

ROLE OF MICROFINANCE SERVICES ON LIVING STANDARD

(A Case Study of Phalewas Municipality At Parbat District)

A Thesis Proposal

By

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1. Background of the Study

The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: Micro and Finance which, literally means small credit. The term 'Micro' means "very small" and 'Finance' refers to the theory and practice of monetary credit, banking and promotion of operations in the most comprehensive sense. It includes money, credit, banking, securities, investment, speculation, foreign exchange, promotion reorganization, underwriting, brokerage, trusts, etc. Whereas, the term 'credit' refers to the "borrowing up to a certain limit allowed by a bank, etc. to an individual or a company". As mentioned in the World Development Report, 'microfinance' includes credit, savings and insurance and through it poor households have an access to the capital that helps to create or expand microenterprise.

According to James Roth, "Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings and micro-insurance."

The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions."

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

Thus Microfinance is the supply of loans, savings, and other basic financial services to the poor" (CGAP). Microfinance gives financial services like loan facility, saving opportunity, transfer of money and insurance of health and business, to the poor people which are ignored by commercial banks. Microfinance helps these persons for smooth working of their business and makes their own asset.

Professor Mohammad Yunus is the pioneer of Micro financing Ideas in Grameen Bank Bangladesh. According to him 5 % of people, which use this credit go out from poverty in every year. In past mostly all poor people fulfilled their need by different financial relations like informal money lenders, local shop keepers, landlords but they charged high interest rate to the poor. Saving was provided by different informal channels like saving and credit clubs, links and other cooperative saving societies. But this method is unpredictable and not safe and Commercial Banks not consider these people as their target market. So in the past these people remained unbanked and not got required loan on time.

The microfinance sector was served by cooperatives and normal banks until 1980, when a number of pilot projects and initiatives were implemented to introduce the financial and banking services to help poor and women. However, few groups of poor people were benefited, but at the end these service were found ineffective.

During the 1990s and early 2000s, the government moved further to strengthen the Microfinance Institutions to provide financial service to poor and women, with the formation of five Regional Development Banks (RDBs) in each Development region based of Grameen model with the sole objective to provide micro-credit services to the poor and women. Eventually these Regional Development Banks transformed to Microfinance Development Banks (MFDBs) after privatization and licensed as class 'D' financial Institutions.

Soon after in early 2000s, a number of private microfinance and NGOs came into existence with microfinance programs. Under Grameen Model, NGOs such as Nirdhan Utthan Bank, Center for Self-help Development (CDF) successfully implemented microfinance program and later transformed to Microfinance Development Banks. Similarly other Microfinance Development Banks, Chhimek Bikas Bank Ltd. (CBB), Deprosc Bikas Bank (DBB) and Nerude Microfinance Development Bank Ltd. (NMDB), were also formed.

During early 2000s, NGOs which were involved in community based financial activities were also legalized and licensed by Nepal Rastra Bank (NRB) to formalize micro financing services, as a result Financial Intermediary NGOs (FINGOs) were formed. Wholesale funding institutions were also formed during the early 2000s period. Nepal Rastra Bank formed Rural Self-Reliance Fund (RSRF) in the year 1991 to provide financial assistance to NGOs and Cooperatives. Rural

Microfinance Development Center (RMDC) is the one such wholesale organization that was formed in 1998 under the Public Private Partnership (PPP) Program, where Nepal Rastra Bank has 26% stake and remaining stakes hold by 13 commercial banks. Sana Kisan Bikas Bank Ltd. (SKBBL) was formed in 2001 with the objective to finance Small Farmer Cooperatives Ltd. (SFCLs) and the National Cooperative Development Bank (NCDB) was formed in 2003 to support and finance the Cooperative organizations in the country. Nepal Rastra Bank, the central bank of the country regulates the Microfinance Development Banks (MFDBs) and Financial Intermediary NGOs (FINGOs) while the Small Farmer Cooperatives Ltd. (SFCL) and Savings and Credit Cooperatives (SACCOs) are governed by Cooperative Laws.

