance practitioners.

5.2 Conclusion

Access to microfinance services offered by PGBB has positive impacts on the life of surveyed sample women in Hemja VDC of Kaski district. Positive social impacts are observed in their livelihood structure and have empowered women in many ways such as awareness and knowledge on basic issues such as importance of educating children, child health and hygiene, importance of money management, their role in household economy etc. Satisfactory economic impacts are not observed in assets creation and self employment creation but the microfinance services provided have helped them to improve their better livelihood structure like: enhanced food security; improved health, sanitation and nutrition status; and reduction on vulnerability of drought, heavy rain, illness and cost of social rituals (feast and festivals).

The program has made participating client women more disciplined and conscious on time management. Further, awareness on enterprises handling, trading and local economic scenario has upgraded. Their social interaction and community level, harmony, mutual cooperation are magnificently increased, however at the same time the treat of having social conflict has raised because of group liability to repay loan. Domestic level violence and discrimination has also been reduced and their role on household level economic activities and participation on decision making process has been acknowledged.

Despite these all, women are also facing problems created through participation on microfinance program like increased responsibility to look after household as well as external affairs therefore, difficulty in time management. Even some

respondents mentioned they do not find time to go to their birth home (*Maiti*) because of rigid and time bound participation on microfinance centers and the responsibility to mobilize the loan fund properly. Sample women are not empowered to that level that they can unite and put pressure to the government line agencies and other developmental organization to demand services.

On top of these, sample clients are very much cautious in maintaining their social dignity by repaying the loan installment in time thus felt most pressured; however it has been said that their husbands are also taking responsibility. Probably, this is one of the main reasons that microfinance is focused towards women. Sample clients even have to adopt some coping mechanisms sometimes - borrowing from more than one places - to repay the loan in time which has enlarged the threat of putting them into a debt trap. However, good repayment cannot be rationalized only with discipline and pressure but also with better return from their investment which has been proven from the analysis.

Besides, the notion of microfinance services to women is to capacitate them historically. For which, availability of support services: input supply, infrastructure development, market and friendly legal environment become integral part which are not adequately addressed. Moreover, the loans are mostly invested on small scale business, medium and small livestock and somehow in agriculture (in growing seasonal vegetable), since participating women are not capacitated with upgraded skills and knowledge for market oriented value addition in micro enterprises.

Despite of having number of areas to improve and strengthen, microfinance services targeted to women clients have open up lots of avenues of empowering them. The significant social impacts, increased awareness, confidence and living in a more dignified life itself and somehow the improvement in economic level are remarkable achievements in the field of poverty reduction

and women empowerment thus cannot viewed only with the strategy of successful microfinance. In addition of providing loan and other financial facilities to women they should also be given training to develop their skill and knowledge in micro enterprises so that they can do better to sustain economically.

5.3 Recommendation

Based on the analysis, findings and conclusions, the following recommendations are done at three different levels.

-) Microfinance methodology of PGBB is highly welcomed by clients except the rigidity of time. Therefore, microfinance methodology should be revised in such a way that women client's time involvement in the process should be reduced.
-) Social impacts of microfinance services targeted to women is significant thus should further be encouraged. But still there is not satisfactory economic impact in the clients regarding assets creation so there should be the provision of counseling and in case of need skill related training or program can be given to make them able to start a small and medium scale of enterprises.
-) There has been tremendous pressure on women regarding the repayment of loan so it has to be shared among the family members of the microfinance clients. The microfinance service delivery methodology should be designed in such a way that husband's also feel equally accountable and responsible in repaying the loan installment.
-) PGBB has provided very limited skills transformation and capacity building activities to sample clients which are not sufficient thus government line agencies, other development agencies should focus on such technical capacity building activities.
-) Microfinance clients are very much empowered on the basic issues and have also increased their access to financial services but unfortunately, mostly the control of such financial services are with their male

counterpart thus, microfinance client's family need to be sensitized for strategic gender needs.

-) Business development services and support services available to microfinance clients are virtually not in existence thus arrangement has to be done for such services particularly in the area where private sector is reluctant.
-) Microfinance institutions including PGBB should develop other products and working methodology to bring the excluded ones into the orbit of microfinance services. The role of government seems important in issuing policy measures - preferably the incentive based - so that such excluded could be covered.
-) The implemented microfinance program should be evaluated and monitored timely so that the effective strategy can be followed in right time to make the program effective. Every MFIs should keep in mind that only providing small scale loan and serving their financial problem is actually not the motto of microfinance program, so all the MFIs should try to empower their clients socio-economically by showing them the correct way either by training or counseling and of course helping financially.

