

# **CHAPTER -I**

## **INTRODUCTION**

### **1.1 Background of Study**

Nepal is one of the least developed countries with poor economic background. Nepal is a landlocked country sandwiched between China in North and India in other three directions. Its poverty reduction rate is low. The main reasons for this low poverty reduction rate are low per capita income, concentrated urban growth and high population growth rate.

Out of a population of 26.6 million, 25.16 percent are living below the poverty line according to NLSS- III held on 2009-10. At the current prices, the annual per capita income stood as US \$ 645. Nearly 83 percent (According to CBS 2009) of the total population live in the rural areas and 66 percent of this total population depends on agriculture and related activities for their livelihood. According to CBS, 2009- Persons aged 15 years and over 8.7 million (73.9 percent) people work in the agriculture sector. According to force survey unemployment rate was a mere 2.1 percent. Agriculture, tourism, hydropower and forestry are the major areas for broad based development of the country. Nepal has high potential for accelerated growth and growing giant neighbors China & India.

The Three-Year Interim Development Plan 2007\08-2009\10 is aimed at reducing unemployment, poverty and inequality and establishing sustainable peace. In order to achieve these objectives, the government of Nepal has come up with six strategies and has been working for promoting investment in corresponding sectors. The six strategies include:

- I. Lay special stress on relief, re-construction and reintegration.
- II. Realize employment oriented pro-poor and broad-based economic growth.
- III. Increase effectiveness in the promotion of good governance and the delivery of services.
- IV. Increase investment in physical infrastructure development.
- V. Emphasize social development of the people and,
- VI. Follow inclusive approach in development and launch targeted programs.

The interim plan is aimed at reducing population under poverty line from 31 percent to 24 percent and attain growth rate of 5.5 percent within three years. As mentioned in three years interim plan government succeeded to decrease poverty line to 21percent. The report of the third NLSS said Nepal recorded 5.7 percent decline in absolute poverty in between 2003\04-2009\10. In the survey the most comprehensive study of the changing economic dynamics of the Nepali people said nation is witnessing poverty go down by 2 percent annually. For this government implemented inclusive

approach to development that would bring class, community and regions which were left out from the main stream development.

With the objective of freeing people of various social classes, communities and regions unable to join the mainstream of development due to the economic, social and cultural reasons from poverty and backwardness targeted programs cover women, dalit's, indigenous people etc.

Thus, discussion made above has indicated that huge section of the country's population is in state of destitution. These people need microfinance and microfinance services to achieve the national objective of gradually reducing poverty\income generating through promotion, capital formation and generating self-employment opportunities.

This research takes into its study as the case study of micro-finance program of DEPROSC Nepal, Nirddhan Utthan Bank Ltd., Suryodaya Credit and Cooperative Ltd in Chandragadi/Bhadrapur (Jhapa).

## **1.2 Microfinance Service**

“Microfinance is often defined as financial services for poor and low income clients. Microfinance is one of the best alternatives to generate self-employment. It provides services to the communities who have no collateral to offer against the loan they take but have indigenous skills and strong desire to undertake economic activities for self-employment and income generation. In practice, the term is often used more narrowly to refer to loans and other service from providers that identify themselves as “Microfinance Institutions” (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan saving requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly. MFIs are dependent on small savings from group members. As a definition Micro-Finance is, as a part of development finance, rural or urban, targeted towards specific groups of people, male or female, falling in the lower bracket of society. Financial services include savings, credit and other services such as micro money transfer and micro-insurance. This service is differentiated by types of service employment and income oriented objectives, target group, target community, target area and credit at home.

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

- i. The services provided can be targeted specifically at the poor and poorest of the poor.
- ii. These services can make a significant contribution to the socio-economic status of the targeted community.

- iii. The institutions that deliver these services can develop, within a few years, into sustainable organizations with steadily growing outreach.

### **1.3 Microfinance in Nepal**

History of micro-credit programs in Nepal can be traced back to the beginning of first five-year plan, which commenced, with the establishment of cooperatives in 1956. However, official policy got recognition of importance of this sector in alleviating poverty in forth five-year plan with the establishment of Small Farmers Development Program (SFDP) in 1975. Program to ensure that women, who traditionally have not had access to formal credit, have been started in 1981/82 with the introduction of Women Development Program (WDP) within the operational framework of SFDP. Soon after in 1982, Women Development Division (WDD) of Ministry of Local Development (MLD) introduced Production Credit for Rural Women (PCRW) project with two public commercial banks (Nepal Bank Ltd and Rastriya Banijya Bank) and UNICEF as their partners. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprise. Microfinance services are provided by three types of sources: formal institutions, such as non-governmental org; and Informal sources such as money lenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

In Nepal three are wide range of institutions active in this sector but four major types of microfinance institutions in Nepal are: Saving and credit cooperatives, NGOs, INGOs and micro-finance development banks. Each has its own way of going about the task of making financial services accessible to the poor. A short historic glimpse shows some development in Nepal in this sector. The first credit cooperative was established in 1955s for providing rural financial services to the agriculture sector. Next microfinance launched in Nepal at 1975s as a small farmer development project from ADB/Nepal. After the date, various organizations were established by the support of national and international organizations, Nepal government and from Nepal Rastra Bank too. From 1957, the history of financial services was started as establishment of NBL. Before that NRB was established in 1956. Then after, commercial banks were established turn by turn as NIDC in 1959, RBB in 1966, and Agriculture Development Bank in 1968 and soon. Before 1984, the financial sector was closed for foreign institutions but after liberalization policy, government opened the way of foreign institutions. As a result, various foreign banks joint ventured to establish banking business in Nepal, the first of which was Nepal Arab Bank Limited established in 1984. Thus it creates a new glory to the Nepalese financial sector. After various joint venture banks were established in Nepal the establishment of various micro finance related programs have also started. These programs ensure poor,

particularly poor women and disadvantaged groups, access to financial services from organized sector are designed and implemented during that period.

The Nepal Rastra Bank (NRB) under the “Priority Sector Loan Program” (Prathmikta Chhetra Karja Karyakram) directed the commercial banks to provide institutional loans to the Priority Sector in April 1974. Accordingly, they were required to disburse 5 percent of their total deposit as loans to this sector such as agriculture, cottage industry and services. The Government of Nepal and the Central Bank (NRB) introduce Grameen Bank (GB) approach of Bangladesh by establishing two Grameen Bikash Banks, one in Far Western Development Region and another in Eastern Development Region in 1992. Soon after three more Grameen Bikash Banks was also established one each in the remaining three development regions.

Since early 1990s the government and NRB have been initiating a number of measures to ensure the supply of credit is made adequately to the targeted peoples and families on time and with easy terms and conditions. Government also made provisions for wholesale lending to the Microfinance Institutions (MFIs), The Rural Self Reliance Fund (RSRF) was also established in 1991 to make small wholesale institution the Rural Microfinance Development Centre Limited (RMDC) was established in 1998 to extend larger wholesale funds to Microfinance Institutions (MFIs). Since then, RMDC has been playing a major role in the institutional development of MFIs.

Lists of micro credit development banks serving in microfinance in Nepal till the date are as follows:

**Table No. 1.1**

**Micro credit Development Banks in Nepal (up to 2011)**

S.N.	Names	Operation date	Head Office	Paid up Capital(Rs.'00 Thousands)
1	Purbanchal Grameen Bikas Bank Ltd.	1993/03/28	Biratnagar, Morang	600
2	Sudur Pashimanchall Grameen Bikas Bank Ltd.	1993/03/28	Dhangadhi, Kailali	585
3	Pashimanchall Grameen Bikas Bank Ltd.	1995/04/01	Butawal, Rupandehi	660
4	Madhya Pashimanchal Grameen Bikas Bank Ltd.	1995/04/01	Nepalgunj, Banke	683
5	Madhymanchall Grameen Bikas Bank Ltd.	1996/07/08	Janakpur, Dhanusha	1000
6	Nirdhan Utthan Bank Ltd.	1999/04/13	Siddharthanagar, Rupandehi	1740

7	Rural Microfinance Development Centre Ltd.	1996/12/06	Putalisadak, Kathmandu	3200
8	Deprosc Microfinance Development Bank Ltd.	2001/07/03	Ratnanagar, Chitwan	425
9	Chhimek Microfinance Development Banks Ltd.	2001/12/10	Hetauda ,Makawanpur	1234
10	Shawalamban Laghu Bitta Bikas Banks Ltd.	2002/02/22	Janakpur, Dhanusha	1159
11	Sana Kisan Vikas Bank Ltd.	2002/03/11	Subidhanagar, Kathmandu	1288
12	Nerude Laghu Bitta Bikas Bank Ltd.	2007/06/07	Biratnagar, Morang	400
13	Naya Nepal Laghu Bitta Bikas Bank Ltd.	2009/03/20	Dhulekhel, Kavrepalanchok	140
14	Mithila Laghu Bitta Bikas Banks Ltd	2009/04/29	Dhalkebar, Dhanusha	165
15	Summit Microfinance Development Bank Ltd	2009/05/20	Anarmani, Jhapa	140
16	Sworojagar Laghu Bitta Bika Bank Ltd	2009/12/1	Banepa, Kavre	110
17	Frist Microfinance Development Bank Ltd	2009/12/28	Gyaneshwor, Kathmandu	700
18	Nagbeli Microfinance Development Bank Ltd	2010/02/04	Anarmani, Jhapa	100
19	Kalika Microcredit Development Bank Ltd.	2010/07/21	Waling, Syanja	120
20	Mirmire Microfinance Development Bank Ltd.	2010/09/23	Banepa, Kavre	140
21	Janautthan Samudayik Microfinance Dev. Bank Ltd.	2010/11/09	Butwal, Rupandehi	110

Source: Banking and financial statistics, Mid July 2011, Licensed by NRB

## 1.4 Statement of the Problem

According to country profile of United Nations Population Fund (UNFPA Nepal) more than 80 percent of Nepal's population lives in rural areas. Microfinance Summit 2010 (Nepal) have released the data i.e. 1.2 million people have been served by the formal microfinance institutions (MFIs) and the remaining majority of the poor have to look for traditional informal sector like money lenders, family members, friends, landlords etc. for the financial support. Mainly the habitants of Terai region and accessible hills are only be benefited by the microfinance services. Commercial banks are undergoing with tough competitions. They're extending their branched within the urban areas and in sub urban area or in only the convenient places. CBs are not directly investing in microfinance due to high cost so they are investing through MFIs and NGOs in such sectors. NGOs have found to be the best way to serve the poor people of rural areas.

Males and females are two wheels of same cart, but in practice we cannot get such consideration. They are ignored in every aspect. Plans or policies consisting women supporting concept are only focusing few aspects of women which are not sufficient to empower women. They are not allowed to take decision though the decision is related to them. Economically, socially and politically women are dominated by their counter partner. It is so, because Nepal is one of male dominated countries.

Microfinance programs are currently being promoted as key strategy for simultaneously addressing both poverty alleviation and women's empowerment. Women make up 52 percent of Nepal's population and have a life expectancy of 53.4 years (1991 figures), making Nepal one of only three countries in the world where females life expectancy is lower than that of males. UNICEF (1996) estimates less than 18 percent of Nepali women are literate. Women work on average 3-4 hours more per day than males, but their land holdings are marginal, and income levels and formal labor force participation are 20 percent lower than that of males. Women are pre dominantly confined to agriculture, account for the majority of unpaid family workers, and are heavily concentrated in low-paid jobs. The aggregate data depict women's contribution to be heavily focused. 86 percent of all domestic work and 57 percent of subsistence agricultural activities. Women work mostly as semi-skilled or unskilled general wage workers. Less than 5 percent of civil servants, elected leaders or judiciaries are female. In addition, women in Nepal cannot inherit property, have little access to education, information or credit and have less control than males in their households over economic decision.

The National Planning Commission uses the word "hard core poor" interchangeably with "ultra-poor", both defined as asset less population. Third NLSS says that only 8.27 percent are below the poverty line in the hilly cities while the poverty level in the capital is 11.47 percent the decline in the poverty level, according to economists and development experts is due to the rise in remittance inflow, improvement in common Nepalese access to basic facilities and government's huge investment in the social sector. "More than 50 percent of the Nepalese are receiving remittance, which has ensured better living standards.

So this study would mainly focus on the following issues of microfinance:

- i. What is the accessibility of Microfinance to the local poor of Bhadrapur\Chandragadi?
- ii. What is economic and social impact of microfinance program in women empowerment in the local women of Bhadrapur\Chandragadi?
- iii. How the income generation activities as well major opportunities and challenges of the microfinance institutions are taken in the research area?
- iv. Do poor understand micro finance products and services?
- v. Can access to financial services enhance the Quality of Life of clients of micro finance institutions?

- vi. Has micro finance programs are currently being promoted as key strategy for simultaneously addressing both poverty alleviation & women's empowerment?

Major outreach and coverage of Nepalese Microfinance sector are the grameen replicators. The huge population of remote areas and hills, microfinance services are urgently and utmost needed for their well- being. Yet grameen replicators are not able to expand their program in hill and mountain adequately. Only five grameen banks exist in five development regions which are too small in numbers for prompt operation of microfinance. The administrative cost us more expensive in hills and mountain in comparison to terai.

