

THE EFFECTIVENESS OF MICRO FINANCE IN NEPALESE ECONOMY
A CASE STUDY OF
NUBL, PROGRAM IN PRATAPUR VDC, NAWALPARASI

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Submitted by
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LETTER OF RECOMMENDATION

The dissertation entitled “**THE EFFECTIVENESS OF MICRO FINANCE IN NEPALESE ECONOMY: A CASE STUDY OF NUBL, PROGRAM IN PRATAPUR V.D.C.,NAWALPARASI, NEPAL**” has been prepared by Mr. Raj Kumar Neupane under my supervision in the partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

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APPROVAL LETTER

We certify that this dissertation entitled “THE EFFECTIVENESS OF MICRO FINANCE IN NEPALESE ECONOMY: A CASE STUDY OF NUBL, PROGRAM IN PRATAPUR V.D.C., NAWALPARASI, NEPAL” Submitted by Mr. Raj Kumar Neupane to the Central Department of Economics, Faculty of Humanities and the Social Sciences, Tribhuvan University in partial fulfillment of the requirements for the Degree of MASTER OF ARTS IN ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as part of said degree.

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This study report entitled “THE EFFECTIVENESS OF MICRO FINANCE IN NEPALESE ECONOMY: A CASE STUDY OF NUBL, PROGRAM IN PRATAPUR V.D.C.,NAWALPARASI, NEPAL” is written and completed for the partial fulfillment of the requirement for the Degree of Master of Arts in Economics. I am proud of getting the chance to complete the report under the supervision of Dr. Ram Chandra Dhakal and I would like to express my gratefulness to him for his generous encouragement and undertaking the supervision of my entire research, instead of his time bound. This form of report is the result of his continuous suggestions, information, directions, warm cooperation and constructive comments. So, I am deeply indebted to his valuable guidance without which this study would not have taken in its present shape.

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ACRONYMS

ADB	Asian Development Bank
ADBN	Agriculture Development Bank, Nepal
ASA	Association for Social Advancement
CBB	Chhimek Bikas Bank
BS	Bikram Sambat (Nepali Calender Year)
CBO	Commuity Based Organization
CBs	Commercial Banks
CBS	Central Beureau of Statistics
CEDAW	Convention of Elimination of all types of Discrimination Against Women
CGAP	Consultative Group to Assist the Poorest
CGAP	Consultaitve Group to Assist the Poor
CMF	Center for Micro-finance
CSD	Center for Self-Development
CSICP	Cottage and Small Industry Credit Program
DEPROSC	Development Project Service Center
DSLPP	Deprived Sector Lending Program
EU	European Union
FINCA	Foundation for Internatonal Community Assistance
FINIDA	Finish International Development Agency
GBS	Grameen Banking System
GNP	Gross National Product
GTZ	German Technical Cooperation
HDI	Human Development Index
HDR	Human Development Report
IBM	Intensive Banking Program
IFAD	International Fund for Agriculture Development
IFPRI	International Food Plicy Research Institutes
INGO	International Non Government Organization
MC	Micro Credit
MCPW	Micro Credit Program for Women
MDG	Mellinieum Development Goal
MF	Micro Finance
MFI	Micro Finance Institutions
MFP	Micro Finance Program
NBL	Nepal Bank Ltd.
NG	Nepal Government
NGO	Non Government Organization
NHDR	National Human Development Report
NPRC	Nepal Planning Commission Report
NUBL	Nirdhan Utthan Bank limited
PCRW	Production Credit for Rurlal Women
PSCP	Priority Sector Credit Program
RBB	Rastriya Barijya Bank
RMDC	Rural Micro Finance Development Center

RRDBs	Regional Rural Development Banks
Rs	Nepalese Rupees
RSRF	Rural Self-Reliant Fund
RUPP	Rural Urban Partnership Program
SACCOs	Saving and Credit Cooperatives
SFCL	Small Farmer Cooperatives Limited
SFDP	Small Farmer Development Project
SSCP	Small Sector Credit Program
UN	United Nation
US	United States
USAID	United State Agency for International Development
VDC	Village Development Community
WB	World Bank
WCS	Women Cooperatives Societies
WDD	Women Development Division
WDP	Women Development Program

CHAPTER ONE

INTRODUCTION

1.1 General Background

Micro-finance is relatively a new innovation in the age-old banking industry. Microfinance is an effective tool for poverty reduction of rural areas in Nepal. Especially from 1990s, the development of microfinance institutions (MFIS) has contributed to diminish the poverty of the country comparatively than previous days, by providing microfinance to the poor people. But still 25.4 percent of the total population is under poverty (Economic Survey 2010/11). To make these microfinance institutions more accessible to the poor is a crucial agenda for the country.

Whereas there are a lot of savings and credit cooperatives (SACCOs) and small farmer cooperatives ltd Microfinance institutions in Nepal are governed by Banks and DG89financial institutions (BAFIA), those are handled by cooperative Act (1992). There is also Financial Intermediary Act (1998) to control the activities of Financial Intermediary Nongovernmental organizations (FINGEs). The procedures for getting services from the different modalities of MFIs differ. So there is a need of one umbrella act to make microfinance simple, and easy to understand and get the access with.

Micro-finance has received a global recognition today not only as a powerful instrument for poverty reduction and empowerment of women, but also as a promising sector of financing for the banks, financial organizations and NGOs. Countries with sound Micro-finance system have succeeded in reducing poverty and improving socio-economic conditions of women significantly. MDG calls for reducing world poverty in all its forms by the year 2015 with significant improvement in education, gender equality, health care and overcoming hunger and environmental degradation through microfinance intervention (NPC, 2003).

The microfinance sector in Nepal has expanded considerably in recent years. The earliest initiatives for establishing microfinance services in Nepal can be dated back to the early 1960s

when the first credit cooperatives were established and primarily intended to provide credit to the agriculture sector.

So the cooperative movement becomes the first vehicle of microfinance in Nepal, as 13 cooperatives provided flood victims access to financial services adapted to their specific needs. In parallel, rural finance institutions were established such as the Agriculture Development Bank of Nepal (ADB), which aimed at providing credit and marketing support agriculture.

In 1974, the two state-owned commercial banks, Nepal Bank Ltd. and RastriyaBanijya bank were directed by the central bank, Nepal Rastra Bank, to invest at least a portion (first 5 percent to increase as high as 12 percent) of their deposit liabilities in 'small sector'. This marked the beginning of the directed credit system in Nepal. In 1976, the scope of the small sector was broadened to include agriculture, cottage industry and services, and has since then been called the 'priority sector'. The credit didn't reach the poor, as only influential and well-connected people, with collateral, were able to access the program. This led to the development of targeted initiatives, such as the Intensive Banking program (IBP) in 1981, initiated by the government and the central bank, through partnership with commercial bank. Under this approach, group guarantee for loan repayment were used instead of physical collateral.(Sinha, Sanjay 2001).

Starting in 1975, the small farmers Development program, implemented by the Agricultural Development Bank of Nepal, mobilized farmers groups using a credit plus approach, and was the first experience of group-based lending in Nepal Unfortunately, it failed due to political pressure for a fast expansion, overemphasis on credit high delinquency levels and the overall not satisfactory performance of the system.

In 1982, the cottage and small Industries project and the production credit for rural women all provided new directions to priority sector lending, focusing on project viability rather than collateral, and therefore provided a financing window to the poor through commercial bank collaborating with local development organizations. The commercial banks perceived this program as more of an obligation towards the central bank than a business interest.

In 1990, the government of Nepal established the rural self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and other financial intermediaries

for on lending to the poor. The Microfinance Department of NRB acts as the secretariat of the RSRF and management committee headed by the NRB (Sinha, Sanjay 2001).

In 1992, the government of Nepal, following a recommendation from the NRB, established Regional Rural Development Bank (RRDB) in each of the five development regions of Nepal, modeled on the Grameen Bank methodology. It is called Grameen Bikash Bank (GBB). The majority of the ownership is in the hands of government, Nepal Rastra Bank (the central bank) and public commercial banks, while other private commercial banks have small equity stakes. During the same period, private initiatives led by NGOs, such as Nirdhan and the central for self help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication. In the 1990s, with technical assistance from GTZ, local branches of ADBN under the small farmer Development program, stated to be reorganized into federations of small farmer groups, the 'small farmer cooperating ltd (SFCL); each operating as an autonomous cooperative.

With the promulgation of the Development Bank act in 1995, Nirdhan was the first NGO (1998) to transfer its microfinance portfolio into an autonomous microfinance rural bank (Nirdhan Utthan Development Bank). since 2000; three other microfinance rural banks were created through the same process first initiated by Nirdhan with DEPROSC Development Bank in 2000, Swabalm Bikas Bank in 2001. Acknowledging the poor performance of the GBBs, under public ownership, the central bank started a restructuring program, which will lead ultimately to the privatization of the five GBBs, (Kayastha, Ragab 2010).

With the view of providing a source of wholesale fund to regulated microfinance institutions (MFIs) the rural microfinance Development central (RMDC) was established in 1998, and later on opened its lending to other MFIs. In 2001, the small farmer Development (SFDC) was established under the Development Bank Act to provide wholesale funds to small farmer cooperatives ltd. (SFCLs), which were formed after the transformation of small farmers Development project, promoted under the small farmers Development project, into cooperatives that SFCLs majority ownership will grow over time. (Kayastha, Ragab 2010).

Generally, the microfinance institution in Nepal can be divided into two types (1) Community Based MFIs such as SCCs and SFCLs, (2) commercial oriented MFIs such as MFDBs, GBBs, FINGO, sect so there are several modalities of MFIs in Nepal.

Microfinance is an important and relevant financial service to poor. It also included other measures to promote human development: education, health and other minimum infrastructures required, enhance broad financial activities in rural area. Poor can improve socio-economic condition. Microfinance not only the tools of poverty reduction but also increase the income level and self-employment to poor through various types of income generating activities World Bank designs microfinance as “The provision of financial services to low-income clients including the self-employed, it includes both financial and social inter-mediation, it is not simply banking but also is a development tools.” Microfinance can help to increases income build viable business and reduce their vulnerability to external stocks. It can also be a powerful instrument for self-employment by enabling the poor, especially women to become economic agent of change. Now formal sector are also much more sensitive for providing microfinance services to the poor. I/NGOs and governments lend different programs with different modalities which have significant role on reducing poverty. There are various causes which make the poor to remain outside from the financial sector services. Ordinary banks they consider poor people are not credit worthy. The operation cost of on many small amounts of loan is high. Banks are centered in large town. But poor centered in rural areas. Poor people have limited economic opportunities, limited saving and the condition of the women is miserable. The poverty depth of women is higher than men. Poor people have less control over economic decisions. The main causes of poverty is being unemployed. Due to the lack of reliable employment survey and forecast in Nepal, the estimation of actual status of employment has been complex.