All types of Microfinance services in the country are provided by Microfinance Institutions (MFIs) working as regulated MFDBs, FINGOs, SFCL, and SACCOs.

Nirdhan Utthan Bank Ltd., Chhimek Bikas Bank Ltd., and Swabalamban Bikas Bank are the top three Microfinance Institutions in the country. Serves almost quarter of the total borrowers, Microfinance Development Banks (MFDBs) servers almost the half of the borrowers and the remaining borrowers are serviced by FINGOs and Cooperatives (NRB Report)

2. Statement of the Problem

Nepal is going to be listed as a developing country, but Nepal is known as poorly managed country despite of resources and potential that can be utilize. Most of the people are involved in agriculture, but the contribution of agriculture in GDP is only 32% (2015/16), i.e. very low, so most of the people who are in rural area are under the poverty line.

From the development side of the nation, government gives the first priority to the urban area. so till yet rural area one step behind than urban area in terms of:

Transportation	Health Facility
Education	Bank and Financial access
Women empowerment	Skill full training program etc.

For the linear development of the nation Microfinance plays the crucial role and helps to improve the living standard of the people through provide the funds to those who want to do

new. Provide skillful training basically for women, poor and low cast people who they are unemployed. Provide the insurance facilities to the farmers as well as business holder. There are many issues as mentioned below to which attention has to be provided, this study us expected to address these issue:

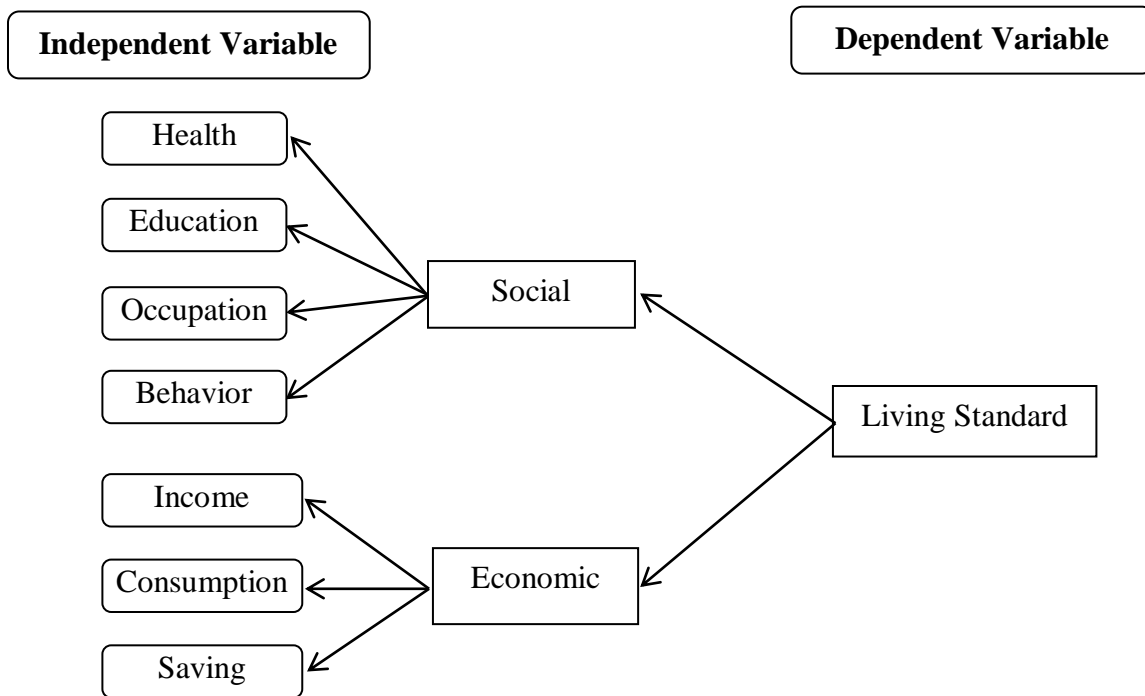
1. What are the changes in literacy, health, consumption pattern and saving habit awareness of the rural people especially women and low poor people before after participating in microfinance?
2. Do the participations are satisfied with the microfinance services?
3. Does the micro finance improve the social and economic status of the beneficiaries?

