

## CHAPTER 1

### INTRODUCTION

#### **1.1 Background of the study**

There are about three billion people, half of the world's population, living on the income of less than two dollars a day. Among these poor communities, one child in five does not live to see his or her fifth birthday (Barr, 2005). World Bank(WB) in its report (1990) defines poverty as the inability to attain a minimal standard of living. According to the WB report (2002), the dimension of poverty is classified as at least in four dimensions. These are lack of income, low level of achievement in education and health and vulnerability to risks and some sort of insecurity and voicelessness. To enhance international development, the United Nations Organization (UNO) announced the millennium development goals, aimed to eradicate poverty by 2015(Barr, 2005). In this regard, microfinance is the form of financial development that has its primary aim to alleviate the poverty (Ibid, 2005). Governments, donors and NGOs around the world responded enthusiastically with plans and promised to work together towards the realization of these goals. In the recognition of microfinance, the UNO celebrated the year 2005 as a year of micro-credit (Mia, Md. B), as a result this financing instrument is perceived worldwide as a very effective mean against hunger and poverty, mainly in developing countries.

Microfinance has emerged as an economic development approach to benefit low-income section of the society. It is a kind of service products viz. savings, credits, training, insurance and social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services (Gnawali, 2018). A focus note by CGAP (Consultative Group to Assist the Poor) concluded that no single intervention can defeat poverty and the beauty of microfinance is that, as programs approach financial sustainability, they can reach far beyond the limits of scarce donor resources (Littlefield et al., 2003).

According to Morduch (1999), microfinance refers to provision of financial services namely, loans, savings, or transfer services to low-income households. In the past decade, microfinance programs have demonstrated that it is possible to lend to low-income households while maintaining high repayment rates, even without requiring collateral. The programs promise a revolution in approaches to alleviating poverty and spreading financial services, and millions of poor households are served globally. A growing body of economic theory demonstrates how new contractual forms offer a key to microfinance success particularly the use of group-lending contracts with joint liability. For the most part, however, high repayment rates have not translated into profits, and studies of impacts on poverty yield a mixed picture. Otieno et al. (2013) further describes microfinance as small loans, savings mobilization and training affect them to create self-employment by starting their own businesses and thus generating income. As cited in Momoh (2005), mentions that an effective and efficient microfinance system operating in rural areas of developing countries, joined with other enabling factors such as legal and policy framework, good governance and adequate physical infrastructure, the poor rural people will undertake diversified business activities, and also be able to adopt more appropriate modern farming technologies. This, it is assumed, will lead to the reduction of rural poverty and an increased overall standard of living of the rural poor in developing countries in general.

Despite the success of microfinance in including the poor people in the financial sector; critics claim that this anti-poverty tool lacks hard data to prove its positive impact on reducing poverty levels. Some researchers also question whether MF is better than some other development projects for the poor as a whole. Further, argue that assistance from the public and private sectors must be made available to effectively improve the lives of the poor. Others are also concerned at how these institutions would be able to fulfil their goals while trying to achieve long-term sustainability.

Microfinance is both complimented and criticized as a policy and a practice for addressing the issue of poverty in the developing world. While it has delivered fairly well in respect of giving access to resource for millions of the poor across the globe, it has at the same time attracted some sharp questions and even some degree of disapproval about its impact and usefulness as an instrument for poverty alleviation. This is true for Nepal as well.

Around one quarter of the population lies well below poverty line and the rate seems to change a little bit, i.e. 25% in 2010 (Upadhyaya, 2013) to 21 % in 2018 (NepaliSansar, 2018), having the daily income less than the US \$ 1.25 per day (NRs. 125 per day, considering US \$ 1= NRs100).The solution for the scarcity of food, clothing and shelter is the major challenge for Nepali people, especially for those under- privileged community. Likewise, uplifting quality of life of the whole Nepali population is the next prominent issue (Ministry of Health, 2016).Currently in Nepal, a variety of institutions ranging from NGOs to private and state-sponsored rural support programs are delivering microfinance services to the poor. In Nepal, the formal microcredit started after the year 1953 by establishing co-operative department under the ministry of agriculture. In 1956 the formation of cooperative society was legalized and the first credit co-operative society was established. This cooperative movement has partly included the saving and credit components of microfinance. The first government initiated for pro-poor's microcredit program was started in 1975 with the concept of Small Farmers Development Program under ADB of Nepal. This sector gained further momentum after restoration of democracy in 1991 with the establishment of Rural Development Bank (GrameenBikash Bank) in the five development regionsand after that there has been a significant growth in the MFIs such as Microfinance Development Banks Savings and Credit Co-operatives Society Ltd, and Financial Intermediary Non- Government Organization (FINGO) in the formal and semi-formal sector (Duwal, 2013). Recently, there are total 85 microfinance institutions in Nepal which has been licensed by NRB (Poush, 2077).

Nepal is a small land-locked country in the lap of Himalaya, bordered in between China at the north and India on the other three sides, east, west, and south. There are 7 provinces, 77 districts and within the districts are 6 Metropolitan cities, 11 Sub-metropolitan cities, 276 municipalities and 460 rural municipalities. Bhirkot is a Municipality in Syangja district of Gandaki zone of central Nepal.Bhirkotis formed by merging village development committees: BanethokDeurali, DarsingDahathum,Chanchangdi, Kalikakot, SorekDhapukSimalBhanjyang and KhilungDeurali.According to Nagar BikasYojana of 2076/77 of Bhirkot Municipality, it covers an area of 78.23% and lies at hilly region. It had a population of 25,583 in which male 10,994 and female 14,999 and total household is6083. The household size is 4.21%. The literacy rate is 77%.

In present context, many microfinance institutions are incoming in Bhirkot Municipality that impacts on the lives of people. These institutions are accessing their services to those poor and marginalized groups of people who are not able to get bank loan without any collateral or security. Furthermore, microfinance institutions give loans on subsidized interest unlike moneylenders who charge extremely high interest rates. It provides people the opportunity to work and earn money to pay for their living. On the other side people are actively participating in the microfinance programs as it doesn't require any collateral for getting loans and helps to pay back their loans. Microfinance provides the poor people with a way to build saving and work toward becoming part of a country's official financial system. Many people use microfinance as a tool for social improvement. The idea behind microfinance is to empower borrowers by building a business that increases their income. The specific objective of this study is about the effect of microfinance activities on the poor people in Bhirkot Municipality. These institutions are providing helping hands to the poor people and moving forward towards their objectives.

This research has carried out in order to know how well people are utilizing the microfinance services and what are their response towards its services. Similarly, this research focuses on the effectiveness of microfinance services in order to know its impact on living standard of people in Bhirkot Municipality of Syangja district in Nepal.

## **1.2 Problem statement**

A majority of peasants in developing countries have no access to any banking system or microcredit (Schady, 2002). In case of Nepal people living in the rural area is unable to get formal financial services and still depending on informal lending system. Most of the banking institutions are concentrated in the urban and sub-urban areas. Inadequate basic infrastructure is the main problem in the hilly and mountainous region that has discouraged to expand micro-finance services to the rural remote areas. The financial inclusion in Nepal is not satisfactory and three fourth of the people still have no bank accounts at the formal financial institutions (The World Bank, 2015).

In spite of gradual development of microfinance activities in Nepal, there are some fundamental problems and issues including problems in identifying target groups and lack of non-financial services such as financial education, encouraging for business/enterprises creation, awareness raising program, and microfinance related managing

skill based trainings to the clients. As a result, it may create poor utilization of micro-credit, and finally economic burden will be added to the clients. Despite the long history of microfinance and the large number of institutions involved in providing microfinance facilities in Nepal, their effectiveness in alleviating poverty in the country is not clear (Paudel, 2013).

Though there are few studies on the impact of microfinance on households' level in Nepal, yet there is room for exploring the wider dimension on effects of microfinance services on the living standard of households. Hence, this gap of the study seeking to explore the effects of microfinance services as a remedy to improve the living standard of the poor people in Bhirkot Municipality. The research brings to light the microfinance services and its effects on living standard. This research has tried to answer the following research questions based on above statement of problem.

- i. What is the position of micro finance services in Bhirkot Municipality?
- ii. What is the impact of microfinance services on living standard of the people of Bhirkot Municipality?

### **1.3 Objectives of the study**

The ultimate objective of microfinance institutions in Nepal is to introduce the financial and banking services in to help poor people. The main objective of the study was to find out the living standard of the peoples by measuring the following supportive objectives:

- i. To assess the position of microfinance services in Bhirkot Municipality.
- ii. To examine the impact of microfinance services on living standard of the people of Bhirkot Municipality.

### **1.4 Rationale of the study**

No single intervention can defeat poverty. Poor people need employment, schooling, and health care. Some of the poorest require immediate income transfers or relief to survive. Access to financial services forms a fundamental basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice, and education can be sustained only when households have increased earnings and greater control over financial resources. Financial services thus reduce poverty and its effects in multiple, concrete ways. And the beauty of

microfinance is that, as programs approach financial sustainability, they can reach far beyond the limits of scarce donor resources (Littlefield, Morduch & Syed, 2003).

Several studies have analyzed the impact of microfinance on poverty reduction. Lin (2005) argues that microfinance institutions (MFIs) make significant effect in the standard of living of poor people who access their services. Microfinance not only supports the poor by providing them with capital but also helps increase their business opportunities, which improves personal income and increases personal investment in family health, nutrition, education, etc. (Coleman, 2006; Morduch, 2000). Poor clients can apply for small loans and start their own businesses, such as small grocery stores, micro-enterprises, and fisheries; in this way, they are able to enhance their income sources and entrepreneurship skills (Reji, 2009). Microfinance is also helpful in empowering women (Pitt et al., 2006; Khandker and Pitt, 1998) and supporting poor people through group lending, which increases community development (Coleman, 1999; Barboza & Trejos, 2009; Osmani, 2007).

Many studies have found positive and significant impacts of microfinance programs on the poor from various aspects. Microfinance became a buzzword in the credit markets as an effective tool for poverty reduction and socio-economic development (Sayed et. al., 2015). Khandker and Pitt (1998) argue that microfinance programs encourage investment in human capital by providing the poor with a choice in schooling. According to Dedunu (2018), microfinance services have had a positive impact on living standard of poor people in Srilanka.

According to World Bank 2017, the status of financial inclusion in Nepal is not satisfactory and more than half of the adult population (55.0 percent) are still unbanked. Since, the large numbers of people are still depending on the informal lending system in the country especially in hilly and rural areas due to poor financial inclusion, the formal financial services are costly for the majority of deprived households of Nepal (Sigdel, 2014). The microfinance institutions (MFIs) in Nepal limit their potential to expand their client base and outreach to poor households. The number of MFIs with private sector's participation is expanding significantly. Though the overall impression of microfinance performance indicates that the microfinance clients, the loan portfolio outstanding, and savings are in increasing trend, yet the impact is still questioned (Paudel, 2013).

