CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is predominantly rural said as 83 percent (CBS 2011) of the total population living in rural areas. It is one of the least urbanized and poorest countries in the world and annual per capita income is around US $742(Nepal Economic Survey 2011/2012). More than 76 percent (Ministry of Finance 2010/2011) of the total households are agricultural households. So, Agriculture is considered the source of economic activity of the country accounting around 35.68 percent (Ministry of Finance 2011/2012) of the total GDP. Ironically, of the total area of the country, only about 16 percent is under cultivation while the productivity of agriculture is one of the lowest and the food production is inadequate to meet the demands of the country. Over and above, the country is compelled to face challenges such as unemployment, underemployment, low income, inequality, hunger, malnutrition, starvation etc.

Poverty is a complex and multidimensional phenomenon. It is widespread and pervasive. Income poverty is considered as deprivation, low education, fragile health including reproductive health, low nutrition and unemployment, and weak social and political participation. These are supplementary elements of the deprivation of capability and empowerment (Sen, 1999). A study argued that the measurement and the examination of the characteristic causes of poverty at household levels is an important input into the design of economic policy and poverty reduction (Aryal, 2006 a, Sahn and Stifel 2003). Poverty has become now an international agenda, and the world leaders have committed to social development in order to address the problems of poverty in twenty first century. Recently continuous efforts were made for reducing the large proportions of people living in extreme poverty.

Nobel peace prize winner of 2006, Prof. Mohammad Yunus of Bangladesh, the profounder of Grameen Bank regards poverty as ' negation of all human rights'. In his own words "poverty can be viewed narrowly as the denial of human right. A poor person has no right at all , no matter what one puts into the book (Yunus 1987)

Indeed, developing countries still have achieved a slower progress in reducing poverty. It is argued that there cannot be economic development without the reduction of poverty (Meier; 1984). Poverty is considered as an evil for the betterment of a society. Until and unless poverty is eradicated, people of the society cannot get minimum basic needs such as food, clothing and shelter and other civic rights; education, health, employment, security, freedom and infrastructure services.

In the context of Nepal, the poverty level has been quantified with the help of minimum subsistence level of income and consumption from different sources of data. Nepal Living Standard survey 2011/2012 reported that 25.2 percent population were below the poverty line, of which about 27.43 percent in rural and 15.46 percent in urban areas in 2010 (CBS 2009/2010) .Where as the Nepal Living Standard Survey, conducted in 1996 estimated that about 42 percent of the total population were living below the poverty line, Similarly, NLSS - II (2003/04) data estimated that 31 percent of the total population were below the poverty line. The Survey defined poverty as a state of affairs where a particular person is not financially stable or does not have the right sources to stay on their feet. Hunger, lack of shelter, being sick and not being able to see a doctor, not being able to go to school and not knowing how to read, not having a job, fear for the future losing a child to illness brought about by unclean water, powerlessness, lack of representation free down and isolation all are considered as features of poverty..

Poverty in Nepal is overwhelmingly a rural characteristic. We have to be clear that without proper looking of the basic characteristics of the individual and/ or group of individuals and/ or household level, no further achievement can be made in the reduction of poverty. Nepal has more than 50 year's development experience. The past development history has shown that poverty reduction constitutes the precondition for the overall development of the country. Without enabling those people living under the poverty line to participate and involve spontaneously in decision making process on every issues concerning themselves by increasing their per capita income, providing them with income generating opportunities, Nepal’s development process cannot be achieved smoothly. The consumption of goods and service such as people’s basic and primary needs like food, clothing, shelter and health, education etc, depend upon their purchasing power. And, these are the prerequisites for the infrastructure development such as construction, road, irrigation, electricity etc, which is one of the indicators of level of development in the country.

The review of past development experiences show that poverty alleviation was given the first priority in the VIth plan and thereafter. Execution of various plans, programs and projects for the poor by GOs, I/NGOs was made to alleviate poverty alleviation. The Tenth Plan, (2002-07) singled out poverty alleviation as its goal and various policies and programs, approaches and tools Were adopted. Microfinance is one such strong tool to foster socio-economic livelihood of poor residing both in rural and urban areas. The concept of microfinance is not new.

Several developing countries of the world have been adopted micro financing as a instrument for poverty reduction. Different approaches and modalities of microfinance programs are being launched the world over, and this is true for Nepal as well.

Microfinance, a complete provision of financial services, intends to uplift the living standard of the poor, low income, marginalized, down-trodden and disadvantage people. It is an economic development approach that provides financial sources to low income and unemployed clients in groups. The purpose of microfinance is to provide financial services to the needy people in remote areas who do not have access to modern physical facilities. Two sources, formal and informal of microfinance, can play its role in people's economic life. A survey of Nepal Rastra Bank revealed in 1994 that only 20 % rural households have access to formal credit and the remaining had to rely on informal credit. There is a severe need to meet the demands for the microfinancing by setting up more rural development banks, and I/NGOs to extend credit. It, of course, plays a crucial role in eliminating poverty and enhance poor people's empowerment. Microfinance helps people to enhance their capability and sharpen their skills and knowledge. Microfinance help widen the range of economic activities and efforts to augment their income levels.. Therefore, the microfinance has emerged as a promising approach to provide social welfare to the clients as well as to the society. So, it is not only a banking, but a development tool too.

Microfinance is related to the supply of loans, savings and other basic financial services to the poor people living in poverty. Financial services needed by the poor include working capital loans, consumer credit, saving, pensions, insurance and money transfer services through the formal financial sector. Poor people are fulfilling their need of financial services through a variety of financial services, mostly through informal credit which is available from informal commercial and non commercial money lenders, usually at a very high cost to borrowers. Likewise, saving services are available through a variety of informal relationships like saving clubs, rotating savings and credit associations, and mutual insurance societies that have a tendency to be erratic and insecure providers of financial services to the poor. Such institutional arrangements. These services are not sufficient to fulfill the requirements of the poor. This includes the service from donor-supported, nonprofit, Non Government Organizations (NGOs), commercial and state banks; insurance and credit card companies; wire services post offices; and others. But the experiences gained during the past 1980's, and 1990's have shown that the poor are credit – worthy,; they are sincere and they repay their loans and are willing and able to pay interest rates that cover the costs of providing such loans.

According to united nations; “microfinance” is defined as the provision of small scale financial services such as savings, credit and other basic financial services to poor low income people. The term “microfinance institution” now refers to a wide range of organizations dedicated to providing these services and includes nongovernmental organizations, credit unions, co-operatives, private commercial banks non- bank financial institutions and parts of state- owned banks

Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes and reduce their vulnerability to economic stress. However, with nearly one billion people are still lacking access to basic financial services especially the very poor. Operationally, the Nepal Rastra Bank has defined microfinance as the loan up to NRs 90,000. The relevance of microfinance tools for the development of the rural Nepal and for the improvement of living standard of low income people continues.

Microfinance is a tool for empowerment of the poorest. Higher the income, the better the asset position of the borrower. It is essentially the promotion of self employment. The employment opportunities are limited in Nepal. Agro-industries has potentials to increase GDP. But due to the lack of proper agro-services like seeds, irrigation, processing, marketing etc, Nepal's agriculture sector has not been able to show positive results with high productivity. Being an agrarian country, we need an adequate investment in the agriculture sector to enhance land productivity as well as GDP. Apart from this , microfinance generally can be used for;

a. An Income generating activities.
b. Meeting regular household and cultural activities
c. Arranging assets.

1.2 Sources of Microfinance

1.2.1 Formal Sector

The financial formal sector comprises numerous institutions licensed by NRB including 18 commercial banks, 70 finance companies, 30 development banks (including ADBL and NIDC), 34 savings and credit co-operative societies (SACCOS), and 47 rural microfinance development banks (RMDBs) and financial intermediary non-government organisations (FINGOs).

Despite the numerousness and diversity of these institutions, very few have developed significant outreach in providing services to the rural and microfinance sector. On the one hand, finance companies, commercial banks and development banks have very little involvement in rural areas and microfinance, except for the state-owned Rastrijya Banijya Bank and Nepal Bank Limited, and ADBL. On the other hand, the outreach of proper microfinance institutions[i] is limited by the scarcity of their resources: they account for only 4% of capital, 1% of deposits and 2% of outstanding loans to the sector. MFIs have achieved mixed success in terms of outreach and financial performance.

Rural microfinance development banks include five Grameen Bikas Banks (GBBs) and six Micro Credit Development Banks (MCDBs). The GBBs were established by the Government to provide microfinance services in each of Nepal's five development regions. Their outreach and performance has been poor and, like ADBL branches and SFCLs, as institutions associated with the Government, they have been particular targets of Maoist attacks. Micro Credit Development Banks[ii] have instead shown a better performance. NGOs were acknowledged for the first time as partners in the development process by the Micro Credit Project for Women (MCPW) that used them as non-lending institutions responsible for social mobilization of groups and for imparting skills But it was not until the enactment of the Financial Intermediary Societies Act (FISA) in 1998, that NGOs were permitted to provide financial services. Nowadays, they can acquire a limited banking licence from the central bank and act as FINGOs. The first 13 licensed FINGOs were established in 2000 and have since grown considerably in number – being now almost 20,000.

Four are the apex institutions currently operating in Nepal: Rural Self-Reliance Fund (RSRF), Small Farmer Development Bank (SFDB), Rural Microfinance Development Centre (RMDC) and the National Cooperative Bank Limited (NCBL).

Despite the removal or restriction of many refinance programmes, NRB still plays a developmental role through the Rural Self-Reliance Fund. Established in 1990 by the Government, RSRF is financed through public funds, replenishments from NRB and occasional donor support. It provides wholesale funds to SACCOS, NGOs, and Grameen replications operating in the rural areas of 46 districts, and it normally charges an 8% interest rate. NRB's refinancing role through the RSRF has been strongly criticized as an obstacle to the steady development of other apex institutions and the market orientation of the RF and MF sectors. The justification for continued operation of RSRF is based on the need for serving weak institutions that cannot conform to the eligibility criteria of RMDC. The continued presence of such provisions is, perhaps, an admission by policy makers that Nepal's financial system is not ready for full liberalisation owing to a lack of physical infrastructure and other limitations that require continued direct Government involvement.