3. Objectives of the Study

Micro finance is emerging concept in Nepal. The value of microfinance in Nepal is increasing day to day .The main objective of the study is to find out the living standard of the people's by measuring the following supportive objectives:

1. To analyze the change in education and health condition, consumption and saving behavior of the rural people before and after participating in microfinance.
2. To evaluate the participations satisfaction among the role of microfinance services.
3. To assess the impact of microfinance on socio-economic aspect of the people's(basically poverty reduction)

4. Conceptual Framework



5. Significance of the study

This research is about micro finance and its impact on living standard of poor people of the society. So the study involves effective management of microfinance. The significance of the study lies on that, it will try to explore the impact and service of micro financing project for small farmers; try to find out the poverty level, education level, women empowerment ,socio and economic status, so that it will helps to show the positive and negative impact of the micro finance on the living standard. This study may also helpful to the micro finance company, as it will be shown the weakness and threats along with best opportunities so that the institution may improve their program and will apply newly.

This study will be taken as a basis point of the other researcher while they are doing in other district.

6. Limitation of the study

In Nepal, 65 microfinance are in operated but the study has limited on the study of two microfinance, one has been national level and another has been district level. So the limitations of the study are:

1. The study might not cover the whole micro finance institutions, only two companies represent the whole institutions.
2. This study based on the opinion expressed by microfinance clients, so the reliability of the research depends upon answer given by them.
3. This study has been prepared on the basis of sampling so the result will not free from bias.
4. Respondents has limited as it covers the limited area of the district not only the whole area.
5. The data collection restricted only within the Parbat district so the result may fail to represent the actual scenario of the whole country.

Finally the accuracy of the analysis heavily relied on the data provided by the people involved in microfinance program and data provided by the finance.

7. Literature Review

Microfinance is not a new development, it is now considered as one of the most important and an effective mechanism for poverty alleviation, that's why? Because microfinance included the provision of collateral free loans to poor people especially in rural areas at full cost interest rates that are repayable in installment. It also provided the precious information on ways to improve the health, education, legal rights, sanitation and other living standards, which are of relevant concerns for the poor. By providing opportunities for self-employment, microfinance programs have significantly improved women's security, autonomy self-confidence and status within the households. To identify the impact of microfinance on living standard of the poor people, the researcher has chosen their sample based on the random sampling technique, from one district (Chittagong) in Bangladesh and they interviewed the people who are already involved in microfinance activities. Therefore, the accuracy of the analysis heavily relies on the data provided by the people, they interviewed.

From the analysis of data, researcher found that microfinance has the positive impact on the standard of living of the poor people and on their life style. It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves. There is an argument that the interest rate of MFIs is high, but the researcher traced that most of the respondents of their interview, did not agree on this issue and found it to be reasonable. In spite of the debate about higher interest rate, MFIs are contributing not only in alleviating the poverty and improving the living standards of the poor people, but also in offering extensive human development programs in Bangladesh .[Mohammad Arifujjaman and Anisur Rahaman,2007]

The poorest can benefit from microfinance from both an economic and social well being point-of-view, and that this can be done without jeopardizing the financial sustainability of the MFI. If microfinance is to be used, specific targeting of the poorest will be necessary. Without this, MFIs are unlikely to create programs suitable for and focused on that group.(Jonathan Morduch and Barbara Haley 2001: PP 5)

Microfinance interventions have also been shown to have a positive impact on the education of clients' children. Littlefield, Murdoch and Hashemi (2003, p.4) state that one of the first things that poor people do with new income from microenterprise activities is to invest in their children's education. Studies show that children of microfinance clients are more likely to go to school and stay longer in school than for children of non-clients. Again, in their study of FOCCAS, client households were found to be investing more in education than non-client households. Similar findings were seen for projects in Zimbabwe, India, Honduras and Bangladesh.