Microfinance intervention increases income level, capital expenditure, consumption expenditure and saving which changes the livelihood status of poor and marginalized people (Dhakal & Nepal, 2016; and Chapagain & Aryal, 2018). Dhakal & Nepal, (2016) argue there was a need to improve the internal management of microfinance to provide the services more effectively. Centre for policy studies (2004) found MF programs have positive impact on change of occupation, food security, household conditions, and ownership of the assets, education and health service seeking attitude though it has not able to reduce poverty level.

The MFIs have created more job opportunities, more household incomes and improving household education and family welfare. But microfinance is also a huge responsibility for people too. When people use financial services, they can easily increase their household income and buy more household's assets, and improve their living standard. In particular the poor households use microfinance loan to change their daily livelihood such as household investment and income, building and fixing their houses, improving family welfare and education. Therefore, the study aims to find out whether MFIs in Bhirkot Municipality affect living standard of poor people, who access their services, or not.

### **1.5 Limitations of the study**

None of the study can go beyond of some limitation and this study also has exception. The scope of this research limits in terms of period of study as well as sources and nature of data. The major limitations are as follows:

- i. Firstly, the respondents were limited 115 samples in terms of size and composition.
- ii. Secondly, the data collection is restricted only within the Bhirkot Municipality so the result may fail to represent the actual scenario of the whole country.
- iii. The study is prepared on the basis of convenience sampling so the result is not free from bias.
- iv. The study was confined itself on livelihood impact of people even though there are various dimensions of impact as such information, political, psychological and managerial dimensions
- v. Only these statistical tools (descriptive statistics, correlation and regression) have been used to study.

- vi. Finally, the accuracy of the analysis heavily relied on the data provided by the people involved in microfinance programs in Bhirkot Municipality.

## **1.6 Chapter plan**

This study is divided into five chapters:

### Chapter I, Introduction

This chapter includes the introductory framework of the study that contains background of the study, problem statement and research questions, objectives of the study, rationale of the study, limitations of the study etc.

### Chapter II, Literature Review

Various practices about microfinance in South Asia and is studied. Economic as well as social background of people in Nepal is also overviewed in this chapter. It includes conceptual review empirical review, previous thesis etc. related to microfinance and living standard of people using various books, journals as well as internet.

### Chapter III, Research Methodology

This chapter consists of the research design, population and sample, nature and source of data, data collection procedure and instruments, data processing, technique of data analysis, conceptual framework and definitions of variables.

### Chapter IV, Results and Discussions

This chapter concerns with the application of defined research method on the collected data, the general results after the application of research method on the data is also analyzed and interpreted and major findings and discussion on results of the study.

### Chapter V, Summary and Conclusion

This chapter concerns with the summary, conclusion and implications. Finally, references and appendixes are shown.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter contains microcredit and microfinance related literature theories and previous research. It discusses about the microfinance and poverty and also overview on microfinance and living standard. Finally, the revision of literatures is used to understand the research problem.

#### **2.2 Conceptual review**

Microfinance encompasses the management of small amount of money through arrange of products, and a system of intermediary functions that circulates money in aneconomy. Microfinance is small in value amounts targeted at low incomeclients. It includes loans, savings, insurance, transfer services and other financial services (Sharma, 2005). Microfinance is a wider concept thanmicrocredit as it includes the provision of other financial services like saving funds andinsurance services in addition to the provision of microcredit; however the two terms(microfinance and microcredit) are often used interchangeably (Khandker, 1998).According to Schreiner &Colombet (2001) it is an “attempt to improve access to small deposits and small loans for poor households neglected by banks”. It also includes “the mobilization of savings and disbursement of microcredit to the economically active poor, so as to provide employment and means of sustainability to improve the living standard in an economy (Awojobi, 2011).

The general purpose of microcredit programs is to extend small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families. In most cases, microcredit programs offer a combination of services and resources to their clients in addition to credit for self-employment. These often include savings facilities, training, networking, and peer support. Microcredit entails not only providing the poor with financial services but with the added capabilities needed to set up their self-employment business projects and maintain their sources of sustainable livelihoods instead of waiting for employment opportunities from the government. Microcredit are given to the poor

either to help them establish their new business projects or to help small entrepreneurs who already have their business to expand it and be more sustainable. Usually the duration of these kinds of loans are short-term, maximum two years, conditioned to be used in productive projects for example agriculture, industry, trading and not in consumption. Typically the interest rates are higher compared to traditional bank loans (Jaffer, 1999).

There are different forms of microfinance institutions. A survey in developing countries by Zeller and Lapenu (2002), classified MFI's as either: NGOs, cooperatives, registered banking institutions, government organizations, or projects. Among the MF organizations, Grameen Bank has attracted worldwide attention with its innovative and successful group-based credit program for the rural poor. The Grameen Bank micro-credit model has been successful in providing financially viable lending structures in a number of countries in ways that economically empower impoverished women by giving them access to credit. It provides credit and organizational input to the poor who are otherwise excluded from the formal credit system because of their lack of material collateral (Shukran & Rahman, 2011). Grameen Bank has replaced the requirement of material collateral by group responsibility where individual access to credit is determined by group repayment behavior. Parallel to its group-based credit and savings process, Grameen Bank has developed a comprehensive social development program. This program is disseminated as the "sixteen decisions," which are guidelines for codes of conduct and activities aimed at improving the poor people's social and financial conditions like health, nutrition, education and productivity. It also organizes workshops in order to train members on various topics, including its operational rules and procedures, livestock and poultry care, health and nutrition, and other social issues (Khandker, Khalily & Khan, 1994). However, microfinance institutions performance is not in the scope of this research rather it's the efficiency of these programs in alleviating poverty and enhancing the well-being of the poor.

### **2.3 The need of impact assessment**

Hulme (2000) focused on the 'downside' of microfinance: on the way in which some microfinance activities can damage the prospects of poor people. It is not a polemic that argues that microfinance has failed—there is much evidence, not least from my work with colleagues, that it can help many poor people improve their lives. Rather, it

is a reminder that those who provide micro-financial services need to monitor carefully not only their positive impacts but also their negative effects, look to the future, and not rest on their laurels. The 'microfinance industry' needs to practice more humility about what it has achieved and deepen its understanding of the financial service needs of poor people.

Coleman (1999) argues that impact assessment studies are necessary because 'both donors and policy makers want proof of the effectiveness of financial services in relation to their developmental objectives. Positive results are indicative of the value of investment in microfinance services and indicate that they are helping the poor get out of poverty. Failure to demonstrate impact raises the prospect that funds for microfinance will be reprogrammed for other uses'.

It is unclear whether microfinance contributes to a reduction in poverty or is the most efficient method to reduce poverty without additional measures in areas such as education, health and infrastructure. The entry of commercial banks into microfinance may increase the competition for traditional microfinance institutions and reduce lending to the core poor, even if it improves financial sustainability (Hermes, & Lensink, 2007).

#### **2.4 Empirical review**

Chavan and Ramakumar (2002) reviewed empirical evidence on NGO-led micro-credit programmes in several developing countries, and compares them with state-led poverty alleviation schemes in India. The research adopted a comparative approach for analysing the performance of these micro-credit programmes and institutions vis-à-vis the state-led programmes and institutions in India. For this analysis, the study selected Grameen Bank (GB), BRAC, and TRDEP of Bangladesh, Banco Sol of Bolivia, PTCCS of Sri Lanka, the Muzdi Fund and SACA of Malawi and the KREP Juhudi Scheme and KIE-ISP of Kenya. The state-led poverty alleviation programmes and institutions chosen for comparison from India are the Integrated Rural Development Programme (IRDP) and regional rural banks (RRBs). The study shows that micro-credit programmes have been able to bring about a marginal improvement in the beneficiaries' income. However, the beneficiaries have not gained much by way of technological improvements, given the emphasis on 'survival skill'. Also, in Bangladesh

the practice of repayment of GrameenBankloans by making fresh loans from moneylenders has resulted in the creation of 'debt cycle'.

Panda (2009) examined the impact of participation in the self-help group-based microfinance. A quasi-experimental design was made under which the target group was compared with a selected control group across a set of household variables like income, assets positions, savings, consumption, employment, literacy and migration. A multistage random sampling was used to select 150 cross-sectional samples from Orissa, Jharkhand and Chhattisgarh states of India. Descriptive statistics, test of significance by z-statistics and probit model under econometrics were used to measure the impact of participation in the self-help group-based microfinance. The distribution of household income and assets was measured by Gini coefficient and Lorenz curve. The 'household' was taken as the unit of analysis. The study concluded with the positive impact on the increase in income, assets position, savings and literacy and in the reduction of migration of rural households. Weak evidence of significant impact of the group-based microfinance on the distribution of household income and assets was found. The participation of women in the self-help group was strongly determined by household income, employment, migration, saving and literacy positions.

Rahman and Ahmad (2010) described a scheme which aims to alleviate rural poverty by providing small and micro-investment to the agricultural and rural sector for generating employment and to raise the income of the rural poor. To assess the impact of rural development schemes on rural poor's livelihood, primary data were collected from 1,020 clients working across the country. Multistage random sampling method was followed to select the clients. Tabular, graphical, and econometrical methods were followed to analyze the data. The results show that household income, productivity of crops and livestock, expenditure, and employment had increased significantly due to the influence of invested money. Results of the Logit-model showed that clients' socio-economic factors like age, number of family members in farming, total land size and clients' ethics and morals had a positive and significant influence on household income.

Sayed et al., (2015) examined the role of Malaysian microfinance Amanah Ikhtiar Malaysia (AIM) on household income. A cross-sectional survey interviewed 780 from old and new clients in Selangor and Melaka states in Malaysia. The stratified random

method was used to collect the data from urban and rural districts. The finding of multinomial logistic reveals that AIM has positive impact on household income of women borrowers who spent three years in the scheme as compared to new borrowers who have not received treatment. Therefore, he concluded that microfinance became a buzzword in the credit markets as an effective tool for poverty reduction and socio-economic development. Yet, the impact still questioned and varies from one country to others and from urban to rural.

Taiwo, Agwu, Argean & Ikpefan (2016) found that in order to alleviate poverty and improve the living standard of the people of South-West Nigeria, it is imperative that micro/small financial services such as credit, insurance, money transfer, etc. are provided in order to engage them actively in productive activities. Globally, there are several failed policies by governments, particularly in Nigeria over the years aimed at poverty alleviation. This study examined microfinance scheme towards the dispersion of credit amongst the working poor; draws from the data collected from field survey and these were reported using tables, frequency counts and cross-tabulations to draw inferences and a loan demand model was specified and estimated using the Ordinary Least Squares (OLS) econometric technique. The study used cross-sectional data collected from selected respondents in selected areas of both the Lagos and Ogun States of Nigeria respectively. The study found that majority of the Microfinance banks in Nigeria are model after the Grameen Bank which is aimed at the poor and people with basic, little or no education and that loan demand is interest rate insensitive.

