# CHAPTER – I

# INTRODUCTION

Microcredit is defined as an extremely small loan as small as given to impoverished people to help them become self employed. Microcredit was given to the poor individuals for income-generating activities that will improve the borrowers' living standards. The loans characteristics are, too small, short-term credit (a year or less), no collateral, required weekly repayment, poor borrower and mostly women who are not qualified for a conventional bank loan. Usually the loan pays high interest rates because of the high cost in running microcredit program. Microcredit is also used as the extension of very small loans to those who are in poverty that designed to spur entrepreneurship and help them out from poverty group. These individuals lack collateral, steady employment and verifiable credit history, which therefore, cannot even meet the most minimal qualifications to gain access to traditional credit. The Grameen Bank defined microcredit as small loans given to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families. The target population comprising women microenterprises from the low-income households and the loans have no collateral.

However, microfinance is defined as the provision of financial services to low-income clients, including consumers and the self- employed, who traditionally lack access to banking and related services (Gonzalez-Vega, 2008). Microfinance is a place for the poor and near poor clients to get access to a high quality financial service, which include not just credit but also savings, insurance and fund transfer. According to Ledger wood (1999), microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors Microfinance is a development approach that provides financial as well as social intermediation. The financial intermediation includes the provision of savings, credit and insurance services, while social intermediation involves organizing citizens' groups to voice their aspirations and raise concerns for consideration by policy makers and develop their self-confidence (Robinson, 2002). Moreover, Conroy (2002) stated that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their MEs.

The term evolved from the concepts of "microcredit" and "microenterprise" financing, to include the importance of savings as well as borrowing. Although the terms are used interchangeably, microfinance represents the field as a whole, while the other two terms are more technical and refer only to credit provision (Maria, 2004). The World Bank defines microfinance as ".... Small-scale financial services – primarily credit and savings – provided to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban" (Robinson, 2001). However, therefore, based on all definitions given, it can be concluded that micro credit is just a small credit given to the poor that engaged in microenterprise or for the purpose of income-generating activities. On the other hand, microfinance encompasses broad financial services given to the poor and low-income group for many reasons and not just for income generating activities. Woller & Parsons (2002) describe microfinance as the second revolution in credit theory and policy where the first revolution is microcredit Microfinance institutions (MFIs) were established to fill the gap in the financial services sector by providing funds to the poor and lower income group and thus alleviating poverty and enhance their business activities. The MFIs provide funds for start-up business or for working capital. In addition, some MFIs also provide funds for non-business activities such as for education and emergencies purpose.

In the credit market, agency problem, moral hazard and adverse selection exist because of information asymmetries. Information asymmetries are the main obstacle for MFIs to provide loans to clients. Financial institutions usually requires business proposal, borrower past credit formation and collateral before approving the loan. MFIs offer credit through group-based lending method to mitigate agency problems, moral hazard and adverse selection and to replace the collateral requirement. In group-based lending, borrowers must form a group before applying loans and they also responsible to other loan members. If one member default, the others will be responsible to pay the loan or they will be denied access for the next loans. MFIs are usually non-governmental organizations (NGOs) who are not profit-oriented. NGOs assume poverty is created through social processes that deprive the poor of their rightful access to social resources, including credit. These NGOs help the poor to find credits to support their small enterprises or income-generating activities. These institutions acted as a financial intermediation like formal bank. The difference between formal banks and microfinance institutions (MFIs) is the former focus on rich clients, while the latter toMFIs clients who are poor people. According to Remenyi (2000), subsidized credit and subsidized banking with the poor are inimical to "best practice in microfinance". Moreover, MFIs also offered skills training and marketing to their clients. The most successful MFI is the Grameen Bank in Bangladesh founded by Prof Mohammed Yunus who won the Nobel.

The term 'micro' means "very small" (Hornby, 1989:781). 'Finance' refers to the theory and practice of monetary credit, banking and promotion of operations in the most comprehensive sense. It includes money, credit, banking, securities, investment, speculation, foreign exchange, promotion reorganization, underwriting, brokerage, trusts, etc. (Woelfedl, 1994:440). Whereas, the term 'credit' refers to the "borrowing up to a certain limit allowed by a bank, etc. to an individual or a company" (Singh, 1997:94). As mentioned in the World Development Report, 'microfinance' includes credit, savings and insurance and through it poor households have an access to the capital that helps to create or expand microenterprise (World Bank, 2000:156).

Microfinance is a term that is broadly used for the provision of financial services to low-income households and the self-employed people. It has evolved on the approach of economic development intending to make low-income women and men more betterment. Although, some of the microfinance institutions provide insurance and payment services, but the main approach of financial services is to provide credit and raise the savings. Rather than a banking function, it comprises a developmental tool. The main activities of microfinance include (Ledger wood, 1999:1);

1. Small loans, typically for working capital.
2. Informal appraisal of borrowers and investments.
3. Collateral substitutes, such as group guarantees or compulsory savings.
4. Access to repeat larger loans, based on repayment performance.
5. Securing savings products.

Most households in developing countries suffer from excess poverty. Microfinance programs have been introduced with the aim of developing microenterprises and coping poverty among the destitute people of the developing countries. Under the microfinance program, the financial services have been provided to the low-income households as an efficacious measure of microenterprise development and alleviating poverty in the developing countries. Apprehended in the 1990s, the paradigm of microfinance was advanced to improve access to credit for small producers, landless farmers, and other low-income individuals, particularly women and the vulnerable or the disadvantaged groups. Accordingly, the microcredit project for women (SSCP) was initiated in 1994 in Nepal. The project operated under the Ministry of Local Development of HMG/N is functioning in close coordination with Nepal Rastra Bank (NRB), Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) and Local NGOs which have been involved as financial intermediaries of the project. Particularly, the project provides loans to the women from both the urban and rural areas of the country.

Funded by Asian Development Bank, the SSCP constitute the main objectives as (Shrestha, 1994:14) follows;

1. Improvement of the socio-economic status and condition of women.
2. Provision of financial and non-financial services to women in an integrated way.
3. Provision of necessary institutional supports to NGOs.
4. Institutionalization of NGOs as financial intermediaries, and

In 1974, the two state-owned commercial banks, Nepal Bank ltd. and RastriyaBanijya bank were directed by the central bank, Nepal Rastra Bank, to invest at least a portion (first 5 percent to increase as high as 12 percent) of their deposit liabilities in '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 the program. This led to the development of targeted initiatives, such as the Intensive Banking program (IBP) in 1981, initiated by the government and the central bank, through partnership with commercial bank. Under this approach, group guarantee for loan repayment were used instead of physical collateral.( Sinha, Sanjay 2001). Starting in 1975, the small farmers Development program, implemented by the Agricultural Development Bank of Nepal, mobilized farmers groups using a credit plus approach, and was the first experience of group-based lending in Nepal 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. In 1982, the cottage and small Industries project and the production credit for rural women all 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 bank collaborating with local development organizations. The commercial banks perceived this program as more of an obligation towards the central bank than a business interest.

In 1990, the government of Nepal established the rural self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and other financial intermediaries for on lending to the poor. The Microfinance Department of NRB acts as the secretariat of the RSRF and management committee headed by the NRB (Sinha,Sanjay 2001). In 1992, the government of Nepal, following a recommendation from the NRB, established Regional Rural Development Bank (RRDB) in each of the five development regions of Nepal, modeled on the Grameen Bank methodology. It is called Grameen Bikash Bank (GBB).

The majority of the ownership is in the hands of government, Nepal Rastra Bank (the central banks 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 central for self help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication. In the 1990s, with technical assistance from GTZ, local branches of ADBN under the small farmer Development program, stated to be reorganized in to federations of small farmer groups, the ‘small farmer cooperating ltd(SFCL); each operating as an autonomous cooperative. With the promulgation of the Development Bank act in 1995, Nirdhan was the first NGO (1998) to transfer its microfinance portfolio into an autonomous microfinance rural bank (NirdhanUtthan Development Bank).since 2000; three other microfinance rural banks were created through the same process first initiated by Nirdhan with DEPROSC Development Bank in 2000,Swabalmban Bikas Bank in 2001. Acknowledging the poor performance of the GBBs, under public ownership, the central bank started a restructuring program, which will lead ultimately to the privatization of the five GBBs, (Kayastha, Ragab 2010).

With the view of providing a source of wholesale fund to regulated microfinance institutions (MFIs) the rural microfinance Development central (RMDC) was established in 1998, and later on opened it’s lending to other MFIs. In 2001, the small farmer Development (SFDC) was established under the Development Bank Act to provide wholesale funds to small farmer cooperatives ltd.(SFCLs), which were formed after the transformation of small farmers Development project, promoted under the small farmers Development project, into cooperatives that SFCLs majority ownership will grow over time. (Kayastha, Ragab 2010).

Generally, the microfinance institution in Nepal can be divided into two types (1) Community Based MFIs such as SCCs and SFCLs, (2) commercial oriented MFIs such as MFDBs, GBBs, FINGO, sect so there are several modalities of MFIs in Nepal. Microfinance is an important and relevant financial service to poor. It also included other measures to promote human development: education, health and other minimum infrastructures required, enhance broad financial activities in rural area. Poor can improve socio-economic condition. Microfinance not only the tools of poverty reduction but also increase the income level and self-employment to poor through various types of income generating activities World Bank designs microfinance as “The provision of financial services to low-income clients including the self-employed, it includes both financial and social inter-mediation, it is not simply banking but also is a development tools." Microfinance can help to increases income build viable business and reduce their vulnerability to external stocks. It can also be a powerful instrument for self-employment by enabling the poor, especially women to become economic agent of change.

Now formal sector are also much more sensitive for providing microfinance services to the poor. I/NGOs and governments lend different programs with different modalities which have significant role on reducing poverty. There are various causes which make the poor to remain outside from the financial sector services. Ordinary banks they consider poor people are not credit worthy. The operation cost of on many small amounts of loan is high. Banks are centered in large town. But poor centered in rural areas. Poor people have limited economic opportunities, limited saving and the condition of the women is miserable. The poverty depth of women is higher than men. Poor people have less control over economic decisions. The main causes of poverty is being unemployed. Due to the lack of reliable employment survey and forecast in Nepal, the estimation of actual status of employment has been complex.

## 1.1 Development of NGOs as Co-operative Association.

The project not only provide credit, but also possess a function of social mobilization of women, skill development training to the borrowers, financial and non-financial services to the NGOs, and transformation of NGOs into sustainable financial intermediaries. It is also viewed that microfinance project have become a most important component for women and households headed by women, who often get difficulty on acquiring credit.

As mentioned by Montgomery (1996) and Ditcher (1996) the perspective of microfinance project lies on the improvements of the socio-economic conditions of the poor households and break vicious circle of poverty through financing in the small enterprises. The policy of this financial system includes the specialized financial services to microenterprises and makes them self-reliant, support NGOs based programs to access commercial sources of funds, encourage such programs to specialized commercial institutions, and encourage mainstream financial institutions to develop specialized micro-enterprise programs. The project is running in Panchthar since 1994.

In an outstanding work of Khalily and Meyer (1993) the treatise on loan recovery is specifically articulated in the denomination of loan repayment. As comprehended by those distinguished authors, the term 'loan recovery' is implied in the same meaning to the term 'loan repayment'. They have examined the rate of repayment in different time periods in

Bangladesh and demonstrated it as a substantial hallmark of measuring loan recovery. To them, a high repayment rate was outlined an indication of subsequent rate of loan recovery. Ledger wood (1999:206) on the other hand clearly stated the term 'loan recovery' as a historic rate of loan repayment. So it is clear that the trend of loan repayment signify the state of loan recovery.

Nepal is facing a big challenge posed by acute problem of poverty. The income and consumption level including the overall living standard of the people have been remaining very low. The biggest challenge that ever persisted is to alleviate the existing poverty and raise the living standard of people in sustainable manner (NPC, 1998:196). On account of widespread unemployment and disguised unemployment, the level of income, consumption and savings of the people is very low. In such a situation, fund available for investment is insignificant. Poor households lack their own fund at hand for investment. Those people could operate small enterprises only if fund is made available from outside sources. Small enterprises could generate employment and self-employment, and income earning opportunities. Microfinance could engender the development of small enterprises.