Robinson (2001) in a study of 16 different MFIs from all over the world shows that having access to microfinance services has led to an enhancement in the quality of life of clients, an increase in their self-confidence, and has helped them to diversify their livelihood security strategies and thereby increase their income Ministry of Finance (2010/2011), The micro-finance program has provided substantial help and facility to the ultra-poor families. The micro-finance institutes (MFI) are providing door to door

Microcredit services to those ultra-poor families who have no collateral guarantees to produce, and are not capable of fulfilling the banking requirements for credit eligibility. Such families are able to create their own assets by paying their micro-credits in small installments out of their

earnings made by engaging themselves in small entrepreneurial activities. Micro-finance institutes have been helping these ultra-poor families to be self-reliant through the process of social mobilization. Even in the present conflict situation whereby the banks have closed or merged their branches/sub-branches, these MFIs have been constantly delivering door to door micro credit services to the ultra-poor communities.

Sharma (2014), Wrote on the role of micro-finance in poverty reduction. This research argues that micro-finance can be considered an important element for an effective poverty reduction strategy. It shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, manage their risks better, gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life. Micro-finance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, micro-finance helps to promote economic growth and development.

Pant and Rai (2002:4) assert that: "Microcredit/Finance schemes give women financial independence and decision making power within and outside their household. Not only these have helped women to diversify income but also the economic gap between men and women has lessened to some extent. Thus, microcredit programs must be expanded and more and more women must be involved".

8. Methodology

8.1 Research Design

This study is mainly focused on micro-finance program and its impact on living standard of Parbat district in specific area. A descriptive research design will be applied to analyze and interpret the qualitative as well as quantitative data collected from the concerned field.

8.2 Population and sample

A whole number of beneficiaries who are involved in the microfinance program are the population of the study. It is vague to cover the whole people in this study so the study will be taken only two municipality: Kushma and Phalewas (which is currently announced as a municipality by a government) as a sample and represents the whole district. The study will be

followed the stratified sampling and collects the data through dividing the people as male and female, educated and uneducated, and so on.

8.3 Source of Data

The sources of information are generally classified as primary and secondary. This study is based on primary as well as secondary data. Primary data will be used for qualitative factors and Secondary data will be used to quantitative factors.

8.4 Data Collection and Processing Procedure

The data will be from both the secondary and primary sources. The secondary data will be collected from the related microfinance annual report, published journal articles, web-sites, and other different source. The primary data will be collected by structured questionnaire, group discussion, interview and field survey which was according to the objectives of the study. The collected data will be edited, coded, classified and tabulated in accepted from excel and SPSS program. The processed data exhibit an appropriate situation of the performance related activities under micro finance program.

8.5 Data Analysis Tools and Techniques

In the questionnaire, the study will try to combine the numerical questions as well as some non-numerical questions. Hence, this study will also focus on the numerical data and perform the statistical tests. Thus, the result of this research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods Analysis is the careful study of available facts so that one can understand and draw conclusion on the basis of established principle and sound logic. The following techniques are used in analyzing the data

- a) Collection of relevant information.
- b) Identification of data suited to fulfill the purpose of the study,
- c) Classification and tabulation of data,
- d) Present of data in Pie-charts, Bar-diagram and Graphs.
- e) Use of statistical tool percentage, average, standard deviation, correlation and t-test
- f) Conclusion, summery and recommendation based on the data analyze.

Raw data are edited, coded, classified, tabulated and presented in graphic charts so that they can be analyzed. To touch the objective, percentage as well as graph, diagram, pie-chart, figure, table, etc. are used.