The main objective of rural finance/microfinance is to increase access of rural people to financial services to undertake income generating activities and improve their livelihoods and to improve socio economic conditions of the poor and deprived women. With a view to facilitate this

process, both government and non-government organisations have launched various programmes. However, the micro finance has set the following objectives:

1. To promote the quality of life and their living standard.
2. To provide financial and non financial services based on need of operation.
3. To provide necessary institutional support to other institution having similar objectives.
4. To assess larger loans, based on repayment performance.
5. To create income and employment opportunity for the poor people by mobilization of saving.
6. To provide assistance to the poor and marginalized women of Nepal, regardless of where they live in and who they are
7. To promote the locally available technology for the best use of the internal available resources.

NIRDHAN UTTHAN BANK LTD PROGRAMS

NirdhanUtthan 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 Institution Act 2006, Nirdhan Utthan Bank Ltd (NUBL) provides microfinance services such as Loans, Deposits, Micro insurance and Remittance services to poor families of Nepal. The lending methodologies are individual lending based on Grameen Bank, Bangladesh model and group lending based on Self-help Group model through few specified branch offices.

Though, legally established as a company in 1998, the operation of NUBL is a continuation of microfinance services provided by an NGO called "NIRDHAN" which was providing microfinance services since March 1993. The story behind the establishment of "NIRDHAN" starts from 1986 when Hari har Dev Pant, the Chief Executive Officer of NUBL/Executive Chairman of "NIRDHAN" (then senior officer with central bank of Nepal) visits Grameen Bank in Bangladesh. The visit inspired him to launch microfinance program in Nepal resulting the

birth of "NIRDHAN" or "people without money" in 1991. NIRDHAN began its microfinance operation in March 1993.

NIRDHAN, as an NGO has a limited recourse and capacity to satisfy unmet demand of poor people in different part of the country. This results the establishment of Nirdhan Utthan Bank Limited, NIRDHAN being a lead promoter. In July 1999, NIRDHAN transferred all microfinance operations to Nirdhan Utthan Bank. NIRDHAN created Nirdhan Utthan Bank Limited for the following strategic reasons:

1. Development banks are supervised and regulated by the Central Bank, which will enforce banking standards
2. A development bank can have access to different source of funding enabling it to satisfy financial need of poor people
3. The bank can lend to a wider range of clients, including micro entrepreneurs graduated out of the bank's regular clientele. Further, a bank can accept collateral for potentially large and diverse loan products;

The central office of NUBL is located at siddharthanagar municipality in Bhairahawa, with 92 branch offices spread in different areas of the country. The research area of NUBL is at Pratapur VDC. Pratapur VDC lies at western development region of Lumbini zone at Nawalparasi district. This VDC is 15Kms south from east west Mahendra highway. UP and Bihar; the Indian states are about 10Kms far away to this VDC. People with different religious and ethnic variation live in this VDC. Due to the influence of Indian Territory most people here are madhesi and chaudhary.

The social and economy condition of the people living here is not satisfactory, still people depend on the subsistence agriculture to earn their livelihood. Due to the same reason their social and economy status is not uplifted.

1.2 Statement of the problem

In Nepal different types of programs have been launched such as priority sector credit program (PSCP), small farmers Development programs (SFDP), Integrated Rural Development program (IRDP), production credit for Rural women (PCRW), Participatory District Development Program (PDDP) which in fact is intended to uplift the rural poor, especially women (Regmi 2000).

But there are various constraints of the micro finance program to achieve its objective and development goals. Utilization of loan is not easy in the beginning period. The misutilization of the loan results the poor as poorer both economically and morally. Nirdhan Utthan bank Ltd is one of the major contributions in the sphere by bringing all the rural people in participation. Women's participation is also its much emphasized aspects to make women economically strong by handling the rural level saving and other programs weekly meeting, loan proposal, repayment, compulsory deposits etc. The research focuses on effectiveness of micro-finance program for women to improve the status of them and poverty reduction in their families. The NIRDHAN UTTHAN BANK LTD are also micro-finance institution focused on women and small farmers. NUBL is one of the best micro-finance programs of Nepal. For last 13 years, NUBL is working in PRATAPUR V.D.C, Nawalparasi. There are some problems. So this research paper deals with the following research questions.

1. Is the program effective or not in the context of poverty reduction and improving the overall status of women or small farmers?
2. What are the changes in economic status after intervention of micro finance program?
3. What are the changes in education condition and awareness raising of the rural people especially women before and after participating in NUBL?

1.3 Objectives of the study

Micro-finance is emerging concept of Nepal. The value of micro-finance in Nepal is increasing day by day. The main objective of the study is to make inquiry in to NUBL program in Pratapur V.D.C., Nawalparasi. The objectives of the study are as follows:

1. To examine the effectiveness of the NUBL program in the context of poverty reduction and improving the living standard of small farmers.
2. To analyze the change in educational condition of the rural people especially women before and after participating in NUBL in the study area.

1.4 Significance of the study

Micro-finance is coined as the financial service rendered to the deprived group of the people and small entrepreneurs to help them in developing self-employment opportunities and various income generation activities. Usually, micro-finance is a program that serves a large number of clients with reference to women/deprived people and works at a grassroots level with financial sustainability.

Nepal has three decades of experience in micro-finance. Although many programs have been implemented for poverty alleviation in Nepal, only micro-finance programs are seen as pro-poor and rural based.

The micro-finance revolution has changed attitudes towards the poor in many countries and in some has provided substantial flows of credit, often to very low-income groups or household, who would normally be excluded by conventional financial institution.

Micro finance empowers women by putting capital in their hands and allowing them to earn an independent income and contribute financially to their households and communities. Micro finance activities can give them a means to climb out of poverty. Thus it is hoped that the research findings will provide a wider ground for further research in the field of women.

The study is carried the rural areas test of MFIs. This is beneficial to know the perception of rural women and small farmers on MFIs activities. How rural peoples are participating on MFIs? How they get services from there? And what types of activities are done through such services? Are interpreted;

1.5 Limitations of the study

This study has following limitations.

- 1) This study basically concerns to particular micro finance only.
- 2) The conclusion of this study may be or may not be applicable to other areas due to difference in socio-economic conditions.

1.6 Organization of the study

The Research paper is divided in to six chapters. Chapter one is introduction part, second is Review of literature and chapter third is concerns with Research methodology. Chapter four deals with micro finance in Nepal, Chapter five is the Profile of Study Area and data analysis of Respondents. Chapter six is major findings, summary, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

Review of literature is one of the most important parts of any thesis. Literature review includes review of old theses, dissertations, newspapers, magazines and suggestions of experts. This chapter concerns the past events that have been done in the research problem. Literature review is an important topic of the research dissertation. It supported to the researcher to define the problem and choose the appropriate methodology and also give the guide lines for collecting information.

Micro-finance has been successfully used as developmental tool to reduce poverty in many countries. At present, micro-finance is being increasingly used in the form of development strategy for achieving the developmental goals. However, the strategy would prove successful only if it is able to strike balance between development and finance. Clients of micro-finance institutions are usually poor and low income people, often living in awful overcrowded settings or living in remote areas with less access to basic amenities and education, water, electricity, banking services, health services, market facilities, etc.

Micro-finance has evolved as an economic development approach intended to benefit low-income women and small farmers. The term refers to the provision of financial service to low-income clients, including the self employment. Financial services generally includes saving and credit, however, some micro-finance organizations also provide insurance and payment services. Many MFIs provide social intermediation services such as group formation, development of self-confidence and training in financial literacy management capabilities among members of a group. Thus the definition of micro finance often includes both financial intermediation and social intermediation. Micro finance is not banking, it is a development. A micro-finance activity usually involves:

1. Small loans, typically for working capital
2. Informal appraisal of borrowers and investments
3. Collateral substitutes, such as group guarantees or compulsory saving
4. Access to repeat larger loans, based on repayment performance
5. Streamlined loan disbursement and monitoring
6. Secure saving products

Some MFIs provide enterprise development services, such as skills training and marketing, and social services, such as literacy training and health care; these are not generally included in the definition of micro-finance. MFIs are non-government organizations (NGO), savings and loan co-operatives, credit unions, government banks, development bank, commercial banks or non banking financial institutions. Micro-finance clients are typically self-employed, low income entrepreneurs in both urban and rural area clients are often traders. Street vendors, small farmers, service provides and artisans and small producers.

Essentials of micro-finance is targeted to the poor, group approach, no tangible collateral, doorstep service, small loan size, frequent repayment, sustainable interest rates, simple procedure of operation, free choice of economic activities by clients, disciplined clients, effective pre-group training .

Marr, Ana(2002), This paper has challenged the validity of two of the basic premises underlying existing theoretical and empirical studies: that microfinance can be a successful market solution to resolve credit market failures and that solidarity sentiment prevail among the members who constitute microfinance groups. Given these premises, current studies argue that a set of incentives can be devised, without resort to public welfare funds, to correct information asymmetries between borrower sand lenders. Studies also argue that group members will practice mutual support because they originate from poorer segments of society—demonstrating a tendency in such studies to romanticize the nature of social relations in community-based networks. Evidence from research undertaken in urban and rural communities of Peru, as presented in this paper, shows that group-based microfinance schemes are often unable to harness local information and hence resort to inflicting increasingly.

Hulme and Moore (2006), Microfinance involves the delivery of small loans and other financial services which the poor can use to build up their assets, establish or further develop a business, increase their wealth and protect against risks. Pioneered by Mohammad Yunus who founded the Grameen Bank in Bangladesh during mid seventies, MFIs today are spread all over the world and count over 100 million of the world's poor as their clients. This segment of the population has often not had access to traditional banks. Subsidized government lending schemes, which have tried to reach the poorest have often proved inefficient to overcome the screening,

monitoring and enforcement problems that restrict the access of the poor to the formal financial sector.