The institutional basis of financial services in Nepal was commenced after the establishment of Nepal Bank Limited (NBL) in 1937. Later on, the development of the financial system acquired impetus after the establishment of Nepal Rastra Bank (NRB) in 1956. Established in 1968, Agricultural Development Bank (ADB/N) is endeavored to provide rural and agricultural credit and Rastriya Banijya Bank (RBB) functions as a commercial bank. Since then several other banking and non-banking financial institutions such as commercial banks, finance companies, cooperatives, savings and credit organization and NGOs have got momentum. Established in each development region, the five Rural Development Banks are providing rural microfinance in their corresponding regions. Whereas, the true history of institutional microfinance at first began with the establishment of credit cooperatives in the Rapti Valley of Chitwan in 1956.

Since 1974/75, Nepal Rastra Bank, Nepal Bank Limited, and Rastriya Banijya Bank are responsively contributing to advance the microfinance program in the country. As an ordinance of NRB in 1974, the commercial banks should invest at least five percent of their total deposit liabilities in the small sector. Whereas, the small sector was termed as 'priority sector' and the ratio of the deposits to be invested was increased to seven percent. On the other hand, Small Farmers Development Project (SFDP) was set up under ADB/N, through which targeted rural credit program was instigated. Under this program the lending system was made on group basis. Later on, several targeted programs such as Cottage and Small

Industry Project (CSI), Intensive Banking Program (IBP), Production Credit for Rural Women (PCRW), Educated Unemployment Credit Program (EUCP), Lead Bank Scheme (LBS), Priority Sector Credit (PSC), Deprived Sector Credit (DSC) and the Rural Self-Reliance Fund (RSRF) came into operation for providing microfinance to the specific programs in the country. Similar other organizations that deal on microfinance include Rural Micro-Finance Development Center (RMFDC), Third Livestock Development Project (TLDP), Poverty Alleviation of Eestern Terai Project (PAETP), The Community Groundwater Irrigation Sector Project (CGWISP), Hills Leasehold Forestry and Forage Development Project (HLFFDP) and Community Shallow Tube well Irrigation Project Nepal (CSTIPN). One of the foremost programs that treat on microfinance is the microcredit project for women (SSCP) in Nepal.

Merely the operation of the project does not connote its successful progression. Apart from the various attempts of poverty alleviation and developing micro-enterprises, most of the programs have failed to meet their targeted goals. A very low level of access of impoverished people to the credit along with other problems shows a meager performance of the ongoing programs. The major problems arising in the course of the operation of the microcredit projects belongs to the lack of adequate resource, lack of efficient financial intermediation between the institution and loan recipients, lack of well functioning of loan disbursement, realization and utilization, lack of basic education, training, awareness and operation of business in-group, lack of technical know-how and infrastructure facilities, lack of financial accounting system, and the absence of supervision, follow-ups and loan appraisal studies (Adhikari, 2000).

Without a discretionary measure, the lending to the poor households as alluded by Khalily and Meyer (1993) is doomed to failure. Costs are too high, risks are too great, savings propensities are too low and some of the households have much to put up as collateral. The subsidization in credit by the government still aggravated the dependency rather than making betterment to the poor households. With the aim of raising the well-being of poor households, 'Integrated Rural Development Programs' including many other similar programs offered heavily subsidized credit on the premise that poor households cannot afford to borrow at high interest rates. But the costs mounted rapidly and the performance of the programs remained far from attainment. The poor households neither persist credit worthy nor able to save adequately. Most programs proved costly and failed to support the intended beneficiaries. Rather, subsidized credit was mostly diverted to politically favor non-poor households (Pulley, 1989; Adams and Von Pischke, 1992). In the absence of performance study the achievement of the SSCP could not be identified. So, it is highly essential to find out the attainment of the targeted goal of the project through its performance study. The major questions regarding this study work could be addressed as follows:

1. How is the performance in outreach indicators such as household survey, target women identification, group formation and target women participation?
2. How is the performance in training programs?
3. How is the mode of loan disbursement, repayment, outstanding and overdue?
4. What is the state of savings deposits, and its mobilization in terms of loan disbursement?
5. What is the overall situation of participating women with regards to corresponding activities?
6. What are the most effective aspects of the program and what may be the leading factors required to upgrade the on-going business enterprise?
7. What type of relationship exists between investment and income and in between outstanding, loan recovery in terms of repayment, and overdue?

## 1.2 Statement of Problem

Nepal is facing a big challenge posed by acute problem of poverty. The income and consumption level including the overall living standard of the people have been remaining very low. The biggest challenge that ever persisted is to alleviate the existing poverty and raise the living standard of people in sustainable manner (NPC, 1998:196). On account of widespread unemployment and disguised unemployment, the level of income, consumption and savings of the people is very low. In such a situation, fund available for investment is insignificant. Poor households lack their own fund at hand for investment. Those people could operate small enterprises only if fund is made available from outside sources. Small enterprises could generate employment and self-employment, and income earning opportunities. Microfinance could engender the development of small enterprises.

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In the absence of performance study the achievement of the SSCP could not be identified. So, it is highly essential to find out the attainment of the targeted goal of the project through its performance study. The major questions regarding this study work could be addressed as follows:

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## 1.3 The Objectives of the Study

The basic objective of the study is to examine the performance in terms of loan recovery of microcredit financed projects. The other main objectives included;

- To overview the state of training activities, and savings and its mobilization.
- To examine the state of loan of repayment, outstanding and overdue.
- To assess the overall performance of participating women.
- To analyze the state of loan recovery in terms of loan repayment.
- To show the relationship between investment and income.

## 1.4 Justification of the Study

Nepal is an agricultural dominant country and also a developing country. Agricultural sector employees constitute more than 80 percent of the total labor force and generate nearly 40 percent of the gross domestic product. According to the survey of Central Bureau of Statistics (CBS), 42 percent of the population lies below the poverty line. The ratio of population below poverty line is estimated 23 percent in urban and 44 percent in rural areas. The ratio of hard-core poor consist 17 percent, whereas one quarter of the total population in Nepal has been identified as poor (Upadhyaya, 2000). As mentioned in the report of World Bank (1997) the extent of poverty is too high or much higher in Nepal. An average annual per capita consumption is about $ 130 and about 53 percent of the population consume less than one dollar per day. The ratio of population consuming less than one-and-a-half dollar comprises 76 percent.

With the aim of alleviating poverty and developing microenterprises various measures have been operating in Nepal. One of such measures is the microfinance program. The conception of microfinance has emerged as an important financial product and an effective tool. As appreciated by the Asian Development Bank (ADB/M, 1998:1) microfinance belongs to a powerful device to promote economic growth, reduce poverty, support human development, develop the microenterprise and improve the status of women. Government and several INGOs have used local self-help groups, saving and credit cooperatives, and other local NGOs for providing microfinance. As an essential consideration the microfinance operating groups and NGOs are served by providing revolving fund for on-lending, grants to cover operating costs, matching fund and technical assistance.

It is notable that merely the operation of program does not signify its success. Rather it has to be operated more diligently. An outreach and financial sustainability of the program, income or poverty impact on the users and the development of microenterprises and financial markets determines the success and efficacy of the target of microfinance program. Yaquab (1996:103) states that:

"To join the ranks of the successful, a microfinance program must at least be financially self-sustaining".

The major development objectives of the microfinance program is to reduce poverty, to empower women and other disadvantaged groups of population, to create employment, to help existing business grow and diversify their activities, and to encourage the development of new business. As mentioned by Webster, Riopelle and Chidzero (1996), the lending for small and micro-enterprise projects should be based on the following objectives;

1. To create employment and income opportunities through the creation and expansion of microenterprises.
2. To increase the productivity and incomes of vulnerable groups, and specifically women and the poor.
3. To reduce the dependency of rural families on drought prone crops through diversification of their income generating activities.

For a smooth functioning of microfinance program, lending capacity needs to be considerable in amount and to have its proper utilization. The supply of debt depends upon the financial resource of the related lending organization. Whereas, demand for financial service is determined by the debt capacity. Flow of cash and ability to pay off the clients and the potential clients is to be considered by the microfinance institutions. Because, a lot of risk averts in the transaction of credit. It is said that in oppose to make base credit decision on a "credit need", the MFIs requires following debt capacity approach. In the absence of appropriate approach, the credit only coins the risks and future trouble for both lenders and borrowers. So it is highly essential to have consideration on debt capacity and the proper utilization of the debt by the client. In this respect Von Pischke, 1991:277) states that: "Lenders are able to recover loans on schedule only when the repayment capacity of the borrower equals or exceeds debt service, which consists of principal and interest due for payment. Borrowers are able to repay their loans on time without suffering hardship only when their repayment capacity equals or exceeds the debt service due according to the loan contract. These simple, self-evident relationships define the role that credit plays in development and influence the fate of efforts to expand the frontier of formal finance".

The performance study of the program reflects its actual situation and achievement. The financial statement prepared under the commonly accepted auditing principles could be a better measure of financial performance analysis. Financial statement analysis of the ongoing project could evince its state of efficacy. Portfolio quality, productivity and efficiency, financial viability, profitability, leverage and capital adequacy, and the scale, outreach and growth might be the better indicators of performance of the program. As mentioned by Ledgerwood and Meloney (1996) a balance sheet, income statement and portfolio report might be the most appropriate criterion for performance analysis. On the basis of adjusted financial statement, the indicators of performance could be calculated. Waterfield and Ramsing (1998) put forth a list of performance indicators into six broad groups such as profitability, growth, portfolio quality, financial solvency, productivity and outreach. But however, the present study keeps main focus on the performance of loan recovery in terms of loan repayment, and hence the effort is to be directed towards the assessment of those components which are attributed to posit the impact on loan recovery and loan repayment.

So as to find out the achievement of microcredit project for women by initiating microenterprise development, it is indispensable to have its performance study. The performance shall be analyzed on the basis of available data on investment portfolio such as agricultural production, small business and microenterprise. The analysis shall be focused on disbursement of loan, loan in outstanding, loan recovery in terms of repayment of loan, savings and mobilization in terms of disbursement by the borrowers, group activities and business condition of the project. Collection of information and evaluation of performance is also an important aspect to reshape the program and growth trend in the future (MkNelly and Watetip, 1993; Vengroff and Greevey, 1994).

## 1.5 Limitation of the Study

The study was conducted in limited time with limited resources and concentrate specific area. The study was conducted in one micro-credit. So its result may not be applicable for other areas, context and other any micro-credit.

1. The study has confined within the five samuha in Phalaicha, VDCs of Panchthar districts.
2. The overview of the study has been taken consideration only those NGOs, which are participating in the samuha.
3. The study can analyzed on the basis of the performance of participating women from agricultural production, small business and microenterprise groups.
4. Loan recovery approach has assessed in terms of loan repayment.
5. The study mainly takes into consideration of the activities operating under VDC.

## 1.6 Organization of the study

This study has organized with five chapters. The first chapter concerns with introduction of the study dealing with the statement to the problem, objectives, significance, limitation of the study. The relevant literatures reviewed in second chapter for this study. The third chapter deals with the methodology used in this study. In the fourth, chapter deals with the social, economic, and demographic characteristics of sample population. The fifth chapter has analyses the finding, conclusion and recommendation of the study area.

# CHPATER - II

# LITERATURE REVIEW

The outcome of various programs on poverty alleviation and the development of microenterprises does exhibit its weaker performance. Microcredit project for women is one of the foremost programs in the harmony of poverty alleviation and microenterprise development in the country. The effectiveness of the program could be recognized on the basis of its performance analysis. For the purpose, theoretical and practical review on the microcredit and the performance analysis become indispensable. The concept of microfinance is found to be in operation as a sustainable banking with the poor. After the declaration of United Nations for the year 1996 as the 'International Year of Eradication of Poverty' and 1997-2006 as the first 'International Decade for the Eradication of Poverty' got momentum. Correspondingly, as a global target of supporting 100 million of the world's poorest families, especially women with microcredit for self employment and other financial and business services by the year 2005, World Microcredit Summit was held in Washington D.C. in February 1997. Prior to these outstanding undertakings, World summit for social development that was held in Copenhagen in March 1995 advanced the paradigm of microfinance. The prominence of improving access of landless farmers, small producers and other low-income individuals, especially women and vulnerable groups to the credit was underlined in the Copenhagen summit. The summit addressed the governments (Nair, 2001:399) to;

1. Review their legal, regulatory and institutional frameworks that restrict poor people's access to credit,
2. Follow realistic targets for credit provision,
3. Offer incentives to organized credit delivery systems that work with poor clients, and
4. Build on and expand the existing financial networks to include poor borrowers.

