PROFITABLITY ANALYSIS OF MICRO-FINANCE IN NEPAL

(A CASE STUDY OF NIRDHAN UTTHAN BANK)

A Thesis

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RECOMMENDATION LETTER

This thesis entitled **PROFITABLITY ANALYSIS OF MICRO-FINANCE IN NEPAL (A CASE STUDY OF NIRDHAN UTTHAN BANK)** has been prepared by Jivan Tumbapo under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfilment of the requirements for the Degree of Master Degree in Economics.

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Date: 2079/04/10 B.S
26/07/2022 A.D

APPROVAL LETTER

This thesis entitled **Profitability Analysis of Micro-Finance in Nepal (A Case Study of Nirdhan Utthan Bank)** submitted by Jivan Tombapo has been evaluated and accepted as partial fulfillment of the requirement for the MASTER OF ART in ECONOMICS by evaluation for the committee comprised of:

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List of Abbreviations

&	And
ADBN	Agriculture Development Bank of Nepal
BAFIA	Bank and Financial Institutions Act
BOK	Bank of Kathmandu
CBOs	Community Based Organization
CBS	Central Burau statistic
CIDA	Canadian International Development Agency
EBL	Everest Bank Limited
FINGOs	Financial intermediary Non-Governmental organization
GBBs	Gateway Business Bank
GDP	Gross Domestic Product
GON	Government of Nepal
HBL	Himalayan Bank Limited
HDI	Human Development Index
ICT	Information and communication Technology
ILO	International Labour Organization
INGOs	International Non-Government organization
LGP	Low Ground Pressure
MFIs	Micro Finance Institutions
NABIL	Nepal Arab Bank Limited
NBL	Nepal Bank Limited
NGOs	Non-Government organization
NI	Net Income
NIBL	Nepal Investment Bank Limited
NRB	Nepal Rastra Bank
NUM	Nirdhan Utthan Microfinance
OLS	Ordinary Least Square
PDDP	Participatory District Development Programme
RBB	Rastriya Bank Limited
ROA	Return on Assets

ROE	Return on Equity
SCBNL	Standard Charted Bank Nepal Limited
SFCLs	Small Farmer Co-operative Limited
SFDP	Small Farmer Development Project
SMEs	Small and Micro Enterprises
TE	Total Expenses
TI	Total Investment
TYIP	Three Year Interim Development Plan
UNDP	United Nation Development Programme

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Microfinance is a part of financial institution of Nepal. According to bank & financial institution act 2073, it listed in D-class bank and also Nepal Rastra Bank directives 2074 define its operation function on the basis paid-up capital and functional area. That is why, for national level its paid-up capital is ten corers, regional for six corer, six to ten districts for two corer and three to six districts functional area for one corer must to maintain paid-up capital relatively within given time of period. In this way, all the bank and financial institutions are operating on the basis of bank and financial institution act 2073(BAFIA 2073). On the other hand, Microfinance has been playing crucial role in women empowerment, economic growth as well as poverty alleviation in the context of Nepal. It has also contributed in rural sector to the financial access & financial literacy growth and development. Microfinance is not a new concept for Nepal. In Nepal itself, microfinance initiatives have now become one of the most widespread development efforts in the country and have together been able to reach out to a very large, although indeterminate, number of the poor all across the country (Shrestha, 2006).

Despite its rather recent emergence as an instrument of national development, particularly for poverty reduction in poor countries, the term microfinance has been defined in a wide variety of ways. One of the major players in the field, the Asian Development Bank (2000) has defined microfinance as “the provision of a broad range of financial services such as deposits, to poor and low-income household and their microenterprises”. Referring to the distinction between the two terms, microcredit and microfinance used almost interchangeably in Nepal. Kunwar (2003)

As Brau and Woller (2004) suggest that the formal financial systems in economically weak countries almost fully excluded the poor population. Nepal is no exception, only 30 -35% of the population has access to financial institutions. It indicates that 65-70 % have to rely on other resources like moneylender, merchants, and traditional cooperative.

Relying on other informal resources means higher interest rates, exploitation of poor people by obliging them to give gifts, premium, free labor, bonded labor etc, which again push them towards poverty (Bank, 2008). Therefore, Nepal has been liberalizing the financial sector with the goal of alleviating widespread poverty (Acharya, 2003). Government of Nepal (GON) introduced the Three-Year Interim Development plan 2007-09 (TYIP) with the aim to reduce unemployment, poverty, and inequality. GON is implementing inclusive approach to free people from social classes, communities, and regions who are unable to join the mainstream development due to economic, social and cultural reasons. Such targeted programs cover women, Dalits, indigenous people, Madhesis, and backward sections (Shrestha, 2009).

It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson & Rogaly, 1997).

Nepal has developed considerable history in providing microfinance services which is evidenced by emergence and growth of a large number of microfinance institutions (MFIs) and microfinance programmed over time. Formal microfinance in Nepal emerged in 1956 with the emergence of cooperatives that started providing savings and microcredit services to their shareholders. Government also recognized potential role of microfinance services on addressing poverty problems and in 1974 Nepal Rastra Bank (NRB), the central bank, directed then two state-owned commercial banks to invest at least five percent of their total deposits in small-scale finance. In 1975, the Agriculture Development Bank of Nepal (ADBN) launched Small Farmers Development Project (SFDP), as a first project to introduce the concept of group guarantee as a substitute to physical collateral for microlending. (ADB, 2000)

Inevitably, microfinance industry is becoming mature and more dynamic, associated with market changes. Recently, microfinance sector has changed radically and will continue to develop over the next several years as there are millions of poor demanding financial services for livelihoods. To challenge their needs, microfinance industry must move beyond from credit oriented to be more variety products and services such as deposit facilities for accumulating capital and investment, payments services, money transfer and foreign exchange transactions. In addition, there is a concern of other financial services such as micro leasing as an alternative for business financing and micro insurance for coping with risk. Furthermore, Marguerite Robinson in her book The Microfinance Revolution, Sustainable Finance for the Poor also states “The microfinance revolution is a commercial revolution, based on new financial technology and greatly accelerated by information revolution that developed concurrently”. This implies that there is a need to combine advance financial technology and the rapid development of information and communication technology (ICT) to driven microfinance industry to be part of modern financial mainstream. (Dhakal, 2002)

All the key stakeholders of the microfinance movement both nationally and internationally have focused their attention to strengthen microfinance industry and provide sustainable access of poor people and microentrepreneurs to financial services. in order to support the achievement of this global movement, future of Nepalese microfinance should focus on establishing a policy environment conducive to microfinance, developing regulatory and supervision framework, institutional capacity building, expanding services to remote areas, 5 introductions of ICT on microfinance sector, and addressing issues of encroachment/unfair competition and attaining financial viability. (Dhakal, 2002)

This requires that the regulatory and supervisory framework is flexible and provide incentive both for clients and service providers. First, the regulation and supervision system should balance a number of objectives and interest of different parties. It should protect the financial system from unsound practices that can have domino effect on whole financial system particularly MFI which heavily rely on funds from commercial banks or other financial institutions. Second, it should protect and provide legal support to small depositors that save their money at MFI. Third, it should promote industry in which regulation and supervision may attract more deposits from public and may be able to obtain financing at lower cost. Finally, it should protect public funds in case liabilities of MFI are covered blanket guarantee from government or by public deposit insurance. (Dhakal, 1999)

Some of the issues to be addressed on institutional capacity building includes: improvement on management capacity which more autonomous and adapting sound governance practices and operation and procedures that focus on increasing efficiency, lowering transaction cost, improving client satisfaction, and ensuring that earned income covers operating and financial expenses; enhance management information systems and accounting policy; strengthen internal supervisory system and audit capacity that is integrated with daily operation and routines; develop risk management framework with a comprehensive strategy for arrears and fraud prevention; develop human resources though career development, training and corporate culture incorporated with promotion/incentive system to motivate employees; provide adequate physical infrastructure, convenient offices close to customers so that they can access the services relatively easily; and products development suitable to the market and offers incentive to customers. (Dhakal, 2001) To be financially self-sufficient, MFI must generate enough revenue to cover all of its costs and earn enough excess revenue to increase its capital base (retained earnings) in order to provide services to a growing client base and/or clients with increased financial needs. Expenses of the MFIs include: operating costs; financial costs; loan losses and the cost of capital. The primary source of funds to cover these expenses is interest revenue generated by loan portfolio. At present, most Nepalese MFIs are not financially self-sufficient. The inability of Nepalese MFI to reach financial viability is primarily attributable to low rates on loans, high loan losses, lack of well-trained staff and small client base. To achieve financial self-sufficiency, MFIs must reduce their loan losses, develop more efficient operating procedures and increase their outreach. In addition, interest rates should be increased to a level where they will cover all costs based on the most efficient delivery of services. (Dhakal, 2004).

Microfinance has been playing crucial intermediaries between surplus unit and deficit unit in the economy, as well as poverty alleviation and to develop financial literacy special in the rural sector. The GDP composition of the Nepal is divided into three sectors like primary, secondary and tertiary sector. In this way, microfinance institution lies in tertiary sector. So, its contribution has incredible to GDP growth rate in Nepal. Hence, Nirdhan Utthan Bank Limited is also a contributor to GDP growth in Nepal along with NUM has been made outstanding profit function for itself.

1.1.1 Concept of Microfinance

In the past, it has been experienced that the provision for financial products and services to poor people by MFIs can be practicable and sustainable as MFIs can cover their full costs through adequate interest spreads and by operating efficiently and effectively. Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impact studies have demonstrated that microfinance is really benefiting the poor households (Littlefield & Rosenberg, 2004).

1.1.2 Growth and Development of Micro and Small Enterprises

The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm’s growth is the availability of resources to the firm (Ghoshal, Halm & Moran, 2002.)

MFI s considering the growth of Micro and Small enterprises developed large-scale operations by offering a few highly standardized products with few advantages like Streamlined loan administration, Simplified decision-making for field staffs, Reduced information requirements from clients, Low operational costs, Simplified repayment obligations. But this standardization also had its own disadvantages. So, MFIs paid closer attention to product flexibility. Individual need-based loans are more suitable as they can be designed to cater to the specific requirements of the clients.

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance, and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998).

1.1.3 Evolution of Microfinance

Microfinance as an industry evolved in all the third world countries almost at the same time span. World over, it was getting widely recognized that improving income levels of low- income community is essential to improve their well-being During the 1970s and 1980s, the microenterprise movement led to the emergence of Non-Governmental Organizations (NGOs) that provided small loans for the poor. One of the significant events that helped it gained prominence in the 1970s was through the efforts of Mohammad Yunus, a microfinance pioneer.