Muharremi et al. (2018) examined the impact of microfinance loans in improving the living conditions of borrowers. This study is based on an empirical investigation of 384 structured questionnaires directed at microfinance institutions in the regions of Vlore and Fier, Albania. Hypothesis assessed the impact of widening the access to microcredit in order to improve the standard of living for borrowers, if the loan is used for investment purposes and not for personal consumption. The results showed that there is a positive association between the variables that were considered important in this empirical study. Microcredit used for investments leads to increased living standard for borrowers; specifically it increases the income level. This is expected since many researchers around the world have concluded to the positive impact that microcredit has on low income families or socially marginalized

individuals or communities. It would be interesting to assess and compare the impact of micro credit loans in Albania if the borrowers would be poor people, but from data collected regarding their income level it was concluded that they are people with average socio-economic profiles and not poor people or belonging to marginalized groups.

#### **2.4.1 Review of journal articles**

Johnson and Roglay (1997) studied the impact of microfinance intervention in Union Regional de Apoyo Campesino (URAC), MFI in Mexico and concluded that URAC's flexible savings facilities are appreciated by its members and used to support a wide range of livelihood needs including food purchases, emergency health care, and insurance for periods of unemployment. Thus, the services have demonstrated their usefulness and relevance to members and enabled them both to protect and improve their livelihoods.

Robinson (2001) concluded that households and enterprises could benefit from microfinance institutions when voluntary savings are locally mobilized. Micro-enterprises can self-finance in full or in part their working capital needs as well as toward investment needs. Saving accounts provide security legal recognition of the asset and returns, and improve household financial management. Moreover, it creates an opportunity for women to become economically empowered. The evidence revealed that women gave got the opportunity to hold their savings in their own name for the first time.

Kaboski and Townsend (2005) evaluated the impacts of village-level microfinance institutions in rural Thailand. To identify impacts, study used policies related to the successful/unsuccessful provision of services as exogenous variation in effective financial intermediation. The result shows that institutions, particularly those with good policies, can promote asset growth, consumption smoothing and occupational mobility, and can decrease moneylender reliance. Specifically, cash-lending institutions—production credit groups and especially women's groups—are successful in providing intermediation and its benefits to members, while buffalo banks and rice banks are not. The policies identified as important to intermediation and benefits: the provision of savings services, especially pledged savings accounts; emergency services; and training and advice. Surprisingly, much publicized policies

such as joint liability, default consequences, or repayment frequency had no measured impacts.

Reji (2009) explored the socio-economic impact of microfinance of Neighbourhood Groups (NHGs) in Nilambur block of Malappuram district, Kerala. The study followed purposive research design and 'before' and 'after' MFIs intervention comparison. It is found that the economic impact is visible in terms of savings habit, increased credit accessibility, contribution to household income, and acquisition of household assets. The impact is also pronounced on the social front in terms of increased role in household decision-making, improved status and self-confidence, ability to deal with adversities and community involvement.

Teng, Prien, Mao, and Ling (2011) assess impacts of micro-credit on household economics of Cambodia. Simple random sampling method was used to select the samples from two villages (Prektachreng and PrekKrouch). The study reveals that the clients who are involved in microcredit programme have found better living standard due to growth in income and asset. In addition, micro-credit has created more job opportunities and improved household education, women's status, family welfare, and variety of economic activities. It has reduced income inequality and poverty through productive use of the micro-credit.

Idowu and Oyelele (2012) examined the impact of microfinance banks on poverty alleviation in Oyo State, Nigeria. Standard of living of the respondents was examined; relationship between size of loans and standard of living. Primary data were analyzed using Foster Greer Thorbecke; Matching Framework Analysis and Partial Correlation. The result revealed that microfinance has impacted positively on their living standard. Moreover, it revealed that as the size of loan increases, asset acquisition and profit also increases therefore it enhances their standard of living and consequently alleviate poverty.

Chirkos (2014) observed the role of micro finance on living standard, empowerment and poverty alleviation in Ethiopia. The study was based on questionnaires which are distributed for the survey of Debrator and Estie branches of ACSI, 150 clients with 75 respondents per branch. Overall the study represented that training and education clean water and hygienic environment, nutrition and adequate food, accommodation, income and savings are important factors for poverty reduction. The results concluded

that almost all the clients reported an increase in their incomes which have improved their living standard, have sent their children to school, have been able to pay for medical bills and can feed their families, can cope with future crises using their savings have been empowered economically and their positions in the family as well as society.

Okibo and Makanga (2014) investigated the effects of MFIs on poverty reduction of PAWDEP located in Kiambu District as a case study. Descriptive survey design and stratified sampling is used in the research. The target population was 9 staffs and 46 clients or recipients of PAWDEP. The study revealed that PAWDEP, microfinance institution, has provided microfinance services to different groups of women – productive or active poor and it used various strategies to deliver its services. To enhance client's business skills to use credit and establish market channels for their products.

Tariq, Aleemi and Iqbal (2015) investigated the role of micro finance on the economic and social development of people in the rural areas of the Province of Sind Pakistan. This study considers and compares two situations of the respondents: economic and social conditions before and after taking micro loan. The study considers descriptive as well as statistical analysis such as Chi square, OLS estimation and one sample T test. The study concludes that there is no change in economic conditions of borrowers after accusation of micro finance. The micro finance could not improve their business growth as well. However, in social development, there is significant improvement in the life style of borrowers, whereas, there is no significant improvement in health and education needs of buyers before and after taking of micro finance. The study further concludes that borrowers believe that the loan amount provided is not sufficient for their needs and both the repayment schedule and interest rate are not reasonable to facilitate them.

Dedunu (2018) investigated the impact of microfinance on living standard of poor in Kurunegala District, Sri Lanka touching three main fillers of microfinance as Micro credit, Advisory services and Micro saving. All micro loan holders in the District were population of the study in which 152 respondents were selected as sample on random sampling method. Data were collected through research administrated questionnaires and analyzed using SPSS package. The result of this study indicated statistically significant associations between micro credit, advisory support, saving



and living standard of poor people. Similarly, regression result also indicated significant impacts of micro loan, advisory support and micro saving on living standard of the poor in the area.

Likewise, Wook and Laila (2019) examined the effect of microfinance on poverty alleviation in Pakistan using district-level panel data. We conduct fixed effect panel regressions to show a statistically significant positive impact of microfinance on household income, ownership of household assets, education, and expenditure. These results suggest that the development of microfinance is an efficient tool for both welfare improvement and poverty alleviation in Pakistan.

Badiuzzaman, Uddinn and Hossain (2020) identified the impact of different microfinance services to poverty reduction in Bangladesh. A structured questionnaire was used and OLS regression was estimated to find out the impact of microfinance services. The results show that micro-credit (mostly), savings, micro-insurance, and training influence the poverty reduction in Bangladesh.

#### **2.4.2 Review of previous theses**

Asmelash (2003) indicated that the overall household income of frequent clients have increase than the overall household income of the new clients in both urban and rural areas in 12 months. The result suggested that DECSI has a positive impact on diversification of income sources for clients. The frequent borrowers have a better housing condition and increased asset ownership, improved ability to pay educational and medical expenses than non-participants. In the same token frequent borrowers have better diet improvement, job opportunity creation and participation in decision-making (empowerment) than the non-participants.

Khan and Rahaman, (2007) investigated impact of microfinance on living standard, empowerment and poverty alleviation of poor people in the Bangladesh. The study followed random sampling technique, from a city (Chittagong) in Bangladesh and they interviewed the people who are already involved in microfinance activities. From analysis of data, the study found that microfinance has a positive impact on the standard of living of the poor people and on their life style.

Dhungana (2014) studied about the role of microfinance on socio-economic development of Western Development Region of Nepal. The research is based on multi-stage cluster sampling method and 'before' and 'after' comparison has been

used. The study finds that there is a positive impact on occupational status, education status, health status, information access, and women empowerment. Likewise, MF intervention have played positive role to enhance micro-business/enterprise creation, income level, consumption expenditure, and capital expenditure of the people. The study concludes that MF intervention programme has played supportive role for socio-economic transformation of the people through financial and non-financial services however, non-financial part of MF is not enough.

Karim (2017) conducted a study to find out the socio-economic impact of micro finance programs on the development of Bangladesh. The study shows that microfinance programs play a significant role in the development of Bangladesh by providing financial assistance to the lower income but self-employed people. According to the study, the poverty level is minimized and increases the household income of the clients by around one third. It creates positive impact on children's schooling and smoothening consumption level and reducing vulnerability of life of people. MFIs play a role in eradicating poverty, promoting education, improving health and empowering women.

Padhyay (2017) analysed the impact of microfinance in household income and consumption level in Bajura, Nepal. The study used descriptive statistics, one sample test and two sample test in research methodology. Simple random sampling was done to fulfil the purpose. The overall impression of microfinance performance indicates that the microfinance clients, the loan portfolio outstanding, and savings are in increasing trend. Despite these efforts, the level of poverty remains unchanged across the rural households. The current monthly income of control group households is in declining trend at present. The status of female child enrolment in private school has significantly increased irrespective of the level of earning of households.

Pandit (2020) explored the causes of multiple borrowing of Pyuthan Municipality. The study is based on descriptive research design, based on 120 respondents. Convenience sampling method and one structured questionnaire were used. The research objectives were to analyse the effects of supply factors (growth of MFIs, strong competition and service quality) as well as to evaluate how demand factors (consumption demand and micro enterprises) affect the multiple borrowing. The results indicated that MF services had effects on the multiple borrowings of the clients. The study also reveals that multiple borrowing has a significant relation with

growth of MFIs, strong competition, service quality, consumption demand and micro enterprises.

### **Impact of microfinance in Nepal**

Centre for policy studies (2004), evaluates the impact of microfinance programs on poverty reduction in Nepal. The study used focus group discussions method with the clients', in depth interviews 'before' and 'after' comparison. This study has indicated that microfinance programs have not been effective in contributing to the reduction of poverty level as MFIs have not been able to extend their outreach to the ultra-poor and the poor in the hills. The effectiveness of programs in improving socio economic condition is more visible in the change of occupation, increase in food security, household conditions, and ownership of the assets, education and change in health service seeking attitude.

Pant (2009) analyses micro-finance business in Nepal. Micro-finance has made satisfactory progress during the last one and half decade. This progress was achieved purely at the public initiative. It has mostly concentrated in the terai (plain areas) and cities. There is strong need to expand it to the hills, mountains and far flung areas of the terai. However, strong support including policy and finance from the government and other agencies would be necessary to extend it to all places within Nepal.

Adhikari and Shrestha (2013), studied about the economic impact of microfinance of Manamaiju VDC, Kathmandu. Both qualitative and quantitative research methodology is used. The study highlighted that microfinance is an effective tool for bringing positive impact on the economic status of the respondents along with their family members. It has helped to generate extra income for their family and their own use. The extra income allows the respondents family to buy nutritious food, access to modern health care services and they can afford to send their children to the school.

Dhungana (2013) assesses the accessibility of micro-finance services through GrameenBikas Banks of Nepal. The government owned GrameenBikas Banks have played crucial role for maintaining financial inclusion by expanding their outreaches in the rural part of Nepal but still not sufficient. There is need to expand such services to all the districts of Nepal. Government should develop a good mechanism to expand micro-finance services to the target people by encouraging public private partnership

(PPP) models so that high accessibility of micro-finance services can be maintained to the vulnerable people.