As well all these institutions taken while the study are making efforts to be more focused on enhancing to POs capability besides disbursement of loans. Thus all these institutions consider the financial status, financial management and loan management of their POs to increase their quality service.

### **1.5 Objective of the Study**

- i. To analyze the role of microfinance accessibility to the local poors of Bhadrapur Municipality.
- ii. To analyze economic and social impact of microfinance program in women empowerment in the research area.
- iii. To analyze income generation activities as well major opportunities and challenges of the microfinance institutions taken in the study.
- iv. To suggest and recommend on the basis of major findings.

### **1.6 Focus of the Study**

Microfinance is one of the factors that will enhance the countries developments, The history of institutional micro credit program in Nepal dated back to 1975/76. A number of micro credit programs or projects have been implemented since then, however only a meager section of the poor population has access to micro finance services. This has been mainly due to lack of adequate number of professional MFIs, which could provide quality microfinance services to the poor households in the country. Most MFIs have been constrained due to lack of financial resources to expand the outreach of services to the deprived population.

Against this backdrop, DEPROSC Nepal, Nirdhan Utthan Bank, Suryoday Credit and Co-operative are established with initiative of the NRB. Moreover, the study is also focused on the women empowerment at household level and external level referring their participation on decision making process, level of awareness on basic issues, social capital, benefits and constraints faced. Thus, this study will primarily focus on how Microfinance helps in poverty reduction and income generation as well women

empowerment in the communities which were left out from the main stream development.

### **1.7 Significance of the Study**

This study is relevant and contemporary in the sense that it is indispensable to study the microfinance operational model in Nepalese context. Microfinance is the effective tool for poverty reduction, income generation and self-employment and to spread the sense of awareness to the rural areas. The efficiency of a micro-credit organization depends on its services and sustainability. Therefore, while extending the service of micro credit organization, performance of existing organizations needs to be assessed. This study is conducted to assess the services provided by the Micro Finance Companies. The performance of small micro credit organization can bring a great change in micro finance market, if it can be organized. So, the problems faced by the micro finance institutions as well as their customers will be studied along with their future prospects for the sustainable micro finance services.

The major significances of the study are:

- i. This study is much significant to the microfinance practitioner, researcher, policy maker, donor and those people who are interested in microfinance.
- ii. This study is much significant to the commercial banks for deprived sector lending and potential employees as well as customers.

### **1.8 Limitation of the Study**

As being a student of MBS, this is a part of TU syllabus to make a research on a concentrated area so there might be some weakness in the research. The limitations and the constraints regarding the study are as follows:

- i. The findings of this study may not be claimed as the representative regarding the impact of microfinance on poverty alleviation and women empowerment due to the local socio-economic specificities.
- ii. The whole study is based on primary and secondary data. So the reliability of study depends on the reliability of sources of information.
- iii. The study is limited within the case of microfinance program of DEPROSC Nepal, Nirdhan Utthan Bank Ltd and Suryoday Credit and Co-operative Ltd. In Bhadrapur\Chandragadi in Jhapa districts. So the conclusion may not be generalized for all micro financial institutions, NGOs and credit and co-operatives who have been working in the micro financial sectors.



## **1.9 Organization of the Study**

This study has been broadly divided into five chapters and the chapters are organized systematically as follows for the effective study:

**Chapter – I :** Contains the introductory part of the study, this chapter describes the general background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

**Chapter – II:** This chapter devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

**Chapter – III:** This chapter describes the research methodology implied in the study. This deals with the nature and sources of data, list of the selected companies the model of analysis, meaning and definition of Statistical tools.

**Chapter – IV:** This chapter deals with the presentation and analysis of secondary data by using various tools and it also deals with the presentation and analysis of primary data.

**Chapter – V:** This chapter state summary and conclusion, and major findings of the study. The bibliography, annexes are incorporated at the end of the study.

## **CHAPTER II**

### **Review of Literature**

Literature review is done through journal articles, reports, manuals, workshop proceedings, internet home pages and other studies into microfinance program that are available. Operational model in microfinance indicates the overall lending system of MFIs to its clients. As a result of constant efforts, several models based on different approach are under implementation on developing countries of the world. This chapter has briefly presented the theoretical review of microfinance in general and conceptual review of socio economic empowerment of women through microfinance, evolution of microfinance in Nepal and profile of DEPROSC Nepal, Nirdhan Utthan Bank Ltd. and Suryodaya Credit and Co-operative Ltd.

#### **2.1 Theoretical Review**

Yunus(2003) is considering as a leader and innovator in the modern microfinance world. Yunus first tries to connect the poor people with the bank locating in the campus. It did not work. The bank says that the poor are not creditworthy. Then he offers to become a guarantor for the loans to the poor. He was stunned by the result. The poor paid back their loans every single time! But he kept confronting difficulties in expanding the program through the existing banks. Several years later deciding to create a separate bank for the poor, to give loan without collateral. In 1983 Grameen bank was started. It now works all over Bangladesh, giving loans to 2.5 million poor people, 95 per cent of whom are women. In cumulative way the bank has given a total loan of about US \$ 3.75 billion. Financially, it is self-reliant – it has stop taking donor money since 1995, stop taking loans from domestic market since 1998. It has enough deposits to carry out its lending program. Impact studies done on Grameen Bank by independent researchers find that 5 percent of borrowers come out of poverty every year, children are healthier, education and nutrition level is higher, housing conditions are better, child mortality was declined by 37 percent , status of women has been enhanced. Ownership of assets by poor women, including housing, has improved dramatically. Now the obvious question that anybody might ask – if poor people can achieve all this through their own efforts within a market environment, why isn't the world doing more of this?

Grameen type micro finance has spread around the world over the last two decades. Nearby 100 countries have Grameen type microfinance program. In 1997, a Micro Finance summit was held in Washington DC, which adopted a goal to reach 100 million poorest families with micro finance and other financial services, preferably through the women in those families, by 2005. The result is encouraging thus the target has been extended to reach 175 million by 2015.

The biggest problem for expanding the outreach is not the lack of capacity, but strangely, the lack of availability of donor money to help microfinance program get

through initial years until they reach the break-even level. Beyond that level, these programs can expand their outreach with loans from the market or from deposits. In most countries microfinance program could open the doors for taking public deposits, expansion of outreach could be very rapid because this would free them from dependence on donor money. It is a very strange phenomenon in many countries to see that conventional banks with repayment rate of below 70 percent are allowed to take huge amount of public deposits year after, but microfinance institutions with record of over 98 percent recovery are not allowed to take public deposits.

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

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

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

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

Yunus(2003), founder of the Grameen Bank, 'women have plans for themselves, for their children, for their home, the meals. They have a vision. A man wants to enjoy himself.' The women's world banking program has found that men will only invest about 40-50 per cent of their earnings into the family, while women will invest 92 per cent of their earnings into their families (NSCDP, 1998). Studies conducted in the field to evaluate women's empowerment as a result of access to credit have looked at a variety of measures. Hashemi (1996) in their vigorous study of Bangladesh chose to examine the different indicators of empowerment such as geographical mobility, economic security, ability to make small or large purchases, involvement in major decisions, relative freedom from family domination, political and legal awareness and participation in public protests and political campaigning.

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

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

The Grameen Bank and other microfinance organizations specially targeted their loans to female clients. Economic empowerment has been measured in terms of; women having control over the loans, profits and savings, flexibility or autonomy on decision making on financial matters particularly the expenditure and assets creation, family assistance in enterprise, taking products to market and doing most of the accounting themselves.

The National savings and credit development project in Nepal noted that 86 percent of women polled in their study had control over their loan expenditures, and 67 percent of female respondents had control over the savings generated from their enterprises (NSCDP, 1998). The study based in Bangladesh found that women participating in micro finance programs had higher degrees of economic empowerment than the control group of women with no loans (Hashemi et al., 1996). Many programs claim that there are other social benefits resulting from their income generating activities. Perhaps the most significant of these has been the opportunity for: women to meet regularly, build solidarity, share ideas, interface with the local officials and development personnel, and better understand their country's political and power system.

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

The Grameen Bank, as a pioneer of microfinance programs in South Asia, is also known for being catalyst for social change in Bangladesh. It has added features to its simple group lending model that have led to change in the social and political life's of women. According to Aminur Rahman, the "Public transcript" of the Grameen Bank is to: increase women are earning capabilities to bring faster changes in household social economic conditions and organize women in groups to their collective consciousness for social empowerment.

Certain components of the Grameen bank programs are serving to help it work toward these goals. The "Sixteen Decisions" of Grameen Bank is trying to expose women to ideas about nutrition and childcare. In addition, the Grameen Bank encourages women who have been repeat borrowers, to take out loans for their homes. One caveat to this program is that women must put the property title in their own names and not their husbands. Over 400,000 men have agreed to allow their wives hold the title to their home because housing is so scarce in Bangladesh. This enables a woman to have more control over her life and can increase her status in her husband's eyes (UNIFEM, 2007).

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

## **2.2 Evolution of Microfinance in Nepal**

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

Formal sector financing began with the establishment of credit cooperatives from the government level in 1950s particularly to supply the production support to the farmers. Further, Cooperative Bank established in 1963 was envisioned to supply adequate credit for the agriculture sector. Development financing through ADB was further focus when it introduced a separate programs in 1975: Small Farmers

Development Program (SFDP) characterized with group collateral. This was an integrated development program approached in tune with Integrated Rural Development Projects (IRDPs) in India and Income Generation for Vulnerable Group Development (IGVGD) in Bangladesh introduced by BRAC and others – BRAC'S IGVGD scheme devised in 1986 was considered to be successful and cost effective integrated package reaching the ultra-poor (Halder and Mosley, 2004). SFDP, a state sponsored and subsidized development credit program, has covered almost whole country. Since 1990s, such groups developed under SFDP were converted into Small Farmer Cooperative Limited (SFCL) to hand over to the community along with shift in equity is a clear turn from subsidized credit to the concept of sustainable microfinance.

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

Further during 90s, NRB established Regional Rural Development Banks (RRDBs) with the partly support from government starting from 1992 to replicate the Grameen Bank of Bangladesh (Sinha 2000). At present, there are five RRDBs, one in each development region. Following the move, five microfinance development banks (Nirdhan, Swabalamban, Deprosc, Chimek, Nerud) are also established from the private sector after the enactment of Development Bank Act 1996. Besides, during the decade, government, donors, central bank supported programs and many more projects based saving credit activities were and are being practiced. Overwhelmingly, many socio-economic projects and programs also emphasized savings and credit as one major component for poverty alleviation.

In addition to the promotion and facilitation of solidarity groups: savings and credit cooperatives; and intermediary non-governmental organizations to carry out microfinance, many NGOs themselves started implementing microfinance activities once the Financial Intermediary Act 1999 allowed them for retailing. Certain number of Saving and Credit Cooperatives and NGOs also scaled up with subsidized wholesale fund of Rural Self Reliance Fund (RSRF) created in 1991. Considering its astonishing success and over 95 percent repayment rate, this has been scaled up. But, NRB at the moment is in the process of transforming RSRF into a National Microfinance Development Fund. Later in 2000 Rural Microfinance Development Centre (RMDC), in support of Asian Development Bank was established with the aim of providing wholesale fund at competitive rate. Recently, on February 24, 2003, NRB issued regulations for the development banks which are engaged in microfinance as a guideline to develop MFIs activities.

Finance Dictionary: Micro-finance aims at people who do not have access to traditional financial system in other words, at the very poorest members of society. This definition covers a large section of the population of emerging economies as well as the most underprivileged members of western societies. Micro-finance works on the basis of the same logic as the traditional system. The difference lies in the size of the loans granted. The average amount of micro-loan in Asia or Africa is around €300 (and can be for as little as €10), in Eastern Europe it is usually just over €1,000 and in Western Europe around €2,500.

Asian Development Bank (2000): Microfinance is the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to poor and low-income households and, their micro enterprises. Microfinance services are provided by three types of sources such as; formal institutions such as rural banks and cooperatives, semiformal institutions such as non government organizations and informal sources such as money lenders and shopkeepers.

Institutional microfinance defines to include microfinance services providing by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

Ledger wood (1998) elaborates the Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low-income clients including the self-employed. Financial services generally include savings and credit; however some microfinance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation development of self-confidence and training in financial literacy and management capabilities among member of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool. Microfinance activities usually involves; small loans typically for working capital, informal appraisal of borrowers and investments, collateral substitutes such as group guarantees or compulsory savings, access to repeat and larger loans, based on repayment performance, streamlined loan disbursement and monitoring and secure saving services.

Mosley (2004) defines Microfinance as a mechanism for poverty reduction is simple it access to credit can be improved, it is argued the poor can finance productive activated that will allow income growth, provided there are no other binding constrains this is a route of poverty for the non-destitute chronic poor for the transitory poor who are vulnerable to fluctuations in income that bring them close to or below the poverty line. Micro finance provides the possibilities of credit at times of need and in some schemes the opportunity of regular saving by a household itself that can be drawn on. The avoidance of sharp devices in family expenditures by drawing on such credit or saving allows consumption smoothening in practices this distinction

between the needs of the chronic and transitory poor for credit for promotional (that in income creating) and protection (consumption smoothening) proposes respectively is over simplified since the chronic poor will also have short term need that have to be met, whether it is due to income shortfalls or expected expenditure like medical bills or social event like wedding or funerals. In fact it is one of the most interesting generalization to emerge from the microfinance and poverty literature that the poorest of the chronic poor will borrow essentially for protection purposes given both the low and irregular nature of their income for promotional measure (that is for investment in the future) will therefore be only a very limited beneficiary of micro finance scheme.