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ANNEX-I

Thesis Questionnaire

Socio-Economic Empowerment of Microfinance on Women

१. सदस्यको नाम:

२. सदस्यता प्राप्त मिति:

३. Demographic Information:

विवरण	संख्या
जम्मा परिवार संख्या	
बच्चा	
छोरा	
छोरी	

४. सम्पति विवरण:

सम्पतिको किसिम	एकाई	PGBB मा समावेस हुनु अगाडी	समावेस पछाडी	कैफीयत
जग्गा/जमिन	रोपनी			
भैसी/गाई	संख्या			
सुगुर/बाखा	संख्या			
हाँस/कुखुरा	संख्या			
नयाँ घर	छ/छैन			
घर मर्मत	छ/छैन			
छान्ना परिवर्तन	छ/छैन			
टि.भि	छ/छैन			
शौचालय निर्माण	छ/छैन			
इनार	छ/छैन			
अन्य लगानी	छ/छैन (काँहा र के मा)			

५. खान्दान विवरण :

खाद्यान्न विवरण	एकाई	PGBB मा आउनु पहिले	अहिले	कैफियत
आफ्नो उत्पादनले कति महिना खाना पुग्छ	महिना			
बाँकि महिना कसरी व्यवस्था गर्नुहुन्छ	कामको प्रकार			
खाद्यान्न किन्न अरु बाट सापटी लिनुहुन्छ	रु.			

६. जीविको पार्जनको श्रोत :

आम्दानीको श्रोत	एकाई	PGBB मा आउनु पहिले	अहिले	कैफियत
आफ्नै कृषि उत्पादन बाट	कूल आम्दानीको कति प्रतिशत			
घरपालुवा (दुध, मासु, इत्यादी)	कूल आम्दानीको कति प्रतिशत			
दैनिक ज्याला	कूल आम्दानीको कति प्रतिशत			
मौसमी बसाई सराई (काठमाण्डौ, इन्डिया)	कूल आम्दानीको कति प्रतिशत			
अन्य	कूल आम्दानीको कति प्रतिशत			
जम्मा		१००%	१००%	

७. खर्च विवरण:

खर्च शिर्षक	एकाई	PGBB मा आउनु पहिले	अहिले	कैफियत
अत्यावश्यक खाद्यान्न	कूल खर्चको कति प्रतिशत			
पौष्टिक खाद्यान्न (दुध, मासु, फलफुल)	कूल खर्चको कति प्रतिशत			
स्वास्थ्यमा	कूल खर्चको कति प्रतिशत			
बच्चाको शिक्षामा	कूल खर्चको कति प्रतिशत			
मनोरन्जन	कूल खर्चको कति प्रतिशत			
तिर्थ वर्तमा	कूल खर्चको कति प्रतिशत			
अन्य सम्पत्तिमा बचत तथा लगानी	कूल खर्चको कति प्रतिशत			
अन्य.....	कूल खर्चको कति प्रतिशत			
कुल		१००%	१००%	

८. आपत, विपत:

ऋण लिनुपर्ने कारण	एकाई	PGBB मा समावेस हुनु अगाडी	अहिले	कैफियत
कुनै कारणवस खडेरी/अधिक वर्षा/कम उत्पादन	छ/छैन			
बच्चाको स्कूल भर्ना	छ/छैन			
उपचारको लागी	छ/छैन			
विवाह, ब्रतबन्ध र चाडपर्व मनाउन	छ/छैन			
वाडी, पहिरो	छ/छैन			
जनावरको मृत्यु भएमा	छ/छैन			

९. बचत र ऋण:

विवरण	रकम/संख्या/उद्देश्य	कैफियत
तपाईंको बचत कति हो ?		
ऋहिले सम्म कति ऋण लिनु भएको छ ?		
के का लागि ?		
यस ऋण परियोजनामा कति परिवार सदस्य संलग्न हुनुहुन्छ ?		

१०. तपाईं एकलै PGBB मा आवद्ध हुदा के के फाईदा बेफाईदा पाउनु भयो ?

विवरण	बुदामा लेख्नुहोस
फाईदा	
बेफाईदा	

११. PGBB मा आवद्ध भएपछि तलका मुद्दामा तपाईंको अवस्थामा परिवर्तन वा सुधार भएको छ?

मुद्दा	केही हदसम्म	पुर्ण रुपमा	अहिले सम्म छैन	थहा छैन
वाहीरी भ्रमणमा				
बस्तु किन्न				
बस्तु बेचन				
घरयासी कार्यमा निर्णय				
घरयासी दवावमा (Domination) स्वतन्त्रता				
राजनितिक तथा कानूनी सचेतता				
पैसा तथा नाफा निर्माण				
पारिवारिक सहयोग				
अन्य व्यक्तिसग सम्बन्ध				
साथीहरु र समुदायमा विश्वास				
सरकारी तथा अन्य निकायमा सोधपुछ तथा माग गर्न				

१२. धेरै यस्ता लघुवित्त संस्थाहरुले गर्दा केही असजिलो भएको छ ?

(क) छ (ख) छैन

यदि छ भने, के कस्ता समस्या भएका छत्र?

-
-
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सर्वेक्षण मिति : *December, 8, 2013*

धन्यवाद ।