Small Farmer Development Bank was established by ADBL in March 2002 but began its operations only in July 2003. The bank's main function is to provide wholesale funds to small farmers cooperatives (SFCLs). According to an evaluation done by ADB, its profitability, efficiency and productivity are weak. Loans are 80% of assets and borrowing is 73% of liabilities. The assumption is that the quality of the portfolio and the collection of loan principal will ensure that the liabilities can be met. However, this seems not to be verified: the repayment of loan principal by SFCLs has been poor as a substantial number of loans have been rescheduled, and almost one third of SFCL loans by value are classified as non-performing loans. A determinant factor is the high risk due to the concentration of nearly 90% of SFCL loans in livestock and agro-services, both of which have poor repayment histories. Moreover, SFDB's performance is constrained by the fact that, borrowing from ADBL – through Sana Kisan Bikas Bank - at a 9% interest rate, it on-lends to SFCLs at 12% - which is significantly higher than what they could obtain from other sources, such as CBs and RMDC.

RMDC was established in 1998 by the initiative of ADB and NRB, and became operational in 2000. It provides MFIs with wholesale funds, and financial and technical support to strengthen their institutional capacity. It also organizes direct support for the final beneficiaries and acts as a financial intermediary between them and national and international donors. RMDC borrows from the Government and lends to MFIs at subsidised interest rates, which allows it to compete with the CBs under the deprived sector lending. Since 2000, RMDC has increased the amount of loans approved and disbursed; the number of its partner organisations and the number of poor people reached, and have at the same time maintained its high level of financial performance. However, its outreach remains limited if compared to the demand for rural microfinance. More details about RMDC will be provided in section 2 of this report.

The National Cooperative Bank Limited was established in 2003, registered under the Cooperative Act (1992) and approved by NRB to carry out wholesale banking for its member cooperative societies. NCBL's principal sources of funds are capital and deposits. Since it opened for business only in 2004, audited financial data are unavailable. NCBL's management plans to develop NCBL as the apex institution responsible for the monitoring and supervision of cooperative societies.

1.2.2 Semi-formal Sector

In the semi-formal sector are joint government-donor supported projects and autonomous member-based organizations such as NGOs and cooperatives. Many of the latter came together under the Nepal Federation of Savings and Credit Cooperative Union Limited (NEFSCUN). Established in 1988, NEFSCUN is the central apex body of community-based SACCOS in Nepal. Its mission is to promote, strengthen and provide a forum for SACCOS to become viable community-based financial institutions. NEFSCUN is controlled and owned by its members and guided by the International Credit Unions principles and values. Currently, 432 SACCOS with more than 70,000 members from 51 districts are affiliated to NEFSCUN.

Donor support to the rural and microfinance sector has been significant both in terms of investment in projects and provision of technical assistance and capacity building. The restructuring of the Nepalese banking system has been supported by bilateral and multilateral donor agencies: the World Bank[iii] and the United Kingdom are still supporting NRB, RBB and NBL, ADB has been involved in the strengthening of ADBL, and Germany in the transformation of ADBL's SFDP into SFCLs). ADB and the International Fund for Agricultural Development (IFAD) have acted as major sources of credit lines. ADB also supported the establishment of RMDC. Other donors are UNDP, the Department for International Development (DFID), USAID, the German Agency for Technical Cooperation (GTZ), CECI Nepal, Plan International and Pact Nepal. They often work in partnership with Nepali institutions such as the Centre for Microfinance (CMF), which focuses on strengthening the microfinance sector through capacity building, research and consultancy services. Donor-funded projects have performed well in both outreach and in targeting very poor communities. However, they have often faced sustainability problems because they rely on grants and pay little attention to financial performance.

Over the years, local microfinance networks have been established in Nepal, such as the Microfinance Association of Nepal (MIFAN), Microfinance Bankers Association (MBA) and the Grameen Network Association (GNA). However, they have now either disintegrated or become inactive, due to a lack of funding and leadership and the diversity and geographical isolation of their members.

1.2.3 Informal Sector

The informal sector comprises about 20,000 informal community-based organisations such as self-help groups, Rotating Savings and Credit Association (ROSCA) - known as Dhukuti - and a large number of cooperatives. In addition, moneylenders, traders and friends also provide an informal source of finance used by a majority of the poor. Friends and family are the main providers of informal loans in both urban and rural areas – respectively 84.4% and 60.5%. Money lenders play a minor role in urban areas while they account for 33.4% of informal loans in rural areas. Since very little information about the informal financial services is available, there is need for approaching this issue in future research.

The total rural credit requirement is estimated at NRs 23.3 billion while the total supply from the formal and semi-formal sector is estimated at NRs 9.6 billion. Therefore, of the aggregate supply of rural credit, nearly three-fourths is from informal sources. The distribution of credit is not even: the upper and middle segments of the rural finance sector have more access to formal financial sources, whilst the lower segment mostly relies on informal sources. According to World Bank (2006), 47.3% of the bottom quintile of the population exclusively relies on informal loans, while the goes down to 24.7% in the case of the top quintile. ADBL and rural branches of CBs primarily concentrate on upper and middle segments while GBBs, SFDB, private sector MFBs, and NGOs focus on the lower end. ADBL accounts for nearly two-thirds of the total rural credit (by amount) from formal and semiformal.

1.3 Historical Development of Microfinance in Nepal

Institutionally**,** micro credit program, an example of micro financing, was first introduced in Nepal in April 1956 when credit co-operative was established in Rapti Valley of Chitwan**.** Then, gradually the establishment of the co-operative bank and the Agriculture Development Bank were established in 1962 and 1986 respectively. We have already seen execution of many microfinance programs such as Small Farmer Development Program (SFDP) by Agriculture Development Bank Ltd. Production Credit for Rural Women (PCRW), Micro Credit Project for Women (MCPW), Garib Sanga Biseswar etc by Government. Rural Self-reliance Fund Project (RSRF) also provides credit for the microfinance. Rural Micro Finance Development Centre (RMDC) was also established to provide wholesale loan fund for microfinance.

The Ninth Plan (1997-2002) and the Tenth Plan (2002-2007) accepted poverty reduction as their only objective. The current Interim Three Year Plan (2007-2009) has also given priority to the poverty alleviation and has focused on employment and equity and equality through social inclusion and targeted programs for the poor, recognizing the need to enhance accessibility of finance to the rural poor to promote their access to income generating activities. The government has started various microfinance programs in Nepal . The main purpose of such programs is to empower them, enhance their capacity, increase their per capita income through self-employment activities and inspire and encourage small entrepreneurs by providing credit to them without any tangible collateral. In this way, the objective of micro finance can be conceptualized as;

- To provide loan to the poor at the cheapest interest rate
- To inspire low income people for an accumulation of disperse capital
- to associate and work in group with mutual co-operation
- To provide capital to local entrepreneurs
- To commence income generating activities, and
- To empower the poor and mitigate gender disparities.

After the restoration of multi-party democracy, Nepal has given high priority to poverty alleviation. Efforts have been put to improve the standard of living of people and mitigate the gap between rich and poor. Therefore, the pivotal challenge for the country is to eradicate the poverty problem. Hence, microfinance program, I recognized as one of the tools for reducing the poverty, and this needs assessment in terms of its effectiveness from socio-economic viewpoint.

1.4 Institutional Development and Outreach Growth

Institutional development is a prerequisite for the promotion and development of credit programs for the poor and their outreach. Towards this, the Nepal Rastra Bank directed the two commercial banks (CBs) to invest 5% of their deposit balance to low income groups in 1974. Later this kind of financing is named 'Priority Sector Lending' (PSL) and raised the limit to 8% of CBs loan and advances. The NRB initiated “Intensive

Banking Program" (IBP) in 1981and further raised the PSL limit to 12% in 1989. The main partners of PSL were the Nepal Bank Ltd. (NBL) and the Rastriya Banijya Bank (RBB) – the two state-owned CBs. The CBs provided short, medium and long term loans of one, five and ten year-terms, respectively. They provided loans up to 80% of the appraised value of the collateral for low income and 70% for the higher income families. Later, these CBs also provided loans to the members of the groups formed under the Production Credit for Rural Women (PCRW) Project implemented by the Women Development Section (WDS) under the Ministry of Local Development and also to the members of groups formed by banks themselves by was Rs. 30,000. However, the share of the commercial banks was only of less than 10% in the total supply of the credit in the country till 1990.The government with a loan support from (ADB) launched Micro Credit Project for Women (MCPW) in 1993 as a supplementary program to PCRW. It was implemented in the selected places of 15 districts. Under PCRW, 82,416 women borrowed loans for various purposes from the program. In total, 933 million was disbursed in loans to the group members. In all 104 institutions mainly cooperative societies and some NGOs were formed and operated by the members under PCRW program.

