CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal situated in between China and India has been ranked as one of the least developed countries in the world. As per the Central Bureau of Statistics Preliminary Result of the National Population Census 2011, the population of Nepal reached 26.6 million in the year 2011 which shows an increase of population at the rate of 1.4 percent per annum. The Nepalese economy is mainly based on agriculture. The Nepal Living Standard Survey (NLSS 2011) reveals that 76.3 percent households are involved in agriculture. Despite high percentage of people's involvement, its contribution to the Gross Domestic Product (GDP) is 33 percent only.

Poverty is major problem of Nepal. About 26% of the total population of Nepal lives below poverty line. Per capita income is less than US$650 (Census 2011). NLSS 2011 pointed out that 22% of the population captures 84% of the resources whereas the remaining 78% of the population is stuck with only 16% resources. The survey showed the growing disparity in the distribution of income. Nepal's human development remains among the lowest in the world. UN Human Development Report (HDR) 2011 ranked Nepal in the least developed country category. Nepal’s Human Development Index (HDI) value for 2011 is 0.458 and positioning the country at 157 out of 187 countries.

Majority of people (85%) in Nepal live in rural area and subsistence agriculture is their main (64%) occupation Nepal’s rugged landscape and hostile physical environment has clearly hindered the development of national infrastructure and the decline of basic services such as health, education, water, electricity, etc. in rural areas. It also greatly constrains the access of farmers and other rural producers to markets.

1.2 Focus of Study

Rural Micro Finance Development Centre (RMDC) was established as an apex organization of micro finance in Nepal. It was incorporated on October 30, 1998 (2055/7/13 B.S.) as a public limited company under the Companies Act. 1996 and had license from the Nepal Rastra Bank (the Central Bank) on December 6, 1999 to operate as a development bank within the framework of the Development Bank Act 1995. It has been operational since January 2000.The authorized capital of RMDC is 160 million rupees and the issued as well as the paid- up capital is 80 million rupees. Nepal Rastra Bank, eleven national level commercial banks, two regional commercial banks, the Deposit Insurance and Credit Guarantee Corporation and Nirdhan are the promoters and shareholders of RMDC. The 13 commercial banks and Nepal Rastra Bank have purchased 67% and 26% of the total paid- up capital of the Centre respectively. RMDC has also initiated an impact study of microfinance program on the socio-economic dimensions of the clients of its partner organizations in order to see whether the objective of improving socio-economic conditions of the ultimate clients has been attained or is being attained.

The study has focused on impacts of microfinance services on (i) loan transactions from various sources, (ii) income-source-wise investment, income and savings, (iii) living and non-living assets, (iv) food self-sufficiency and nutritious food consumption, (v) clothing and housing type, (vi) health care measures and education of children, and (vii) participation in social and political events, and empowerment of women.

The study sample included 192 respondents of the 200 sample of ultimate beneficiaries from eight microfinance institutions that include: Swabalamban Laghubitta Bikas Bank Ltd., Manushi, Nepal Mahila Utthan Kendra, Jeevan Bikas Samaj, Mahila Sahayogi Sahakari, and Centre for Self help Development. It has revealed positive improvements in investment, income received, and savings made through activities undertaken with the increased funding support in successive years. Assets, both living and non-living, were found to have increased both in terms of quantity and value. Food self-sufficiency situation did improve remarkably when compared to situation before participation in the MF program. Number of daily food intake and frequency of nutritious food intake per month were also found greatly impacted by the program. There is also remarkable improvement in housing, health care, and education of children. Improvements were also observed in participation in social and political events and found significant positive changes in the empowerment of women members on the whole.

1.3 Statement of the Problem

Nepal is one of the poorest countries in the world as well as in South Asian Region. Nepalese economy is distinctly different in its character from the regional economies. Poverty, less developed geographical situation, technological backwardness, landlocked, dominated by two large economies, low per capital income, high population growth rate, concentrated urban growth and low level of educations are the main features of Nepalese economy. The outreach of micro finance services in Nepal, is still very limited. To change the aforesaid features of Nepal, the poor should be made aware of the products and services offered by the micro finance institutions.

Women of Nepal are suffering more than men due to complex social, cultural, traditional, geographical and economic characteristics. They lack access to health, education and economic resources. Nepalese women are underprivileged and disadvantaged in terms of their socio-economic status in comparison to their male counterpart. Nepal, being an agrarian country has more women involved in agriculture. Women have a remarkable contribution in agro-businesses agro industries and small scale industries Full participation of the women power is highly necessary in agriculture programmes like agriculture publicity and promotion training use of imported seeds and chemical fertilisers improved farming techniques crop survey techniques etc executed for increasing productivity by involving the women in agriculture sector effectively. There is vast discrimination in getting wages for the similar work between men and women. The male dominating society in every aspect has suppressed the women since long time. This reality clearly desires the utmost need for the launching of effective programs to uplift the economic situation of the rural women. Economically active participation of women commonly gives momentum in all types of poverty reduction plan.

A major share of rural household income is derived from agriculture. According to the Rural Credit Review Study conducted by Nepal Rastra Bank in 1994, the average annual income of rural household during 1991/92 was Nrs. 26,000, varying from Nrs. 71,000 for the large holders (over 4 hectares) to Nrs. 17,000 for the functionally landless (less than0.05 hectares) households.

Poor agricultural growth has resulted in a high incidence of rural poverty. According to the Nepal Living Standards Survey conducted by the Central Bureau of Statistics during 1994/95, 42 percent of the populations were living below the poverty line, defined as an income level below Nrs. 4,500 (about $68). Of this population, one quarter was identified as poor and 17% as hardcore poor. The National Planning Commission uses the word "hard core poor" interchangeably with "ultra-poor", both defined as asset less population. In urban areas, the percentage of population living below the poverty line was estimated at 23% compared with 44% in rural areas. In particular, the mid-western and the far-western hills and the mountains are the most poverty-hit areas in rural Nepal. These are also the areas having the least accessibility and the highest level of illiteracy. Thus, the incidence of poverty is higher in rural than in urban areas, and particularly extreme in more remote parts of the rural areas where levels of illiteracy are also higher. Studies tend to suggest that the level of rural poverty has increased rather than declined over the time.

So, this study mainly focus on the following research questions.

- What are the conditions of accessibility of financial services for the poor?
- What is the volume of loan approved, disbursement and recovered by RMDC?
- What are the relationship be of loan approved disbursement and recovered?
- What is the financial performance of RMDC?

1.4 Objectives of the Study

- To know accessibility of financial services for the poor.
- To examine the volume of loan approved disbursement and recovered by RMDC.
- To highlight the relationship of loan approved, disbursement and recovered.
- To analyze the financial performance of RMDC.

1.5 Significance of the Study

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 rural micro finance market, if it can be organized. So, the problems faced by the micro credit institutions as well as their customers will be studied along with their future prospects for the sustainable micro finance services.

All micro finance institutes are backed up and organized by an apex organization. RMDC is one of the apex organizations of MFIs in Nepal that plays the role of intermediary. At this point of time RMDC holds an important place for itself for the development of micro finance and to expand its working capacity. RMDC was established with initiative of Nepal Rastra Bank and Asian Development Bank. Its main aim is to enhance micro finance sector by providing wholesale funds to micro finance institutions, training the personnel of micro finance institutions and clients and developing awareness and policy in this field.

1.6 Limitations of the Study

The study is based on the data made available by the various Small and Saving Credit Organizations, Rural Microfinance Development Corporations and other institutions. It do not touch other areas of the project, such as local politics, national economic condition etc.

The comprehensibility and the accuracy of the study are based on the data made available from the concerned organizations and free response made the by the respondents to the research questionnaire.

1.7 Organization of the Study

The study is organized in five chapters, each devoted to some aspect of the study of Micro Finance in Nepal and RMDC. The fields of each of these chapters are as follows:

The first chapter contains the introductory part of the study, this chapter describes the general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Second 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.

Third 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.

Fourth chapter deals with the presentation and analysis of secondaryy data by using various tools and it also deals with the presentation and analysis of primary data.

Final chapter state summary and conclusion, and major findings of the study. The bibliography, annexes are incorporated at the end of the study.

CHAPTER-II

LITERATURE REVIEW

This chapter is basically concerned with review of literature relevant on the " Micro finances wholesale lending practices in Nepal : A study on RMDC" conceptual frame work is a most important part of the every study without knowing the clear concept on the subject matter . The study may not go through right way. Every study is based on past knowledge. The previous studies should not be ignored because they provides the guidelines for future study. Review of related literature is an essential part of all type of studies. IT is a way to discovered what other research in the area of our problem has uncovered. It is also a way to avoid investigation problem that have already been definitely answered. The review of literature accomplishes that a point of departure for future problem. The relevant literature and articles were reviewed from national and international publication as well as unpublished reports, thesis and journals etc. which were available from different libraries and intuitions. This chapter is divided into two parts conceptual review and research review.

2.1 Conceptual Review

2.1.1 Micro Finance

Also known as Rural Finance, Micro Finance refers to the activity of provision of financial services to those who are excluded from the traditional financial services in an account of economic status. Microfinance is termed as the financial services rendered to the deprived groups of the people and small entrepreneurs in savings, credit, remittance, rural insurance etc to help them in developing self employment opportunities and various income generating activities. Small size of loan group savings small-scale entrepreneurs, diversified utilization and simple and flexible terms/conditions on credit (without collateral) are the determining characteristics of its definition. These financial services of Micro Finance mostly cover the micro credit and savings. Micro Credit in general means the small loans and savings also refers to the small amount of deposit. Micro Finance has potentiality to benefit poor people. It provides access to the financial services to the poor people, which in result help them to reduce their poverty, through increasing income levels. To achieve rapid and sustainable reductions in poverty it is necessary to have an integrated policy strategy, with the various elements of the strategy reinforcing each other. The main contribution of microfinance – Savings, Credit and Insurance – is to help people overcome financial constraints and facilitate the management of their money (Gulli, 1998). The World Development Report for 1990 found that poverty can be reduced most effectively through a strategy with two equally important elements.

- The first element is to promote the productive use of the poor"s most abundant asset, their labour. Broad-based economic growth, through appropriate macroeconomic and microeconomic policies, is critical in this respect. There is also an important role for targeted policies to promote infrastructure development and encourage income-generating activities for the poor.

- The second element is to provide basic social services to the poor. The World Bank found that primary health care, family planning, nutrition and primary education are especially important in this regard.

These two elements are mutually reinforcing. Increasing the productivity and incomes of the poor makes it easier for them to access social services such as health care and education. And policies to improve the health and education of the poor enable them to work more productively. The countries that have implemented both parts of the strategy effectively and in a sustained manner have tended to reap the largest gains in terms of poverty reduction.

These financial services most commonly take the form of loans, though some micro finance institutions will offer other services such as insurance and payment services. Before microfinance viewed its clients as given, but today much of this has changed. The microfinance agenda is now increasing its client or market driven by providing broad range of financial services such as (Cohen, 2001) Impact studies show that in many cases, micro finance reduced poverty through increasing income levels. Studies also show micro finance has resulted in improved healthcare, children's education and nutrition and women's empowerment.

In particular, the ability to borrow, save and earn income reduces economic vulnerability for women and their households. Increased financial and food security can bring a new confidence and hope which often translates to a greater sense of empowerment for those affected by micro finance programmes can lead to unwanted negative impacts. In many cases, micro finance been shown to benefit the moderately poor more that truly destitute. Many early impact studies on micro finance showed increased income levels but more recent and better-designed studies have shown that the impact vary per income group. In most cases, the better-off benefit more from micro credit due to their higher skill levels, better market contacts and higher initial resource base. Lower income groups may be more risk-averse and benefit more from savings and micro insurance. Difficult topography, remoteness, heterogeneous groups and culture etc have hindered for the successful delivery of microfinance in Nepal (NRB, 2012). Principally, microfinance institutions pursue the income generating activities to promote the interest of the poor by providing basic services and contribute in upgrading their economic and social standard.

NGOs, INGOs and government agencies have formed groups for different activities. Although, they portray that the groups are made of poor people most often in practice groups are made of mostly non poor people and the leadership of such groups are taken by local elites. They become active and perform well for sometime till the project is ongoing. Most of the groups die down or become inactive alter phasing out of the project. Thus the entire resources and the efforts go to drain. It is a great challenge to link the groups to the other programs and continue the activates since the groups are formed for different purposes which may not exactly match to the program of the respective organizations (Sharma, 2011).

2.1.2 Role of Microfinance in Poverty Reduction

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education. Similarly, they are majority of those without access to microfinance (Morduch, 2002).While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can also benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium goals.

Microfinance has been extensively examined over the past 10-15 years and the resulting literature is now very large. A focused review of the literature was conducted to evaluate recent publications regarding the impact of microfinance on poverty reduction.

- The tools are relatively inexpensive and practical to use and they yield useful data for both programs and donors
- Average loan size is an easy indicator to collect but proves to be unreliable when measuring depth of outreach. Minimal extra efforts in data collection can yield much richer information for marketing and evaluation
- Microfinance institutions (MFIs) show considerable diversity in their ability to reach poor populations
- Excellent financial performance does not imply excellence in outreach to poor households
- At the same time, reaching the poor is not at odds with maintaining excellent financial performance and professional business practices
- Programs that make poverty reduction an explicit goal and make it a part of their organizational culture are far more effective at reaching poor households than those that value finance above all else
- These lessons point out to natural evolutions in the microfinance sector. Many MFIs have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in evaluations (World Bank, 2010). Currently, the majority of MFIs neither determines the composition of their clientele upon intake nor evaluates the effectiveness of their program

in terms of poverty reduction. The development and use of the new tools for market analysis and evaluation suggests that failure to monitor and evaluate can cut costs in the short- run at the expense of achieving long-term social and economic goals.

Social and Economic Impacts

The review of the literature also points to several specific conclusions about the impact of microfinance on poverty reduction: Evidence shows the positive impact of microfinance on poverty reduction as it relates to the first six out of seven Millennium Goals. While the quality of many studies could be improves, there is an overwhelming amount of evidence substantiating a beneficial effect on:

- Increase in income.
- Reductions in vulnerability.
- There are fewer studies with evidence on health, nutritional status and primary schooling attendance, but the existing evidence is largely conclusive and positive.

Why Was the Capacity Building Effort Made by RMDC?

RMDC was established to provide quality microfinance services throughout the country through MFIs. When RMDC started its operation in 2000, there were five regional Grameen Bika sBanks (GBBs) and very few credit-worthy MFIs to lend to. As wished, RMDC could not make the GBBs as lending partners mainly because of two reasons: first, the GBB had access to cheaper funds from the central banks at that time, and second, they did not want to get their policies and systems changed (improved) as suggested and required by RMDC.

There were only two credit-worthy NGOs –CSD and Nirdhan– through which it could disburse some amount of funds to the poor, but their coverage was very small due to their limited institutional capacities. There were quite a number of community-based NGOs which had a license for financial intermediation from the central bank, but they did not have basic institutional capacities to implement microfinance program on their own. The NGOs were working just as credit agents, which were just organizing groups of women and creating linkage between the groups and banks. The rural cooperatives also did not have the practice of providing credit without collateral which is an essential element for lending to the poor.

There was then a dire need for promotion and development of a number of capable MFIs in the country, but there was lack of institutes that could provide comprehensive and result-oriented capacity building package to promote and develop a substantial number of MFIs. There was no other option for RMDC than doing the vital program by itself. RMDC has implemented the program as an investment for its own survival and growth.

2.1.3 Rural Financial Institutions and Programs

2.1.3.1 Formal Sector

The financial formal sector comprises numerous institutions licensed by NRB including 33 commercial banks, 79 finance companies, 58 development banks, 10 microfinance development banks, 47 FINGOs, 16 financial cooperatives holding Limited Banking Licenses, 2,692 SACCOPs, and 316 SFCLs (Microfinance Industry Report, 2012). However, very few of them could provide their services to the rural and microfinance sectors. On the one hand, finance companies, commercial banks and development bans have very little involvement in rural areas and microfinance, except for the state-owned Rastriya Banijya Bank, NBL and ADBL. On the other hand, the outreach of proper MFIs is limited by the scarcity of their resources: they account for only 4% of capital, 1% of deposits and 2% of outstanding loans to the sector. This is so because at the initial stage, the interest rate at which there institutions had to receive loans was high as about 7%. As such, the operating costs of the institutions were high, affecting the prospects of mobilization of capital, deposits and outstanding loans.

Rural MDBs include five Grameen Bikas Banks (GBBs) and four MDBs. The GBBs were established by the Government to provide microfinance services in each of Nepal's five development region. Their outreach and performance has been poor and like ADBL branches and small farmer's cooperatives (SFCs), their being associated with the Government meant that they were affected by conflict. Microcredit development banks by contrast have shown better performance.