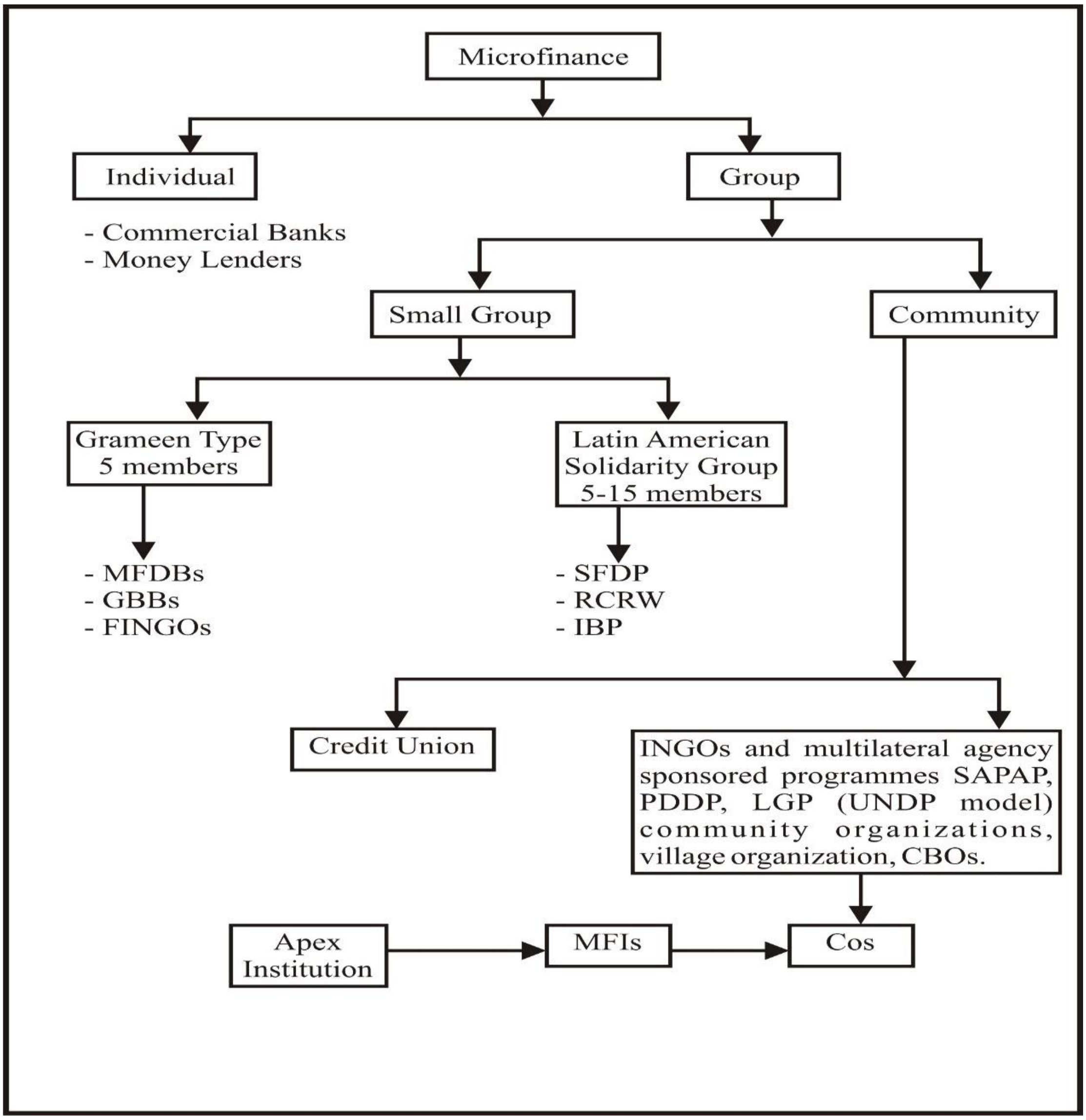
On 13th October 2006, the Nobel Peace Prize went to Muhammad Yunus and Gramen Bank, the microfinance institution he founded. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea. Eventually, we are in a situation.

The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Christen (1997) defines microfinance as the means of providing a variety of financial services to the poor based on market-driven and commercial approaches' (Christen, 1997). This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others. However, many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes.

Thus, the current global perception of microfinance: Morduch (2000) correctly points out that this kind of enthusiasm for microfinance rests on an enticing win-win proposition that: Microfinance institutions that follow the principles of good banking will also be the ones that alleviate the most poverty. The assumption being that with good banking practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty (Morduch 2000). “Microcredit, or microfinance, is banking the un-bankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people. People in the society are not equally capable and skillful. Therefore, an access, opportunity, right to control over resources should provide these people according to their capabilities. Control over loan, loan-related activities and expenditure of earnings are three kinds of benefits that must be equally shared among male and female members in the family. The question arises whether loaners' share the benefits or not.

The Nepalese economy is based on market & bank base. In this way, Microfinance institution is a part of banking sector in Nepal. It has important role to composite the gross domestic product (GDP). The main interest of the study to understand the trend & nature of microfinance, the contribution to GDP by Nirdhan Utthan microfinance and its profit function analysis in Nepalese economy.

The general microfinance model is as follows



Source: Bashyal, 2008:

1.2 Statement of the Problem

The Nepalese economy divided into mainly primary, secondary & tertiary sector. The current scenario of GDP of Nepal, whereas tertiary sector contributing to GDP has 57.6% (economic survey 2017). where hotel, tourism and service are main components of tertiary sectors. In which financial institutions is most of the component of third sector, On the other hand microfinance has crucial role-playing to the poverty alleviation along with to increase profitability for itself.

In the context of Nepal, there is no long history of bank & financial institutions development process. The Nepal bank limited was first established in the Nepal and then long time there was no any drastically development in financial institutions sector. That is why, Resorted the democracy in Nepal and then the financial institutions have got growth rapidly. The latest data of Nepal Rastra Bank the number of microfinance operating now 76.

Nepal's poverty is acute, massive, and stubborn. The Per Capita Gross Domestic Product (GDP) has been covering around $200 for many years now (B. K. Shrestha, 2004). The Human Development Index (HDI) is 0.463, which place it at 157th place out of 187 countries (Factbook, 2014). According to the national living standards survey 2010-2011 more than 30% of the Nepalese populations live in less than US $14 per person, per month. Social discrimination and gender inequality plays a significant role in the continuation of poverty in rural Nepal.

There is a wide gap between women and men in terms of access to healthcare, nutrition, education, and participation in decision-making. The illiteracy is far more prevalent among women than men. For instance, the literacy rate of Nepal is 65.9% among which male literacy rate is 75.1 % and female 57,4%. (CBS, 2011). The difference is much higher in the rural and remote areas. Therefore, many rural women live in the extreme poverty, without any means of improving conditions for themselves and their families. The orthodox Hinduism also plays a significant role in making women vulnerable in Nepal. In orthodox Hinduism, women have inferior status across all caste and class categories. The main task of women in orthodox Hinduism is to serve men. Hindu society is male dominated society with patriarchy structure. Discriminatory marriage and inheritance laws are imposed in the name of religion, which assign women to lower status in the society (Shrestha, 2004). In the rural areas of Nepal only 18.2% women own the fixed assets (CBS, 2011)

However, different models of microfinances are putting constant effort to reach the poor men and women. Among the different models the Small Farmer Cooperative limited (SFCLs) are the second largest organization (first is the Grameen Bank), providing microfinance service in Nepal. Today SFCLs are recognized as holistic model for rural development (Kochet al., 2004).

The global scenario shows that the trend & nature of financial institutions and economic growth rate has positive relation as well as many countries data shows the microfinance contribution has significant to the GDP. By studying above literature, it is concluded that there has not been any empirical study on the profit function analysis (A case study of Nirdhan Utthan bank).

This thesis consist research questions are following as below:

a) What is the current status of Nirdhan Utthan Bank?
b) What is the trend and pattern of profit performance of Nirdhan Utthan bank?
c) What is the profit function of Nirdhan utthan Bank?

1.3 Objectives of the Study

The general objectives of the study are to analyze "the profit function analysis" (A case study of Nirdhan Utthan bank). However, the specific objectives are as given below.

a) To identify the current status of Nirdhan Utthan bank.
b) To examine the trend and pattern of profit performance of Nirdhan Utthan Bank.
c) To analyses the profit function of Nirdhan Utthan bank.

1.4 Hypothesis of the Study

As there has three objectives of the study, the hypothesis for each objective is as below.

a. The hypothesis for the study on second objective is as below.

Null Hypothesis (H_0): There is no significant profit function of Nirdhan Utthan Bank.

Alternative Hypothesis (H_1): There is significant of profit function of Nirdhan Utthan Bank

1.5 Significance of the Study

The Financial institutions, as well as micro-finance, has crucial role-playing in the economy as a financial intermediaries of government transactions & policies delivers to the grass people. The economic growth & financial institutions trend and nature mostly be positive because of financial institutions is a part of GDP. Thus, Micro-finance is a part of financial institutions so, it is also part of GDP.

According to James Roth, “Microfinance is a bit of a catch- all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings, and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings, and micro-insurance.” And then, The Canadian International Development Agency (CIDA) defines microfinance as, “the provision of a broad range of financial services to poor, low-income households and micro-enterprises usually lacking access to formal financial institutions.”

Hence, there is no any research on this topic related so, it gives different information to the stakeholders. In this way, this thesis also provided information about the current status of Nirdhan Utthan bank and it’s the profit function.

1.6 Limitations of the Study

The main objectives of this study are to study on the profit function (A case study of Nirdhan Uthan Bank). This thesis has been entirely depended on secondary data. So that, it gives information only significant for the special period of time. On the other hand, it does not deal with entirely financial institution except Nirdhan Uthan bank.

This thesis has been focused on only current status of Nirdhan Utthan bank and its profit function.

1.7 Organization of the Study

The study has been divided into seven chapters. The first chapter is consisting of introduction that deals with background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and finally organization of the study. The second chapter consist review of literature. It included the theoretical review, the review of empirical study and research gap. The third chapter has been included research methodology. It includes research design, nature, and sources of data, specification of tools and methods of data analysis, model specification, and variable specification. The fourth chapter Consist microfinance and its contribution to GDP in Nepal.The fifth chapter is causality test between GDP and the contribution of Nirdhan Uthan in Nepal. Similarly, the sixth chapter consist the trained and nature of financial institutions and economic growth rate as well as the contribution of Nirdhan Uthan to GDP in Nepal. Finally, the seventh chapter summary, conclusion, and recommendation.

CHAPTER - II

REVIEW OF LITERATURE

A literature review is summarized and synthesizes the existing scholarly research on a particular topic. Literature reviews are a form of academic writing commonly used in the science, social science and humanities. However, unlike research papers which stablish new arguments and make original arguments. Literature reviews organize and present exiting research. As a student or academic, literature reviews as a paper or as a portion of a larger research project.