Khandker (1998), focuses on Grameen Bank of Bangladesh is known worldwide for its innovative credit delivery to the rural poor and had abstracted its impact cost and sustainability. To these issues another says that it has noticeable impact on participant's economies and social well-being that the poverty reduction in village level to become cost effective, Grameen Bank should not only expand its outreach but also need to diversify its loan there by imposing sound macroeconomic policies from government replication of Grameen's financial model is possible with necessary modification as long as it is conscience driven and its operations are transparent. Their vision shows only establishing of the microfinance is not the great issues to transparent its services delivery and self-reliance sustainability are also arrival together which are subject of observation.

World Bank(2003) Technical tool series no 5,2003, reports the Consultative Group to Assist to the Poor(CGAP) is committed to the twin objectives of increasing the financial sustainability of MFIs and developing their poverty focus program that is increasing their outreach and impact on the lives of the poor people. As part of this commitment, GAP has continually endeavored to provide tools that allow for greater transparency on the performance of microfinance institution (MFIs) in meeting these objectives.

To date, the focus on transparency in microfinance has centered primarily on financial performance. The microfinance poverty Assessment Tool was developed as a much needed.

Weiss and Elvira (2007) defines Microfinance as one of a range of innovative financial arrangement designed to attract the poor as either borrower or saver. Microfinance can be related to the chronic poor and to the transitory poor in different ways. The condition of poverty has been interpreted conventionally as one of lack of access by poor households to the assets necessary for a higher standard of income or welfare whether assets are through of a human (access to land), natural (access to land) or financial (access to credit).

Sinha (1999) elaborates the microfinance sector in Nepal is expanding considerably in recent years and has witnessed much innovation, including limited banking licenses for NGOs and cooperatives, a special category of small development bank, and a



special law on microfinance. The Nepal Rastra Bank (NRB) has played an active role through a variety of “development” activities, including directed credit requirements and ownership of a number of regional rural development banks which apply a Grameen Bank model of microfinance. It has also undertaken a range of “promotional” activities in support of microfinance.

Ferrari (2006) explains that over the past 20 years Nepal’s financial sector has become deeper and the number and type of financial intermediaries have grown rapidly. In addition, recent reforms have made banks more stable. Still, access to financial services remains limited for many people in many parts of Nepal and in recent years has been declining. This report examines the country’s supply and demand for financial services and the constraints to increasing access to them, and offers recommendations for making the financial sector work for all of Nepal’s people, especially the poor.

Bashyal (2010) dissertation titled “*Impact of Micro credit program on Poverty Alleviation in Nepal*” focused on overview of formal financial system, overview of informal financial system, overview of financial development in Nepal, strategies developed for poverty alleviation, microfinance evolution in South Asia microfinance and Millennium Development Goals.

She further on her book titled “Microfinance: Access to Finance for Nepal’s Rural Poor” focuses on microfinance as a special tool of poverty alleviation. She also presents five different microfinance models in Nepal that conducted by NRB based on their financial and organizational structure. These models are; Government/NRB mandated programs, Government/NRB involved programs, Grameen model, Apex microfinance institutions and FINGO/INGO models.

ASFN: Association for Social Advancement, which is the faster growing NGO in microfinance in terms of geographical coverage.

BURO: Bangladesh Unemployment Rehabilitation Organization, which is the microfinance institution.

#### The Regulatory Status of Microfinance Institutions in Nepal

Micro credit institutions are regulated by various laws: Nepal Rastra Bank Act (2002), Agriculture Development Act (1967), Cooperative Act (1972), Finance Company Act (1985), Development Bank Act (1996), Social Welfare Act (1991), Company Act(1947)

Financial Intermediary Act (1998) and Insurance Act. It appears to be over regulated but in reality the situation is just the opposite. There is some difficulty to regulate activities. The ultimate responsibility to develop, regulate, monitor and supervise is of NRB. In February 24, 2003, NRB is issued regulations for the development banks which are engaged in micro-finance, as a guide line to develop microfinance institutions activities.

Mishra (Joshi, 2009) conducts a thesis and the thesis has findings such as; there is a rapid development in the Nepalese microfinance sector here in the period of three decades various channel has been opened one after another to provide microfinance service to the target population. Government is involving directly in this sector by establishing the five GBB in three regions and to direct commercial banks to invest three percent of their investment in deprived sector. In spite of much effort from the government and private sector, microfinance services has not been able to meet the target to uplift, the population below the poverty line. The target population still has to rely on the informal credit sector for the financial services.

Mishra also mention that four types of microfinance operational models exist in Nepalese microfinance sector. Grameen replicates have large outreach and coverage among them.

The thesis also finds that lack of appropriate model and the physical infrastructure MFIs are not able to target the services to the hills needy people. As well microfinance service is more expensive than other financial services because of its doorstep service and tiny loan and savings. So MFIs are not ready to go to the hill and mountain without the support of administrative cost either from government sector or donors.

Her findings includes that private sector microfinance development banks are more competitive than government sector five micro credit development banks. Yet she also reflects that Nepalese microfinance sector is in the growing state which is not able to being professionalism.

With the help of the primary and the secondary data she shows that microfinance is a social sector more than the profit making sector. However, private managed microfinance development banks proved that microfinance sector can also make profit.

Dhakal and Panthi (2002) on their country paper for SAARC Finance on Micro credit operations in Nepal. The major components of their paper are an overview of financial system, evolution of institutional micro credit activities, micro finance policies in Nepal, rural financing programs and problem of rural and micro credit operations.

Priority sector and Deprived sector credit program is explained on Rural financing programs, in the year 1974, the NRB introduced the concept of directed lending on priority sector.

# CHAPTER III

## Research Methodology

### 3.1 Introduction

The term 'Research' is believed to be derived from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called Research Methodology. As per Kothari, it is the way to solve systematically about the research problem. This study has intense relation with the Microfinance Institution and Microfinance Services, Nepal Rastra Bank and Nepal Government and study of microfinance operational model;

### 3.2 Research Design

Research design is purely and simply the framework or plan for a study that guides the collection and strategy of the data. As per Kerlinger (1986), research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

To conduct the research analytical and descriptive approach is adopted for the readily available historical data used in this study are secondary and primary. The study is based on descriptive and analytical research design. The study is concerned with recent historical data, which is based on recent historical data and covers five years or data as much as available from the concerned MFIs. It deals with the microfinance on the basis of available information.

### 3.3 Population and Sample

There are various sectors in Microfinance and are many Microfinance Institutions in the country. This study includes only three Microfinance Institutions of a certain geographical periphery i.e. Bhadrapur, Jhapa. The data used for the purpose of the study are based on the Microfinance services and the Institution that is listed in NRB. The sample Microfinance is as follows:

- i. DEPROSC Nepal Bhadrapur, Jhapa
- ii. Nirdhan Bank, Bhadrapur, Jhapa
- iii. Suryadoya Saving and Credit Co-operative, Bhadrapur, Jhapa

### 3.4 Sources of Data

Data required for conducting this research is primary as well as secondary in nature.

**3.4.1 Primary Sources:** Primary sources are individual microfinance clients, frontline Field Supervisors and group of microfinances taken throughout the study. Besides, key local level stakeholders, Branch Managers of MFIs have remained the primary source of information in the process of preparing key institutional issues, policy issues, policy issues and their perceptions.

### **3.4.2 Secondary Sources:** Secondary sources of data are as follows:

- i. Annual report, bulletins, progress report, financial statement of the bank and MFIs.
- ii. Some case studies.
- iii. Additional information of official records other published material and concerned books as well unpublished documents.
- iv. Previous study and report.
- v. Program implementation guideline
- vi. Strategy papers

### **3.5. Data Processing and Analysis**

Obtained data are comparatively analyzed and the outcome has been interpreted as per required. Obtained data are presented in various tables, diagrams, charts, graphs and percentage with supporting interpretations. Data have been tabulated according to the nature of data on the basis of fiscal year in different columns and rows.

The study will review the available secondary information of past five consecutive years which are such as annual report of selected banks approved by and AGM, Magazine, newspapers, books and documents, published books, journals related to commercial banks, Government reports, bulletin and other published statement of related field, previous studied made in the field and various web sites related to the study etc.

### **3.6. Primary Data Collection Tools**

Semi-structured questionnaire is prepared in collecting information from the individual clients of the institutions taken through out the study, two focus group discussions are conducted one with group of women and the next with the field supervisors, credit officers. Individual visit is done to the primary stakeholders (local service providers, line agencies representatives). Branch managers, field supervisors, staffs, executive directors etc for analyzing the policy issues and perceptions on socio-economic empowerment of women as well other objectives.

### **3.7. Tools for Data Analysis**

Both qualitative and quantitative tools are used to analyze the data for this study. For quantitative analysis, the percentage analysis is alone to compare the two or more data for general information. Specifically, quantitative analysis tools are applied to assess the economic impacts and qualitative indicators are used to assess the social empowerment. Generally, tabulation and cross tabulation is done to analyze the casual relation and the effects across the relevant variables. Qualitative information is based on observation and perceptions which are analyzed and interpreted by researcher. Further, qualitative information obtained through individual interview, focus group discussion is blend together with quantitative data to draw implications and conclusions.

## CHAPTER IV

### Data Presentation and Analysis

#### 4.1. Background

This chapter consists presentation and analysis of primary and secondary data related with different variables using statistical tools. The basic objective of this chapter is to achieve the objectives, which are set in first chapter. In order to achieve these objectives, the gathered data are presented, compared and analyzed with the help of different tools. Hence, it is the focal part of this study, which helps to analyze and evaluate the Microfinance in Nepal not as a whole of the country but in a small part, state of poverty reduction through introducing Microfinance programs in the community, status of women empowerment, income generation and etc.

The short introduction of the three institutions taken during the survey has given below in the table also its vision; mission and goals are also presented below.

**Table no.4.1**

**Introduction of DEPROSC NEPAL, Nirdhan Utthan Bank Ltd and Suryodaya Credit and Co-operative Ltd.**

S.N.	Name of Organizations	Vision	Missions	Goals
1	<b>DEPROSC Nepal</b>	Being committed to social justice, gender equality & human resource development, DEPROSC Nepal envisions a peaceful, prosperous and empowered rural Nepal.	Deprosc development Bank provides financial services to poor rural households of Nepal. Access to financial services helps the rural people to come out of poverty. Credit would create employment and generate income among poor rural families, which will help them to have better access to food, health, education, shelter and clothing.	Serve large rural poor by providing microfinance services and establish itself as an effective microfinance institution in the country for sustainability of the services being offered.
2	<b>Nirdhan Utthan Bank Ltd.</b>	Contribute equality to a prosperous, self-reliant rural	Is to extend financial services and social awareness to the	Reach a maximum number of poor households with potential and financial

		society through self-employment and social awareness and help to reduce poverty in Nepal.	poor in under-served areas of Nepal in sustainable manner.	viability by adopting proven delivery mechanism. Develop a well-managed institution with high staff morality. Enhance women's self-respect through social awareness proper use and on-time repayment of loans, regular savings & provision of related microfinance service.
<b>3</b>	<b>Suryodaya Credit and Co-operative Ltd.</b>	Maintain prosperity and pleasure throughout the life of its member by increasing co-ordination and motivating towards saving.	Financially to make independent member through providing them credit facility and serving attractive interest in their savings.	To motivate the members towards saving by engage them in significant and productive sector. To develop the habit of saving and provide higher interest. To provide fast, simple and reliable service to its member by latest technology. To invest the capital in different types of projects which helps to increase earnings of member.

*Source: Various Documents of DEPROSC-Nepal, Nirdhan Bank and Suryodaya Credit Cooperative Ltd.*

## **4.2. Analysis of Primary Data**

Primary data is collected from the questionnaires asked to various consumers of all three microfinance taken. To analyze the first objective; to assess the role of microfinance in the research area i.e. Bhadrapur Muinicipality primary data were collected through the questionnaire method where the questionnaire consist eleven numbers of questions. The results obtained through the questionnaire are elaborated as below through different charts and the tables.

### **4.2.1 Access of Microfinance**

To find out the access of microfinance in the research area questionnaire which includes eleven various questions were asked to the consumers/respondents and their participation has helped me to complete the analysis.

My first question for the respondents; what is the level of accessibility of financial services to the small holders?

Here for question number one most of the respondents have same view. They think that financial services are not easily accessible for the poor or small holders. In the table below the views of the respondents have summarized.