NGOs were acknowledged for the first time as partners in the development process by the Micro Credit Project for Women that used them as non-lending institutions responsible for social mobilization of groups and for imparting skills. But not until the enactment of the Financial Intermediary Societies Act in 1998 that NGOs were permitted to provide financial services. Now they can acquire a limited banking license for the central bank and act as FINGOs. The first 13 licensed FINGOs were established in 2000 and have since grown considerably in number being now 47.

Four apex institutions currently operate in Nepal: Rural Self-Reliance Fund (RSRF), Small Farmer Development Bank (SFDB), RMDC and the National Cooperative Bank Limited (NCBL). Among these institutions, RSRF was established by the Government in 1990. It is financed through public funds, replenishments from NRB. It provides wholesale funds to SACCOS, NGOs and Grameen replications operating in the rural areas of 46 districts and it normally charges an 8% interest rate. Its scale of finance is limited to Rs. 500,000.00.

SFDB was established by ADBL in March 2002 but it started operations only in July 2003. The bank's main function is to provide wholesale funds to SFCs. According to an evaluation done by ADB, SFCB's profitability, efficiency and productivity are weak. Loans are 80% of assets and borrowing in 73% of liabilities. Nearly 90% of SFCs loans are concentrated in livestock and agro services, both of which have poor repayment histories. Moreover, SFDB"s performance is constrained by the fact that borrowing from ADBL at a 9% interest rate, it on-lends to SFCs at 12% - which is significantly higher that what they could obtain from other sources, such as commercial banks and RMDC.

RMDC was established in 1998 at the initiative of ADB and NRB and became operational in 2000. It provides MFIs with wholesale funds, and financial and technical support to strengthen their institutional capacity. It also organizes direct support for the final beneficiaries and acts as a financial intermediary between them and national and international donors. RMDC borrows from the Government and lends to MFIs at interest rates compatible with commercial banks, which allows it to compete with them under the deprived sector lending. The NCBL was established in

2003 under the Cooperative Act (1992). NRB approved it to carry out wholesale banking for its member cooperative societies. NCBL‟s principal sources of funds are capital and deposits. Its management plans to develop this body as the leading institution responsible for monitoring and supervising cooperative societies (ADB, 2007).

2.1.3.2 Semiformal Sector

In the semiformal sector, there exist joint government–donor-supported projects and autonomous member-based organizations such as NGOs and cooperatives. Many cooperatives came together under the Nepal Federation of Savings and Cooperatives Union Limited (NEFSCUN). Established in 1988, NEFSCUN is the central apex body of community-based SACCOS in Nepal. Its mission is to promote, strengthen and provide a forum for SACCOS to become viable community-based financial institutions. NEFSCUN is controlled and owned by its members and guided by the International Credit Unions principles and values. Currently, 432 SACCOS with more than 70,000 members from 51 districts are affiliated with NEFSCUN. Local microfinance networks such as the Microfinance Association of Nepal, Microfinance Bankers Association, and the Grameen Network Association have been established in Nepal. However, they have now either disintegrated or become inactive, due to a lack of funding and leadership and the diversity and geographical isolation of their members (ADB, 2007).

2.1.3.3 Informal Sector

Informal agencies, both individual and groups, have traditionally played a dominant role in the rural financial market. The individuals mainly include moneylenders, landlords, traders, friends and relatives, while the groups include informal self-help groups and organizations. According to the Rural Credit Review Study, 80% of the borrowing households in the country during 1991/92 had borrowed from these informal sources. The dependence on informal sources was more compelling for the poorer households, marginal farmers and landless laborers as their borrowings from institutional sources were much lower (9% for the landless, 15% for marginal farmers and 38% for large holders). The study also confirmed that the poor and smallholders faced problems of collateral and higher level of transaction costs when borrowing from institutional sources. However, their loans from informal sources were largely used for consumption and social purposes and did not play a significant role in productive investments.

2.1.4 Origination and Development and Cooperative movement of Micro Finance in Nepal

The earliest initiatives for establishing micro finance services in Nepal can be dated back to the 1950s when the first credit cooperatives were established. These were primarily intended to provide credit to agricultural sector (Sinha, 1999). The cooperative program of micro finance in Nepal started on 1956, with the establishment of 13 cooperatives in Rapti Valley of Chitwan district. However, the program still existed before that in the form of Dhukuti, Guthi, which are still in use.

The credit cooperatives were registered under an executive order of the Government, as there was no Cooperative Act at that time. The objective of these co-operatives was to provide agriculture credit to flood-stricken people resettled in the Rapti Valley. Following the successful delivery of the agricultural credit by these cooperatives, the cooperative societies were promoted in other parts of the country. The first Cooperative Act was promulgated in 1959. And in 1963 a cooperative bank was established to ensure that the cooperatives have sufficient capital to invest, which was converted into Agricultural Development Bank (ADB/N) in 1968, with broader scope of extending credit to cooperatives, individuals and corporate bodies engaged in agricultural activities and agro-based enterprises. In 1973 Land Reform Savings Corporation was merged in ADB/N, which was established in 1966 to handle the compulsory savings collected under the land reform program.

Before 1990s government used to set a target for registering cooperative societies. This usually restricted the public initiative to promote cooperatives. Hence, the growth was almost negligible. But the Cooperative Act 1992 provided a liberal and democratic framework for cooperatives societies, where government did not restrict cooperatives from being registered; cooperators were free to promote them. Hence a mushroom growth was recorded during 1990s.

In 1974, NRB directed commercial banks to invest 5% of their total deposits in the “small sector”. The objective of this measure was to promote rural finance. The activities to which credit was to be directed were collectively renamed the “priority sector” to cover agriculture, cottage industry and the service sectors, and the lending requirement for commercial banks to this sector was increased to 7% in 1976 and then further to 12% in 1999. NRB directed that 25% of these priority sector loans – 3% of the total portfolio, should be lent to the hardcore poor under the "deprived sector credit program." In 1976, the scope of the small sector was broadened to include agriculture cottage industry and services, and has since then been called "The Priority Sector".

In 1981, to strengthen the priority sector program, NRB introduced the Intensive Banking Program (IBP) which was intended to do away with collateral requirements and to get the banks to engage in group-based lending. The program was undertaken by two large commercial banks – NBL and RBB – and later by the first joint venture bank in Nepal, the Nepal Arab Bank Ltd. (NABIL). Unfortunately, in practice, neither of the objectives of the program was achieved. In fact, it has largely bypassed the poorer segments of the population, reaching instead the non-poor sector.

Starting in 1975, the Small Farmers Development Program was implemented by the Agricultural Development Bank of Nepal.

The next main step in the development of micro finance in Nepal in the form of the first gender-focused program, the Production Credit for Rural Women (PCRW), which was initiated in 1982 by the Ministry of Local Development in collaboration with the United Nation Children's Fund (UNICEF) and NRB.

In 1990, the Government of Nepal established the Rural Self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and financial intermediaries for lending to the poor.

In 1992, in an important initiative to augment the supply of micro finance, the first two RRDBs–one for the eastern region and one for the far-western region were established with government and NRB Funds as replications of the Grameen Bank of Bangladesh. Focusing on extremely poor women, RRDBs use a group lending approach and a weekly repayment system. By mid-July 1997, five RRDBs had been established, one for each region in the country. While initially four of the RRDBs were established under the Commercial Banks Act, 1984, the fifth was registered under the Development Banks Act 1996.

In 1990s, with the technical assistance from GTZ, local branched of Agricultural Development Bank Nepal under Small Farmer Development Program, started to be recognized into federations groups, the “Small Farmer Cooperatives Ltd”(SFCL) each operating as an autonomous cooperative.

With the promulgation of the Development Bank Act in 1995, Nirdhan was the first NGO (1998) to transfer its micro finance portfolio into an autonomous micro finance rural bank (Nirdhan, Urban Development Bank). Since 2000, three other micro finance rural banks were created through the same process first initiated by Nirdhan, with DEPROSC Development Bank in 2000, Swabalamban Bikas Bank Ltd. and Chhimel Bikas Bank in 2001. Acknowledging the poor performance of the RRDBs under public ownership, the Central Bank started a restructuring program, which will lead ultimately to the privatization of the five RRDBs.

With a view to provide source of wholesale fund to regulate micro finance institutions, the Rural Micro Finance Development Center (RMDC) was established in 1998 and later on opened its lending to other micro finance providers. In 2001, the Small Farmer Development Bank was established under the Development Bank Act to provide wholesale funds to Small Farmers Cooperatives Ltd. (SFCLs).

2.1.5 Microfinance Policies of Government and Nepal Rastra Bank

a. Government

- Government of Nepal is taking microfinance institutions as a tool for reaching to the poorest of the poor section of the country. The Government observes that financial services are more or less concentrated in the city areas and in the more accessible and facilitated areas and microfinance institutions in some way or the other can reach to very remote areas and reach to the poorest of the poor section in the country. But again there are some kinds of problems within the microfinance institutions and within access to services. They need to enhance corporate governance, reporting systems, and capacity development to reach the poor and disadvantaged people.

- Even though there are some kinds of financial access there is still a high risk that at some time deposit and all the financial services could collapse. It was seen that only the commercial banks are concentrated in the city areas. MFDBs are also concentrated in the city areas and urban areas. It is an irony for the country. Government wants MFIs to go in the hills and mountain regions also. Of course, there are some policy issues and incentives are needed. Government will provide supports MFIs if they needed but they should go in the hilly and mountain region.

- From the above statement, Government of Nepal so far has no policy regarding access to microfinance services in the hill and mountains. However, the government has positive thinking towards these issues and has given the following remarks.

- There are some policy issues and practical issues that have to be sorted out. There is a lot to do about mass awareness for branchless banking technology.

- Financial literacy is very poor in the country even in the urban areas. Therefore, people are not accessing financial services at the expected level. So, financial literacy is imperative to improve the financial services through MFIs.

- Instead of supporting the banking services and all these things, donors and others can support in the technology which can contribute and complement services which are provided by the bank and financial institutions especially the microfinance institutions.

- Regarding technology, customers should trust the technology. In addition to that, service providers should also trust it. In some cases the service providers are not trusting the technology.

- There are 10 to 15 different models of branchless banking. A single model cannot be adoptable in all over the country because of difficult terrains and different development levels throughout the country.

- Regarding nexus between technology and services how these two things can be taken simultaneously and side by side to the local level in hilly regions. That is very crucial. Unless and until these two things can be matched mobile banking cannot happen.

- It is suggested to assess the risk before going to any model because risk is very high in any area.

b. Nepal Rastra Bank

- Nepal Rastra Bank has addressed in its monitory policy of FY 2012/13 that given the dearth of financial institutions in the nine districts of Manang, Humla, Kalikot, Mugu, Jajarkot, Bajang, Bajura and Darchula, necessary provision will be made to allow "D" class financial institutions to collect deposits from the general public up to five times of their core capital.

- Since draft act of National Microfinance Development Fund has been submitted to Government of Nepal, autonomous microfinance fund will be established to enhance credit to poor and deprived sector by expanding base of microfinance transaction after its enactment (NRB, 2012/13).

- NRB is giving license for D class institutions to increase financial access. NRB has given priority to establish D class institutions in rural areas and rural districts.

- NRB also provides an industry loan if interested microfinance entrepreneurs want to establish D class institutions in high hills and mountain areas and rural areas.

- Regarding the branchless and mobile banking NRB has issued e-banking regulation. It is open to all A, B, C, D classes. NRB has called all D class institutions to come with solid and specific proposal in which way and how they are interested to operate the branchless banking and mobile banking. NRB will give the permission to operate in those areas (www.nrb.com).

2.1.6 RMDC

The Rural Microfinance Development Centre Ltd. (RMDC) is a national level wholesale lending organization for MFIs in Nepal. It was established in October 1998 as a public limited company and has got license as a "D" class financial institution under the Bank and Financial Institution Act (BAFIA) from the Nepal Rastra Bank (NRB). RMDC has been promoted by NRB (7%), 13 commercial banks (91%), 5 regional Grameen Bikas banks, the Deposit and Credit Guarantee Corporation, the Nirdhan Utthan Bank Ltd. Its authorized share capital is Rs. 1bn, issued share capital Rs. 520m, Paid-up share capital Rs. 320 million. RMDC has planned to issue its IPO probably at the end of this fiscal year which would hopefully make its paid-up share capital Rs. 520m. Major activities of RMDC are: (1) wholesale lending to MFIs, and (2) capacity building of MFIs.

As of mid-July 2012, RMDC has disbursed loans amounting to 6.8 billion rupees to women of the poor households living in 67 districts through its 102 partner MFIs. Loan recovery rate of RMDC remains 100% from the very beginning of its operation. RMDC has attained very good financial health with operational self-sufficiency. RMDC was established to provide quality microfinance services throughout the country through MFIs. When RMDC started its operation in 2000, there were five regional Grameen Bikas Banks (GBBs) and very few credit-worthy MFIs to lend to. As wished, RMDC could not make the GBBs as lending partners mainly because of two reasons: first, the GBB had access to cheaper funds from the central banks at that time, and second, they did not want to get their policies and systems changed (improved) as suggested and required by RMDC.

There were only two credit-worthy NGOs – CSD and Nirdhan–through which it could disburse some amount of funds to the poor, but their coverage was very small due to their limited institutional capacities. There were quite a number of community-based NGOs which had a license for financial intermediation from the central bank, but they did not have basic institutional capacities to implement microfinance program on their own. The NGOs were working just as credit agents, which were just organizing groups of women and creating linkage between the groups and banks. The rural cooperatives also did not have the practice of providing credit without collateral which is an essential element for lending to the poor. There was then a dire need for promotion and development of a number of capable MFIs in the country, but there was lack of institutes that could provide comprehensive and result-oriented capacity building package to promote and develop a substantial number of MFIs. There was no other option for RMDC than doing the vital program by itself. RMDC has implemented the program as an investment for its own survival and growth.

2.1.7 Impact of Wholesale Microfinance

2.1.7.1 Impact of Microfinance on Loan Transactions from Various Loan Sources

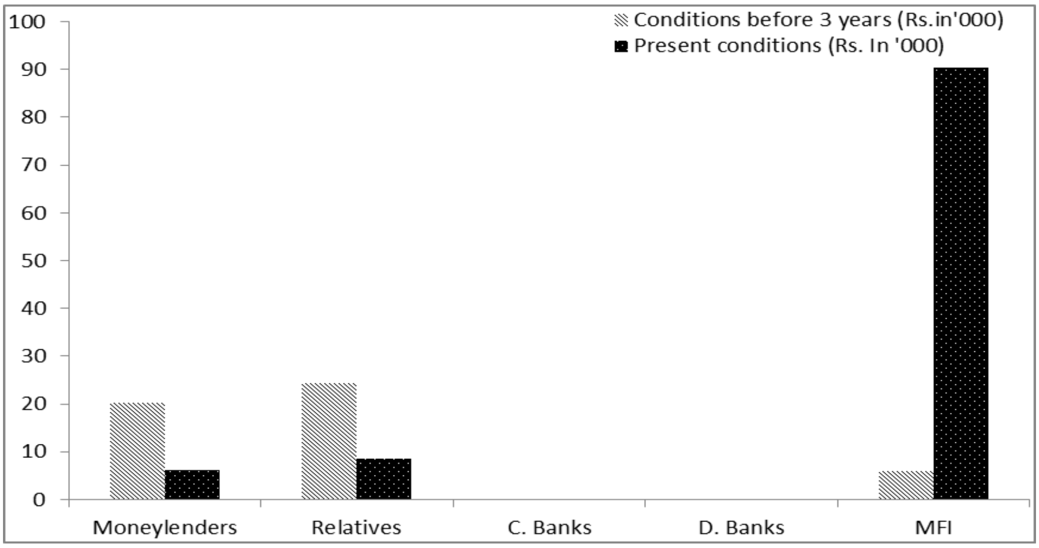
Microfinance institutions have a guideline to follow while extending loans to their clients. They provide loans to the targeted poor households through group approach at their doorstep on group guarantee without requiring tangible collateral. The loan size is small but requiring frequent repayments with interest. The loan operation is simple with free choice of economic activities by clients, who are disciplined and who have been provided with pre-group training. The process itself provides sufficient background for 100% or near 100% repayment rate.