2.1 Theoretical Concept

Microfinance is a type of banking services, which provides access to financial and non-financial services to low income or unemployed (Dhakal, 2004). Microfinance works as a bridge to connect the monetary world with the non-monetary world much more than other institution (Kulkarni, 2011). It's distinctive characteristics like functions and potentials; make it different from other formal banking sectors (Noreen, 2011). Many of the microfinances are inclined towards women to improve their livelihoods by empowering them financially. The goal of microfinance is not limited to financial empowerment, it goes beyond, as it includes social, cultural and political sphere in which borrowers are embedded (Kulkarni, 2011).

Microfinance is also successful in reaching millions of people worldwide bringing them together in organized groups (Mayoux, 2007). Therefore, micro finance has been recognized as the key factor that can help to empower of women (Hashemi, Schuler, & Riley, 1996; Hulme, 2000; Mayoux, 2003) Micro finance program originated in the early 1980s with the German Bank in Bangladesh, (Ditcher, 1996: Schmidt and zeitenger, 1996 A and 1996 B). The concept behind micro finance program is that, given the correct circumstances, poor households are reliable borrowers and will utilize a range of financial services to improve their welfare. Though the ideas were initially meet with depticism, Grameen and similar programmed are now implemented worldwide (Hulme, 1990). Considerable uncertainty remains, however, regarding the viability and sustainability of Grameen Bank and other MFIs. A financially viable MFI must generate sufficient revenue to cover all operating costs. Two key factors affecting viability are a MFIs loan repayment rate and operating efficiency. Evidence to date suggests much room for improvement in both categories. For example, Bennet et al. (1996) found that loan repayment rates for five MFIs in south Asia ranged from 52% to 95%. Schmid and Zeitinger (1996A) cite evidence from 15 Latin American MFIs whose costs were so high that all but one incurred annual loss. Not surprisingly, the authors believe that most MFIs are generally incapable of covering their operating costs (Schmidt and Zeitinger, 1996B).

Financial sustainability implies both operating profits and freedom subsidies (Von Pischhke,1996;) though few MFI's have achieved financial sustainability (Schmidt and Zeitinger,1996B; Basix and Ramola, 1996) Morduch (1999) cites one estimate that only one percent of all MFI's are financial sustainable. Hassen (2002) also explains how Grameen Bank achieves operating profits only because if fails to account for all training and development costs.Yet there are indications that MFIs can achieve financial sustainability if they implement sound management practices.

Bennet et al. (1996) and Yaron (1945) argue that strong client-owner structures and adequate member savings can lead to financial sustainability. Huppi and Feder (1990) provide examples from Cameroon, the Dominican Republic, Honduras, Korea and Taiwan region. Ashe and Parrot (2002) discuss sustainable women's savings groups in Nepal's Terai region. There is evidence that community bases SCOs naturally encourage sustainability via strong client –owner structures, reliance on member savings and accurate information about borrowers (Cuevas, 1922; Huppi and feder, 1990. Other authors are skeptical toward SCOs due to cost inefficiencies, insufficient portfolio diversity and failure to mobilize savings from deficit households (Schmidt and Zeitinger, 1996A) Huppi and feder (1990) also discuss how SCOs suffer from moral hazards since loan default by some borrowers can quickly spread. Local communities may also hesitate to penalize delinquent borrowers. In general, however the global evidence on SCOs and cooperatives is mixed (Rochin and Nyborg, 1988). The word "Investment" sounds very good, attractive and prestigious too. The form "Investment has primary significance in financial sector, which refers to the process of determining the proper area in order to lodge a firm's fund to procure expected gain or profit known as the favorable return by its maximum utility at minimized risks. In laymen's sense, there is always a return if there is investment. This return may favorable as well as unfavorable to the investor's standpoint.

The word investment conceptualized the investment of income, saving or other collected funds. Investment covers a wide range of activities. It is commonly known fact that an investment is only possible were, there adequate savings. If all the incomes and saving are consumed to solve the problem of hand to mouth and to the other basic needs, then there is no existence of investment therefore both saving and investment are interrelated.

"A distinction is often made between investments and saving. Saving is defined as foregone consumption; investment is restricted to "real" investment of the sort that increases national output in the future" *(Sharpe and Alexander; 1981: 1)*

" Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds" *(Frank and Reilly, 1998:265)*

"Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period". *(Amling; 1989:219)*

"Investment is the employment of funds with the aim of achieving additional income or growth in value". *(Singh; 1995:25)*

A banker does not prefer to invest his funds in company shares and debentures. The shares and debentures may be very easily sold on the stock exchange. But the bank will incur a loss if the market value of the securities falls. Unlike the government securities there is no maturity date for shares. The income from shares depends upon the prosperity of the company issuing the shares. If the company becomes insolvent the banker loses heavily. If a bank has certain amount of funds which can be left undisturbed for a number of years, investment in long term government securities becomes profitable proposition.

A microfinance Nirdhan Utthan microfinance established in November 1998 under the Company Act of Nepal 1997, Nirdhan Utthan Bank Limited is licensed by Nepal Rastra

Bank as a ‘D’ category financial institution. The bank commenced its formal operation from July 1999 after getting license in April 1999 to undertake banking activities under the Development Bank Act 1996. It provides microfinance services such as loans, deposits, micro-insurance and remittance services to poor families of Nepal.

The operation of the bank is continuation of microfinance services provided by an NGO named ‘Nirdhan’ which was providing microfinance services since March 1993, even though it was legally established as a company in 1998. The NGO was established with the initiation of Dr Harihar Dev Pant (the senior officer with central bank of Nepal), who, during his visit to Grameen Bank in Bangladesh in 1986 was inspired by the system of microfinance and launched the program here in Nepal. As the Nirdhan had limited resources and capacity to satisfy unmet demand of poor people in different part of the country as an NGO, Nirdhan Utthan Bank Limited was established with the NGO as its lead promoter. The NGO, then, in 1999, transferred all microfinance operations to the bank as the development banks are supervised and regulated by the Central Bank which would enforce banking standards, development bank could have access to different source of funding enabling it to satisfy financial need of poor people and the bank can lend to a wider range of clients, including micro entrepreneurs graduated out of the bank’s regular clientele and it could accept collateral for potentially large and diverse loan products.

The bank was established with the vision of becoming a bank with a social conscience that enables poor to contribute equally to a prosperous, self-reliant rural society through self-employment and social awareness and help reduce poverty in Nepal. Established with the mission of extending financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner, the bank considers it as its primary goal to reach a maximum number of poor households with potential and financial viability by adopting proven delivery mechanism, develop a well-managed institution with high staff morality and enhance women’s ‘self-respect’ through social awareness, proper use and on-time repayments of loans, regular savings and provision of related micro-finance services.

The bank has been providing its services to the people through its 181 branch offices in 77 districts of the country. The bank provides loans such as general loan, agricultural loan, renewable energy loans, housing loans, foreign employment loans, educational loans, microenterprise loans and emergency loans. It also provides saving schemes such as savings to group members (compulsory saving, voluntary saving, centre fund savings and recurring savings), savings to general public (easy saving, special savings, employee saving accounts, recurring deposit and fixed deposit scheme), micro insurance product such as livestock insurance, micro-life insurance (Grameen Karza Beema) and remittance facilities(www.nub.np).

Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problem usually spring from significant amounts of loan that have become un-collectable due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds" *(Baidhya; 1997:46-47)*

"In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's funds maximization. Investments will all to the shareholders wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital" *(Pandey; 1999: 407)*

2.2 International Context

This topic consist entirely internationally literature are reviews to the related microfinance and its impact. Some literature reviews are as given below:

Prasad, and Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc. the microfinance scene in India has reached in take- off stage. An attempt could be initiated to promote of new generation microcredit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin. In this way the next literature is by,

Afrane (2002) conducted a study on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. Delivery of microcredit to operators of small and micro enterprises (SMEs) in developing countries is increasingly being viewed as a strategic means of assisting the so-called "working poor" (ILO,1973). Over the past decade, a considerable amount of multi- and bilateral aid has been channeled into microfinance programs in the Third World with varying degrees of success. Like all development interventions, donors, governments and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failures of these programs. This paper reviews two such studies conducted in Ghana and South Africa that focused mainly on impact results. The outcomes of the two case studies have established that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities and empowerment of people, Particularly women. This literature is tried to examine the effect of microfinance as countries ways to the microcredit for small business as well as women empowerment Ghana and South Africa.

McGuire and Conroy (1998) conducted by used the data of nine countries in Asia to observe the effects of the financial crisis in 1997 on the performance of MFIs in these countries. They studied the percentage changes in loans, savings, total assets and stocks of MFIs over a continuous six-month period from 1996 to 1998. Interestingly, they found that institutions that serviced poor clients operated healthily during the financial crisis, which means that the crisis did not affect strongly on the financial situation of MFIs. The researchers gave a supposition that the crisis may affect MFIs and programs with a lag. Moreover, the research also concluded other important conclusions such as during the crisis the poor countries were less affected than others. In addition, the institutions with poor borrowers were better off and MFIs maintained lower interest rates while commercial banks increased their interest rates gradually. It implies that microfinance did not strongly affect in during economic crisis. It means microfinance has been played crucial role in financial crisis situation to growth the macroeconomic indicator.

Marconi and Moseley (2005) conducted by collected data yearly from MFIs and commercial banks in Bolivia from 1998 to 2004, observing a total portfolio and each category in the portfolio in the context of a downturn in the economy. They put forward the claim that MFIs faced less difficulty than commercial banks in the recession. MFIs mainly serve poor women, lend in group and provide additional non-financial services such as training life skills, which had high repayment rates while commercial banks faced losses on bad-debt.

The research of Patten et al. (2001) studied the Bank Rakyat in Indonesia during the East Asian Crisis as a case study of microfinance success in the context of macroeconomic failure in the 1990s. This study provided confirmatory evidence that the repayment rate remained in the financial recession. Notably, the nominal interest rate went up by 13% while the annual Inflation was 50%, which is the reason why the real interest rate was lower in that period. This led to the fall in the revenue per dollar loaned, as a result of the crisis.

Goenka and Henley (2010) concluded on historical evidence in the 20th century in Indonesia to claim that macroeconomics growth contributed remarkably to the success of microfinance in Indonesia.

Muriu (2011) examined the MFIs profitability in 210 MFIs across 32 African countries between 1997 and 2008. Return on asset (ROA) and return on equity (ROE) were used to measure profitability, which depends on macroeconomic variables such as gross domestic product (GDP) per capita and inflation. The data yielded by this provided convincing evidence that these macroeconomic variables have no impact on MFIs profitability.