**Table 4.2**  
**Level of Accessibility of Microfinance Services**

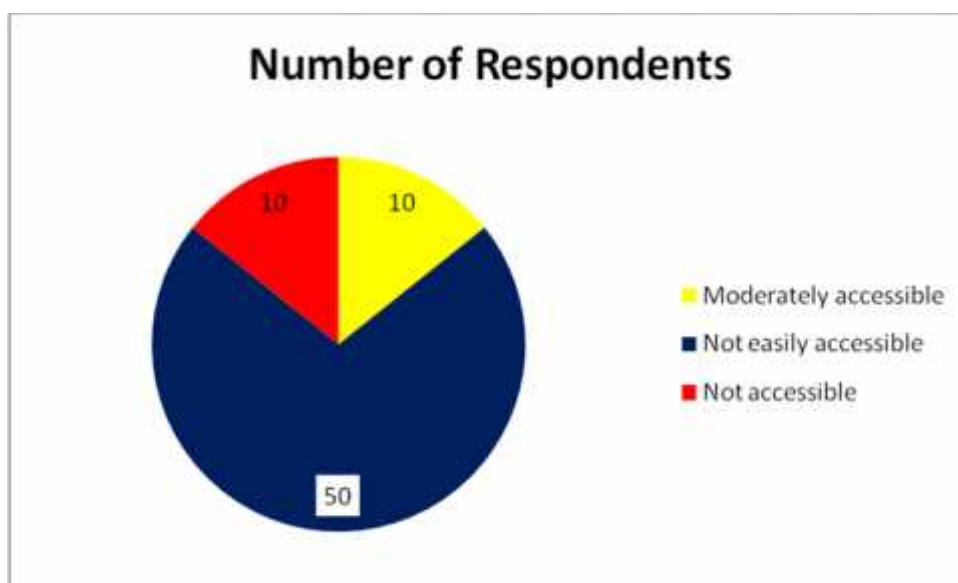
<b>Response</b>	<b>Number of Respondents</b>
Very easily accessible	0
Easily accessible	0
Moderately accessible	10
Not easily accessible	50
Not accessible	10
<b>Total</b>	<b>70</b>

*Source: Field Survey, 2012*

The above table presents the level of accessibility of microfinance services in the research area. Here none of the respondents agree microfinance services are very easily or easily accessible for the poor or small holders. Ten respondents among total respondents i.e. seventy agree with moderately accessible and only ten respondent's favors for not accessible.

The above table is shown in the form of the pie chart below;

**Figure 4.1**  
**Level of Accessibility of Microfinance**



Above figure explains that most of the respondents answers that level of accessibility of microfinance services for the small holders are not easily accessible, few says its moderately accessible and some of them says services are not easily accessible and none of them says that its very easily and easily accessible.

#### 4.2.2. Best Alternative Financial Service for the People

The second question for the respondents; what types of financial services could be the best alternative for the poor people?

Answer for the best type of alternative among the given alternatives most of the participative respondent's microfinance service is ranked as number one. The table below shows the rank of financial services according to the respondents.

**Table 4.3**

**Rank of Alternatives Financial Services**

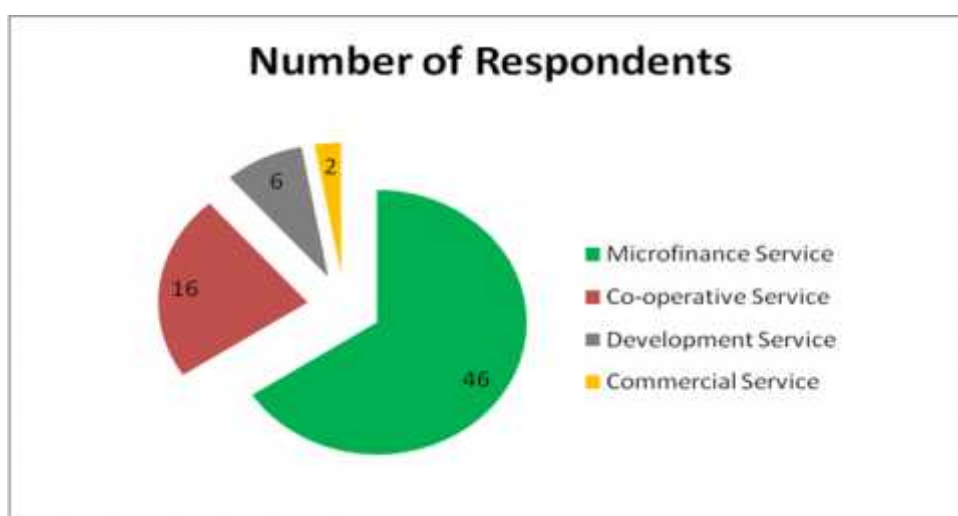
Alternatives	Number of Respondents	Rank
Microfinance Service	46	1
Co-operative Service	16	2
Development Service	6	3
Commercial Service	2	4
Indigenous Financial Services	0	5

*Source: Field Survey, 2012*

Here the above table shows us many almost all of them are in the favor of microfinance services as the best type of alternative financial services for the poor. Here co-operative service is ranked as the number second for the financial service for the poor. The pie-chart below also describes the rank of the alternative financial services for the poor.

**Figure 4.2**

**Ranks of Alternative Financial Services**





Here the pie chart describes the rank of financial services according to the respondents during the survey. Respondents ranks microfinance services as number one financial services according to the chart above, cooperative services as second financial services, development services as third and commercial services as fourth and none of them ranked indigenous financial services as the best alternatives for the poor people.

#### 4.2.3 Agricultural Lending as the Best for the Poverty Reduction

Third question for the respondents; which type of lending plays the vital role in reducing poverty?

For question number three most of the respondents ranked agricultural lending as number one for the poverty reduction tool. Below the table describes more clearly.

**Table- 4.4**  
**Ranks for Alternative Lending**

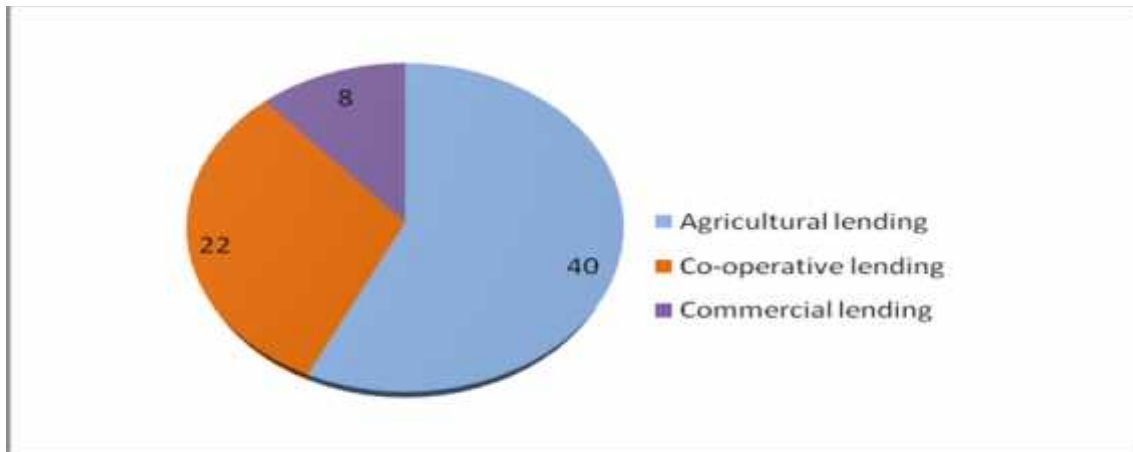
Alternatives	No. Of respondents	Rank
Agricultural lending	40	1
Co-operative lending	22	2
Commercial lending	8	3
Industrial lending	0	4
Social lending	0	5
Total	70	

*Source: Field Survey, 2012*

The above table presents the view of the respondents of the research area. Here most of the people's votes go to the agricultural lending as the best tool for the poverty reduction and the cooperative services is the second tool for the poverty reduction.

The given pie chart below also shows the agricultural lending is the first one and the best tool for the poverty reduction according to the respondents of the research area. Likewise the cooperative lending the second one.

**Figure 4.3**  
**Rank for the Best Alternative Lending Tool**



The above diagram shows agricultural lending as the best lending tool for the poverty reduction, then after cooperative lending and then commercial lending as the last tool as ranked by the respondents.

#### **4.2.4 Ability in Obtaining Financial Services**

Question number four asks the respondents about the ability to obtain financial support from the services for the small holders. The types of financial services are commercial lending (trade), industrial lending, agricultural lending, social lending and cooperative lending.

For question number four most of the respondents are affirmative that the small holders will be able to obtain financial support from the services ranked by the respondents in the question number three, but in the small scale i.e. agricultural lending (trade) as number one and the cooperative lending two and so on.

#### **4.2.5 Level of Financial Support for Small Holders**

Question number five ask on what scale do small holders obtain the financial support from; commercial lending, industrial lending, agricultural lending, social lending and the cooperative lending.

Views of the respondents are expressed through the table below

**Table 4.5**  
**Level of Financial Support**

Level of Financial Support	No. of Respondents
Very Large Scale	0
Large Scale	0
Medium Scale	4
Small Scale	4
Very Small Scale	62

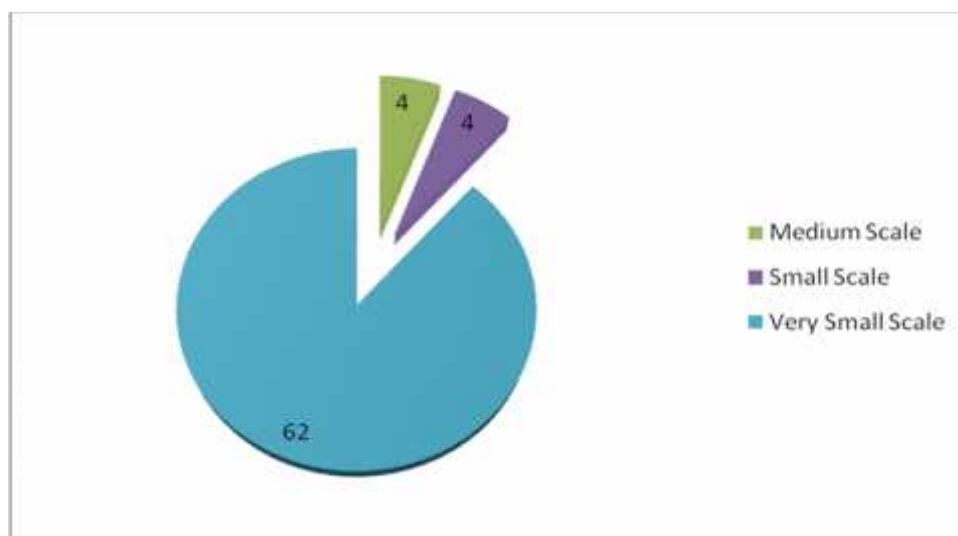
*Source: Field Survey, 2012*

The above table shows that the small holders will be able to obtain financial support from the services ranked in the question number three, but in very small scale. Some of them also feels they can obtain in medium scale and some expresses the financial support can be obtain in small scale.

The pie chart given below also describes the level of scale of the give services in the question number three.

**Figure 4.4**

Level of Financial Support



Sixty-two number of respondents says that only in very small scale the small holders can get financial support from commercial, industrial, agricultural, social, cooperative lending and few says that in small and medium scale small holders can get financial support.

#### **4.2.6 Level of Satisfaction with Microfinance Activities**

What is your level of satisfaction with the present performance of microfinance related activities is the sixth question for the respondents. To question number six, regarding the level of satisfaction towards performance of microfinance services, most of those who are receiving the services expressed their moderate satisfaction. To their justification, they mentioned that due to microfinance services available to them, they are able to meet their both needs and uplift their standard of life. Some of them are satisfied to medium level because of their interest rates. And some of them are not very satisfied because of the services providing to them are limited. The below clarifies the level of satisfaction of the microfinance clients of the research area.

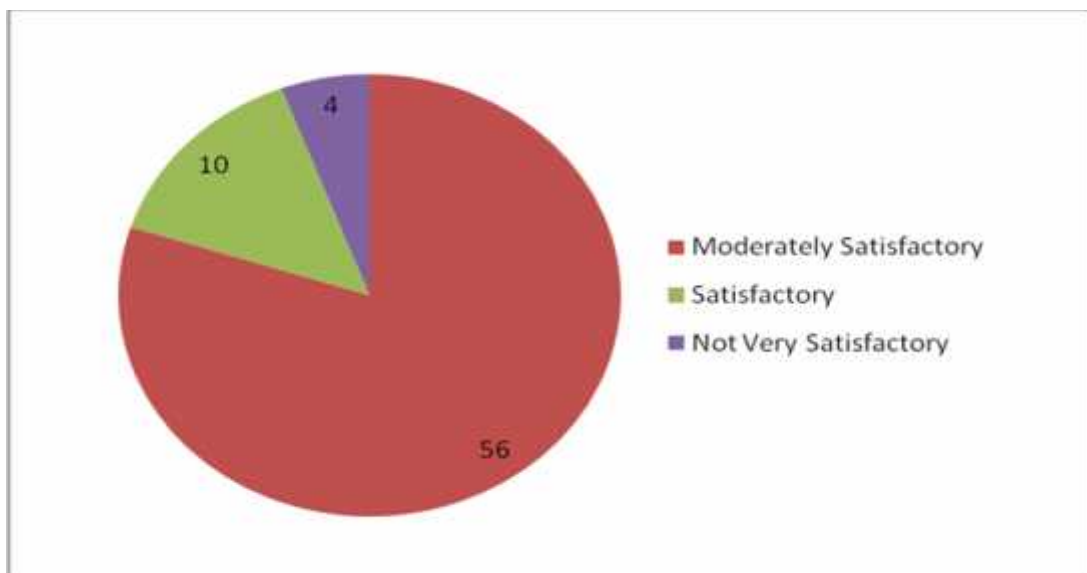
**Table-4.6**  
**Level of Satisfaction**

Level	Number of Respondents
Very Satisfactory	0
Moderately Satisfactory	56
Satisfactory	10
Not Very Satisfactory	4
Not Satisfactory at all	0

*Source: Field Survey, 2012*

Here the above table expresses the level of satisfaction of the microfinance clients of the research area towards microfinance services or the activities. Here none of them are very satisfactory with the services or the activities. As well none of them says they are not satisfactory at all.