Ministry of Finance (2010/2011), The micro-finance program has provided substantial help and facility to the ultra poor families. The micro-finance institutes (MFI) are providing door to door micro credit services to those ultra poor families who have no collateral guarantees to produce, and are not capable of fulfilling the banking requirements for credit eligibility. Such families are able to create their own assets by paying their micro-credits in small installments out of their earnings made by engaging themselves in small entrepreneurial activities. Micro-finance institutes have been helping these ultra poor families to be self reliant through the process of social mobilization. Even in the present conflict situation whereby the banks have closed or merged their branches/sub-branches, these MFIs have been constantly delivering door to door micro credit services to the ultra poor communities. Credit recovery rate of these MFIs is above 98 percent.

The study by Rooij and Puri (1999) for International Labour Organization (ILO) makes a comparative assessment of the impact of micro-credit grants and loans in Nepal and Uganda. The impact is examined in terms of output, asset accumulation, employment, income, enterprise performance and socio-economic characteristics (e.g. impact of expenditure on education, nutrition, and health care services). Baseline survey was conducted in 1996 followed by mid-term survey in 1997 and final survey in early 1999.

Findings of the survey show an increase in recipients' income in both countries. In case of Nepal, recipients' income increased by 58 percent in a little over two years compared to the control group in the area, which witnessed an income growth of some 24 percent during the same period. In Uganda also both the grant and credit recipients saw their income increase more than two fold (227 percent and 233 percent respectively). In case of assets, borrowers in Nepal were able to double (203 percent) their capital base in two years as compared to the baseline period and, as for the control group the figure was 210 percent. In case of conditional grant the value of asset increased by 159 percent and 154 percent for the control group. Findings were similar in case of Uganda also. Both credit recipients' and grant recipients' asset increased by 194 percent and 169

percent respectively. In terms of the performance of income generating activities, after more than 2 years, 80 percent of the income generating activities in Nepal that started with grants continued to exist while 95 percent of the businesses financed by loans continued to do so. The socio-economic impact on the households was less visible due to the limited time-period of the study. In both countries, the transaction costs of administering the grants and the loans were in the range of 10-20 percent of the value of the capital provided.

SFPS and RD (2004), A very few researches have been undertaken in the past for measuring the impact of microfinance in Nepal. In 2004, National Planning Commission (NPC) had funded a study to assess the impact of micro-credit program on poverty reduction. The study was designed to assess the access of the poor to the institutional credit, to examine the effectiveness of the credit in helping to graduate the poor from absolute income poverty, to evaluate the social indicators of benefits from the microfinance services, to assess effectiveness of the program in gender development and empowerment, and to review the sustainability of MFIs in general. The Centre for Policy Studies and Rural Development, Kathmandu conducted the study. The study was based on both primary and secondary data, and focused on measuring impact on outreach of microfinance programs and their coverage of the poor, social and economic changes noticed among beneficiaries and sustainability of microfinance institutions. The study covered six districts – three hills and three Terai, and covered both the private and the government supported microfinance institutions. Altogether, 479 client samples were examined for collecting primary data.

The study estimated the outreach of microfinance covering 35.25 percent of the poor. However, the outreach was not confined to the poorest of the poor, as they constitute only 68.6 percent of the total microfinance borrowers. It is interesting to note that 84.1 percent of the sample reported that they could make profit from the first loan and receive profits at decreasing rates from the succeeding loans. A small proportion of sampled households (24.4 percent) also felt improvement in their social and economic conditions after their participation in the micro finance programs.

A change in principal occupation among the sampled households was also noticed particularly from agriculture to petty trading. Dependence on agriculture reduced from 56 percent to 48 percent, while dependence on petty trading increased from 11.1 percent to 32.2 percent. The respondents witnessed some positive changes in their possession of assets like better-roofed houses, radio, television, bicycles, hand-pumps, etc. They also noticed improvement in their food self-sufficiency status after enrolling in the microfinance programs. The frequency of consumption of nutritious food items, such as fruits, eggs, meat and fish has also increased.

Due to the program efforts, the literacy rate among the members of microfinance programs has risen from 52 percent to 89.8 percent. The proportion of the respondents knowing about HIV/AIDS and its transmission mode has also been found increased and many of them were made aware by the microfinance programs about their health care facilities.

With the program, the gender division of works is also getting less value and the men also started performing activities which were considered to be the responsibility of only women, such as cooking, washing utensils, taking care of babies, etc. The percentage of women reporting the increased control over income has also increased from 13.3 percent to 19.1 percent. However, this study has indicated that microfinance programs have not been effective in contributing to the reduction of poverty level as MFIs have not been able to extend their outreach to the ultra poor and the poor in the hills

RMDC (2008), RMDC has also initiated an impact study of microfinance program on the socio-economic dimensions of the clients of its partner organizations in order to see whether the objective of improving socio-economic conditions of the ultimate clients has been attained or is being attained. The study has focused on impacts of microfinance services on (i) loan transactions from various sources, (ii) income-source-wise investment, income and savings, (iii) living and non-living assets, (iv) food self-sufficiency and nutritious food consumption, (v) clothing and housing type, (vi) health care measures and education of children, and (vii) participation in social and political events, and empowerment of women. The study sample included 192 respondents of the 200 sample of ultimate beneficiaries from eight microfinance institutions that include: Swabalamban Laghubitta Bikas Bank Ltd., NRDSC, Manushi, Nepal

MahilaUtthan Kendra, Jeevan Bikas Samaj, FORWARD, Mahila Sahayogi Sahakari, and Centre for Self help Development.

It has revealed positive improvements in investment, income received, and savings made through activities undertaken with the increased funding support in successive years. Assets, both living and non-living, were found to have increased both in terms of quantity and value. Food self-sufficiency situation did improve remarkably when compared to situation before participation in the MF program. Number of daily food intake and frequency of nutritious food intake per month were also found greatly impacted by the program. There is also remarkable improvement in housing, health care, and education of children. Improvements were also observed in participation in social and political events and found significant positive changes in the empowerment of women members on the whole.

Lindgreen E.(2002), simply comments, "*Micro-finance and women's empowerment in Bangladesh*, conforms that with growing interest in and support for micro enterprises programs in developing countries, many of which have been directed towards poor women. Controversy mounts over the effectiveness of MF efforts. Bangladesh largely through the effort of Muhammad Youns has been a leader in the MF movement."

Stock (1995), in his book explained that it is necessary to prove impact on the intended beneficiaries. This is not easy an immediate question on what impact may be measured on income, wealth, food security, child nutrition or gender relation argues that the tools of impact assessment have so far neglected an assessment of effects which go beyond users or the institutions which serve them to the nature and functioning of financial markets. This may be because micro- credit programs are currently promoted as a strategy for both poverty alleviation and women's empowerment.

Khandker (1998), in his article said that lack of saving and capital make it difficult for many poor people to become self employed and to undertake productive-employment generating activities. Providing credit seems to be a way to generate self-employment opportunities for the poor. But because of lack of physical collateral, they have almost no access to institutional credit. In formal lenders can be a source of credit, but poor households do not gain from investing in productive income-increasing activities because of high interest rates. And these

sources are not reliable to poor and they can not save enough through such informal sector. Micro-credit programs which are able to provide credit to the poor at affordable cost and can help them become productive self-employed. Micro-credit program have thus emerged as an antipoverty instrument in many low income countries. Microfinance target the poor especially women, with financial services to help them become self employed in rural non-form activities of their choice.

In his article entitled, *Micro-finance for Achieving Millennium Development Goals in Nepal*, Dhakal (2004), highlights that financial services would assist to improve incomes and build assets of poor populace. Dhakal stresses that the poor needs sound financial services and specialized activity with a long term commitment Dhakal points out that direct link exists between micro-finance and Millennium Development Goals (MDG). Hence, Dhakal mentions that micro-finance instructions can fulfill the objectives of MDG. Further, Dhakal highlights that strong management and efficient operations are required in micro-finance institutions to reach the millions of people targeted financial services in Nepal. Finally, Dhakal conclude the article by stating that micro-finance activity could not be considered as the substitution of investment in education, health or infrastructure.

Ghimire has conducted the thesis entitled *Impact of Microfinance, A Case Study of Microcredit Program for Women in Nepal*

The main objectives of this study were as follows:

1. To analyze the position of existing credit.
2. To measure the relationship between investment and income.
3. To assess the effect of training on standard of living of the people.

4. To measure the perception of users group towards the program.
5. To assess the financial sustainability of the program

The main conclusion of the study was:

The group activities, regular saving and investment, high rate of repayment and utilization of loan have been satisfactory. This shows that financial sustainability and viability of the program in Kahun VDC is guaranteed. The positive correlation between investment and changes in income level of the participants show that the capability of the entrepreneurs for the repayment of the loan in due time is good. Saving on the basis of the investment is found to be highly effective aspect of the program upon which training and income generating activities is based.

Training and awareness program are the most crucial component of the program for making skilled energetic entrepreneur to run their enterprises effectively and successfully. The program has provided basic and awareness training, skilled and management training, agriculture training etc to the participant women. It is found to be satisfactory to empower standard of living of the people.

Poudyal, (2005) who conducted research for M.A. (Economics) on the topic "*Micro-finance and its impact on Economic Upliftment of Women*" by taking main objectives as:

- To analyze the impact of micro finance on the economic upliftment of women.
- To suggest appropriate measures to improve micro-finance on the basis of economic upliftment of women.

Her study gives following conclusions:

- Micro-finance program is the best way to uplift women economically as well as socially.
- MFP is fruitful initiative as it reaches door to door of rural poor and promotes them to save and do economic activities especially women.

- MFP should widen their area by appointing staff to hear. Understand their problem and find out alternative as well as solution. So that they should not be victimized by excess burden of debt.

