

## Chapter I: Introduction

### 1. Background

Nepal is a small landlocked country surrounded by India in the East, West and South and China in the North. Geographically, it is divided into three regions: the Terai (plains), Hills and Mountains. The total area of the country is 147,181 sq.km. and varies between an altitude of 60 m. and 8,848 m. The country stretches from east to west with mean length of 885 km. and widens from north to south with mean breadth of 193 km.(CBS 2008). It has tropical, mesothermal, microthermal, talga and tundra types of climate depending upon the altitude (CBS, 2004). Out of total area, 39.6% has been covered by forest (Department of Forest Research and Survey, 1999) The country population is growing at 1.94% and is projected to reach 27.5 million by 2010 (CBS 2009). Administratively, it is divided into 75 Districts, 58 Municipalities and 3,915 Village Development Committees. In Nepal there are over 100 ethnic groups speaking 92 different languages. Nepalese population comprises 80.6% Hindu, 10.7% Buddhist, 4.2% Muslim, 3.6% Kirat and rest are other religious (CBS 2002).

Approximately 85% of the population resides in rural area (Nepal Living Standard Survey, 2003/2004). Nepal is predominantly agriculture based country which still absorbs 65.6% of the total labour force. The contribution of the agriculture sector to the GDP is estimated to be 39% (CBS 2004). However, rural populace are facing huge disguised unemployment, acute rural indebtedness and extreme poverty. National Labour Force Survey 2008 conducted by CBS estimated 252.8 thousand populations of 15 years and above is currently unemployed making unemployment rate 2.1%.

As per Human Development Report 2010 prepared by UNDP, Nepal ranked 138 out of 169 countries on the human development index. Life expectancy at birth is 63.69 (UNDP 2009), GNI per capita is \$472 (CBS 2009), real GDP growth (average) 3.95%, human development index was 0.509 for 2006 (UNDP 2009), inflation rate is 13.2 (NRB 2009), literacy rate (15-24 yrs.) is 86.5% (CBS 2009), net-enrolment rate in primary school 93.7% (DOE 2009), Under five mortality rate (per 1000 live birth) is 50 (Nepal Family Health Program 2010) and Maternal mortality ratio (per 100,000 live births) is 229 (Family Health Division 2009). Long exists poverty and income disparity is the main challenge of the country. In between 1996 and 2004 poverty has been reduced by 11% points from 42 to 31% (CBS 2004) and it has further reduced by 6% points from 31% to 25.4% between 2005 and 2009 (NPC 2010) but the income disparity between rural and urban area is still a persistent problem. Furthermore, in between 1995/96 and 2003/2004, Gini Coefficient which measures gap between rich and poor has been increased from 0.34 to 0.41. Urban poverty was 10% in 2004, while rural poverty was 35%; now it is 8% and 22% respectively. In region wise, Mid Western Development

Region recorded as the poorest with 37.4% and Central Development Region recorded relatively better-off with 22.3% in 2009. In addition, there is unequal distribution of land among the farmers. Approximately 48% farmers have less than 0.5 hectore of land and over 800,000 are landless (Upadhaya, Hari Krishna, Kantipur Daily February 20, 2011).

It was for the first time in 1956 Nepal started Five-Year period plan (1956-61) for development expenditure; transportation and communication receiving top priority (36% of the budget). These two sectors received priority up to fourth plan (1970-75). It is only in fifth plan (1975-80), the problem of poverty was first addressed but no goals were given, priority was given to agriculture. In sixth plan (1980-85), again agriculture was given priority and social services as second priority. In seventh plan (1985-90) emphasized was on participation of the private sector in economic development. These period plans failed time and again in addressing the poverty. The poor become poorer and gap in between rich and poor increases. This could be due to high growth rate of population, low agricultural productivity, un-equal distribution of productive assets, unfavourable production technologies, environmental degradation and more importantly exclusion of the poor from the main stream of development. The eighth five-year plan (1992-97) which came after restoration of democracy in the country focussed on open market system and liberal economy. In addition, for the first time, poverty reduction was one of major objectives. Furthermore, poverty alleviation agenda was at the highest priority in the ninth plan (1997-2002). Accordingly, tenth plan (2002/03-2006/07) main focus was on poverty reduction. After the second people's movement, for the transactional period, three years interim plan (2007/08-2009/10) was implemented maintaining focus on poverty reduction and growth, emphasized a greater strategic presence for the state in development, specially of remote areas and socially marginalized people (Nepal MDG Goal, Progress Report 2010).

In order to address the poverty, community development program has been a new model by focussing program around the periphery of the community which is also called people centered program. In this context, innumerable programs in Nepal have adopted the slogans of community development and people's welfare. Major projects are integrated rural development, integrated hills development, small farmers' development, women's development, new education plan, literacy campaigns etc. (Anthropological Approach to Rural Development in Nepal by Devkota, Padam Lal: page 89). Dr. Devkota further writes, cooperatives, land reforms, decentralization and all the program to supply minimum basic needs, all conducted to carry out social, financial and political changes, and failed to solve community problems. The reason of failure could be high intervention of the government excluding the poor (to whom it was designed) from the program.

It is only after the restoration of Democracy in the country after the first people's movement in 1990, the state gradually withdraws its role on service sectors and private institutions such as private companies, cooperatives and Non Governmental Organizations took responsibility of development. Governance reforms, decentralization,

and economic reforms to eliminate inefficiencies, corruption, exclusion and discrimination become the prime agenda of the government. In this context, many NGOs and Cooperatives registered and developed nation wise. The community based people centered development approach was applied for implementation of the program. Poverty alleviation programs such as education, health, drinking water, rural roads, forest conservation and income generation got the priority to address the emerging issues of the poorest of poor.

As most of the people are living in rural areas and majority involved in agriculture, since first Five-Year plan, it has been felt by development workers that until and unless agriculture and rural economy does not develop, it is impossible to eradicate poverty and ensure food security (Upadhaya, Hari Krishna, Kantipur Daily, February 20, 2011). Upadhaya further writes, the development of industrial and service sector also depends upon development of agricultural sector. Therefore, it is indispensable to increase productivity of the agriculture sector.

In Nepal, there is high potential of agriculture growth in the country with the emergence of concept on commercial agriculture. Ministry of Agriculture has been working for the conversion of subsistence integrated farming into commercial farming. But for this three things are essential; i) investment on infrastructure such as farm roads which is generally performed by the government ii) technology transfer which is also done by government through agriculture extension and iii) management of inputs such as seeds, fertilizers, insecticides, pesticides etc. which farmers have to manage themselves. Since the time immemorial, when money is needed for buying fertilizers/inputs or initiating any microenterprises or meeting emergency needs, community people used to depend on informal sector such as local merchants and traders who charges exorbitant interest rate and source is not reliable too. The other options are either by initiating savings and credit activities within them forming the groups or receiving financial services from institutional sources such as banks and financial institutions working in the area. The provision of financial services to low income groups is called microfinance. The experience in other parts of the world including South Asia reveals that microfinance services either initiated by the community members or by formal financial institutions have been found effective to solve the problem of poverty by providing income, employment and capacity building opportunity for the poor, disabled, dalits and destitute including women for their socio-economic empowerment with the support of social mobilization (Shrestha, Purushottam, 2007). Mr. Shrestha further writes, in Nepal, microfinance was initiated with the advent of Small Farmers Development Program in 1975 as a targeted pro-poor program focusing only on the rural poor. But some argue and said it was started in 1957 in Chitwan Valley with the establishment of 13 cooperatives to provide rescue to flood affected families (Dhakal Lek Nath and Shivakoti Ashok, Modernization and Cooperatives 2010). The microfinance program got movement after the restoration of democracy in 1990. Grameen system was replicated by NGOs such as Nirdhan, CSD, DEPROSC and Chhimek

and the regional level Grameen Banks were established by the government. With the supportive roles of the government, the microfinance expanded rapidly than ever before. However, critics say that microfinance program being a social banking has been focusing more on business than development. But it is to be noted that profit is necessary for providing market return to the investor, sustainable operation and expansion. However, social mission cannot be ignored. In this context, this paper has been prepared to analyze the role of microfinance for the socio-economic development of the community. A case study of Chapagaun Village Development Committee, Lalitpur has been taken for detail field study.

## 2. Statement of the Problem

The well to do families or persons used to lend poorer in the rural area since time immemorial and it is still in practice in many parts of the country. They used to charge 15-25% interest per annum and sometime 3-5% per month. Most take loans from money lenders during emergency such as sickness, death, crop failure and buying agriculture inputs.

The formal microfinance service in Nepal started with the establishment of 13 Credit Cooperatives in Rapti Valley of Chitwan district in 1957. First Cooperative Law was enacted in 1960. However Cooperative Bank established only in 1963 which latter converted into Agricultural Development Bank in 1967. The most important policy decision taken towards the development of microfinance sector in Nepal was the fixation of target for priority sector lending in 1974. This policy made it obligatory on the part of commercial banks to lend a fixed proportion of their loanable fund in priority sector. Small Farmers Development Project (SFDP) implemented by Agricultural Development Bank 1975 was the first nation wise microfinance program in Nepal. The SFDP has been transferred to Small Farmers Cooperative Limited (SFCL) under the management of the clients. In 1981 commercial banks were involved in Intensive Banking Program (IBP). Accordingly, Production Credit for Rural Women (PCRW) were initiated in 1982 and Micro Credit Project for Women (MCPW) in 1994. Nepal Rastra Bank established Rural Self Reliance Fund in 1991. In 1992 government established five public sector Regional Rural Development Banks (RRDBs) as a replication of Bangladesh Grameen Bank Model, each in development region. Latter, microfinance NGOs promoted microfinance banks as per Development Bank Act 1996 in private sectors. At present there are all together 19 microfinance development banks in the country. Microfinance got momentum after the enactment of Cooperative Act, 1992. Over 5,000 savings and credit cooperatives organizations (SCCs) have been registered to render financial services in Nepal. In addition, it is estimated that over 10,000 community based Savings and Credit Organizations (SCOs) are catering the microfinance services in the respective areas. In Participatory District Development Program (PDDP) and Local Governance Program (LGP), microfinance services were provided through Local Development Fund (LDF) which has been established in DDC to implement this program. Financial Intermediary Act, 1999 opened a new dimension for NGOs to act as an effective microfinance institution. A total of 45 NGOs and 16 cooperatives have been providing microfinance services under

this act. At present over 1,700,000 families have been benefitted from the microfinance program in Nepal.