**Figure 4.5**  
**Level of Satisfaction**



The diagram describes that large number of respondents are moderately satisfied with the microfinance activities, only few are satisfied and very few are not very satisfied and none are not satisfied at all with the microfinance activities.

#### **4.2.7. Transformation of Women Empowerment**

Seventh question for the respondents is; which services provided in the community or in the country has economically and socially transformed the women empowerment?

Most of the participants express their views that microfinance services plays the vital role in transforming the women empowerment in the community socially and economically and the microfinance services is ranked as the number one for the

empowerment. And secondly the cooperative services for the women empowerment. The below table show the ranking.

**Table 4.7**

**Rank of Alternatives for Services Providing In the Community for Women Empowerment**

Alternative Services	No. Of respondents	Rank
Microfinance Services	50	1
Cooperative Services	16	2
Commercial Services	4	3
Indigenous financial Services	0	4

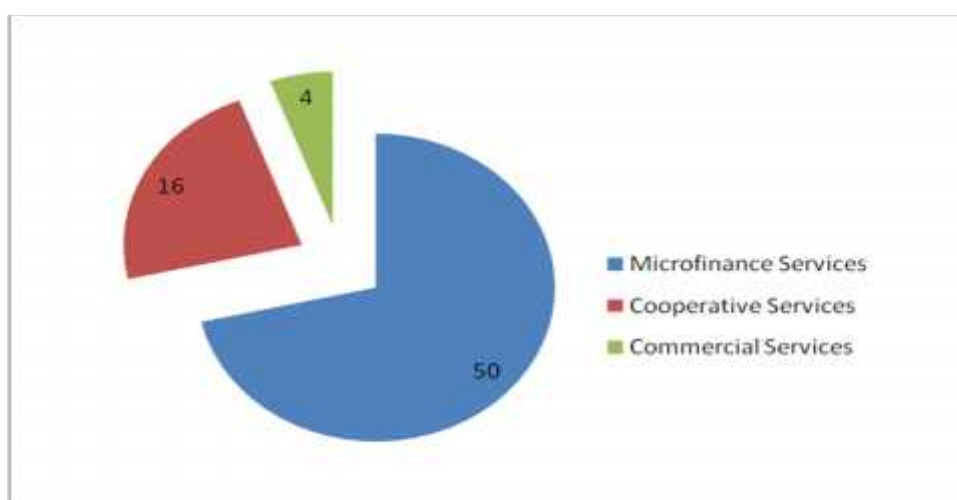
*Source: Field Survey, 2012*

Here the table elaborates that microfinance services are the best alternative for the women empowerment in the community economically as well socially. i.e. fifty respondents ranked microfinance services as the number one for women empowerment economically and socially. Sixteen respondents ranked cooperative services as second alternative and four ranked commercial services and none of them ranked indigenous financial services plays vital role in the women empowerment.

Pie chart below reflects the women empowerment economically and socially through microfinance services.

**Figure-4.6**

**Ranks of Alternatives for Services provided in the community for Transforming Women Empowerment**



The chart describes that most of the women empowerment is due to the microfinance services, also cooperative services is the next tool for women empowerment and the negligible amount takes place the commercial services in the role of empowerment.

#### 4.2.8 Enhancement In the Performance of Microfinance Services

In question number eight the respondents were asked to rank how the performance of the microfinance system be enhanced and improved.

Here the table below shows the ranking of the performance of microfinance system be enhanced and improved.

**Table 4.8**  
**Enhancing Performance of Microfinance System**

Alternatives	No. of respondents	Ranks
Training to MFIs	30	1
Awareness program to borrowers	16	2
Co-ordination	12	3
Policy shift	8	4
Eliminatory duplication of program	4	5

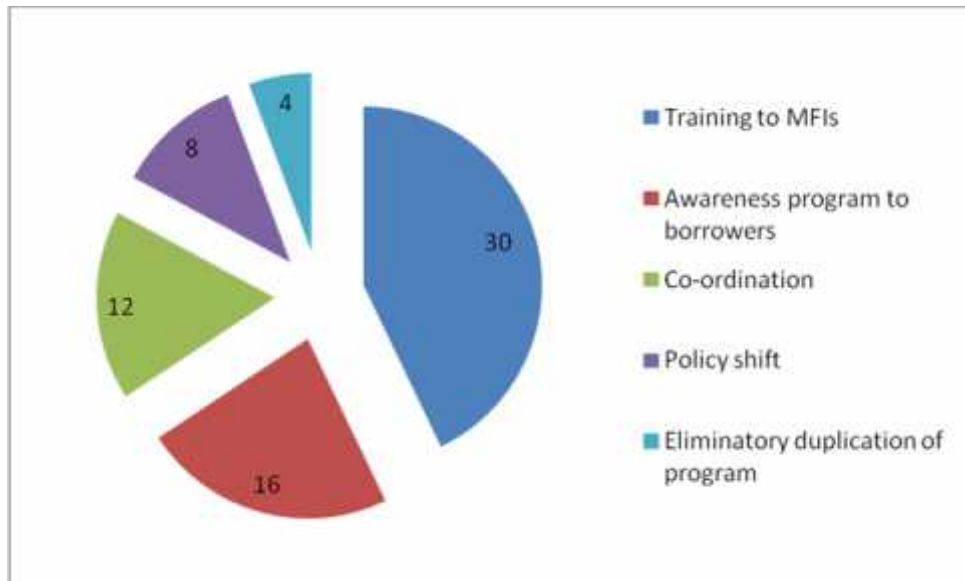
*Source: Field Surve, 2012)*

Here the most of the respondents ranked training to microfinance institution as most appropriate measure to improve and enhance the activities of the microfinance institutions. When the MFIs are trained properly they will be able to deliver the services to poor more accurately. The unsatisfied clients are the example of improper services and lack of knowledge and hence awareness program to borrowers is ranked number two measures, coordination as third is always integral in all the aspects of work and so as in microfinance services.

Ranking of alternative techniques for enhancement of performance of microfinance system can also be shown through the pie chart below.

**Figure 4.7**

**Enhancing Performance of Microfinance System**



The above figure describes firstly the training to microfinance institutions, secondly as well awareness program to borrowers third coordination is always integral in all the aspects of work and then after policy shift and so on.

**4.2.9 Appropriate Microfinance Model**

In question number nine, which microfinance model is more appropriate in context in of our community among the given nine model? Please rank

Nine options are as follows; Informal finance, Grameen bank model, Community based model, Commercial bank programs, Intensive banking program (IBP), Local governance program (LGP), Government managed program i.e. women awareness (Jagriti), Small farmer development program (SFDP), Microfinance model for women, and Financial intermediaries non-government (FINGO).

Here almost all respondents consider and give more priority to microfinance model for women and grameen banking model as the best and most appropriate microfinance model for the community.

**4.2.10 Role of State In the Development of Microcredit**

In question number ten, what should the role of state to develop micro credit system in Nepal, many focused on the development of infrastructure and proper mobilization of fund in every regions.

**4.2.11 Obligation of Financial Institution**

In question number eleven, what are the obligations of financial institution other than (Nepal Rastra Bank) in the development of micro credit system?

Here many of them agree with the view that financial institutions should be fare in interest rates and maturity period of loans depending on its nature.

### **4.3 Economic Impacts of Microfinance Program in Women Empowerment**

The second objective is analyzed through the economic impact the society or in the respondents after joining the microfinance institutions or after receiving the microfinance services. For this economic impacts of microfinance on women are made through some of the visible indicators that sample women/respondents have felt. The physical assets- land, building, livestock & other household amenities, savings-income and expenditure patterns, food security, loan borrowing, repayment etc.

#### **4.3.1 Assets Creation (Physical & Financial)**

Land, livestock and home to live are the three major assets which overall measures the status of poverty alleviation of the community through the MFS provided in the community. Fundamentally, these three are the indicators that DEPROSC, Nirddhan & Suryodaya has been using in identifying a women to be their member. Therefore, measuring impacts of microfinance's seems much more relevant using them this has analyzed the changes revealed in the survey sample clients.

##### **4.3.1.1 Landholding**

Land is the primary assets that everyone assorts to have it since this is the primary source of livelihoods in the agricultural country like Nepal. The microfinance program itself is focus on landless, marginal landholder and deprived people. The survey revealed that majority of clients is landless as well many of them do not have sufficient land for cultivation. Some of the clients does not have their land and most of them have their own home and somehow little kitchen garden before involving in the microfinance program. After involving in such microfinance program many of them have own the land and have their own home for shelter. This shows that the impact of microfinance services have shown positive movements for adding the land. So, from the survey done, it is found that the clients are able to add the land after the involvement in the provided microfinance program.

Among the sample clients taken most of them were landless. About 75 percent were landless prior joining or receiving the microfinance program. But after joining microfinance program merely 5 percent were landless.

Number of sample clients taken total 70 from all three institutions throughout the study and here the data presentation is done on average of all three microfinance institutions.



**Table 4.9**  
**Number of Landless and Landholding Clients Prior and After Joining Microfinance Institutions**

Particulars	Status Before	Status After
Clients who are landless	75 percent	25 percent
Clients who are landholding	25 percent	75 percent

*Source: Field Survey, 2012*

#### **4.3.1.2 Building**

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

Among the sample clients i.e. 75 percent land holding after receiving the microfinance services 50 percent made new home in the land they owned and who have already their own land. Among the sample clients, merely 15 percent have renovated their home prior joining the program but during the survey, it revealed that almost all clients have renovated their homes that have already their own house. In that sense, the microfinance program has been very much helpful in making them prosperous.

**Table-4.10**  
**Number of Clients Households Renovating and Building New House**

Particulars	Status Before	Status After
Clients having home	50 percent	50 percent
Clients renovated their home	15 percent	85 percent

*Source: Field Survey, 2012*

#### **4.3.1.3 Livestock Holding**

Holding livestock is an integral part of livelihoods in any rural parts of Nepal like in rest of the developing world. Livestock provides revenue as well as safety measures. Probably that is why; rating the household level prosperity with the number of animal head hold is very common in Nepal. The similar notion applies to the type of livestock hold. Large animal like buffalo, cows and ox represents the magnitude of wealth and security compared to small scale livestock such as goat and chicken.

Therefore, this study has analyzed the changes taken place in these different types of animals. Among the surveyed clients also, keeping animal is an integral part of their life. The survey revealed that there has been significant improvement in their livestock holding. Since, as after owning their own land and since in the terai belt animal feeding problem is rare there is a significant improvement in the number of holding large animals like cow, buffalo and ox. As well number of holding small scale livestock has also been much more improvement after gaining microfinance services by the clients/respondents. After joining the microfinance program it is found that some clients have taken initiation in keeping pigs & chickens & making them the source of income generation.

**Table-4.11**

**Number of Clients House Holding Livestock Before and After**

Number of clients household holding livestock	Number of clients household holdings (Before)	Number of clients household holdings (After)
Large livestock (cow, buffalo & ox)	10 percent	25 percent
Medium size livestock (goat, pig & sheep)	22 percent	30 percent
Small scale livestock (chicken & duck)	15 percent	30 percent

*Source: Field Survey, 2012*

**4.3.1.4 Other Assets**

In addition to the land, building and livestock possession of other basic assets were also analyzed in the study. The field survey revealed that 90 percent client's households have purchased television within the few years of period after joining MFs. Similarly, 80 percent have constructed toilet at their home premises. Having tube well is also one of the priority areas of women. Many of the clients have made a group of 2-5 families in the same area and made a common tube well for the drinking water and for other water uses in the home premises which also helps to reduce the economic load of the clients. The survey reveals that some 63 percent households have installed tube well at their home yard. Besides, most of the clients utilize the loan by investing in the shop where the family members could get involved in it. According to the survey about 55 percent they take loan to start a business especially a small scale shop. Many of clients (i.e. Women) utilize the loans to purchase rickshaws for generating employment to their husbands. According to the survey about 30 percent they take loan to start a rickshaws driving as a business for their husbands.