The most notable aspect of the microfinance paradigm is based on growth and equity that deserves an essential component of neo-liberal agenda of reforming the developing economies by orienting and gearing them towards the fascination of market. The development of credit market could be a milestone for the advancement of the financial markets in the developing economies and work in confederation to the global capital market effectively. The literature review comprises the theories and practices of microfinance, theoretical and practical approach to the performance analysis and the indicators, empirical evidences on non-performing, performing and recovery of loan and relevant studies in Panchthar.

## 2.1 Theory and Practices of Microfinance

The perspectives of microfinance on poverty alleviation came into scene after Robinson (1996) that addressed some key questions on finance and poverty. Robinson mainly stressed on the successful institutionalization of commercial microfinance as a primary obligation of the government. Robinson cited a list of such responsibilities as follows:

1. Control of inflation;
2. Establishment of appropriate regulations, permitting institutions to charge cost-covering interest rates and fees, and to return profit;
3. Ensure of appropriate and effective supervision of microfinance institutions;
4. Education to the bureaucracy and public about commercial microfinance and its importance for development.

Most of the microfinance based poverty alleviation microenterprise development programs pre-eminently espouse the conception of people's participation and community organization in the financial service sector. The key tenet of the program is to make the financing cost effective through social intermediation of self-help and solidarity groups.

It is expected that groups could have an assertive impact upon qualitative dimensions of poverty and contribute to their empowerment (Montgomery, 1996). Yaron et. al. (1997) in their outstanding work has shown the role of state as a stable, unbiased and in favor of broad financial sector reform. The salient features of microfinance comprise low cost distribution system, mobile banking, close monitoring and high repayment rates, market interest rates, flexible loan terms and conditions, and low administrative costs. But it is not cogent in all cases that the intermediation of financial market through groups for the poor becomes necessary. Some of the evidences show non-correlation between group lending and success of programs in terms of microenterprise development, poverty alleviation and financial performances (Mosely, 2000). A similar result was found by Reinke (1998) in the study of small enterprise foundation of South Africa. The study indicates that the control by the group resulted more expensive input for financial services and costs of group formation in terms of production. But instead, Sebstad and Cohen (1999) found that appropriately identified groups could effectively function and succeed to achieve targeted beneficiaries. The evidence also suggests that microcredit benefited women in particular, boost up their self-confidence and raise their public participation.

Microcredit contributed to accumulate financial assets such as, savings and accounts, human assets such as education, health card, and sanitation, social assets such as networks of mutual support and physical and productive assets such as, vehicles, equipment, housing and livestock. The poor people lended in-groups were found to increase diversification in smooth consumption along with smoothing income flows (Zeller, 1999). The poor households moved from reactive to proactive approaches after the availability of microfinance services with less severe risk. With the aim of keeping future access to loan, most borrowers used to repay loans even in distress (Zaman, 1999).

In a research work, Morduch (1999 a) suggest that the support from the government and the donor should give priority to microfinance programs, because it is contributing to reduce vulnerability through capital. It is suggested that to some extent, microcredit product could be redesigned to reach poorer households. To match the income flows and repayment capacity of borrowers in better way, loan size and repayments could be made more flexible. The targeted cash transfers may effectively support poorest households substantially.

Bucckley (1997) points out the microfinance intermediaries as a driving agent enhancing networks in between urban and rural business. Micro-enterprises in rural areas supply its products to urban areas, where urban business groups reach out to the surrounding rural areas. Those intermediaries also contribute to the social relations among the groups of the borrowers. In a quote to David Hulme, Johnson (1998) on the other hand attempted to measure outreach and sustainability of microfinance intermediaries which was named 'intermediary school'. Some of the authors (Fruman and Isern, 1996) mention vision, financial services and delivery methods, organizational structure and human resources, administration and finance, management information system, institutional viability and outreach and financial sustainability as the key areas of a strong microfinance institution. With the experience of Bolivia, Rock (1997) mentions that the NGOs dealing on microfinance could be developed into a banking system, although from the profit motive the NGOs and the banks differ in nature. Some of the NGOs were found sustained and effectively operated savings and credit programs. In the World Bank's, "Worldwide Inventory of Microfinance Institutions", Paxton (1996) found that out of responded 206 institutions, 150 were NGOs. Although many NGOs were found working sincerely, but the weaknesses like lack of business acumen overly ambitious aspirations, limited scale of operation, frequent use of donated fund or soft loans from foreign development organizations, and the flow of loan to non-targeted groups were found common. The study of DEPROSC and Ledgerwood (1997) on Nepalese self-Help groups, it was found that many International NGOs supporting savings and credit organizations had a focus on reaching the 'poorest of the poor' with financial services. Many of them focused on targeted women, so that their economic power could be raised. The microfinance providing self-help groups or the NGOs purveyed the following services;

1. Revolving funds for on-lending,
2. Grants to cover operating costs, including staff and other operating expenses,
3. Matching funds, whereby the INGOs match or provide a multiple of the amount of savings collected by the savings and credit cooperative from its members,
4. Technical assistance, including program development, group formation, staff and client training, and financial management.

The institutional capacity of the microfinance dealing organizations as alluded by SEEP Network (1996) includes business planning, products development, management information systems and financial management. The financial management comprises an improvement in accounting and budgeting that requires monitoring loan portfolio quality, donor subsidies and the growing volume of operations. Yaron et. al. (1997) listed 12 basic principles such as, ensure appropriate governance, define the institution's strategies and objectives, learn from the competition in the informal sector, find out what services clients really want, establish appropriate modes of delivery, contain transaction costs, cover costs with appropriate on-lending interest rates, customize loan terms and conditions for the target clientele, monitor and maintain the quality of the assets, manage and diversify risks, mobilize resources in the market and motivate staff for MFIs as a port of their operations in selecting low income clients. Schmidt and Zeitinger (1996) considered the microfinance approach as a better measure of reducing poverty and developing microenterprises through NGOs, the most preferred intermediaries as good providers of socially oriented financial services.

The financial performance study of Paudyal (2000) laid main focus on the analysis of working capital management with respect to receivable and investment policy and liquidity and profitability position of AFC. The major findings of the study show significant differences in between cash/bank and current assets, decreasing trend of current assets with respect to the total assets and gradual improvement in cash management. In the same way, the study reveals the increasing trend of investment in government sector, fluctuating situation in between accrued interest to current asset and total assets, adoption of tightening policy for collection of loans and advances, the amount of sundry trader maintained in comfortable situation and the role of inventory was nominal to its current and total assets. The study further evinces the better liquidity position, short-term financial strength and weakness for a firm, better position of profitability and follow-up of the medium level of risk and profitability policy. But the study of Sapkota and Paudyal does not reveal the performances in relation to microenterprise development and betterment of the poor in Panchthar.

The study mainly focuses on the sectoral nature of investments and the nature of investment loan of SSCP, Panchthar. The study finds out that the group loan was greater than individual loan, the share of retail shop sector was significant, Nepal Bank Ltd. located at Bagar accounted the highest share of investment and the highest share of loan was disbursed among the upper caste people. Similarly, the study reveals that the disbursement of loan was highest in later year compared to the previous year, loan distribution varied in different wards and employment and income generation was generated significantly.

Another study on SSCP, Panchthar is made by Gyanwali (2000). The study has a focus on the analysis of site selection procedure of SSCP, procedure of target women identification, participating women's knowledge on SSCP, procedure of the group formation of participating women, and the overall performance of implementing agencies. The findings of the study shows that 14 percent of sampled participating women were familiar with Women's Development Division, household survey was conducted by implementing agencies, a majority of participating women possess their own houses and the majority of participating women have good drinking water facility. In the same way, other findings of the study evince that the majority of participating women were engaged in small business, majority of them remained illiterate, most of them were found from privileged group and familiar with SSCP. Most proportion of participating women did not accept conflict among group members, and a majority of women in the group were from the same locality. The NGOs have not set out their annual objectives and the average rate loan collection was found satisfactory.

Based on the objectives of assessing the impact of microcredit to empower the women, investigating the utilization of loan and finding the women's idea on the formation of cooperatives and federations, the study of Kattel et. al. (1998) holds that after the operation of the project, women were socially, politically and economically more empowered, the credit was used properly and got sufficient knowledge in group formation. However, those studies do not enlight the sectoral disbursement of loans and repayment analysis, savings and its mobilization, and contribution in the development of microenterprises, small business and agricultural products as required. Hence, the studies related to Panchthar do not examine and signify the state of loan recovery and repayment, and the relationship between investment and income. But many theory and practical evidences corroborate such a relationship that the outreach indicators, education and training and the related activities of the participants (target women) ascertain their succession in executing and upgrading their business more effectively. Performing loan possess the quality of loan recovery and repayment. An increase in investment causes to raise income and their by the capability of loan recovery and repayment. As a historic rate of loan repayment, loan recovery depends on the profitability of the business enterprise which ultimately depends on the efficiency and confidence of women entrepreneurs themselves.

## 2. 2 Microfinance and its impact in development

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It:

- helps very poor households meet basic needs and protects against risks,
- is associated with improvements in household economic welfare,
- Helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1999, p.10) illustrates the various ways in which "microfinance, at its core combats poverty8". She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals9. Simanowitz and Brody (2004, p.1) state, “Microfinance is a key more members receive loans and after another period of successful repayment, the final member receives a loan (Ledgerwood, 1999).

The concept of poverty and the impact of microfinance in combating poverty are examined in more detail in the following section of this chapter.

The MDGs are (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people.” Littlefield, Murduch and Hashemi (2003) state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs…microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003). However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realise that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be” (1996, p.134). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance. Rogaly (1996, p.109/110) finds five major faults with MFIs. He argues that:

- they encourage a single-sector approach to the allocation of resources to fight poverty,
- microcredit is irrelevant to the poorest people,
- an over-simplistic notion of poverty is used,
- there is an over-emphasis on scale,
- There is inadequate learning and change taking place.

Wright (2000,p.6) states that much of the scepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income…drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor". In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from "more pressing or important interventions" such as health and education (2000, p.6). As argued by Navajas et al (2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty. Considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people it benefits (Chowdhury, Mosley and Simanowitz, 2004). Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programmes on poverty. This is so she argues, because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of 'poverty', how it is measured and who constitute the 'poor' "are fiercely contested issues" (1998, p.3). Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. For some, such as World Bank, poverty relates to income, and poverty measures are based on the percentage of people living below a fixed amount of money, such as US$1 dollar a day (World Bank, 2003).

Ministry of Finance (2010/2011)**,** the micro-finance program has provided substantial help and facility to the ultra poor families. The micro-finance institutes (MFI) are providing door to door micro credit services to those ultra poor families who have no collateral guarantees to produce, and are not capable of fulfilling the banking requirements for credit eligibility. Such families are able to create their own assets by paying their micro-credits in small installments out of their earnings made by engaging themselves in small entrepreneurial activities. Micro-finance institutes have been helping these ultra poor families to be self reliant through the process of social mobilization. Even in the present conflict situation whereby the banks have closed or merged their branches/sub-branches, these MFIs have been constantly delivering door to door micro credit services to the ultra poor communities. Credit recovery rate of these MFIs is above 98 percent. The study by Rooij and Puri (1999) for International Labour Organization (ILO) makes a comparative assessment of the impact of micro-credit grants and loans in Nepal and Uganda.

The impact is examined in terms of output, asset accumulation, employment, income, enterprise performance and socio-economic characteristics (e.g. impact of expenditure on education, nutrition, and health care services). Baseline survey was conducted in 1996 followed by midterm survey in 1997 and final survey in early 1999. Findings of the survey show an increase in recipients' income in both countries. In case of Nepal, recipients' income increased by 58 percent in a little over two years compared to the control group in the area, which witnessed an income growth of some percent during the same period. In Uganda also both the grant and credit recipients saw their income increase more than two fold (227 percent and 233 percent respectively). In case of assets, borrowers in Nepal were able to double (203 percent) their capital base in two years as compared to the baseline period and, as for the control group the figure was 210 percent. In case of conditional grant the value of asset increased by 159 percent and 154 percent for the control group. Findings were similar in case of Uganda also. Both credit recipients' and grant recipients' asset increased by 194 percent and 169.