It has qualitative study as well as quantitative for collecting the information: secondary and primary both methods of data collection are under in practices as well as field survey rapport building process had been commonly used for gathering the information. It has tried to make research quantitative rather than qualitative

Poudyal has done a research in good manner that I agree with her. But she has used only economic perspective. Economic upliftment is affected by other things like their social awareness, and consumption pattern of food. But she neglects these aspects of women. She is only limited on economic aspect (income, occupation, saving). So, my research will be another piece to study on economic impact of micro-finance in Nepal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study is mainly focused on micro-finance program and case study of NUBL program in Pratapur v.d.c. It is intended to find out economic impact and social benefit in specific area. A descriptive research design is applied to analyze and interpret the quantitative and qualitative data collected from the concerned field. Loan investment, repayment process and other development process are related to micro-finance program. Primary and secondary data are used for the study of rural poor women, small farmer and staffs of NUBL .

3.2 Nature of the Data

This study is based on the primary as well as secondary data. This study was mainly based on primary data, which was collected from the field survey using structured questionnaire, focused group discussion and the observation method. The related secondary data is obtained from secondary sources e.g. books, pamphlets, articles, reports, web-sites, journals, annual reports, economic survey and difference sources.

3.3 Population and Sampling

Nirdhan Utthan Bank Ltd. Pratapur, Nawalparasi branch is providing its services in eight V.D.C. 625 members are active in micro finance program . In Pratapur V.D.C. 180 members are active, at present. Thus, the study only focuses on these active borrowers. The populations under this study are 180 women and small farmer. 63 individuals were selected as the sample population through the study. 35 percent out of 180 women and small farmer are taken as sample to obtain accurate and real scenario and its effect on economic impact.

3.4 Sample Technique

The list of the rural poor women and small farmer was provided by NUBL Pratapur, Nawalparasi. Random sampling method was used to fill up the questionnaires. From the list of sample, 63 members were drawn by applying simple random sampling method to fulfill the purpose of study.

3.5 Process of Data Collection

Members of women and farmer group leader, concerned line agency staffs were interviewed separately. To collect necessary information the researcher had also discussed with professionals and used observation method. Inter discussion quantitative as well as qualitative method had also been implied to obtain desirable result.

3.6 Data Processing and Data Analysis

Data are managed and analyzed in proper table with formats, interpretations and explanation made .Regression Analysis is use to analyze the collected data. Some diagrams like line graph, pie chart , bar graph were used.

The applied formula to obtain significant result is:-

$$\text{Regression} \quad \begin{aligned} \sum Y &= na + b \sum X \\ \sum XY &= a \sum X + b \sum X^2 \end{aligned}$$

Where a,b = Regression parameters

CHAPTER FOUR

MICROFINANCE IN NEPAL

4.1 Microfinance Sector Development

In the early 1960s, the cooperative movement became the first vehicle of microfinance in Nepal, as 13 cooperatives provided flood victims access to financial services adapted to their specific needs. In parallel, rural finance institutions were established such as the Agricultural Development Bank of Nepal, which aimed at providing credit and marketing support to agriculture.

In 1974, the two state-owned commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank were directed by the central bank, Nepal Rastra Bank, to invest at least a portion (first 5 percent to increase as high as 12 percent) of their deposit liabilities in the 'small sector'. This marked the beginning of the directed credit system in Nepal. In 1976, the scope of the small sector was broadened to include agriculture, cottage industry and services, and has since then been called the 'priority sector'. The credit didn't reach the poor, as only influential and well-connected people, with collateral, were able to access the program. This led to the development of targeted initiatives, such as the Intensive Banking Program in 1981, initiated by the government and the central bank, through partnerships with commercial banks. Under this approach, group guarantee for loan repayment were used instead of physical collateral.

Starting in 1975, the Small Farmers Development Program, implemented by the Agricultural Development Bank of Nepal, mobilised farmers groups using a credit plus approach, and was the first experience of group-based lending in Nepal. Unfortunately, it failed due to political pressure for a fast expansion, overemphasis on credit, high delinquency levels and the overall not satisfactory performance of the system.

In 1982, the Cottage and Small Industries Project and the Production Credit for Rural Women all provided new directions to priority sector lending, focusing on project viability rather than collateral, and therefore provided a financing window to the poor through commercial banks collaborating with local development organisations. The commercial banks perceived this program as more of an obligation towards the central bank than a business interest.

In 1990, the government of Nepal established the Rural Self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and financial intermediaries for on lending to the poor. The Microfinance Department of NRB acts as the secretariat of the RSRF and management committee headed by the NRB deputy governor oversees the fund.

In 1992, the government of Nepal, following a recommendation from the NRB, established Regional Rural Development Banks (RRDB) in each of the five development regions of Nepal, modelled on the Grameen Bank methodology. The majority of the ownership is in the hands of government, Nepal Rastra Bank (the central bank) and public commercial banks, while other private commercial banks have small equity stakes. During the same period, private initiatives led by NGOs, such as Nirdhan and the Center for Self-help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication.

In the 1990s, with technical assistance from GTZ, local branches of the ADB/N under the Small Farmer Development Program, started to be reorganised into federations of small farmers groups, the 'Small Farmer Cooperatives Ltd (SFCL); each operating as an autonomous cooperative.

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

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

4.2 Practices/Models of MF

Microfinance practices reflect the diversity of landscape and population density in Nepal. In the Terai region (plain); more densely populated, with better transport infrastructure and easier access to clients; the Grameen Bank model has been adapted by a large number of organisations. It is also a region where traditional financial organisations, such as commercial and development banks, operate. In the hills and mountains, community-based organisations, such as Self Help

Groups, Credit and Savings Associations and Cooperatives, seem the most adapted to the remoteness and isolation of local communities.

4.2.1 Grameen Bank methodology

First introduced to Nepal in the early 1990s, it has been adapted by a large number of organizations, mostly operating in the Terai region (plain), where the population is dense and road, market and other infrastructures are comparatively more developed than in the hills and mountains. The methodology is based on peer groups of five members incorporated into centres of up to ten groups. Weekly meetings are used to collect compulsory payments from members to contribute to the group's fund - incorporating both savings and loans. The group fund, managed by the group, may be used to make additional loans to members. Loans are made initially to two members, then to two others and finally to the last member, with a four to eight week interval between each disbursement. The group members guarantee each other's loan repayments.

Microfinance providers using the Grameen methodology will typically offer general loans, seasonal loans, specific loans (sanitation, housing) and the loans issued from the group fund. Savings products are generally the compulsory group fund savings, and any additional personal, voluntary savings. In recent years, several leading microfinance providers have started to move away from the traditional Grameen model, to focus on new practices for Nepal, such as a streamlining of operations, the introduction of customer friendly products, and a strong emphasis on institution and staff capacity building. New products have also been offered to clients by several organisations, such as micro insurance covering risks related to health, life and livestock.

4.2.2 Community-based models,

Savings and Credit Cooperative Societies(SCCS), provide a wide range of savings and loan products to their members. They tend to serve a well-off population but also the poor, with a stronger emphasis on the disadvantaged in the case of organisations established by development programs. They commonly require compulsory savings, but also offer individual or group saving products, deposits, and festival and educational savings services. Loans provided by SCCS have a minimum term of 3 months and can be extended for more than 18 months, covering specific purposes, such as agriculture, microenterprise, housing, or, in some cases, emergency or social reasons. In addition, as successfully demonstrated in India, self-help Groups can be linked to commercial banks, an approach taken by the Banking with the Poor Program implemented by the RastriyaBaniija Bank (RBB). Despite the institutional challenges and necessary methodological adjustments to be made, RBB has lent directly to self-help groups under this program.

Small Farmers Cooperatives were also initiated under the Small Farmers Development Program of the Agricultural Development Bank of Nepal (ADBN),

which was the first Nepali program to use a group-based methodology. The program has faced major difficulties in terms of portfolio quality (38% NPL) and the dependency of groups towards ADBN loan capital. GTZ has supported methodological changes to the ADBN, which is also under restructuring phase, led by the ADB. Under a joint Nepali-German program, RUFIN, GTZ has provided technical assistance to the ADBN in transforming the groups into sustainable Small Farmers Development Cooperatives (SFCLs), now largely financed by an apex bank. Despite the recent successes in revitalizing the program, problems still persist such as recapitalisation and sustainability issues.

4.2.3 Village Bank model

It was also used in Nepal, with the Women Empowerment Program of Pact Nepal, between 1998 and 2001. Adapted from the model used in Latin America, village banks are community-managed credit and savings associations designed to provide financial services to members living in rural areas. This methodology focuses on empowering relatively large groups of people (20-40 in Nepal) in building their own financial institution, with a savings first approach. First, the village bank promoters, in this case local NGO partners of Pact Nepal, provided training to the village banks, focusing on building the capacity of membership and management committees. The promoters also lend fund capital to build up the 'external account' of the village bank, which is then on lent to members. Repayments from members are collected by the village bank, which repay its main obligation to the promoters. In parallel, the village bank members build up their 'internal account' through savings and on lend internally this fund. This model was successful in Nepal, as it combined training in literacy and business development with financial services and was able to obtain a large outreach at low cost. However, of the few weaknesses, was the dependency created by the financial links between village banks and promoters.

4.2.4 Other group and individual lending methodologies

The two public-owned commercial banks, Nepal Bank Ltd. and RastriyaBanijya Bank, representing 95% of the rural branches of commercial banks in Nepal, are reducing their presence in rural areas. Their branches were considerably weakened by the consequences of the local conflict and the growing pressure from the restructuring program supported by the World Bank. Under the deprived sector requirement, commercial banks can choose to provide equity or wholesale funds to microfinance institutions, or lend directly to the poor. In the later case, they typically provide loans not exceeding Rs.30, 000 to individuals or groups, most often in the context of a government-sponsored program (Intensive Banking Program for example). Government programs such as the Micro-Credit Project for Women (MCPW) provide opportunities for NGOs to borrow wholesale funds for loans to groups of poor people. With the introduction of this program, the Financial Intermediary Societies Act 1998 enabled NGOs to provide microcredit to their group members. With the first amendment of the Act, NGOs were also able to acquire a limited banking licence from the central bank and act as Financial Intermediaries NGOs (FINGOs), and therefore acquired the possibility to mobilize savings of their members.

The development of microfinance practices in Nepal still faces many challenges. There is a need to undertake further research on developing a model adapted to the hills and mountains. Based on initial research conducted by CMF, a federative model of Savings and Credit Cooperatives Societies (SCCS) could significantly increase the outreach of microfinance services in the hills. As in many countries, deepening the outreach in targeting the poorest is still a difficult task in Nepal. Moreover, the political context and the current insurgency do not provide the ideal

conditions for microfinance methodologies to be the most efficient, given the additional costs related to the insecurity situation in rural areas.