## Case Study No.1

### Microcredit Helped Devi Escape From Poverty

Mrs. Devi Darji, 32, resident of Chandragadi-1, Jhapa is one of the successful clients of Niradhan Uttham Bank Ltd, Bhadrapur. Due to service hand to mouth problem, Mrs. Devi Darji and her family migrated to Chandragadi from Taplejung in 2007 in search of employment and started living in a rented room in Chandragadi VDC. Even there, Devi & her husband had a very difficult time to manage a square of meal for her 5 member family for weeks. They didn't find even a small capital to utilize their labour. They had lost all hope to get involved in any economic activities to improve their livelihood. Then after she joined a garment Company named Momento Apparials as a laborer. There she was able to work only for a few weeks as the labor cut off were done she lost her job. After few weeks, she learnt that as institution knows as Nirddhan Uttham Bank Ltd in Bhadrapur -6 was providing small loans to the women of poor households. After discussing thoroughly with her husband, she joined the program. First time, she took Rs 5000 from the institution to buy the second hand sewing machine and started a tailoring centre with one machine. After repaying the first loan, she took another 48000 to expand her tailoring centre she added the next machine where her husband also started to sewing the clothes and which doubles their income. As she was punctual in repaying her loan installment, she could get loan on demand and on time.

As of now, she has two sewing machines in her tailoring centre. Both husband and wife are involved in income generating activities. Her average daily income from the centre is Rs 1500 and out of that her net profit on an average is Rs 400 a day. She started sending her three children to English Medium School after starting the business. Recently, they have also started rearing 3 pigs. This has also become a main source of income for the family. Now, they could easily manage their basic needs plus they have some savings which they have deposited in the bank.

They feel happy when they recall their difficult old days and compare those with the present days. They give all credit to Nirddhan Uttham Bank Ltd for upgrading them to this better situation. Devi says, "We are grateful to NUB Ltd. it help us when there was none to help us. We never forget NUB's contribution."

## Case Study No.2

### Successes Story

#### **Moti Thakur: A Domestic Laborer turned into an entrepreneur.**

Mrs. Moti thakur, age 28, resident of Bhadrapur-6, Jhapa is one of the successes full client of Deprosce & Suryodaya credit & co-opeative Ltd. Bhadrapur. Born in a poor and madeshi family. She even could not go to school as she was a girl. At 15, she was married to a man of a poor family in the same municipality who was a land less and was a servant in a rich Jamindar's family. She had a no choice other than working as a domestic labor and servant in the same Jamindar's family. After one year, they decide to leave the Jamindar's house and then husband started to drive Rickshaw from Chandragadi to Bhadrapur and Moti herself started working a wage laborer to earn for their livelihood. After two years of marriage they got a child (a girl). As they were only two they can manage their livelihood but after having a child it was very difficult for them. One day, while going to work, Moti came to know from a staff of the Deprosce Nepal about its services of providing collateral free loan to the poor like her.

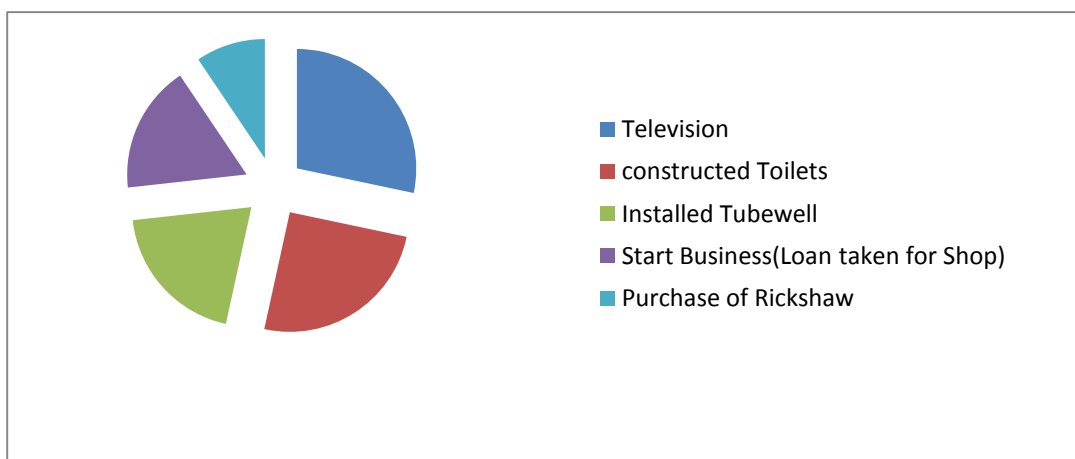
On learning this, Moti got excited and decided to make a try for loan. She enrolled as a group member of Bhadrapur Branch office of the Bank in July 2006. After 3 months, she took first loan of Rs 10,000 from the branch to start a small business of buying and Selling vegetable & fruits. She realized in a few weeks that the business could go well. Her average daily sale was Rs 300/400 and daily profit Rs 60/70. She repaid all monthly loan installments on time. After clearing the first loan in a year as per contract, she took second loan of Rs 15,000 and started rearing 5 goats. This has also become a main source of income for the family.

Again, she took Rs 15,000 from Suryodaya Credit & Co-operative to buy a Rickshaw for her husband of own. Both businesses were running smoothly with satisfactory returns. Having good repayment record with the bank, Rukmini easily got the second loan from Deprosce Nepal Rs 20,000 in January 2008. She used the loan to expand her vegetables & fruits business. From the vegetable & fruits shop she could earn a profit fo Rs 300-550 by selling Rs 2000-RS3000. Similarly from the Rickshaw her husband could make profit of Rs 500-600 a day.

Due to both husband and wife's monthly earning they could easily manage their monthly living expenses. Their three children have been going to English Medium School.

Moti got third loan of Rs, 50,000 after a year of the second loan repayment to buy a land. Then she built a small thatch roof house. Now, she is a landowner, shop owner and have a rickshaw business of own and living a very happy life.

**Figure-4.8**  
**Percentage of Clients'\* Households with Net Addition of Assets**



#### 4.3.1.5 Savings

Savings has been acknowledged as an integral part of the co-operative & microfinance program. Saving also shows the status of poverty alleviation. Experience shows that, the saving service is equally important to poor as credit service, Poor are bankable and they would have active participation in saving program, if proper saving products are designed and implemented. Savings has developed ownership in the participating members, act as collateral to the loan disbursed, help to maintain credit discipline, establish saving habit, provides flexibility to women, generates confidence among them, increase risk bearing capacity of borrowers, control unnecessary expenses & make program sustainable in long run.

#### Saving Products of DEPROSC NEPAL

There are five types of saving products that sample women are participating-

- i.** Compulsory monthly group saving @ Rs per month (Rs 50 to open the account).
- ii.** Personal saving at individual level.
- iii.** Loan guarantee fund, percent of the loan disbursed.
- iv.** Centre fund collection managed by Centre itself.
- v.** Child Saving.

#### Saving Products of Nirddhan Utthan Bank Ltd.

There are two types of saving products

Group Members

Types of Saving Products

Compulsory Saving

Optional Saving

Centre Fund Saving

Bright Future

Non-Members  
 Types of Saving Products  
 Simple Saving A\C.  
 Recurring Saving A\C  
 Employee Saving A\C  
 Bright Future Recurring Saving A\C  
 Fixed Saving  
 Three month Fixed Deposit A\C  
 Six month Fixed Deposit A\C  
 One year Fixed Deposit A\C  
 Two years Fixed Deposit A\C

**As well: - Small Scale Insurance Facilities i.e.**

Rural Loan insurance  
 Livestock insurance  
 Remittance  
 Saving Products of Suryodaya Saving & Credit  
 Simple daily saving a\c (daily-Rs100- Rs100, 000) @ 7 percent interest rate.  
 Minimum saving a\c (daily-Rs20- Rs100, 000) @8 percent interest rate.  
 Child Saving a\c (yearly-Rs200-Rs3000) @ 9 percent interest rate.  
 Fixed Deposit a\c:- One year (9.5 percent interest rate), two years (10 percent interest rate), three years (11 percent interest rate), four years (12 percent interest rate), and five years (12.5 percent interest rate)

**4.3.1.6 Food Security**

Level of food security directly reflects the economic impacts on a particular household. As well food security also shows the status of poverty of the community as well of the country whole. Food security has been broadly defined with two perspectives. The first production from own land and the second is to be able to buy from the market from their regular earnings. But in case of the clients of the MFI no one is dependent on the food by their production because of insufficiency of land for cultivation. Here the food security is calculated considering their own production and the capacity to buy from their regular business and sale of other agricultural products.

**Table 4.12**

**Microfinance Clients Households with Food Sufficiency Status**

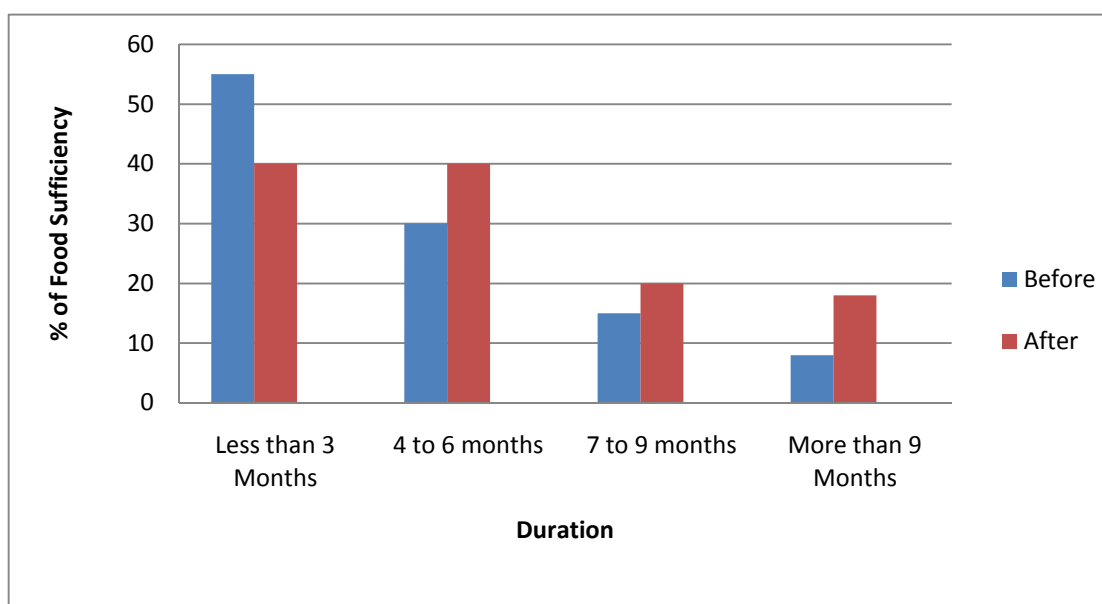
Duration	Before joining Microfinance	After joining Microfinance
Less than three months	55%	40%
Four to six months	30%	40%
Seven to nine months	17%	20%
More than nine months	8%	18%

*Source: Field Survey, 2012*

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

**Figure No.4.9**

**Percentage of Sample Clients Households with Food Sufficiency Status**



The survey has revealed that all most all clients have adopted some means of coping mechanisms. Among which wage earning is one of major. 92 percent clients fulfilling their food requirements by wage earning which is still a valid source of earning for around 83 percent clients. Wage earning include agricultural labor, industrial labor & migration to major other cities to sell their labor.

Beside the wage earning some of the sample clients even have to borrow locally to buy food. Around 43 percent clients were adopting this mechanism to fulfill the daily food need. There has been a significant reduction to 15 percent among the clients to borrow to buy food has also reduced by around 50 percent. Previously the average

loan amount borrowed for this reason (from all three institutions) was Rs 1600 per annum which is Rs 750 at present with net reduction of Rs 850 in an average.

**Table-4.13**  
**Average Client Borrowing to Buy Food**

Particulars	Before	After	Net Change
Percentage of clients households borrowing to buy food	43 percent	15 percent	28 percent
Average amount borrowed (Rs)	1600	850	750

*Source: - Field Survey, 2012*

#### **4.3.1.7 Income Pattern**

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

**Table-4.14**  
**Percentage Wise Distribution of Sources of Income Before and After Joining the Microfinance Program**

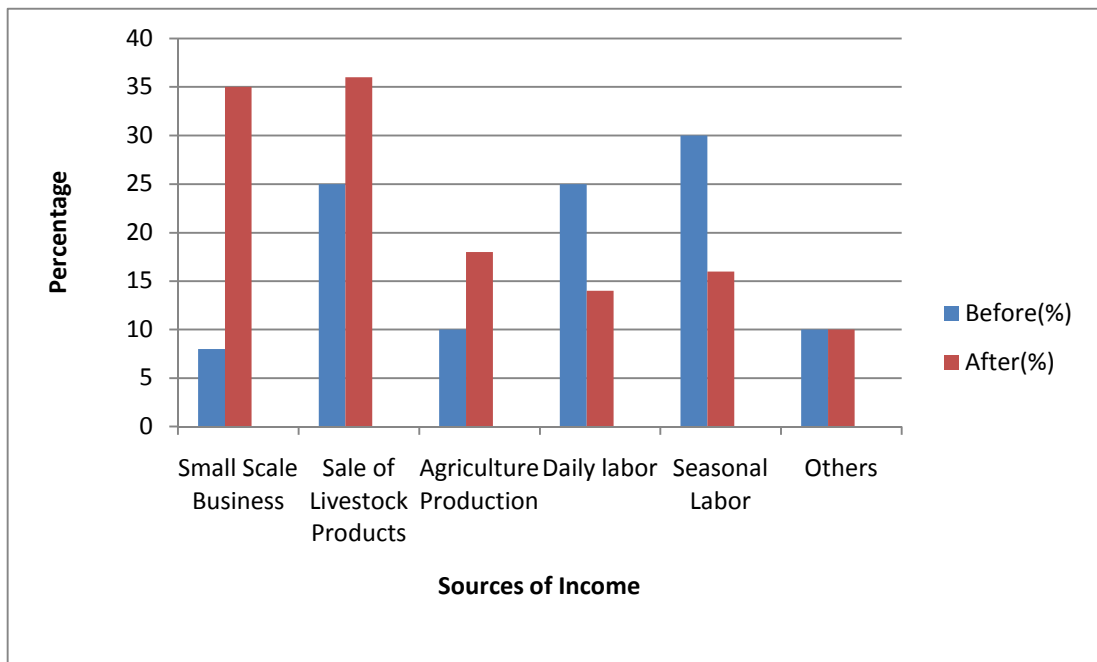
Particulars	Before ( percent )	After ( percent )
Small scale business	8	35
Sale of livestock products	25	36
Agriculture production	10	18
Daily labor	25	14
Seasonal labor	30	16
Other	10	10

*Source: - Field Survey, 2012*



**Figure No.4.10**

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



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

#### **4.3.1.8 Expenditure Pattern**

Expenditure pattern is analyzed to have an impression how the expenditure among the surveyed clients have changed because of having additional revenue. The general accepted principal about the expenditure is that higher the poverty and deprivation higher is the proportion of expenditure done for food and basic amenities. The below table shows the expenditure done by the microfinance client's before and after joining the microfinance programs.