Sigdel (2014) explores financial inclusion, financial growth, and financial deepening in Nepal. The study shows majority of Nepalese household are still relying on informal finance for socio-economic activities. Financially excluded households are higher in remote hills and mountain followed by lower hills and terai region. The financial deepening status of Nepal has been found to be improving over the years. Nepal's topographical condition and remoteness has been obstructing on financial inclusion and growth process. Formal financial services are costly for the majority of deprived households of Nepal. The government investment in social sector is not enough that has made lower financial inclusion in Nepal. Public-private sector partnership could do a lot to break the culture of poverty.

Dhakal and Nepal (2016) focused on the contribution of microfinance on socio-economic development of rural community of Syangja. Poor, disadvantaged, marginalize and women are in mainstream of microfinance's programs. The study was based on cross-sectional data and adopted purposive sampling technique. The study reported that there is significant contribution of micro-finance in social change and development. So, microfinance services are more effective to reduce the poverty level and promoted the saving and credit habit of people.

Chapagain and Aryal (2018) focused on the impact of micro finance intervention on livelihood status of Pokhara. The study is based on the randomized control trial approach. Respondents were taken through stratified sampling. The research finds that microfinance intervention has association with occupational status, micro enterprise creation, frequency of loan taken and occupational change. Independent sample t-test shows micro finance intervention increases income level, capital expenditure, consumption expenditure and saving. The study shows that micro finance intervention changes the livelihood status of women of rural areas.

Dhungana (2020) explored the effect of a microfinance program on the living standard of clients of Kaski district. 480 respondents including 240 MF clients, who have at least five years involvement in MFIs operated in the rural area, and rest 240 controlled respondents having a similar background were randomly selected. Data were collected through primary sources by using a semi-structured

questionnaire, observations, and focused group discussions. Randomized control trial method is applied. Parametric tests, non-parametric tests, CFA, and SEM are the statistical tools are used in the study. The study reveals microfinance has a very prominent and crucial role in changing the standard of household in rural areas through self-help group approach and also by assisting employment opportunities.

#### 2.4.3 Summary of literature review and previous theses

Authors (Year)	Objectives	Results
Johnson and Roglay (1997)	To access the impact of microfinance intervention in URAC	The study concluded that URAC's flexible savings facilities support a wide range of livelihood needs including food purchases, emergency health care and insurance for periods of unemployment. The service have demonstrated their usefulness and enabled them both to protect and improve their livelihood.
Asmelash (2003)	To analyze and access the impact of microfinance in Ethiopia.	The microfinance provided to the poor has brought a positive impact on the life of the clients as compared to those who do not get access to these microfinance services. He showed that microfinance has brought a positive impact on income, asset building, and access to schools and medical facilities in the study area.
Kaboski and Townsend (2005)	To evaluate the impact of village level microfinance institutions in rural Thailand.	The result shows that institutions, particularly those with good policies, can promote asset growth, consumption smoothing and

occupational mobility, and can decrease moneylender reliance.

- |                                   |  |  |
|-----------------------------------|--|--|
| Khan and Rahaman, (2007)          | To investigate the impact of microfinance on living standard, empowerment and poverty alleviation of poor people in the Bangladesh | The study found that MF has a positive impact on the standard of living of the poor people and on their life style. Moreover, microfinance has also helped the poor people to come over the poverty line and empower them in the Bangladesh.   |
| Teng, Prien, Mao, and Ling (2011) | To assess the impact of micro-credit on household economics of Cambodia.   | The study reveals that the clients who are involved in microcredit programme have found better living standard due to growth in income and asset. Created more job opportunities and improved household education, women's status, family welfare, and variety of economic activities. Reduced income inequality and poverty through productive use of the micro-credit. |
| Idowu and Oyeleye (2012)          | To examine the impact of microfinance banks on poverty alleviation in Oyo state.   | The result revealed that microfinance has impacted positively on their living standard. Moreover, it revealed that as the size of loan increases, asset acquisition and profit also increases therefore it enhances their standard of living and consequently alleviate poverty.   |
| Chirkos (2014)                    | To observe the role of microfinance on living standard, empowerment and poverty alleviation in Ethiopia.                           | Almost all the clients reported an increase in their incomes which have improved their living standard, have sent their children to school, have been  |

able to pay for medical bills and can feed their families, can cope with future crises using their savings have been empowered economically and their positions in the family as well as society.

- |                                |  |  |
|--------------------------------|--|--|
| Okibo and Makanga (2014)       | To investigate the effects of MFIs on poverty reduction of PAWDEP located in Kiambu.   | The study revealed that MFI, provide microfinance services to different groups of women - productive or active poor and deliver its services. To enhance client's business skills to use credit and establish market channels for their products.  |
| Tariq, Aleemi and Iqbal (2015) | To investigate the role of micro finance on the economic and social development of people in the rural areas of the Province of Sind Pakistan. | The study concludes that there is no significant improvement in economic conditions, health and education needs of buyers before and after taking of micro finance. It further concludes that borrowers believe that the loan amount provided is not sufficient for their needs and both the repayment schedule and interest rate are not reasonable to facilitate them. |
| Karim (2017)                   | To find out the socioeconomic impact of microfinance programs on the development of Bangladesh.  | The poverty level is minimized and increases the household income of the clients by around one third. It creates positive impact on children's schooling, improve health, empower women and smoothening consumption level and reducing vulnerability of life of people.  |

- Dedunu (2018) To investigate the impact of microfinance on living standard of Kurungela people. The result indicated statistically significant associations and impacts between micro-credit, advisory support, saving and living standard of poor people.
- Wook and Laila (2019) To examine the effect of microfinance on poverty alleviation in Pakistan. The results show a statistically significant positive impact of microfinance on household income, ownership of household assets, education and expenditure. Development of MF is an efficient tool for both welfare improvement and poverty alleviation.
- Badiuzzama, Uddin and Hossain (2020) To identify the impact of different microfinance services to poverty alleviation in Bangladesh. The results shows micro-credit, savings, micro-insurance and training influence the poverty reduction in Bangladesh.

### **Impact of microfinance in Nepal**

- Centre for policy studies (2004), To evaluate the impact of microfinance programs on poverty reduction. This study has indicated that the effectiveness of programs in improving socio economic condition is more visible in the change of occupation, increase in food security, household conditions, and ownership of the assets, education and health service seeking attitude though it has not able to reduce poverty level and extend its outreach to the people of hilly area.
- Pant (2009) To analyse micro-finance business in Nepal. Micro-finance has made satisfactory progress during the last one and half



- decade at the public initiative, mostly concentrated in the Terai and cities. There is strong need to expand it to the hills, mountains and far flung areas of the terai.
- Adhikari and Shrestha (2013) To access the economic impact of microfinance of Manamaiju village development committee, Kathmandu. The study highlighted the positive impact on the economic status of the respondents. It helped to generate extra income for their family and their own use. The extra income allows the respondents family to buy nutritious food, access to modern health care services and they can afford to send their children to the school.
- Sigdel (2014) To explore financial inclusion, financial growth, and financial deepening in Nepal. The study shows that 35 percent of Nepalese households are covered up by formal financial institutions. It means majority of Nepalese household are still relying on informal finance for socio-economic activities. Financially excluded households are higher in remote hills and mountain followed by lower hills and terai region. The financial deepening status of Nepal has been found to be improving over the years.
- Dhakal and Nepal (2016) To examine the contribution of microfinance on socio-economic development of rural community of Syangja. The study reported that there is significant contribution of micro-finance in social change and development. So, microfinance services are more effective to reduce the poverty level and promoted the saving and credit habit of

		people.
Padhyay (2017)	To analyse the impact of microfinance in household income and consumption level in Bajura, Nepal.	The overall impression of microfinance performance indicates microfinance clients, the loan portfolio outstanding, and savings are in increasing trend. Despite these efforts, the level of poverty remains unchanged across the rural households. Current monthly income of control group households is in declining trend, status of female child enrolment in private school has significantly increased irrespective of the level of earning of households.
Aryal and Chapagain(2 018)	To examine the impact of micro finance intervention on livelihood status of Pokhara.	The research finds that microfinance intervention increases income level, capital expenditure, consumption expenditure and saving. This changes the livelihood status of women of rural areas.
Dhungana (2020)	To explore the effect of a microfinance program on the living standard of clients of Kaski district.	The study reveals microfinance has a very prominent and crucial role in changing the standard of household in rural areas through self-help group approach and also by assisting employment opportunities.

## 2.4 Research gap

The literature reviewed shows that the debate on microfinance is inconclusive on the impact of microfinance on poverty reduction as the study portray. The study conducted by Pandit (2020) explored the causes of multiple borrowing of the clients in MFIs, which shows that multiple borrowing has significant relation with growth of MFIs but the study doesn't assess the impact of MF services. Dedunu (2018)

investigated the impact of microfinance on living standard of poor touching three fillers of microfinance as credit, advisory support and savings but the research does not shows the impact of insurance services on poor's livelihood. Therefore, the current study tries to find out the impact of MF services including credit, savings advisory support and insurance services on poor people's living standard.

It is noted that the varying conclusions in the text may be accounted for by differences in the methodology used to measure the impact, among other biases. Similarly, the study is different to Wook and Laila (2019) and Badiuzzaman, Uddin and Hossain (2020) in context of research methodology. Wook and Laila (2019) conduct the research using fixed effect panel regressions to find out the effect of microfinance on poverty alleviation which could not shows the position of MF services of the study area. Likewise, Badiuzzaman, Uddin and Hossain (2020) used OLS regression to identify the impact of MF services. The study follows descriptive and correlation research design to know the position of MF services and to know its impact on living standard of people in Bhirkot Municipality.

There has been many research carried out in the world in different times and places to know the impact of MF services. This study is different from others in the case that is trying to find out the impact of microfinance services on living standard of Bhirkot Municipality, Syangja district of Nepal in 2020. This research attempts to discuss about impact in case of living standard indicators. It also discusses about different profile of respondents.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter deals with the methodology adopted in conducting the study. The chapter is organized as follows; research design, population and sampling, nature and sources of data, data collection procedure and instruments, Cronbach alpha and internal consistency and data processing procedure and data analysis methods. Thus, based on these theories, a conceptual framework is developed to show the impact of Microfinance services on living of the members and defines the variables used in the framework.

#### **3.2 Research design**

The study employs descriptive and correlation research design. To implement the analytical portion or to support analytical design correlational coefficient has been used. The method is ideal; as the study involves collecting data from rural and urban members of microfinance institutions (MFIs) of Bhirkot Municipality with a view to analyze the association between microfinance and living standard. The study is carried out to analyse and compare the various indicators of living standard status of borrowers after participating MFI. As far the primary data is concerned, structured questionnaire has been used to collect data.

#### **3.3 Population and sample**

The population of the study encompasses the people who have been engaged in microfinance activities for at least two years and live in Bhirkot Municipality. The study follows the principle of rule of thumb. According to Roscoe (1975), rule of thumb, "Sample size larger than 30 and less than 500 are appropriate for most research because statistical analysis is based on probability, the use of smaller number can make it difficult to show statistical significance." The sample for the study is 100, since 15 questionnaires were returned incomplete and not suitable for the study. The convenience sampling technique is used in the study.