The financial indicators of most of the microfinance institutions are encouraging because its performance is measure to what extend borrowers take out and repay loans. The sustainability, profitability, portfolio quality and outreach are common indicators used by microfinance institutions. The changes in socio-economic conditions are seldom measured. But the main mission of microfinance program being a social banking is to cater financial services at competitive rate to the clients for improving their socio-economic conditions. In addition, the microfinance program also play important role on changing the social life of the participating families because it deals with the social norms, values, morals and laws during program implementation. It is always necessary to analyze the role of microfinance program for the socio-economic development of the community. Considering the lack of sufficient studies on analyzing the role of microfinance for socio-economic development of community this study has been performed to address the following research questions.

- 1) What is the socio-economic condition of the participating client families ?
- 2) What changes has been happened in social condition of the clients?
- 3) What is the role of microfinance on changing the economic development?
- 4) What are the uses of loans borrowed by the community?

### 3. Objective of the study

The basic objective of the study is to analyze the role of microfinance program on socio-economic development of the client families. However, the specific objectives of the study are as follows:

- ) To find out the socio-economic condition of the participating client families.
- ) To analyze role of microfinance in economic development.
- ) To analyze role of microfinance in social development.

### 4. Significance of the study

The number of microfinance institutions in the country has been increasing day by day. It is due to existing policy favorable for the establishment and implementation of microfinance program. The central bank has encouraged for the establishment of new microfinance institutions and have made obligatory to commercial banks and finance companies to lend certain percentage of their portfolio in deprived sector either directly or through microfinance institutions. As per directive, 'A' class commercial banks, 'B' class development banks and 'c' class finance companies should lend at least 3%, 2.5% and 2% of their loan portfolio respectively in the deprived sector (NRB 2010). However, the total coverage is still below 50%. Moreover, most of the microfinance institutions are concentrated in semi or well developed areas. Their presence in remote and high hills is negligible.

The main mission of microfinance program is to improve the living condition of the deprived people. This paper has attempted to analyze basically from the perspective of

participating families. The study has described the present condition of families, changes happened and views of the stakeholders involved in the implementation. It has also analyzed constraints for growth.

There are very limited literatures regarding these types of studies. This study has tried to review some literatures available in Nepal. It has also reviewed the similar literatures in other parts of the world.

## 5. Limitation of the Study

There are 19 microfinance development banks, 16 licensed cooperatives and licensed 45 microfinance non-government organizations working in the field of microfinance in Nepal. In addition to that over 10,000 community based organizations have been engaged in microfinance all over the country. This study has been performed at Chapagaun Village Development Committee, Lalitpur. There are many microfinance organizations in Chapagaun. For this study, clients of Women Cooperatives Society Ltd, Depros Development Bank and Center for Self-help Development has been taken. Therefore, the reliability of findings of this study depends on the reliability of the information supplied by different stakeholders. Moreover, Chapagaun VDC not necessary resemblance with other VDCs of Nepal in terms of social structure, social norms, social values and income level. Thus, the conclusion not necessary represents other part of the country. Due to time and resource constraints, the sample has been limited to 60 and analysis has been focused more on specific objectives stated above.

## 6. Organization of the Study

The present study has been organized into five chapters. The first chapter of the study is an introductory part that covers context, research questions, objectives and limitation of the study. Second chapter include review of the relevant books, articles and literatures of Nepal as well as abroad that helps to carry out the research in systematic way. Third chapter contains the research methodology adopted for the study including research design, sample collection, data source, data collection and data analysis techniques. The fourth chapter describes the socio-economic condition of the client families. The fifth chapter analyzes the role of microfinance in economic development. The sixth chapter explains role of microfinance in social development. The seventh chapter covers the summary and conclusion. Besides these, bibliography has been provided at the end of the study.

## Chapter II: Review of Literature

This chapter is organized into five parts. In the first part, definition of development, development theories, experience of rural development in Nepal and other parts of world and microfinance as one of the effective tools of development has been described. The second part deals with social development and social institutions, the third part analyzes the economic development which includes economic theories, definition of poverty, poverty measuring indicators, causes of poverty, effect of poverty, millennium development goals and its progress and how microfinance can contribute in poverty reduction. Accordingly, definition of livelihood, components of livelihood and sustainable livelihood and its relation with microfinance has also been explained in economic development. In the fourth part, meaning of microfinance, evolution of microfinance, principles of microfinance, microfinance program in other part of the world, microfinance in Nepal and National Microfinance Policy has been described.

Microfinance is a social banking with an ultimate goal to improve lives of the poor. It is called one of the development tools for poverty reduction. Development workers have also acknowledged microfinance as an effective tool of development. Therefore, there is relation in between development and microfinance. In this context, concept of development, theories of development and experiences of rural development in Nepal and other parts of the world has been described hereunder.

### 1. Development

Oxford Advanced Learner's Dictionary defines Development as gradual growth of the thing so that it becomes more advanced and stronger, a process of producing or creating thing new or advanced, new event or stage that is likely to affect what happen in a continuing situation etc.

Michael Todaro defines Development "Multidimensional process involving changes in structures, attitudes and institution as well as the acceleration of economic growth, the reduction of inequality and eradication of absolute poverty". This definition has pointed out development as structural and institutional changes of society thereby reducing gap between rich and poor and it has given importance on social capital. Development is a self-dependent, positive and self-mobilize stage of human being which covers humanitarian and social parts. But development varies with time and space. For example, the development in remote areas of Nepal can be meeting the basic needs while in urban areas it can be access to computer, television and internet. Accordingly, meaning of development may vary in between medium and poor family of the same place. Therefore, it is very difficult to formulate a common definition which can be suitable in all places and at different period.

Hugo Slim defines Development "Development is not a commodity to be weighted or measured by GNP statistics. It is a process of change that enables to take change of their own destinies and realize their full potential. It requires building up in people the

confidence, skill, assets and freedoms necessary to achieve this goal". The people who consider economic growth as indicator of development give importance on savings, GNP, per capita income, import export and balance of payment. The economic growth and economic development cannot be say a complete development because it lacks human development indicators published by UNDP in 1992. The ultimate goal of development should be human development not only economic growth of the country which can be said means of development.

David Korten analyzes Development "Development is a process by which the members of a society increase their personal and institutional capacities to mobilize and manage resource to produce sustainable and just distributed improvement in their quality of life consistent with their aspiration". Korten definition has taken development as process for effective mobilization of the limited resources for individual and institutional sustainable development of human being. He has concluded development as social analysis.

Gunnar Myrdal says "Development is away from under development" (UNDP 1995). The objective of the development is to create environment where people have better health and long life. Human Development Report of Nepal 1998 say-The concept of human development is the ultimate goal of development. Economic growth is one part of the development. In fact, in development, for the qualitative change in life, capacity enhancement is done by people for themselves. Under free environment without social discrimination the available sources, means and physical properties are distributed equal to the people.

Development is a vague term and it is a person specific, situation and time specific (Mishra 1984). In other word, it is a relative term which varies with the time and place. The meaning of development in developed countries is not as in underdeveloped countries. It can be meeting the basic needs in underdeveloped countries while in developed countries it can be access to new technology and physical facilities. Accordingly, meaning of development change with era. These days UNDP has set indicators to measure human development which was not before 1990. Mr Mishra further writes "Development is a complex process. It is a process of social change. It is multidimensional and must work upwards, downwards and side wards simultaneously. It is the question of 'bottom-up' versus 'top-down'. It is the question of judicious blending of the two to meet the challenges faced by the developing countries.....it has to be initiated not only from 'above' and 'below' but also at an 'intermediate' level.

Mahatma Gandhi describes development as a meaning of attaining a good quality of life as envisioned by peoples themselves for their betterment. This statement focused on quality of life of people.

The above definition of development by different scholars indicates that it is a gradual process of positive growth with the goal of improving living standard of the people. It covers not only quantity growth but also quality growth. Therefore, just increasing national GDP cannot be say development until it brings happiness to the general people. For example Bhutan's economic development policy is guided by the overarching philosophy of Gross National Happiness based on the four pillars of sustainable economic development; preservation and promotion of culture and tradition; conservation of



environment; and good governance (Economic Development Policy of Kingdom of Bhutan, 2010).