Hermanto and Astuti (2013) analyzed the macroeconomic impacts on the financial activity of MFIs in Java, Indonesia, using quarterly financial data from 2011 to2012 of 858 MFIs. The financial result is measured by profitability and asset quality, while macroeconomic indicators are measured by GDP growth and inflation rate. Research findings lend support to the claim that the location has an impact on the financial result of MFIs in Java, the MFIs in East Java have the biggest profitability and the lowest NPL ratio in Java. More importantly, there is no significant impact of macroeconomic indicators on the MFIs' profitability, but there is a negative impact of inflation on the MFIs' NPL ratio. Micro-enterprises sector that spurs MFIs intensive growth. but at the same time potentially limiting MFIs extensive growth. Besides, the researchers also showed that higher inflation also leads to slower loan-size growth.

Ahlin and Lin (2006), Ahlin and Lin (2010) examined the data are gathered of 373 MFIs from around the world and merged it with country-level economic and institutional data. They used more independent variables, constituting macroeconomic (such as GDP per capita, growth in GDP, domestic credit to the private sector, percentage of service in GDP, percentage of industry in GDP or inflation, …) and institutional variables (such as the cost of starting a business, time of operation, …) to assess the effect on the growth of the MFI. The growth of MFIs is measured by a subset of dependent variables, comprising MFIs borrower growth, loan-size growth, and portfolio growth. With these variables, they used OLS regression and found that the share of GDP in service is positively associated with the MFIs borrower growth. Conversely, the share of GDP in industry predicts a slower MFI borrower growth and lower loan-size. Moreover, the relation between foreign direct investment (FDI) and loan-size growth is positive, which is explained in that FDI inflows may raise wage employment, creating demand.

Krauss and Walter (2006) use regression analysis to see how microfinance institutions compare in financial indicators to commercial banks in response to world and domestic economic systemic risk. They do several analyses, looking at both world and domestic economic movements. To measure domestic systemic risk, they use domestic GDP as the independent variable. As dependent variables, they use several financial indicators: percentage change in net operating income, level of return on equity, level of profit margin, percentage change in total assets, percentage change in gross loan portfolio, and the level of portfolio at risk. With these variables they use OLS regression, controlling for institution-specific fixed effects for both microfinance institutions and commercial banks. They use data from both types of institutions using an interaction between a dummy for the commercial bank and domestic GDP. They find that for only two of the six variables is the financial performance of microfinance institutions correlated, and only weakly, with domestic GDP, while for commercial banks all six indicators are strongly correlated. They furthermore test the effect of domestic GDP on net operating income in "times of macroeconomic distress" where GDP growth is less than 1% While lacking many data points, they find that microfinance institutions far much better than commercial banks.

Woolley (2008) argued that none of the microfinance variables and domestic GDP growth is significantly correlated and mentions that this may be the result of a biased sample; it still suggests that some institutions are able to perform financially and in terms of outreach without being affected by domestic GDP growth. This result suggests that institutions can operate successfully in situations of low GDP growth, that they don't necessarily maintain high financial success at the expense of outreach and that perhaps there are some intrinsic characteristics of microfinance institutions that make them so resilient.

Charitonenko and Silva (2002) analyzed the progress toward commercialization of Microfinance industry in Sri Lanka in their report on Commercialization of microfinance. They have emphasized to explore the remaining challenges and the implications, prospects, and positive approaches to the commercialization of microfinance. The researchers pointed out the growing realization that commercialization allowed MFIs greater opportunities to fulfill their social objectives of providing the poor with increased access to a whole new array of demand-driven microfinance products and services. The report considered commercialization of microfinance at micro as well as macro levels. The microfinance industry in Sri Lanka was at an early stage of commercialization. Microcredit market distribution appeared high at about 80 percent. Based on household data and the current savings average outstanding microloan amount of $193 and their microenterprises estimated to be around $254.9 million with 2.3 million microloans. At the end of 2000, MFIs had approximately $202.3 million outstanding in 1.65 million microloans. In Sri Lanka, cooperatives are the dominant microfinance providers and the movement continues to influence how NGOs deliver microfinance. While many cooperatives were sustainable and their performance varies, more than one-third of the supply was provided through government programs, which can be considered supply-led and not commercially viable.

Fernando (2006) explained that the MFIs charging high prices to cover costs for any business was an essential practice. His study reports that the highest interest rates charged by most of the MFIs in the region ranged from 30 percent to 70 percent a year on a reducing balance basis. The question arises why microcredit rates are so high? Because of these four key factors: the cost of funds; the MFI's operating expenses; loan losses; and profits needed to expand their capital base and fund expected future Growth determined the rates. Imposing ceiling on microcredit interest rates was not the permanent solution of the problem, although lower microcredit interest rates will help to increase the availability of affordable finance for poor household. The study has shown evidence in the Asia Pacific region, which strongly supports the view that liberal interest rate policies fuel the growth of the microfinance industry. More than 50 million poor people have access to microcredit from formal and semi-formal institutions in the region. The study has explained in detail about the general impact of ceilings on microcredit interest rates such as, short term, medium term and long-term effects on supply as well as in demand side. In those countries where interest rate ceilings have been a major characteristic of the market, growth of outreach had been disappointingly low. In most of the developing economy, the best available investment opportunities for a majority of poor households involve those with moderate returns. Household in this category cannot be expected to have the same ability to service loan taken at high interest as those who realize high returns on their investments. Similarly, poor households need credit to meet expenditure on health, education and many lifecycle events. Policymakers can oppose requests to impose rate ceiling that will slow down the growth of the MFI industry and result in reducing the supply of microcredit and other financial services, harming rather than helping poor and low-income households.

Simojoki (2003), analyzed the impact of micro-finance and opportunities to female micro-entrepreneurs in the informal sector in Nairobi, Kenya with the objective of clarifying how micro-entrepreneurs have benefited from credit and financial services. The study showed the inter-relationship among social and economic empowerment. Income generating activities were necessary for women. Control over credit and business has shown as an important indicator of empowerment. Related activities play an important role for the success of any microfinance program and their ability to contribute to women empowerment. Microfinance with neo-liberal priorities could help them for self-confidence and substantial tools to improve their lives. The most important part in effective microfinance is women's participation and the strengthening of their sense of Responsibility. The author suggests that an explicit policy of empowerment and related activities need microfinance programs for women empowerment. The government should promote various opportunities and fight against the exploitative features of the informal sector.

Chirwa (1997) concluded that the impact of microcredit has significant influence on small and microenterprises. The micro credit is helpful in engaging people in self-employment project that enables them to generate an income. The study found that microfinance institutions seem to perform better in terms of profitability. Due to the trend of commercialization of the sector, financial sustainability of microfinance institutions is becoming more and more important at the expense of using credit to help overcome poverty.

Qin and Ndiege (2013) found a strong positive association between the financial services and the economic growth. The study also observed two-ways Granger causality between financial services and the economic growth. And then,

Kareem (2015) observed that employment level and interest rate are the major factors that contributed to gross domestic product (GDP) in Nigeria.

Channaveera, Ananda and Arun made an attempt to analyze the performance of banks in India by using the CAMEL framework. The study took a sample of public sector, Private sector, and foreign banks. For the purpose of profitability analysis, 26 Public

Sector, 18 Private Sector, and 15 Foreign banks were taken into consideration. For the purpose of ranking, CAMEL analysis technique was used. The study used Descriptive Research. The main objective of the study was to understand the financial performance of Public Sector, Private Sector, & Foreign banks in India, to describe the CAMELS model of banking, and rating range for the same. Other objectives were to analyze the bank's performance through CAMEL model and to give suggestions for improvement if necessary.

Islam and et-al [8] conducted a comparative performance evaluation of banking sector in Bangladesh. The broader objectives of the study were to known the banking sector and its current trends, to study the category wise performance of all banks operating in Bangladesh on the basis of selected CAMEL ratio, to examine the profitability of banks and to analyze how the correlation of different ratios affects the net interest income of banks. The study used secondary data from annual reports of the sampled banks along with journals, publication and so on.

Greuning (2007) did a research study on risk-adjusted performance measures in commercial banks. The measures, however, focus on risk-return trade-off, i.e. measuring the risk inherent in each activity and charge it accordingly for the capital required to support it. Kabiru (2009), studied sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit risk. Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing credit risk. The above studies have focused mainly on objectives and roles of Microfinance. There is no known study that has been done on profitability of microfinance institutions in Kenya. This study aims at establishing factors affecting profitability in microfinance institutions.

Janson (2002), the services offered by investment banks play an important role in the development of Kenya's economy and general infrastructure. This development has been achieved through lending to prospective customers in private investments, as well as those in the corporate sector. However, funds acquired from customer deposits – the main source of lending funds – have long since become a commodity, bought and sold for the highest possible profit by financial institutions. These institutions review their loan agreements in a manner which has worried investors, which sometimes have no option but to raise capital by borrowing from banks in the form of mortgages. Small-scale borrowers usually repay the loans with income from employment and the net effect to the lenders is an increase in profit margins.

2.3 Nepalese Context

This topic consists entire nationally literature are reviews to the related microfinance. Some literature reviews are as given below:

Bashyal (2005) studied and evaluated the impact of microfinance program on poverty reduction in her Ph.D. dissertation entitled "Impact of Microcredit Programs on Poverty Alleviation in Nepal: A Case study of Rupandehi District". She gave more emphasis on her study that women will not be empowered until and unless they get benefited both qualitatively and quantitatively with the Promotion of gender equality. Overall objectives of the study were to evaluate the socio-economic impact and implications of microfinance on poverty alleviation through empowering women and also evaluate the impact on natural resource management. The Nirdhan Utthan Bank Limited (NUBL) situated in Rupendehi district, Bhairahawa, was selected for the purpose of case study. This study assumed that microfinance can reduce both income and human poverty over period of time. If women are empowered economically and socially, they can increase their skill and confidence level to think of themselves as equal to men. Shrestha (2010) analyzed the Microfinance and Social Mobilization in the context of ADBL (Agricultural Development Bank, Nepal) in promoting SFCLs (Small Farmers Cooperative Limited) in his book entitled "Financial Performance of Small Farmers Cooperative Limited in Nepal.

Dhakal (2007) Nepal has developed considerable history in providing microfinance services which is evidenced by emergence and growth of a large number of microfinance institutions (MFIs) and microfinance programs over time. Formal microfinance in Nepal emerged in 1956 with the emergence of cooperatives that started providing savings and microcredit services to their shareholders. INAFI SAP-Nepal (2004) conducted a thematic (qualitative) research study on the "Impact of Microfinance Services on Poverty Reduction in Nepal". The main objective of the study was to find out the overall impact of microfinance services on poverty reduction in the country. The study focused on (i) outreach of microfinance, (ii) access, use and contribution of microfinance, (iii) micro-enterprise development, (iv) managing risks and vulnerabilities by clients, (v) empowerment of women, and (vi) poverty reduction. Banks are such an institution, which deals with credit and substitutes for money. They deal with credit and instruments. So, good circulation of credit is important for any banks. Any financial intermediates (commercial banks, joint venture banks) or financial company utilize its fund in suitable area or sector. They cannot get its aim of profit earning without mobilizing its funds in right sectors and in difference activities. Many types of activities and other things can originate for the purpose of receiving investment from the finance company. But finance should separate the useful and profitable sector for mobilization of its funds.