Table 2.1 MFI-wise Number of Respondents Taking Loans from Various Sources

	Moneylenders	**Relatives**	**C. Banks**	**D. Banks**	**MFI**
Conditions before 3 years (Rs.in'000)	20.40	24.51	0.41	0.32	5.98
Present conditions (Rs. In '000)	6.29	8.70	0.35	0.51	90.44

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Fig. 2.1 Comparison of Loans Taken from Different Sources



In the absence of microfinance provision, some of the poor women like any other people are dependent on village moneylenders for their credit needs. Twenty two sampled women (11.46%) out of 192 respondents were found taking loans from moneylenders. The average figure of all respondents indicates that the loan size taken from moneylenders 3 years before participation in MF programme was Rs. 20,400 which has been reduced to Rs. 6,290 at present. Thus, there is a reduction of loans taken from moneylenders by almost 69% within 3 or more years of participation in the MF programme. Participating women have more scores of examples of seeking loans from their relatives at various occasions. About 14% (26 respondents) of the total sample (192) also took loans from their relatives. The average loan size taken from relatives was Rs. 24,510 three years before participation in the MF programme. At present, this also has gone down to Rs. 8,700 a decrease by 65%. It may be because they now can take the loans from the MFIs. Some women participating in the MF programme have also taken loans from commercial and development banks. 2 respondents (1%) out of 192 have taken larger loans from commercial banks. Previously, loan size taken from commercial banks in an average was only Rs 410. With the Microfinance loan provision, this has gone down to Rs. 350 after 3 or more years of participation in the MF programme. Thus, the change in average loan size taken from commercial banks has decreased by over 16%. Similarly, the average loan size taken from development banks has surged from an average of Rs. 320 three years back to Rs. 510 at present – an increase by almost 58%. There are some 5 respondents (3%) out of 192 samples who have taken loans from the development banks. All in all 55 respondents (29%) have taken loans from other sources in addition to loans taken from microfinance institutes.

2.1.7.2 Impact on Income-Source

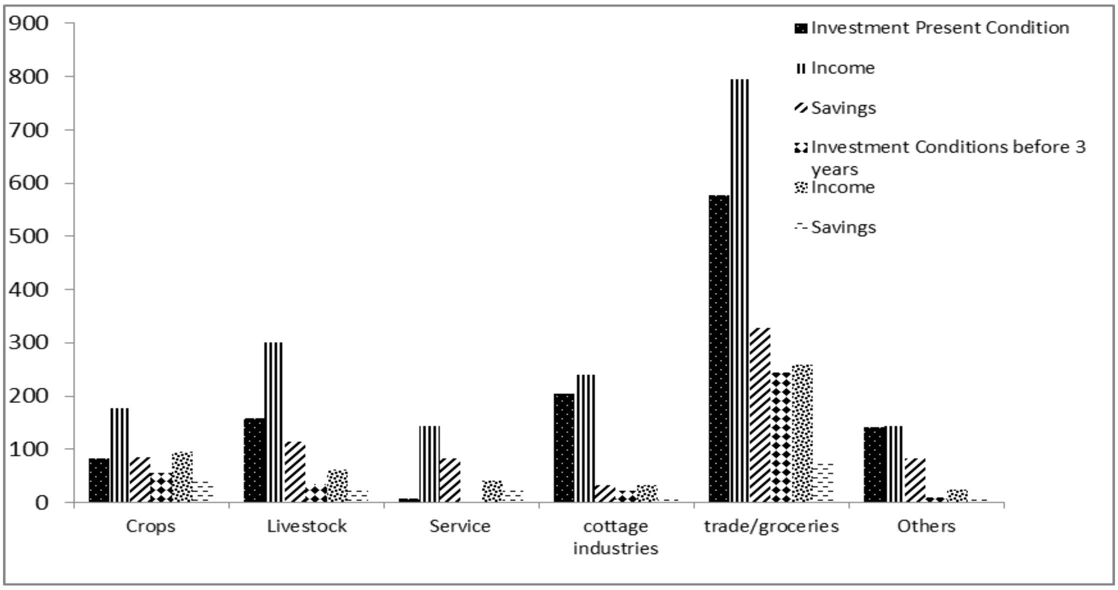
Microfinance promotes diversification of income sources and brings about positive changes in investment, income received and savings made from each category of income sources when compared to those before programme implementation. Income sources have been categorized into six different headings such as crops, livestock, services, cottage industries, trade and others. Clients were supported with loans from MFIs to engage in income earning activities under the categorized income sources. The MFI and sometimes the RMDC also provides capacity building training focusing on knowledge and skill development as well as management capability development.

Table 2.2 Impact on Income Source

	Investment	**Income**	**Savings**	**Investment**	**Income**	**Savings**
	Present Condition			**Conditions before 3 years**		
Crops	8320	17659	8442	5617	9632	4077
Livestock	15811	30162	11463	3430	6182	2204
Service	842	14474	8198	130	4182	2933
cottage industries	20435	23923	3369	2196	3210	910
trade/groceries	57671	79519	32876	24424	25878	7691
Others	14250	14352	8392	991	2351	1029

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Fig. 2.2 Impact Income Source



After joining the MF programme by the poor women, there is a remarkable increase in their investment, income and savings of all categories of income sources as indicated in the above chart.

Normally, people tend to invest in those sectors where they get comparatively higher returns. However, the sect-oral investment allotment is much influenced by the resource endowments and the managerial capability of the concerned clients. For the sampled respondents, the average investment in crops has increased from a level of Rs. 5,617 to Rs. 8,320 (48% up) while it has increase from Rs. 3,430 to Rs. 15,811 (361% up) in case of livestock, Rs. 130 to Rs. 842 (548% up) in services sector Rs. 2,196 to Rs. 20,435 (830% up) in cottage industries Rs 24,424 to Rs. 57,671 (136% up) in trade sector and Rs. 991 to Rs. 14,250 (1338% up) in others.

Income received from the sector/source is the cash income received from marketable surplus by the respondent household. It does not count the value of the item that goes for family consumption. Income received in crops has increased from a level of Rs. 9,632 to Rs 17,659 (83% up), in livestock from Rs 6,182 to Rs 30,162 (388% up), in services sector from Rs 4,182 to Rs 14,474 (246% up), in cottage industries from Rs 3,210 to Rs 23,923 (645% up) and in trade from Rs. 25,878 to Rs 79,519 (207% up). The change in income received from other sources of income has increase from a level of Rs 2,351 to Rs. 14,352 (510% up).

Savings from a particular income source is the money saved from the received income of that source in that particular season or time. It is not exactly the difference amount between received income from and investment in that income source. There is also a substantial increase in savings from different income sources when compared situations before and after participation in the microfinance programme. Saving from crops has increased from a level of Rs. 4,077 to Rs. 8,442 an increase by 107% in livestock from Rs 2,204 to Rs 11,463 up by 420%, in services sector from Rs. 2,933 to Rs. 8,198 up by almost 180%, and in cottage industries from Rs 910 to Rs 3,369 up by 270%. With regard to trade, the saving has increased from Rs. 7,691 to Rs. 32,876 a jump by 327%. The savings from other income activities have increased from Rs. 1,029 to Rs. 8,392 (715% up).

2.1.7.3 Impact on Assets

Participating women in microfinance programme get loans to purchase living assets such as goats, buffaloes, cows, pigs, chicken etc., which are productive and help increase income of the participating women. The average figures of all the observations are plotted to indicate the increased number of livestock heads of difference categories and their respective values when compared with 3 years‟ before situation. Similarly, the programme also provides loans to acquire non-living assets related to enterprise development that also generate more income. Part of the income is consumed to meet their basic needs, part is used for buying further income generating assets, part is saved and part is used to buy durable items some of which are used for amenities such as radio, TV, computer and some for safeguarding the increase wealth such as utensils, gold, ornaments, land, houses, etc.

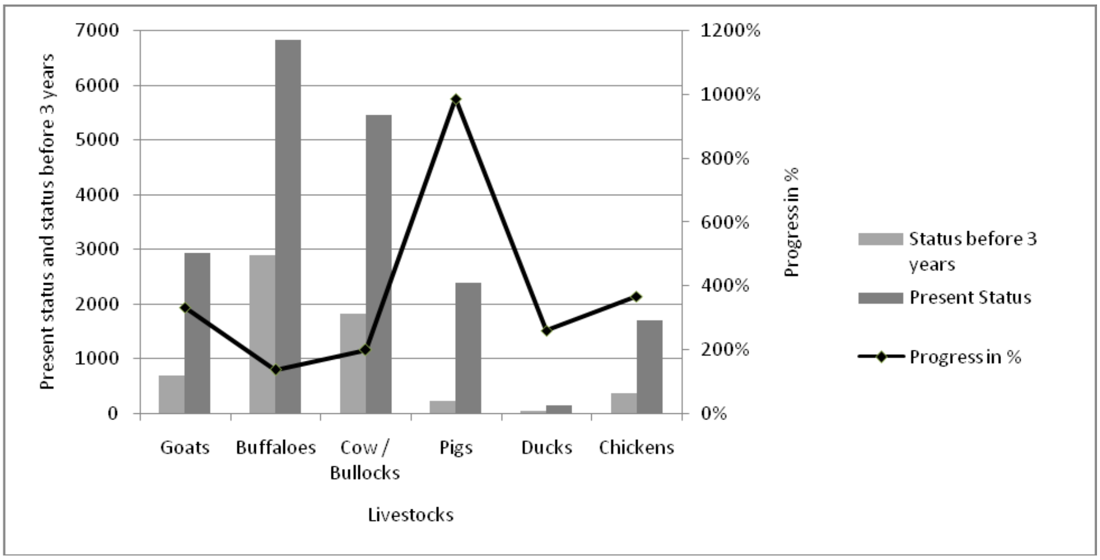
Table 2.3 Impact on Assets of Clients

	Goats	Buffaloes	Cow	Pigs	Ducks	Chickens
Status before 3 yrs	679.59	2897.81	1827.79	220.27	41.43	363.48
Present Status	2939.27	6835.02	5465.34	2393.25	148.93	1696.7

Progress in %	333%	136%	199%	987%	259%	367%

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Fig. 2.3 Impact on Assets



Livestock is an integral part of livelihood earning in the rural setting of Nepal. In rural Nepal, keeping livestock comes second to cultivation of crops supporting to earn livelihood. When compared the situation of respondents "holding of livestock animals in value terms with 3 or more years" before the programme implementation, the value of goats has increased by 333%, buffaloes by 136%, cows by 199%, pigs by 987%, ducks by 259% and chickens by 367% as indicated in chart presented above. The increase in the value of livestock heads is mainly due to the numbers of heads increase after joining in the MF programme and partly also due to price escalation. The MF activities have greater impact in increasing the number of livestock heads as goats, pigs and other cattle multiply with the passage of time. Raising pigs and goats are found more paying than other livestock heads, however in terms of total value the impact on buffaloes and cows topple all other livestock heads.

2.1.7.4 Impact on Non-living Assets

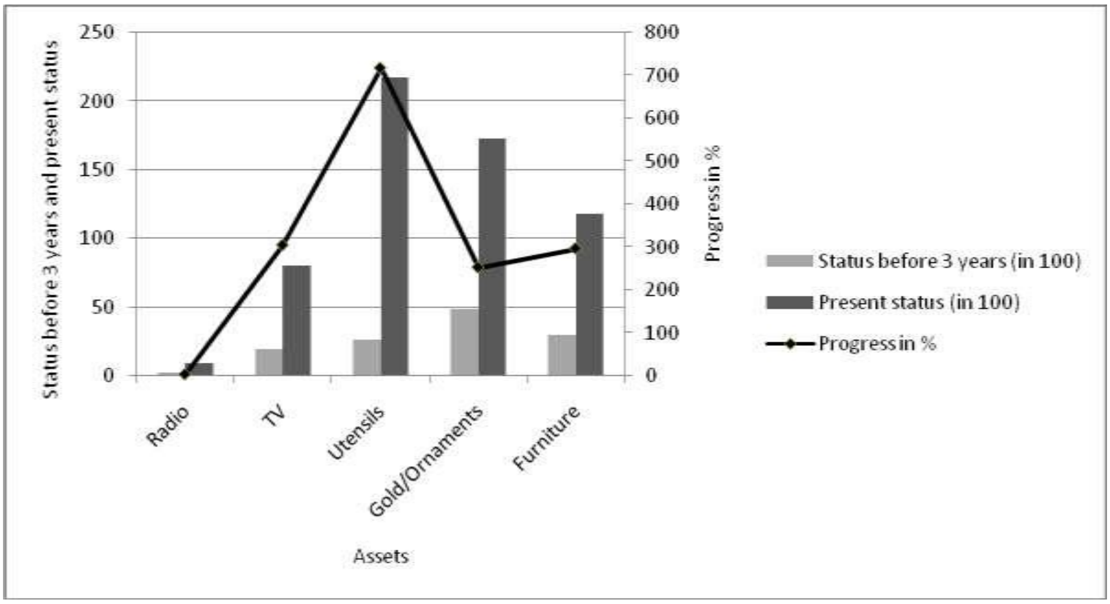
The poor people when increase their income tend to buy assets like radio, television, utensils, ornaments and furniture to ease their way of lives. With the coming of modernity they are switching from radio to TV, old basic utensils to energy efficient stoves, cookers, etc. The average value of radio owned by the respondent women has increased by 248% i.e. from Rs. 264-919. Similarly the value of TV owned by the respondent households has increased from about Rs. 2000 to about Rs. 8,000. The impact on acquisition of utensils with the earned money from microfinance supported enterprises is seen the highest 717% as against that of gold ornament (252%) and furniture (296%) which are also very significantly in positive direction. Generally people gradually improve the standard of non-living assets, from Black and White TV to color TV, ordinary utensils to golden ornaments, ordinary furniture to cupboard and other valuable items.

Table 2.4 Impact on Non-living Assets

	Radio	TV	Utensils	Gold/ Ornaments	Furniture
Status before 3 years (in 100)	2.64	19.92	26.66	49.12	29.89
Present status (in 100)	9.19	80.51	217.68	173.13	118.38
Progress in %	2.48	304	717	252	296

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Fig. 2.4 Impact on Non-Living Assets



2.1.7.5 Achievements of the MFI Capacity Building Program

As of July 2012, a total of 225 institutions/ MFIs participated in different training and workshops organized by RMDC. During the 13 years of its operation, RMDC has trained a total of 16,541 staff and officials of the institutions on different subjects, such as principle of microfinance, accounting, business planning, financial analysis, delinquency management, internal audit, branch management, etc. RMDC has also provided technical and financial supports to its partner organization to organize training and exposure visits for their clients. Under the RMDC's supports, its partner organizations have provided training to 580,230 clients until July 2012.

RMDC has also promoted 70 MFIs from scratch. For example, Jeevan Bikas Samaj (JBS), a major partner of RMDC was just a village-based social club serving only 275 members when it joined RMDC. Now this MFI serves over 90,000 households in 7 districts. Similarly, FORWARD, another partner of RMDC, is going to transformed into a national level microfinance bank very soon. FORWARD was just a local level NGO with a thousand members when it took first loan from RMDC in FY 2002-03.

2.1.7.6 Management of Capacity Building Program

RMDC managed the capacity building program with internal resources, external funds and through outsourcing. It has a separate training department namely "Institutional & Social Development Department" to take care of overall management of the program. RMDC has a team of professional managers and facilitators who are trained on the related subjects and have acquired techniques of facilitation. The Chief Executive Officer himself heads the team so that the team would get maximum supports and consistent motivations from the organization. In the beginning few years, RMDC had access to adequate funds for capacity building from external agencies (ADB, AusAID) and now RMDC has its own fund for the program.

RMDC took help of a sound MFI, Centre for Self-help Development (CSD), to provide practical training (skills development training) to new recruits of start-up MFIs. CSD was very cooperative in providing such great technical assistance to beginner MFIs on request of RMDC. RMDC also used competent staff of CSD as bare-foot consultants to provide on-site technical assistance to the nascent or emerging MFIs.

2.1.7.7 Measurement of the RMDC's Capacity Building Program

RMDC aims the beneficiary institutions would be able to run their microfinance program on their own after 3-4 years of intensive capacity building supports of RMDC. RMDC expects the following outcomes among the beneficiary MFIs from its capacity building program: Development of competent and motivated human resources in MFIs. MFI personnel (board members, CEO, senior officials, branch manager, field staff) have necessary Knowledge and skills are right attitude. Establishment of effective and efficient systems and processes in the MFIs. The MFIs have -Systems of group organization, lending, accounting, MIS, internal audit, etc., Written documents of operating policies and guidelines, They deliver quality lending to the clients, They use best practices, They have good governance and active top management, They attain reasonable profit, financial viability and sustainability over a reasonable period of time, They comply with the laws and regulations of the central bank/department of cooperatives/the government (loan loss provision, upper limit of loan size, resource mobilization, tax, etc.).

2.2 Review of Related Studies

Sharma (2008), has done research work entitled Micro-Finance and Women Empowerment which was published in the Journal of Nepalese Business Studies. The study examines the effects of Women's participation in group-based micro-credit programs on a large set of qualitative responses to questions that characterize women's autonomy and gender relations within the household. The results are consistent with the view that women's participation in micro-credit programs helps to increase women's empowerment. Another research work conducted by him (2007) entitled "Micro-Finance practices and their sustainability in Nepal". The general objective of the study was to identify and evaluate the effectiveness and sustainability of the activities of MFI's and their contributions in social-economic changes and women empowerment. Which conclude that microfinance leads to social and economic changes in the borrowers after the increase in food sufficiency, consumption of nutrient food, good caring of children health, health awareness and preventive measures of health, good education of the children, repair and maintenance of home. The study also concludes that women empowerment showed positive changes specially involvement in decision making, changes in occupational structure, participation in the social activities.