## 1.1 Indicators of Development

Development need to analysis on multidimensional view. Development indicators have been developed to measure development on the basis of analysis done by different scholars. There are 94 social indicators and UNDP has 253 human development indicators which includes from child mortality to quality of environment and human rights to how many cars/TV per family. Broadly, the indicators can be classified as i) Quantitative indicators and ii) Qualitative indicators. Quantitative indicator include per capita income, gross national income, export import ratio, facilities of roads, telephone, school, drinking water, computer etc, establishment of industry, flow of capital, status of financial institutions, economic growth, production, availability of natural resources, participation in global market, status of gold, silver and other immovable assets and development of mines. Qualitative indicators emphasize on socio-cultural part of development. It is also called social indicators. Qualitative indicators include education, health and nutrition, employment, economic equality and human rights, political freedom, self-dependent and self-determination rights, sociality, cooperation and good governance, peace and freedom from exploitation and social discrimination. It is to be noted when both quantitative and qualitative indicators are used to measure development it could have better result and one should keep in mind that social indicators are always important as it deal with the development of human beings and social justice.

## 1.2 Theories of Development

Although human development concept was developed in 1990 but economic development principles were developed as early as in 1776 by Adam Smith through his book Wealth of Nation where he has described the concept of Laissez-faire Economy. Smith has focused on the economic development without control of the state. He added, if a person is allowed free to compete for production the production is likely to increase which in the long term has positive effect on national development.

Ricardo, an economist has developed a model which has described on distribution of national income, marginal utility and savings principles. He said there is functional relationship between capital, labor and land. Among these, the rules of diminishing law of production apply on land. Therefore, agriculture system necessary to improved to increase productivity. Ricardo can be grouped among the scholars in favor of liberal economy. As per Ricardo, the labor should be paid up to the level just required for survival because if wage is high they start luxury life, become lazy and population also increases.

Malthus logic is to analyze the economic development with the population growth. The population growth hinders the economic growth. Therefore, first population should be under controlled. According to Malthus, for economic growth, there should be balance development of agriculture and industry. The unemployment and poverty problem can be solved by using the government expenditure on social development. J.S. Mill found agreed with the population principles of Malthus and economic liberal principle of Smith.

However, in 1930, Keyens gave different views on economic development on the basis of economic recession in Europe. He focused on negative impact generated because of open economy. He disagreed with the traditional thinking that supply automatically creates demand. As per Keyens, government investment is necessary for the improvement of unemployment, low production, poverty, economic and social infrastructure. This ultimately increases purchasing power capacity of people. Keyens view was criticized because of lacking social improvement analysis.

The concept of developed and underdeveloped countries came after 1950. As per Meraj Ahamad " Underdevelopment countries are those countries in which the process of development in the economic, social and political fields need to be further accelerated in order to achieve the ideas of equality, plenty, efficiency and rationality in national life within a reasonable period to time". This indicates that potential development of social, economical and political area of society to improve the quality of human life is the real development. The underdeveloped scenarios can be analyzed as economic and social aspect. The economic aspect include poverty, high foreign debt, unemployment problem, low capital mobilization, low production, lack of physical facility and traditional mode of production. Social aspect include unorganized and individual social system, gender discrimination, caste system, lack of education, lack of health facility, malnutrition, conflict and dependent to other. Moreover, the characteristics of underdeveloped countries can be summarized as poverty, unemployment, economy based on subsistence agriculture, low technology, high population growth rate, lack of good governance and increasing gap between rich and poor countries.

After 1950 new polarization came on the concept of developed and underdeveloped countries. Many countries become freed from colonization but idea, logic and concept of development as described by the western countries again came as it was before. Politically, USSR and USA mobilized socialist and capitalist countries under their leadership respectively. The socialist countries were focused on strengthen of state while capitalist countries concentrated on the development of private sectors. In this context, many development theories have been developed over the period after 1950 as described hereunder.

- i) Modernization Theory
- ii) Dependence Theory
- iii) World System Theory
- iv) People Centered Development
- v) Human Development, UNDP 1990

Modernization Theory: After 1950, development specialist, planner and leaders of the third countries compared the concept of modernization with development. The concept of

modernization theory is based on the social change analysis of Max Weber and Emile Durkheim. For the economic and social development, the social values and norms need to change. The degree of modernization depends on level of industrialization or social self-dependence. It is because of modernization process that the economic development of the society, level of technical development, political awareness, belief on religion and many social processes have been changed from simple to complex and inflexible to flexible. Durkheim has described modernization process through social differentiation process. Accordingly, Weber has analyzed through rationalization process and Marx by commodification process. There are two basic principles of modernization theory, the structural and psychological. T. Parson in his book "The Social System" described progressive differentiation as the basis of modernization theory. The concept of modernization theory came after 1950 when many countries became freed from colonization but influence of developed countries still remain and national policy of underdeveloped countries were decided by developed countries. The assumption was that the policies and procedures adopted by developed countries are ideal and underdeveloped should replicate it. The trickle down approach were implemented which increased gap in between rich and poor in the society. The main assumption of modernization theory is that society and culture is always changing. Moreover, the changing speed is high at contemporary stage than primary stage of society. Modernization in other term is transformation from traditional to modernize and industrial level. This also includes adoption of improved technology, industrialization, elimination of discrimination on the basis of gender/caste and development of democratic society. The process of modernization primary related to structural change. This is process of change on social, economic, political, educational, technical and psychological field. There is relation in between modernization and development. It is assumed that societies which are modernized are generally more developed.

**Dependence Theory:** This has been developed against modernization theory by Neo Marxist. As the modernization theory increased dependent on developed countries, decreased productivity and increased gap between rich and poor this theory was developed. This theory came because Trickle Down Model made poorer more dependent to the elites and government.

A.G. Frank (1967), a German Scholar was the first who developed this theory. He concentrated his study on the negative effect of capitalist economic in Latin America. In his book 'Sociology of Development and the Development of Sociology (1967)' he has described the context of development. As per Frank, many developing countries followed the concept of world capitalist system because of highly dependency on developed countries due to modernization. In this system different classes of the society cannot get benefit of the development but only limited elites enjoyed and worked as mediator of the developed countries to exploit the poor. In this context, Brazil and Argentina worked as agents of developed countries. He further added 'Third world as Satellites and developed countries as Metropolis'.

As per Kolins, Dependency Theory is a theory of economic, social and political change which attempts to explain poverty, deprived social conditions and political instability of many poor countries of their dominance by rich and powerful countries. Capitalist countries mainly USA has attempted to keep underdeveloped countries under its control.

This theory emerged to prepare theoretical framework against capitalist countries. The dependence theory tried to analyze what are the factors that made dependent to developed countries and how these can be addressed politically and economically. Unequal exchange business was the main cause of dependence theory. Accordingly, Lenin has explained on imperialism dependency.

Paul Baran has developed Neo-Marxism concept. The monopolistic capitalist model of developed countries has given benefit to developed countries and this has increased dependency on rich countries. He further added that in order to improve the economic condition and additional surplus of the third world the agriculture sector should be commercialized.

Theotonio Dos Santos has described in the context of social relation and social structure. He has divided dependency in three parts as i) Colonial Dependency ii) Financial industrial dependency and iii) New dependency. He further added 'By dependency we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence.....assumes the form of dependence when some countries (the dominant ones) can expand and be self sustaining which other countries (the dependent ones) can do this only as a reflection of that expansion.

World System Theory: This system assumes the Whole World as a system and takes each country as unit for analysis. The production system, monetary exchange, import export, balance of payment and cultural exchange is analyzed. The idea of single world economy is considered in this system. As per Frank N. Magil this theory is that European capitalism expanded beyond its borders, beginning in the late fifteenth and early sixteenth centuries, to establish an international division of labor within the framework of a world economy (F.N.Magil-1996:849).

Immanual Wallerstien has divided world economic system as core, semi-periphery and periphery. The core and semi-periphery import raw materials and mines at cheaper rate from periphery and after preparing the goods from these raw materials then export the goods to periphery. This increases the balance of payment and dependency. Core includes developed and rich countries and periphery includes underdeveloped countries.

Amir Samin charges capitalism as the cause of underdevelopment. He added the economic freedom can be increased if internal savings is increased and environment is favorable for the development of domestic industry.

People Centered Development: This is against trickle down approach called bottom up approach. Cernea's 'Putting people First approach, Chamber's 'Putting the Last First and Salman's 'Listen to the People' are some approaches of this theory. When the concept of participation of the people in planning and implementation arises this theory emerged. This theory advocates that it is the people who are targeted therefore they should be involved right from the beginning of development activities. The concept of participatory rural appraisal and rapid rural appraisal are the tools in theory.

Robert Chamber putting the last first means putting first those who are poor, physically weak, isolated, vulnerable and powerless and their priorities and the things that matter to them. He emphasized on changing awareness and behavior, rejection of external intervention, listening more than lectures, facilitate for active discussion/participation and decentralization.

David. C. Korten, 'People centered vision favors human well-being and environment sustainability over addition to economic output, domestic over foreign markets, local financing and ownership over foreign borrowing and investment, and economic self-reliance over dependence on the international trading system. It welcomes participation in the global community, but from a position of independent strength-non external dependence'

SAP/Nepal, 'People based development was understood as an approach to development where people are at the center stage. The development effort would give priority attention to the poor, the disadvantage, the marginalized, i.e. those whose circumstance are the worst in a given community. The overall purpose is to help these people take change of their live and their community and help fashion its future by their self-reliant efforts. This future would be towards a balanced and all-round development of the people on a continuing basis, sensitive to the just needs of others and the husbanding of environment. The approach posits that the people themselves would determine the direction and pace of change and always be in control of the process. They would be subjects of their history'.

Human Development, UNDP 1990: After 1990, means and end of development has been considered as human development. This has emphasized on quality improvement because previous development models increases gap between poor and rich, fail to address poverty and creates environment in favor of conflicts and war. In Human Development, economic, social, culture, political, human rights status and access to the general people in development is measure through human development index. It is the process of enlarging people's choice. In principle, these choices can be infinite and change over time. But at all levels of development, the three essential ones are for people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for decent standard of living. If these essential choices are not available, many other opportunities remain inaccessible.