Baidhya (1997), "Sound Investment Policy", has explained that "A sound investment policy of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problem usually spring from significant amounts of loan that have become un-collectable due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds" *(*Baidhya, 1997*)*

Dr. Shrestha (2003), in her book entitled "Portfolio Behavior of Commercial Banks in Nepal" said hat "The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximization of the institution as well as the economic enhancement of the country" *(Shrestha, 2003)*

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same. The rate of return on assets is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system. A low rate might be the result of conservative lending and investment policies or excessive operating expenses. Banks could, of course, attempt to offset this by adopting more aggressive lending and investment policies to generate more income. Emphasizing the importance of investment policy.

Singh (1983), explained that "The investment (credit) policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his bank's credit policy also in mind.

From the views and definitions of various authors above, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payments of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected change in prices during the period and uncertainty involve in expected future cash flows. Thus, investment is the most important function of commercial banks. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of it invest able funds.

Investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

Several researches have been performed on investment policy of commercial banks. Previous research studies on the various aspects of commercial banks such as investment policy, lending policy, capital structure is reviewed. Some of them are supposed to be relevant for this study so findings of such researches are presented below;

Poudel (2009) conducted on "*Profitability Analysis of Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd."* has made following objectives and major findings.

Objectives

i. To evaluate the soundness of profitability and operating efficiency of SCBNL and NABIL Bank Ltd.

ii. To compare and analyze the fund base interest income with fee-based income of SCBNL with NABIL Bank Ltd.

Major findings

i. The NABIL Bank has not adopted any cost management strategy to have control over its cost of funding. NABIL has paid very higher interest to deposits and other working funds than SCBNL.

Maharjan (2010) conducted the study on "*Profitability Analysis of Commercial Banks (A case study of Rastriya Banijya Bank And Nepal Bank Ltd.)"* has made following objectives and major findings:

Objectives:

i. To evaluate the profitability and operating financial efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank.

ii. To compare and analyze the fund-based interest income with fee-based income of Nepal Bank Ltd. and Rastriya Banijya Bank.

iii. To analyze the profit and loss trend and growth of the bank over the period.

Major Findings:

i. The operating efficiency ratio of both the banks is very unfavorable during the study period due to the huge amount of operating expenses in compare to the operating income

ii. RBB and NABIL had very low net interest margin. The net interest margin of RBB was higher the net interest margin of NABIL

iii. The FSRP was in operation in both the banks, the operating expenses of both the banks were in increasing each year. Both the banks have high staff expense related to total operating expense due to over staffing. Under the FSRP, the bank has implemented VRS to cut down the number of staff and still both the banks have to rethink to maintain the appropriate level of staff to minimize the staff expense

Khanal (2011) conducted the study on, *"Comparative study on Liquidity management of Everest Bank Ltd and Himalayan Bank Ltd"* has made following objectives and major findings:

Objectives:

i. To examine the efficiency and effectiveness in disbursing and recovery of loans.

ii. To compare and analyze the financial performance of EBL and HBL.

iii. To analyze the profit and loss trend and growth of the bank over the period.

Major Findings:

i. Liquidity position of EBL is comparatively better than HBL as it is sound in meeting short term obligations.

ii. EBL is more efficient in utilizing the outsider's funds in extending credit for profit generating sectors while HBL is more successful in utilizing its total deposits by investing in marketable securities.

iii. Both banks have positive correlation among deposit, loans and advances, investment, total assets and net profit.

iv. Both banks are unable to mobilize idle assets of the banks in the form of excess cash and equivalents diverted in various investment opportunities available in the market.

Shrestha (2012) conducted the study on "*Productivity Measurement of Credit Position in Nepalese Commercial Banks (with reference to BOK and NIBL)"* has made following objectives and major findings.

Objectives:

i. To explore the productivity measurement on credit position of BOK and NIBL.

ii. To inspect the level of the non-performing loan investments that exists within the banking industry.

iii. To analyze the lending policy of Nepalese commercial banks with the help of BOK and NIBL.

Major Findings:

i. NIBL have high liquidity than BOK. Likewise, fluctuation in CRR ratio is lower of BOK in relation to NIBL.

ii. BOK has higher investment in government securities than NIBL.

iii. BOK has the highest average ratio of loan and advances to total deposit.

iv. Among the sampled banks, NIBL bank has maintained the low mean non- performing assets to total loan and advances ratio with 1.33% while BOK is 1.94%.

v. NIBL has increased collecting interest bearing deposits but BOK has managed to reduce the ratio, which means their non-interest-bearing deposits are growing. NIBL has highest interest-bearing deposits.

Rouniyar (2013) conducted on *"Liquidity & profitability Analysis of Listed of Four Commercial Banks (with reference to NABIL, SCBNL, EBL and SBI)"* has made following objectives and major findings:

Objectives:

i. To assess the profitability and liquidity position of the commercial banks,

ii. To evaluate the relationship between selected dependent and independent variables regarding liquidity and profitability of the banks.

Major findings:

i. From the ten years analysis i.e., fiscal year 2001/02 to 2010/11 return on equity is highest of SCBNL and lowest of SBI among the four sample banks. SBI has more risky than other sample banks.

ii. In the same way, return on capital fund or employed to risked assets for SBI is more volatile than other sample banks. SBI has not managed its profitability to maintain capital adequacy than other sample banks. NABIL is more uniformity which has less CV than others.

iii. Net profit to total deposit ratio for the bank is satisfactory i.e., well management in earning profit. Net profit to total loan and advances ratio is highest of SCBNL

Shrestha (2014) conducted on "*Profitability Analysis of Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd."* has made following objectives and major findings. Objectives

i. To evaluate the soundness of profitability and operating efficiency of SCBNL and NABIL Bank Ltd.

ii. To compare and analyze the fund base interest income with fee-based income of SCBNL with NABIL Bank Ltd.

Major findings

i. The NABIL Bank has not adopted any cost management strategy to have control over its cost of funding. NABIL has paid very higher interest to deposits and other working funds than SCBNL.

ii. The cost management strategy would be ideal to reduce the various costs and increase the profitability.

iii. An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

Yadav, (2011), unpublished thesis "A Comparative Study on Working Capital Management of NABIL and KBL," he found that the current ratio of NABIL is greater than KBL, so NABIL is better than KBL. Similarly, cash and bank balance to total deposit ratio of KBL is better.

Poudel's, (2002) unpublished thesis "Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal" had made an attempt to evaluate liquidity and investment of JVBs' special reference to EBL and NABIL. He has concluded that liquidity position of EBL is comparatively better than NABIL. Growth rate of investment is higher in EBL than NABIL. A commercial bank at its own judgement may decide to maintain an appropriate level of liquid assets. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. He further found the banks do not have constant and consistent liquidity and investment policy. So, he has recommended exploring such investment and to increase its investment so share and debenture and the bank should have laid policy for timely review of portfolio and to maintain risk and return.

Joshi, (2011) “A Comparative Study of Financial Performance of Nepal Investment Bank Ltd. and EBL,” found that the liquidity position of Nepal Investment Bank Ltd. (NIBL) is comparatively better than EBL. NIBL has highest current ratio, cash and bank balance to total deposit ratio and cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio than EBL. NIBL has been more successful in mobilization of its investment to total deposit saving deposit to total deposit ratio. On the other hand, EBL appears to be stronger in mobilization of total investment to total deposits. The trend value of deposits, loan and advances, investment and net profit of EBL and NIBL are in an increasing trend.

Thakur, (2010) “Financial Performance Analysis of Commercial Banks of Nepal (Himalayan Bank Ltd. and NABIL) found the liquidity position of the banks is in fluctuating trend. The Himalayan bank’s cash and bank balance to current assets, cash reserve ratio is more than NABIL, but current ratio of NABIL is more than Himalayan Bank. Return on equity, return on assets, return on total deposits and interest earned to total assets of NABIL is better than Himalayan Bank Ltd. So NABIL’s profitability position is better than HBL. Investment trend, total deposit trend, net profit, operating income, interest earned, etc. of NABIL is increasing trend than HBL throughout the study period. All of correlation is almost positive relation.

Adhikari (MBA 2001), “A Comparative Study of Financial Performance of Nepal SBI Bank Ltd. and Everest Bank Ltd.,” found out the liquidity position of both banks. Overall liquidity position of EBL has found slightly stronger than the NSBI. It showed that EBL can to meet its current liabilities more efficiently than NSBI and concluded that both banks have used higher proportion of debt in their capital structure and also found that overall capital structure of NSBI appears more levered than the EBL. He suggested that both of banks have maintained NRB balance sheet to deposit ratio remarkable higher than the standard by NRB.

Limbu (2006), “A Comparative Study of Financial Performance of NSBI, EBL & NABIL,” found that profitability position of NABIL is best, EBL has better position than NSBI. In terms of income structure, interest paid to interest income, ROA, ROE, etc reflects that NABIL is most capable to utilize the fund to productive sector and EBL pays highest amount of interest.

2.1 Research Gap

By studying the above literature, it is concluded that there has not been any particular empirical study on the profit function analysis in Nepal (A case study of Nirdhan Uthan bank). Though, there has been some literature in the international context on this matter and national context, most of the study on this area of study are like microfinance and its contribution in financial macroeconomic sector, the role of GDP growth by MFIs, poverty alleviation, micro deposit, microcredit, the compare between in different economic situation commercial banks and microfinance and its nature and trend of GDP & Financial institution growth and so on. But there is no any particular empirical study on the profit function (A case study of Nirdhan Utthan bank).

Hence, this study is conducted about the profit function analysis (Nirdhan Uthan Bank) in particular time period and the examined the current status of Nirdhan Utthan bank and analyses its profit function by employing descriptive as well as econometric tools to the related problem.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is simply referring to the practical how of any given piece of research object to achieve. More specially, it’s about how a researcher systematically designs a study to ensure valid and that address the research aims and objective. In other words, research methodology is an incorporated all these processes of data collect to data analysis. Like what data collect, who to collect of data, how to collect of data and how to analyze of data.

3.1 Research Design

The main objective of the thesis is to empirically analysis the profit function (A case study of Nirdhan Utthan microfinance) in Nepal by employing different econometric tools to the related problem.

First of all, to show the current status of Nirdhan Utthan bank, in this way the trend and pattern of profit performance and profit function. I have been used different econometric tools to get the objective of this thesis. The first objective of this thesis is to achieve used the descriptive method by employing data. And then the second objective to achieve I have been used linear graphs and third for least square multiple regression model. Hence, the explanatory variables specify by considering total net income of Nirdhan Uthan, total investment and total expenses. Thus, three explanatory variables are used.