### **3.3.1 Brief description of selected micro-finance institutions located in study area**

The MFIs in Bhirkot Municipality, were selected which have, adopted Grameen Model naming Adhikhola Laghubitta Bittiya Sanstha Limited and Mero Microfinance Bittiya Sanstha Limited.

#### **AndhikholaLaghubittaBittiyaSanstha Limited (ALBSL)**

AdhikholaLaghubittaBittiyaSanstha Limited is a microfinance institution obtained license from Nepal Rastra Bank BAFIA on Bhadra 12, 2073. It started its formal operation from 12 Magh, 2073 and has its head office in Bhirkot Municipality, Syangja. ALBSL follows group lending based on Grameen Bank, Bangladesh model as well as group lending based on ALBSL developed Self Reliant group model through a network of 19 branch offices spread over all 10 districts of Nepal. The total number of clients in ALBSLin Bhirkot Municipality is 1800.

#### **Mero Microfinance BittiyaSanstha Limited**

Mero Microfinance BittiyaSanstha Limited (Mero Microfinance) is joint initiative of 10 institutions (8 commercial banks and 2 development banks). It receives operating license from Nepal Rastra Bank on July, 14 2013. Considering the diversity of country, Mero Microfinance is providing its financial services through a network of 122 branch offices spread over all 77 districts of Nepal to reduce poverty and improve the quality of lives of the landless and asset less rural and urban poor. This support and strengthen the bottom of the socio economic pyramid by facilitating easy and responsiveness access to financial services for the poor, marginalized and disadvantaged to come out of the vicious cycle of poverty. The total number of clients in Mero Microfinance in Bhirkot Municipality is 1500.

### **3.4 Nature and sources of data**

The primary data has been collected with the help of structured questionnaires which has been collected from the field survey. The client's survey has been confined in Bhirkot Municipality to assess the impact of microfinance intervention on living standard. Primary data was collected by distributing questionnaire personally. The fully structured five-point Likert scale questionnaires are developed for the respondents.

### **3.5 Data collection procedure and instrument**

This study is based on primary data to draw the conclusion of the research. The structured questionnaire is used for collecting the data by the clients attached to the MFIs. The client's survey questionnaires were administered to the clients in regular centre meeting conducted by the MFIs.

The questionnaire includes demographic and standard of living transformation related information of the clients and their family due to MF intervention. Structured questions were asked to collect the information from the respondents. The structured questionnaire had multiple-choice questions in which the researcher provided a choice of answers and respondents were asked to select one of the alternatives. Likert scale (considered on 1-5 points scale) is used to measure the respondents' perceptions based on few statements to perceive the impact of microfinance on their overall living standard. The points of the scale indicate the agreement level of the beneficiaries after he or she has received loan from a MFI. '1' represents the high disagreement, whereas '5' represents the highest level of agreement.

The secondary data has been used to find-out the current status of Nepalese MF industry. So, the secondary data has been collected from annual reports/publications of concerned MFIs, World Bank, Central Bank of Nepal, Central Bureau of Statistics, and so on.

### **3.6 Data processing procedure and data analysis method**

Questionnaire is divided into two parts. The first part of questionnaire is focused on the background information about name, gender, age, education and family size. The second part of the questionnaire comprises seven sub categories regarding the Microfinance services used, household income, household assets, health status, and education status. The questionnaire is filled by 100 respondents. The collected data are analyzed through data entry in the Statistical Package for Social Science (SPSS) software. The extensive use of SPSS is incorporated to organize, manage, incorporate and interpret the data. Descriptive as well as inferential statistical tools were implied to achieve the interest of the study.

In descriptive statistics, the mean, standard deviation, percentage, frequency and ranking are calculated to know the position of microfinance services in Bhirkot Municipality. Under the inferential statistics, correlation and

regression are applied. The coefficient of simple determination is applied to measure the percentage or proportion of the total variation on dependent variation. Regression analysis and ANOVA test is also done in this study. As well as reliability of the data is tested through Cronbach alpha.

### **3.6.1 Descriptive statistics**

Descriptive analysis is used to explain the respondents profile and for the different impact assessment indicators. Descriptive analytical tools like frequency, percentage mean and standard deviation is used. The analysed data is presented by descriptive statistics tables. Rank analysis is also used to find the preference of respondents regarding impact assessment indicators.

### **3.6.2 Correlation**

Correlation is used to measure and analyze the degree of relationship between two variables (dependent and independent variables). It indicates how or to what extent the variables are associated with each other.

### **3.6.3 Linear regression**

Linear regression model is adopted for inferior statistics. The regression equation is  $Y = a + b(X) + e_i$  where, Y= Independent variables and X= Dependent variables. It is a set of statistical processes for estimating the relationships among variables. More specifically, regression analysis is used to understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

### **3.6.4 Cronbach alpha and internal consistency**

Cronbach's alpha was used to evaluate the reliability and internal consistency of the questionnaires. The reliability of an instrument or questionnaire is concerned with the consistency, stability, and dependability of the empirical investigation. If the alpha value is higher than 0.9, the internal consistency is believed to be excellent, and alpha value greater than 0.7 is acceptable in research (Blunch, 2008).

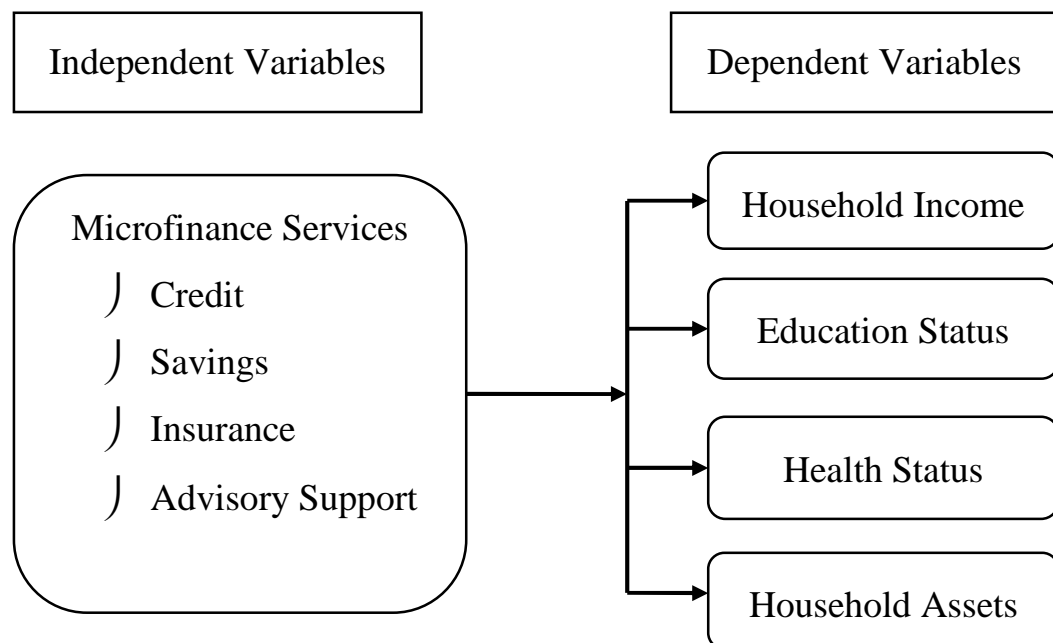
### **3.7 Research framework and definition of variables**

Microfinance encompasses the management of small amount of money through a range of products, and a system of intermediary functions that circulates money in an economy (Sharma, 2005). Microfinance provides wide range of financial and non-

financial services to the poor: savings, credit, insurance, remittance, training and advisory services. Many low income households can be benefitted by these various products of MFI's (Shukran and Rahaman, 2011). This research tries to test the relationship between the dependent and independent variables. The independent variables are the microfinance services (i.e. credit, savings, insurance and advisory service). Similarly, the dependent variable is living standard which has the measures as household income, ownership to household assets, health and education.

Figure 2.1

*Conceptual Framework*



**Definition of variables**

**Microfinance service:** Microfinance is a small loans provided to the poor and vulnerable people without requiring any collateral (Dhakal & Nepal, 2017; Dhungana, 2020). It includes loans, savings, insurance, transfer services and other financial services (Sharma, 2005). Grameen Bank is a popular and leading MF model in the world with its innovative and successful group-based credit program for the rural poor (Khandker, Khalily & Khan 1994). Parallel to its group-based credit and savings process, Grameen Bank has developed a comprehensive social development program (Khan and Rahaman, 2007) which has positive impact on the lives of the poor (Chirkos, 2014; and Dednu, 2018).



**Living standard:** Living standard is the availability of capital to generate sufficient income to get the foods for him and their children, facility of communication, better housing facility, education of children, transport facility, health and medication and clothing for children etc (Marx, 1981). Similarly, microfinance is now using as a tool to increase the living standard of poor community (Akram & Hussain, 2011; Khandker, 2005 and Idowu & Oyeleye, 2012). It is the dependent variable of the study which is categorized under four basic indicators (i.e. education, health status, household income and ownership of assets). These indicators have been also applied by various researchers in order to examine the impact of microfinance. So, these indicators have been selected in order to examine the impact of microfinance on living standard of MFI's clients in Bhirkot Municipality.

**Household income:** Income is one of the important elements of living standard as well as of savings. The MFIs are providing loans to the poor not only to increase their income but also to mobilize their savings (Khan & Rahaman, 2007; Muharremi et al. 2018; & Chirkos, 2014). Reji (2009) found that the members were encouraged to set up their own income generating activities like dairying and broiler rearing, tailoring unit, teashop, etc. MF has positive impact on income of the poor people (Rahman and Ahmad 2010); Adhikari and Shrestha, 2013; Padhaya, 2017; Chapagain and Aryal, 2018). Micro-credit programmes have been able to bring about a marginal improvement in the beneficiaries' income (Chavan and Ramakumar, 2002; Teng, Prien, Mao and Ling, 2011; & Dhungana, 2014).

**Education status:** Since microfinance is considered as a significant tool for social transformation, it has been assumed that educational status of the clients and her family enhances after MF intervention. Once the economic aspects of clients are upgraded, it will obviously help to improve educational status of the clients' family (Adhikari & Shrestha, 2013; and Dhungana, 2014). Microfinance is also expected to improve the possibility of additional expenditures in education of beneficiaries' household members. Asmelash (2003) captured the annual household expenditure on education and the average number of school age children attending school. Microfinance programs has positively affect school enrolment and educational improvement (Khan and Rahaman, 2007; Centre policy for studies, 2004).