9. Chapter Plan

Chapter-I, Introduction

This chapter includes the introductory framework of the study that contains general back ground, introduction of the study, objectives of the study, statement of the problems, limitations of the study, and overall overview of the related microfinance.

Chapter-II, Review of Literature

This chapter deals with the review of previous research in the form of books, journals and unpublished materials. Apart from this various practices about microfinance in south Asia and program as well as some policies about microfinance will also be studied .Women's status and their economic as well as social background in Nepal will also be overviewed in this chapter. So, this is an independent research on the related field.

Chapter-III, Research Methodology

This chapter consists of the research design, procedure of data collection, data processing, technique of data analysis and hypothesis testing tools.

Chapter-IV, Data Presentation and Analysis

This chapter concern with the application of defined research method on the collected data information, the general results after the application of research method on the data were also analyzed and interpreted and finding of the study.

Chapter- V, Summary, Conclusion and Recommendations

This chapter is concerned with the discussion of Summary, Conclusion and Recommendations. Finally, Bibliography and appendixes will be shown.

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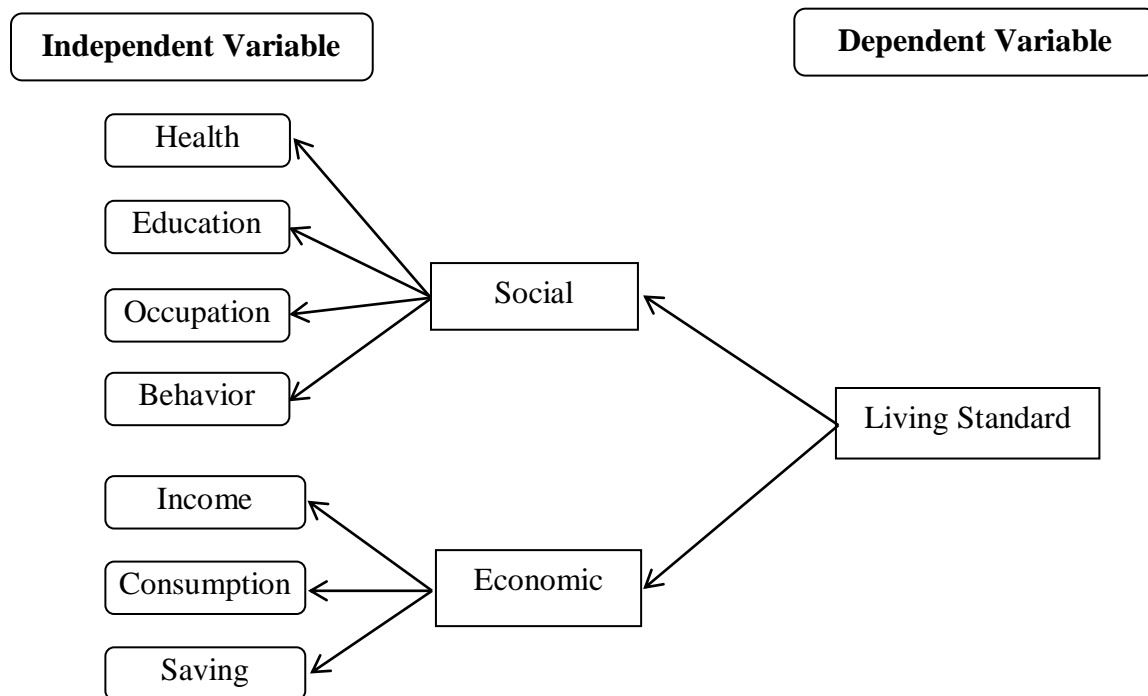
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4. Conceptual Framework



5. Significance of the study

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Microcredit services to those ultra-poor families who have no collateral guarantees to produce, and are not capable of fulfilling the banking requirements for credit eligibility. Such families are able to create their own assets by paying their micro-credits in small installments out of their

earnings made by engaging themselves in small entrepreneurial activities. Micro-finance institutes have been helping these ultra-poor families to be self-reliant through the process of social mobilization. Even in the present conflict situation whereby the banks have closed or merged their branches/sub-branches, these MFIs have been constantly delivering door to door micro credit services to the ultra-poor communities.