4.3 Providers of MF

The microfinance market in Nepal can be divided into three sectors: formal, semi-formal and informal.

4.3.1 Formal Sector

It is composed of: 17 commercial banks, 10 development banks, 57 finance companies and 9 rural microfinance banks. The rural microfinance banks are comprised of a group of nine Grameen Bank replications. Five ‘GrameenBikas Banks’, or Regional Rural Development Banks (RRDBs), are publicly owned, with each of them operating in the five development regions of Nepal (Far Western, mid Western, Western, Central and Eastern). Despite easy access to funding sources and impressive outreach in the Nepal context, these organisations have not been successful in terms of sustainability and portfolio quality; in consequences three of them have accumulated substantial losses. The Grameen Bikas Banks is currently going through a restructuring process, led by the NRB, which will ultimately result in their privatization. Operating in the Western Development Region ‘Paschimanchal GrameenBikas Bank Ltd’, the most successful Grameen Bikas Bank is currently in the last stage of complete privatization. In comparison, the four private rural microfinance banks are doing better than their public counterparts. The two largest are: NirdhanUttan Bank Ltd and Swabalamban Bikas Bank Ltd., which both originated from the transfer of the microfinance portfolios of their NGO parent organisation, respectively Nirdhan and the Center for Self Help Development. In addition, Chhimek Bikas Bank was promoted by the NGO Neighbourhood Society Service Centre (NSSC), while the DEPROSC Development Bank Ltd was established by the NGO DEPROSC.

4.3.2 Semi-Formal Sector

It comprises savings and credit cooperatives, societies and financial intermediary NGOs. Savings and Credit Cooperatives Societies (SCCS) have been created through different processes. The most common being community-based organisations that have evolved from informal self-help groups to credit and savings organisations status, and then graduated to become formal Savings and Credit Cooperatives Societies. As of mid-July 2002, there were 2,262 Savings and Credit Cooperatives Societies registered with the Department of Cooperatives. Generally, SCCS emerged spontaneously but were sometimes assisted by local or international NGOs. They usually comprise between; 25 to 200 members, while the largest could reach 9,000 members. With increased external support to their institutional development, these organisations could have a very high potential to be linked to formal source of funds.

Some of them have been very innovative in targeting the poor while reaching financial sustainability, and made a positive impact on the lives of their members. 34 SCCS with a stronger focus on microfinance have registered with the NRB (under the FIA), and are now supervised by the central bank, which has issued them a limited banking license, allowing the provision of financial services to non-members. Some prominent cooperatives are the Women's Cooperative Society and BISCOL, both combining Grameen Bank methodologies and cooperative principles with their microfinance clients. Some SCCS are also supported and funded by organisations such as the Rural Microfinance Development Centre, Rural Self Reliance Fund operated by the central bank, and small enterprise development department of commercial banks. Some cooperatives, called Small Farmers Cooperative Ltd (SFCLs) are federations of small farmer groups organised under the Small Farmers Development Program of the Agricultural Development Bank of Nepal, with technical assistance from GTZ. 149 of them are formally registered according to the Cooperative Act, 11 of them have obtained limited banking license from NRB. They can access wholesale fund from Sana KisanBikas Bank, an apex institution in the field of wholesale lending, and the RMDC and RSRF, other apex funds

44 Financial intermediaries NGOs are currently registered with the NRB, which gives them a limited banking licence, allowing them to borrow from commercial banks for lending to clients. The most important NGOs are the organisations at the core of rural microfinance banks (such as Nirdhan, CSD, etc) and 'regular' NGOs such the Nepal Rural Development Society Center (NRSDC), Nepal Rural Development Organization (NERUDO) and Tharu and Razi Women Society (TRWS). Some international NGOs are also supporting microfinance services at different levels. In the past, PACT Nepal implemented the highly successful 'Women Empowerment Program', between 1998 and 2001, through 240 local partner organisation implementing a credit plus approach, combining literacy, business development services and a village banking methodology. The program reached 6,500 groups with 130,000 members in the lowland Terai region of Nepal.

4.3.3 Informal Sector

It gathers informal community-based organisations at different stages of institutionalisation, such as self-help groups and informal savings and credit organisations. Moneylenders, traders, friends and relatives can also be included in this group as they provide an informal source of finance used by the majority of the poor population in Nepal. Dhikuti are informal groups that pool funds to extend informal credit to their members.

Despite the vibrant microfinance landscape in Nepal, there is still a scarcity of MFIs in Nepal. A very few cooperatives can be considered MFIs, as they lack focus and institutional capacity. Most NGOs are also at an earlier stage of development, with gaps in terms of systems, leadership, staff development and organisational structure. The growth of microfinance in Nepal is therefore constrained by the lack of new microfinance providers, the difficulties of public-owned RRDBs and the government promoted projects, for which the quality of their portfolio has severe impact on their sustainability. NGOs operating as financial intermediaries are also

limited in their growth, as commercial borrowing requires a personal guarantee from their directors. Overall, the scaling up of existing MFIs is also dependent on political and security issues and the high capital requirements.

4.4 Regulations in Microfinance

Priority sector lending program: The central bank (NRB) imposes ‘priority sector’ lending to commercial banks, which entails lending a certain percentage of their deposit liability to deprived population. The ratio of priority sector lending has increased from 5 percent to 12 percent, of which, 0.25 to 3 percent must be invested in the ‘deprived’ sector, targeting the poorest of the poor.

Development Banks Act 1995: The two apex organisations as well as the five Regional Microfinance Rural Development Banks (RRDBs) and the four private rural microfinance banks are registered under Development Bank Act 1995. This Act was merged under BAFIO-2004.

Financial Intermediary Act 1998: The NGOs providing microfinance services are registered under the 'Financial Intermediary Act 1998', which provides a limited banking license to NGOs. To date 47 NGOs are registered under this Act and providing financial services.

Cooperative Act: Cooperatives are regulated by the Cooperative Act and supervised by the Ministry of Agriculture, Department of Cooperatives. Out of various types of cooperatives savings and credit cooperatives are providing microfinance services. There are 8000 registered Cooperatives of which 2700 are savings and credit cooperatives.

4.5 Funding and Supporting Organisations of Microfinance

4.5.1 Funding Organizations

Each having a specific purpose and clientele, wholesale lending organisations provides a substantial amount of lending to microfinance providers. The Rural Self-Reliance Fund (RSRF) was established in 1990 by the government of Nepal to support organisations providing financial services at a grassroots level in rural areas. These included: Savings and Credit Cooperatives, NGOs, and Grameen replications. RSRF is currently managed by Nepal Rastra Bank, with a portfolio of Rs. 19.2 million outstanding as of mid January 2004.

The Rural Microfinance Development Centre Ltd. (RMDC) provides wholesale funding to regulated microfinance organisations that comply with a strict set of criteria related to their institutional capacity, focusing on the poor and financial performance. As of January 2004, RMDC had Rs.956 million in loans outstanding, approximately 47 percent with private Grameen Bank replications. RMDC has had difficulties in disbursing all of its available funds due to the small pool of partners able to satisfy its criteria (on institutional development, sustainability and poverty focus), and the cap put on the level of lending to each borrower institution (Rs. 40 million). Moreover, its lending rate (6.5 percent) is in direct competition with the commercial bank’s low interest rate (4 percent) under their deprived sector lending obligations. Moreover, RMDC has been a key stakeholder in the development of microfinance in Nepal, by providing

training services to thousands of officials, MFIs staff and clients, and by influencing policies and regulations for microfinance.

Another apex organisation, Sana KisanBikas Bank (Small Farmer Development Bank) was established in 2001 by the Agricultural Development Bank of Nepal (ADB/N) to outsource the wholesale funding to Small Farmers Cooperatives Ltd (SFCL), which was formed after the transformation of Small Farmers Development Projects, promoted under the Small Farmers Development Project, into cooperatives. SKKB is owned by: ADB/N, the Ministry of Finance, two commercial banks, and a group of SFCLs. It is envisaged that SFCLs majority ownership will grow over time.

In Nepal USAID focuses on education, gender and microfinance programs. It has provided substantial funding to Pact Nepal for the Women Empowerment Program until 2001. USAID will continue to promote microfinance and education through recent grants to World Education to support the WEEL project (Women Economic Empowerment and Literacy) and to Save the Children under the IGP grant program.

4.5.2 Supporting Organisations

The Centre for Microfinance is one of the key organisations supporting microfinance in Nepal. It aims at strengthening the microfinance sector through capacity building, research and consultancy services. It is also involved in policy development, an innovation catalyst (partner in a micro insurance pilot scheme), and impact assessment. CMF currently partner with Impact, an international project focusing on the social impact of microfinance, funded by the Ford Foundation and implemented by three UK universities.

The Institute for Integrated Development Studies (IIDS), established in 1990, is an independent research institute, under NGO status, focusing on development issues in Nepal. It undertakes research studies as well as action-research programs. In microfinance, it implements the 'Self-Reliant Development of the Poor by the Poor program', which covers 18 village development committees in Western Tarai and has reached 3,000 beneficiaries from the poor and underserved communities. The program supports the formation, development and transformation of self-help groups, which ultimately become registered cooperatives with access to external capital. IIDS also provides self-help groups with credit for development activities and the constitution of revolving loan fund for income generating activities. Approximately 180 groups have been supported, some of them operating under cooperative rules and accessing funds from RSRF. IIDS has also provided technical assistance and capital funds to women's groups.

Over the years, local microfinance networks have been established in Nepal, such as the Microfinance Association of Nepal (MIFAN), the Grameen Replications Network and several cooperative networks and federations. However, they are now mostly inactive, due to a lack of funding and the diversity and geographical isolation of their members. Plan International, an international NGO, encourages the creation of a national microfinance forum, which would involve policy makers, academics and microfinance providers. This forum would focus on issues such as product development, pro-poor methodologies, regulations and standards.

Plan also supports microfinance providers in increasing their outreach, and provides Nirdhan with financial assistance in establishing linkages with self-help groups and building the capacity of cooperatives. It also collaborates with the Women Credit Union. Through collaboration with Nirdhan, Plan provides capacity building assistance in monitoring the impact of financial products in the lives of clients and their barrier to growth. Plan also manages the education component of the credit plus approach implemented by Nirdhan.