The Agricultural Development Bank, Nepal also launched a Small Farmers Development Program in 1975 as the pilot project at two sites, one in the Terai and another in hills to provide credit services to the small farmers by organizing them into groups. A total of 142,711 members who were organized into 19,597 groups were benefited from the program by the end of FY1991/92. The cumulative disbursement and recovery amounts had reached Rs.1,471.8 million and 796.1 million, respectively. Later, the Sub-project Offices (SPOs) of the SFDP were converted into

Small Farmer Cooperative Limited's (SFCLs).The decade of the 1990s is the landmark in the history of microfinance in Nepal. GBBs were established in the decade to expand outreach to the poorest segment of rural societies. Further, two private sector MFIs – Nirdhan and CSD also started microfinance during the same period.Towards providing funds to small cooperatives and NGOs for lending to the poor, the government instituted the Rural Self Reliance Fund (RSRF) in1991under the management of the Nepal Rastra Bank. In the late 1990s, the Nepal Rastra bank in collaboration with the commercial banks, GBBs and few other institutions established a larger wholesaler for microfinance "the Rural Microfinance Development Centre Ltd" in 1998. The government launched the Rural Microfinance Project (RMP) of US$ 20 million with funding support from ADB to back up MFIs with wholesale loan for on lending to the poor in rural areas and to build up their institutional capacity by employing RMDC as the principal implementing agency. At the same time, the government promulgated the Financial Intermediaries Act 1998 to facilitate

Legal entity to the NGOs operating microfinance in the country. Since the establishment of the Rural Microfinance Development Center Ltd.(RMDC) in 1998 (which started its operations in January 2000), the number of Partner MFIs increased steadily from eight in July 1999 to 60 in July 2008 and to 79 by July 2009. RMDC had disbursed Rs.3, 313.87 million wholesale funds to 79 MFIs and recovered Rs.1, 813.78 million by the mid July, 2009.The number of members had reached 842,205 in July 2008. The number of borrowers also reached 655,536 by July 2008. The cumulative loan disbursement and loan recovery amounts reached Rs. 41,508 million and Rs.35,061 million respectively in July 2008. The repayment rate stood at 97.17% in July 2008. The member's savings reached Rs. 2,229 million with the 60MFIs in operation in July 2008. Saving balance per member also reached Rs.2,647.In the beginning of the same decade, the government enacted the Cooperative Act 1992 which has facilitated the establishment of the saving and credit cooperatives (SCCs) in the different parts of the country. In the last part of 1990s, there was noticed tremendous increase in the microfinance outreach in the country due to the creation of institutional infrastructure such as SCCs,GBBs, RSRF and RMDC. The decade of 2000 has been a decade of a great booster to the microfinance industry in Nepal. A large number of MFIs have emerged with the technical assistance and capacity building support of RMDC. A large number of NGOs have got financial intermediaries license from NRB. Over 50% of them have been operating the Grameen type microcredit programs. A large number of SCCs (about 36) also cropped up as specialized microfinance institutions following Grameen model. These institutions, the microfinance banks and the government owned GBBS (four of them have been recently privatized) have the largest outreach of microfinance (750,000 families). The Sana Kisan Bank Ltd (SKBL) was established in 2001 with major ownership of the government and the Agricultural Development Bank to provide wholesale lending to SFCLs. It has aimed to upgrade and professionalize the operation of SFCLs.Most of the sub-projects of SEDP have been converted into self regulated clients owned cooperatives known as SFCLs. These institutions have anoutreach of 111494 small farmer families.The SKBBL as of December 2008 provided wholesale loans to SFCLs amounting Rs. 3,229 million and collected Rs. 2,978 million principal and Rs.556 million interest amounts. The outstanding amount of SKBBL is Rs. 1.52billion and the recovery rate is near about 93%13 as of July 2008. The total members covered by 220 SFCLs have reached 139,368 and the loan disbursement of SFCLs reached Rs. 4,224 million and the loan recovery Rs.2,779 million by July 2008. Thus, altogether there are about 14 million families under the services of the MFIs and other credit programs.

Microfinance in Nepal is broadly divided into two categories, formal and informal. The formal sector comprises of commercial banks, development banks, microfinance development banks, cooperatives operating under the limited banking licenses from NRB, Saving and Credit Cooperatives, SFCLs and FI-NGOs. It is reported that three quarters of microfinance in Nepal comes from informal sector14. Quick delivery of loans, flexibility in loan size and easy access might have attracted the poor towards the informal sector despite higher interest rates.

This study will attempt to evaluate the effectiveness of the contribution of the microfinance program in the Goldhunga VDC of Kathmandu district to reduce poverty by organizing poor women under grameen model and developing their access to microfinance services. The study also aims at finding out the effectiveness of the program in increasing the level of income, awareness and skill of the community people. In addition, the study aims at measuring the effectiveness of the program in eliminating gender disparity by empowering the members and building capacity of the women participation in the program.

1.5 Statement of the Problem

Nepal has had a history of implementation of microfinance programs for more than three decades. During this period, a large number of Micro Finance Institutions (MFIS) have emerged with government, non-government and donor initiatives. Microfinance is so intimately concerned with underdeveloped country like Nepal that improvement in livelihood can become a fundamental strategy for poverty alleviation. These programs of microfinance have been materialized in different modalities in different regions and parts of the country. So regular review and evaluation of the programs is necessary to choose and formulate new programs that bring positive change in lives of the targeted people. On the other hand, we have come to the point that Nepali agricultural system is largely primitive and traditional. To eliminate the pervasive challenge of poverty, we need transformation of surplus labor of agriculture into entrepreneurs and system of agriculture need to be industrialized to rise per capita income and accelerate economic growth.For which mictofinance program can be a helpful tool.

Despite this, the majority of the poor is still left out of institutional microfinance services. Such programs have only limited impact in terms of increasing the outreach of micro finance to the poor. The poor living in mountains, hills and interior areas of the Terai have no access to institutional micro finance services. More than 70 percent of the total poor families still depend upon informal sources to meet their credit need or have no access to any source of credit at all. But, microfinance programs are increasing. We need an objective study on the effectiveness and achievement of the programs. Beside, women are involved especially in indoor activities because of our social- cultural values. Their labor is not measured properly in the GDP. So, this study will help know about the household women who are engaged in the indoor activities and non - productive activities contributing to national building process. We also need to develop plans and programs to meet the predetermined objectives of the micro financing.

1.6 Objectives of the Study

The general objective of the study is to make an assessment of the effectiveness of microfinance program run by Manusi Nepal in Goldunga VDC of Kathmandu District. The specific objectives are:

- To evaluate the effectiveness of the micro finance program in the area in the context of poverty reduction
- To analyze the effect of Microfinance in living standard and empowerment of women participants in the study area, and
- To provide suggestions for enhancing the effectiveness of the program.

1.7 Significance of the Study

About 83 percent of the total population in Nepal live in rural areas and subsistence agriculture is the major occupation. It is associated with low production, income, low saving, low economic growth etc. Geographically, most of the area consists of Hilly and Terai regions. Various programs intended to reduce deep rooted poverty have been identified and implemented in the targeted areas of the country. One of them is microfinance. It has been going on for some time in the country. Operationally, it is focused on women both from rural and urban areas. It is true that ignoring half portion of the human beings, the development aspirations can never be changed into a reality in a sustainable way. The Government of Nepal has been initiating microfinance programs promoting the Development Banks, Rural Development Banks, NGOs, and INGOs for the targeted groups. Therefore, the Study is expected to be a significant input for development planners (GOs NGOs, INGOs) in microfinance sector and help identify the real problems and offer pragmatic solutions. Besides, it is expected to give a real picture of the socio-economic prospective of the people participating in the program.

1.8 Limitation of the Study

The study area is a VDC of mid- hill where the program has been in implementation since 2005/06. The Goldhunga VDC consists of a total a population of 7,921 out of which, 763 people are participating in the program. It is a small sample compared to the total number of population that are deriving benefits from/participating in the micro financing program being launched in the entire country.

The findings are in the context of the VDC being studied and hence may not represent the total picture of the country. or Terai and mountain regions of the country. This study is also confined to a study of the recent experiences for the period of six years since the initiation of the program began only in 2002/03- relatively short period of time in comparison to the programs which have a longer history in other parts of the country.

1.9 Organization of the Study

Chapter I give the brief introduction about microfinance and its development. It also highlights the sources of microfinance, historical development of microfinance in Nepal, institutional development and outreach growth, statement of the problem, objective of the study, significance of the study and the limitation of the study.

Chapter II deals with review of literature. It reviews about impact of microfinance on livelihood for poverty reduction, review of related studies, journals, book, presentation paper, articles, websites and thesis. It highlights importance of microfinance for the poverty reduction and livelihood improvement.

Chapter III explains about research methodology. It gives information about research design, study area selection, sampling procedure, method of data collection, data collection, data collection tools and techniques.

Chapter IV present and describes about the general findings of study and impacts of microfinance in the clients of microfinance program. It highlights impact of microfinance program on education, sanitation and hygiene, assets and livelihood, improvement in income through microfinance, expansion of the business and improvement of livelihood.

Chapter V concludes the theme of the thesis through key findings and conclusions of the study. It highlights major findings, conclusions, lesson learnt, policy highlights and further research.

Finally, there are references which I referred while carrying out my entire research work. It also includes questionnaire used to generate data for entire research work.

CHAPTER II

REVIEW OF LITERATURE

When we talk about microfinance, the credit goes to the Nobel peace prize winner Prof. Mohammad Yunus of Bangladesh. He was the first person who developed the concept and applied it. An Economist by profession, he established a microfinance bank in Bangladesh that came to be known as Grameen Bank. The Bank was , established in the Jobra village of Bangladesh in 1976 as a result of action research project on Chittagong University. The project later became a pilot project and covered throughout an entire district. This was undertaken with the financial support of the Central Bank of Bangladesh. In 1983, an independent financial institution, Grameen Bank was established under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. It works exclusively for them. At present, 94% of the total equity of the bank is owned by the borrower of Grameen Bank and remaining 6 percent by the government of Bangladesh. Grameen Bank does not require any collateral against its micro-loans. The Bank neither wishes to take any borrower to the court of law in case of non- neither repayment nor it requires the borrower's signature. It needs group formation of at least five members and the members can get loan on group guarantee on payment. Responsibility solely rests on the individual borrower, while the group and the Centre oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability i.e group members are not responsible to pay on behalf of a defaulting member:

The total member of borrower is 7.31 million, 97 percent of them are women and loan recovery rate is 98.40 percent (Mohammud Yunus, September 2007).Various relief agencies and NGOs, along with donor assistance, directed their efforts toward improving adult literacy, skills, health, and nutrition with the aim of poverty reduction. However, they soon realized that no- credit outreach measures could not sustain poverty reduction. In the late 1970s, efforts based on the idea of collateral free formal finance, notable that of the Grameen Bank pioneered by Prof. Muhammad Yunus, emerged as alternative poverty alleviation measures. These ventures were based on the idea that targeted credit disbursed to organized groups might improved the rural poor's productive means on a sustained basis (Yunus 1983) (World Bank discussion paper)

Saving services allow savers to store excess liquidity for future use and to obtain returns on their investments. Credit services enable the use of anticipated income for (PUT FROM POOR can Save) current investment or consumption. Overall microfinance services can help low income people, reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes and improve the quality of their lives and those of their dependents (Robinson, 2001). 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 generating self employment opportunities for the poor. But because of lack of physical collateral, they have almost no access to institutional (Formal) credit. Informal lenders can be a source of credit; but poor households do not gain from investing in income increasing activities because of high interest rates and these sources are not reliable to the poor and they cannot save enough through such informal sector. A micro credit program which is able to provide credit(loan) to the poor at affordable cost and can help them become productively self-employed. Micro credit programs have thus emerged as an anti-poverty instrument in many least developed countries. It targets the poor especially women, with financial services to help them become self-employed in rural no-farm activities of their choice(Khandker 1998).