Sharma (2014), Wrote on the role of micro-finance in poverty reduction. This research argues that micro-finance can be considered an important element for an effective poverty reduction strategy. It shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, manage their risks better, gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life. Micro-finance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, micro-finance helps to promote economic growth and development.

Pant and Rai (2002:4) assert that: "Microcredit/Finance schemes give women financial independence and decision making power within and outside their household. Not only these have helped women to diversify income but also the economic gap between men and women has lessened to some extent. Thus, microcredit programs must be expanded and more and more women must be involved".

8. Methodology

8.1 Research Design

This study is mainly focused on micro-finance program and its impact on living standard of Parbat district in specific area. A descriptive research design will be applied to analyze and interpret the qualitative as well as quantitative data collected from the concerned field.

8.2 Population and sample

A whole number of beneficiaries who are involved in the microfinance program are the population of the study. It is vague to cover the whole people in this study so the study will be taken only two municipality: Kushma and Phalewas (which is currently announced as a municipality by a government) as a sample and represents the whole district. The study will be

followed the stratified sampling and collects the data through dividing the people as male and female, educated and uneducated, and so on.

8.3 Source of Data

The sources of information are generally classified as primary and secondary. This study is based on primary as well as secondary data. Primary data will be used for qualitative factors and Secondary data will be used to quantitative factors.

8.4 Data Collection and Processing Procedure

The data will be from both the secondary and primary sources. The secondary data will be collected from the related microfinance annual report, published journal articles, web-sites, and other different source. The primary data will be collected by structured questionnaire, group discussion, interview and field survey which was according to the objectives of the study. The collected data will be edited, coded, classified and tabulated in accepted from excel and SPSS program. The processed data exhibit an appropriate situation of the performance related activities under micro finance program.

8.5 Data Analysis Tools and Techniques

In the questionnaire, the study will try to combine the numerical questions as well as some non-numerical questions. Hence, this study will also focus on the numerical data and perform the statistical tests. Thus, the result of this research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods Analysis is the careful study of available facts so that one can understand and draw conclusion on the basis of established principle and sound logic. The following techniques are used in analyzing the data

- g) Collection of relevant information.
- h) Identification of data suited to fulfill the purpose of the study,
- i) Classification and tabulation of data,
- j) Present of data in Pie-charts, Bar-diagram and Graphs.
- k) Use of statistical tool percentage, average, standard deviation, correlation and t-test
- l) Conclusion, summary and recommendation based on the data analyze.

Raw data are edited, coded, classified, tabulated and presented in graphic charts so that they can be analyzed. To touch the objective, percentage as well as graph, diagram, pie-chart, figure, table, etc. are used.

9. Chapter Plan

Chapter-I, Introduction

This chapter includes the introductory framework of the study that contains general back ground, introduction of the study, objectives of the study, statement of the problems, limitations of the study, and overall overview of the related microfinance.

Chapter-II, Review of Literature

This chapter deals with the review of previous research in the form of books, journals and unpublished materials. Apart from this various practices about microfinance in south Asia and program as well as some policies about microfinance will also be studied .Women's status and their economic as well as social background in Nepal will also be overviewed in this chapter. So, this is an independent research on the related field.

Chapter-III, Research Methodology

This chapter consists of the research design, procedure of data collection, data processing, technique of data analysis and hypothesis testing tools.

Chapter-IV, Data Presentation and Analysis

This chapter concern with the application of defined research method on the collected data information, the general results after the application of research method on the data were also analyzed and interpreted and finding of the study.

Chapter- V, Summary, Conclusion and Recommendations

This chapter is concerned with the discussion of Summary, Conclusion and Recommendations. Finally, Bibliography and appendixes will be shown.

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