To show, the current status of NUBL by using descriptive analysis. And finally, there attempt to find the impact of Nirdhan Uthan Bank in income through different explanatory variables by employing regression model.

3.2 Nature and Sources of Data

In this study has been employed time series secondary data spanning from 2010/11 to 20/21. The nature of data is secondary, covering the period from fiscal year 2010/11 to 2019/20.

Secondary data are gathered from different publication of Economic Survey published by Ministry of Finance, Quarterly Economic Bulletin of Nepal Rastra Bank, annual report of NUBL and different publication from Central Bureau of Statistics.

3.3 Specification of Tools and Methods of Data Analysis

This study specifically impels multiple regression analysis with OLS econometric technique for data analysis to empirically verify whether a significant positive relationship exists between the dependent variable (income/profit) and the independent variables (Nirdhan Uthan total investment, total expenses) in the Nepalese economy. The Model which specifies that income rate growth is significantly influenced by Nirdhan Uthan banks total investment, total expenses are formulated as follows;

To examine the profit function by using multiple regression model test done. And finally, the microfinance contribution to income has been calculated by using linear regression model or Computable General Equilibrium model. Hence, R^2 test and t-test, multicollinearity, autocorrelation has been done to test the overall significance of model and the significance of coefficient respectively.

3.4 Model Specification

To analyze, the profit function of NUBL by using different explanatory variables following regression model used.

ie NI=F(TE,TI)

NI= ßo+ß1TE+ß2TI+Ui

Where,

ßo= intercept

ß1, ß2 = coefficient of explanatory variables

Ui = stochastic error and

NI= Net income

TE= Total expenses and

TI= Total investment.

3.5 Variables Specification

This study has incorporated three variables. Where, income is dependent variable while investment, expenses are taken as explanatory variables. The time series data of net-income, total investment and total expenses of Nirdhan Utthan Bank is taken from the annual report of Nirdhan Utthan bank.

3.5.1 Net income

Net income - NI is equal to net earnings (profit) calculated as sales less cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes and other expenses. Net-income also refers to an individual's income after taking taxes and deductions into account.

Stickney, et al. (2009), In business and accounting, net income (also total comprehensive income, net earnings, net profit, bottom line, sales profit, or credit sales) is an entity's income minus cost of goods sold, expenses, depreciation and amortization, interest, and taxes for an accounting period. Net income can be distributed among holders of common stock as a dividend or held by the firm as an addition to retained earnings. As profit and earnings are used synonymously for income (also depending on UK and US usage), net earnings and net profit are commonly found as synonyms for net income. Often, the term income is substituted for net income, yet this is not preferred due to the possible ambiguity. Net income is informally called the bottom line because it is typically found on the last line of a company's income statement (a related term is top line, meaning revenue, which forms the first line of the account statement).

3.5.2 Investment

An investment is an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

The services offered by investment banks play an important role in the development of Kenya's economy and general infrastructure. This development has been achieved through lending to prospective customers in private investments, as well as those in the corporate sector. However, funds acquired from customer deposits – the main source of lending funds – have long since become a commodity, bought and sold for the highest possible profit by financial institutions. These institutions review their loan agreements in a manner which has worried investors, which sometimes have no option but to raise capital by borrowing from banks in the form of mortgages. Small-scale borrowers usually repay the loans with income from employment and the net effect to the lenders is an increase in profit margins. However, recently many borrowers have defaulted by failing to meet the contractual obligations set out in the loan agreements – many of which include clauses allowing the banks to adjust interest rates with or without notice to the borrower (Harvey,2005).

3.5.3 Total Expenses

A company's expenses are how much a company is spending before its net income. This is a useful metric to compare a company spending habits over time. Starting from the income statement, a company may have a considerable amount of revenues. As an investor goes down the Income Statement, gradually line items such as Cost of Goods Sold, Research and Development, Selling, General and Admin, Depreciation, and other Expenses. Total expenditure is an economic term used to describe the total amount of money that is spent on a product in a given time period. This amount is achieved by multiplying the quantity of the product purchased by the price at which it was purchased. The way that total expenditure changes over time is dependent upon price changes in that time period. How much the price change affects the expenditure amount is closely related to how elastic the demand for the product might be.

CHAPTER - IV

PRESANTATION AND ANALYSIS OF DATA

This chapter deals on the presentation, interpretation and analysis of the study through definite course of research methodology. This chapter study, we have evaluated and analyze those major financial performances, which are mainly related to investment management and profitability of Nirdhan Utthan Bank. Necessary figures and tables are also presented in this part to describe about the investment mechanism of the banks.

4.1 Current Status of Nirdhan Utthan Microfinance Limited

Current is that, which is entirely presented to the related subject matter. That is why, it consisted past and current actual scenario of the subject matter. Hence, it is also called the mirror of the subject matter. In this way, the current status of Nirdhan Utthan Bank limited is presenting as below.

Nirdhan Utthan Bank Limited, “the bank for upliftment of the poor” is a microfinance bank established in November 1998 under Company Act of Nepal 1997 (now Company Act 2006). Nepal Rastra Bank, the Central Bank of Nepal, granted a license in April 1999 to undertake banking activities under the Development Bank Act 1996. It started its formal operation from July 1999. Now, operated under Bank and Financial Institutions Act 2006, Nirdhan Utthan Bank Limited (NUBL) provides microfinance services such as Loans, Deposits, Micro-insurance and Remittance services to low-income families of Nepal. NUBL follows group lending based on Grameen Bank, Bangladesh model as well as group lending based on NUBL developed Self-Relaint Group model through a network of 181 branch offices spread over all 77 districts of Nepal (annual report of NUBL 2019). In this way, total loan disbursed (NPR) is 152.80 billion, loan outstanding is 23.39 Billion, the number of operating branches are 181, number of active clients 375385, the total number of regional office are operating now 10, saving and Deposit (NPR) is 14.86.61 Billion, total number of loans clients are 214054 and working local municipalities and municipalities networking in 493 places.

Thus, the Nirdhan Utthan Bank Limited having share capital, reserve and surplus, Debentures and bonds, loans and Borrowings, Deposit liabilities, proposed cash Dividend, income tax liabilities and other liabilities are 1000000000, 478088028, 6837940601, 6230408484, 84210526, and 709435591 respectively and these all variables are belonging to capital and liabilities parts. While, there is no any Debentures and bonds and income tax liabilities in the fiscal year (15 July 2017) but it had income tax liabilities amount is 3376089 in previous year. On the other hand, cash balance, balance with Nepal Restra Bank, balance with bank and financial institutions, money at call, investments, loans, advances, fixed assets, non-banking assets and other assets are 19520828, 122896208, 98680807, 1455830946, 582913840, 12180559986, 196728875 and 682951739 respectively and these all variables are consisting in assets component. While, non-banking assets is zero in previous and the current year.

Hence, a current year total asset is 15340083229 but it had total assets only 11837774816 in previous fiscal year.it shows that their total asset is increases by 29.58%.

4.2 Descriptive and Statistical Summary

Table 4.1 contains the descriptive and statical summary of all the independent and dependent variables. Arithmetic mean, standard deviation, minimum and maximum for the all variables has been presented below.

The descriptive and statistical summary from Table 4.1 shows that Net income is in average positive at Rs 294978508.20 with maximum and minimum at Rs 571543980 and 34767213 respectively. At the same time, total investment of Nirdhan Ntthan Microfinance is also in average positive at Rs 356527346.90 with minimum and maximum at Rs 113678326 and 600465640 respectively. And then, average total expenses Rs 418023924.70 with minimum and maximum are Rs 111712000, Rs 885396481 respectively.

Table no. 4.2 Descriptive and Statistical Summary

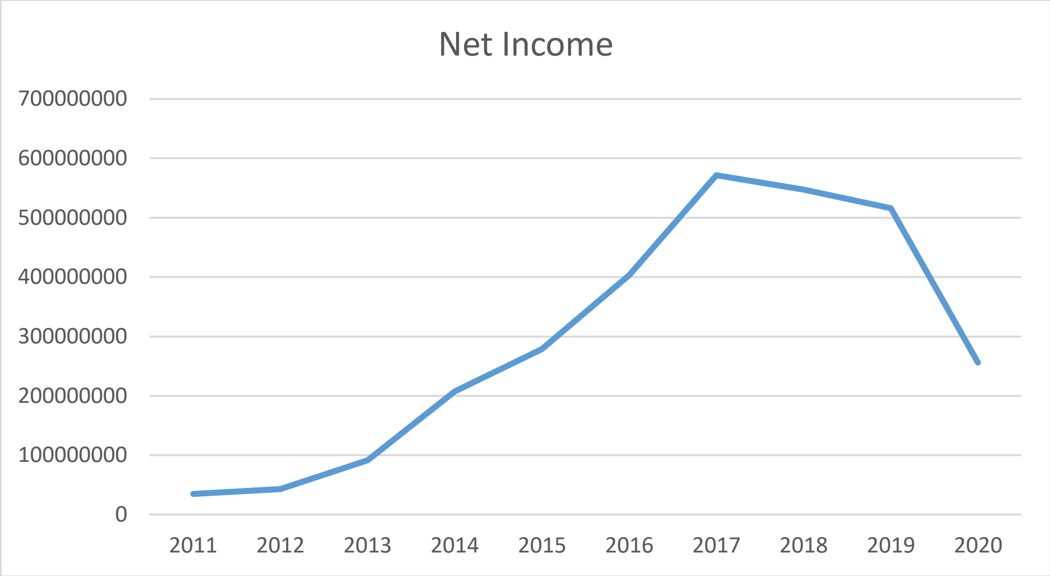
Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Net income	10	34767213.00	571543980.00	294978508.2000	206272278.77818
Investment	10	113678326.00	600465640.00	356527346.9000	195864010.07362
Total expenditure	10	111712000.00	885396481.00	418023924.7000	318085224.76597
Valid N	10				

Source: Author Calculation by SPSS 10

It can be observed from the table 4.2 shows that Net income of Nirdhan Uthhan Microfinance maximum contributed by total expenses at Rs 885396481 and minimum by investment at Rs 113678326. Similarly, the second highest net income of Nirdhan Utthan Microfinance is contributed by total investment so on.

Figure no 4.3 Trend and Pattern of Net- income

It explains the trend and pattern of net income of Nirdhan Utthan microfinance limited. It included the data of net income of Nirdhan Utthan microfinance limited 2010/11 to 2019/20. Net income - NI is equal to net earnings (profit) calculated as sales less cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes and other expenses. Net income also refers to an individual's income after taking taxes and deductions into account. The trend and pattern on net income is increasing at increasing rate up to 2017/18 due to total fixed deposit increases, capital intensive technology adopted and then net income slightly decreases, in this way mid - 2019 after sharply net income declined because of global pandemic covied-19 and so many economic factors.