In Nepal, Dhikur was originated as mutual grain storage system. It is popular among the Thakali, Bhote and Gurung communities. Dhikur is the system of collecting and utilizing the funds for the benefits of its members on a rotational basis. The amount is operated for specified time on case to case basis. The Dhikur members select one member as Ghopa. Ghopa is a leader and is responsible for keeping the accounts of transactions. Different Dhikurs follow different rules for loan mobilization on mutual decisions. Some disburse loan based on highest bids for the amount to be repaid, while others disburse to each members on rotational basis. The Dhikur members meet periodically and decide on agreeable norms for all the members. Dhikurs are operated in the good faith and financial discipline of each member(Seibel, 1998).

2.1 Definition of Microfinance

MF is the provision of a broad range of financial services such as deposits, loans, savings, payment services, money transfers, and insurance to the poor and low-income households and their micro-enterprises who are excluded from the formal financial systems (ADB, 2000). It includes some main points such as returning in small-agreed installments, periodical savings and meeting, group-based lending, no collateral and loan security. The mechanism helps poor women access to credit and use it more effectively. According to Robinson (2001), most MF programs, at the beginning, hold training courses to the clients in skill development, business, literacy, finance, and agriculture. However, two problems can arise when training is linked directly to credit programs. First, institutional sustainability is hindered because revenues rarely cover training costs. Second, the training provided is often not considered valuable by the trainees. Many kinds of training such as literacy, health family planning, skill development and the like, can be extremely important tools for reducing poverty, the issue is the linking of credit and training (Robinson, 2001). In reality, the poor, especially poor women, are illiterate or have primary level (Sanh Nguyen, 2003:99) so the emerging question is how poor women grasped the content of training courses. Group formulation is a main rule of MF, so building and strengthening joint-liability groups contribute to the development of MF. Lessons learnt were that MF should be demand-driven and adapted to each type of clientele, MF should be combined with capacity building, and that schemes would be more successful if they involved joint liability groups (CARE, 2004). Group-based lending requires individuals to organize themselves into groups in order to gain access to financial services from a program. Normally, loans are made to individuals, but all members of the group are held responsible for the loan repayment, joint liability principle. It contracts effectively to make a borrower’s neighbors’ co-signers to loans, mitigating problems created by informational asymmetries such as adverse selection, moral hazard and enforcement. In group-based lending programs the functions of screening, monitoring and enforcing repayments is largely transferred from the financial providers to group members. Because of the role of joint liability groups in MF, the identification of some main factors affecting the maintaining and strengthening of a WSCG (women Saving and Credit Group) needs to be done.

The clients of MF are women who can use a small amount of money better than men can. It is becoming more widely recognized that women can make good use of credit in their own right for activities that improve their own livelihoods and the income security of their family (Ellis, 2000). There is accumulated evidence that the women's higher repayment rates have led many MF intermediaries to particularly target women. It is better for their families because in many societies women’s roles are to look after their children and husband and maintain the home (Falliavier, 1998). Credit is a powerful tool that is used effectively when it is made available to the creditworthy among the economically active poor participating in at least a partial cash economy, people with the ability to use loans and the willingness to repay them (Robinson, 2001). When loans are provided to the very poor, the borrowers may not be able to use the loans effectively because they lack opportunities for profitable self employment, and because the risks involved in using the credit may be unacceptably high (Hulme, & Mosley, 1996). In addition, many of the skeptics of MFIs argued that MF projects fail to reach the poorest, generally have a limited effect on income and drive women into greater dependence on their husbands (Wright, 2000). Besides, many of the impacts on income are positive for the less poor and negative for the poorer clients, atrend that we have already seen(Marconi & Mosley, 2004). However, Rogaly (1996) argued that they encourage a single sector approach to the allocation of resources to fight poverty, microcredit is irrelevant to the poorest people, an over simplistic notion of poverty is used, there is an over emphasis on scale, there is inadequate learning and change taking place (Rogaly, 1996). As a result, credit is not enough to help the poorest people to escape from poverty. On the contrary, providing a wide range of clients, Microfinance Institutions also reaches the economically active poor, first with savings services, but also with credit. Moreover, Nepal Rastra Bank is also used as a channeling body for poverty alleviation projects targeting the poorest. Based on the above argument, the poorest, except disabled people, could access credit and other financial services. In the practice of MF programs in Nepal poor women clients, middle and better-off women also became potential clients of MF programs. The discussion is how categorized poor women participated in the MF program and how the poor, the middle, and the better-off helped each other in WSCGs.There have been several successful MF models in the world. The Grameen Solidarity Group is a famous mechanism in both Bangladesh and the World. This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven(Berenbach & Guzman, 1994). Group members guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly. Solidarity Groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of MF model (Berenbach & Guzman, 1994). Normally, groups contain five members and savings must be contributed for four to eight weeks prior to receiving a loan. Savings must also continue for the duration of the loan term. Only two of the group members receive a loan initially. After successful repayment, it has contributed to broader social benefits because of the mutual trust arrangement at the group system. The group itself often becomes the building block to a broader social network (Berenbach & Guzman, 1994). The above model highlights joint liability groups for loan repayment, new loans considered by successful repayment of all group members, periodically savings and share of profit from lending activities. The MF that has been applied in the rural areas in the Mekong Delta is modified from the Grammen Bank process.

2.2 The Impact of Microfinance on Livelihoods for Poverty Reduction

2.2.1 Impacts of Microfinance for Poverty Reduction

There is a significant difference between increasing income and reducing poverty. In a comprehensive study on the use of MF to combat poverty, Hulme and Mosley (1996) argued that well-organized programs can improve income of the poor and help them escape from poverty. They stated that the impact of a loan on a borrower's income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor. However, they also showed that when MFIs such as the Grameen Bank provided credit to very poor households, those households were able to raise their incomes and their assets (Hulme & Mosley, 1996). Wright (2000) argued that by increasing the income of the poor, MFIs are not necessary reducing poverty. It depends on what the poor do with this money, so focusing only on increasing income was not enough. The focus needs how to help the poor sustain a specified level of well-being (Wright, 2000) by providing them a variety of financial services to their needs so that their net wealth and income security can be improved. In addition, Johnson and Rogaly (1997) showed examples whereby savings and credit schemes are able to meet the needs of the very poor. They stated that MF experts were beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries' overall vulnerability (Johnson & Rogaly, 1997). Therefore, improving the resilience of the poor in order to cope with the adverse shocks of them in living and production is more powerful than only providing credit. The involvement of the study is, besides credit, what the other necessary supports meet the needs of the poor and enhance their resilience in order to reduce vulnerability. However, while acknowledging the role MF can have in helping to reduce poverty, concluded from their research on MF that most contemporary schemes are less effective than they might be (Hulme & Mosley, 1996). They stated that MF is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off by MF. Therefore, one can question which the main reasons that obstruct the poor to escape poverty are.

2.2.2 Impacts of Microfinance on Livelihoods

The impact of MF on livelihoods was focused on the changes of livelihoods assets and the use of livelihood assets to cope with vulnerability. The provision of MF can assist the poor the means to protect their livelihoods against shocks and to build up and diversify their livelihood activities (Johnson & Rogaly, 1997). Chowdhury, Mosley and Simanowitz (2004) argued that if MF is to fulfill its social objectives of bringing financial services to the poor, it is important to know the extent to which its wider impacts contribute to poverty reduction. Social networks play an important part in helping clients escape from poverty. Access to social networks provides clients with a defense against having to sell physical and human assets and so protect household assets.

A study of 16 different MFIs from all over the world pointed out that having access to MF services led to an enhancement in the quality of life of clients, an increase in their self confidence, and has helped them diversify their livelihood security strategies and thereby increase their income (Robinson, 2001).

Health care and education are two key areas of non-financial impact of MF at a household level. Wright (2000) stated that from the little research that has been conducted on the impact of MF interventions on health and education, nutritional indicators seem to improve where MFIs have been working. MF interventions have been shown to have a positive impact on the education of clients' children because one of the first things that poor people do with new income from micro-enterprise activities are to invest in their children's education (Littlefield, Murduch & Hashemi, 2003).

Moreover, regarding women empowerment, it is a key objective of MF interventions. Women need empowerment as they are constrained by the norms, beliefs, customs and values through which societies differentiate between women and men. MFI cannot empower women directly but can help them through training and awareness rising to challenge the existing norms, cultures and values that place them at a disadvantage in relation to men, and to help them have greater control over resources and their lives (Kabeer, quoted in Mosedale, 2003). Littlefield (2003) stated that access to MFI can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. Hulme and Mosley (1996:128) also made this point when they referred to the "naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women". MF projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that was not there previously (Hulme & Mosley, 1996). However,Chowdhury and Bhuiya (2004) found that violence against women actually increased when women joined the program, as not all men were ready to accept the change in power relations, and so resorted to violence to express their anger. The question is whether some constraints affected the accession to the MF program of women or not. By providing material capital to a poor people, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).It helps to empower women by supporting women's economic participation and so promotes gender equity. Based on various case studies, they show how MF has played a role in reducing poverty, promoting education, improving health and empowering women. Concerning financial assets, MF contributes to enhance financial capital of livelihoods assets, which can be converted into other types of capital and be used for direct achievement of livelihoods outcomes (DFID, 1999). Loans are associated with an increase in assets, when borrowers are encouraged to invest in low risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves (Hulme & Mosley, 1996).

MF also contributes to building up physical assets. According to Marconi and Mosley (2004), clients reflected significant increases in ownership of livelihood assets such as livestock, equipment and land. They stated that this should not be surprising as poorer clients are more risk adverse and less likely to invest in fixed capital and so are more vulnerable to having to sell productive assets in the event of a shock (Marconi & Mosley,2004). MF creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (Otero, 1999). In summary, under impacts of MF, members' livelihood assets have been accumulated in the interaction among five forms of capital that contribute to livelihood strategies of the poor in order to reduce poverty.