Thapa (1999) has done her research work entitled “Role of NGOs in microcredit program; Issues of Reaching the poor women and sustainability of these organizations: A case study of MCPW in Nepal”. The main objective of the study is to critically examine overall impact of project on socioeconomic empowerment of the most under privileged women in the country. From her findings, NGOs are effective in working with women and their participation in projects like microcredit could facilitate in reaching large number of women, so far left out in the development mainstream. In beneficiaries have gained experience and thus found an alternative outlet in reaching additional number of women.

Chalisel (2010) has conducted the research entitled “Performance of Grameen Bikas Bank.”The specific objectives of this study were to provide the conceptual thought on Grameen Bikash Bank and its operation as well as to examine the current issue of Grameen Bikash Bank. He has evaluate the progress of Grameen Bikash Bank and suggest the measures for more effective implementation of the Grameen Bikash Bank .The financial income was increasing in higher rate than operating cost increment. PGBB was the highest performing bank in terms of saving account and volume of savings. All GBB outstanding ratios were in completely good position. General indicators of GBBs were more performing in initial period. The efficiency of the employees of all GBBs was not so satisfactory level. Except PA-GBB in recent two years, all others banks in the study period were in loss situation. All banks were not meeting given standard and norms in terms of branch and employees in most of the cases.

Lekhak (2011) had done dissertation on “Microfinance in Nepal and the case study of SFCL Anandavan, Rupendahi, ADB/N. He had outlined the financial sustainability and viability of SFCL to know the facing change of society after SFCL and know the major problem of SFCL Anandavan. For SFCL Anandavan is focused to participatory planning domestic resources mobilization, human capital formation and promotion of self-help groups of the grassroots level. Integrated development approach incorporating saving, credits, social and community development activities are major outcomes of the SFCL. Apart for m it awareness development, sanitation, literacy attainment, community and social development are major contribution of SFCL Anandavan in society and financial viability and sustainable of SFCL is in better position.

Bhattarai (2006) student of Shanker Dev Campus, had done study on "An Overview of Microfinance in Nepal" with objectives to find out actual financial position of JBS and evaluate the role of JBS in poverty alleviation and rural development program as well as evaluate the changes in economic conditions of rural people after the intervention of JBS. JBS is under good financial position as the repayment rate is 100% throughout the year. It was found from the productivity ratio that increased in average number of active borrowers per credit officer from 80-536 has significantly increased total amount disbursed per period as well as average portfolio throughout the year. He has concluded that in Nepalese context, even though Microfinance has been proven as effective and efficient mechanism in poverty reduction endeavor, most of the microfinance institutions have become unable to reach the poorest (ultra poor) due to their inability to identify and measure them. On the other hand, improving access to financial services has been commonly viewed as strong tool to credit institutions has been constrained due to high cost of their services delivered.

Steel and Charintoneko (2003) have conducted the thesis entitled "Rural Financial Services: Implementing the Bank's strategy to reach the rural poor" having main objectives of seeking to expand access by the rural poor to a suitable diversity of products and institutions that fill the financial needs of low income rural clients in income generation and reduction of vulnerability they explore the characteristics of rural financial markets and constraint to their development they review recent implementation experience of Bank RMF operations and emerging and develop approaches for strengthening implementation of the Bank"s strategy for rural financial market development at the levels of macro policies, institutions, communities and clients. He has focused on the access of the rural poor to financial services and development of the capacity of rural and microfinance institutions RMFIs to deliver services. To elaborate rural finance aspects of the World Bank"s rural development strategy by giving an overview of recent implementation experience, discussing current issues and highlighting priorities for the future. Articulate how the Bank views current best practices in rural finance and attempts to incorporate them into its operations, as a common frame of reference for policymakers in client countries, Bank Staff and other donor agencies

2.3 Research Gap

The study on micro finance in Nepal by the students is very little and negligible. Some other institutional studies are done for the own use as per their requirement. So, the required references for different purpose cannot be found easily. The little studies available are mostly focused on empowerment of rural women through micro credit. Some studies were found to be touching with a decade longer Maoist conflict in Nepal. Likewise some studies were found to be touching with development of country as well as micro finance. So, this study focusing the performance of RMDC, Nepal could be useful and effective for the further study as well as it will be new step forward towards research in the field of micro finance. This wholesale lending institution could play a vital role for MFI capacity building development in country.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology can be understood as a science of studying how research is done scientifically. It is a way to systematically solve the research problem. Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives and views. Research Methodology is really a method of critical thinking by defining and redefining problems formulating hypothesis or suggested solution, collecting, organizing and evaluating data making deduction and making conclusion to determine whether they fit the formulation hypothesis. Research Methodology helps to find out accuracy, validity of data and information in research work. This study includes research design, population and sample size, nature and sources of data, data collection technique, data processing, statistical tools used in research.

3.1 Research Design

A research design is descriptive framework or plan for the activities to be undertaker during the courses of a research study. A research design is the arrangement of condition of collection and analysis data in a manner that aim's to combine relevance to the research purpose with economic in procedure.

3.2 Population and Sample Size

The officers of micro finance institutions are sample taken as the population for the collection of primary data. Questionnaires were distributed to 50 respondents of microfinance institutes. The 35 officers of Chhimek Bikas Bank, Grameen Bikas Bank, Sirjana Development Center are chosen for the study.

3.3 Nature and Sources of Data

The necessary data and information used in this study are collected from primary and secondary sources. Mainly, primary data are collected from 35 respondents secondary data. Secondary data have been collected from the following sources:

- Published journals about RMDC.
- Annual report of RMDC.
- Quarterly, Yearly, Monthly Bulletin of RMDC .
- Published Dissertation, Research Reports related toRMDC .
- And from websites.

Other sources of secondary data relating to this study are collected from the publication of NRB. Supplementary information regarding the performance of the institution is collected by raising questions with the senior and junior level of employees different finanace institution. Data are collected to draw conclusion for this research.

3.4 Data Collection Procedures

Collecting data is the connecting link to the world of reality for the researcher. The data collection is the taking ordered information from reality and transferring it into some recording system. Secondary data is collected from Annual reports, Custom reports provided by the companies especially for this dissertation, websites of the company and other sites as well. Primary data are also used according to the objective of the study which is collected through taking interview with concerned management in the current location of the companies.

3.5 Data Processing and Analysis

All the collected data and information from various sources have been properly synthesized, arranged and tabulated and calculated to serve the objective of the study by using appropriate form. Data are processed in such a manner that makes clear picture about the position and situation of RMDC, keeping in mind to achieve the objective of the study. Data are analysed by using following statistical tools.

3.6 Statistical Tools Used in Research

Some important statistical tools have been used to present and analyze the data for achieving the objective of this study. Ratio analysis and percentage analysis are done.

- Current Ratio: This ratio clarifies the relation between current assets and current liabilities. To calculate this ratio, current assets is divided by current liabilities and 2:1 is considered as optimum. However, more the value of current assets, the better it is because of the depreciation. Higher current ratio shows higher capability of the organization to meet their current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- Return on Capital Employed: This ratio would inform us about the proper utilization of total debts received. With this profit can also be known. Profit is related to the Capital. Hence, investors look into this ratio before injecting their money. The formula to calculate return on Capital employed is as follows :

$$\text{Return on Capital Employed} = \frac{\text{Net Profit AterTax}}{\text{Capital Empoyed}}$$

- Return on Asset: It can also be called as profit to assets ratio because after all kinds of investments, the ration between profit and asset helps to know the profit. It is calculated as below :

$$\text{Return on Asset} = \frac{\text{Net Profit AterTax}}{\text{Total Assets}}$$

- Debt Ratio: Company's Assets is always completer with internal as well as external resources. Debt ratio will make us able to know the contribution of external resources to total assets of the Company. External Resources could be loans or debt of Company. It is calculated by dividing total liabilities by total assets. And the increasing trend of Debt Ratio is not healthy for the Company, because the risk also increased.

$$\text{Debt. Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

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 both financial and statistical tools. The basic o 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; the problems and prospects of micro finance in Nepal, the services of Micro Finance Companies funded by RMDC, through their composition and outreach, the loan performance of RMDC, and the input of RMDC towards the development of microfinance in Nepal.

4.2 Accessibility and Alternative Financial Services for the Poor

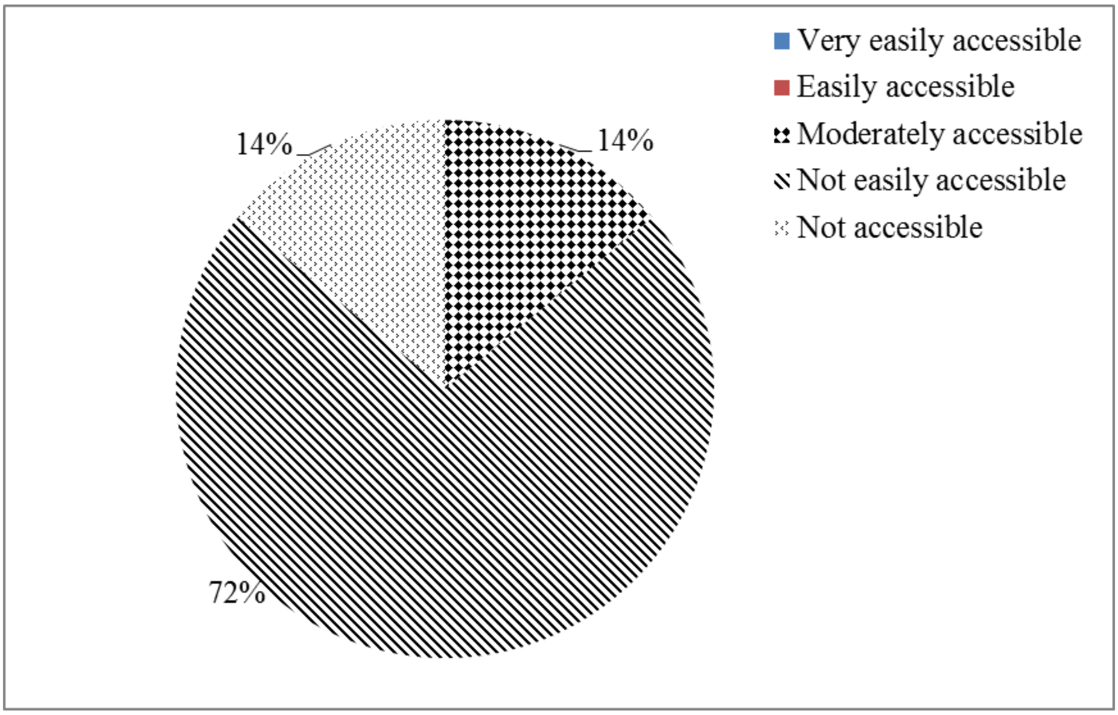
Primary data is collected from the questionnaires asked to the officers of micro-finance institution. Total 6 questions were asked. Their participation has helped me to complete the analysis. For question no. 1, most of the respondents have same views. They thought that financial services are not easily accessible in Nepal for the small holder. In the below table, we have summarized the views of respondents.

Table 4.1 Level of Accessibility of Financial Services for the Poor

Response	**No. of respondents**	**Percent (%)**
Moderately accessible	5	14
Not easily accessible	25	72
Not accessible	5	14
Total	**35**	**100**

Source: Field Survey

Fig. 4.1 Level of Accessibility of Microfinance Services



The best type of financial services for poor was asked. And micro finance services is ranked as no. 1, i.e. micro finance services are considered as the best type of financial services for poor. The other alternative is Co-operative services. Below table shows the rank of various services:

Table 4.2 Alternatives Financial Services for the Poor

Alternative	No. of Respondents	Percentage of Services
Microfinance services	23	65
Co-operative services	8	23
Development services	3	9
Commercial services	1	3
Total	**35**	**100**

Source: Field Survey

Fig. 4.2: Alternative Financial Services for the Poor

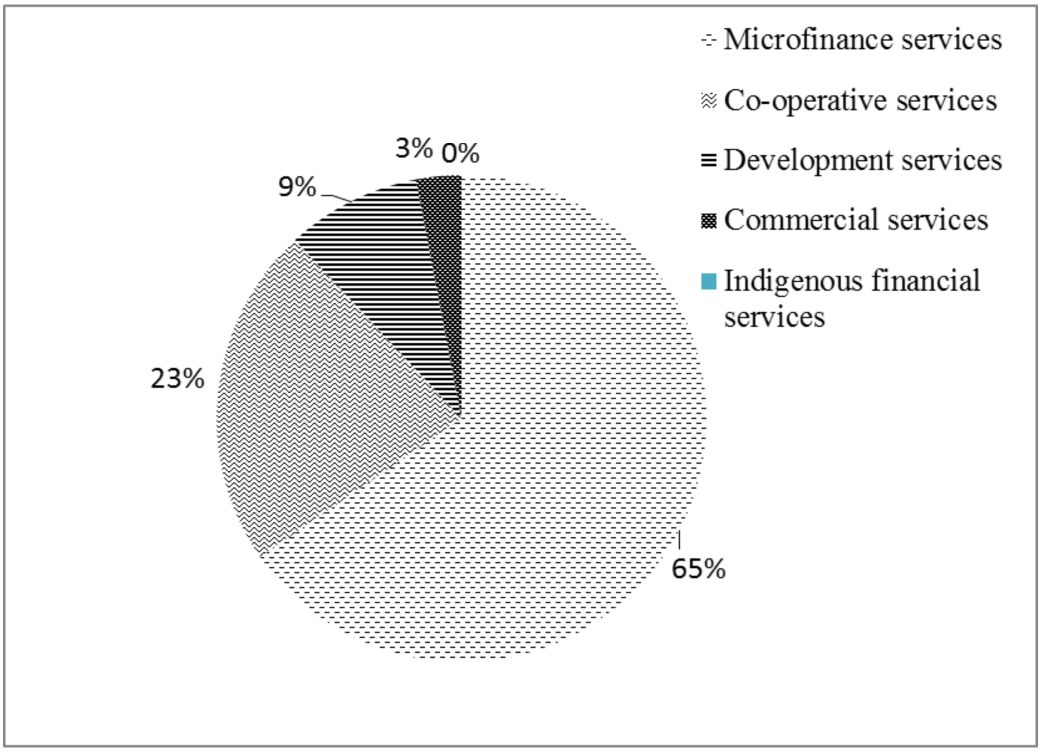
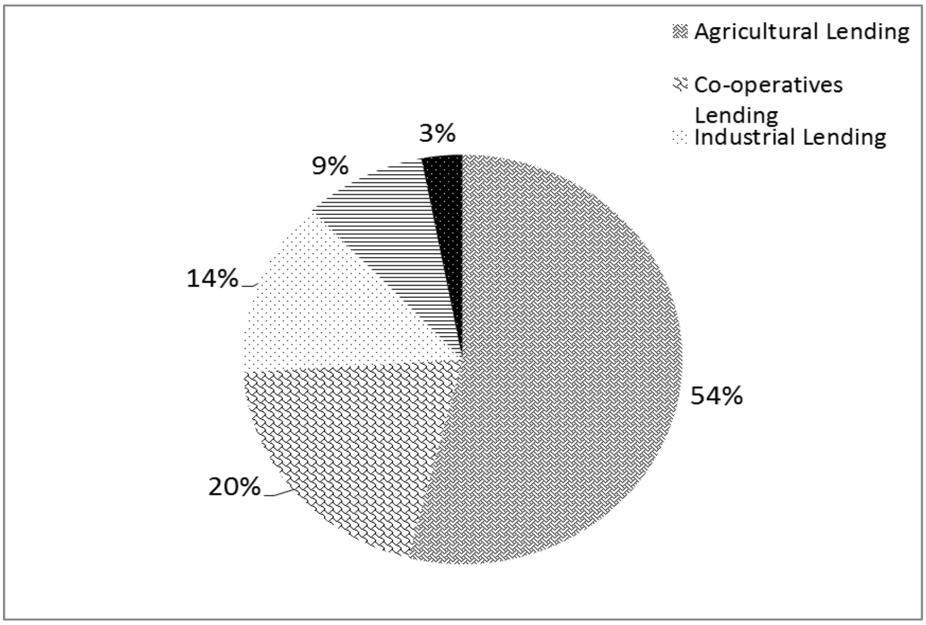


Table 4.3 Lending Service for the Poor

Alternative	No. of Respondents	Percentage
Agricultural Lending	19	54
Co-operatives Lending	7	20
Industrial Lending	5	14
Commercial Lending	3	9
Social Lending	1	3
Total	**35**	**100**

Source: Field Survey

Fig. 4.3: Lending Services for the Poor



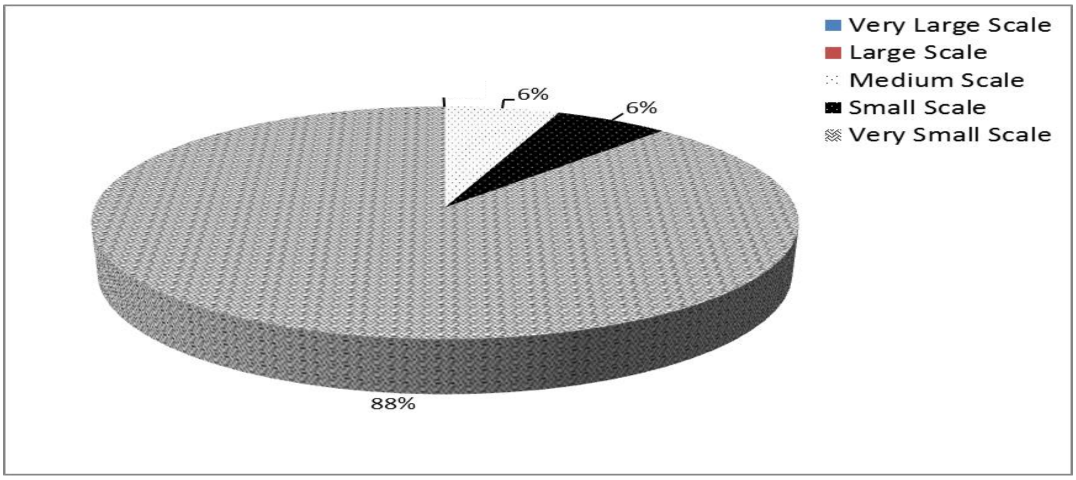
All the respondents are affirmative that the small holders will be able to obtain financial support from the services ranked in question no. 3, but in small scale. Some of them viewed that they can obtain in medium scale and some also expressed that the financial support obtained from them is in very small scale.