RUFIN is a joint Nepali-German project, implemented by the Agricultural Development Bank of Nepal, with technical assistance from the German Agency for Technical Cooperation (GTZ). RUFIN aims at bringing sustainable financial services to the rural poor and has supported the transformation of SFD Projects promoted under the Small Farmers Development Project into Small Farmers Cooperatives (SFCL) and in the establishment of Sana Kisan Bikas Bank – SKBB- (Small Farmer Development Bank) in 2002.

CHAPTER FIVE DATA ANALYSIS OF RESPONDENTS

This chapter is aimed to display and evaluate the collected data regarding the objectives. The main component of micro-finance program is to provide loan for women and small farmer especially in income generation and enhance living standard as well as to encourage them for compulsory saving and voluntary saving.

5.1 Caste, Age and Marital Status of small farmer

5.1.1 Cast and Ethnicity of Respondent

Table 5.1
Caste and Ethnicity of Respondent

Caste	Total Member	Percentage
Brahmin and Chhetri	22	34.92
Magers	10	15.87
Chaudhary	18	28.57
Other	13	20.62
Total	63	100

Source: Field Survey, 2013

Table 5.1 shows that in the study area majority of members belongs to Brahmin and Chhetri. 34.92 percent of member comes from Brahmin and Chhetri. 15.87 percent are Magers, 28.57 percentages from Chaudhary and rest 20.62 percentage are from other cast. Thus the Pratapur VDC is multi ethnic world comprising prominently four ethnic groups.

5.1.2 Age Group of the Respondents

Table 5.2
Age Group of the Respondents

Age Group	No of Respondents	Percentage
20-30	10	15.87
30-40	17	26.98
40-50	20	31.74
50-60	13	20.63
60-70	3	4.78
Total	63	100

Source: Field Survey, 2013

The youngest among the members surveyed was 20 years old while the oldest was 67 years old. We find very little members who had 60 years over were only 4.78 percent. Table shows that more than half percentage of the women and small farmer members are between 30 to 50 years who have heavy financial load for their survival and other social responsibilities such as giving education, marriage of their children.

5.1.3 Marital Status of Respondents

Figure 5.1
Marital Status of Respondent

Figure 5.1 shows, that majority 85.71 percentage of the member surveyed were married. Unmarried are only 4 women which represent 6.34 percent on all respondents. Only 3.17 percentages are widowed and 4.78 percentages are separated divorced. This data means that 8 percentages of the members surveyed are heads of household.

5.2 Family Size, Family Head and Education Attainment of the Respondents.

5.2.1 Family size of the Respondents

Table 5.3
Family Size of the Respondents

No of Family Member	No of Family	Percentage
1-3 Members	8	12.7
4-6 Members	42	66.67
7-9 Members	11	17.5
10-12 Members	2	3.17
Total	63	100

Sources: Field Survey, 2013

Table 5.3 shows the increasing preference towards nuclear family. 12.7 percentages of the member served belongs to small sized households with 1-3 members. However, 66.67 percentages come from medium sized households with 4-6 members and negligible percentage (3.17) had large sized family member with 10-12 persons.

5.2.2 Family Head of the Respondents

Table 5.4
Family Head of the Respondents

S. N.	Category	Frequency	Percentage
1.	Herself	30	47.6
2.	Himself	15	23.8
3.	Others	18	29.6
Total		63	100

Sources: Field Survey, 2013

Table 5. 4 shows that, the majority of households are mostly male headed, clearly showing the patriarchic family system, which is often blamed for the lower efficiency of the family as a production unit and the main cause of repression of women within a family and society as a whole. Of the total 63 respondents covered in the study 53 percent belonged to male headed household and others remaining 47 percent are female headed. Lower percentage of female headed household reflects the dominant position of male member of family over the female member. Most of the sample members belonged to the house headed by the male members, means major and important decision in the family is taken by the male members, no matter how serious it is towards women of their concerns.

]

5.2.3 Education Attainment of the Respondents.

Table 5.5
Education Attainment of the Respondents

Educational level	No of Respondents	Percentage
No Education/illiterate	10	15.87
Joined Adult Literacy Class	13	20.63
Primary School	19	30.15
High School	16	25.40
Higher Education	5	7.95
Total	63	100

Sources: Field Survey, 2013

Table 5.5 shows the pitiable educational condition of the member in the periphery of Nawalparasi district. 15.87 percentages of the members surveyed had no formal education. 20.63 percentages of these without formal education had joined adult literacy classes. Only 7.95 percentages reached the Higher Education. It indicates sheer negligence of concerned authority in education.

5.3 Land Holding Sizes of the Respondents

Table 5.6
Land Holding Sizes of the Respondents

Size of land	No. of Respondents
Landless	2
Below 5 kattha	26
5-10 kattha	17
10-20 kattha	11
20 kattha above	7

Sources: Field Survey, 2013

In the field of study it is found that 3.17 percent of the total sample do not have their access on land. 41.27 percent have the land below 5 Kattha, 26.98 percent have their land from 5 Kattha to 10 Kattha, 17.46 percent have the land from 10 Kattha to 20 Kattha. And the remaining 11.11 percent of the respondent have more than 20 Kattha land. This indicates that on few percent of respondent have the enough land.

5.4 Purpose of Join in Micro-finance Programs.

Table 5.7
Purpose of Join in Micro-finance Programs

Purpose of Loan	No of Respondent	Percentage
To earn more	35	55.55
To have company with friends	8	12.7
To be self dependents	20	31.75
Total	63	100

Sources: Field Survey, 2013

Table 5.7 shows, the main purpose of join in Micro-finance programs. Normally they join for three purpose, many of them (55.55 percent) join for to earn more and increase their life standard. 12.7 percentage of them were join for company with friends, they wanted to do some things. Rest 31.75 percentages were joining for self dependent. They wanted to run own micro-enterprise. This program helps for fulfillment of their purpose although they were different.

5.5 Main Occupational Status of the Respondents

5.5.1 Main occupations of the Respondents before this Program

Figure 5.2

Main Occupations of the Respondents before this Program

Sources: Field Survey, 2013

Figure 5.2 shows that 30 percent of the members surveyed claimed that their main occupation was that of wage laborer, 24 percent identified himself or herself as wine seller. The field survey shows that the occupations are very much influenced by caste/ethnic group. Mostly Magar women have adopted home made wine selling. Newar women-spinning and Brahmin/Chhetri Farming as their occupation. 15.87 percentage identified them as Micro entrepreneur engaged in mill and making cloth. Only 7.94 of the respondent are found engaged in different type of government sector.

5.5.2 Main Occupation of the Respondents after this Program.

Table 5.8

Main Occupation of the Respondents after this Program

Occupation	Total	Percent
Wage Laborer	15	23.81
Sellinghome made Wine	8	12.7

Farming	20	31.75
Weaving Machine	15	23.81
Government Service	5	7.94
Total	63	100

Sources: Field Survey, 2013

Table 5.8 shows the sight changes in the occupation after the introduction of MFP in the surveyed area. The percentage of respondents after joining the Microfinance in agriculture sector has increased. While the occupation of most of the respondents remains same but the way of the income generation has increased. This indicates that the establishment of microfinance has played the vital role in increasing the income level of respondents. Due to lack of skill and vocational training most of the respondents are forced to engage on laborious works.

5.6 Loan Status of the Respondents.

5.6.1 Main Purpose of the Taking Loan

Table 5.9
Main Purpose of the Taking Loan

S. No	Main Purpose of Loan	No of Respondents	Percentage
1.	House hold needs	5	7.94
2.	Celebration of festival	2	3.17
3.	Real-estate	3	4.76
4.	Luxurious goods	1	1.59
5.	Health and services	8	12.7
6	Farming	25	39.68
7.	Business	14	22.22
8.	Others	5	7.94
Total		63	100

Table 5.9 shows the mentioned purpose of taking loan from the Micro-finance. Maximum no of respondent (39.68) percentages were taking loan for the purpose of Farming. Very little respondents were taking loan to celebrate festivals and luxurious goods, which is not the productive work. Very small amount of loan was provided for this purpose. 7.94 percentages were taking for the fulfillment of their house hold needs. 4.76 percentages respondents were

taking loan for the Real-estate. In this way different person takes loan for the fulfillment of their own needs and wants. MIFs institutions help to fulfill in their income generating works.

5.6.2 Status of Loan uses in Specific Objectives.

Figure 5.3
Status of Loan uses in Specific Objectives

Sources: Field Survey; 2013

Figure 5.3 shows, 82.54 percent of loan are used in specific purpose which increased business in this area whereas 17.46 percent of loan is not spent in specific purpose for which the loan has been taken, it indicates that the number are not skilled, trained and capable enough to utilize their resources due to which it is misused.

5.6.3 Loan Amount and Frequency of Loan Taken

Table 5.10
Loan Amount and Frequency of Loan Taken

Loan amount borrowed (in Rs)	Frequency of borrowing the loan	Percentage
20000	10	15.87
50000	10	15.87
80000	8	12.7
90000	7	11.11
100000	12	19.05
120000	4	6.35
150000	6	9.52
180000	3	4.76
200000	3	4.76
Total		100

Source: Field Survey; 2013

Table 5.10 shows the loan amount and frequency of loan taken by the respondent. 19.05 percent of the respondent said that they have taken the loan from micro finance amount rupees 100000

which is the highest and 4.76 percent of the respondent said that they have taken the loan amount rupees 180000 and 200000 which is the lowest.

5.7 Earning Status of the Respondents.

5.7.1 Monthly Earning before and After Joining the MFP

Table 5.11

Monthly Earning before and After Joining the MFP

S.N.	Income in Rs.	No of Respondents		Change (After-Before)
		Before MFP.	After MFP	
1.	Less 1500	8	3	-5
2.	1500-3000	14	3	-11
3.	3000-8000	17	5	-12
4.	8000-12000	8	8	0
5.	12000-14000	7	11	4
6	14000-18000	6	14	8
7	18000 Above	3	19	16
Total		63	63	

Source: Field Survey; 2013

Table 5.11 shows the income status of the respondents before and after MFP. Before micro-finance programs there were 8 person out of 63 had income less than Rs. 1500 but, after programs this number is only 3. In this way, number of respondent who earn between Rs 3000-8000 were 17 but this is reduce by 12 numbers. This clearly shows that the families are poor in terms of income. Agriculture production is not sufficient to feed their family year-round, whereas well-off household had surplus agriculture production. Before micro-finance programs only 3 respondents earn above Rs 18000 but now this number is reached to 19. Monthly income increase due to joining the program. MIFs savings and credit services provided an opportunity for their members to undertake different enterprises, including micro enterprises. This helped the members to generate self-employment and increase their incomes, thereby contributing towards reducing their poverty to same extent.