2.3 Review of Related Studies

Under this heading effort has been made to review some related books, thesis, articles journals, presentation paper and annual reports.

2.3.1 Review of Journal

Yunus, **(1995)** Micro-finance, and Grameen Bank in Bangladesh are not the outcome of single day effort. It is the result of a tremendous performance over a long time by an outstanding personality, Professor Mohammad Yunus, Grammen Bank is neither a magician want that makes the audience confused about the right and wrong of neither the show nor it is same impractical concept of a theoretician with the ambition of gaining honor and money in a short time. Every staff member of micro-finance and GBB style institution should be dedicated and honest in dealing with deprived people. To run GB smoothly, its staff should have the power of endurance and patience and be willing to work under hardship and pressure in the remote areas.

Grameen Bikas Bank grew out of an action research project organized in 1976 by Muhammad Yens professor at the University of Chittagong in Bangladesh. Professor Yunus had developed an NGO and emerged as world renowned figure. Before establishment of Grameen Bikas project in Bangladesh, there was a very serious economic crisis in Bangladesh. In 1995, Professor Yunus made a statement that Bangladesh had a terrible famine in 1974. “I was teaching economics in Bangladesh university at that time you can guess how difficult it was to teach elegant theories of economics when people were dying of hunger all around you. Those theories appeared like cruel jokes. I became a dropout from formal economics. I wanted to learn economics from the poor in the village next door to the university campus.” (Journal of Economic Literature, Vol. XXXVII, 1999 Dec.)

Yunus, (1997) *A bank for the poor* describes the genesis of a pioneering institution that has encouraged the social and political emancipation of needy women in Bangladesh. He says from the numeral study on the bank that it has increased the economic as well as social well being of its members and pointed to the increasing power of women, to their greater political participation. He adds saying that still much remains to be done to alleviate poverty and end inequality and gender disparity, micro credit in Bangladesh as practiced by the Grameen Bank has provided on simple strategy that works.

According to the journal of Economic Literature, Vol. xxxii, 1999, Professor Yunus found that next villagers were unable to obtain credit at reasonable rates. So he begun by lending them money from his pockets allowing the villagers to buy materials for project likes weaving bamboo stools and making pots. Ten years later, he set up the bank to lend exclusively to groups of poor households. Loan was given for rice processing, livestock rising and traditional crafts.

By lending loan it improved the living standard of people who reside in the rural areas. Muhammad Yunus states "Poverty is not created by the poor; poverty is created by the existing world system, which denies fair chances to the poor. If we can be ensure truly equal opportunities in the society that is no reason why poverty should linger around us."

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 (Ministry of Finance 2004/2005).

2.3.2 Review of Books

In the book *Micro-finance and poverty reduction* **Johnson and Regally (1997)** have cited that focusing on micro-finance, emphasis has been laid on the need that poor people have for a wide range of financial services. These needs are evidenced by the uses made of financial services that already exist but which are usually informal in nature. Providing micro-finance can give poor people the means to protect their livelihoods against shocks and as well as to build up and diversity also a means of protecting their livelihood activities by investing loan capital.

Khun L. et al (2002), *Empowering Women through Micro-Finance* "women have been shown to spend more of their income on their households. Therefore when women are helped to increase their incomes, the welfare of the whole family is improved."

Lindgren.E.H. (2003), *Micro Finance and Women's Empowerment in Rural 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 effort, Bangladesh, largely through the effort of Muhammad Yunus, has been a leader in the MF movement"

Lindgreen E.H (2003) 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."

2.3.3 Review of Presentation Paper

According to **Rana (2006)**, Chair person of RMDC; "Micro finance is widely recognized as a strong instrument in the fight against poverty in the South Asia and in other developing countries of the world." (Annual Report 2004-2005 RMDC Ltd.). In his view, the question "How important micro-finance is for poverty reduction and for peace in the world?" has been strongly answered by the award of the Nobel peace prize 2006 to the micro credit pioneer professor Muhammad Yunus and the Grameen Bank of Bangladesh. This is a great moment for the micro-finance community of the entire world. And he described in his article; Nepal for some years has been implementing policy to reach to the poor masses through various programs but its institutional micro credit outreach to the total poor families. The reasons for this are many but the most prominent of them is the very limited number of quality and capable micro-finance institutions operating in the country. In addition, the past micro-credit programs, largely directed by the government, paid very little attention on the sustainability of the micro-finance systems and on the promotion of the effective micro-finance institutions. In recent years, the newly established micro-finance institutions, owned by the private sector or non government agencies, have shown encouraging results in terms of outreach growth and institutional as well as financial sustainability. Through creating favorable policy and regulatory environment, a considerable number of private micro-finance organizations can be promoted and developed and this would help minimize the large gap existing between the demand supplies of micro-finance in the country.

Mr. Shrestha, (2006) chief executive officer of RMDC, presenting his paper on *"Viability and sustainability of micro-finance Institutions"* presents the meaning of micro-finance in this way.

Micro-finance is a system of grassroots development finance. It deals with the poor people, low income group, the asset less, the marginalized, the exploited and the desperate. Micro-finance provides small loans to meet their diverse needs with simple procedure in homely atmosphere. It takes small and petty saving for safe keeping meeting their lump sum requirement in future. It offers other financial services such as micro-insurance.

Shrestha focuses on the importance of Micro finance as a powerful instrument of poverty alleviation is as follows:

- It enables the poor to take advantages of existing opportunities
- It builds up their assets
- It generates self- employment

- It develops micro enterprises
- It raises their income
- It builds up their self-confidence and self esteem
- It improves their purchasing power and thereby consumption
- It empowers them (specially women) economically and socially
- It enhances overall economic growth
- It enhances domestic savings and improves financial market
- It provides escape route from poverty

In his opinion a successful micro-finance institution carries following features.

- Clear Vision, Mission, Goal, Objective and Strategy
- Progressive business plan
- Active and effective board of directors
- Commitment and honesty in management and board members
- Committed honest and dynamic leadership
- Motivated, honest, diligent and well trained staff
- Micro-finance friendly organizational culture
- Strong discipline among board members and staff
- Business culture and professionalism in organization
- Well established system: Loan operation, accounting book keeping, reporting, MIS (Timely and accurate), auditing.

Dr. Koirala, (2004) chief secretary of HMG presents the paper *"Poverty alleviation and the role of co-operatives"* present the role of micro-finance is as follows: Realizing the limitations, shortcomings and weaknesses of the formal financial structure, HMG encouraged the development of micro-credit institutions to contribute to the goal of poverty reduction through improved financial saving mobilization and credit extension in micro level. One of the strategies on Nepal's financial sector reform is to gradually formalize the informal rural financial markets besides strengthening micro credits to improve production and employment opportunities in the rural areas. Micro finance according to the World Bank (World Bank Report 2000/2001), is "the provision of financial services to low-income clients including self-employed. It includes both financial intermediation and social intermediation. It is not simply banking, it is a development tool". It is also defined as the provision of saving, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards. The objectives of micro-financial services are to ensure the availability of these services to the doorsteps of the poor and low-income household. It is an important financial service to uplift the level of income of low income households. Micro-finance framework, if properly designed and implemented, can thus attain the objectives of poverty alleviation in the developing countries like Nepal.

Dr. Vokes, (2005) Country Director, Asian Development Bank, Nepal Resident Office, Kathmandu defines micro-finance with the following salient features. They are:

- Services: small scale financial service loans with no physical collateral/guarantee, saving insurance, leasing, remittances, etc. accessible to poor.
- Providers are informal sources (such as money lenders and shopkeepers), semiformal institutions (such as non-government

organizations) and formal institutions (such as development banks, rural banks and co-operatives);

- Modality adopted is typically non-traditional guarantee collateral with gradual increasing loan sizes and characterized by quick and simple procedures; and
- Cost of financial service to be borne, preferably, by clients to ensure long term sustainability.

2.3.4 Review of Articles

In the article *"Micro finance Against Poverty; the Nepalese Scenario"* **Sharma (2003)** has expressed the role of micro-finance as follows: Micro-finance is the financial service such as deposits, loan, payment service, money transfer and insurance to poor and low income households and their micro-enterprises". Studies in Nepal and elsewhere have clearly indicated micro-finance as one of the most powerful tools for alleviating poverty. Micro-finance institutions (MFI) in Nepal are serving primarily the micro-enterprises. Accesses of micro-entrepreneurs to micro-finance services provide them with an important tool for improving their efficiency, productivity, and welfare while reducing risk. In other words, MFI is both formal and informal, providing financial services which helps in creating job opportunities to the micro-entrepreneurs, both wage and self-employment and thereby generating income among the poor.

In the article *Micro-finance in Nepal,* **Uprety (2003)** concludes that in the last decade of the 20th century it is accepted that micro-finance is one of the most significant contributors for poverty alleviation. The article further claims that in Nepal the poverty reduction rate is slower. If proper model is used in the hill and terrain region, the life standard of the poor people could be raised very fast.

Ojha, (2002), *Micro-finance program in poverty alleviation*, "The participating families were benefited as their income had increased and they had to pay fewer amounts as interest than local money lenders"

In his article entitled, *Micro-finance for Achieving Millennium Development Goals in Nepal*, **Dhakal (2004),** highlights that financials services would assist to improve incomes and build assets of poor populace. He 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, he 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 concludes the article by stating that micro-finance activity could not be considered as the substitution of investment in education, health or infrastructure.

2.2.5 Review from Different Website

Gomez, (2004) simply comments about micro finance as, "Micro-finance should be goal fight poverty. Fighting poverty is the most important social goal of MF. In fact MF was involved as business of providing financial services to the market segment composed of micro-entrepreneurs excluded from the services offered by traditions formal financial sector institutions". (www.cmfnepal.org)

MFI are dependent on small saving from group members. As a definition micro-finance is, as a part of development finance, rural or urban, targeted towards specific groups of people, male or female, falling in the lower bracket of society. Financial services include savings, credit, and other services such as micro money transfer and micro-insurance. This service is differentiated by types of service employment and income oriented objectives, target group, target community, target area, and credit at home.