**Health status:** MFI also used to support emergency health care as livelihood needs (Johnson and Roglay 1997). Different indicators has been measured the health status

of the clients and her family includes awareness and priority in health, habit of using nutritious food/balance diet, habit of using safe drinking water, use of immunization/medicine, habit of using traditional healers, habit of periodical visit for health check-up at health institutions, awareness of family planning, and environmental/sanitation awareness of clients and her family (Asmelash, 2003; Dhungana, 2014; & Tariq, Aleemi and Iqbal, 2015). Microfinance programs improve poor people's access to healthcare services and make health-related precautionary measures more affordable, although few studies have proven this connection. (Adhikari & Shrestha 2013; and Centre policy for studies, 2004) found that microfinance helps in access of healthcare services to poor people.

**Household assets:** Ownership of durable household assets is regarded as indicator of improvement in the households' welfare. Household durable assets, such as furniture and appliances, represent improvement in the quality of life (Asmelash, 2003; Panda 2009). Reji (2009) noted that a considerable number of respondents acquired furniture, electronic goods and household vessels, business related assets, involving livestock, sewing machine, and work related implements. Microfinance has a positive effect on ownership to household assets (Idowu & Oyeleye, 2012; Wook & Laila, 2019; and Kaboski & Townsend, 2005).

## CHAPTER 4

### RESULTS AND DISCUSSIONS

This chapter mainly incorporates data presentation, analysis and interpretation. Presented data are analyzed and interpreted by using statistical tools like mean, standard deviation, correlation, regression and Cronbach's alpha so as to achieve the results. The primary data collected through questionnaire from 115 respondents out of which 15 were not completely filled. This chapter is organized in to reliability test, respondents' profile, and descriptive analysis through descriptive statistics of five point Likert scale questionnaire and at the end, discussion based on data analysis and interpretation is made.

#### 4.1 Results

The section of the research deals with the results and findings of the study through the analysis of the data collected from the questionnaires filled.

##### 4.1.1 Data presentation and analysis

The section of research deals with the presentation and analysis of the data collected from the questionnaires.

##### 4.1.1.1 Reliability test

The reliability test is done in table 4.1 is shown as:

Table 4.1

##### *Reliability Statistics*

Cronbach's Alpha	N of Items
0.936	25

Source:SPSS Output

The Cronbach alpha has covered 25 items related to beneficiaries of microfinance services to find out the internal consistency of the questionnaires. Since the value of Cronbach alpha for standardized items is 0.936, it shows a good indication of internal consistency of questionnaires. Therefore, the instruments used in this research are considered to be reliable.

#### 4.1.1.2 Respondents profile

This section of the research deals with the clients involved in MFIs since last one or more years. Respondents profile includes gender, age, educational status, and family size.

##### 4.1.1.2.1 Gender respondents

The gender refers to the composition of gender of respondents.

Table 4.2

##### *Frequency and Percentage of Gender Respondents*

Gender	Frequency	Percentage
Male	21	21.0
Female	79	79.0
Others	0	0
Total	100	100.0

Source: Field survey 2020

Table 4.2 shows that 79% of respondents are female. Thus, respondent higher validity remains with female than male.

##### 4.1.1.2.2 Age structure of respondents

The age structure refers to the composition of age of respondents. Age structure has categorized into three classes: less than 25 years, 25-40 years and above 40 years.

Table 4.3

##### *Frequency and Percentage of Age Structure of Respondents*

Age structure (years)	Frequency	Percentage
Less than 25	8	8.0
25-40	59	59.0
Above 40	33	33.0
Total	100	100.0

Source: Field survey 2020

In terms of age, 59% respondents are 25 to 40 years of age involved in microfinance whereas 8% of respondents are less than 25 years of age.

#### 4.1.1.2.3 Educational qualification

The educational structure refersto the level of education they acquired. Educational qualification has categorized into four groups: none, primary, secondary and university and above.

Table 4.4

##### *Frequency and Percentage of Educational Qualification*

Educational experience	Frequency	Percentage
None	31	31.0
Primary	52	52.0
Secondary	16	16.0
University and above	1	1.0
Total	100	100.0

Source: Field survey 2020

Table 4.4 shows that majority of the respondents (52%) has primary education whereas (1%) respondent has university and above.

#### 4.1.1.2.4 Family members

The family members refer to the number of members in the clients' family. The family members are divided into three groups are less than 2 members, 2 to 5 members and more than 5 members.

Table 4.5

##### *Frequency and Percentage of Family Members*

Family members	Frequency	Percentage
Less than 2 members	7	7.0
(2-5)members	61	61.0
More than 5 members	32	32.0
Total	100	100.0

Source: Field survey 2020

Table 4.5 showsthatamong the total respondents, (61%) majority of the respondents have 2 to 5 members in their family and(7%) minority of respondents have less than 2 members in their family.

#### 4.1.1.3. Position of microfinance services and living standard indicators

Microfinance provides different services especially credit, insurance, savings and advisory service to the different types of people for the improvement of their standard of living. The following table illustrates the position of microfinance services and living standard of the people in Bhirkot Municipality. The highest mean has 1 ranking means the respondents are highly agree and 5 means highly disagree.

##### 4.1.1.3.1 Position of microfinance services

The microfinance services used by the clients have been analyzed with the help of mean calculated and ranking. The various microfinance services are mentioned with the help of five indicators in Likert scale and the summary statement of each of the items and overall are shown in Table 4.6.

Table 4.6

##### *Position of Microfinance Services*

Statements	Mean	Ranking
MFIs easily provide loans to members.	4.07	1
The lending rate is reasonable.	2.99	5
Savings in MFIs is beneficial for me and my family.	3.15	3
Insurance provided by MFIs is beneficial.	3.09	4
MFIs provide advisory service.	3.86	2
Overall microfinance services	3.43	

Source: SPSS Output

Table 4.6 displays the mean and ranking of various services of microfinance institutions. The results indicate that majority of the respondents highly agree with easily availability of loans from MFIs (4.07 mean score). Further, the respondents are not sure with the reasonability of lending rate (2.99 mean score, S.D. = 0.99). Hence, the overall mean of microfinance services is 3.43 that means the respondents agree that microfinance services are beneficial to them to some extent.

#### 4.1.1.3.2 Position of household income

Household income is mentioned with the help of five indicators in Likert scale and the summary statement of each of the items and overall is shown in Table 4.7.

Table 4.7

##### *Position of Household Income*

Statements	Mean	Ranking
MFI increases the income of the family.	3.93	1
MFI enhances saving in the family.	3.80	2
Financial position of the family is better than after taking MFIs loans.	3.08	5
MFI helps to deal financial crisis of the family.	3.16	4
MFIs help to reduce dependency on private moneylenders.	3.41	3
Overall household income	3.48	

Source:SPSS Output

Table 4.7 shows the mean and ranking analysis of microfinance services on household income. The results indicate that the majority of respondents agree with MFI helps to rise up their income (3.93 mean score, S.D. = 0.54), and enhances their savings (3.80 mean score, S.D. = 0.62). Whereas the respondents agree to have better financial position after taking loans (3.08 mean score, S.D. = 0.77). Hence, the overall mean of household income shows that the respondents agree that, to some extent, microfinance services are helpful in generating income of the households (i.e. mean score = 3.48).

#### 4.1.1.3.3 Position of education status

Educational status is mentioned with the help of five indicators in Likert scale and the summary statement of each of the items and overall is shown in Table 4.8.

Table: 4.8

*Position of Education Status*

Statements	Mean	Ranking
Participation in MF helps children for going to school.	3.83	1
Participation in MFIs helps in enrolling daughters in the private school like sons.	2.76	4
Participation in MFI improves educational environment at home.	3.16	2
Participation in MF helps to purchase enough stationery for child as required.	2.85	3
Participation in MF makes the family capable to pay for extra-curriculum activity to the child.	2.55	5
Overall educational status	3.03	

Source:SPSS Output

Table 4.8 shows the mean analysis of microfinance services on education. The results indicate that the respondents agree that the participation in MF helps children schooling (3.85 mean score). Similarly, the respondents have moderate response towards paying for extra-curriculum activity to the child (2.55 mean score). Hence, the overall mean of education shows that the respondents have moderate response towards the position of education status after MF intervention. It means that respondents are not sure that MF services are helpful to uplift the education status of their children (3.03 mean score).

#### 4.1.1.3.4 Position of health status

Health status is mentioned with the help of five indicators in Likert scale and the summary statement of each of the items and overall is shown in Table 4.9.



Table: 4.9

*Position of Health Status*

Statements	Mean	Ranking
MFI increases in the awareness regarding use of safe drinking water (filtered/boiled).	3.10	2
Awareness regarding family planning as a result of participating in MF.	2.57	4
Regular visiting HP/ PHC/ Hospital for health checks up as a result of participating in MF.	2.52	5
MFI increases in the awareness regarding use of vaccine/ medicine.	2.78	3
Proper use of toilet as a result of participating in MF.	3.11	1
Overall health status	2.82	

Source: SPSS Output

Table 4.9 shows the mean analysis of microfinance services on health status. The results indicate that the respondents have moderate response on MFIs increases in the awareness regarding proper use of toilet (3.11 mean score) and use of safe drinking water (3.10 mean score). Hence, the overall position of health status shows that there is no substantial changes in health status of the clients by the microfinance services (2.82 mean score). It means that respondents are not sure that MF services are helpful to improve their health status.

#### **4.1.1.3.5 Position of ownerships to household assets**

Ownership to household assets is mentioned with the help of five indicators in Likert scale and the summary statement of each of the items and overall is shown in Table 4.10.

Table: 4.10

*Position of Ownerships to Household Assets*

Statements	Mean	Ranking
MFI helps to have ownerships of appliances and electronics.	3.46	3
MFI helps to have ownerships of livestock.	3.72	2
MFI helps to have an ownership of transportation related assets.	2.25	5
Microfinance helps to ownerships of land.	2.28	4
MFI helps to have ownership of agricultural equipment's.	3.86	1
Overall Ownership of Household Assets	3.11	

Source:SPSS Output

Table 4.10 shows the mean analysis of microfinance services on ownership of household assets. The results indicate that the respondents agree on having ownerships of agricultural equipment (3.86 mean score). Whereas the respondents have low response on owning transportation related assets and land with mean score 2.25 and 2.28 respectively. Hence, the overall mean of ownership to household assets shows that the respondents have moderate response towards the position of education status after MF intervention. It means that the respondents are not sure that MF services are helpful to own household assets (mean score = 3.11).

#### 4.1.1.3.6 Ranking of total of independent and dependent variables

This section of the research deals with descriptive statistics i.e. mean and standard deviation and ranking of the total of independent and dependent variables.

Table 4.11

*Ranking of Independent and Total of Dependent Variables*

Variables	Ranking	Mean
Microfinance Services	-	3.43
Household Income	1	3.48
Education	3	3.03
Health Status	4	2.82
Household Assets	2	3.11

Source: SPSS Output

Table 4.8 shows that the household income of the clients' increases as a result of participating in microfinance program. Among various indicators of living standard, household income ranks first, followed by household assets, education status and health status of the clients'. Hence, household income has demonstrated other services of microfinance.