5.8 Socio-Economic status of Respondents.

5.8.1 Socio Economic Status before joining NUBL by Farmer

Figure 5.4

Socio Economic Status before joining NUBL by Farmer

Source: Field survey, 2013

Figure 5.4 shows that 40 percent respondents said that before the membership of NUBL level of income is low due to low source of income, 20 percent of respondent said that they have poor access on education and health service, 10 percent of the respondent replied that their participation on social work was low, 10 percent of the respondent said that their living standard was poor and remaining 20 percent of respondent said that they have no access on ownership.

5.8.2 Socio Economic Status after joining NUBL by Farmer

Figure 5.5
Socio Economic Status after joining NUBL by Farmer

Source: Field survey, 2013

Figure 5.5 shows that 20 percent respondents said that membership of NUBL is effective in changing their level of income, 10 percent of respondent said that it is effective in increasing access on education and health service, 13 percent of the respondent replied that it is effective in enhancing the participation on social work, 30 percent of the respondent said that membership on NUBL is effective to raise their living standard and remaining 23 percent of respondent said that it is effective to increase the access on ownership.

By comparing the Socio-economic status before and after joining the NUBL by Small farmer, it is found that this microfinance play a Heoric role in order to improve the socio-economic status of its members. The amount of loan provided by the microfinance in different headings such as Agriculture, Livestock, Business, Educational settlement, Foreign employment, Social work and Real state has increased the level of income, consumption pattern, ownership, knowledge and participation on social work.

5.8.3 Educational Status before joining NUBL by WOMEN

Figure 5.6
Educational Status before joining NUBL by WOMEN

Source: Field survey, 2013

Figure 5.6 shows that 30 percent respondents said that before the membership of NUBL they were illiterate, 40 percent of respondent said that they have primary level education, 10 percent of the respondent said that they have lower secondary level, 3 percent said secondary level, 6 percent said higher secondary, 4 percent said 10+2 and 2 percent said bachelor level of Education. This indicates that the level of educational attainment of women before joining NUBL is at poor level.

5.8.4 Educational Status after joining NUBL by WOMEN

Figure 5.7

Educational Status after joining NUBL by WOMEN

Source: Field survey, 2013

Figure 5.7 shows that the illiterate percentage is decreased from 30 percent to 11 percent after participation in NUBL. 10 percent of respondent said that they have lower secondary level education, 5 percent of the respondent said that they have secondary level, 10 percent said higher secondary level, 16 percent said 10+2 and 11 percent said bachelor level of Education. This indicates that the level of educational attainment of women after joining NUBL is increase. By comparing the education status before and after joining the NUBL by Women, it is found that the micro finance play a Heroic role in order to improve the education status of its women members. NUBL is found to be effective in providing their services to their members and it proved that micro finance is a good instrument to adress the educational problem . Therefore the respondent said that establishment of NUBL is very effective to changing their educational status.

5.9 Effectiveness on Poverty Reduction

Responses regarding the effectiveness of NUBL on Poverty reduction the figure below present the views.

Figure 5.8

Effectiveness on Poverty Reduction

Source: Field survey, 2013

The figure 5.8 shows that NUBL has played a role of corner stone to change the socioeconomic status of pratapur vdc and helps to reduce the Poverty in some extent. The answer of the respondents indicates that without the membership in NUBL the people cannot make saving of their income. Similarly most of respondent replied that they are not enjoying the health services due to their limited income. Most of the respondent spent their 50 percent of income in the consumption of daily necessary goods. Likewise they are unable to have quality education as

they have limited income. But after enjoying the service of NUBL they have make a change in their living standard. The saving has reached to 10 percent of their income, they have to spent less percent of their income on consumption i.e. 50 percent has decreased to 20 percent due to rise in their income. Similarly they are getting quality education as they are able to spend their 8 percent income in education. Likewise they are able to spend some part of their income in health service.

Thus the figure shows that the establishment of NUBL in this community helps to reduce the poverty in some extent.

5.10 Regression Analysis:

Regression Analysis was done to find out the effect of predictors on the dependent variable.

Linear regression were calculated and presented with F and t-value.

Simple Linear Regression Model

$$Y = a + bX$$

Where Y = dependent variable

X = independent variable

a,b = regression parameters

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985	.97	.076	.91542

ANOVA

Model	Sum of Squares	df	Mean Square	F	P
Regression	3.878	1	3.878	4.627	.037
Residual	36.034	43	.838		
Total	39.911	44			

a. Independent Variable: Membership

b. Dependent Variable : Access on ownership

Regression between Membership and Access on Ownership

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	P
	B	Std. Error			
(Constant)	1.872	.522		3.588	.001
membership	.428	.199	.312	2.151	.037

The result shows that during linear regression analysis, significant relationship was observed between membership and access on ownership. The member of the Microfinance increase investment on various sector such as business, livestock, agriculture, real estate etc after the involvement in cooperative which leads the increase in their ownership.

During the regression analysis, the relationship between membership and access on ownership is statistically significant but the value of R square is low which is due to the qualitative nature of data.

Regression between Membership and Living Standard Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.800	.64	.111	.432232

ANOVA

Model	Sum of Squares	Df	Mean square	F	P
Regression	1.211	1	1.211	6.481	.015
Residual	8.034	43	.187		
Total	9.244	44			

a. Independent Variable: Membership

b. Dependent Variable: Living Standard

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	P
	B	Std. Error			
(Constant)	.683	.246		2.774	.008
membership	.239	.094	.362	2.546	.015

The result showed that during linear regression analysis, significant relationship was observed between membership and Living Standard. The member of the micro finance increase investment on various sectors such as business, livestock, agriculture, real estate etc after the

involvement in microfinance leads the increase in their income. The increase in income increased living standard too.

During the regression analysis, the relationship between membership and Living Standard is statistically significant but the value of R square is low which is due to the qualitative nature of data.

**Regression between Membership and Participation on Social Work
Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.560	.313	.106	.62091

ANOVA

Model	Sum of Squares	Df	Mean square	F	P
Regression	2.400	1	2.400	6.226	.017
Residual	16.578	43	.386		
Total	18.978	44			

- a. Independent Variable: Membership
- b. Dependent Variable: Poverty reduction

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	P
	B	Std. Error			
(Constant)	.725	.354		2.049	.047
Membership	.336	.135	.356	2.495	.017

The result showed that during linear regression analysis, significant relationship was observed between membership and Poverty reduction. The member of the microfinance get participated in different creative and awareness programmers. This activities increases their participation in social work.

During the regression analysis, the relationship between membership and Poverty reduction is statistically significant but the value of R square is low which is due to the qualitative Nature of data.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 SUMMARY:

Microfinance program has been designed to uplift the poorest of the poor from the society those who are deprived, socially backward, economically weak and from the indigenous groups. From the field survey it shows majority of clients are illiterate they are not qualified and skilled. Most of them depend on agriculture or small grocery in front of the house. Really they are under employed. They do not have sufficient work to do. Most of the clients answer to involved in the programs to enhance their economical status and better education for their children. The field survey shows with the intervention of MFPs client are much more conscious, their working hour increase which supported to increases the income level. Clients left of few have pay their installment in time and the repayment rate is seems to be cent percent. The programs really empower the clients and also played a crucial role on decision making process. MFPs also support to smooth the consumption. The cent percent client involving in the MFPs have demand a creative and skilled training which supports them to generated income: Cutting, sewing, Pickle making, chalk making, about handicraft, dolls and decorating material, painting , beauty parlor are the listed trainings that the clients demand to strengthen their economic status. The finding and out comes of MFPs are listed below:

- MFP has provided the banking services to those who are under served from the traditional banking services.
- It has supported to respect the needs of the poor small clients of small loan.
- Due to the MFPs women and indigenous groups of deprived sector are greatly benefited.

- MFP developed as a magical tool to poverty reduction.
- MFP has supported to increase the income level of the poor. On the other hand it helped to utilize the skills and optimum mobilization of resources that present in local level.
- MFP initiative to empower the women and take engage in the community development activities.
- The consumption and clothing pattern has also changed with the involvement in MFPs
- MFP has done a great task of creating the employment by providing loan in rural areas.
- Because of its intervention the working hour of the people has been extended. It has supported people to commercialize their occupation and get the economic benefit from their.
- It is also helpful to develop entrepreneur skills in the local level. It support to developed the micro enterprises.

6.2 Conclusion

Micro-finance program serves the deprived population of the country at their doorstep with the aim of improving their socio-economic condition. As micro-finance has been considered as an effective and efficient mechanism to reduce poverty all over the world, however Nepalese micro-finance institutions are not being able to reach the poorest due to inability of proper identification of the poor and lack of commitment and clear vision of their action. Despite the financial sector, liberalization policy of the government aimed to encourage financial institutions to contribute in poverty reduction endeavor of the government, the satisfactory result have not been achieved due

to some managerial challenges encountered by the micro-finance institutions all over the country.

The challenges faced by the institutions vary depending upon the type of financial institutions as banks, finance companies, NGOs, co-operative societies and self-help group that are participating in this program with different functional strategies. These challenges are concerned with strategic, operational, financial and manpower management. The strategic challenges are related with planning, controlling mechanism and external policy environment. Unclear vision and mission statement, lack of commitment, multiple regulatory framework and policy inconsistencies constrain the sustainable growth of micro-finance institutions in the country. Inadequacy of resources and lack of linkage mechanism between informal and formal financial sector, duplication of activities, widening intense competition in urban and semi-urban areas, inadequate attention towards the loan delinquency management and control to poor human resources development efforts are perceived as the operational challenges.