Table 4.4 Level of Financial Services

Level of financial support	No. of Respondents	Percentage
Medium Scale	2	6
Small Scale	2	6
Very Small Scale	31	88
Total	**35**	**100**

Source: Field Survey

Fig. 4.4: Level of Financial Services



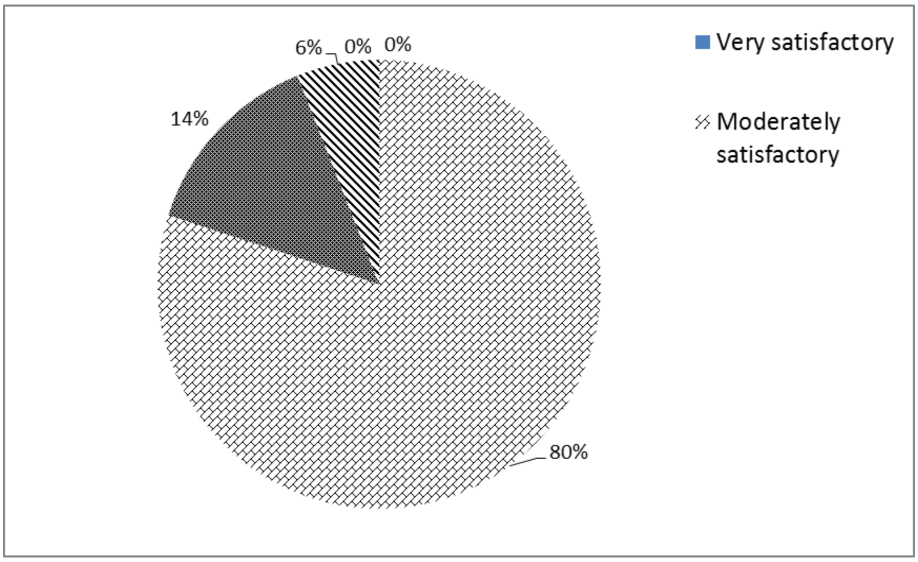
Regarding the level of satisfaction towards performance of microfinance services, most of those who are receiving the services expressed their moderate satisfaction. To their justification, they mentioned that due to microfinance services available to them, they are able to meet their both ends and uplift 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 reason being the services provided to them are limited. Though microfinance clients are not very satisfactory with the services, none of them said they are not satisfactory at all.

Table 4.5: Levels of Satisfaction

Level	No. of Respondents	Percentage
Moderately satisfactory	28	80
Satisfactory	5	14
Not very satisfactory	2	6
Total	**35**	**100**

Source: Field Survey

Fig. 4.5: Level of Satisfaction



The respondents were asked to rank how the performance of Microfinance system in Nepal be enhanced and improved. Most of them ranked Training to the MFIs no. 1. When the Microfinance Institutions are trained properly they will be able to deliver their services to poor more accurately. The unsatisfied clients are the example of improper services and lack of knowledge and hence awareness programme to borrowers is ranked in no. 2. Coordination, which is ranked no. 3 is always integral in all the aspects of work and so as in microfinance system.

The policy has been ranked no. 4 and Eliminatory duplication of programmed is ranked no. 5.Different 12 models which are used in Nepal are listed and rank them as more appropriate model in the context of Nepal. Most of the microfinance service receiver gave more priority to Microfinance model for woman and Grameen Banking Model where the role of state to develop micro credit system in Nepal, many focused on the development of infra structure and proper mobilization of fund in every regions. Many told than financial institutions should be fare in the question was "How the RMDC is managing funds for on lending purpose?" and the 4 options were from "loan from government and international financial institutions", "Grant from government and international financial institutions", "Borrowing from Banks" and "All of the above". The entire respondent responded the funds were managed from Loan and grant from Government and international financial institutions as well as the borrowing from domestic banks. 100% of the respondent responded for all of the sources.

The question was "What are the main performances of RMDC for the promotion of micro finance activities?" and out of the 4 options as "Providing wholesales credit to MFIs", "Institutional strengthening and capacity building supports to MFIs, "Training supports to MFIs and ultimate user" and "All of the above", the entire respondents chose the RMDC is performing all the activities as per above points referred in option no.1, 2 and 3. 100% of the respondent responded for all of the sources.

The question was "What is the status of volume of annual loan flow in comparison of previous Fiscal years?" and out of the 4 options as "Increasing", "Decreasing", "Both increasing and decreasing" and "No change", the entire respondent choose the option no.3, it means the status of annual loan flow of RMDC is in both increasing and decreasing trend. 100% of the respondent responded for all of the sources.

The question was "What are the difficulties faced by RMDC in course of providing loan to MFIs?" and the out of 4 options as "No difficulties", "Political pressure", "No repayment in time" and "Lack of fund", Five respondent chose the option no.1, three respondent choose the option no.2 and two respondent choose the option no.4, it means 50% of the respondent viewed as there is no difficulty in providing loan, 30% viewed as there is political pressure in providing loan and 20% viewed as could not meet the demand of loan.

The question was related to the criteria of eligibility for taking loan from RMDC. The question was "What are the main criteria of being eligible for lending to MFIs?" and out of the 4 options as "should possess the support from political parties", "should possess the support from donor agencies", "should fulfill the eligibility criteria as required by RMDC" and "No any criteria", the entire respondent choose the option no.3, it means the MFIs should fulfill the eligibility criteria as required by RMDC to take the loan form RMDC. 100% of the respondent responded that MFIs need to fulfill the eligibility criteria prescribed by RMDC to be eligible for taking loan from

RMDC.

The question was "Do you think the present lending policy is to be amended/changed?" and the 2 options were "Yes "or "No ". Out of the 10 respondents, 5 chose the option no.1, 5 chose the option no.2, it means 50% of the respondent viewed as lending policy should not to be amended / changed and 50% of the respondent viewed as lending policy is to be amended/ changed. In question no.6.1, the reason of policy to be amended or changed was asked to those who viewed as the policy needs to be amended/ changed. 3 respondents choose the option no.1, 2 respondents choose the option no.3. It means 40% of the respondent viewed the policy is not applicable in this context and 60% of the respondent

4.3 Total Loan Approved and Total Loan Disbursed

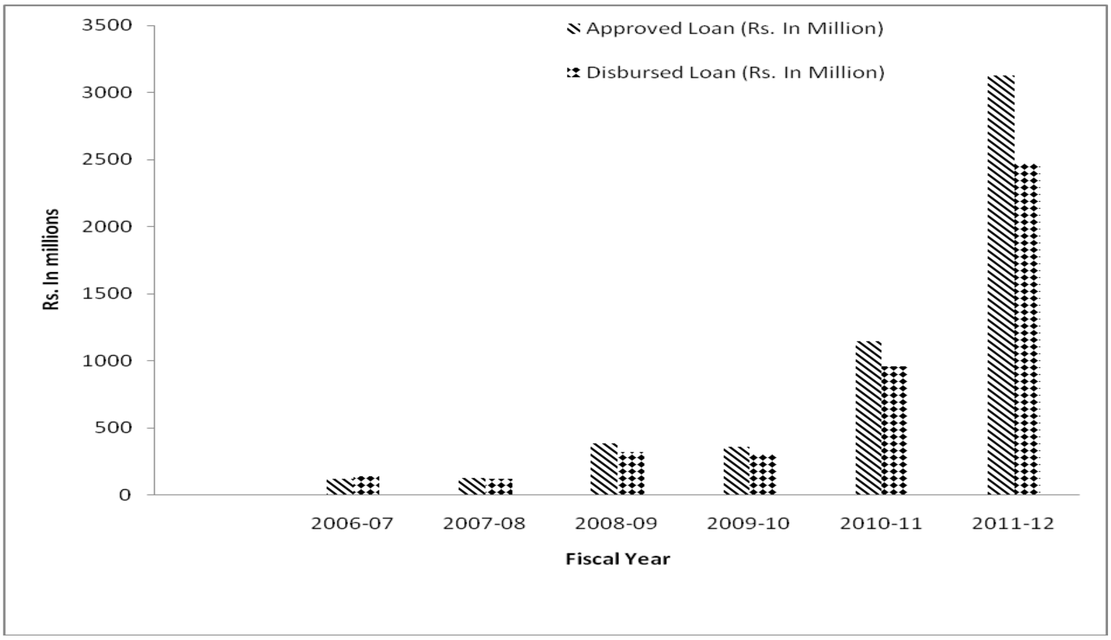
This part analyzes the contribution of RMDC"s loan in various sectors, total no. of member clients of RMDC, loan approved and distribution, loan recovery ratios, for the last five years.

Table 4.6 Loan Approved and Disbursed by RMDC

Year	Approved Loan (Rs. In Million)	Disbursed Loan (Rs. In Million)	Percentage
2006-07	116.52	107.05	95%
2007-08	123.2	118.81	96%
2008-09	382.77	320.65	84%
2009-10	357.83	298.24	83%
2010-11	1143.68	961.07	84%
2011-12	3129.00	2468.70	79%

Source: RMDC's Annual Report

Fig. 4.6: Loan Approved and Disbursed by RMDC



As of 16th July 2011, RMDC has approved a total of Rs. 2,124 million for 58 MFIs of which Rs. 1,835.82 million have been disbursed among the borrowing institutions 2 are Regional Grameen Bikas Banks, 4 Private Microfinance Development banks, 6 Development Banks, 24 Financial Intermediaries NGOs and 22 Savings and Credit Co - operating Societies. In the Fiscal Year 2006-07, the disbursed loan amount is higher than the approved loan amount by Rs. 20.53 million while in the consequent years it is reduced, however for the last three years it remained at around 84%. During the Fiscal Year 2011-12, the disbursed loan amount is around 74% of the approved loan amount.

The approved loan amount in the last five years has increased drastically and the disbursed amount has also increased. In the year 2010-11 approved loan amount has increased vastly i.e. from 357.83 million to 1143.68 million.

4.4 Total Loan Disbursed and Loan Recovered

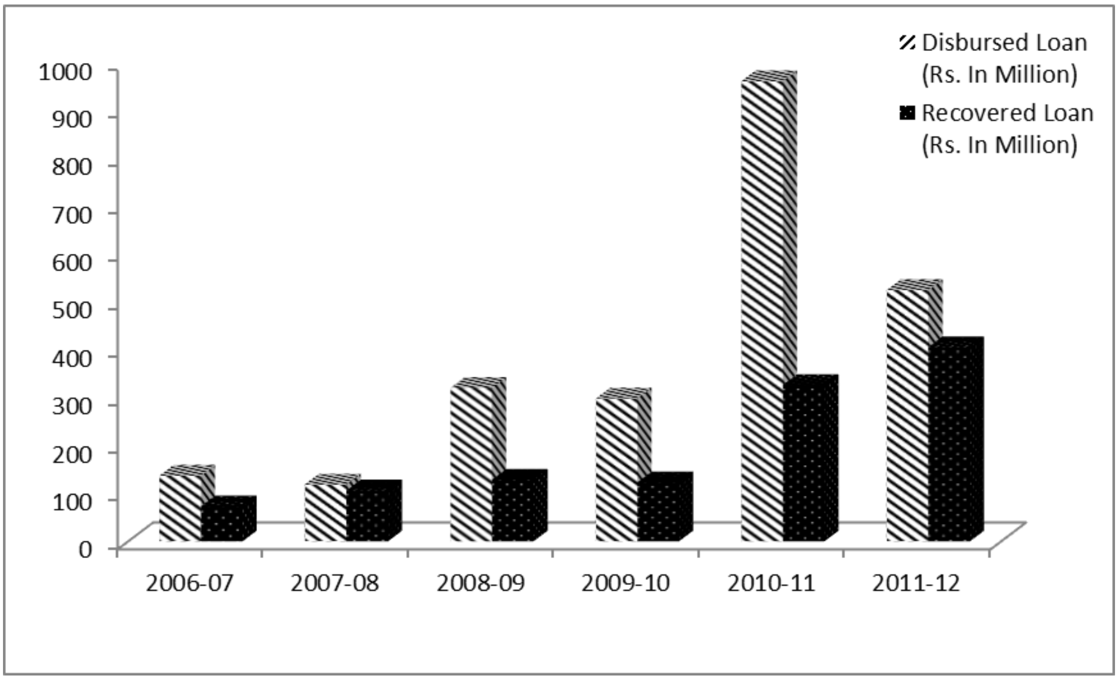
On 16th July 2011, total outstanding loan amount of RMDC with its Partner Organizations stood at Rs. 1135.04 million. So far, RMDC has been able to maintain 100% loan recovery rate. The outstanding loan rate is zero.

Table 4.7 Loan Disbursed and Recovered by RMDC

Year	Disbursed Loan (Rs. In Million)	Recovered Loan (Rs. In Million)	Outstanding Loan (Rs. In Million)
2006-07	137.05	73.42	120.91
2007-08	118.81	106.25	133.47
2008-09	320.65	128.29	325.84
2009-10	298.24	123.22	500.85
2010-11	961.07	326.88	1,135.04
2011-12	525.02	405.64	1,254.42

Source: RMDC's Annual Report

Fig. 4.7: Loan Disbursed and Recovered of RMDC



The loan term for the first loan is 2 years. The term for second loan could be extended up to 3 years and up to 5 years for the subsequent loans, based on the previous repayment records. RMDC"s recovery growth rate increased by 165.28% in the year 2010-11, though it was decreased by 3.95% and 20.7% in the Fiscal Year 2009-10 and 2008-09 respectively. However, RMDC has succeeded to maintain its

NPA rate at 0%.

Disbursed loan amount in the year 2010-11 is increased by 222.24% and recovered amount is also increased by 165.28%. During the last five years, 2006-07 to 2010-11 the total loan disbursed is NPR 1835.82 million and recovered is 758.06 million which is 58.70%. During the year 2011-12 the disbursed loan amount is 525.02 million while recovered is 405.64 million only. The disbursed amount has decreased by 45.37%.