## 2.3 Microfinance Sector Development

In the early 1960s, the cooperative movement became the first vehicle of microfinance in Nepal, as 13 cooperatives provided flood victims access to financial services adapted to their specific needs. In parallel, rural finance institutions were established such as the Agricultural Development Bank of Nepal, which aimed at providing credit and marketing support to agriculture. In 1974, the two state-owned commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank were directed by the central bank, Nepal Rastra Bank, to invest at least a portion (first 5 percent to increase as high as 12 percent) 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 the program. This led to the development of targeted initiatives, such as the Intensive Banking Program in 1981, initiated by the government and the central bank, through partnerships with commercial banks. Under this approach, group guarantee for loan repayment were used instead of physical collateral. Starting in 1975, the Small Farmers Development Program, implemented by the Agricultural Development Bank of Nepal, mobilised farmers groups using a credit plus approach, and was the first experience of group-based lending in Nepal. 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. In 1982, the Cottage and Small Industries Project and the

Production Credit for Rural Women all 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 organizations.

The commercial banks perceived this program as more of an obligation towards the central bank than a business interest. In 1990, the government of Nepal established the 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 NRB acts as the secretariat of the RSRF and management committee headed by the NRB deputy governor oversees the fund. In 1992, the government of Nepal, following a recommendation from the NRB, established Regional Rural Development Banks (RRDB) in each of the five development regions of Nepal, modeled on the Grameen Bank methodology.

The majority of the ownership is in the hands of government, Nepal Rastra Bank (the central bank) 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 Center for Self-help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication. In the 1990s, with technical assistance from GTZ, local branches of the ADB/N under the Small Farmer Development Program, started to be reorganised into federations of small farmers groups, the 'Small Farmer Cooperatives Ltd (SFCL); each operating as an autonomous cooperative. With the promulgation of the Development Bank Act in 1995, Nirdhan was the first NGO (1998) to transfer its microfinance portfolio into an autonomous microfinance rural bank (NirdhanUtthan Development Bank). Since 2000, three other microfinance rural banks were created through the same process first initiated by Nirdhan, with DEPROSC Development Bank in 2000, SwabalambanBikas Bank Ltd and ChhimekBikas Bank in 2001. Acknowledging the poor performance of the RRDBs under public ownership, the central bank started a restructuring program, which will lead ultimately to the privatization of the five RRDBs. With a view to provide a source of wholesale fund to regulated microfinance institutions, the Rural Microfinance Development Center (RMDC) was established in 1998, and later on opened its lending to other microfinance providers. In 2001, the Small Farmer Development Bank was established under the Development Bank Act to provide wholesale funds to Small Farmers Cooperatives Ltd. (SFCLs).

Microfinance practices reflect the diversity of landscape and population density in Nepal. In the Terai region (plain); more densely populated, with better transport infrastructure and easier access to clients; the Grameen Bank model has been adapted by a large number of organisations. It is also a region where traditional financial organisations, such as commercial and development banks, operate. In the hills and mountains, community-based organisations, such as Self Help 32 Groups, Credit and Savings Associations and Cooperatives, seem the most adapted to the remoteness and isolation of local communities. `

## 2.4 Grameen Bikash Bank

First introduced to Nepal in the early 1990s, it has been adapted by a large number of organizations, mostly operating in the Terai region (plain), where the population is dense and road, market and other infrastructures are comparatively more developed than in the hills and mountains. The methodology is based on peer groups of five members incorporated into centres of up to ten groups. Weekly meetings are used to collect compulsory payments from members to contribute to the group's fund - incorporating both savings and loans. The group fund, managed by the group, may be used to make additional loans to members. Loans are made initially to two members, then to two others and finally to the last member, with a four to eight week interval between each disbursement. The group members guarantee each other's loan repayments. Microfinance providers using the Grameen methodology will typically offer general loans, seasonal loans, specific loans (sanitation, housing) and the loans issued from the group fund. Savings products are generally the compulsory group fund savings, and any additional personal, voluntary savings. In recent years, several leading microfinance providers have started to move away from the traditional Grameen model, to focus on new practices for Nepal, such as a streamlining of operations, the introduction of customer friendly products, and a strong emphasis on institution and staff capacity building. New products have also been offered to clients by several organisations, such as micro insurance covering risks related to health, life and livestock.

## 2.5 Community-Based Models

Savings and Credit Cooperative Societies (SCCS), provide a wide range of savings and loan products to their members. They tend to serve a well-off population but also the poor, with a stronger emphasis on the disadvantaged in the case of organisations established by development programs. They commonly require compulsory savings, but also offer individual or group saving products, deposits, and festival and educational savings services. Loans provided by SCCS have a minimum term of 3 months and can be extended for more than 18 months, covering specific purposes, such as agriculture, microenterprise, housing, or, in some cases, emergency or social reasons. In addition, as successfully demonstrated in India, self-help Groups can be linked to commercial banks, an approach taken by the Banking with the Poor Program implemented by the Rastriya Banijya Bank (RBB). Despite the institutional challenges and necessary methodological adjustments to be made, RBB has lent directly to self-help groups under this program. Small Farmers Cooperatives were also initiated under the Small Farmers Development Program of the Agricultural Development Bank of Nepal (ADBN), which was the first Nepali program to use a group-based methodology. The program has faced major difficulties in terms of portfolio quality (38% NPL) and the dependency of groups towards ADBN loan capital. GTZ has supported methodological changes to the ADBN, which is also under restructuring phase, led by the ADB. Under a joint Nepali-German program, RUFIN, GTZ has provided technical assistance to the ADBN in transforming the groups into sustainable Small Farmers Development Cooperatives (SFCLs), now largely financed by an apex bank. Despite the recent successes in revitalizing the program, problems still persist such as recapitalization and sustainability issues.

## 2.6 Village Bank Model

It was also used in Nepal, with the Women Empowerment Program of Pact Nepal, between 1998 and 2001. Adapted from the model used in Latin America, village banks are community managed credit and savings associations designed to provide financial services to members living in rural areas. This methodology focuses on empowering relatively large groups of people (20-40 in Nepal) in building their own financial institution, with a savings first approach. First, the village bank promoters, in this case local NGO partners of Pact Nepal, provided training to the village banks, focusing on building the capacity of membership and management committees. The promoters also lend fund capital to build up the ‘external account’ of the village bank, which is then on lent to members. Repayments from members are collected by the village bank, which repay its main obligation to the promoters. In parallel, the village bank members build up their ‘internal account’ through savings and on lend internally this fund. This model was successful in Nepal, as it combined training in literacy and business development with financial services and was able to obtain a large outreach at low cost. However, of the few weaknesses, was the dependency created by the financial links between village banks and promoters.

## 2.7 Other group and individual lending methodologies

The two public-owned commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank, representing 95% of the rural branches of commercial banks in Nepal, are reducing their presence in rural areas. Their branches were considerably weakened by the consequences of the local conflict and the growing pressure from the restructuring program supported by the World Bank. Under the deprived sector requirement, commercial banks can choose to provide equity or wholesale funds to microfinance institutions, or lend directly to the poor. In the later case, they typically provide loans not exceeding Rs.30, 000 to individuals or groups, most often in the context of a government-sponsored program (Intensive Banking Program for example).

Government programs such as the Micro-Credit Project for Women (MCPW) provide opportunities for NGOs to borrow wholesale funds for loans to groups of poor people. With the introduction of this program, the Financial Intermediary Societies Act 1998 enabled NGOs to provide microcredit to their group members. With the first amendment of the Act, NGOs were also able to acquire a limited banking licence from the central bank and act as Financial Intermediaries NGOs (FINGOs), and therefore acquired the possibility to mobilize savings of their members. The development of microfinance practices in Nepal still faces many challenges.

There is a need to undertake further research on developing a model adapted to the hills and mountains. Based on initial research conducted by CMF, a federative model of Savings and Credit Cooperatives Societies (SCCS) could significantly increase the outreach of microfinance services in the hills. As in many countries, deepening the outreach in targeting the poorest is still a difficult task in Nepal. Moreover, the political context and the current insurgency do not provide the ideal 34 conditions for microfinance methodologies to be the most efficient, given the additional costs related to the insecurity situation in rural areas.

## 2.8 Providers of Microfinance

The microfinance market in Nepal can be divided into three sectors: formal, semi-formal and informal. It is composed of: 17 commercial banks, 10 development banks, 57 finance companies and 9 rural microfinance banks. The rural microfinance banks are comprised of a group of nine Grameen Bank replications. Five ‘Grameen Bikas Banks’, or Regional Rural Development Banks (RRDBs), are publicly owned, with each of them operating in the five development regions of Nepal (Far Western, mid Western, Western, Central and Eastern). Despite easy access to funding sources and impressive outreach in the Nepal context, these organizations have not been successful in terms of sustainability and portfolio quality; in consequences three of them have accumulated substantial losses. The Grameen Bikas Banks is currently going through a restructuring process, led by the NRB, which will ultimately result in their privatization. Operating in the Western Development Region ‘Paschimanchal GrameenBikas Bank Ltd’, the most successful Grameen Bikas Bank is currently in the last stage of complete privatization. In comparison, the four private rural microfinance banks are doing better than their public counterparts. The two largest are: NirdhanUttan Bank Ltd and Swabalamban Bikas Bank Ltd., which both originated from the transfer of the microfinance portfolios of their NGO parent organisation, respectively Nirdhan and the Center for Self Help Development. In addition, Chhimek Bikas Bank was promoted by the NGO Neighbourhood Society Service Centre (NSSC), while the DEPROSC Development Bank Ltd was established by the NGO DEPROSC.

It comprises savings and credit cooperatives, societies and financial intermediary NGOs. Savings and Credit Cooperatives Societies (SCCS) have been created through different processes. The most common being community-based organisations that have evolved from informal self-help groups to credit and savings organisations status, and then graduated to become formal Savings and Credit Cooperatives Societies. As of mid-July 2002, there were 2,262 Savings and Credit Cooperatives Societies registered with the Department of Cooperatives. Generally, SCCS emerged spontaneously but were sometimes assisted by local or international NGOs. They usually comprise between; 25 to 200 members, while the largest could reach 9,000 members. With increased external support to their institutional development, these organisations could have a very high potential to be linked to formal source of funds. 35 Some of them have been very innovative in targeting the poor while reaching financial sustainability, and made a positive impact on the lives of their members. 34 SCCS with a stronger focus on microfinance have registered with the NRB (under the FIA), and are now supervised by the central bank, which has issued them a limited banking license, allowing the provision of financial services to non-members.

Some prominent cooperatives are the Women’s Cooperative Society and BISCOL, both combining Grameen Bank methodologies and cooperative principles with their microfinance clients. Some SCCS are also supported and funded by organisations such as the Rural

Microfinance Development Centre, Rural Self Reliance Fund operated by the central bank, and small enterprise development department of commercial banks. Some cooperatives, called Small Farmers Cooperative Ltd (SFCLs) are federations of small farmer groups organised under the Small Farmers Development Program of the Agricultural Development Bank of Nepal, with technical assistance from GTZ. 149 of them are formally registered according to the Cooperative Act, 11 of them have obtained limited banking license from NRB. They can access wholesale fund from Sana Kisan Bikas Bank, an apex institution in the field of wholesale lending, and the RMDC and RSRF, other apex funds financial intermediaries NGOs are currently registered with the NRB, which gives them a limited banking license, allowing them to borrow from commercial banks for lending to clients. The most important NGOs are the organizations at the core of rural microfinance banks (such as Nirdhan, CSD, etc) and 'regular' NGOs such the Nepal Rural Development Society Center (NRSDC), Nepal Rural Development Organization (NERUDO) and Tharu and Razi Women Society (TRWS). Some international NGOs are also supporting microfinance services at different levels. In the past, PACT Nepal implemented the highly successful 'Women Empowerment Program', between 1998 and 2001, through 240 local partner organisation implementing a credit plus approach, combining literacy, business development services and a village banking methodology. The program reached 6,500 groups with 130,000 members in the lowland Terai region of Nepal.