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

- The services provided can be targeted specifically at the poor and poorest of the poor.
- These services can make a significant contribution to the socio-economic status of the targeted community.
- The institutions that deliver these services can develop, within a few years, in to sustainable organizations with steadily growing outreach.

In this context, it is important to make a couple of distinctions.

- Micro-finance is more than the provision of credit. It involves the provision of other financial services (most usually savings and insurance) and recognizing that even the poor have a variety of needs, not just credit.
- Securing sustainable access to micro-finances for low-income communities involves building (or reforming) micro- finance institutions-not just the delivery of time bound micro-finance programs (such as offering short-term revolving funds). (http://www.cmfnepal.org/mf-nepalp.htm)

Micro-finance has evolved as an economic development approach intended to benefit low income groups. The term refers to the provision of financial services to low income clients, including the self employed.

Financial services generally include saving and credit, and some microfinance organizations also provide insurance and payment services.

Microfinance activities usually involve

- Small loans, typically for working capital
- Informal appraisal of borrowers and investments
- Access to repeat larger loans based on debt capacity and repayment performance
- Streamlined loan disbursement and monitoring
- Secure savings products

Micro-finance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, service providers (hairdressers, tricycle operators), small restaurant operators, artisans, and small cottage industries. Usually their activities provide a stable a source of cash flow and income (often from more than one activity).

2.2.6 Review of Related Thesis

Mr. Thapa, (2006), conducted dissertation of Master level on "*Micro-finance Programs and Economic upliftment of women.*" This dissertation has analyzed the impact of Micro-finance in uplifting the economic condition of women and gives conclusion as follows:

- Involvement in the micro-finance program 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 puts its focus on group activities and poor generation.

- 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 health care, including women and children's health, family planning sanitation and reduction in smoking, alcohol consumption.
- Women's mobility has increased due to their participation in monthly meetings.
- 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.

Mr. Thapa gives some short comments in his thesis those are as follows:

- This program is said that it is the powerful instrument for poverty alleviation in Nepal but there is not clear strategy and policy of Government of Nepal. Therefore, the government should design and implement policies that focus on the promotion and strengthening in rural hilly areas.
- Probably the most serious shortcoming of the program is the selection of the target group. There in some sound indication of the possible bias in favors of those who did not represent the poorest of the poor.
- There is difficult to repay the amount (share of principle and interest) with in a month those who are working in the field only.

Mr. Thapa completed his research task in very good manner. He has explained about micro-finance programs and economic upliftment of women. But his research has split about saving status of the respondents.

Economic impacts also affect the saving status. People can save only when their income is increased. In the whole study of economic impact of micro-finance, one should not forget the role played by saving and he did not clear about the entrepreneur of the client of micro-finance programs. So, this research will bridge to this gap.

Mrs. 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 then 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.

Mrs. 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.

Mr. Lekhak, (2005) conducted research for MBS on the topic *"Micro-finance in Nepal A case study of SFCL Anandavan, Rupandehi*" with the objective to know the facing changes of society after Small Farmers Co-operatives Ltd. He concluded that SFCL particularly emphasize democratic norms, empowerment of backward people, and access to potentialities and local resources to the development of their settlement territory by them. Integrated development approach improving saving, credit, social and community development activities are major outcome of the SFCL. It is observed that awareness towards development; sanitation, literacy attainment, community and social development were major contribution of Small Farmers Credit Ltd.

Mr. Lekhak has researched in good manner that I agree with him but he has used only descriptive model. There is no any kind of analytical statistical tools and test to find conclusion. But statistical tools and test has played a vital role to find actual facts. So, this research will bridge to this gap.

Mrs. Joshi, (2004) who conducted research for M.A. degree on the topic *"Impact of Grameen Bikas Bank on Income Generation of Rural Women in Butwal"* by taking main objectives as follows:

To analyze the impact of GBB on income generation of rural women in the study area.

- To examine the change in socio-economic condition of the rural people especially women before and after participating in GBB.

- To analyze the impact and effectiveness of GBB program to promote non-farm activities in study area.
- To suggest measures for more effective implementation of the GBB program.

Her study gives following conclusions;

- The majority of women in Nepal who are illiterate and have no other skill and means of generating income are engaged in agriculture activities. So, before borrowing 42.85 percent of the total borrowers were engaged in agriculture activities. But after borrowing only 20 percent of the total members were engaged in non-agricultural activities. This proves that the rural women, also, if encouraged, can show their entrepreneurial skill and change their activities from traditional to nontraditional activities.
- After the GBB intervention consumption pattern has significantly improved which shows that the living standard of rural poor is improving.
- Education status of the rural poor women is improving which has a direct impact on the living standard, employment and income generating activities of those women and her family.
- Before borrowing there were 80 percent of the total members that had income less than Rs. 2,000 per month but after borrowing 28 percent of borrowers had income in this group. This shows that their income level has increased after borrowing. Before borrowing there was not a single member having income more than Rs. 4500 per month while it has increased to 12 percent of the members after borrowing.

- Grameen Bikas Bank has helped the rural poor women in the study area to generate income and uplift poor women's economic condition through the bank credit.

Being the major objectives to undertake an overview on income generation of rural women, Mrs. Joshi has used only the programs of Grameen Bikash Bank although there are other financial institutions working in the field of micro-finance. She is silent about the new types of occupation. So, this research will bridge to this gap also.

Mr. Lamichhane, (2004) who has conducted research for MA (Sociology) on *"Small Farmer Credit Ltd. Program and its Affect on Socio-economy Area"* this objective mainly:

- To find out the SFCL success position for poverty reduction.
- Changing nature of society after SFCL.
- Self sufficient position of SFCL from its internal resources.

He gives conclusion in this way mainly;

SFCL which is the best micro-finance program for Nepal from ADB plays vital role for poverty alleviation. With the help of this program people become involved in different kinds of activities which help poverty reduction such as women empowerment program, idea exchange, visit program, employment generation, leadership development and local manpower development program, agriculture inputs and production marking, dairy development and community irrigation, small scale Tea development program, rural energy development program. In 2002/003 this program had covered 31 districts that were 107 SFCL, the total member were 63,889 where 39,739 were male and 24,150 were female.

Women participation was 37.80 percent loan disbursements NRs 1513 millions, loan collection 424 millions.

Being the major objectives to undertake an overview of the Small Farmer Credit Ltd. and its effect on socio-economic area, Mr. Krishna Prasad Lamichhane has repeated same default of Mrs. Lekhak and Mr. Lamichhane left to test hypothesis and to show the saving status of the women which is very important on research of economic impact on upliftment of women and silent about development of hew enterprise. So, this my study will bridge to this gap.

Mr. Lamsal, (2000) conducted dissertation of M. A. (Economics) on *"Impact of micro-finance Program for Women's Poverty Reduction*" (A case study of chartare youth club of Baglung district Nepal). The dissertation has analyzed the impact of micro-finance program for women's poverty reduction and he gives conclusion as follows:

- Most of the women are benefited by micro-finance program who are absolutely poor because of own resources for the utilization of their skill and willingness.
- The study has found that overall impact of micro-finance program for the women on beneficiating, earning and living standard is positive and social status is increasing.
- The involvement in the income generating activities has built up the self-confidence of village women in their abilities. New type of occupations like bee keeping, hotel, and retail business are appeared in women groups.
- They have started to write their name and simple calculation about loan and interest amount.

Mr. Lamsal gives some short comment in his thesis those are as follows:

- The most serious shortcoming of the program is the selection of the target group. There is some sound indication, of the possible bias in favors of those who do not represent the poorest of the poor.
- There is difficult to repay the amount (share of principle an interest) within a month those who are working in the field only.
- This program is said that it is the powerful instrument for poverty alleviation in Nepal but there is not clear strategy and policies of HMGN.
- Underutilization of the loan also find in the field level that makes poor, poorer.

Mr. Lamsal has completed his research task in very good manner. He has explained about impact of micro-finance program for poverty reduction of women but his research is silent about the real situation of Nepalese women. He explains only about the poverty reduction but there is no use of statistical tools for finding the poverty reduction rate. This is not empirical and hypothetically tested. So, these researches will another place to impact of micro-finance on economic upliftment of poor rural women.

Mr. Ghimire, (2006) who conducted research on "*Small Farmers Development Program's role in Nepalese Rural Development and its Institutional Develop*" for MPA faculty by taking those objectives main follows:

- To find out the position of SFDP in rural area for its development.
- To find out the position of women employment by the SFDP.
- To find out poverty reduction through SFDP.

He gives conclusion on the base of those points mainly.

- This program changes the society because it helps poor people to change socio-eco condition of them through micro-credit.
- In Nepal about 25 million American dollars spent in those fields by different organization.
- For rural people this help to reduce poverty, improve their life style, improve society from education field as well as developing other activities.

There is no alternative of this program. Now people are successful to manage this program themselves. So, institutional activity of SFDP increases day by day.

Most of researchers, who conducted their thesis on Micro Finance, gave conclusion as follows:

- Micro-finance program is the best way to uplift women economically as well as socially.
- 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.
- It enables the poor to take advantage of existing opportunities
- It builds up their assets
- It generates self employment
- It develops micro enterprise
- It raises their income
- It builds up their self confidence and self esteem
- It improves their purchasing power and there by consumption

- It enhances domestic savings and improves financial market
- It enhances overall economic growth
- It provides escape route from poverty
- Manuals for operation (Savings and loan, accounting, administrative, financial, PGT/ refresher)
- Effective monitoring and follow up system
- Effective communication and coordination system

In this way different research papers who related to this research paper gives the conclusion that only micro-finance success to reduce the poverty alleviation of country.

In current approach, 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 .

Lastly, the same articles, reports, books, web-sites, journals, participated programs, shows that the micro-finance credit programs have emphasized on the all round development of the targeted groups, especially women. It is a Bangladeshi model. It is doorstep and organized on a “group-within-a group” model. It is important in poverty reduction and alleviation, peace and other sector like social.

CHAPTER III
RESEARCH METHODOLOGY

This part deals with the research methodology that adopted for carrying out this study.