In 2010, mainly on the basis of life expectancy, education and per capita income, Nepal rank 138th position in human development index with 0.428 and . Norway is at the top with human development index (HDI) 0.938.

In 1992, UNO organized Environment and Development Summit at Rio de Janeiro in Brazil and in 1995, Development Summit at Copenhagen in Denmark. The participants of these summits agreed that Education, health, employment, food, shelter, human security and freedom shall be taken as indicators to analyze human development.

### 1.3 Rural Development

Rural Development is a strategy designed to improve the economic and social life of a specific group of people-the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in rural areas. A strategy of rural development must recognize three points. Firstly, the rate of transfer of people out of low productivity agriculture into more rewarding pursuits has been slow.....secondly, their position is likely to get worse if population expands at unprecedented rate.....thirdly, rural areas have labor, land and at least some capital, which, if mobilized could reduce poverty, and improve quality of life....Rural development is clearly designed to increase production and raise productivity. It is concerned with the monetization and modernization of society, and with its transaction from traditional isolation to integration with the national economy (World Bank, (1997).

The context for the globalization of rural development has been set in this definition. From the beginning it was nothing but approach towards modernization and monetization of the rural economy (Farid Akhter, 2006). Rural development is also taken equivalent to community development because most of the poor live in rural area and mostly engaged in agriculture. In addition, the social feeling and community work effectively in rural area (Devkota 2008).

### 1.4 Experiences of Rural Development

In developing countries, most of the population lives in rural area. Therefore, the development workers focused their program in rural area. Rural development has a long history and many countries have long experiences of success and failure. Some cases have been described hereunder.

The South African Experience: In pre-1994, the white minority state focused on the welfare of a small proportion of the population. The white citizen deliberately impoverished the black majority. The black were displaced from their land in the name of villagisation. The state intervention adversely affects the lives of the black by discriminating them with their white counterparts. It is only under leadership of African National Congress which first won non-racial national election and initiated reconstruction and development program. It did not limit on rural development but started work on land reform to ensure security to tenure for rural dwellers. As per South African Experience, the rural development requires (Maano Ramutsindela, 2006):

- ) Institutional development
- ) Investment in basic infrastructure and social services
- ) Improving income and employment opportunities
- ) Restoration of basic economic rights to marginalized rural areas

) Resource conservation

) Justice, equity and security

South Asian Experience in Rural Development: South Asian countries mainly India, Pakistan, Bangladesh, Sri Lanka and Nepal have been similar in many ways because of common religion, culture and geography. These countries revealed that government and civil societies should be directed to (Binayak Rajbhandari, 2008):

) Promote broad-based agricultural and rural development, making use of agro-ecological principles, indigenous knowledge system and local biodiversity;

) Promote civil society groups, assure property rights and collective action within framework of gender equity;

) Empower women and the resource poor (socially, culturally, economically and politically);

) Ensure that markets are not biased against small farmers, less favoured areas, or food-insecure groups;

) Invest in research with a focus on pro-poor or small farmers' needs and problems;

) Pursue affordable alternatives energy technology (using wind, water, solar power and bio-gas);

) Pursue sustainable development in less-favored areas with the mobilization of the resource poor and marginalized groups as the first priority of the national development agendas.

Rural Development Issue in Nigeria: Nigerian government implemented River Basin Development Authority, the Agriculture Development Program and several state programs in rural areas but achievement was not as expected. Acute poverty prevails in rural areas because of inadequate infrastructure, low literacy rate, poor health and nutritional status. The assumption of planners that rapid growth of urban would spread its benefit to rural areas still stands as an illusion. Deprivation exists both at community and individual level. Government lack coherent rural development strategy. Lack of rural industrialization, explosive population growth, stagnating agriculture, degrading natural resources and increasing poverty and food security are the causes of failure of rural development program ( S. Tunji Titilola and Femi ogundela, 2006).

Rural Development in India: Mahatma Gandhi's vision of rural development was building a self-governing and self-reliant village community. During post independence in India, a top down approach was adopted. But benefits of agriculture, health, educational, environmental and poverty eradication program only reached the affluent sections. GNP increases but poverty, diseases and hunger either worsened or remained unaltered. This

leads to further emergence of voluntary agencies or NGOs as a counterweight to state power. The role of NGOs in rural development is important because NGOs have rapport with rural people, operate at flexibility and quickly, committed and devoted to reduce the suffering of poor, more efficient and cost effective, adopt participatory methods and focus on capacity enhancement of rural populace.

Rural Development in Nepal: In general terms development in Nepal is understood as equivalent to community development. Community development is a cheap and an easy slogan in Nepali's rural development efforts while analyzing the programs and activities of large rural development projects, the community does not appear to be an integral part to be an integral part of the plan, but is merely used to obscure possible hindrances, village pressure and negative comments (Devkota 2008). The community development program can be divided into two types; programs directed at the community and programs based on the community. The first rural development program in Nepal was Tribhuvan Village Development Model in 1950 with support of USAID and India. Agriculture, education, health and small cottage industry were priority sector. Block development officers were appointed and J.T.A. and Gram Bikas Volunteer were used for the program implementation at different level. In 1960, with the change of political situation, Tribhuvan Village Development Model was replaced by Panchayat Development Model. There were three ways in this model i) institutional development ii) social development and iii) attitude development. Cooperative movement, remote area development concept and use of local institution in local development were initiated. Women development program was also introduced in this model. However, still, the bottom poor could not get benefit of the development. After that integrated rural development programs were initiated in the country to implement different program through one window. Many programs have been implemented under rural development such as integrated rural development program, integrated hills development program, SFDP, women's development program, literacy program and cooperatives. Land reforms and decentralization programs were also conducted to improve lives of the poor. Nepal had initiated period plan since 1956 (first periodic plan) by formulating five-year planning. After completion of 10th fifth year plan (2002/03 to 2006/07), three years interim plan was implemented during transactional period. But in most of the cases, program failed due to state intervention and less participation of the beneficiary's right from planning to implementation and all levels of decision making. Nepal experience is that people centered rural development work effectively and awareness and education is necessary before implementing of any program. The community forestry has been taken as one of the success model of rural development in Nepal. Accordingly, leasehold forestry also found successful in addressing the poor. In agriculture and microfinance sector, private agencies, the NGOs are found more effective than government agencies, particularly, in delivering cost effective quality services. The free economy and liberalization which came after restoration of democracy in the country has contributed for smooth operation of rural development programs. This days the people centered



development where there is direct participation of beneficiaries in the community program has been found more effective and result oriented (Devkota 2008).

## 1.5 Microfinance as one of the Effective Tools of Development

As stated above, microfinance is development banking. Therefore, development comes first than microfinance. Development is a gradual change or positive change. The aim of the development is to change the lives of the poor. The development is a vague term which includes infrastructure development (roads), communication development, access to energy, access to water, health services, cloths, housing and education facility. The microfinance cannot work for all types of development activities. It is formation of capital at local community to make easy access to financial services for poor, particularly rural populace. The microfinance shares some development activities particularly by increasing employment opportunities. It works to increase income of the participating families; the increased income can be used for nutritional intake, cloths, health services, education and housing. In addition, the micro-insurance and savings services of microfinance provide safety nets to poor. Thus microfinance is a complementary of development activities and therefore it is called as one of the effective tools of poverty reduction by development workers.

## 2 Social Development

Social development can be summarily described as the process of organizing human energies and activities at higher levels to achieve greater results. Development increases the utilization of human potential. In the absence of valid theory, social development remains largely a process of trial and error experimentation, with a high failure rate and very uneven progress. The dismal consequences of transition strategies in most Eastern Europe countries, the very halting progress of many African and Asian countries, the increasing income gap between the most and least developed societies, and the distressing linkage between rising incomes, environmental depletion, crime and violence reflect the fact that humanity is vigorously pursuing a process without the full knowledge needed to guide and govern it effectively (Garry Jacobs and Harlan Cleveland, 1999). The emergence of a sound theoretical framework for social development would provide the knowledge needed to address these inadequacies. It would also eventually lead us to the most profound and practical discovery of all – the infinite creative potentials of the human being. Thus social development deals towards improving quality of life.

Social development consists of two interrelated aspects – learning and application. Society discovers better ways to fulfill its aspirations and it develops organizational mechanisms to express that knowledge to achieve its social and economic goals. The process of discovery expands human consciousness or learning and the process of application enhances social organization.

Historically, society has developed by a trial and error process of physical experimentation, not unlike the way children learn through a constant process of physical exploration, testing and even tasting. Physically, this process leads to the acquisition of

new physical skills that enable individuals to utilize their energies more efficiently and effectively. Socially, it leads to the learning and mastery of organizational skills, vital attitudes, systems and institutions that enable people to manage their interactions with other people and other societies more effectively. Mentally, it leads to organization of facts as information and interpretation of information as thought.

## 2.1 Nature of Social Development

Social development theory is regarded as vague and elusive in nature because of the following reason.