The micro-finance institutions need to adopt strategic approaches in order to address these managerial challenges as a supportive policy with one door controlling and monitoring mechanism, effort to link formal and informal financial sectors involved in micro-finance programs and flexibility in financial management regulation. Additionally, financial institutional themselves need to develop business planning practice and efficient management of human resources within the institutions.

Involvement in the micro-finance programs has empowered women in varying degree. It has offered opportunities for poor women to come out of their household confines, to organize themselves in group and to work in productive and social activities. The program with its focus on group activities and income generation has helped to enhance the self-confidence and increased right to spend, thus increasing the access to resource.

Training for improving farming techniques and micro-enterprises has helped members to shift from the traditional agriculture to cash crop production, which yields higher returns.

Awareness of healthcare, including women and children's health, family planning, sanitation and reduction in smoking, alcohol consumption, etc., have increased. At monthly group meeting, women discuss health issues which they follow in their day-to-day lives.

The availability of loan from micro finance has helped in reducing the interest rate charged by moneylenders from 60 percent to 36 percent. Competition in the financial market has helped to improve the quality of services and it reduces the interest rate but it is still too high.

Members have become more aware of gender equality (participant of the Focus Group Discussion said that man and women are equal in social aspects, it is wrong to wait for the birth of a son and increase family size), human rights and women rights issues. They know that violence; both physical and mental against women should not be tolerated. They have also become aware of their voting rights and right to parental property.

Women's mobility has increased due to their participation in monthly meetings, trainings, meetings with outsiders, unlike in the past when they had not joined the micro finance.

Saving groups is an important part of the program. Besides the income generating projects group members are taking credit from within the group at the time of emergency. So group saving has become their good source of money otherwise they would have to go to the moneylender and it is accumulating the source of future use. They all left that it has culminated a good habit of saving whether the source of saving is from project income or any other sources.

In respect to financial intermediation, it can be concluded that, although the subject is new in Nepal, it is the right way to fulfill the financial needs of rural poor. Reaching to the poor through financial intermediaries is found to be cost effective and targeting can be done correctly.

MFP should widen their area by appointing staffs to hear and understand their problem and to find out alternative as well as solution. So that, they should not be victimized by excess burden of debt.

Getting loan in small amount of Rs.3000 to Rs.5000 cannot give optimistic results. The borrowers use loan for their daily requirement and keep for repayment. Economic upliftment through such findings is impossible. In order to have optimum utilization of loan, group investment should be done like small cottage industries, factories, enterprise on the group consent. So that amount of loan taken will not be used for consumption purposes rather it is invested for productive purpose.

Effective follow-up, supervision and monitoring are essential to utilize loan in actual purpose. Otherwise many of the borrowers have to pay back loan by selling their property.

6.3 Recommendations

Based on the study following suggestions are recommended for further improvement and successful implementation of the program

- If the income level of the respondent is seen in the study area, we find some women who have a clearly higher level of annual income of their family and there remains some possibility of leaving the poorest of poor untouched by the program. So there should be proper identification and selection of the target group by the MFIs to insure that the really poor, backward communities are not left behind.
- To supervise the use of loan and to provide effective skill to advice on the proper management of the loan, field staffs should be trained regularly. The clients of the programs received technical as well as managerial guidance to manage micro-finance program.
- Literacy program is an integral part of rural micro-finance program. Curriculum is amended toward economic orientation rather than conventional one.
- Volumetric and physical expansions of transaction are being encouraged rather than productive lending. Potential market based activities be encouraged rather than replication of the same activities.
- Women are more likely to take part in multiple activities simultaneously to support their families and to improve understanding of women's skills while formulating program.
- Participation of women in the program is ever increasing, which makes them overloaded. Time and drudgery reducing program be integrated. Gender sensitization training is imparted from the initiation.
- There is a gender division of labor at the household level and women lack access to control of resources. Learn about the relationship of the household level information like- Who does what? Who control what? Identify and implement strategies for change within the family and community.

- The program should develop practical and varied training courses to the women and small farmer related development activities as the need particular community.

- The agriculture sector is dominant in absorbing the program. Mostly the loan is used for investment like beekeeping, poultry farming, goat farming, and pig farming, Buffalo farming and agriculture with vegetable farming. So livestock sickness and livestock death makes emergency burden to the borrowers. To solve the problem, following points are purposed
 - a. Healthy livestock should be supplied to the borrowers.
 - b. Necessary vaccine should be arranged at appropriate time.
 - c. Who can fully devote time to provide services?
 - d. Through there is the provision of insurance (in the case of death of livestock) but it has not smoothly implemented. So there is needed of smooth implementation of insurance provision as well as the provision of insurance to livestock suffering from disease too.

- There is the marketing problem, it was indeed observed that there were marketing constraints to solve the farm produce, mostly in vegetable farming. Women produce vegetables with expensive cost but in the time of sell of produce there is the problem of market, which must be solved.

- When lending, it is noted that family of the members are the consumers. So in our community there may be necessary two shows, one tailor, two or three milk suppliers to surely necessary goods for community.

- The position of the program staff should be permanent, so that could perform their responsibility with confidence and concentration. Given the field orientation nature of work of the program allowance should be raised.

- There is need to shift the program from agriculture based to small industry and other business promoted activities. Since there is higher operational cost in agriculture base activities.

- The effective crosscutting programs are necessary for microfinance program.

- Microfinance program is formed operating their transactions without due consideration for their financial viability and sustainability. For the viability and sustainability,

effective government policy is also necessary. So interest must be charged at the rate and cost must be minimized where the institution is viable.

- Microfinance program is not a family business, so member of board and executive committee of the institution must be awarded of their role and responsibility.

APPENDIX I

THE EFFECTIVENESS OF MICRO FINANCE IN NEPALESE ECONOMY (A CASE STUDY OF NUBL, PROGRAM IN PRATAPUR VDC, NAWALPARASI)

Questionnaire

Questionnaire no:-.....

Date:-2070/..../...

Respondent's Name:-.....

Address:-.....

1. Personal Profile

1.1 Age

1.2 Your marital status (Tick)

a) Married
c) Divorced

b) Unmarried
d) Widow

2. Family information

2.1 Your current family member (Tick)

Children: - 0-14 years Female Male

Adult: - 15-64years Female Male

Older: - 65and above Female Male

2.2 Members who earn from (Tick)

a) Government services b) Business

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b) Private firm/industries

d) on own farm

e) Other (specify):-.....

2.3 Who is the head of your family? (Tick)

a) Self

b) Others

3. Economic Background

3.1 Do you have land of your own? (Tick)

a) Yes

b) No

3.2 What was your main occupation?

Sector	Before	Income	After	Income
Agriculture				
Business				
Private sector				
Government				

4. Participation in micro-finance

4.1 How did you know about the MF Program?

.....

4.2 How did you enter in the group?

.....
4.3 What is your position in the group? :-.....

4.4 How did you feel to enter in the group? (Tick)

- a) Very difficult b) Difficult c) Normal
d) Easy e) Very easy d) others

5. Loan received, use and repay

5.1 From where do you receive loan?

Sources	Before		After	
	Amount	Rate of interest	Amount	Rate of interest
Local money lender				
Co-operative				
Bank				
Microfinance				

5.2 Who decided utilization of the loan? (Tick)

- a) Self b) Family head c) Common decision

5.3 Why did you join this program? (Tick)

- a) To earn more income and to improve family condition.
b) To have company with friends.
c) To be self-dependent.

5.4 What is the purpose of taking the loan and how much is it?

S.N	Items	Before(amount)	After(amount)
1	Consumption expenditure		
2	Celebration of festival		
3	Real-estate		
4	Luxurious goods		
5	Health and services		
6	Farming		
7	Business		
8	Other		

5.6 How do you pay back the loan? (Tick)

a) Partially b) At once c) Not paid yet

5.7 Have you ever faced difficulties to pay back the loan and interest?

a) Yes b) No

If yes, what are the difficulties? How did you solve it?

.....

5.8 Have you conduct any literacy class?

Program	Before	After
Adult literacy class		
Woman literacy class		
Pre-primary class		

6. Family Statuses:

6.1 What changes has been occurred after joining this program?

S.N	Subject	Before	After
1	Access on electric device		
2	Expenses on luxurious goods		
3	Meat eating habit		
4	Expenses on entertainment		

6.2 How do your family members and relatives deal with you after joining the group? (Tick)

a) Appreciate b) Criticize c) Others.....

6.3 In your opinion, what are the main benefits of joining MF group?

.....

7. Question for the management

7.1 Do you investment on the following heading?(Tick)

a) Agriculture b) Pastorals
 c) Business d) Education
 e) Social program

7.1 How much investment has been done by NUBL?

Heading	Minimum(Amount)	Maximum(Amount)
Agriculture		

Pastorals		
Business		
Education		
Social program		
Others		

7.2 How do you make your investment? (Tick)

- a) Without collateral b) With collateral
 c) With risk bearer

7.3 How do you return back the loan? (Tick)

- a) With low interest rate. (.....%)
 b) Without interest rate.
 c) Installment payment.
 d) Full payment.

8. Trainings

8.1 Have you taken any training from micro finance program? (Tick)

- a) Yes b) No

8.2 How helpful has the training you received from MFI been in your enterprise operation? (Tick)

- a) Very helpful b) Helpful c) Not helpful
 d) Others.....

8.3 Has the training increased your skill? (Tick)

- A) Very much increased b) Normally increased c) Not increased

8.4 After receiving the training, has your confidence on income generating activities increased?
(Tick)

a) Yes

b) No

8.5 Do you think your employment opportunity in labor market has increased due to training you received from MFI? (Tick)

a) Increased

b) Decreased

c) Constant

d) don't know

9. Effectiveness on poverty reduction

What changes has occurred on the following headings

Headings	Before(amount)	After (amount)	% change
Saving			
Consumption pattern			
Education			
Health and services			

10. Are you happy involving in this Micro finance? (Tick)

a) Yes

b) No

c) Others (Please specify).....

11) What types of benefits you have from this MF?

Program	Having it	Have not
Economical independent		

Social awareness		
Literacy program		
Basic skill development		
Decision power development program		
Gender equality		

12) What social and economic changed has been appears from MF?

Status of respondent	Before joining MF		After joining MF	
	Investment	output	Investment	output
Agriculture				
Business				
Employment				
Pastoral				
Education				
Celebration of festival				
Participation on social work				
Donation				

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