3.1 Research Design

This study is based on descriptive analysis, supported by quantitative figures wherever necessary. The study has reviewed the past experiences and seeks to draw lessons from the review. Case study has also been conducted. Assimilation of more detailed qualitative information is collected from the experiences of a few entrepreneurs. Collected information from the participants of the programs under the study area. Gained an access in the opinions, behaviors or characteristics of given beneficiaries and evaluate these activities . The beneficiaries were one of the most important sources of primary information, apart from the secondary sources of the information which collected needed information to give a complete shape to this study.

3.2 The Study Area Selection

Microfinance program in different modalities at different regions of the country have been running but the , microfinance program in Goldhunga VDC is an exemplary one. The program is designed especially targeting poor women. Many MFIs like Manushi Nepal,Mahila Sahayogi Cooperative ltd and Mahila Sahaki Sanstha limited. I have selected the microfinance program run by Manushi Nepal as it has been working in the area from last 6 years successfully. Manushi is a (registered under institution registration act 2034) reputed NGO with institutional development support of Rural Microfinance Development

Centre(RMDC). The study area consists of a heterogeneous society in terms of caste, culture, language, economy etc. It is representative of a real picture of whole Nepalese society adopting subsistence agriculture by the residents of the area. So, this area has been selected for the study.

3.3 Sampling Procedure

Manushi has been conducting micro credit project for women since 6 years at Goldhunga VDC. The VDC has 28 centers with 763 women members of the VDC. Sixty members who have taken loan regularly from Manushi were selected for the study.

Total group members of the branch is the population of the study, and among them 50 members were selected from 3 centers (centre no. 1, 8,17) which are more than 3 years old of ward in 1, 3 and 7 of Goldhunga VDC through simple random sampling and remaining 10 members were taken from quota sampling method for the study.

3.4 Method of Data collection

Required information and data for the study were gathered from both primary and secondary sources. The primary data and information from the respondents collected by conducting observation, structure questionnaire, interviews, case studies and focus group discussions.

Secondary data is also collected from research, articles, relevant literatures, published and unpublished reports, journals and library help. Because secondary data and information are also necessary to conceptualize the study, use of appropriate tools and describe the study area. Besides they were useful in comparing with the findings so as helpful to make an ideal conclusion.

3.5 Data Collection Tools and Techniques

To attain primary data, Interviews were conducted with few selected exemplary members to gather information about their business, microfinance activities and impact of microfinance. Structured questionnaire filled of all 60 members through field staff of Manushi Nepal. Similarly, field observations as well as focus group discussion with the group also used to confirm the information provided by the group members. Key informant of manushi Nepal is program manager Ms. Shova Bajrachary who provided information regarding microfinance program and impact on the group members. Secondary data were collected from library, websites, academic institutions and related agencies.

Some tools such as check list, schedule maps, graphs etc used in the process of data collection and processing.

3.6 Data Analysis

At first the qualitative data are collected and analyzed for findings and the quantitative data are also calculated. This has been be followed by thorough editing, coding and processing with the help of comparative tables.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This Chapter describes about the response of the sample respondents and analysis on the basis of their responses. The data has been collected from 60 clients of the Goldhunga VDC where microfinance operation of Manushi exists.

4.1 General Information

Table 4.1: Age

Age Group	Total	Percentage
20-30	21	35.00
30-40	13	21.67
40-50	16	26.67
50-60	4	6.67
60+	4	6.67
No Response	2	3.33
Total	60	100.00

Source: Field Survey, 2012

Above table shows that out of the respondent women, 35.00 % women involved in Microfinance of 20-30 age group, 21.67 % are of 30-40 age group, 26.67 % women are of 40-50 age group, 6.67 % are of 50-60 age group and 6.67 % are of 60 above age group. This shows more young women are involved in microfinance will may result good retention of the client in the program.

Table 4.2: Education

Grade	Total	Percentage
Illiterate	12	20.00
Literate	22	36.67
Below 10 class	14	23.33
SLC	8	13.33
College Level	3	5.00
No Response	1	1.67
Total	60	100

Source: Field Survey, 2012

Microfinance has played role to make women literate above table shows that illiterate women are only 20.00 percent. And also shows that highly educated women we have opportunity rather than microfinance industry. When we compare with the national data literacy rate of women stands only at 51.4 percent (National Census 2011 preliminary report). Microfinance helps to illiterate and literate women to create self employment and earn their livelihood through financing in income generating activities.

Table 4.3: Children Education

Particular	No of Respondents	Percentage
Send School	57	95
Do not Send School	2	3.33
No Response	1	1.67
Total	60	100

Source: Field Survey, 2012

It is seen that Microfinance clients send their children to school due to motivation and inspiration they experience with the group. In above table 95 percent respondents send their school which has played important role for education of children. When we compare with the national data, nearly 61 percent of the population aged 6 years and older is literate. It is seen that microfinance has good impact on educating their children than the women of same homogeneous group who have not engaged in microfinance.

4.2 Health and Sanitation

Table 4.4: Water Supply Status

Particular	No of Respondents	Percentage
Having Personal Tap	47	78.33
Do not Personal Tap	12	20.00
No Response	1	1.67
Total	60	100

Source: Field Survey, 2012

It is seen that 78.33 % family have personal tap for drinking water and 20 % family have not personal tap in their house. When we observe national data, only 45% households have access to piped water almost half of which have private connections (NLSS 2010/2011).

Table 4.5: Personal Hygiene

Particular	No of Respondents	Percentage
Having Toilet	57	95
Do not Toilet	1	0.17
No response	2	0.33
Total	**60**	**100**

Source: Field Survey, 2012

It is seen that 95 % family have toilet at their home and only 0.17 % family do not have toilet at their home. when we compare with the national data, overall only 56 % of the households have access to latrine facilities. Other households have no proper latrine facilities and they bound to defecate in open places (NLSS 2010/2011). Microfinance has played some role of motivation to have toilet at their home. Microfinance program not only provides loan but also provides discussion and interaction forum for sanitation, health , social activities etc which results positive impact in improving their family's sanitation and personal hygiene conditions.

Table 4.6: Health Services

Particular	No of Respondents	Percentage
Adequate	20	33.33
Moderate	36	60
Little	2	3.33
Have not got	1	1.67
No response	1	1.67
Total	**60**	**100**

Source: Field Survey, 2012

By the above table we can see that the respondent have got health services satisfactorily. 33.33 % respondents have got adequate health services, 60 % respondents have got moderate health services , 3.33 % respondents have got little health services and 1.67 % respondents have not got health services. When we compare with the national data, 69 % of people with acute illness reported to have consulted some kind of medical practitioner in the country. There is a discussion about personal hygiene and health matter which has positive impact on their family's health.

4.3 Assets and Livelihood

Table 4.7: Land Holdings

Particular	No of Respondents	Percentage
Having Land	53	88.83
Have Not Land	2	3.33
No Response	5	8.34
Total	**60**	**100**

Source: Field Survey, 2012

It is seen that most of the clients have land as they are engaged in agriculture. The program is focused on local people who have been doing their activities traditionally and Manushi microfinance program has focused to improve their skills and professions. Above table shows that 88.83 percent clients have their own land for agriculture. Only 3.33 percent clients do not have land. When we compare with the national data, about 76 % of the total households are agricultural household (NLSS 2010/2011) . Selected area is old and local settlement so they have some land which helps supply food grains for livelihood and to support their animal husbandry.

Table 4.8: Existing Profession/Livelihood

Particular	No of Respondents	Percentage
Agriculture	42	70.00
Own Business	15	25.00
Non Government Job	3	5.00
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that most of the clients are engaged in agriculture which stands at 70% of total respondents. Similarly 25 % of respondents are engaged in their own business and only 5% respondents are engaged in service in private and nongovernmental jobs. It is seen that more respondents are engaged in agriculture than other sectors which shows the need of modernization in the agriculture sector.

Table 4.9: Income Alternatives

Particular	No of Respondents	Percentages
One Alternative	17	28.33
Two Alternative	34	56.67
More Than Two	6	10.00
No Response	3	5.00
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that 28.33% respondents have one alternate of income,56.67% respondents have two alternative of income and 10% respondents have more than two alternative of income. It is seen that more respondents have more than one alternative of income. Poor people search more alternative of income as only one alternative is not sufficient for their survival.

4.4 Effect of Microfinance Program

Table 4.10: Income before Involving in Microfinance

Particular	No of Respondents	Percentages
Below 10,000	1	1.67
10,000 to 50000	35	58.33
50000 to 100000	21	35.00
Above 100000	2	3.33
No Response	1	1.67
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that before joining the microfinance program 1.67 % respondents earn below 10000 yearly, 58.33% of respondents who earn NRS 10,000 to50,000 yearly, 35% respondents earn NRS 50000 to 100000 yearly and only 3.33% respondents earn more than NRS 1,00,000 yearly.

Table 4.11: Income after Involving in Microfinance

Particular	No of Respondents	Percentages
Below 10,000	1	1.67
10,000 to 50000	16	26.67
50000 to 100000	34	56.67
Above 100000	7	11.63
No Response	2	3.33
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that after involving in microfinance program(at least three year) 1.67 % respondents earn below 10,000 yearly, 26.67% of respondents who earn NRS 10,000 to50,000 yearly, 56.67% respondents earn NRS 50,000 to 1,00,000 yearly,11.63% respondents earn more than NRS 1,00,000 yearly. This shows there is significant improvement in their income by involving in microfinance program.

Table 4.12: No. of Loan Used

Particular	No of Respondents	Percentages
One	3	5.00
Two	2	3.33
Three	4	6.67
More Than Three	47	78.33
No Response	4	6.67
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that 5 % respondents have used one loan, 3.33% respondents have used two loans, 6.67% respondents have used three loans and 78.33% respondents have used more than three loan. It is seen that most of the respondents have used more than three loans which has given the positive impact on them that their income level has been increased gradually.