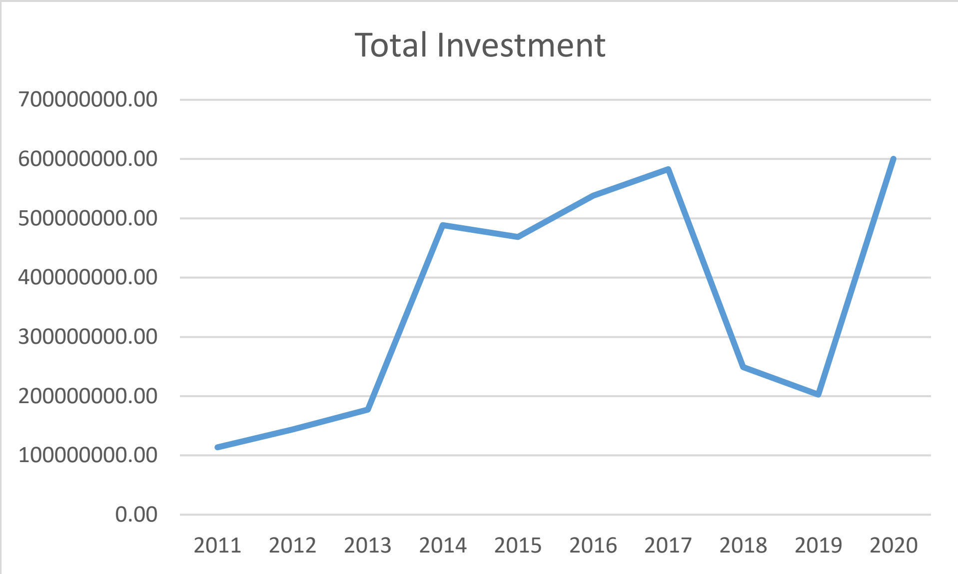


Source: *Author Calculation by MS-Excel 2019*

Figure 4.3 shows that, the net income growth rate is slightly increases up to fiscal year 2017 due to total investment increases, and then net income sharply decrease due to global pandemic covid 19 and other economic factors. So this curve is real representing current scenario Nirdhan Utthan Microfinance of net income/profit.

Figure 4.2.2 The Trend and Pattern of Total Investment

It explains the trend and pattern of total investment of Nirdhan Utthan microfinance limited. It consisted the data of total investment of Nirdhan Utthan microfinance limited 2010/11 to 2019/20. An investment is an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit. The trend and pattern of Nirdhan Utthan microfinance limited due to its branches are spreads almost all districts in Nepal and the other hand it adopted modern technology so its investment rate is highly increasing.



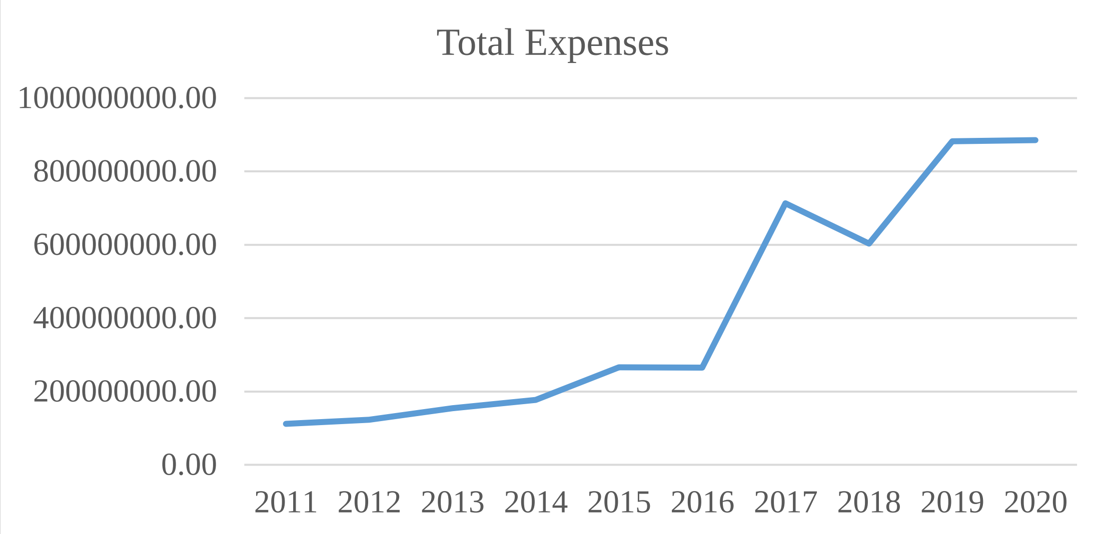
Source: *Author Calculation by MS-Excel 2019*

Figure no 4.2.2 shows that, total investment rate is decrease up to the fiscal year 2014 due to economic blockade and great natural disaster by earthquake, and then slightly increases. But it has taken investment growth rate is tremendously investment after the rehabilitation along with.

Figure no 4.2.3 The trend and pattern of total expenses

A company's expenses are how much a company is spending before its net income. This is a useful metric to compare a company spending habits over time. Starting from the income statement, a company may have a considerable amount of revenues. As an investor goes down the Income Statement, gradually line items such as Cost of Goods Sold, Research and Development, Selling,General & Admin, Depreciation, and other Expenses.

It explains the trend and pattern of total expenses of Nirdhan Utthan microfinance limited. It included the data of total expenses of Nirdhan Utthan microfinance limited 2010/2011 to 2019/2020.



Source: *Author Calculation by MS-Excel 2019*

Figure no 4.2.5 shows that, the pattern of total expenses is slightly increases up to the fiscal year 2016, and then it takes fluctuate growth rate. This curve is shows, on an average slightly increasing at increasing growth rate due to its branches are current lunched 181 places and staff also adding and then adopting, hiring new modern technology so on.

4.3 Time Series Regression Estimation

The Prior to testing for the direction of causality, the level series OLS regression applied at the first stage to identify the relationship between growth and explanatory variables. The selected explanatory variables regressed on a dependent variable to determine the impact.

In the analysis, total investment and total expenses has been used as independent variables and regressed with net income of Nirdhan Uttan Bank.

The result of this regression analysis is;

Nit = -8.62 +0.60Ti + 0.81Te + ut

S.E. (5.79) (0.32) (0.25)

Adjusted R-square of 0.79 has been obtained net income and total expenses variables were regressed with net income of Nirdhan Utthan Bank, meaning that 79 percentage variations in net income can be explained by variation in total investment and total expenses of the Nirdhan Utthan Bank. Net income with total investment is found significant at 5%, with a coefficient of 0.60, meaning that a 1 unit increase of total investment will increase net income by around 0.6 unit. Net income is found significant at 5%, with a coefficient of 0.81, meaning that a 1 unit increase of total expenses will increase net income by around 0.81 unit. Hence the hypothesis of study is satisfied so there is significant relationship between net income with total investment and total expenditure.

CHAPTER - V CONCLUSION AND RECOMMENDATION

This chapter comprises the discussion of findings, conclusion drawn from the study and implications, recommendations. The discussion segment involves the comparison of the findings of this study with the past national and international research studies. The conclusion segment involves the inferences drawn from the study whereas implication segment involves the utility and contribution of the study.

5.1 Major Finding of the Study

- The descriptive and statistical summary shows that Net income is in average positive at Rs 294978508.20 with maximum and minimum at Rs 571543980 and 34767213 respectively.
- At the same time, total investment of Nirdhan Ntthan Microfinance is also in average positive at Rs 356527346.90 with minimum and maximum at Rs 113678326 and 600465640 respectively.
- Net income with total investment is found significant at 5%, with a coefficient of 0.60, meaning that a 1 unit increase of total investment will increase net income by around 0.6 unit.
- Net income is found significant at 5%, with a coefficient of 0.81, meaning that a 1 unit increase of total expenses will increase net income by around 0.81 unit.
- The NUM net income on an average slightly increasing at increasing growth rate due to its branches are current lunched 181 places and staff also adding and then adopting, hiring new modern technology so on.
- Adjusted R-square of 0.79 has been obtained net income and total expenses variables were regressed with net income of Nirdhan Utthan Bank, meaning that .79 percentage variations in net income can be explained by variation in total investment and total expenses of the Nirdhan Utthan Bank.
- Net income with total investment is found significant at 5%, with a coefficient of 0.60, meaning that a 1 unit increase of total investment will increase net income by around 0.6 unit.
- Net income is found significant at 5%, with a coefficient of 0.81, meaning that a 1 unit increase of total expenses will increase net income by around 0.81 unit.

5.1 Conclusion of the Study

Microfinance is a part of financial institution of Nepal. According to bank & financial institution act 2073, it listed in D-class bank and also Nepal Rastra Bank directives 2074 define its operation function on the basis paid-up capital and functional area. That is why, for national level its paid-up capital is ten corers, regional for six corer, six to ten districts for two corer and three to six districts functional area for one corer must to maintain paid-up capital relatively within given time of period. In this way, all the bank and financial institutions are operating on the basis of bank and financial institution act 2073(BAFIA 2073). On the other hand, Microfinance has been playing crucial role in women empowerment, economic growth as well as poverty alleviation in the context of Nepal. It has also contributed in rural sector to the financial access & financial literacy growth and development. Microfinance is not a new concept for Nepal. In Nepal itself, microfinance initiatives have now become one of the most widespread development efforts in the country and have together been able to reach out to a very large, although indeterminate, number of the poor all across the country (Shrestha, 2006).

A microfinance Nirdhan Utthan microfinance established in November 1998 under the Company Act of Nepal 1997, Nirdhan Utthan Bank Limited is licensed by Nepal Rastra Bank as a ‘D’ category financial institution. The bank commenced its formal operation from July 1999 after getting license in April 1999 to undertake banking activities under the Development Bank Act 1996. It provides microfinance services such as loans, deposits, micro-insurance and remittance services to poor families of Nepal.

As the Nirdhan had limited resources and capacity to satisfy unmet demand of poor people in different part of the country as an NGO, Nirdhan Utthan Bank Limited was established with the NGO as its lead promoter. The NGO, then, in 1999, transferred all microfinance operations to the bank as the development banks are supervised and regulated by the Central Bank which would enforce banking standards, development bank could have access to different source of funding enabling it to satisfy financial need of poor people and the bank can lend to a wider range of clients, including micro entrepreneurs graduated out of the bank’s regular clientele and it could accept collateral for potentially large and diverse loan products.