It gathers informal community-based organizations at different stages of institutionalization, such as self-help groups and informal savings and credit organizations. Moneylenders, traders, friends and relatives can also be included in this group as they provide an informal source of finance used by the majority of the poor population in Nepal. Dhikuti are informal groups that pool funds to extend informal credit to their members. Despite the vibrant microfinance landscape in Nepal, there is still a scarcity of MFIs in Nepal. A very few cooperatives can be considered MFIs, as they lack focus and institutional capacity. Most NGOs are also at an earlier stage of development, with gaps in terms of systems, leadership, staff development and organisational structure. The growth of microfinance in Nepal is therefore constrained by the lack of new microfinance providers, the difficulties of publicowned RRDBs and the government promoted projects, for which the quality of their portfolio has severe impact on their sustainability. NGOs operating as financial intermediaries are also 36 limited in their growth, as commercial borrowing requires a personal guarantee from their directors. Overall, the scaling up of existing MFIs is also dependent on political and security issues and the high capital requirements.

## 2.9 Regulations in Microfinance Priority sector lending program

The central bank (NRB) imposes ‘priority sector’ lending to commercial banks, which entails lending a certain percentage of their deposit liability to deprived population. The ratio of priority sector lending has increased from 5 percent to 12 percent, of which, 0.25 to 3 percent must be invested in the ‘deprived’ sector, targeting the poorest of the poor. Development Banks Act 1995: The two apex organizations as well as the five Regional Microfinance Rural Development Banks (RRDBs) and the four private rural microfinance banks are registered under Development Bank Act 1995. This Act was merged under BAFIO-2004. Financial Intermediary Act 1998: The NGOs providing microfinance services are registered under the 'Financial Intermediary Act 1998', which provides a limited banking license to NGOs. To date 47 NGOs are registered under this Act and providing financial services. Cooperative Act: Cooperatives are regulated by the Cooperative Act and supervised by the Ministry of Agriculture, Department of Cooperatives. Out of various types of cooperatives savings and credit cooperatives are providing microfinance services. There are 8000 registered Cooperatives of which 2700 are savings and credit cooperatives.

## 2.10 Funding and Supporting Organizations of Microfinance

Funding Organizations Each having a specific purpose and clientele, wholesale lending organizations provides a substantial amount of lending to microfinance providers. The Rural Self-Reliance Fund (RSRF) was established in 1990 by the government of Nepal to support organizations providing financial services at a grassroots level in rural areas. These included: Savings and Credit Cooperatives, NGOs, and Grameen replications. RSRF is currently managed by Nepal Rastra Bank, with a portfolio of Rs. 19.2 million outstanding as of mid January 2004. The Rural Microfinance Development Centre Ltd. (RMDC) provides wholesale funding to regulated microfinance organizations that comply with a strict set of criteria related to their institutional capacity, focusing on the poor and financial performance. As of January 2004, RMDC had Rs.956 million in loans outstanding, approximately 47 percent with private Grameen Bank replications. RMDC has had difficulties in disbursing all of its available funds due to the small pool of partners able to satisfy its criteria (on institutional development, sustainability and poverty focus), and the cap put on the level of lending to each borrower institution (Rs. 40 million).

Moreover, its lending rate (6.5 percent) is in direct competition with the commercial bank's low interest rate (4 percent) under their deprived sector lending obligations. Moreover, RMDC has been a key stakeholder in the development of microfinance in Nepal, by providing training services to thousands of officials, MFIs staff and clients, and by influencing policies and regulations for microfinance. Another apex organization, Sana Kisan Bikas Bank (Small Farmer Development Bank) was established in 2001 by the Agricultural Development Bank of Nepal (ADBN) to outsource the wholesale funding to Small Farmers Cooperatives Ltd (SFCL), which was formed after the transformation of Small Farmers Development Projects, promoted under the Small Farmers Development Project, into cooperatives. SKKB is owned by: ADB/N, the Ministry of Finance, two commercial banks, and a group of SFCLs. It is envisaged that SFCLs majority ownership will grow over time. In Nepal USAID focuses on education, gender and microfinance programs. It has provided substantial funding to Pact Nepal for the Women Empowerment Program until 2001. USAID will continue to promote microfinance and education through recent grants to World Education to support the WEEL project (Women Economic Empowerment and Literacy) and to Save the Children under the IGP grant program.

## 2.11 Supporting Organizations

The Centre for Microfinance is one of the key organizations supporting microfinance in Nepal. It aims at strengthening the microfinance sector through capacity building, research and consultancy services. It is also involved in policy development, an innovation catalyst (partner in a micro insurance pilot scheme), and impact assessment. CMF currently partner with Impact, an international project focusing on the social impact of microfinance, funded by the Ford Foundation and implemented by three UK universities. The Institute for Integrated Development Studies (IIDS), established in 1990, is an independent research institute, under NGO status, focusing on development issues in Nepal. It undertakes research studies as well as action-research programs. In microfinance, it implements the 'Self Reliant Development of the Poor by the Poor program', which covers 18 village development committees in Western Tarai and has reached 3,000 beneficiaries from the poor and underserved communities.

The program supports the formation, development and transformation of self-help groups, which ultimately become registered cooperatives with access to external capital. IIDS also provides self-help groups with credit for development activities and the constitution of revolving loan fund for income generating activities. Approximately 180 groups have been supported, some of them operating under cooperative rules and accessing funds from RSRF. IIDS has also provided technical assistance and capital funds to women's groups. Over the years, local microfinance networks have been established in Nepal, such as the Microfinance Association of Nepal (MIFAN), the Grameen Replications Network and several cooperative networks and federations. However, they are now mostly inactive, due to a lack of funding and the diversity and geographical isolation of their members. Plan International, an international NGO, encourages the creation of a national microfinance forum, which would involve policy makers, academics and microfinance providers. This forum would focus on issues such as product development, pro-poor methodologies, regulations and standards. Plan also supports microfinance providers in increasing their outreach, and provides Nirdhan with financial assistance in establishing linkages with self-help groups and building the capacity of cooperatives. It also collaborates with the Women Credit Union. Through collaboration with Nirdhan, Plan provides capacity building assistance in monitoring the impact of financial products in the lives of clients and their barrier to growth. Plan also manages the education component of the credit plus approach implemented by Nirdhan. RUFIN is a joint Nepali-German project, implemented by the Agricultural Development Bank of Nepal, with technical assistance from the German Agency for Technical Cooperation (GTZ). RUFIN aims at bringing sustainable financial services to the rural poor and has supported the transformation of SFD Projects promoted under the Small Farmers Development Project into Small Farmers Cooperatives (SFCL) and in the establishment of Sana Kisan Bikas Bank – SKBB- (Small Farmer Development Bank) in 2002.

# CHAPTER -III

# RESEARCH METHODOLOGY

The main objective of the study is to analyzed the financial performance of micro credit activities based on appropriate performance indicators. Because the study aims to recommend necessary suggestions to achieve the targeted objectives, so appropriate methodology is required to follow. The research methodology incorporate the research design, source of data, procedure of data collection, processing and tabulation of data, and the use of appropriate tools for analysis.

## 3.1 Research Design

The center of attention of this study has the role of micro finance in employment generation. Therefore explorative and descriptive design has been adopted. Data required carrying out this study basically obtained from primary source conducting field survey, direct interview and observation. However, secondary source of information used for the study and the collected official documents, journals, published and unpublished dissertations, bulletins, related website and annual progress reports of five different samuha of Phalaicha VDCs of Panchthar District. There are altogether 300 members among them 129 were female and 171 are male in 11 recognized centres of Shree Sanjivani Cooperatives Phalaicha, Panchthar till December 2014 under its Micro Finance Program. These 300 members the population of this study. Out of total population of 300 members 30 members were randomly selected as the sample size for the purpose of this study. Quantitative analysis tools have been applied to assess the role of micro finance in employment generation and economic input of micro finance; and qualitative indicators are used to assess the socio-economic empowerment of women through micro finance. Qualitative information is based on observational perception.

## 3.2 Nature of the Data

This study is based on the primary as well as secondary data. This study was mainly based on primary data, which was collected from the field survey using structured questionnaire, focused group discussion and the observation method. The related secondary data is obtained from secondary sources e.g. books, pamphlets, articles, exports, web-sites, journals, annual reports, economic survey and difference sources.

## 3.3 Population and Sampling of the study area

Panchthar District is a district of Mechi Zone, administrative headquarters of Panchthar district is Phidim, situated in Eastern Development Region of Nepal. The Latitude of Panchthar is 27.2036401. The Longitude of Panchthar is 87.8156715. Panchthar District is situated in the height of 609 meters to 3675 meters from sea level and covers an area 1241 square kilometers. Total population of Panchthar district is 191,817 according to census 2068 B.S. (2011 A.D.). Main profession of the residents in Panchthar district is agriculture. Its agricultural land is 23138.6hectare; there are 41 Village development committees. The total area of Phailaicha  VDC is 24.038 sq km which constitute of total population around 3500. Shree Sanjivani Co-operatives Phalaicha, VDC of Panchthar is providing micro credit program for about 300 members are active in micro finance program are shown in the given table.

**Table No: 1 Population and Sampling of the study area**

| Gender | Number | Percentage |
|---|---|---|
| Male | 171 | 57 |
| Female | 129 | 43 |
| Total | 300 | 100 |

***Source: Field Survey, 2015***

Above table shows there are alltogether 300 population size. Among them 57 Percent are male and 43 percent are female.10 percent were selected for study it mean 30 in number.

## 3.4 Method of Data Collection

The data were collected from both the secondary and primary sources. The secondary data are collected from the related from the related microfinacial institution working as credit agents. The financial statement of the microcredit was obtained from the related branches of Nirdhan Utthan Bank, Summit Microfinance and Sahara Nepal of the Panchthar Districts. The primary data were collected from the field visit. Questionnaire firm are developed for collecting primary data as per requirement of the study. Other relevant official records, documents and papers, books, journals and articles and the research results  has adopted as per requirement and availability.

The present study was based on both the analytical and descriptive approach. Various statistical analysis tools were used. The following techniques are followed in analyzing the data:

1. Collection of relevant information,
2. Identification of data suited to fulfill the purpose of the study,
3. Classification and tabulation of data,
4. Use of percentage changes, average, ratios, correlation and regression.
5. Derive conclusion, summary and recommendations based on the analyzed data.

## 3.5 Techniques of data collection

The research is field based. To collect the data, the following techniques were used.

### a. The filed Survey

To generate the actual data firstly, the study area questionnaire tools are applied to sample household. It was both opened and closed questions according to the capacity of respondents. Similarly structured questionnaire are prepared to generate the realistic and accurate data from the respondents. The respondents were requested to fill up if they could and if they could not their answers was filled up by researcher.

### b. Observations

Each household and respondent selected on the sampling were visited and observed frequently during the study, field visit and observation are conducted participative and unconstructive to the local people. The researchers have also visited to the study area.

### c. Focus Group Discussion

To obtained more information for the study, group interactions on the topic is performed. The quantitative information necessary for the research was collected by (Group Discussion) G.D. The main objective of discussion were to obtain more detailed information about the activity of Shree Sanjivani Micro-credit programmed .To know the further more information the focus group discussion was conducted through interviews. Different kinds of questions regarding with related persons, visitors, and researcher knew their actual view towards the micro credit system adopted in the VDC.

## d. Key Information Interview

To know the facing problems and their solutions from different aspects, structured interview was taken with key information such as related research projects running over there, local clubs etc.

## 3.6 Data processing and Analysis

Data was collected through various techniques from the field. They were analyzed by using descriptive statistical tools as well as quantitative presentation. Information related to population structure, ethic distribution, the proportion of credit distribution, education status and income level has been presented in tables. Both qualitative and quantitative data were collected during field work. Both types of data were organized and analyzed in different parts and chapters as required by objectives. Simple mathematical and statistical tools percentages, bar graph and pie chart have been used to analyzed, the data for fulfilling objectives and for better evaluation and interpretation. After analyzing the information, the necessary conclusion and recommendations were made.

## 3.7 Data Processing

The data obtained from the field survey were coded and categorized according to the requirement. Then the coded data were converted into tables with numbers, averages and percentages through computer programs; MS-Word, MS-Excel, simple statistical tools i.e. Correlation Test was used to analyze those data. Bar diagrams were used for visible analysis of the statistics.