4.5 Analysis of Annual Outreach

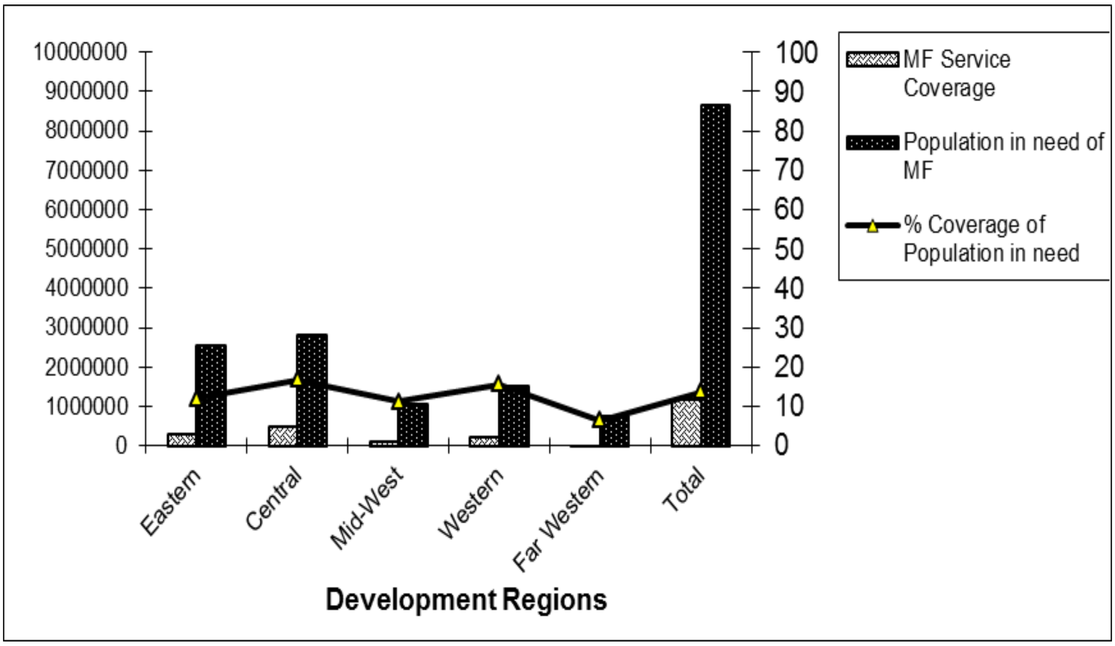
Although informal system still remains dominant microfinance sector has expanded remarkably in Nepal over the last one and a half decade. Currently, 11 Micro Finance Development Banks (2 wholesale lenders, 5 Grameen Banks and 4 private sector banks) provide services to 392,770 rural poor (mostly women): Mid July 20007 through 79594 groups across 47 districts. Savings and Credit Co-operative has served 403,126 individuals (Female 172,852) Mid July 2007 through 3392 SACCO‟s in 72 districts SFCL has been providing its services to 129,900 individuals as of Mid-July 2007 through 219 SFCL‟s. FINGO‟s has 257,956 clients (Mid July 2007) through 47 FINGOs. Hence the aggregate Outreach of Micro finance services is to 1,183,752 out of which 842,197 is female and 341,555 is male. This represents 4% of the total population and 14% of population below the poverty line.

Table 4.8 Geographical Outreach and Need

Development Regions	MF Service Coverage	Population in need of MF	% Coverage of Population in need
Eastern	306388	2543536	12%
Central	472810	2806561	17%
Mid-West	117126	1043790	11%
Western	237772	1518415	16%
Far Western	49657	766722	6%
Total	**1183753**	**8679024**	**14%**

Source: Thapa, 2012

Fig. 4.8 Region wise MFI Coverage and Population in need of Microfinance



Above table shows us how many people of Nepal are in need of microfinance services according to the regions of the country. It shows the number of people who are getting microfinance services. In Eastern Region 2543536 population are in need of microfinance services and 306388 population are receiving the services, which is only 12% of the requirement. In Central Region, out of 2806561 population only 472810 (17%) are receiving the microfinance services. 117126 population are receiving the microfinance services in Mid-West region which is only 11% of total requirement. In Western region16% of 1518415 populations are receiving microfinance services, whereas in Far Western region only 6% of 766722 population are receiving the services.

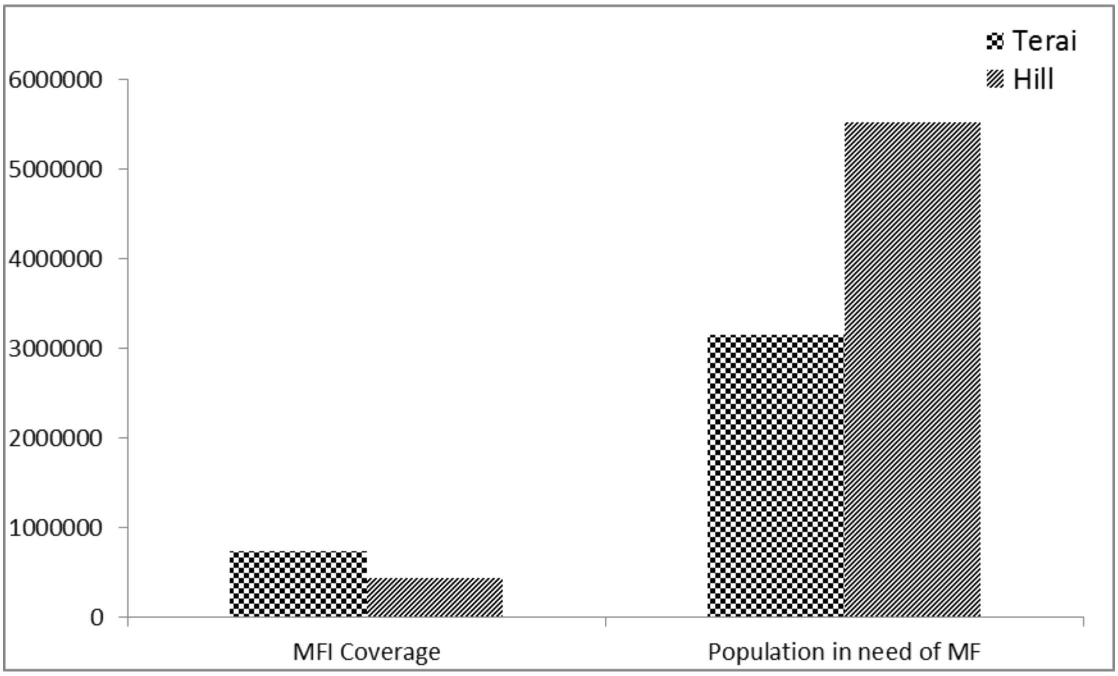
In average only 14% of 8679024 population are receiving the microfinance services. Central region has the highest of requirement and the highest percentage of fulfillment is also in Central region i.e. 17%. The coverage of services in Far Western region is only 6%, which is very low in comparison to other regions.

Table 4.9 Region wise MFI coverage and Population in need of Microfinance

Eco-Zone	MFI Coverage	Population in need of MF	% Coverage
Terai	743423	3153752	24%
Hill	440330	5525272	8%
Mountain	NA	NA	NA
Total	**1183753**	**8679024**	**14%**

Source: Thapa, 2012

Fig. 4.9: Micro Finance Institutions Coverage and Population in Need of Micro Finance



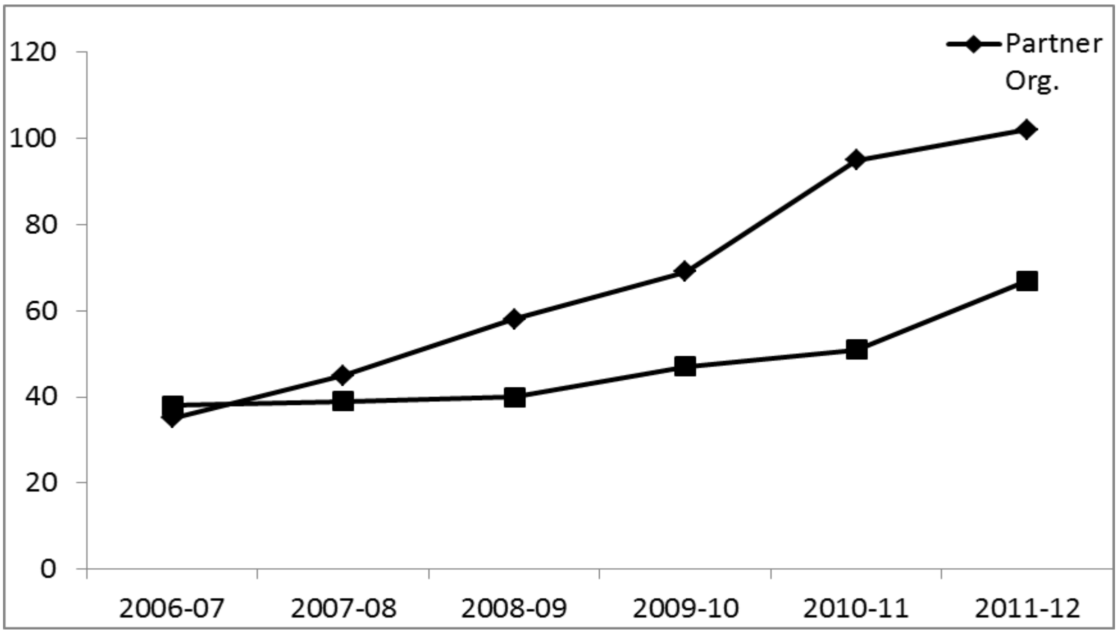
In Terai region 24% of 3153752 populations are provided with microfinance services. In the Hilly region, only 440330 population are provided with microfinance while the requirement is for 5525272 population. The requirement of microfinance services is more in hilly region than in Terai Region. However only 8% of the population of hills are receiving these services.

Table 4.10 Annual Outreach of RMDC

Fiscal Year	Partner Org.	Total Clients	Clients Trained	Microfinance Institutes Trained	Staff Trained	Districts
2006-07	35	1,79,195	241,962	100	5469	38
2007-08	45	2,16,002	340,338	112	6915	39
2008-09	58	2,75,690	444,506	130	8042	40
2009-10	69	3,68,819	471,647	138	10140	47
2010-11	95	5,04,819	483,087	160	12,117	51
2011-12	102	6,67,818	584,419	193	15,814	67

Source: RMDC's Annual Report

Fig. 4.10 Outreach of RMDC and its Partner Organization



4.6 Financial Performance

RMDC's financial performance partly depends on the financial performance and potentiality of its partner organizations. Deliberately and rightly, RMDC chooses its partners according to their performance, keeps them under strict controls and continuously trains them to improve their financial management. Consequently, RMDC's partner organizations have reached a very satisfactory level of performance. Their operational self-sufficiency was 127.7% in FY 2007. RMDC has been making profits since the first year of its operations and has increased the profitability every year, demonstrating cost control and efficiency.

Ratio Analysis

- Current Ratio: This ratio clarifies the relation between current assets and current liabilities. To calculate this ratio, current assets is divided by current liabilities and 2:1 is considered as optimum. However, more the value of current assets, the better it is because of the depreciation. Higher current ratio shows higher capability of the organization to meet their current liabilities.

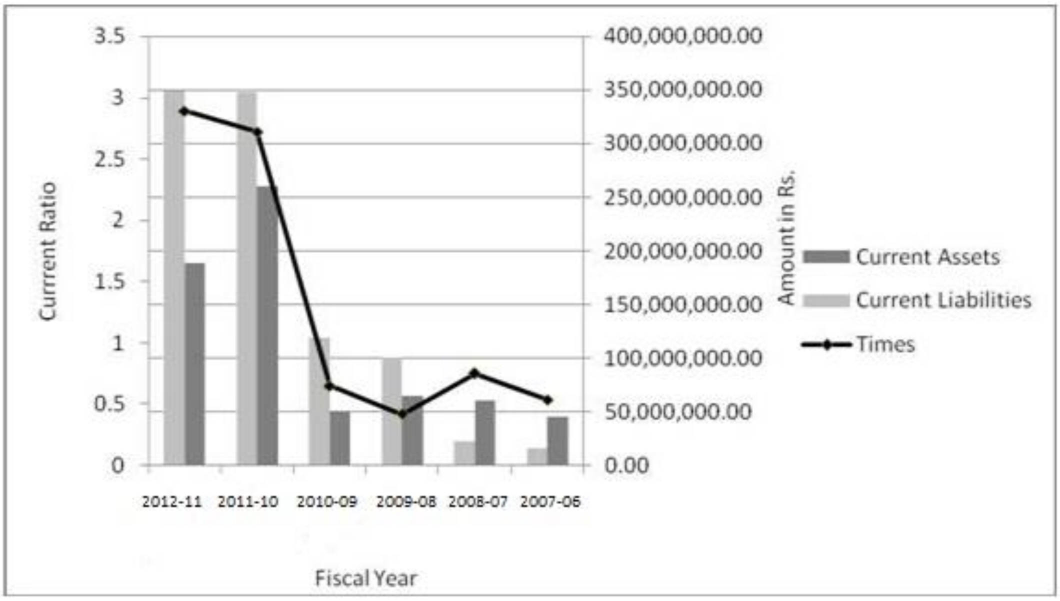
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.11 Current Ratio Analysis of RMDC

Year	Current Assets	Current Liabilities	Times
2006-07	45,663,048.65	15,774,641.49	2.89
2007-08	61,038,732.74	22,439,658.95	2.72
2008-09	65,262,046.53	100,361,055.66	0.65
2009-10	50,425,108.79	118,754,348.32	0.42
2010-11	260,199,811.50	347,612,906.22	0.75
2011-12	188,669,801.53	348,893,115.56	0.54

Source: RMDC's Annual Report

Fig.4.11 Current Ratio of RMDC



The above table shows that the current ratio of RMDC is in decreasing trend. The current liabilities of RMDC has increased a lot more than the assets, though there is drastic change in both current assets and liabilities from the year 2009-10 to 2010-11. During the year 2006-07 and 2007-08 the ratio is very good, as per the requirement that is more than 2 times. However it has fallen to 0.75 times in the year 2010-11.

- Return on Capital Employed: This ratio would inform us about the proper utilization of total debts received. With this profit can also be known. Profit is related to the Capital. Hence, investors look into this ratio before injecting their money. The formula to calculate return on Capital employed is as follows:

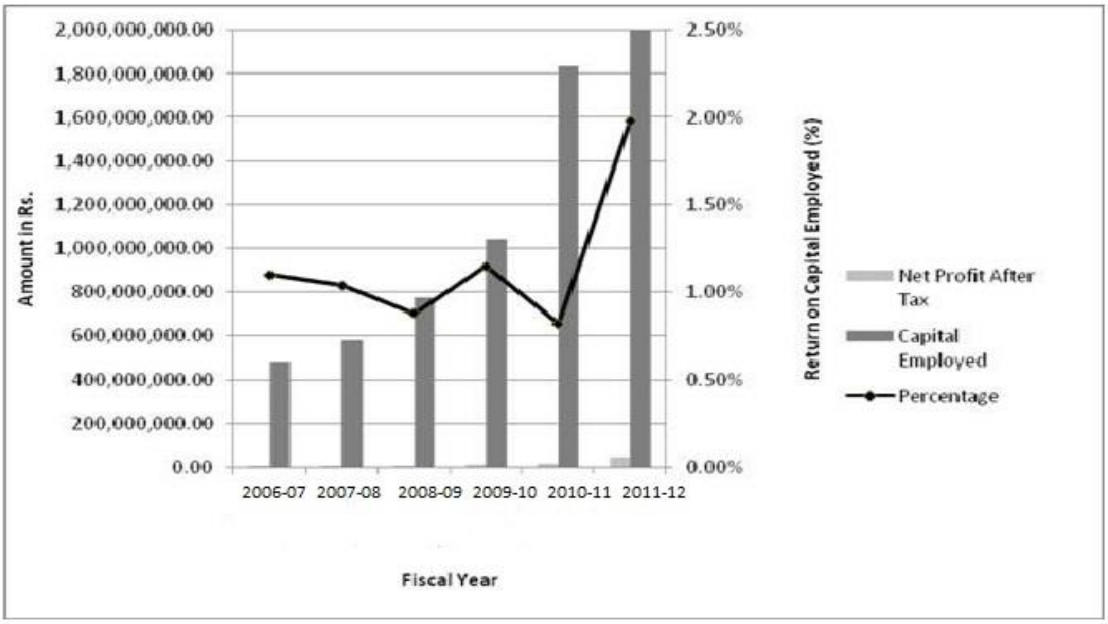
$$\text{Return on Capital Employed} = \frac{\text{Net Profit after Tax}}{\text{Capital Employed}}$$

Table 4.12 Return on Capital Employed of RMDC

Year	Net Profit After Tax	Capital Employed	Percentage
2006-07	5,276,921.69	481,270,723.50	1.10%
2007-08	6,043,357.21	578,595,723.70	1.04%
2008-09	6,845,228.84	775,442,020.70	0.88%
2009-10	11,976,368.47	1,042,411,931.48	1.15%
2010-11	15,083,797.30	1,832,734,334.00	0.82%
2011-12	44,206,462.68	2,228,530,254.47	1.98%

Source: RMDC's Annual Report

Fig. 4.12Return on Capital Employed of RMDC



Higher the ratio of capital employed, it could better be concluded as proper utilization of debts. If the ratio is low, it is understood that assets are not properly used. In case of RMDC, the ratio is in decreasing trend. While in the Fiscal Year 2006-07, the return on Capital Employed is 1.10%, it is reduced to 1.04% in the Fiscal Year 2007-08. It is further decreased by 0.16%. A slight improvement was seen in the year 2009-10 with the ratio increased to 1.15%, however it dropped back to 0.82% on 2010-11. RMDC managed to increase its ratio of Capital Employed to 1.98% during the Fiscal Year 2011/12.