#### 4.1.1.4 Association between of microfinance service and indicators of living standard

Correlation is a statistical technique that show relationship between dependent (household income, ownership to household assets, health and education status) and independent variables (microfinance service). It indicates the strength and direction of linear relationship exists between the variables set. Correlation can take on any value in the range [-1, 1]. The sign of the correlation coefficient indicates the direction of the relationship, while the magnitude of the correlation (how close it is to -1 or +1) indicates the strength of the relationship. The level of significance for the correlation (a level of 0.05 or smaller is considered statistically significant).

Table 4.12

#### *Association between Microfinance Service and Indicators of Living Standard*

		<b>Correlations</b>				
		Microfinance Service	Household Income	Education Status	Health Status	House hold Assets
Microfinance service	Pearson Correlation	1	.460**	.338**	.427**	.405**
	Sig. (2-tailed)		.000	.001	.000	.000
	N	100	100	100	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output

From the table 4.12, the correlation coefficient between microfinance services and household income, education status, health status of the clients and ownership to household assets was found to be 0.460, 0.338, 0.427 and 0.405 respectively; since p

value is less than 0.01, it is significant at 0.01 level or this is significant at the 0.01 level as p value is less than 0.01. It means that microfinance services have moderate relationship with the household income, education status, health status of the clients and ownership to household assets.

#### **4.1.1.5 Linear regression analysis of microfinance on impact assessment indicators**

Linear regression is a statistical method that allows summarizing and studying relationships between the dependent variables (household income, education, health status and ownership of household assets) and independent variables (microfinance services).

##### **4.1.1.5.1 Analysis of impact of microfinance service on household income**

The impact of microfinance on household income of clients has been examined with the help of following regression:

Table 4.13

*Model Summary of Microfinance Service and Household Income*

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.460 <sup>a</sup>	.211	.203	.46357

a. Predictors: (Constant), Microfinance service

The R value represents the simple correlation between x and y variables. In table 4.13, R=0.460 which indicates a moderate positive association. Similarly, R-squared is a statistical measure which indicates how much of the total variation in the dependent variable can be explained by the independent variable.  $R^2$  value is also called as the coefficient of determination. The value of R square 0.211 means that microfinance services explain 21.10% of the variability of household income.

The table 4.14 is the ANOVA table, which reports how well the regression equation fits the data (i.e., predicts the dependent variable) and is shown below:

Table 4.14

*ANOVA: Microfinance Service and Household Income*

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.643	1	5.643	26.257	.000 <sup>b</sup>
	Residual	21.060	98	.215		
	Total	26.702	99			

a. Dependent Variable: Household income

b. Predictors: (Constant), Microfinance service

Table 4.14 indicates that the regression model predicts the household income significantly well. Here, p value is 0.000 i.e.  $p < 0.01$  and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

The table 4.15 is the coefficient table, which provides the necessary information to predict household income from microfinance service, as well as determine whether microfinance services contribute statistically significantly to the model (by looking at the “Sig.” column).

Table 4.15

*Coefficient: Microfinance Service and Household Income*

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.753	.340		5.162	.000
	Microfinance Service	.502	.098	.460	5.124	.000

a. Dependent Variable: Household income

The table 4.15 shows that the coefficient for household income is 0.000 ( $p < 0.01$ ) that means the change in microfinance services helps to generate household income of the clients involved in MF services within Bhirkot Municipality.

#### 4.1.1.5.2 Analysis of impact of microfinance service on education status

The impact of microfinance on education status of clients has been examined with the help of following regression:

Table 4.16

*Model Summary of Microfinance Service and Education Status*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.338 <sup>a</sup>	.114	.105	.68627

a. Predictors: (Constant), Microfinance service

Here, R= 0.338 which indicates a positive association. The value of R square is 0.114 means that microfinance services explain only 11.4% of the variability of education status.

Table 4.17

*ANOVA: Microfinance Service and Education Status*

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.955	1	5.955	12.645	.001 <sup>b</sup>
	Residual	46.155	98	.471		
	Total	52.110	99			

a. Dependent Variable: Education status

b. Predictors: (Constant) Microfinance service

Table 4.17 indicates that the regression model predicts the education status has significantly well. Here,  $p < 0.05$  and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is good fit for the data).

Table 4.18

*Coefficient: Microfinance Service and Education Status*

		<b>Coefficients</b>				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.260	.503		2.506	.014
	Microfinance Service	.516	.145	.338	3.556	.001

a. Dependent Variable: Education status

The table 4.18 shows that the coefficient for health status is 0.001 ( $p < 0.01$ ) that means the change in microfinance services helps to improve the education status of the clients involved in MF services within Bhirkot Municipality.

#### **4.1.1.5.3 Analysis of impact of microfinance service on health status**

The impact of microfinance on health status of clients has been examined with the help of following regression:

Table 4.19

*Model Summary of Microfinance Service and Health Status*

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.427 <sup>a</sup>	.182	.174	.88587

a. Predictors: (Constant), Microfinance service

Here,  $R=0.427$  which indicates a positive association. The value of R square is 0.182 means that microfinance service explains only 18.2% of the variability of health status.

Table 4.20

*ANOVA: Microfinance service and Health Status*

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.148	1	17.148	21.851	.000 <sup>b</sup>
	Residual	76.907	98	.785		
	Total	94.054	99			

a. Dependent Variable: Health status

b. Predictors: (Constant), Microfinance service

Table 4.20 indicates that the regression model predicts that health status significantly well. Here,  $p < 0.05$  and that indicates, overall, the regression model statistically significantly predicts the outcome variable (i.e. it is a good fit for the data).

Table 4.21

*Coefficient: Microfinance Service and Health Status*

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.188	.649		-.290	.772
	Microfinance Service	.875	.187	.427	4.674	.000

a. Dependent Variable: Health status

The table 4.21 shows that the coefficient for health status is 0.000 ( $p < 0.01$ ) that means the change in microfinance services helps to improve the health status of the clients involved in MF services within Bhirkot Municipality.

#### **4.1.1.5.4 Analysis of impact of microfinance service on ownership of household assets**

The impact of microfinance on ownership household assets of clients has examined with the help of following regression:



Table 4.22

*Model Summary of Microfinance Service and Ownership to Household Assets*

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.405 <sup>a</sup>	.164	.155	.6829

a. Predictors: (Constant), Microfinance Service

Here,  $R=0.405$  which indicates a positive association. The value of R square 0.164 means that microfinance services explain only 16.4% of the variability of ownership to household assets.

Table 4.23

*ANOVA: Microfinance Service and Ownership of Household Assets*

<b>ANOVA<sup>a</sup></b>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.954	1	8.954	19.199	.000 <sup>b</sup>
	Residual	45.706	98	.466		
	Total	54.660	99			

a. Dependent Variable: Ownership of Household Asset

b. Predictors: (Constant), Microfinance service

Table 4.23 indicates that the regression model predicts the ownership of household assets is significantly well. Here,  $p < 0.05$  and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

Table 4.24

*Coefficient: Microfinance and Ownership of Household Assets*

Model		Coefficients <sup>a</sup>				
		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
B	Std. Error	Beta				
1	(Constant)	.943	.500		1.886	.062
	Microfinance Service	.633	.144	.405	4.382	.000

a. Dependent Variable: Ownership of Household Asset

The table 4.24 shows that the coefficient for ownership to household asset is 0.000 ( $p < 0.01$ ) that means the change in microfinance services helps to earn household assets to the clients involved in MF services within Bhirkot Municipality.

#### 4.1.2 Findings

- i. From the demographic table, the study found that there is lion share of (79%) female respondents than the (21%) male respondents in participation of microfinance. Further the study shows that respondents between 25 to 40 years of middle age are mostly involved in microfinance compared to other aged groups. In case of family size, families more than 2 members in family are engaged in microfinance. In view of educational experience, the most of beneficiaries (52%) has primary level of education and(31%) respondents have no formal education.
- ii. The study shows that the overall mean value of MF services is 3.43 which means that the respondents agree, to some extent, that MF services are beneficial to the clients involved in MFIs within Bhirkot Municipality. According to the rank analysis of microfinance services, the study shows that credit service is mostly appreciated by the respondents; which is followed by advisory support, savings and insurance provided are also well appreciated. Moreover, the respondents have moderate response towards the lending rate.
- iii. The study shows that overall mean value of household income is 3.48 which means that the most of the respondents agree that MF services improve their household income to some extent. From the regression analysis, the p-values

for household income is 0.00 which is less than 0.01 (1% level of significance) that shows MF services helps to generate household income of the clients involved in MFIs within Bhirkot Municipality whereas the correlation result shows that MF services and household income have positive relationship between them. When it comes to R-square ( $R^2$ ) analysis, it can be observed that MF services explain only 21.10% of the variability of household income.

- iv. Similarly, the study reveals that overall mean value of education status is 3.03 which means that the respondents are not sure of participating in microfinance services are helpful to uplift their education status. From the regression analysis, the p values for education status is 0.001 which is less than 0.01 which shows MF services helps to uplift the education status of the clients involved in MFIs within Bhirkot Municipality whereas the correlation result shows that MF services and education status have positive relationship between them. When it comes to the  $R^2$  analysis, it can be observed that MF services explain only 11.4% of the variability of education status.
- v. Further the study reveals that overall mean value of health status is 2.82 which means that the respondents are not sure of MF services are helpful to improve the health status of the clients. From the regression analysis, the p values for health status is 0.000 which is less than 0.01 which shows MF services are helpful to improve the health status of the clients involved in MFIs within Bhirkot Municipality whereas the correlation result shows that MF services and health status have positive relationship between them. When it comes to the  $R^2$  analysis, it can be observed that MF services explain only 18.2% of the variability of health status.
- vi. Similarly, the study reveals that overall mean value of ownership to household assets is 3.11 which means that the respondents are not sure of MF services are helpful to own household assets to the clients. From the regression analysis, the p values for ownership to household assets is 0.000 which is less than 0.01 which shows MF services helps to own household assets to the clients involved in MFIs within Bhirkot Municipality whereas the correlation result shows that MF services and ownership to household assets have positive relationship between them. When it comes to the  $R^2$  analysis, it can be observed that MF

services explain only 16.4% of the variability of ownership to household assets.

#### **4.2 Discussions**

The main purpose of the current study was to explore the impact of microfinance on the living standard lives of people in Bhirkot Municipality in Syangja district of Nepal. The study examines the impact of microfinance services on four indicators of living standard are household income, education status, health status and ownership to household assets. Of the four dimensions across which various indicators were captured by the survey, a substantial emphasis was placed on household income.

The finding of the study shows that respondents slightly agree with the microfinance services in overall. This study is consistent with the Johnson and Roglay (1997); Kaboski and Townsend (2005); Dednu (2018); and Badiuzzaman, Uddin and Hossain (2020). Kaboski and Townsend (2005) suggested that Production Credit Groups (PCGs) and women groups, institutions that typically lend cash, had positive impact on households. Johnson and Roglay (1997) suggested that the service have demonstrated their usefulness and enabled them both to protect and improve their livelihood. The reason for the similar outcome is because of MFIs service delivery all over world is based on Grameen Bank model. So, the services provided by them and their impact on living standard might be similar.