# CHAPTER- IV

# PRESENTATION AND ANALYSIS OF DATA

This chapter is aimed to display and evaluate the collected data regarding the objectives. The main component of micro-finance program is to provide loan for women and small farmer especially in income generation and enhance living standard as well as to encourage them for compulsory saving and voluntary saving.

## 4.1Cast and Ethnicity of Respondent

Nepalese society is composed by different ethnic groups. Our society is also influence by the ethnic variation. For the development of the financial point of view ethnic diversity is an ornament to attract the people for the development perspectives. In our country Nepal there is diversity in caste system, where there are more different types of caste and ethnicity are being found in diverse way having different features and characteristics.

**Table 2 Caste and Ethnicity of Respondent**

There are different types of caste and ethnicity in our society in unique diversity of our nations having several caste and ethnicity system.

| Caste | Numbers | Percentage |
|---|---|---|
| Brahmin/Chhettri | 8 | 26.67 |
| Dalit | 4 | 13.33 |
| Janajati | 18 | 60 |
| Total | 30 | 100 |

***Source: Field Survey, 2015***

Table 2 shows that in the study area majority of members belongs to janajati 60 percent, 26.67 percent are brahimin/chhettri, member comes from Dalit are 13.33 Percent from the co-operatives of the VDC .

## 4.2 Age Group of the Respondents

Age of the local residents is the crucial factor for the betterment/development of the any financial institutions. if the higher economically active age population(15 to 60 years) the speed of development ratio of that place will be also higher In Shree Sanjivani Co-operatives there are different types of age groups member are participating in directly or indirectly, some of them are from backward groups too.

**Table 3 Age Group of the Respondents**

There are different age groups has been found in the society, so in our micro-credit program also has taken by different age groups of the people which is describes below.

| Age Group | Percentage | No of Respondents |
|---|---|---|
| 20-30 | 10 | 33.34 |
| 30-40 | 12 | 40.00 |
| 40-50 | 4 | 13.33 |
| 50 above | 4 | 13.33 |
| Total | 30 | 100 |

***Source: Field Survey, 2015***

The youngest among the members surveyed was 20 years old while the oldest was 50 years old. We find very little members who had 50 years over were only 413.33 percent. Table shows that more than half percentage of the women and small farmer members are between 30 to 40 years who have heavy financial load for their survival and other social responsibilities such as giving education, marriage of their children.

## 4.3 Purpose of Join in Micro-finance Programs.

There are different purposes of joining the micro-credit of the each individuals of the society; it is reasonable questions for transformation of their behavior. So one of the questions was asked in different views and listed in table below.

**Table no. 4 Purpose of Join in Micro-credit Programs**

A person of the society has different aim and objectives that they need to fill as much as they can. To fulfill their needs and desire they need different types of support may economic and other basis so, they always on the quest of searching such types of promoting activities in the society.

| Purpose of join | No of Respondent | Percentage |
|---|---|---|
| To save | 18 | 60 |
| To have company with friends | 3 | 10 |
| to take loan | 9 | 30 |
| Total | 30 | 100 |

***Sources: Field Survey, 2015***

Table 4 shows, the main purpose of join in Micro-finance programs. Normally they join for three purpose, many of them (60 percent) join for to save more and increase their life standard. 10 percentages of them were joining for company with friends; they wanted to do some things. Rest 30 percentages were joining for to take loan. They wanted to run own microenterprise. This program helps for fulfillment of their purpose although they were different.

## 4.4 Main Occupation of the Respondents

Occupation is the main factor that influences the people's economic status also. Profession of the respondent shows the employment in various sectors for earning purpose. Most of the people of the study area depend on Agriculture and Farming primary activity. In our society there are different occupation have taken by the people of the society, some of them are listed in the table according to the survey taken in the study area in Shree Sanjivani Co-operatives program.

**Table no.5 Main Occupation of the Respondents**

In our phailacha VDC there are different types of occupation taken by the people to full fill their daily activities' i.e. describes by the given table.

| Occupation | Total | Percent |
|---|---|---|
| Wage Labor | 5 | 16.67 |
| Farming | 20 | 66.67 |
| Government Service | 5 | 16.66 |
| **Total** | **30** | **100** |

***Sources: Field Survey, 2015***

Table 5 shows the sight changes in the occupation after the introduction of MFP in the surveyed area. The percentage of respondents after joining the Microfinance in agriculture sector has increased. While the occupation of most of the respondents remains same but the way of the income generation has increased. This indicates that the establishment of microfinance has played the vital role in increasing the income level of respondents. Due to lack of skill and vocational training most of the respondents are forced to engage on laborious works.

## 4.5 Involvement of the gender in this Program

In our Micro-credit program I have taken the demographic composition of the male and female ratio of the Shree Sanjivani Micro-credit program of the Phalaicha VDC of the Panchthar Districts.

**Table no. 6 Main Occupation of the Respondents**

In micro-credit program involvement of gender composition is describe by the given table.

| Gender | Numbers | Percentage |
|---|---|---|
| Male | 19 | 63.33 |
| Female | 11 | 36.67 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

Table 6 shows the the gender analysis is done where as 63.33 percent are male and rest 36.67 percentage are female is shows that there is female are dominant.

## 4.6 Education status of the Respondents

Education is the key to any success. it is the cornerstone of the development also. Higher the level of the education means better will be the opportunities. The level of education status is varies from one to another family, in our co-operatives I have found, different level of education status which play the vital role for the over development of the country. Where as if we just talk about the education it is the key development of the nation which enhance the development in most effective way.

**Table no.7 Education status of the Respondents of the Respondents**

Education is most important key of human life, which plays the vital role to determine the future way of the people.

| Education | Numbers | Percentage |
|---|---|---|
| Literate | 15 | 50 |
| S.L.C. | 11 | 36.66 |
| I.A. | 2 | 6.67 |
| Above I.A. | 2 | 6.67 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

Table 7 shows that the literacy percentage is 50 and S.L.C having percentage are more 36.66 likewise education having I.A are 6.67 percentage and above I.A are 6.67 percentage.

## 4.7 Monthly Deposit of the Respondents

In this study, income denotes the earning of the members of micro-credit program, any income generating activities. The income may be form of money having different types of occupation.

**Table no. 8 Monthly Deposit of the Respondents**

Deposit of the Respondents after this Program which is shown in the following table.

| Deposited Asset | Members | Percentages |
|---|---|---|
| below 200 | 4 | 13.33 |
| 200-400 | 7 | 23.33 |
| 400-600 | 7 | 23.33 |
| 600-800 | 4 | 13.33 |
| 800 above | 8 | 26.68 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

**Fig no. 1 Monthly Deposit of of the Respondents**

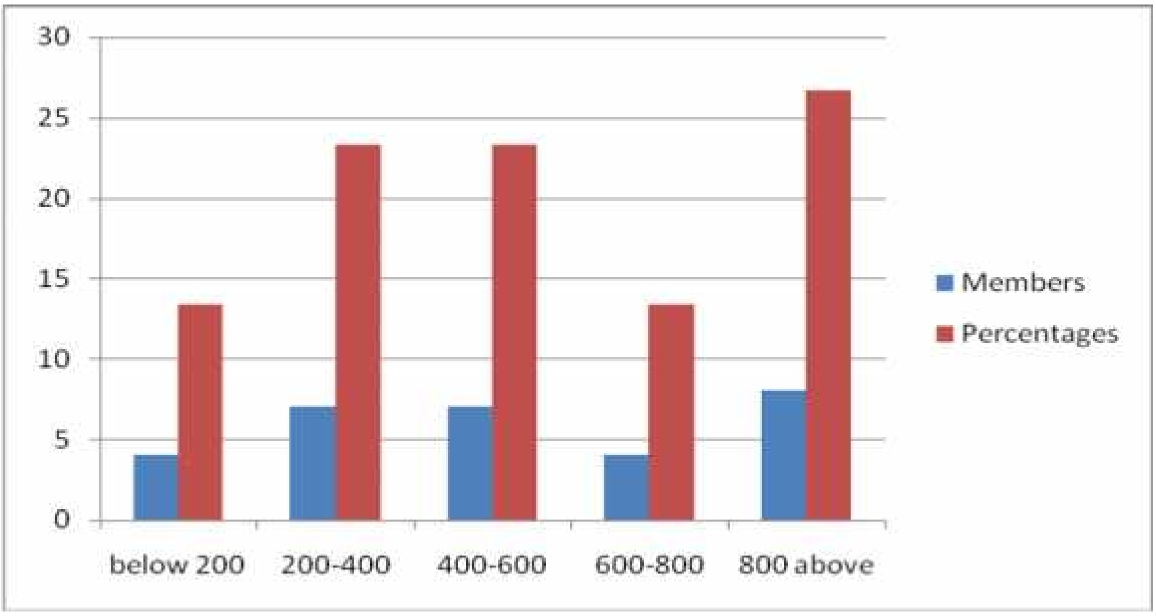



Table 8 shows that there is more percentages of saving money above 800 above which is 26.68 and 200-400 above also 23.33 and likewise 400- 600 also the similar money deposition on the micro credit program shows in in the above table which is 23.33 and 600 - 800 are about 13.33 and below 200 are regularly upgrading way which seems in the above table about 13.33.

## 4.8 Age distributions of the Respondents

In this micro-credit program there different age groups has been taking active participation for their own goal and achievements.

**Table 9 Age distribution of the Respondents**

Age groups of the respondents of people engaged in micro-credit program is displaying on the following table.

| Age group | Members | Percentage |
|---|---|---|
| 20-30 | 10 | 33.34 |
| 30-40 | 12 | 40 |
| 40-50 | 4 | 13.33 |
| 50 above | 4 | 13.33 |
| Total | 30 | 100 |

***Source: Field Survey, 2015***

**Fig no.2 Age distribution of the Respondents**

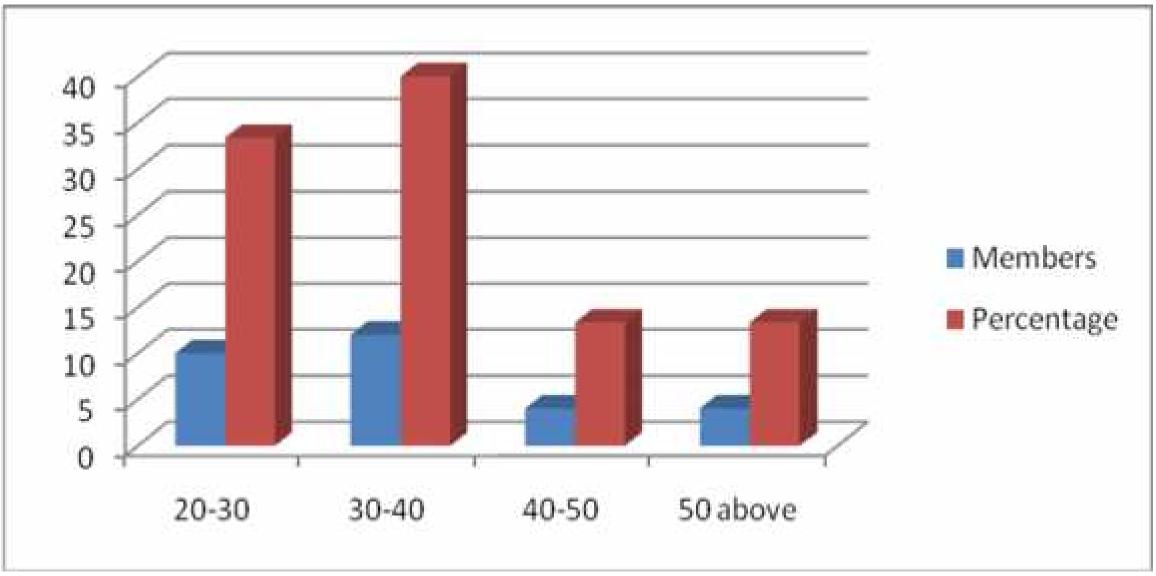



Table 9 can shows that there is more interest on micro credit program of age 30-40 age group which is 40 percentages and and young tiger is about 20-30 also growing up about 33.34 likewise age group 40-50 and 50 above is also equal percentage which is exactly 13.33 percentages.

## 4.9 Annual Income of Respondents

In this study income denotes the earning of the member of micro-credit through any income generating activities. The income may form of money, articles as food grains and other physical production. To know the source of income of the study area listed from the method of questionnaire.