- a) Focused on the material results of development and on those strategies that have proven most effective for achieving those results, rather than on abstract principles or theoretical concepts. Development was conceived in terms of a set of desirable results—higher incomes, longer life expectancy, lower infant mortality, more education. Recently emphasis has shifted from the results to the enabling conditions, strategies and public policies for achieving those results—peace, democracy, social freedoms, equal access, laws, institutions, markets, infrastructure, education and technology. But still little attention has been placed on the underlying social process of development that determines how society formulates, adopts, initiates, and organizes, and few attempts have been made to formulate such a framework.
- b) In addition to all the variables that influence material and biological processes, social processes involve the interaction of political, social, economic cultural, technological and environmental factors as well. Development theorists have not only to cope with atoms, molecules, material energy and various life forms. They must also cope with the near infinite variety and complexity of human beliefs, opinions, attitudes, values, behaviors, customs, prejudices, laws, social institutions, etc.
- c) The timeframe for social development theory cannot be confined to the modern day or even the past few centuries. Human development has been occurring for millennia. The basic principles of development theory must be as applicable to the development of early tribal societies as they are to the emergence of the post-modern global village. Development theory must be a theory of how human society advances through space and time.
- d) Most efforts to understand the development process have focused on the central importance of one or a few instruments such as money, markets, the organization of production and technological innovation. In addition, some efforts have also been made to describe what has been learned about the contribution of education, skills, laws, public policies, strategies, social systems and institutions. While it is evident that all of these instruments can and do play an important role in social development, it has not been adequately explained what determines the development of these instruments themselves or the extent to which they are utilized by society or the process by which they can be made to generate maximum results.
- e) Social development differ with the general development since development activities, policies, strategies, programs and results will always be limited to a specific context and circumstance, whereas social development itself encompasses a potentially

infinite field in space and time. The social development theory should recognize the inherent creativity of individuals and of societies by which they fashion instruments and direct their energies to achieve greater results. It should view development as a human creative process, rather than as the product of any combination of external factors or objective instruments that are created and utilized as the process unfolds and whose results are limited to the capacity of the instruments. Society will discover its own creative potentials only when it seeks to know the human being as the real source of those potentials.

- f) Social development is determined by human beings, not external conditions. External conditions certainly can and do influence the process. People may even act and react in predictable ways to a given set of external conditions. But the results of any development equation cannot be reliably predicted on the basis of external factors. Human development is determined by human responses based on choices made by people.
- g) Values such as hard work, sense of responsibility, integrity in human relations, tolerance and respect for others are not just noble ideas or ideals. They are pragmatic principles for accomplishment which society has learned and transmitted to successive generations as a psychological foundation for its further advancement.
- h) The development process consists of pioneering individuals who consciously conceive and initiate new forms of activity which give expression to the subconscious aspirations and preparedness of the society. These pioneers are imitated by others so that the new activity gets replicated and diffused. Gradually, the general population comes to recognize, accept and support the new activity by formally organizing it through laws, policies, programs, systems, organizations and education. Eventually, the activity may become so fully integrated with the society that the need for formal structures gives way to non-formal social institutions and still later becomes assimilated as cultural values of the society.

## 2.2 Social Development Achievement in India

Both the stages and the complexity of the process can be observed by examining two remarkable development accomplishments of Independent India—the Green Revolution in Indian agriculture and the high tech revolution that is making India an international software powerhouse. During the British Raj, the predominant values espoused by the subject Indian population were respect for age and tradition, submission to authority, and acceptance of one's assigned place and role in society. Fear and insecurity were powerful social motives. Ambition was frowned upon. Security was cherished. Industrial and commercial activities were severely restricted by the foreign rulers. Few had the means or opportunity to acquire education. Those that did invariably sought employment in the British administration or British firms, the twin seats of power and prestige in Indian society. After Indian Independence in 1947, the values of submissiveness and obedience persisted for several decades, even though they became increasingly inadequate concepts to meet the nation's needs or respond to its opportunities. In the 1950s and 1960s, educated Indian youth sought the security and prestige of government employment, when what was really needed was entrepreneurial initiative to build the

national economy. Having achieved Independence, the leaders of India's freedom fight turned to the challenge of developing the country, but found the same lack of awareness and responsiveness from the population that the earlier freedom fighters had encountered at the turn of the century. Waging a war on poverty without the active support and participation of the people proved even more challenging than waging a war on foreign rule without an army. Until the mid 1960s, India's economic progress was almost completely overshadowed by the explosive growth of its population, the combined effect of a release of national energies from the suppressed condition of foreign domination and the introduction of modern medical technology which drastically reduced mortality rates. Beneath the surface, the spread of democratic voting rights, implementation of legislation to eradicate caste privileges, and rising levels of education were breaking down traditional barriers, generating national pride and releasing fresh social energy, creating awareness of possibilities and preparing the society for the next stages of its collective effort. These new attitudes could be observed primarily among the youth born after Independence, often taking on the appearance of assertiveness and crude self-seeking, rather than of noble values. This preparedness was called into action by the sudden impact of two successive years of severe drought in the mid 1960s, which threatened the country with famine on an unprecedented scale. The challenge of widespread famine—estimated by the UN to be threatening the lives of 10 million people—led to the launching of India's Green Revolution. With the support of large food imports, the country averted the immediate threat of famine. Then in response to a concerted government action to implement a comprehensive, integrated development strategy, within a very short period of five years, millions of India's farmers adopted new cultivation practices, the nation increased its food grain production by 50% and achieved food self-sufficiency. Within ten years grain production had doubled. Within a quarter century it had quadrupled. The pride and confidence generated by this remarkable achievement helped spur a dramatic change in India's social values that was reflected in many walks of life. Areas in which agriculture had become prosperous began to industrialize. There was a marked increase in demand for education and for consumer products. Indian society became more active and dynamic. In the 1970s the preference of educated youth shifted to employment in private companies. Then in the 1980s a generation born after Independence established itself in the nation's workforce, people who had never known a foreign master or experienced subjection or feared famine. New values began to emerge among the younger generation. Talented youth began starting businesses in increasing numbers. Many sought education and work experience overseas, then returned to India to establish companies of their own. The value of security gave way to an aspiration for accomplishment. The sense of knowing one's proper place gave way to an urge for higher levels of achievement, status and enjoyment. A fundamental change in social values underpinned a fundamental shift in the direction and expression of India's national energies from minimum survival to maximum development. This shift has been by no means uniform, universal or entire. It has occurred at different rates and to different extents in different communities, classes and parts of the country, but the change in general direction became increasingly evident. The development process that led to India's Green Revolution differed in its external expression from that which has more recently led to India's extraordinary achievements in the global software industry. The very notion that India could achieve international fame in a high technology industry was inconceivable to the national consciousness 20 years ago. As recently as 1983, India was employing fewer than 10,000 software engineers generating about \$10 million a

year in software exports. Sixteen years later, India's software export revenues are approaching \$4 billion. Most major US and many other large foreign computer firms have established companies or joint ventures in India to develop software for export. The country's two largest software training companies educate more than a quarter million programmers annually, roughly five times the total number of computer graduates produced by all US colleges and universities. New software companies and training institutions are sprouting up in every urban area. State governments are competing with each other for dominance in high technology. And Microsoft's Bill Gates recently christened India as "the Silicon Valley of Asia". This phenomenal accomplishment was made possible by and has further contributed to a general shift in social values that is evidenced in the behavior of people at all levels and in all parts of the society, including youth, students, women, farmers, lower castes, minorities and entrepreneurs. Viewed from the perspective of the traditional values that had characterized India during centuries of foreign occupation, this shift appears to some as a degradation of social values (a decline in respect for age, tradition and authority; a loss of deference, humility, and the spirit of idealistic self-sacrifice) in much the same way that the advent of democratic values in Europe seemed abhorrent to those who embraced the values of the feudal, aristocratic society that was disappearing. Attention has focused on the vulgar self-seeking, greed, crass materialism and corruption associated with India's economic and social awakening -- so much so, that the positive values that have been responsible for the country's recent accomplishments and form the infrastructure for its future progress are often overlooked. The essential knowledge India has derived from five decades of development experience has been distilled into a new set of social values based on national self-confidence, self-reliance, boldness, insistence on one's rights, greater social tolerance and social equality, and aspiration for higher accomplishment. Yet on closer inspection, India's progress in agriculture and software conform to a common process. Both achievements were made possible by a general social readiness and awakening of the population resulting from rising levels of education, public awareness, social freedom and national confidence. Achievement of Independence and self-government prepared the ground for the Green Revolution. The breakthrough in agriculture prepared the ground for industrialization. Advances in engineering and science education, drawing on an historical Indian endowment in mathematics, the exposure of large numbers of Indians seeking higher education in the USA to the latest information technology, and the emergence of a thriving entrepreneurial business culture in India, prepared the ground for the country's active participation in the Information Revolution. The real key to the success of Green Revolution was the response of the rural population to the opportunity. India's leaders astutely recognized that unless the farmer was confident of not only growing more but also selling more grain at a profitable price, there would be no motivation to adopt the new technology. In the absence of established national markets for food grain, bumper harvests in the past resulted in falling prices and little financial benefit to the farmer. To overcome this problem, the Government instituted a guaranteed floor price for food grains and established Food Corporation to market surpluses in food deficit regions.

### 2.3 Economic and Social Development

Economically, development occurs when productivity rises, enabling people to produce more, earn more and consume more. To do so, they have to be motivated to learn new

skills, adapt to new work processes, and adopt new technology, changes which in past ages have met with considerable resistance. Social development is the release and channeling of social energies through more complex social organization to enhance productive capacity and achieve greater results. This process depends upon mechanisms to direct and channel the collective energies of the society into new and more productive forms of activity. There include four distinctly different levels or types of mechanism that serve this function—social aspirations, government authority, social-cultural structure, and social know-how in the form of science, technology and productive skills. The driving force behind the whole movement is psychological. At the deepest level the energies of society are directed by the collective's subconscious aspirations. Society's self-conception of what it wants to become releases an aspiration of the collective for accomplishment. That aspiration exerts a powerful influence on the activities of the society. India's twin revolutions were spurred by a growing aspiration of Indian society for security, prosperity and enjoyment. A similar aspiration spurs middle class Americans today to invest their savings in the stock market. Without rising aspirations and expectations, society would not make the effort and take the risks to acquire new forms of behavior to achieve greater results. The psychological motive is primary, the mechanical, technological and organizational processes are secondary. Some forms of economic analysis tend to view these secondary levers as the driving force and thereby miss the essential determinant of the process. Like social aspirations, the authority of government has the capacity to direct the flow of social energies through the instrumentation of law, public policies, administrative procedures, controls, incentives and fear of punishment. Countries with authoritarian governments that have succeeded in releasing social initiative for economic development, such as China, Taiwan and South Korea, have done so by loosening social control over economic activities, while retaining it over political activities.