According to the findings of the study microfinance services have positive impact on the household income. The study is consistent with the past studies by Chavan and Ramakumar(2002); Reji(2009); Teng, Prien, Mao and Ling(2011) and Chapagain and Aryal (2018) which explained that microfinance services have positive impact on income of the households. Chapagain and Aryal (2018) found that MF intervention increases income level, capital and consumption expenditure and saving. The reason for the similar outcome may be because of easy accessibility of credit with similar lending methodology (i.e. easy repayment schedule, no requirement of collateral, door step service, etc.) and strong discipline in the system. On the other hand, the borrowers used the lending amount provided by MFIs in productive sectors which increases their income and improve the living condition of the poor people. The credit plus services of mf helps to generate family employment and creation of micro enterprises.

The study found that microfinance services have positive impact on education status and health status of the clients. : One of the first things poor people all over the world does with new income from microenterprise is investing in their children's education. Studies show that children of microfinance clients are more likely to go to school and stay in school longer. Student drop-out rates are much lower in microfinance-client households. The result is consistent to the study of Asmelash, 2003; Centre for policy study (2004); Khan & Rahaman, 2007; Adhikari & Shrestha, 2013; Dhunagana, 2014; and Ume & Laila, 2019 which suggested that microfinance services have positive impact on education status and health status of the clients. Adhikari & Shrestha, 2013 suggested that respondents can afford to send their children to school and access to modern health care services because MFIs helps to generate extra income for their family. This is generally due to greater awareness of education to children and importance of health services and hygiene related gained by attending group meetings and from increased mobility that allows women to seek out such services. There are no studies that specifically address the link between microfinance and improved access to safe drinking water and sanitation. However, there is good evidence that increased earnings, stemming from access to financial services, lead to investments to improve housing, water, and sanitation, which in turn improve health outcomes. However, the result is inconsistent to Tariq, Aleemi & Iqbal (2015) which is explained that there is no significant improvement in education needs of buyers before and after taking microfinance. The borrowers believe that loan amount provided is not sufficient for their needs. The reason for the difference in the outcome may be because of the impact of male borrowers' dominance. The loans extended to women are associated with more positive effects on microcredit than males because women are less inclined to misuse loans and make proper decision on household requirements.

Another impact of microfinance that found significant is ownership to household assets in the study. The result is consistence with the study of Asmelash (2003);Centre for policy studies (2004); Kabosti and Townsend (2005); Khan and Rahaman (2007); Panda (2009); Wook and Laila (2019); and Dhungana (2020). Asmelash (2003); and Centre for policy studies (2004) noted that MF services have positive impact on ownership to household assets. Idowu and Oyeleye (2012) revealed that after being participated in microfinance program, assets acquisition and profit earning of the

clients increases which enhances the standard of living and consequently alleviate poverty. The study found similar result due to the factors of ownership to agricultural equipments and livestock is increased after MF intervention whereas the result shows MF services has not any major impact on other factors like ownership of transportation related assets and lands.

## Chapter 5

### SUMMARY AND CONCLUSIONS

#### 5.1 Summary

As poverty is known to be the inability to attain a minimal standard of living, Microfinance is a key to alleviate poverty that certainly puts resources in the poor's hands to live an enhanced standard of life Anyanwu (2004). Most of the past literature concluded that there is a significant positive relationship between poverty reduction and microfinance. Despite the long history of microfinance and the large number of institutions involved in providing microfinance facilities in Nepal, their effectiveness in alleviating poverty in the country is not clear.

This research centers on two major questions: first, it assesses the MF service position of the area i.e. What is the position of MF services in Bhirkot Municipality; and second, it examines the impact of MF services on living standard of the people i.e. what is the impact of MF services on living standard of the people in Bhirkot Municipality.

The study is based on convenience sampling method due to which the result may not be free from bias. The accuracy of the analysis heavily relied on the data provided by the people involved in microfinance programs in Bhirkot Municipality in Syangja district of Nepal so, the result may fail to represent the actual scenario of the whole country.

The descriptive and analytical research design is employed in this study. Survey research strategy is used which allows quantitative data collection and analysis using descriptive and inferential statistics. Quantitative research methodology is also concerned with the collection and analysis of data in numeric form. The study employs a questionnaire designed to cover major aspects of living standard. Data analysis is to outline the major findings with keeping in view that after obtaining the financial services from the MFIs if a person succeeded to upgrade their living standard. It was noted from the information gathered; out of the 115 surveys directed to respondents in Bhirkot Municipality, 100 questionnaires were filled. This translated to an 86.96% response rate, which is viewed as good to make conclusions for the

study. Data are described by using tables, frequency, percentage, mean, standard deviation; impact tested using correlation and regression analysis.

The study concludes that the credit service provided by MFIs is appreciated by its clients followed by the advisory support, savings in MFIs and insurance facilities. The study further concludes that microfinance services have positive impact on living standard of the people in Bhirkot Municipality. The results show that household income is ranked first as factor preference. Therefore, MFI's should give adequate attention to enhance non-financial services (micro-credit with non-financial services) such as provision of business/entrepreneurship skills, and awareness increment related to health, education, human rights, and other relevant issues that will improve living condition of the people significantly.

## **5.2 Conclusions**

This research focuses on impact of microfinance services on living standard of people in Bhirkot Municipality of Syangja district in Nepal. From the above discussion, it can be concluded that there is a significant positive relationship between microfinance services and living standard of the people. The credit service provided by the MFIs is widely appreciated by its clients. The majority of the clients are agreed with the microfinance services provide to them. It is concluded from the analysis that provision of loan facilities and acquiring the necessary skills on how to manage the funds to generate income and savings serves as a way to improve living standard. The findings also depicts that significant portion of the respondents deem the interest rate of micro-credit is reasonable despite the fact that the interest rate of microcredit is higher than commercial banking.

Further it revealed that the involvement in credit program had a significant positive impact on household income, acquisition of household assets, education and health status which are essential in improvement of living standard. The research finds that the clients' income increases after the MFIs intervention and the acquisition of agricultural equipment, livestock and housing appliances get easy from them thereafter. Also concludes that a household that is financially empowered be able to educate their children, enrol their daughters in private school, have an access to clean water, and get better health facilities which are the basic measures of living standard.



In conclusion, microfinance services have significant positive impact on the living standard of the people in Bhirkot Municipality of Syangja district in Nepal. It has helped them to empower themselves and reduces dependency on private money lenders. Therefore, MFIs are contributing to improve the living standard of people and also offering human development programs in spite of the debate about higher interest rate.

### **5.3 Implications**

This research may be useful to the microfinance organization to shape their future plans for development of nation through by reducing the poverty and improving the living condition of the poor people.

#### **Practical implications**

- i. The most significant impact is demonstrated by the credit services of microfinance, other services are lagging behind. Thus, MFIs also need to focus on financial innovation and new product design with more training and capacity building skills etc., which can satisfy the need and improve the living standard of poor households.
- ii. Large numbers of people are still depending on informal lending system in the country especially in hilly and rural areas due to poor financial inclusion. Therefore MFIs should made huge efforts to build up inclusive financial environment in hilly and rural areas.
- iii. NRB should formulate well-functioning and realistic policies in order to enhance the contribution of MF industry towards poverty alleviation.
- iv. NRB should monitor the microfinance activities to strengthen the capacity of management and promote the effectiveness of communities' service.
- v. The MF services show positive impact on living standard of people imply that microfinance is important in reducing poverty and in enhancing social welfare in Nepal. Therefore, the government should provide necessary support to the MFIs in order to improve their performance, magnitude and type of impacts towards poverty alleviation.

**Suggestions for future researcher**

- i. The study has been limited to the Bhirkot Municipality as other further research can be made on different geographical region.
- ii. This study has considered only four indicators of living standard. So, the further research can be conducted considering other indicators and can be used some advance statistical tools.
- iii. Further research can be done in a bigger scale with large sample size, which could shed light on how MF activities affect the living conditions of the people. In addition another area that has not been investigated is the difficulties that the borrowers face to repay the loan deserves to be studied by future researchers in the field.

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## APPENDICES

### Questionnaire

We are studying Masters Program at Central Department of Management (CDM), Tribhuvan University, Kathmandu. We have designed the following questionnaire for the study of the impact of Microfinance on the marginalized and unprivileged section of the society in Bhirkot and further scope of development, which requires for our thesis work as an integral part of our study. We would appreciate if you fill this two-page questionnaire. It will take approximately 10-15 minutes. We expect your kind cooperation in this respect.

1) What is your gender?

Male                      Female                       Others

2) What is your age?

Less than 25 years                       25- 40) years                      Above  40 years

3) Do you have any educational experience?

None                       Primary                       Secondary                       University and above

4) How many family members do you have?

Less than 2 members                       (2-5) members                       More than 5 members

5) The number of following table indicates the degree of satisfaction or agreement level (on a scale 1-5) of the household or a person as he or she has received loan from a microfinance institution.

6) Please tick the one.

#### I. MICROFINANCE SERVICES USED

S.No.	Statements	Highly Disagree	Disagree	Not Sure	Agree	Highly Agree
1.	MFIs easily provide loans to members.					
2.	The lending rate is reasonable.					
3.	Savings in MFIs is beneficial for me and my family.					
4.	Insurance provided by MFIs is beneficial.					
5.	MFIs provide advisory service.					

## II. HOUSEHOLD INCOME

S.No.	Statements	Highly Disagree	Disagree	Not Sure	Agree	Highly Agree
1.	Microfinance increases the income of the family.					
2.	Microfinance enhances the savings in the family.					
3.	Financial position of the family is better than before taking MFIs loans.					
4.	Microfinance helps to deal the financial crisis of the family.					
5.	Microfinance reduces dependency on private money lenders.					

## III. EDUCATIONAL RELATED

S.No.	Statements	Highly disagree	Disagree	Not sure	Agree	Highly agree
1.	Participation in microfinance helps children for going to school.					
2.	Participation in MFIs helps in enrolling daughters in the private school like sons.					
3.	Participation in microfinance improves educational environment at home.					
4.	Participation in microfinance helps to purchase enough stationery for child as required.					
5.	Participation in microfinance makes the family capable to pay for extra-curriculum activity to the child.					

**IV. HEALTH RELATED**

S.No	Statements	Highly Disagree	Disagree	Not Sure	Agree	Highly agree
1	Microfinance increases in the awareness regarding use of safe drinking water (Filtered/boiled)					
2	Awareness regarding family planning as a result of participating in microfinance.					
3	Regular visiting HP/PHC/Hospital for health check-up as a result of participating in microfinance.					
4	Microfinance increases in the awareness regarding use of vaccine/medicine.					
5	Proper use of toilet as a result of participating in microfinance.					

**V. OWNERSHIP TO HOUSEHOLD ASSETS**

S.No.	Statements	Highly disagree	Disagree	Not sure	Agree	Highly agree
1.	Microfinance helps to have ownerships of Appliances and electronics.					
2	Microfinance helps to have ownerships of livestock.					
3	Microfinance helps to have ownership of transportation-related assets.					
4	Microfinance helps to have ownership of land.					
5	Microfinance helps to have ownership of agriculture equipments’.					

*Thanks for your cooperation*