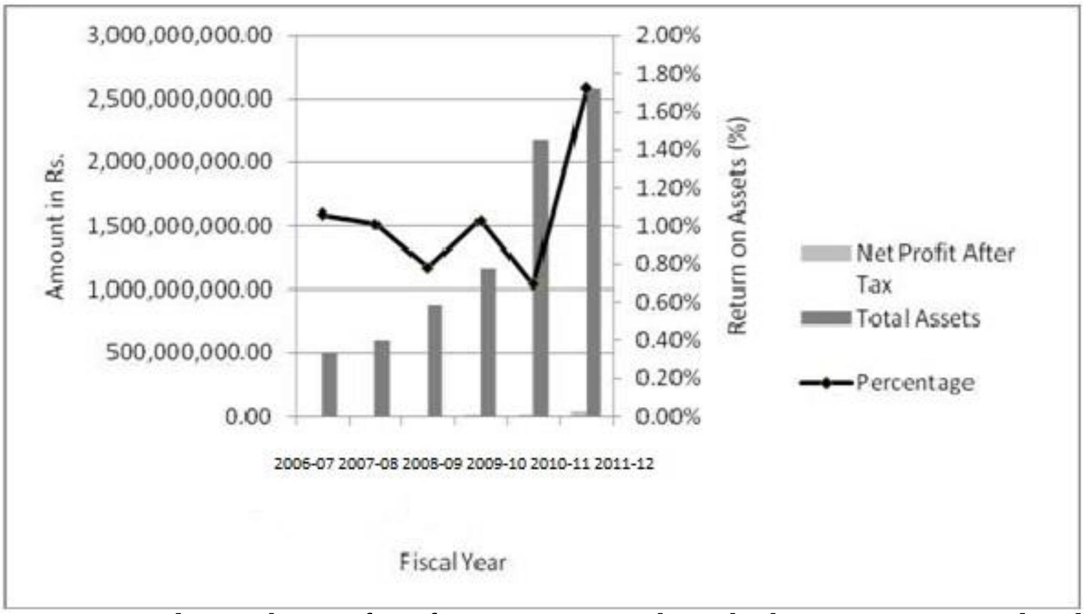
Return on Asset: It can also be called as profit to assets ratio because after all kinds of investments, the ration between profit and asset helps to know the profit. It is calculated as below:

Table 4.13 Return on Asset of RMDC

Year	Net Profit After Tax	Total Assets	Percentage
2006-07	5,276,921.69	497,045,365.09	1.06%
2007-08	6,043,357.21	601,035,382.64	1.01%
2008-09	6,845,228.84	875,803,076.37	0.78%
2009-10	11,976,368.47	1,161,166,279.80	1.03%
2010-11	15,083,797.30	2,180,347,240.07	0.69%
2011-12	44,206,462.68	2,577,423,370.03	1.72%

Source: RMDC's Annual Report

Fig. 4.13 Return on Assets of RMDC



This ratio analyses the profit of investments. Thus, higher ratio is considered better. However, RMDC‟s rate of return on asset is in decreasing trend. In the year 2010-11, it stood at 0.69% which is very low in comparison to other years. In the year 2006-07 it was 1.06%, however since then it has been declining.

Though net profit after tax of RMDC is increasing assets of the corporation has also increased drastically since last five years. In the year 2009-10, it is little better, standing at 1.03% in comparison to previous year and subsequent years. But the ROA of RMDC has increased to 1.72% during the Fiscal Year 2011-12.

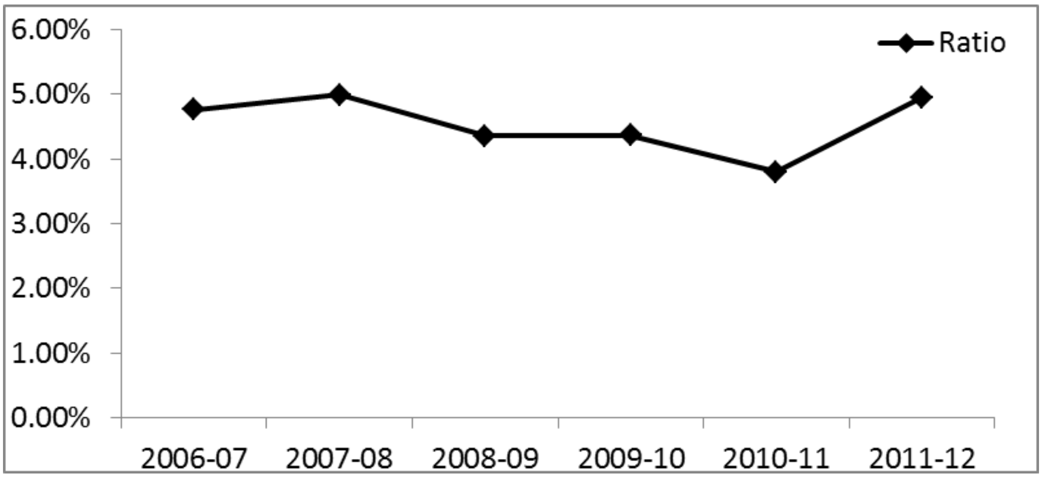
$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest}}{\text{Total Assets}}$$

Table 4.14 Interest Earned Ratio

Year	Interest	Total Assets	Ratio
2006-07	23,723,095.85	497,045,365.09	4.77%
2007-08	29,992,046.76	601,035,382.64	4.99%
2008-09	38,186,930.01	875,803,076.37	4.36%
2009-10	50,799,795.17	1,161,166,279.80	4.37%
2010-11	82,891,063.31	2,180,347,240.07	3.80%
2011-12	127,535,798.81	2,577,423,370.03	4.95%

Source: RMDC's Annual Report

Fig. 4.14 Interest Earned Ratio of RMDC



The ratio of Interest earned to total assets is considered to be better when it is higher. In case of RMDC, the ratio has increased to 4.95% in 2011-12 while it was only 3.80% in the Fiscal Year 2010-11. Since 2006-07 to 2009-10, it was fluctuating, but has decreased during 2010-11.

- Debt Ratio: Companies Assets is always completer with internal as well as external resources. Debt ratio will make us able to know the contribution of external resources to total assets of the Company. External Resources could be loans or debt of Company. It is calculated by dividing total liabilities by total assets. And the increasing trend of Debt Ratio is not healthy for the Company, because the risk also increased.

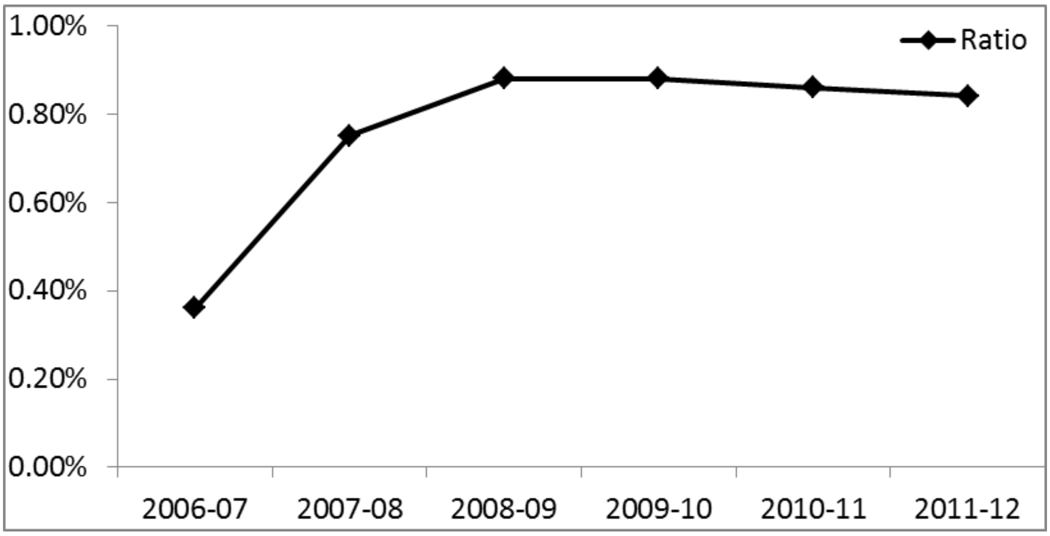
$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Table 4.15 Debt Ratio of RMDC

Year	Total debt	Total assets	Ratio
2006-07	178.76	497.05	0.36%
2007-08	452.87	601.04	0.75%
2008-09	767.38	875.80	0.88%
2009-10	1,022.37	1,161.17	0.88%
2010-11	1,881.56	2,180.35	0.86%
2011-12	2,176.44	2,577.42	0.84%

Source: RMDC's Annual Report

Fig. 4.15 Debt Ratio of RMDC



The debt ratio of RMDC seems to be quite good but it has an increasing trend. In last five years, it has increased to 0.86 times from 0.36 times which not a good sign. In the Fiscal Year 2007-08, the debt ratio is double of previous year. This shows that RMDC"s total debt is increasing however the assets are not increased in the same ratio. It is believed that lesser the debt ratio, better for Company.

4.7 Major Findings

RMDC has been providing its services in the field of microfinance in Nepal since 1998. Its efficiency towards the rural population of Nepal has been observed through this study. The study facilitate us the current situation of Microfinance in Nepal and gives some light on the pertaining problems. RMDC works for its strong objectives, which can impose the country to the poverty elimination. To fulfill the major objective, RMDC provides wholesale funds to MFIs. Not only does it provides the loan but also focuses on institutional capacity building and strengthening of MFIs and its staff members as well. The research found a very good impact of RMDC in the field of micro credit, to its partner organizations and to the small holders who used these credit facilities.

- 72% of respondents thought that financial services aren't easily accessible in Nepal for small holders.
- 88% of the respondents are affirmative about financial support from the

services is in small scale.

- As 16th July 2011 RMDC has approved a total of 2124 million of which 1835.82 have been disbursed.
- Central region has the highest l.e 17% and western region is only 6%.
- In Terai region 24% population are provided with microfinance services. However only 8% of the population of hills are receiving these serves.
- During the first year, RMDC‟s disbursed loan is higher that approved loan. And RMDC has increased its disbursement during last six years. And there is also no Non-Performing Loan in RMDC.
- In terms of Financial Performance, Current Ratio shows the capability of RMDC to meet the current liabilities is not much effective. Return on Capital Employed and Assets is also fluctuating. Interest earned to total assets ratio can be considered good as it is increasing and it better when higher. And the Debt Ratio of the Organization seems good as it is less than 1%.
- The outreach of RMDC is in 67 districts out of 75, which is a very good indication. Their partner organization are also spreading their services many districts.
- Loan disbursement and recovery of RMDC is increasing which shows that more poor people are getting their services.
- The study also shows that RMDC as an organization is performing well, ratio analysis.
- The trend of annual loan approval and disbursement is also fluctuating. The decreasing trend is higher than increasing trend. This trend is also the outcome of security problem in investment. MFIS couldn't utilize the full limit of loan approved. It means MFIs could not go to the real field of investment in micro finance with a fear that they couldn't repay the loan in time.
- RMDC managed the capacity building program with internal resources, external funds and through outsourcing. It has a separate training department namely “Institutional & Social Development Department” to take care of overall management of the program. RMDC has a team of professional managers and facilitators who are trained on the related

subjects.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents the overall summary of the study and conclusions drawn from the analysis of the study. This chapter also includes the recommendations to correct some aspects need to develop micro finance in Nepal.

5.1 Summary

This study was conducted to analyze and to show the present scenario of micro finance in Nepal and the role played by RMDC in the field of micro credit to develop micro finance in Nepal. It also examines RMDC‟s contribution to micro credit in Nepal. Micro finance is not an unfamiliar word to us. It is the way to access financial services for the poor and low income group. Financial Services included micro-credit, savings and insurance as well. Micro finance is been accepted universally as an effective tool for addressing poverty. In the context of Nepal, the establishment of Agricultural Development Bank/Nepal was a landmark in the development of rural financial market in Nepal. The institutionalization of rural credit began since the establishment of credit cooperatives in 1956.

Since then, many institutions have been established in Nepal, who is working to promote micro finance related work. And RMDC is one of them. RMDC is an apex organization of micro finance in Nepal which was established on 30 October 1998 as a public limited company under the Company Act 1996. The main objective of RMDC is to improve the socio economic condition of the poor. RMDC and its partner organization mainly focus to provide financial lending to household woman. Besides providing financial lending services, RMDC also helps to build and strengthen the institutional capacity of its partner organization and to provide technical support to the needy institutions.

The objectives of RMDC were analyzed with the procedural analysis and impact of RMDC to its partner organization were also analyzed. The objectives of RMDC, its loan procedures, selection procedures and pay back procedures are pointed out in the study and its impact towards its Partner Organization and end-users are also studied. Various training programs to its partner organizations and to the clients and capacity building programs are also described in the study.

Percentage analysis is used to analyze the performance of RMDC in last six years. The loan amount disbursed, loan paid-back by Partner Organizations, number of Partner Organizations, its outreach are compared and analyzed. Percentage analysis is also used to compare the outreach of Micro Finance services in the Country through various sources, its impact over the years and overall affect as well is studied. Ratio analysis and PEARLS analysis in used to analyze the performance of RMDC for last six years.

5.2 Conclusion

Microfinance services are provided at the door-step of the poor, based of the principle that they should not go to bank. Hence, microfinance services are qualitative and durable for poor. Trainings provided by RMDC are also an example to their viability and sustainability services towards the poor. With the establishment of RMDC, it is apparent that a clear focus is emerging in Nepal for promoting and strengthening the operations related to micro finance activities. Before RMDC, there were many organizations that provided micro finance loans as mediator. But as a wholesale lender, RMDC is not only providing the micro credit to its Partner Organizations but also carrying out capacity building programs.

RMDC's loan repayment rate with its Partner Organizations is 100% from the very beginning. This has been possible due to close supervision after loan disbursement and institutions development supports. Microfinance services of its partners have been trying to reach the poor of the families. This shows that there is long way to go for RMDC to reach the poorest. Through the repayment rate of RMDC is 100%, its recovery rate is less than 50%. This could be a major problem to RMDC in future as a wholesale lender.

However, RMDC has been facing challenges, such as coordinating Micro Finance Institutions. It has to reckon with the lack of efficient accounting and management. Both RMDC and its Partner Organizations do not have computer software and depend upon manual system, which are cumbersome and time consuming. Many Micro Finance Institutions are still at an early stage of development, which gaps in their systems, financial management, leadership, staff development and organizational structure. They still lack adequate subsidized Capital and qualified and experience staff members. Some Micro Finance Institutions are also weak in business planning, financial discipline and staff management.

From the study we can also conclude that RMDC has improved the loan transactions, income sources and savings and living and non-living assets of the clients of its Partner Organizations. The partner organizations of RMDC have also been improving its performance. The outreach has increased significantly. The study also shows that within last 3 years, the number of borrowers taking loan from other sources likes moneylenders, relatives and commercial banks have decreased. And borrowers taking loans from Microfinance Institutions have increased drastically. Similarly the income source, investment and savings in various sectors like crops, livestock service, cottage industries have grown steadily in during last 3 years. Microfinance services have made a very good impact on the assets (both living and non-living) of borrowers. The progress in living assets is more than 100% and in some case it is 987%. Its impact towards non-living assets is also more than 200% in last 3 years. From this we can conclude that microfinance services through RMDC is helping its clients to improve their living standards as well as improving its own services towards its clients.

The outreach of microfinance services is still low and the market for micro and rural financial services appears to be huge, the total population in need of microfinance services is 8679024, while only 14% of them are able to receive the services. Hence, the breadth and depth of outreach is yet to be expanded to ensure access of microfinance services to people below the poverty line which mostly includes the excluded groups. An analysis of concentration of microfinance services reveals that Microfinance Institutions are concentrated in the Terai and accessible hills. The microfinance services are more concentrated in urban and semi-urban areas and such services are very limited for the poorest of poor. This fact can be concluded, where only 6% population of the Far Western Region have access to Microfinance Services, whereas 17% poor of Central Region are receiving the services. Similarly table shows that only 8% of the poor people of Hilly Region are getting the microfinance services, while in case of Terai Region, 24% of them have access to microfinance services.

After analyzing the questions surveyed, some conclusion drawn from it are listed below: It is analyzed, it can be concluded that the small holders were not easily accessible of financial services because they don't have enough capability to reach out to these financial services as they can't show their guarantees. It can be concluded that Micro finance services are the most appropriate financial services to the small holders for poverty reduction. They should get micro finance services in reasonable rate of interest and without collateral to uplift their life style. This shows that most of the clients preferred microfinance services however it is not easily accessible to them. And it comparison to other services microfinance is considered as the optimum one. Agricultural lending is the best alternatives for reducing poverty, because agricultural lending is a fast and recoverable lending for reducing poverty.