Table 4.13: Loan Utilization Sectors

Particular	No of Respondents	
Agriculture	8	13.33
Animal husbandry	40	66.67
Other Business	11	18.33
No Response	1	1.67
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that 13.33% respondents used their loan in agricultural productions, 66.67% respondents used their loan in animal husbandry and 18.33% respondents have used for other business rather than agriculture and animal husbandry. It shows microfinance program has added capital in their profession which they have been doing. Similarly it has also given the opportunities for other business if they do not prefer their old professions

Table 4.14: Savings Source

Particular	No of Respondents	Percent
Agriculture and Animal Husbandry	38	63.33
Business	10	16.67
Others	10	16.67
No Response	2	3.33
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows that 63.33 % respondents do savings from agriculture and animal husbandry, 16.67 % respondents do savings from their business and 16.67% respondents do savings from other sources. This shows more client of microfinance of selected area are doing savings from agriculture and animal husbandry as these areas are basics for their livelihood.

Table 4.15: Expansion of Business by taking Loan

Particular	No of Respondents	Percentage
Yes	54	90
No	5	8.33
No Response	1	1.67
Total	**59**	**100**

Source: Field Survey, 2012

Above table shows that 90% respondents' business has been expanded by talking loan and only 8.33 % respondents' business has not been expanded. It shows that clients have benefited for expansion of their business and get income accordingly.

Table 4.16: Satisfaction of Client with Manushi

Particular	No of Respondents	
Maximum	28	46.67
Moderate	29	48.33
Less	3	5.00
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows satisfaction of client with Manushi in which 46.67 % respondents' stand with maximum satisfaction, 48.33 % respondents stand at moderate satisfaction and only 5% respondents stand at less satisfaction with Manushi.It is seen that clients are satisfied with microfinance program of Manushi.

Table 4.17: Improvements in Livelihood

Particular	No of Respondents	Percentage
Yes	60	100
No	–	–
Total	**60**	**100**

Source: Field Survey, 2012

Above table shows the improvement in clients' livelihood in which 100% respondents' livelihood has been improved with microfinance program. It shows the positive impact of microfinance program to improve their livelihood. There are different are aspects of livelihood improvement like increment in their income, their personal role in family and society, improvement in education of their children, improvement in health and sanitation, increment in consumption, increment in assets and increment in savings etc.The respondents have improved in these aspects which shows the positive impact on the clients microfinance program operated by Manushi in Goldhunga VDC of Kathmandu.

CHAPTER V

KEY FINDINGS AND CONCLUSIONS

5.1 Key Findings

Most of the women engaged in microfinance have sent their children to school for study.

1. Drinking water supply in the family engaged in microfinance have satisfactory.
2. Almost all of the families have toilet in their home which shows satisfactory level of personal hygiene in their households.
3. The family of the study area has got moderate level of health services.
4. Most of the family of the study area have their own land for agricultural activities.
5. Microfinance client have many alternatives of income
6. Most of the clients have improved their income level by utilizing loan from the microfinance institution.
7. Survey shows that most of client used the loans in agriculture and animal husbandry .so loan disbursement to be made accordingly in the survey area.
8. It observed from the survey those clients are satisfied with the service of microfinance institution.
9. It is observed that microfinance institution provide microfinance services to poor people especially poor women.
10. Most of the clients have improved their business by taking loan from the microfinance institution.

11. Through the involvement in different process of microfinance activities helped women to be empower reflected through decision making process in the home, involvement in the social activities.
12. Microfinance is one of tools to reduce poverty of the country.

5.2 Conclusions

The study aimed at analyzing effects of MF on the livelihoods of the poor women Households through enhancement of livelihood activities and accumulation of livelihood assets contributing to livelihood strategies in order to reduce poverty of the poor. Participatory methods and a household survey were carried out in Goldhunga VDC.In the study site, income of local people comes mainly from agriculture. In specific, the poor whose income comes mainly from off-farm and non-farm activities have faced difficulties because of the seasonality of off-farm employment.

The financial system encompasses the formal financial institutions (Bank and development banks, the informal institutions (ROSCAs, friends, private moneylenders, and agricultural input shops), and the semi-formal institutions (MF programs). The formal financial institutions excluded about 75 percent of the poor group because most of the poor group had no or little land, the poor therefore have to access private moneylenders at high interest rates up to 40 percent depending on the history of borrowers' repayment. Fortunately, under the MF program, the poor not only have opportunities to borrow loans at reasonable interest rates, but also access packages of services of MF intervention such as enhancing of WSCGs, attending training courses and monthly meetings and promoting savings. The microfinance program has been reached millions of poor people without donor's funding.

WSCG is considered as a social intermediation in the process of MF. Under the rules of WSCGs, members have strengthened their social assets. To meet the WSCG requirements, members have helped each other and reached beyond other help to. Membership of WSCG has enhanced solidarity and trust among members. WSCG provides friendship and financial assistance for members who sometimes face difficulties such as lack of money for monthly savings, interest returns, cost of curing sickness, and other urgent consumptions. Therefore, leaders of the Village Women Unions and WSCGs play an important role in maintaining and strengthening WSCGs.

Through training courses, and learning among members on monthly meetings, poor members have enhanced their human assets. Membership has contributed to enhancing members' capacity because of exchanging information among members through monthly meetings. Besides, monthly meetings create opportunities for members to share information and experience that includes anything what they want to discuss. Moreover, trainings, followings up and loans from group savings have helped members access clean water supplies, created food including vegetables and fish in integrated models in their homestead for both house consumption and income generation improving health care and reducing daily expenditure of poor households. Clearly, regulations and membership of WSCGs, social assets, contribute to improving human assets and interaction between Financial assets and human assets.

When the membership of WSCG has strengthened, and members have enhanced their capacity, MF program implementers delivered loans for selected members. Concurrently savings were fostered through monthly savings and five percent of loan amounts from the program. Loan sizes and loan terms of WSCG have gradually enlarged. In short, loans from the program and group savings and savings have enhanced members' financial assets that help them deal with emergence needs in both living and production.

Most of poor households have no or little agricultural land. However, there are differences between the member and non-member groups in how they take advantage of the homestead. While the poor member group pays attention to production in their homestead including growing vegetables, raising pig, integrating pig and fish, and keeping poultry, the poor non-member group has paid little attention to the benefits.

To look at the process of MF intervention, members' physical assets have accumulated through loans from the MF program and group savings, and profit or income generated due to these loans. The study points out that poor member group have contributed to their productive assets more than the poor non-member group has. Moreover, there are significant differences in the quality of household assets between the poor member and poor non-member groups as well as the poor member and escaped member groups. For example, the differences between the member group and the poor non-member group in durable and temporary boats, direct and indirect electricity links, access to clean water supplies and use of water in the canals and building bathroom behind houses and taking bath in the canal have shown production and living condition as well as awareness environmental protection of them.

The enhancement of livelihood assets and livelihood activities of member households have contributed to livelihood strategies. There are significant differences in income per capita between the poor member and poor non-member women. The poor members have enhanced their productive assets. Moreover, the proportion of income from off-farm and non-farm activities far from home of the poor non-member women are higher than those of the poor member women are; however, off-farm and non-farm income is risky. The study shows that about 66.67 percent of the poor women have income from two to four sources of income while only 28 percent women have income from one sources. Interestingly, the women involved in microfinance group can diverse sources of income in order to generate income and reduce risks.

Although the poor women members have stayed in poverty, their income and livelihood assets have improved through the accumulation of livelihood assets and livelihood activities that have contributed to livelihood strategies of their households in order to reduce poverty. The poor women members not only generates income through fattening pigs and poultry production, but also save money on the food due to vegetable garden, aquaculture and poultry production in the homestead. In the other hand, the poor members have enhanced their capacity and empowerment in both their household and society based on training courses, monthly meetings and exchanging experience among members while the poor non-members have lacked opportunities to improve their capacity and empowerment because of lack of facilitation of WSCGs or other social intermediations. The poor members have strengthened the position in their households and improved capacity. These have contributed to decision-making of the poor members. In addition, the poor members have accessed loans from the MF program and WSCGs at reasonable interest rates, and concurrently promoted savings so their households have increased their resilience due to improvement of financial assets.

5.3 Lessons Learnt

The study has helped me to understand the interaction between the MF process and poverty. Poor women can have gradually achieved well-being through small scale of income as well as capacity that contribute to livelihood strategies of their households. Based on this, intervention by MF needs to be relevant and prioritized based on the situation of poor women. Accumulation of livelihood assets is a process that needs strong participation and involvement by stakeholders in MF. However, the study has not explored other impacts beside MF in poverty alleviation yet and it has emphasized on description rather than argument in order to make these findings.

5.4 Policy Highlights

The study highlights some points involving the current policies and regulations relating to the financial mechanism in poverty reduction. Poor households have no or little agricultural land so poor households cannot access the formal financial institutions. However, a small number of poor households could be served by Manushi the outreach and appropriateness of credit for the poor need to be examined because guidance to the poor to invest through credit is more efficient than subsidizing for them small amounts of interest return. Moreover, if poor women could not borrow loans from Manushi, they would have to access loans from private moneylenders at much higher interest rates compared to the commercial interest rate.

As mentioned, WSCG is considered as a social intermediation of the process of MF.However, the process of establishment and enhancement of WSCGs requires time and effort of several stakeholders including clients and leaders of WSCGs, the Village Women Unions and local authority at the early stage. When WSCGs are strong, other interventions such as training, monthly meetings, credit, and savings can be applied more effectively. Therefore, enhancing capacity and supporting working conditions for these people need emphasizing.

The study pointed out that MF alone cannot meet the needs and resolve a wide range of difficulties of the poor, especially poor women. However, there is a lack of appropriate regulations or policies promoting the interplay among the current rural organizations and services including mass organizations, extension services in order to carry out poverty reduction programs.

5.5 Further Research

MF has undoubted a role in poverty reduction. The process of MFI helps poor members enhance their capacity and empowerment and contribute to income generating activities. However, the important concern is how MF can develop further instead of waiting only in the funded MF programs and how main stakeholders including mass organizations, local authority, extension services, business development services, and MFI interplay in the process of MF. To foster the outreach of MF, the concern is how MF can reduce transaction costs including the cost for training courses and operation and what the regulations and policies that hinder the achievements of MF are. Therefore, the question of how to liquidize loans and savings from WSCGs and the financial assets of members' households needs to be studied. In addition, more case of studies on MF for women poverty reduction in different ecological areas is needed.

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