**Table no. 10 Annual Income of the Respondents.**

| Income | Member | Percentages |
|---|---|---|
| below 50000 | 7 | 23.33 |
| 50000-100000 | 8 | 26.67 |
| 100000-150000 | 6 | 20 |
| 150000-200000 | 3 | 10 |
| 200000-250000 | 2 | 6.67 |
| 250000 above | 4 | 13.33 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

Table 10 Shows that there is gradual income increase in after this program is conducted in the VDCs which is more than 250000 of 13.33 percentages so on 50000-100000 in average also looks good income source of 26.67 percentages and so on below 50000 23.33 and 100000-150000 are 20 percentages and 200000- 250000 are 6.67 percentages.

**4.10 Challenges of the credit schemes of the Respondents** In any organizations there are advantages and disadvantages arise in working mechanism. There may be different opportunity and threats are challenging for betterment of the institutions.

**Table no. 11Challenges of the credit schemes of the Respondents**

In society there were various problem can be occurred while performing the function in ay tasks so to overcome to that people should be safe to performs the daily activities.

| Challenges | Member | Percentage |
|---|---|---|

| | | |
|---|---|---|
| Loses to pay loan in time | 22 | 63.33 |
| Problems in management | 6 | 20.00 |
| Others | 2 | 6.67 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

Table 11 shows, the main purpose of join in Micro-finance programs. In micro credit programs most of the respondent has the problem to pay loan on time they are 63.33 due to the management and other problem few respondent are on the problem they are about 20 percent and rest of them 6.67 percentage are various reason of their own problems.

## 4.11 Reason for no paying loan on time in micro credit Program

The loan payment is another crucial aspect of lending activity of any financial institutions. If the loan is not paid on time, it will not only affect the turnover capacity of financial institutions but also affect on the sustainability of the financial institutions and disturb the borrowing and lending environment between the financial institutions and the borrowers and among the borrowers themselves.

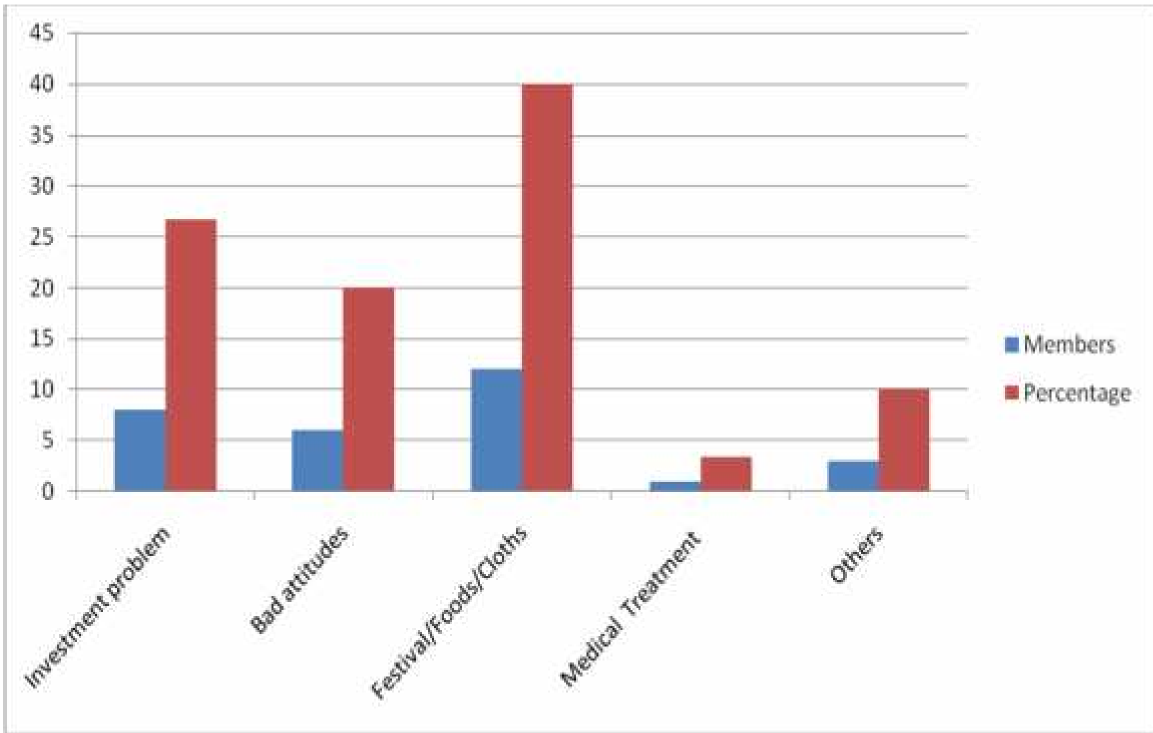
**Table no. 12 shows that the reason of loan not paying on time.**

In our society there are many problems comes and goes which is describe by the following table.

| **Reason** | **Members** | **Percentage** |
|---|---|---|
| Investment problem | 8 | 26.67 |
| Bad attitudes | 6 | 20 |
| Festival/Foods/Cloths | 12 | 40 |
| Medical Treatment | 1 | 3.33 |
| Others | 3 | 10 |

***Source: Field Survey 2015***

**Fig no.3 Reason for no paying loan on time in micro credit Program.**




The table no. 12 and figure no.3 shows that due to the reason of following festival/foods/ cloths the most of the people take more loan comparatively about 40 percentages and secondly the respondent has got problem on investment in which sector it is best for investment it is what choosing of investment is not defiantly right they are about 26.67. So on Bad attitudes who are taking loan for not retrying propose on time or somewhat other reason. And Medical treatment are about 3.33 percentages, rest of them others problem are about 10 percentages.

## 4.12 Family support for participation on micro credit Program

Among the total respondents of the micro-credit program the overall people are showing the positive thinking in this regards where as people from the backward groups has been problem in saving and credit program of the micro-credit program. But also the active members of the program are try to support and pull them to join in the program by providing the different types loan for different types of occupation and farming.

**Table no. 13 shows that the support for participation on micro credit program.**

The composition of support to join the micro-credit program is shown by the given table.

| Family Support | Members | Percentage |
|---|---|---|
| yes | 22 | 73.33 |
| No | 8 | 26.67 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

Table no. 13 shows that the micro credit program is successful because of the more respondent are supported which percentage is 73.33 and other remaining are about 26.67 as while of total 100 percentage. It shows that there is better effect of micro credit in the different part of the country for fast and fruitful SHOs organizations.

## 4.13 Gender inequalities in the organizations on -micro credit Program

In Nepali society there were conservative people are found in different which is steal lending the country, by introducing, male dominated society by performing the different scene of touch ability and thinking that women are not leader they just main or key person of home only not of the nations.

**Table 14 shows that the support for participation on micro credit program.**

In every sector there is negative and positive discrimination in same way in micro-credit program which is given in below table.

| Gender Inequalities | Member | Percentage |
|---|---|---|
| Yes | 11 | 36.67 |
| No | 19 | 63.33 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

The above table 14 whose that there is gender inequalities among the research area but most of the dominant is about 63.33 percentage and rest of them are about 36.67 percentage show it shows that there is no more gender equalities in the selection of the research area.

## 4.14 Tools/ Practice to promote the Effectiveness use of loan

To promote the micro-credit program we can give the facility by providing training program, awareness program, and other financial opportunities.

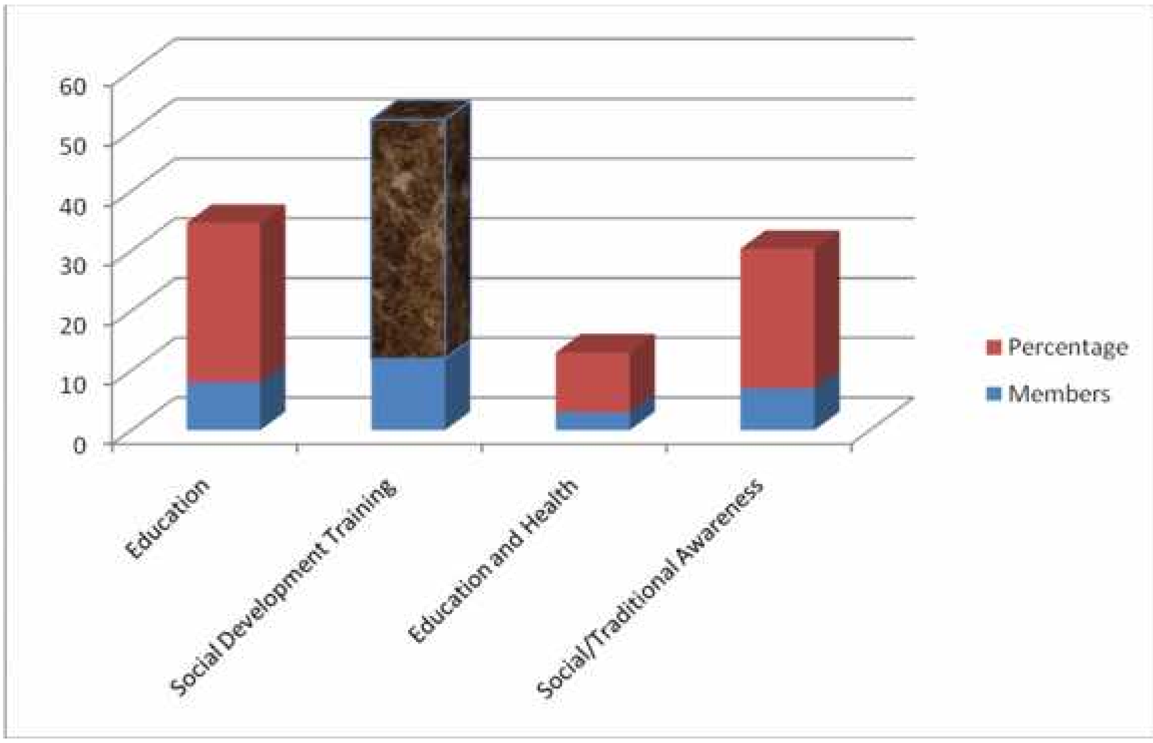
**Table 15 Tools/ Practice to promote the festiveness use of loan.**

Loan has been taken in different way to continue the further work which is shown by following table.

| Tools/Practice | Members | Percentage |
|---|---|---|
| Education | 8 | 26.67 |
| Social Development Training | 12 | 40 |
| Education and Health | 3 | 10 |
| Social/Traditional Awareness | 7 | 23.33 |
| Total | 30 | 100 |

***Source: Field Survey 2015***

**Fig no. 4 Tools/ Practice to promote the effectiveness use of loan.**




The above table 15 shows that there is more percentage of micro credit on social development training which was 40 percentage among the respondent is quite good for the betterment to uplift the society in forward to motivate effective way, and so on in education has got about 26.67 which also a good practice and social development and awareness training and workshop has got 23.33 is also best movement and the general education and health is also distributed about 10 percentage. In general the practice done above data are quite good analytical hypothesis.

## 4.15 Financial activities of the Cooperatives Members

In the society peoples has taken the money for their different purpose to fulfillment of their daily activities for different tasks. In the details of economic user the following table revels a lot.

**Table no 16 financial of the co-operatives members**

Financial activity of the micro-credit program of phalaicha VDC is easily seen and understands for further purpose which is shown by the given table.

| S.N | Name of Institutions | Members | Percentage |
|---|---|---|---|
| 1 | Bank | 5 | 16.67 |
| 2 | Money lender | 6 | 20 |
| 3 | Co-operatives | 19 | 63.33 |
| | *Total* | *30* | *100* |

***Source: Field Survey 2015***

In above table the members of the co-operatives has taken the loan from the different ways that is from bank 16.67 percent so on from money lender 20 , from the local co-operatives 63.33 percent has taken.