The main objective of the thesis is to empirically analysis the profit function (A case study of Nirdhan Utthan microfinance) in Nepal by employing different econometric tools to the related problem. To show, the current status of NUBL by using descriptive analysis. And finally, there attempt to find the impact of Nirdhan Uthan Bank in income through different explanatory variables by employing regression model. In this study has been employed time series secondary data spanning from 2010/11 to 2019/20.

This study specifically impels multiple regression analysis with OLS econometric technique for data analysis to empirically verify whether a significant positive relationship exists between the dependent variable (income/profit) and the independent variables (Nirdhan Uthan total investment, total expenses) in the Nepalese economy.

Nirdhan Utthan Bank Limited, “the bank for upliftment of the poor” is a microfinance bank established in November 1998 under Company Act of Nepal 1997 (now Company Act 2006). Nepal Rastra Bank, the Central Bank of Nepal, granted a license in April 1999 to undertake banking activities under the Development Bank Act 1996. It started its formal operation from July 1999. Now, operated under Bank and Financial Institutions Act 2006, Nirdhan Utthan Bank Limited (NUBL) provides microfinance services such as Loans, Deposits, Micro-insurance and Remittance services to low-income families of Nepal. NUBL follows group lending based on Grameen Bank, Bangladesh model as well as group lending based on NUBL developed Self-Relaint Group model through a network of 181 branch offices spread over all 77 districts of Nepal (annual report of NUBL 2019). In this way, total loan disbursed (NPR) is 152.80 Billion, loan outstanding is 23.39 Billion, the number of operating branches are 181, number of active clients 375385, the total number of regional office are operating now 10, saving and Deposit (NPR) is 14.86.61 Billion, total number of loans clients are 214054 and working local municipalities and municipalities networking in 493 places.

The descriptive and statistical summary shows that Net income is in average positive at Rs 294978508.20 with maximum and minimum at Rs 571543980 and 34767213 respectively. At the same time, total investment of Nirdhan Ntthan Microfinance is also in average positive at Rs 356527346.90 with minimum and maximum at Rs 113678326 and 600465640 respectively. And then, average total expenses Rs 418023924.70 with minimum and maximum are Rs 111712000, Rs 885396481 respectively.

It can be observed that Net income of Nirdhan Uthhan Microfinance maximum contributed by total expenses at Rs 885396481 and minimum by investment at Rs 113678326. Similarly, the second highest net income of Nirdhan Utthan Microfinance is contributed by total investment so on.

The net income growth rate is slightly increasing up to fiscal year 2017 due to total investment increases, other economic factors are smoothly operating and then net income sharply decrease due to global pandemic covid 19 and other economic factors. And the other hand, Total investment rate is decrease up to the fiscal year 2014 due to economic blockade and great natural disaster by earthquake, and then slightly increases. But it has taken investment growth rate is tremendously investment after the rehabilitation along with.

The total expenses are slightly increasing up to the fiscal year 2016, and then it takes fluctuate growth rate. In this way, on an average total expense is slightly increasing at increasing growth rate due to its branches are currently lunched 181 places and staff also adding and then adopting, hiring new modern technology so on.

The current status of The Nirdhan Utthan Microfinance is second largest microfinance among 76 microfinances. Its total number of branches are 181along with 10 places of regional office. on the other hand, it has 3,76555 number are active clients. In this way, its total number of loan clients are 216373 while the total loan disbursed is NPR 155.62 billion and then the total loan outstanding is 23.73 billion (annual report 2019/20). The Nirdhan Utthan Microfinance profitability is depending on total investment and total expenses so on. The total expenses (operating and non-operating) and total investment mostly correlated with the net income and net income is the output of investment, operating and non-operating expenses.

5.2 POLICY RECOMMENDATIONS

Based on the above findings, it is recommended as follows

The Microfinance is a financial intermediary bridge to connect between surplus units and deficit units as well as government policy delivers to grass level but more than, financial institutions are always seeking how to achieved more profit in given fiscal year. On the other hand, Nepal Rastra Bank commanding all over financial institutions in Nepal. In Nepal NRB every fiscal year realized monetary policy to help achieve the objectives of fiscal policy. The monetary policy is always concerted with all financial institutions are how to operate on the basis of financial economic situations.

The Nirdhan Utthan Microfinance is second largest microfinance among 76 in Nepal. So that, it has responsibilities more than others microfinances. It means, not only to achieve more profit but also social responsibilities carry over within given time period. The NUM always may follow the corporate social responsibilities, it makes public trust and then microfinance reputation also increases. The Nirdhan Utthan microfinance branch are more located in urban sector so, rural sectors peoples are not financially literacy well feel on the Nirdhan Utthan Microfinance. It means the Nirdhan Utthan Microfinance must to open extension branches in rural sectors. The microfinance main objectives are all those people who have lack of banking access and land less people to make entrepreneur. The loan provide is not more important than providing loan investment. The investment is a technical term so laymen's peoples cannot make proper investment plans. So that the Nirdhan Uthhan Microfinance loan provision should be change. Hence before loan providing the Nirdhan Utthan Microfinance makes group goals and to test feasibilities either it is possible or not. More than, microfinances are only focused on how to grow loan clients, finally its gives result is deft fault loan. The deft fault loan is harmful over the financial reputation. Hence, the Nirdhan Utthan Microfinance always focused on loan clients targeted group those may who have group goal, society goal.

The Nirdhan Utthan Microfinance net-income or net profit is more correlated with the total expenses. Here, total expenses incorporated two components one is operating expense like salary, wage, depreciation and allowance so on, another is non-operating expense the most common types of non-operating expenses are interest charges and losses on the deposition of assets. So that these must be proper managed to maximize the profit/income. The investment should be increased special in rural sectors for the entrepreneur business. the investment spurred over the entrepreneur business it implies that the deft fault or loan losses probability are very low. The NUM should be proper managed of investment, total expense, total deposit, total loan, extinction branches and advertisement so on to achieve profit smoothly. The NUBL should to make liberal interest rate policy. It implies that lower income level people are also afforded the investment loan. Over all NUBL to make soundness management policy in all sectors.

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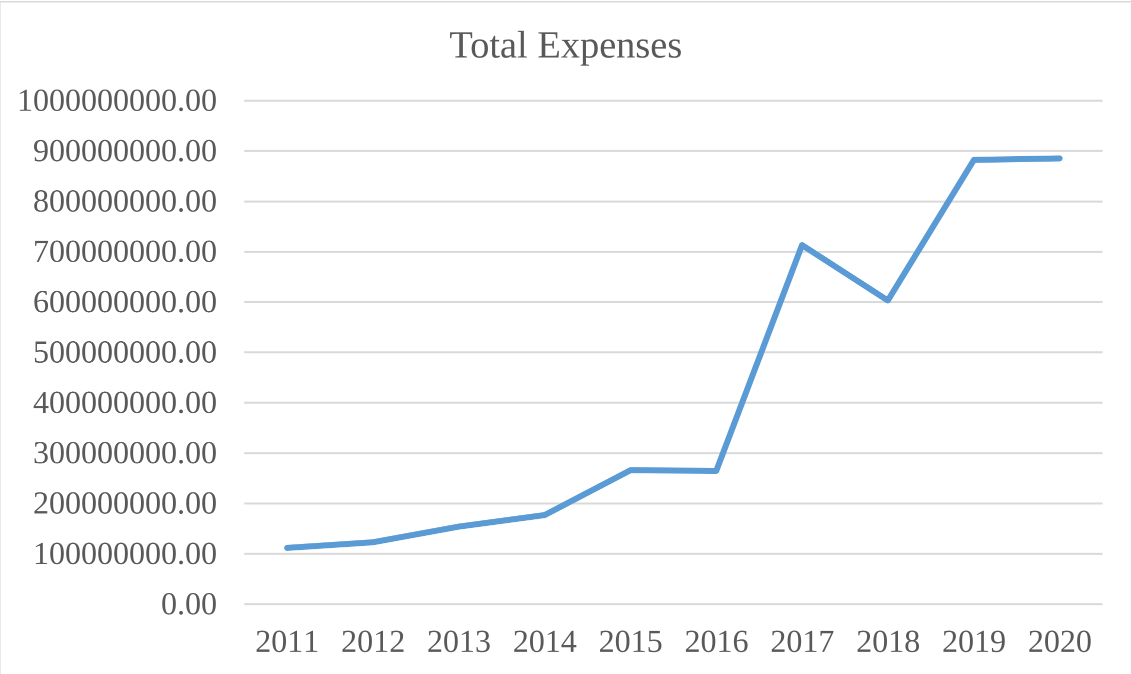
Appendices

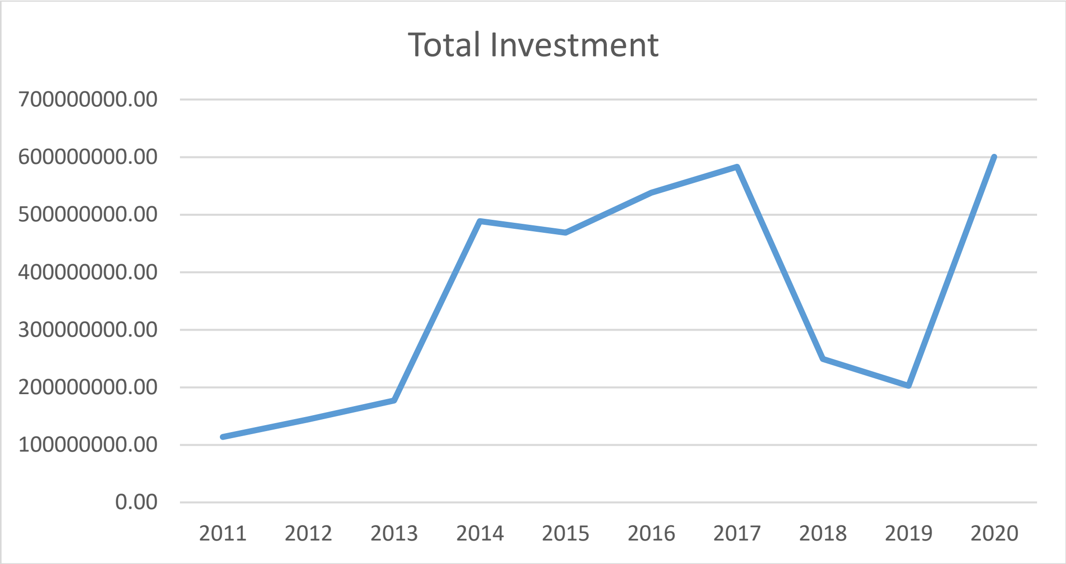
1. **Descriptive and Statistical Summary**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Net income	10	34767213.00	571543980.00	294978508.2000	206272278.77818
Investment	10	113678326.00	600465640.00	356527346.9000	195864010.07362
Total expenditure	10	111712000.00	885396481.00	418023924.7000	318085224.76597
Valid N	10				

2. **Total expenses**



3. Total investment



4. Net income