## 2.4 Social Development Principles

- J Social development in its broadest social terms is upward directional movement of society from lesser to greater levels of energy, efficiency, quality, productivity, complexity, comprehension, creativity, choice, mastery, enjoyment and accomplishment. Development of individuals and societies results in increasing freedom of choice and increasing capacity to fulfill its choices by its own capacity and initiative.
- J Growth and development usually go together, but they are different phenomena subject to different laws. Growth involves a horizontal or quantitative expansion and multiplication of existing types and forms of activities. Development involves a vertical or qualitative enhancement of the level of organization.
- J Social development is driven by the subconscious aspirations/will of society for advancement. The social will seeks progressive fulfillment of a prioritized hierarchy of needs – security of borders, law and order, self-sufficiency in food and shelter, organization for peace and prosperity, expression of excess energy in entertainment, leisure and enjoyment, knowledge, and artistic creativity.

- J Development of society occurs only in fields where that collective will is sufficiently strong and seeking expression. Development strategies will be most effective when they focus on identifying areas where the social will is mature and provide better means for the awakened social energy to express itself. Only those initiatives that are in concordance with this subconscious urge will gain momentum and multiply.
- J Development of the collective is subconscious. It starts with physical experience which eventually leads to conscious comprehension of the process. Conscious development based on conceptual knowledge of the social process accelerates development and minimizes errors and imbalances.
- J Society is the field of organized relationships and interactions between individuals. Only a small portion of human activity is organized for utilization by society, so only a small portion of development potential (of technology, knowledge, information, skills, systems) is tapped.
- J Every society possesses a huge reservoir of potential human energy that is absorbed and held static in its organized foundations—its cultural values, physical security, social beliefs and political structures. At times of transition, crises and opportunities, those energies are released and expressed in action. Policies, strategies and programs that tap this latent energy and channel it into constructive activities can stir an entire nation to action and rapid advancement.
- J The act is the basic unit of social organization. The evolution of more complex and productive activities woven together by people to form systems, organizations, institutions and cultural values constitute the fabric or web of social organization.
- J The essential nature of the development process is the progressive development of social organizations and institutions that harness and direct the society's energies for higher levels of accomplishment. Society develops by organizing all the knowledge, human energies and material resources at its disposal to fulfill its aspirations.
- J The process of formation of organization takes place simultaneously at several levels: the organization of peace and physical security in society, the organization of physical activities and infrastructure, the organization of productive processes through the application of skills and technology in agriculture, industry and services, the organization of social processes we call systems, laws, institutions and administrative agencies, the organization of data as useful information, the organization of knowledge through education and science, and the organization of higher social and cultural values that channel human energy into higher forms of expression.
- J Each of these levels of organization admits of unlimited development. Each of these levels of organization depends upon and interacts with the others. Elevating the

organization at any of these levels increases the utilization of resources and opportunities and accelerates development.

- J Development requires an enormous investment of energy to break existing patterns of social behavior and form new ones. Development takes place when surplus social energies accumulate beyond the level required for functioning at the present level. The social energy may be released in response to the opening up of a new opportunity or confrontation by a severe challenge. Where different cultures meet and blend, explosive energies for social evolution are released.
- J Expression of surplus energy through existing forms of activity may result in growth—a quantitative expansion of society at the existing level of organization. Channeling the surplus energy into more complex and effective forms of organized activity leads to development—a qualitative enhancement in the capabilities of the society. The fresh initiatives that lead to this qualitative enhancement usually occur first in the unorganized activities of society that are not constrained and encumbered by the inertia of the status quo.
- J The rate and extent of development is determined by prevalent social attitudes which control the flow of social energies. Where attitudes are not conducive, development strategies will not yield results. In this case the emphasis should be placed on strategies to bring about a change in social attitudes—such as public education, demonstration and encouragement of successful pioneers.
- J Development proceeds rapidly in those areas where the society becomes aware of opportunities and challenges and has the will to respond to them. Increasing awareness accelerates the process.
- J Social progress is stimulated by pioneering individuals who first become conscious of new opportunities and initiate new behaviors and activities to take advantage of them. Pioneers are the lever or spearhead for collective advancement. Pioneers give conscious expression to the subconscious urges and readiness of the collective.
- J Development occurs when pioneering individual initiatives are imitated by others, multiplied and actively supported by the society. Society then actively organizes the new activity by establishing supportive laws, systems and institutions. At the next stage it integrates the new activity with other fields of activity and assimilates it into its educational system. The activity has become fully assimilated as part of the culture when it is passed on to the next generation as values through the family.
- J Development is a process, not a program. Development is an activity of the society as a whole. It can be stimulated, directed or assisted by government policies, laws and special programs, but it cannot be compelled or carried out by administrative



or external agencies on behalf of the population. Development strategy should aim to release people's initiative, not to substitute for it.

- J All resources are the creation of the human mind. Something becomes a resource when human beings recognize a productive or more productive use for it. Since there are no inherent limits to human inventiveness and resourcefulness, the potential productivity of any resource is unlimited.
- J Human beings are the ultimate resource and ultimate determinant of the development process. It is a process of people becoming more aware of their own creative potentials and taking initiative to realize those potentials. Human awareness, aspiration and attitudes determine society's response to circumstances. Development occurs only at the points where humanity recognizes its power to determine results.
- J The development of social organization takes place within a larger evolutionary context in which the consciousness of humanity is evolving along a continuum from physical to vital to mental. This evolution expresses as a progressive shift in emphasis from material resources to technological and information resources; from the social importance of land to the importance of money and knowledge; from hereditary rights of the elite to fundamental rights for all human beings; from reliance on physical forms of authority to laws and shared values. As society advances along this continuum, development becomes more conscious and more rapid.
- J Infinity is a practical concept. Human potential is unlimited. Development potential is infinite.
- J The same principles and process govern development in different fields of social life – political, economic, technological, scientific, cultural, etc.
- J The same principles and process govern development at the level of the individual, the organization and the society.

### 3. Economic Development

The word "economics" is derived from *oikonomikos*, which means skilled in household management. Although the word is very old, the discipline of economics as we understand it today is a relatively recent development. Modern economic thought emerged in the 17th and 18th centuries as the western world began its transformation from an agrarian to an industrial society.

Despite the enormous differences between then and now, the economic problems with which society struggles remain the same:

- J How do we decide what to produce with our limited resources?
- J How do we ensure stable prices and full employment of our resources?

J) How do we provide a rising standard of living both for ourselves and for future generations?

Progress in economic thought toward answers to these questions tends to take discrete steps rather than to evolve smoothly over time. A new school of ideas suddenly emerges as changes in the economy yield fresh insights and make existing doctrines obsolete. The new school eventually becomes the consensus view, to be pushed aside by the next wave of new ideas.

This process continues today and its motivating force remains the same as that three centuries ago: to understand the economy so that we may use it wisely to achieve society's goals.

### 3.1 Economic Theories

**Mercantilists :** Mercantilism was the economic philosophy adopted by merchants and statesmen during the 16th and 17th centuries. Mercantilists believed that a nation's wealth came primarily from the accumulation of gold and silver. Nations without mines could obtain gold and silver only by selling more goods than they bought from abroad. Accordingly, the leaders of those nations intervened extensively in the market, imposing tariffs on foreign goods to restrict import trade, and granting subsidies to improve export prospects for domestic goods. Mercantilism represented the elevation of commercial interests to the level of national policy.

**Physiocrats:** Physiocrats, a group of 18th century French philosophers, developed the idea of the economy as a circular flow of income and output. They opposed the Mercantilist policy of promoting trade at the expense of agriculture because they believed that agriculture was the sole source of wealth in an economy. As a reaction against the Mercantilists' copious trade regulations, the Physiocrats advocated a policy of *laissez-faire*, which called for minimal government interference in the economy.

**Classical School:** The Classical School of economic theory began with the publication in 1776 of Adam Smith's monumental work, *The Wealth of Nations*. The book identified land, labor, and capital as the three factors of production and the major contributors to a nation's wealth. In Smith's view, the ideal economy is a self-regulating market system that automatically satisfies the economic needs of the populace. He described the market mechanism as an "invisible hand" that leads all individuals, in pursuit of their own self-interests, to produce the greatest benefit for society as a whole. Smith incorporated some of the Physiocrats' ideas, including *laissez-faire*, into his own economic theories, but rejected the idea that only agriculture was productive. While Adam Smith emphasized the production of income, David Ricardo focused on the distribution of income among

landowners, workers, and capitalists. Ricardo saw a conflict between landowners on the one hand and labor and capital on the other. He posited that the growth of population and capital, pressing against a fixed supply of land, pushes up rents and holds down wages and profits. Thomas Robert Malthus used the idea of diminishing returns to explain low living standards. Population, he argued, tended to increase geometrically, outstripping the production of food, which increased arithmetically. The force of a rapidly growing population against a limited amount of land meant diminishing returns to labor. The result, he claimed, was chronically low wages, which prevented the standard of living for most of the population from rising above the subsistence level. Malthus also questioned the automatic tendency of a market economy to produce full employment. He blamed unemployment upon the economy's tendency to limit its spending by saving too much, a theme that lay forgotten until John Maynard Keynes revived it in the 1930s. Coming at the end of the Classical tradition, John Stuart Mill parted company with the earlier classical economists on the inevitability of the distribution of income produced by the market system. Mill pointed to a distinct difference between the market's two roles: allocation of resources and distribution of income. The market might be efficient in allocating resources but not in distributing income, he wrote, making it necessary for society to intervene.