# CHAPTER-V

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary

Microfinance program has been designed to uplift the poorest of the poor from the society those who are deprived, socially backward, economically weak and from the indigenous groups. From the field survey it shows majority of clients are illiterate they are not qualified and skilled. Most of them depend on agriculture or small grocery in front of the house. Really they are under employed. They do not have sufficient work to do. Most of the clients answer to involved in the programs to enhance their economical status and better education for their children. The field survey shows with the intervention of MFPs client are much more conscious, their working hour increase which supported to increases the income level. A client left of few have pay their installment in time and the repayment rate is seems to be sent percent. The programs really empower the clients and also played a crucial role on decision making process. MFPs also support to smooth the consumption. The scent percent client involving in the MFPs have demand a creative and skilled training which supports them to generated income: Cutting, sewing, Pickle making, chalk making, about handicraft, dolls and decorating material, painting , beauty parlor are the listed trainings that the clients demand to strengthen their economic status. The finding and outcomes of MFPs are listed below:

- MFP has provided the banking services to those who are under served from the traditional banking services.
- It has supported to respect the needs of the poor small clients of small loan.
- Due to the MFPs women and indigenous groups of deprived sector are greatly benefited.
- MFP developed as a magical tool to poverty reduction.
- MFP has supported to increases the income level of the poor. On the other hand it helped to utilize the skills and optimum mobilization of resources that present in local level.
- MFP initiative to empower the women and take engage in the community development activities. The consumption and clothing pattern has also changed with the involvement in MFPs
- MFP has done a great task of creating the employment by providing loan in rural areas. Because of its intervention the working hour of the people has been extended. It

has supported people to commercialize their occupation and get the economic benefit from there. It is also helpful to develop entrepreneur skills in the local level. It supports to develop the micro enterprises.

## 5.2 Conclusion

Micro-finance program serves the deprived population of the country at their doorstep with the aim of improving their socio-economic condition. As micro-finance has been considered as an effective and efficient mechanism to reduce poverty all over the world, however Nepalese microfinance institutions are not being able to reach the poorest due to inability of proper identification of the poor and lack of commitment and clear vision of their action. Despite the financial sector, liberalization policy of the government aimed to encourage financial institutions to contribute in poverty reduction endeavor of the government, the satisfactory result have not been achieved due 54 to some managerial challenges encountered by the micro-finance institutions all over the country. The challenges faced by the institutions vary depending upon the type of financial institutions as banks, finance companies, NGOs, co-operative societies and self-help group that are participating in this program with different functional strategies. These challenges are concerned with strategic, operational, financial and manpower management.

The strategic challenges are related with planning, controlling mechanism and external policy environment. Unclear vision and mission statement, lack of commitment, multiple regulatory framework and policy inconsistencies constrain the sustainable growth of micro-finance institutions in the country. Inadequacy of resources and lack of linkage mechanism between informal and formal financial sector, duplication of activities, widening intense competition in urban and semi-urban areas, inadequate attention towards the loan delinquency management and control to poor human resources development efforts are perceived as the operational challenges. The micro-finance institutions need to adopt strategic approaches in order to address these managerial challenges as a supportive policy with one door controlling and monitoring mechanism, effort to link formal and informal financial sectors involved in micro-finance programs and flexibility in financial management regulation. Additionally, financial institutional themselves need to develop business planning practice and efficient management of human resources within the institutions. Involvement in the micro-finance programs has empowered women in varying degree. It has offered opportunities for poor women to come out of their household confines, to organize themselves in group and to work in productive and social activities.

The program with its focus on group activities and income generation has helped to enhance the self-confidence and increased right to spend, thus increasing the access to resource. Training for improving farming techniques and micro-enterprises has helped members to shift from the traditional agriculture to cash crop production, which yields higher returns.

Awareness of healthcare, including women and children's health, family planning, sanitation and reduction in smoking, alcohol consumption, etc., have increased. At monthly group meeting, women discuss health issues which they follow in their day-to-day lives. The availability of loan from micro finance has helped in reducing the interest rate charged by moneylenders from 60 percent to 36 percent. Competition in the financial market has helped to improve the quality of services and it reduces the interest rate but it is still too high. Members have become more aware of gender equality (participant of the Focus Group Discussion said that man and women are equal in social aspects, it is wrong to wait for the birth of a son and increase family size), human rights and women rights issues. They know that violence; both physical and mantel against women should not be tolerated. They have also become aware of their voting rights and right to parental property. Women's mobility has increased due to their participation in monthly meetings, trainings, meetings with outsiders, unlike in the past when they had not joined the micro finance.

Saving groups is an important part of the program. Besides the income generating projects group members are taking credit from within the group at the time of emergency. So group saving has became their good source of money otherwise they would have to go to the moneylender and it is accumulating the source of future use. They all left that it has culminated a good habit of saving weather the source of saving is from project income or any other sources. 55 In respect to financial intermediation, it can be concluded that, although the subject is new in Nepal, it is the right war to fulfill the financial needs of rural poor. Reaching to the poor through financial intermediaries is found to be cost effective and targeting can be done correctly. MFP should widen their area by appointing staffs to hear and understand their problem and to find out alternative as well as solution. So that, they should not be victimized by excess burden of debt. Getting loan in small amount of Rs.3000 to Rs.5000 cannot give optimistic results. The borrowers use loan for their daily requirement and keep for repayment. Economic upliftment through such findings is impossible. In order to have optimum utilization of loan, group investment should be done like small cottage industries, factories, enterprise on the group consent. So that amount of loan taken will not be seed for consumption purposes rather it is inversed for productive purpose. Effective follow-up, supervision and monitoring are essential to utilize loan in actual purpose. Otherwise many of the borrowers have to pay back loan by selling their property.

## 5.3 Recommendations

Based on the study following suggestion are recommended for further improvement and successful implementation of the program

- If the income level of the respondent is seen in the study area, we find some women who have a clearly higher level of annual income of their family and there remains some possibility of leaving the poorest of poor untouched by the program. So there should be proper identification and selection of the target group by the MFIs to insure that the really poor, backward communities are not left behind.
- To supervise the use of loan and to provide effective skill to advice on the proper management of the loan, field staffs should be trained regularly. The clients of the programs received technical as well as managerial guidance to manage micro-finance program.
- Literacy program is an integral part of rural micro-finance program. Curriculum is amended toward economic orientation rather than conventional one.
- Volumetric and physical expansions of transaction are being encouraged rather than productive lending. Potential market based activities be encouraged rather than replication of the same activities.
- Women are more likely to take part in multiple activities simultaneously to support their families and to improve understanding of women’s skills while

Formulating program. Participation of women in the program is ever increasing, which makes them overloaded.

- Time and drudgery reducing program be integrated.
- Gender sensitization training is imparted from the initiation. There is a gender division of labor at the household level and women lack access to control of resources. Learn about the relationship of the household level information like- Who does what? Who control what? Identify and implement strategies for change within the family and community.
- The program should develop practical and varied training courses to the women and small farmer related development activities as the need particular community.
- The agriculture sector is dominant in absorbing the program. Mostly the loan is used for investment like beekeeping, poultry farming, goat farming, and pig farming, Buffalo farming and agriculture with vegetable farming. So livestock sickness and livestock death makes emergency burden to the borrowers. To solve the problem, following points are purposed

  a. Healthy livestock should be supplied to the borrowers.

  b. Necessary vaccine should be arranged at appropriate time.

  c. Who can fully devote time to provide services?

  d. Through there is the provision of insurance (in the case of death of livestock) but it has not smoothly implemented. So there is needed of smooth implementation of insurance provision as well as the provision of insurance to livestock suffering from disease too.

- There is the marketing problem, it was indeed observed that there were marketing
- Constraints to solve the farm produce, mostly in vegetable farming.
- Women produce vegetables with expensive cost but in the time of sell of produce there is the problem of market, which must be solved. When lending, it is noted that family of the members are the consumers. So in our community there may be necessary two shows, one tailor, two or three milk suppliers to surely necessary goods for community.
- The position of the program staff should be permanent, so that could perform their responsibility with confidence and concentration. Given the field orientation nature of work of the program allowance should be raised. There is need to shift the program from agriculture based to small industry and other business promoted activities. Since

there is higher operational cost in agriculture base activities. The effective crosscutting programs are necessary for microfinance program.

- Microfinance program is formed operating their transactions without due consideration for their financial viability and sustainability. For the viability and sustainability, 57 effective government policies are also necessary. So interest must be charged at the rate and cost must be minimized where the institution is viable.
- Microfinance program is not a family business, so member of board and executive committee of the institution must be awarded of their role and responsibility.

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# ANNEX - I

## The interview themes and questions

The interview themes and questions for Shree Sanjeveni Coopratives, Falaicha, Panchthar **joining** Shree Sanjeveni Coopratives, Phalaicha, Panchthar groups and credit Scheme

Name: ……………………………… Sex: ……………

1. District, village, group
2. Name. Can you read and write?
3. Age
4. How many groups Shree Sanjeveni Coopratives, Falaicha, Panchthar (or other) are you involved with?
5. When did you start saving money, how much do you save per month?
6. What did you take the loan for? Was it easy?
7. Who is using the loan (You, your husband…)?
8. Primary occupation, secondary occupation
9. Average income
10. Which caste/ethnic group do you belong to?
11. Marital status, how long have you been married, what does your husband do?
12. How long have you been living in the area, where have you moved from?
13. How much do you/your household have in fixed assets: land, animals, house…
14. Children: how many, how old are they? Do they go to school?
15. When did you join the Shree Sanjeveni Coopratives, Falaicha, Panchthar group and the credit scheme? Why did youjoin?
16. Have you taken an individual or a group loan? How much is the loan?
17. What did you expect to be the outcome of the credit scheme when you joined it?
    - to be able to buy things?
    - to be self sufficient?
    - to be able to start own business?
    - to get more say on household matters?
    - to be able to control your own income?

18. Were there other financing opportunities? Did you take loan from any other institutions? Have you paid them back already?
19. Do you own a microenterprise/small business? Why did you choose this Particular field of business/action?
    - Was it your own idea?
    - Did your family/other people have an impact on what you were going to do?
    - Did you have other competing ideas on what to use the loan for?
20. Was there enough information for you concerning different possibilities for using the loan (entrepreneurship or starting own business)? Would you have wanted to know of other possibilities for using the money?
21. Do you think it is hard for Shree Sanjeveni Coopratives, Falaicha, Panchthar to be involved in decision making concerning household matters and the use of money?
22. Think of a wealthy person in your village. What does he/she have to make him/her wealthy?
23. Do you think that a wealthy person works more than a non-wealthy person?
24. Did the microcredit help you to reach your goals?
25. How have the community/your family/husband reacted towards you after your involvement in credit schemes and economic/development activities?
26. Has the involvement with the scheme had an impact to your role in the family or/and in the community?
27. How did your expectations change from the time you joined the scheme till now? Are you disappointed about anything?
28. How has the microcredit scheme changed the way you use your time?
29. In your opinion how do the other villagers react towards the credit scheme?
30. Do you know many people who would want to join the Shree Sanjeveni Coopratives, Phalaicha, Panchthar group and take a loan? Why have they not so far?
31. Do you feel you would need more support and/or technical assistance in your field of action in using the loan?

32. In your opinion what kind of tools/practices are needed to promote the effective use of the loan? (Giving some examples from the list below if no answers are given at first)

- education on literacy, writing and numeracy
- education on health
- social and political consciousness-raising
- skill development and training (craftsmanship, business principles, marketing, production, sales)
- education on one's/ Shree Sanjeveni Coopratives, Falaicha, Panchthar rights

33. What are your future expectations concerning the microloan scheme/ Shree Sanjeveni Coopratives, Phalaicha, Panchthar group and your involvement in them?
34. Have you experienced gender or other inequalities within the credit scheme?
35. In your opinion how does the scheme function in practice e.g.

- management
- operational matters
- norms and principles
- group meetings

36. Is it easy to get involved in the credit scheme? Why do people not/cannot get involved?
37. How do you see the interest rates?
38. What are the main challenges in the credit schemes? What could be done better, what could be done differently?
39. In your opinion, are people paying back in time? What are the reasons behind

# ANNEX - II

## Executives committee of Shree Sanjivani Co-operatives of Phailaicha, Panchthar

| | |
|---|---|
| Chair Person. | Somenath Kharel |
| Vice- Chair Person | Kumari Bega |
| Secretary | Lal Bahadur Bega |
| Vice-Secretary | Aarati Limbu |
| Treasurer | Milan Begha |
| Members | Chitra Kala Kharel |
| | Chandra Bir Mangmo |
| | Bimala Bega |
| | Ganga Mangmo |
| | Pream Rai |
| | Indra Darjee |

## Treasure Group

| | |
|---|---|
| Co-coordinator : | Krishna Bahadur Bega |
| | Lal Bahadur Limbu |
| | Srijana Kharel |

ANNEX - III

Related Photos