Most of them have got the idea about agricultural field. So, they can easily use and repay these kinds of lending at time. Social lending because, it isn't considered to be a productive household. These kind of lending are mainly taken for occasional or non-productive uses. Small holders obtain financial services but in a very small scale. Nowadays, poor household also have access to financial services. However, they couldn't get a large scale of financial support which could be a barrier for them. So, they get in only in a small scale, which is also easy for repayment. And after analyzing question no. 6, it can be concluded that the performance of Microfinance in Nepal is still not very satisfactory. Most of the respondent informed that state should focus on the awareness of the programs. In most of the cases, though the microfinance services are available in certain areas, due to ignorance/illiteracy, people are not able to make the use of it. Hence awareness program should be extended.

Secondly, the microfinance program should be spread nationwide and thirdly the state should make some effort to make it easily accessible by giving some compensation of interest rates. Most of the respondents were not able to reply to this question properly however some of them said that financial institutions should not take microfinance service as profit oriented but service oriented organization. And staff members should also be trained accordingly. Like to have patience with their illiterate clients who take time to understand their services.

5.3 Recommendations

- Hilly region should be focused more as Terai region has higher coverage of services. Hence strong commitment by the Government and other official agencies to attain the declared goal is necessary.
- RMDC should also contribute more to promoting and developing the Micro Finance industry in Nepal with support from the Government and donor agencies. It should work for providing Micro Finance services in the districts not yet covered by Micro Finance Institutions especially in the hills and mountains and for intensifying its services to the poorest in the areas where the services are already established.
- The efforts of RMDC to give quality Micro Finance services is admirable. However more support is necessary to involve a large number of weak Micro Finance Institutions from around the Country whose staff members are often not adequately qualified. To meet this need, RMDC should increase both the Capital channeled into training and numbers of its staff members employed in such activity.
- The trainings program should be provided to unprofessional and inexperience MFIs who are the main loan provider to small borrowers. This enhances RMDC to trap the new MFIs to expand the business.
- To give quality in micro finance services, RMDC‘s work is admirable. To reach all around the Nepalese poor people they need to provide their facilities all over the Nepal.
- RMDC also need to spread its capacity building and training program to all over poor people who don‘t have good knowledge about micro finance. Now it is only limited to its MFI‘s clients and their staff.

- Mainly poor people of hilly regions can‛t get the micro finance services because of difficult geographical circumstances. RMDC should also spread over its credit and capacity development programs to hilly region.

- 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.

- To develop micro finance all over the country, the state should have formation of conductive 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.

- To develop micro finance in Nepal, government should provide some facility to micro finance institution to encourage them to spread its program all over the country. Micro finance could be scaled up with good product design to accommodate the need of graduated client. This is support to help achieving higher employment generation, reduced poverty and also helping MFIs to achieve outreach with sustainability.

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APPENDIX-I

Loan Portfolio of RMDC with its Partner Organizations

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
1	Nirdhan Utthan Bank Ltd., Bhairahwa	4	280,000,000.00	200,000,000.00	91,000,000.00
2	Centre for selfhelp Development (CSD), Kathmandu	5	250,000,000.00	150,000,000.00	74,070,000.00
3	Bindhabasini Savings and Credit Cooperative, Banepa	1	1,000,000.00	1,000,000.00	-
4	Nepal Rurual Development Society Centre (NRDSC), Biratnagar	7	144,755,000.00	144,755,000.00	-
5	Sahara Nepal Savings and Credit Cooperative, Jhapa	8	199,595,000.00	199,595,000.00	130,455,000.00
6	National Educational and Social Development Organization(NESDO), Parbat	5	76,755,000.00	61,755,000.00	41,295,000.00

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
7	Chartare Yuwa Club (CYC), Baglung	4	28,425,000.00	19,425,000.00	11,363,000.00
8	Society of Local Volunteers' Effort (SOLVE), Dhankuta	2	10,000,000.00	9,600,000.00	3,011,000.00
9	Rural Awareness Forum (RAF), Baglung	1	2,000,000.00	1,400,000.00	-
10	Dhaulagiri Community Resources Development Centre (DCRDC), Baglung	4	37,000,000.00	24,500,000.00	11,192,000.00
11	Community Women Development Centre (CWDEC), Saptari	6	76,694,900.00	50,694,900.00	20,447,000.00
12	Mahuli Community Development Centre (MCDC), Saptari	6	91,060,000.00	67,060,000.00	37,709,600.00
13	Deprosc Bikas Bank Ltd., Bharatpur	1	5,000,000.00	5,000,000.00	-
14	Paschimanchal Grameen Bikas Bank Ltd., Butwal	1	40,000,000.00	40,000,000.00	-
15	UNYC NEPAL, Bardiya	3	28,200,000.00	10,200,000.00	6,960,000.00
16	Chhimek Bikas Bank Ltd., Hetauda	6	224,100,000.00	194,100,000.00	83,165,000.00
17	Madhyamanchal Grameen Bikas Bank Ltd., Janakpur	1	40,000,000.00	40,000,000.00	-

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
18	Swabalamban Laghubitta Bikas Bank Ltd., Janakpur	4	311,000,000.00	311,000,000.00	140,000,000.00
19	Manushi, Kathmandu	4	55,000,000.00	40,000,000.00	22,422,000.00
20	Nepal Mahila Utthan Kendra, Lalitpur	5	44,520,000.00	38,520,000.00	25,625,000.00
21	Jeevan Bikas Samaj, Morang	8	178,420,000.00	148,417,000.00	93,560,000.00
22	Forum for Rural Women Ardency Development (FORWARD), Sunsari	9	274,065,000.00	243,600,000.00	149,285,000.00
23	Mahila Sahayogi Sahakari Sanstha, Kathmandu	3	20,820,000.00	12,820,000.00	4,958,000.00
24	Srijana Samidaik Bikas Kendra, Siraha	4	46,500,000.00	38,500,000.00	23,385,000.00
25	Nepal Mahila Samudayik Bikas Kendra, Dang	3	26,200,000.00	19,200,000.00	11,982,000.00
26	Srijana Bikas Kendra, Pokhara	4	50,800,000.00	27,100,000.00	13,168,000.00
27	Women Entrepreneurs' Association of Nepal (WEAN), Kathmandu	2	14,000,000.00	10,000,000.00	3,500,000.00
28	Royal Cooperative Society, Syangja	2	11,600,000.00	10,600,000.00	5,165,000.00
	Social Welfare Action Nepal (SWAN), Dang				

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
29		1	3,000,000.00	100,000.00	-
30	SUPER, Dang	1	3,000,000.00	3,000,000.00	487,000.00
31	Grameen Mahila Bikas Sanstha, Dang	1	2,500,000.00	300,000.00	-
32	Nawapratibha Savings and Credit Cooperative, Nawalparasi	2	16,500,000.00	16,500,000.00	9,016,000.00
33	Grameen Mahila Utthan Kendra, Dang	2	7,460,000.00	7,000,000.00	4,936,000.00
34	Karnali Savings and Credit Cooperative, Jhapa	4	55,600,000.00	40,600,000.00	25,793,000.00
35	Sewa Savings and Credit Cooperative, Itahari	2	12,200,000.00	12,200,000.00	6,546,000.00
36	Gorkha Savings and Credit Cooperative, Gorkha	1	765,000.00	200,000.00	-
37	Shramjivi Savings and Credit Cooperative, Siraha	3	31,500,000.00	29,500,000.00	20,565,000.00
38	Indragram Punarmilan Savings and Credit Cooperative, Narayanghat	2	15,400,000.00	6,900,000.00	3,888,638.00
39	Ideal Cooperative Society, Saptari	1	4,400,000.00	4,400,000.00	680,000.00
	Navodaya Multipurpose				

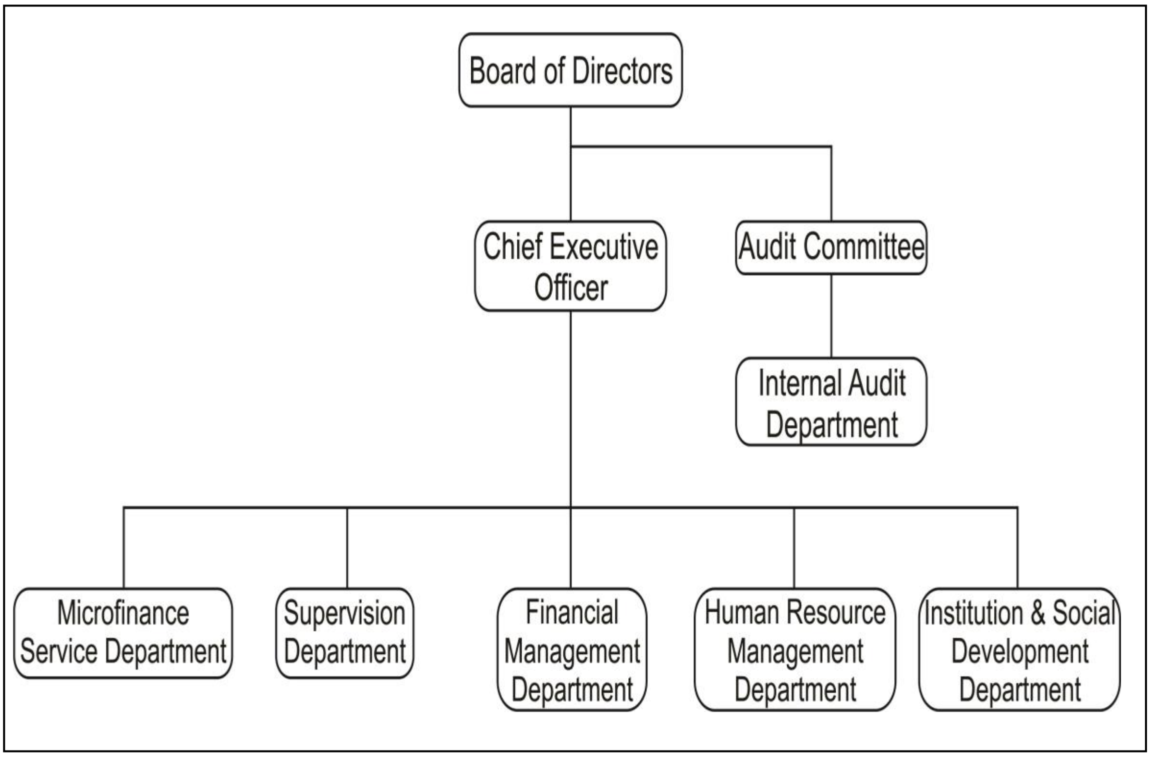
S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
40	Cooperative Society Ltd., Jhapa	2	12,000,000.00	7,500,000.00	4,583,000.00
41	Bouddha Grameen Savings and Credit Cooperative, Surkhet	1	2,700,000.00	2,100,000.00	1,437,000.00
42	Batawaran Sudhar Multipurpose Cooperative, Surkhet	1	2,225,000.00	2,225,000.00	1,457,000.00
43	Kalika Multipurpose Coopertive, Rasuwa	2	6,400,000.00	4,300,000.00	3,064,000.00
44	Gaurishankar Development Bank Ltd., Nawalparasi	2	20,000,000.00	5,576,225.00	2,439,225.00
45	Mahila Upakar Manch, Banke	1	3,200,000.00	2,700,000.00	2,327,500.00
46	Triveni Bikas Bank Ltd., Narayanghat	1	20,000,000.00	18,032,000.00	9,784,000.00
47	Palpa Rara Savings and Credit Cooperaive, Palpa	1	3,800,000.00	100,000.00	27,500.00
48	Krishak Jagaran Cooperative, Lamjung	2	19,400,000.00	12,900,000.00	10,067,500.00
49	Udayadev Multipurpose Cooperative Kanchanpur	1	2,550,000.00	2,100,000.00	1,557,500.00
	Palung Multipurpose				

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
50	Cooperative, Makwanpur	1	12,200,000.00	1,300,000.00	715,000.00
51	Karnali Bikas Bank Ltd., Nepalgunj	1	10,000,000.00	-	-
52	Excel Development Bank Ltd., Jhapa	1	16,000,000.00	1,881,000.00	1,728,000.00
53	Patan Business and Professional Women, Lalitpur	1	3,000,000.00	100,000.00	58,000.00
54	Chameli Savings and Credit Cooperative, Sarlahi	1	4,600,000.00	100,000.00	100,000.00
55	Gangamala Savings and Credit Cooperative, Surkhet	1	3,600,000.00	1,400,000.00	1,314,000.00
56	Bageswori Development Bank Ltd., Banke	1	10,000,000.00	-	-
57	Maitri Multipurpose Cooperative, Gulmi	1	2,225,000.00	900,000.00	828,500.00
58	Siddhartha Development Bank Ltd., Rupandehi	1	20,000,000.00	1,750,500.00	1,500,500.00
59	Andhakar Mukti Savings and Credit Cooperative	1	3,500,000.00	400,000.00	386,000.00
	Nerude Laghubitta Bikas Bank Ltd.,				

S no	Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
60	Biratnagar	2	160,480,000.00	160,480,000.00	132,120,000.00
61	Silsila Multipurpose Cooperative, Arghakhachi	1	2,500,000.00	100,000.00	100,000.00
62	Digo Kosh Shanchalan Savings and Credit Cooperative, Rolpa	1	1,000,000.00	100,000.00	100,000.00
63	Himchuli Bikas Bank Ltd., Pokhara	1	20,000,000.00	-	-
64	Kisan Multipurpose Cooperative, Kailali	1	5,000,000.00	100,000.00	100,000.00
65	Paschimanchal Development Bank Ltd., Butwal	1	20,000,000.00	-	-
66	Sana Kisan Cooperative Ltd., Bara	1	15,000,000.00	3,000,000.00	3,000,000.00
67	Digre Saikumari Savings and Credit Cooperative	1	3,000,000.00	-	-
68	Biswasilo Savings and Credit Cooperative, Bardiya	1	4,000,000.00	-	-
69	Pragati Savings and Credit Cooperative, Salyan	1	800,000.00	-	-
Total			**3,129,014,900.00**	**2,468,686,625.00**	**1,254,423,463.00**

APPENDIX-II

Organization Chart of RMDC



APPENDIX-III

Questionnaire Surveyed

Dear Sir / Madam

I am preparing my research work on the topic "Micro finance wholesale landing practice in Nepal: A case study about RMDC" for the partial fulfillment of the master's in business study. I would like to request for your grateful opinions and correct information regarding these questions. This given information will be used only for proposed of this study.

I hope forward for your kind cooperation.

Respondent

Researcher

Name : Gita Paudel

Position : Prithivi Narayan Campus

Education :

1. What is the level of accessibility of business loan to the small holders in Nepal?
    1. Very easily accessible
    2. Easily accessible
    3. Moderately accessible
    4. Not easily accessible
    5. Not accessible
2. What types of financial services could be the best alternative for poor people?

1. Commercial Services ( )
2. Development Services ( )
3. Micro Finance Services ( )
4. Indigenous financial Services ( )
5. Co-operatives financial Services ( )

3. Which type of lending plays the vital role in reducing poverty in Nepal?

1. Commercial Lending (Trade) ( )
2. Industrial Lending ( )
3. Agricultural Lending ( )
4. Co-operative Lending ( )

4. Do you think that the small holders will be able to obtain financial support from the above services?

Yes ☐ No ☐

5. On what scale do they obtain?

1. Very large scale
2. Large scale
3. Medium scale
4. Small scale
5. Very small scale

6. What is your level of satisfaction with the present performance of Micro finance related activities in Nepal?

1. Very satisfactory
2. Moderately satisfactory
3. Satisfactory
4. Not very satisfactory
5. Not satisfactory at all

Thank you !

APPENDIX-IV

Responds to the Questionnaire Survey

Q. No.	Options	Respondents	%
1	1. Very easily accessible	0	0%
	2. Easily accessible	0	0%
	3. Moderately accessible	5	14%
	4. Not easily accessible	25	72%
	5. Not accessible	5	14%
2	1. Commercial Services	23	66%
	2. Development Services	8	23%
	3. Micro Finance Services	3	9%
	4. Indigenous Financial Services	1	3%
	5. Co-operatives Financial Services	0	0%
3	1. Commercial Lending (Trade)	3	9%
	2. Industrial Lending	5	14%
	3. Agricultural Lending	19	54%
	4. Social Lending	1	3%
	5. Co-operative Lending	7	20%
4	1. Yes	35	100%
	2. No	0	

5	1. Very large scale 2. Large scale 3. Medium scale 4. Small scale 5. Very small scale	0 0 2 2 31	0% 0% 6% 6% 89%
6	1. Very satisfacotry 2. Moderately satisfactory 3. Satisfactory 4. Not very satisfactory 5. Not satisfactory at all	0 28 5 2 0	0% 80% 14% 6% 0%