**Marginalist School:** Classical economists theorized that prices are determined by the costs of production. Marginalist economists emphasized that prices also depend upon the level of demand, which in turn depends upon the amount of consumer satisfaction provided by individual goods and services. Marginalists provided modern macroeconomics with the basic analytic tools of demand and supply, consumer utility, and a mathematical framework for using those tools. Marginalists also showed that in a free market economy, the factors of production -- land, labor, and capital -- receive returns equal to their contributions to production. This principle was sometimes used to justify the existing distribution of income: that people earned exactly what they or their property contributed to production.

**Marxist School:** The Marxist School challenged the foundations of Classical theory. Writing during the mid-19th century, Karl Marx saw capitalism as an evolutionary phase in economic development. He believed that capitalism would ultimately destroy itself and be succeeded by a world without private property. An advocate of a labor theory of value, Marx believed that all production belongs to labor because workers produce all value within society. He believed that the market system allows capitalists, the owners of machinery and factories, to exploit workers by denying them a fair share of what they

produce. Marx predicted that capitalism would produce growing misery for workers as competition for profit led capitalists to adopt labor-saving machinery, creating a "reserve army of the unemployed" who would eventually rise up and seize the means of production.

**Institutionalist School:** Institutionalist economists regard individual economic behavior as part of a larger social pattern influenced by current ways of living and modes of thought. They rejected the narrow Classical view that people are primarily motivated by economic self-interest. Opposing the laissez-faire attitude towards government's role in the economy, the Institutionalists called for government controls and social reform to bring about a more equal distribution of income.

**Keynesian School:** Reacting to the severity of the worldwide depression, John Maynard Keynes in 1936 broke from the Classical tradition with the publication of the *General Theory of Employment, Interest, and Money*. The Classical view assumed that in a recession, wages and prices would decline to restore full employment. Keynes held that the opposite was true. Falling prices and wages, by depressing people's incomes, would prevent a revival of spending. He insisted that direct government intervention was necessary to increase total spending. Keynes' arguments proved the modern rationale for the use of government spending and taxing to stabilize the economy. Government would spend and decrease taxes when private spending was insufficient and threatened a recession; it would reduce spending and increase taxes when private spending was too great and threatened inflation. His analytic framework, focusing on the factors that determine total spending, remains the core of modern macroeconomic analysis.

### 3.2 Poverty

Oxford Advanced Learner's Dictionary defines poverty as not having and not able to get necessities of life. There are many words to name the poverty as destitution, lack, difficulties, bad circumstances, embarrassed, insolvency, disadvantaged, measurable etc. In simple word, the poor mean the person who does not have any property (Kunwar 2002).

Encyclopedia Britannica lauds poverty is the condition that is said to exist when people lack the means to satisfy their basic needs.

The dictionary of sociology distinguishes the difference between relative poverty and absolute poverty. Absolute poverty occurs when people fail to receive sufficient resources to support a minimum level of physical health and efficiency that often expressed in terms of calories or nutritional levels. Relative poverty is defined as the general

standards of living in different societies and what is culturally stated as being poor rather than some absolute level of deprivation (Kunwar 2002).

Gillian & Gillian defines "Poverty is that condition in which a person either because of inadequate income or non-envisaged expenditure does not maintain a scale of living high enough to provide his physical and mental efficiency and to enable him and his natural dependents to function usefully according to the standards of the society of which he is a member".

Charle Boot has categorized the poverty into poor and extreme poor. He defines that a poor is a person who is struggling for meeting basic needs or hand to mouth problem while the second category does live in state of chronic want.

The World Book Encyclopedia 1996 defines: "Poverty is the state or fact of being in want. People are poor if they lack enough income and resources to be adequately by the accepted living standards of their community". Standards may vary greatly according to time and place.

UNDP (1997) defined poverty as a state in which opportunities and choices most basic to human development are denied to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-respect and respect for others.

Morris David opined in the Measuring the Conditions of World Poor, the physical quality of life index that poverty is associated with the physical life standard on the basis of life expectancy, infant mortality rate, and literacy rate. In other case, the calculation is made on the basis for every day calorie intake and other basic needs.

### 3.2.1 Measuring the Poverty

The international poverty line, set at \$1 a day in 1985 purchasing power parity (PPP) assuming that US\$1.00 has same purchasing power in the domestic country as in USA. But it may not be correct because price of local goods vary with the country. Considering this different country has developed poverty line calculating product price in local condition.

One of the indicators used by UNDP for poverty is through Multidimensional Poverty Index because dimension of poverty go far beyond inadequate income-to poor health and education, low education and skills, inadequate livelihoods, bad housing conditions, social exclusion and lack of participation. There are 3 dimensions and 10 indicators as follow.

Figure 1: Multidimensional Poverty Index

Indicators	Dimension	Result
Assets	Living Standards	Multidimensional Poverty Index
Floor		
Electricity		
Water		
Toilet		
Cooking fuel		
Children enrollment	Education	
Years of schooling		
Child mortality	Health	
Nutrition		

Source: UNDP Report 2010

Each person in a given household is classified as poor or non-poor depending on the number of deprivations his or her household experiences. This data are then aggregated into the national measure of poverty. Accordingly, human development index and Gender Inequality Index are some indicators used by UNDP for measuring poverty.

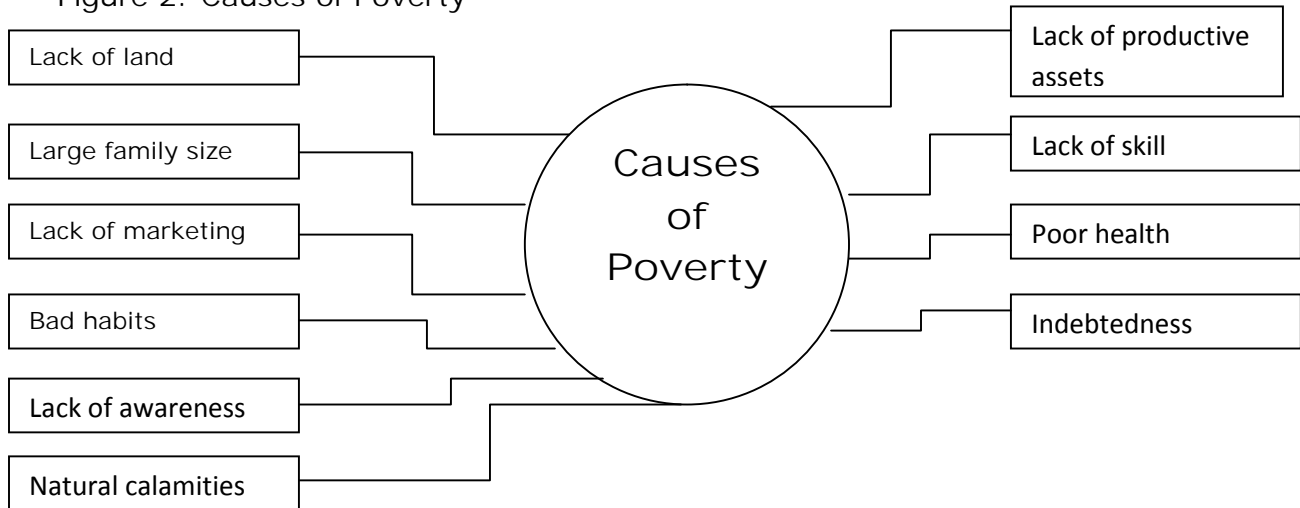
World Bank has used PPA to calculate poverty. As per a study conducted by UNDP in 2003/04, in Nepal, there are 24.1% population with less than \$1 per day per person, 55% population with less than \$1.25 per person per day and 78% with less than \$2 per person per day (NPC 2010)

In Nepal NPC first conducted poverty survey in 1977 and on the basis of income and expenditure Rs. 60.00 per month per individual was taken as poverty line for calculation of the population. On that basis 40.3% population fall under poverty line (NPC 2010). In 1995/96, CBS conducted first living standards measurement which calculated cost of purchasing 2124 kilocalorie and other non-food items such as housing, cloth, health and education and calculated Rs. 5,089.00 as poverty line. This study documented 42% population below the poverty line. The living standards survey 2003/2004 follows the same procedure and calculated NRS.7,696.00 (USD 105.00) annual income per person as poverty line. CBS further calculated poverty line in 2008/2009 using data of labor force survey and calculated 25.4% below the poverty line.

### 3.2.2 Causes of Poverty

Over population, the imbalance distribution of resources of global economy, the living standard not matching with the income, insufficient education, low opportunities and employment, environmental degradation, individual irresponsibility and dependency are major causes of poverty (Kunwar 2002). The causes could be unemployment, loss of jobs, illness, mental disturbance, accident and low skill. The causes of poverty can be depicted as follow.