**Table 4.15**

**Expenditure Pattern of Surveyed Clients before and After Participating On Microfinance Program**

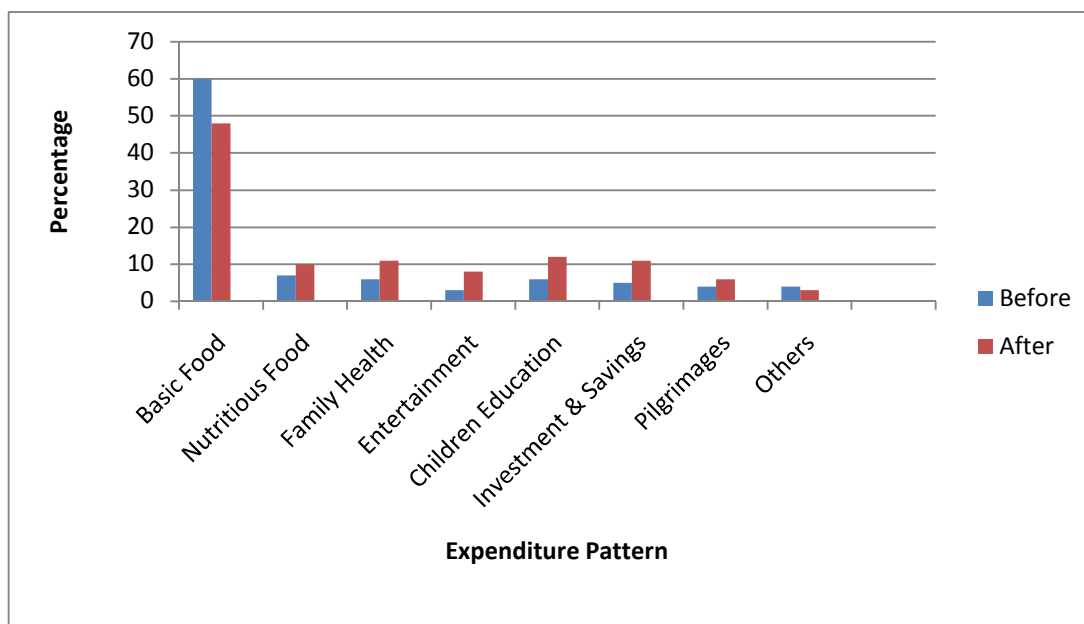
Expenditure	Before Joining Microfinance Program	After Joining Microfinance Program
Basic Food	66%	48%
Nutritious Food	7%	10%
Family Health	10%	6%
Entertainment	4%	7%
Children Education	8%	12%
Investment and Savings	6%	10%
Pilgrimage	5%	6%
Others	2%	4%

*Source: Field Survey, 2012*

The above table shows the expenditure patter of the respondents or the microfinance clients before and after joining the microfinance services. Here the expenditure on the basic food has decrease after joining the microfinance programs as well expenditure on nutritious food has been increased. Expenditure on family health has also been decrease. Likewise expenditure on children education has also increase after joining microfinance services and so on.

The figure below clarifies the expenditure pattern before and after joining the microfinance programs.

**Figure- No.4.11**  
**Expenditure Pattern of Surveyed Clients before and After Participating MF Program.**



Here the diagram shows the expenditure pattern. Expenditure done on acquiring basic food before and after is 66 percent and 48 percent respectively. Similarly, expenditure on nutritious food such as meat, milk, fruits etc. is increased by around 3 percent (i.e. 7 percent -10 percent). Likewise, increment on expenditure has taken place in children’s education, investment and savings, and other unidentified areas. The reduction on expenditure on client’s her husband and children’s health shows relatively better health position of the client’s family members which perfectly coincides with the increment of expenditure on nutritious food. The analysis further shows that, saved proportion of expenditure likely to have invested for children education. Moreover, the requirement of spending less amount of their earning for basic food shows their increased income as well the state of poverty has minimized. The analysis also shows trivial changes on the expenditure made on entertainment and pilgrimage.

#### **4.4 Social Impact of Microfinance Program in Women Empowerment**

The second objective status of women empowerment through MF program is analyzed through the social impact of MF program in women empowerment. Here women empowerment is analyzed at two different stages: (I) at household or internal level and (ii) external level (outside the house). Household level empowerment is assessed through decision making and participation on household affairs, awareness level on basic household issues, access to and control over resources, cooperation and discrimination at household level. External level empowerment is assessed mobility, awareness, exposure, social capital and confidence. Based on these the discussion is as under.

#### 4.4.1 Women Empowerment at Household Level

For analyzing the gender dimensions and empowerment through microfinance among the sample clients FGD was done (here 70 number of members involvement from institutions were taken). Surveyed sample clients expressed their autonomy in obtaining membership and purpose of loan to borrow. Selection of MFI, amount of loan to borrow, and spending the borrowed cash are done jointly by husband in these crucial decisions can be seen as their support to wives while this might be their domination in the key decisions related to resources.

Particularly, joint decision and involvement of husband in managing regular savings, arranging loan installments and finding coping mechanisms to repay the loan in time might justify husbands taking ownership to the loan. Keeping cash received from the enterprises by husband- definitely not in favored of empowering women- can be seen along with the role of managing daily household expenditure by them. But, controlling over the decisions related to deposit and withdrawals of personal saving by husband clearly explains the high magnitude of their control over women members' autonomy. Decisions related to personal savings are optional thus member could enjoy the flexibility they do not.

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

**Table-4.16**

#### **Magnitude of Empowerment on Other Domestic Issues after Joining MF Program**

S.N.	Issues	Improved Slightly	Highly Improved	Has no difference	I am unaware	Total respondents
1.	Child Education	31 %	67 %	2 %	0	100 %
2.	Child Health	43 %	57 %	0	0	100%
3.	Procurement of goods	38 %	60 %	2%	0	100 %
4.	Selling of products	28 %	62 %	5%	5%	100 %
5.	Decision making at HH level	40 %	55 %	5 %	0	100 %
6.	Reduction on HH pressure & Discrimination	48 %	38 %	12 %	2 % t	100 %
7.	Household level co-operation	45%	53 %	2 %	0	100 %
8.	Keeping & use of profits & funds	50 %	43 %	5 %	2%	100 %

Source: Field Survey, 2012

The survey shows that some 67 percent sample clients expressed highly improved child education situation. Similarly, some 57 percent clients expressed the highly improved knowledge on child health and therefore their health situation. Likewise, the microfinance program has impacted to a larger scale for around 60-62 percent sample clients on procurement of household goods and selling of their products. Remarkably almost 95percent sample clients mentioned that the household level cooperation has increased and family level discrimination has been reduced. Exceptionally, 5 percent sample clients mentioned that participation on microfinance program has not make any difference on household level discrimination. Despite these, the strategic needs such as structural issues, power dynamics within the household, traditional roles of women and ownership to land and other assets are still under ambiguity which has not covered in this study.

#### **4.4.2 Empowerment at External Affairs**

Women empowerment that begins from the household level will not be institutionalized unless it is reflected to the external affairs. In order to identify the impacts of microfinance on women regarding some strategic needs of women and developing of social capital which ultimately ensures the women empowerment, sample clients were interviewed whether there has been improvement or not. Responses of 35 sample women clients have been summarized.

Among sample respondents 50 percent said their traveling outside home has increased slightly whereas 40 percent respondents mentioned it has increased substantially. Exceptionally, microfinance has not improved to the traveling of 8 percent women clients.

Awareness on political and legal issues such as political ideology, voting rights, political parties, women rights, child rights are slightly improved to 65 percent sample clients whereas 12 percent sample clients find there has no improvement in those issues. Some 20 percent respondents in fact are unaware of the issues as such thus replied as they are unaware.

Participating sample clients have increased social capital. Almost all sample clients mentioned their increased participation on social and community level activities however the magnitude varies among them. Trust and mutual respect are also increased to 90 per cent sample clients. Exceptionally, around 33 percent sample clients mentioned visiting of government and other developmental line agencies to put pressure and demand support services have not happened. For those, who mentioned it has happened is also at low magnitude. Only 10 percent sample clients mentioned it has happened with higher magnitude. Based on this result, we can say that women participating on microfinance have increased their social capital however the magnitude varies among them.

Besides, microfinance clients have enhanced their understanding and capability in many areas. The increased awareness and confidence on aspects of life skills and

economy are presented below as mentioned by sample women clients during the individual survey and focus group discussion.

### **Box 1**

#### **Women's Perceptions on the Benefits of Microfinance Program**

- ) Helped in participating on economic transaction- taking loans.
- ) Taught the importance of time and time management.
- ) Involved in social program and knowledge about economic scenario of the region.
- ) Brought about the feeling of community living.
- ) Taught the importance of child education.
- ) Uplift the rural and the backward class people.
- ) Made them capable and self- sufficient so as to share the similar screen as the other educated people.
- ) Made them able to handle various monetary transactions.
- ) Taught the importance of money.
- ) Enhance the awareness about nuclear family.
- ) Made us more up to date in the field of economic development and social engagement.
- ) Realized the importance of investments and savings.
- ) Made awareness of the harmful effects of narcotic drugs and timely reduction of its uses so as to save one's life and property.
- ) Made us more disciplined and mannered.
- ) Knowledge about handling responsibilities.

#### **4.5 Income Generation and Employment**

The third objective income generation and employment is analyzed as below:

*The prime objective of clients to participate on the microfinance program is to have access to credit fund so as to initiate income generation activities for the creation of self-employment. The sample is taken mostly among the older ones who have been participating for around five years for DEPROSC Nepal and Suryodaya Credit and Cooperative and two years for Nirdhan Utthan Bank Ltd. Therefore, the sample clients of DEPROSC and Suryodaya have obtained loan for two times (since Nirdhan Utthan Bank Ltd., is established in Bhadrapur in 2068). Since the repayment is scheduled for one year, next loan is not provided unless the previous loan is cleared.*

One of the major objectives for microfinance program is to crate self-employment at local level. The survey has revealed that the microfinance program has crated employment for 1.5 persons in and average. Further discussion with the sample clients revealed that they themselves and their husbands are involved in the business and

cultivation related to their investment done from the borrowed fund. In some cases where women have invested for business has created employment for other family members too and for other non-members too.

## **4.6 Opportunities and Challenges of Microfinance Institutions**

### **4.6.1 Opportunities**

The government of Nepal has issued 'National Microfinance Policy, 2007' which aims to facilitate the creation of conducive legal environment and the necessary financial infrastructure for further development of the microfinance in the country;

Laws have been in place for operating microfinance under different institutional frameworks. For operating microfinance on a wider scale, a microfinance bank might be established as a joint-stock company with a larger size of capital under the umbrella act "BFIA, 2006". The central bank has nominated the development of this type of bank as priority. Recently, microfinance banks have also been allowed to expand operations in additional five hills districts without increasing share capital. NGOs can undertake microfinance activities after being formally registered under the 'Financial Intermediaries Act, 1998 (amended in 2002)'. Similarly, local CBDs or self-help groups can be converted to legal financial organization, registered as savings and credit cooperatives under the 'Cooperative Act, 1991'.

A number of quality retail microfinance institutions with sufficient institutional capacity and professional management have developed in the last few years due to the adoption of best practices and the development of their human resources to attain institutional and financial sustainability of their institutions.

The establishment of wholesale lending organization (such as RMDC, SKBBL, RSRF, and NCDB) has bolstered the supply of funds to retail MFIs,

A substantial amount of funds for micro credit programs are available from domestic sources (the commercial banks) under the mandatory Deprived Sector Credit Program).

New products, such as Micro-insurance products, have been introduced through a partnership between MF providers and a large insurance company. A number of self-managed micro-insurance schemes at an institutional level (without linking with an insurance company) have also been practiced in Nepal for more than a decade. New MFIs can replicate the scheme.

The decade long conflict due to Maoist insurgency, which has severely constrained the implementation of MF programs particularly in the hills and mountains, is now over and this has created a positive environment for microfinance operation in the remote regions.

At present a good number of MFIs are operating in a professional manner in the country, from which the upcoming microfinance leaders and practitioners can learn valuable best practices and good experiences of microfinance.

A large number of poor households (around 40 percent of total poor population) are still deprived of institutional microfinance services, which provide a good market for the MFIs to scale up their operation.

#### **4.6.2 Challenges**

There are various challenges for the operation of microfinance in our country and some of the challenges are as follows:

Difficulties in expanding microfinance programming into the hills and mountains of Nepal has been one of the major challenges in the country due to the lack of local financial institutions and the unwillingness of large MFIs to expand their operations in those areas. The few existing local cooperatives do not have adequate institutional capacity or governance to expand outreach considerably.

Highly subsidized micro credit programs are still being operated in most parts of the country, which have been threatening the financial discipline and basic norms of microfinance systems.

An overlapping of MFIs operating in densely populated areas poses a threat to the maintenance of quality operations, resulting in unhealthy competition. The NRB has not been able to upgrade its capacity to adequately supervise the MFIs and solve this issue.

Most political parties and leaders are unaware of the basics of microfinance and the need of institutional sustainability of MFIs, seeing microfinance programs as charity. Occasionally, they have argued for lower interest rates and loan waivers.

Rural and remote areas where most of the poor population resides have limited physical infrastructure and economic opportunities for the people. Micro-Finance operation cannot flourish in such areas. The government should get involved to actively develop the basic infrastructure required for improving agriculture and local economy.

A large number of people from rural and remote areas migrate to towns and urban areas for seasonal employment. They need access to microcredit, but MFIs are hesitant to extend services to them due to their temporary nature of stay in the program areas.

#### **4.7 Major Findings**

Accessibility towards the economic activities of the backward society has increased due to the microfinance services and programs which has been initiated by the private as well government sector. People's views towards microfinance programs have been changing positively. A financial service for small holders has been easily accessible.



Economically and socially women empowerment has been transformed through MF program.

Land holding, quality of home to live, number of livestock and possession of other household amenities have increased among the sample surveyed clients. Moreover, food security has been increased, and health, child education has been improved. Importantly, livelihoods pattern of microfinance clients has been shifted from wage base to agriculture and self-employment base.

Awareness, capability, confidence and social capital have also been significantly improved. In general, survey has revealed that socio-economic conditions of sample women clients have substantially improved. Income generation as well self-employment has also increased substantially. Income and Expenditure pattern has also increased. Expenditure done for the food and basic amenities has decreased. Expenditure for child education has been increased. The detail of the research findings is as follows

#### **4.7.1. Landholding**

The survey revealed that the micro-finance program has slightly improved in the landholding of the sample clients. Almost most of the clients have their own land and who doesn't have their own land were also able to buy the land with the help of the microfinance loan for the land buying. After involving in such microfinance program there is a difference found in creating the fixed assets like landholding. This shows that the impact of microfinance shows the positive impact on movements for adding the land.

#### **4.7.2. Building**

Home to live poses higher value to the sample clients thus prefer to improve the quality by changing roof, making ground cemented, plastering the wall etc. And the clients who do not possess home but have owned their own land have created their home. Women feel proud to have their own home and also feel proud to show that changed the thatch roof in the Jasta sheet. Among the sample clients 85 percent clients have renovated home and 50 percent clients have created new home. In that sense, the microfinance program has been very much helpful in making them prosperous.

#### **4.7.3. Livestock Holding**

Number of livestock holding households has also improved. Prior joining the program, only 15 percent clients have any small scale livestock where 22 percent clients used to have medium scale livestock but after joining the microfinance program it has changed to 30 percent and 32 percent respectively. As well large scale livestock has been changed from 10 percent to 25 percent. This shows that after joining the microfinance program number of livestock holding has been increased proportionally.

#### **4.7.4. Other Assets**

Quite a size sample clients have created other household assets for example, 90 percent client households have purchased television, 80 per cent have constructed toilet at their home premises and some 63 per cent households have installed tube well at their home yard. Some 55 percent have taken loan to start a business especially small scale shop.

#### **4.7.5. Savings**

Sample clients are enjoying various types of saving products from all three institutions taken while the survey. Various saving products – compulsory monthly group saving, personal saving, child saving, optional saving, fixed saving etc. These products have helped sample women to generate quite a significant amount.

#### **4.7.6. Food Security**

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

Around 83 per cent clients are still adopting some means of coping mechanisms among which wage earning is one of major, however period required to manage through coping mechanism has decreased. Some 15 percent clients even have to borrow around Rs 1600 per year locally to buy food which was around 43 percent before. The average amount of such borrowing has also reduced by 50 per cent.

#### **4.7.7. Income Pattern**

Income source structure has also changed. Previously, daily wage was covering 25 percent earning whereas at present it risk reduced to 14 percent. 10 percent of earning from agriculture has increased to 18 percent making them less dependent on wage earning. Similarly, 25 per cent earning that comes from selling of livestock products has increased to 36 per cent. Small scale business has become another important source of income after joining the micro-finance program, prior joining the program it was just 8 percent but after joining it has increased to 35 percent. Microfinance services have contributed towards generating own income from small scale business, agriculture and livestock holding thereby reducing the burden of daily labor.

#### **4.7.8. Expenditure Pattern**

Expenditure done on acquiring basic food has been decreased by 12 percent from 60 percent 48 percent and expenditure on purchasing of nutritious food such as meat, milk, fruits and fresh vegetables is increased by around 3 percent. Likewise, expenditure proportion on children's education, investment and savings, and other unidentified areas has increased.

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

#### **4.7.9. Empowerment at Household Level**

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

Despite these, women expressed their increased level of awareness and confidence on many issues and increased participation and acknowledgement in the household level decision making process. Around 67 percent sample clients expressed the highly improved child education situation and 57 percent clients expressed the highly improved knowledge and child health therefore children's health situation are also improved.

Likewise, the microfinance program has highly improved the capacity of 60-62 percent clients on household level procurement and selling. Remarkably, almost 95 percent respondents mentioned that the household level cooperation has increased and family level discrimination has been reduced.

#### **4.7.10. Empowerment at External Affairs**

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

**Social Capital awareness:** - Participating sample clients have increased social capital. Almost all sample clients (98 percent) mentioned their increased participation on social and community level activities however with varied magnitude. Trust and mutual respect are also increased among 96 per cent sample clients. Exceptionally, around 33 percent sample clients are not visiting any government and other developmental line agencies to put pressure and demand support services. For those, who mentioned it has happened is also at low magnitude.

## CHAPTER – V

### Summary, Conclusion and Recommendation

This chapter has summarized the research in general followed by conclusions of the study. Based on the findings and conclusion some recommendations are also put forwarded to be considered by DEPROSCE Nepal, Nirddhan Utthan Bank Ltd, and Suryodaya Credit and Cooperative in particular, and policy makers, academicians, researchers and microfinance practitioners in general.

#### 5.1 Summary

Government of Nepal amongst others has envisaged that access to microfinance to women not only impact on socio-economic life of women but also empower them effectively thereby reducing the poverty therefore, has promoted it. MFIs are also expanding their services targeting to women with the same notion, however MFIs have a pressure of sustaining their program through the attainment of financial viability. Therefore, the of interest having good microfinance – better repayment – may have direct negative effect on socio economic empowerment of women. At the same time, the debate on the microfinance whether it should be completely business oriented or it should carry some social responsibility of social development, capacity building, linkage and coordination also exist. Microfinance is been accepted universally as an effective tool for addressing poverty. Microfinance is seen as a benchmark for accessing financial services for the poor and low income group. It has been a landmark tool for reducing poverty. Thus this thesis is conducted with the objectives of exploring consequences of such microfinance targeting to reduce poverty, empower women economically and socially and also who can initiate for the self-employment generation etc.

In order to fulfill its broader objectives, it has five main objectives which have focused on condition of microfinance in the country, peoples view towards microfinance institutions and its services provided to the community, economic impact i.e. situation of poverty in the community and rate of poverty alleviation through MF program, status of women empowerment at household and external level, employment generation and self-employment concept and awareness towards the microfinance clients and sample respondents. It has considered the questionnaire method for the collection of data for the fulfillment of 1<sup>st</sup> objective, physical and financial assets, food security, borrowing and borrowing and employment creation as major indications to analyze the economic impacts. To fulfill the objective of analyzing women empowerment, their participations and decision making at household level, awareness on health, child education, sanitation, financial transaction, family cooperation, discrimination, exposure, traveling, social capital and confidence are analyzed.

The study based on comparative analysis is done with seventy number of sample clients of DEPROSC Nepal, Nirddhan Utthan Bank Ltd., and Suryodaya Credit and

Cooperative- in Bhadrapur, Jhapa. Data required is collected from the field survey with randomly selected sample clients. Individual interview of samples using semi structured questionnaire and focus group discussion are done. Individual interview of concern stakeholders, academicians, executives of all three institutions taken throughout the study are also done. Simple statistical tools such as percentage, mean, frequency counting etc. are done for quantitative data whereas observation, interpretation and perception analysis is done for qualitative information.

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

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

## **5.2 Conclusion**

Access to microfinance services offered by the DEPROSC Nepal, Nirddhan Utthan Bank Ltd, and Suryodaya Credit and Cooperative has positive impacts on the life of surveyed sample women in Chandragadi and Bhadrapur of Jhapa district. Positive social impacts are observed in their livelihood structure and have empowered women in many ways such as awareness and knowledge on basic issues such as importance of educating children, child health and hygiene, importance of money management, their role in household economy etc. Satisfactory economic impacts are not observed in assets creation and self-employment creation but the microfinance services provided have helped them to improve their better livelihood structure like: enhanced food security, improved health, and sanitation and nutrition status.

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

Despite these all, women are also facing problem created through participation on microfinance program like increased responsibility to look after household as well as external affairs therefore, difficulty in time management. Even some respondents mentioned they do not find time to go to their birth home (Maiti) because of rigid and time bound participation on microfinance centers and the responsibility to mobilize

the loan fund properly. Sample women are not empowered to that level that they can unite and put pressure to the government line agencies and other developmental organization to demand services.

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

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

Despite of having number of areas to improve and strengthen, microfinance services targeted to women clients have open up lots of avenues of empowering them. The significant social impacts, increased awareness, confidence and living in a more dignified life itself and somehow the improvement in economic level are remarkable achievements in the field of poverty reduction and women empowerment thus cannot viewed only with the strategy of successful microfinance. In addition of providing loan and other financial facilities to women they should also be given training to develop skill and knowledge in micro enterprises so that they can do better to sustain economically.

### **5.3 Recommendations**

- i. Based on the analysis, findings and conclusions, the following recommendations are done at three different levels
- ii. Microfinance methodology of all three institutions taken throughout the study is highly welcomed by the respondents except the rigidity of time. Therefore, microfinance methodology should be revised in such a way that women client's time involvement in the process should be reduced.
- iii. Social impacts of microfinance programs targeted to women is significant thus should further be encourage. But still there is not satisfactory economic impact in the clients regarding assets creation so there should be the provisions of counseling and in case of need skills related training

- or program can be given to make them able to start a small and medium scale of enterprises.
- iv. Loan procedure should be clear and flexible as per the problem seen by MFIs. It should be strong but in some cases it could be flexible. Like in case, when loan user uses loan for agricultural sector they should get period of time to fertile the product.
  - v. There has been tremendous pressure on women regarding the repayment of loan so it has to be shared among the family members of the microfinance clients. The microfinance service delivery methodology should be designed in such a way that husband's also feel equally accountable and responsible in repaying the loan installment.
  - vi. All three institutions taken throughout the studies has provided very limited skills transformation and capacity building activities to sample clients which are not sufficient thus government line agencies, other development agencies should focus on such technical capacity building activities.
  - vii. Business development services and support services available to microfinance clients are virtually not in existence thus arrangement has to be done for such services particularly in the area where private sector is reluctant.
  - viii. Microfinance institutions including all three institutions taken throughout the survey should develop other products and working methodology to bring the excluded ones into the orbit of microfinance services. The role of government seems important in issuing the policy measures preferably the incentive based so that such excluded could be covered.
  - ix. The implemented microfinance program should be evaluated and monitored timely so that the effective strategy can be followed in right time to make the program more effective. Every MFIs should keep in mind that only providing small scale loan and serving their financial problem is actually not the motto of microfinance program, so all the MFIs should try to empower their clients socio-economically by showing them correct way either by training, guiding or counseling and of course helping financially.
  - x. Microfinance clients are very much empowered on the basic issues and have also increased their access to financial services but unfortunately, mostly the control of such financial services are with their male counterpart thus, microfinance client's family need to be sensitized for strategic gender needs.
  - xi. To develop micro finance all over the country, the state should have formation of conducive policy environment in this field. Fund should be raised from the government resources and all the financial institution also invest certain portion of their profit and share on it.
  - xii. To develop microfinance in Nepal, government should provide some facility to microfinance institution to encourage them to spread its

program all over the country. Microfinance could be scaled up with good product design to accommodate the need of graduated client. This is support to help achieving higher employment generation, reducing poverty, empowering women socio-economically and also helping MFIs to achieve outreach with sustainability.