Figure 2: Causes of Poverty



Source: Kunwar, 2002

### 3.2.3 Effects of Poverty

Poverty affects on i) malnutrition and starvation ii) epidemic of infectious disease iii) mental imbalance and tend to drug and iv) crime and violence. The poor suffer from food shortage and unhealthy living condition making them unable to get treatment and work physically (Kunwar 2002). Problems of poor families are the clusters of disadvantages. They are physically weakness, vulnerability, powerlessness and isolation. Poor people are really dispersed less responsive to each other, divided and isolated (Robert Chambers, Institute of Development Studies, University of Sussex). Poverty increases crimes in rural areas. .

### 3.2.4 Millennium Development Goals

At the onset of new millennium, 189 world leaders from member states of United States made a historic commitment during the United Nations Millennium Summit in 2000 when they agreed to meet Millennium Development Goals (MDGs) with the aim of bringing peace, security and development to all people. The eight MDGs have been broken down into 21 quantifiable targets and 60 indicators. Nepal is one of 189 countries committed to the achievements of MDGs. The eight major goals and achievements of Nepal have been given in the following table.

Figure 3: Millennium Development Goals

Goals	Achievement as of 2010	2015 target
Proportion of population below national poverty line	25.4	17
Net enrollment rate in primary education	93.7	100
Ratio of girls to boys in primary and secondary education	1:0 in primary and 0.93 in secondary	100
Infant mortality rate and under five mortality rate (per 000)	Infant mortality 41 and under five mortality 50	Infant mortality 36 and under five mortality 54
Maternal mortality ratio (per 100,000)	229	213
HIV prevalence population aged 15-49 years (%)	49%	-
Ensure environmental sustainability	CO <sub>2</sub> emissions per capita for 2002 was 0.2 ton	This is low than global average
Develop a global partnership for development	Aid on budget is 74% (MOF 2008)	-

Data indicates that potentially Nepal will be able to achieve most of the MDGs target except for the most complex ones-full employment and climate change which require stronger efforts and appropriate environment. Furthermore, data reveals that poverty has fallen by five percentage points in last five years. Accordingly, net enrollment rate will achieve before the time and ratio of girls to boys in primary school is already achieved. Infant mortality and under five mortality is likely to achieve while population affected from HIV has been increasing although implementation of several HIV controlled program. Increased use of alternative source of energy such as solar, biogas and micro-hydro and government attempt to discourage on use of green houses has contributed positive on environment sustainability. The national economy is highly depend on foreign aid and remittance has been playing vital role in national economy, particularly addressing need of the rural poor (MDG 2010).

### 3.2.5 Role of Microfinance in Poverty Reduction

The microfinance by definition is the provision of financial services to low income groups which include savings, credit, payment and micro-insurance services. The poor used to depend upon local merchant and local traders for borrowings when needed for buying inputs, treatment, social functions and other emergency. But this informal sector charges exorbitant interest rate and it is not reliable source too. The other option is to receive service of the traditional banks. But these banks are reluctant to serve poor because of risky and its main aim to generate profit than development. Moreover, the poor people cannot fulfill the requirement of banks such as collateral requirement and series of



documentations. It is also expensive to borrow small loans from traditional bank to poor. In addition, poor needs social mobilization and training in addition to loans which is beyond the scope of traditional banks and informal sector. It is only microfinance which has been designed considering the situation of the poor. The microfinance can contribute in poverty reduction because of the following reasons.

- ) The main mission of microfinance is poverty reduction by providing demand based products to poor
- ) Microfinance does not require collateral, in most of the cases loans are disbursed on group guarantee
- ) Microfinance services are offered at door step and process is easy
- ) Savings services are equally important to poor which is available in microfinance
- ) Social mobilization is the integral part of the microfinance which increases awareness and help the people to work in group
- ) Microfinance offers capacity enhancement training in addition to financial services which is necessary for the poor
- ) MDGs has envisaged employment which is only possible by making availability of financial services to initiate income generating activities
- ) The poor generally feel alone and exclusion, they need group, which is possible through microfinance program
- ) Capital formation at local level is necessary for sustainable operation of the livelihood program which is possible through implementation of microfinance program

Kunwar in his book 'The Himalayan Poverty, Threat To The World, writes that Agricultural Development Bank, Small Farmers Development program, Production Credit for Rural Women, Micro-Credit Project for Women, Grameen Bikas Bank, Intensive Banking Program, Cooperatives, Rural Microfinance Development Center, Rural Self-reliance Fund and Microfinance Development Banks has been established for poverty reduction. I

#### 4. Microfinance

Microfinance is provision of financial services to low income groups. It generally includes savings and credit; however, some microfinance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus definition of microfinance includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool (Joanna Ledgerwood). Microfinance activities usually involve:

- ) Small loans, typically for working capital
- ) Informal appraisal of borrowers and investments
- ) Collateral substitutes, such as group guarantees or compulsory savings
- ) Access to repeat and larger loans, based on repayment performance
- ) Streamlined loan disbursement and monitoring
- ) Secure savings products

Consultative group to assist the poor (CGAP) has defined microfinance as a financial services for poor and low-income clients provided by microfinance institutions. It refers to microcredit -small loans for "entrepreneurs" with little or no collateral- as well as to savings, insurance, and money transfers that have developed more recently.

#### 4.1 Evolution of Microfinance

Kunwar (200) writes in his book 'The Himalayan Poverty Prosperity from Rural Development that, in England the microfinance first started as cooperative from the group of 28 factory workers who started savings and established an organization called Rochdales Society of Equitable Pioneers in 1844. This was expanded in the area of flour milling, textiles and shoe factory. Luigi Luzzati in Italy and Alphones Desjardins in North America were founder in the beginning of 19<sup>th</sup> century. Kunwar further writes that, in Germany, the first credit organization was introduced by Freiderich Raiffeisen (1818-1888) with the establishment of a cooperative society in 1864. Raiffeisen proved how the group's strength could be effective. After the Germany it expanded in India and China.

In Nepal it was started first in Chitwan valley in 1957 by establishing 13 cooperatives to provide rescue to the flood affected families with the support of USAID. After that in 1960, the cooperative movement was further developed during Panchayat regime by enactment of cooperative act 1960. The government established regional grameen banks and implemented small farmer's development program. It is only after restoration of multi-party system microfinance develops rapidly in the country. At present microfinance development banks, NGOs and savings and credit cooperatives are implementing microfinance program in the country.

#### 4.2 Key Operating Principles of Microfinance

There are 9 key operating principles of microfinance according to United Nations Capital Development Fund (UNCDF) as follows.

##### a) Understanding the market

Successful microfinance understands its market and designs products that best serve its clients. This requires listening the customers and recognizing limitation on supply side.

##### b) Streamlined the operation

The cost of lending is keeping in line with small size loans. It helps for efficient use of staff and other resources to keep cost low. Streamlined operation also contributes to work with external financial players in the market.

##### c) Informal sector practice

Informal sector practices such as collateral substitute, simple and rapid lending procedure, offering friendly and professional services and operating from convenient location helps manage risk, motivate repayment and lower administrative cost.

#### d) Repayment incentive

The ability to get another loan when it is needed is a powerful incentive for clients to repay current loans. In addition, other incentive packages can be introduced. But care should be taken that incentive package should not affect the financial discipline at any cost.

#### e) Savings services

Quality savings services are secure, convenient, offer competitive returns and not be limited to borrowers. Savings should be integral part of the microfinance program. For the ultra poor savings is more important than credit.

#### f) Viability and growth

The successful MFIs create business environment where all staff members are focused on productivity, efficiency and financial viability. These qualities should prevail in the entire system governance, management and staff. Operating cost of the program should be covered by operating income. This is necessary for sustainable operation. In addition, profit is necessary for growth.

#### g) No delinquency tolerated

Successful MFIs don't tolerate delinquency. Delinquent clients add cost, erode capital and stress operation. By implementing and enforcing a strict no tolerance policy regarding delinquency, MFIs operates can create position for successful.

#### h) Sustainable interest rate

Experience shows that poor are willing to pay for convenient and access to quality services. To be sustainable MFIs must set interest rate enough to cover operating cost including staff cost, office operating cost, fund cost, loan loss provision and cost of adjustment due to inflation.

#### i) Linkage to financial market

To support and maintain significant activities MFIs leverage resources from commercial markets. Using equity or donor grants, MFIs can borrow large sum to serve large clients base. There should be linkage to financial market for resource management which includes both borrowings when needed and investment when fund is surplus in the organization. This will ensure resource when needed and mobilize the fund effectively.

### 4.3 Microfinance in other Part of the World

There are many successful cases of microfinance worldwide. In some part such in China, it is the program of the government while in the countries like Bangladesh, India, Sri Lanka and Pakistan it is the program run by private sector with the support of government. In Indonesia, it is implemented by the government owned bank. The microfinance has been commercialized in the Latin American Countries. In African countries, the case is similar to that of South East Asia. It has also been started in USA currently, but working modality is different, targeting small entrepreneurs. Some of the renowned microfinance program has been described hereunder.

**Grameen Bank in Bangladesh:** The origin of Grameen Bank can be traced back to 1976 when Pro. Muhammad Yunus, Head of the Rural Economics Program at University of Chittagong launched an action research project in Jobra village to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. The action research was further extended in Tangil district with the sponsorship of the central bank and support of nationalized commercial banks during 1976 to 1979. In October 1983, the project was transferred in to Grameen Bank. As of December 2010, It has been providing microfinance services to 8.3 million customers through its 2565 branches with loan portfolio US\$ 635.6 million and deposit US\$ 1471.5 million. The rate of loan recovery is 97.37%. Grameen Bank has also sister organizations such as Grameen Communications, Grameen Trust, Grameen Fund, Grameen Telecom, Grameen Cybernet, Grameen Shakti, Grameen Phone, Grameen Shikkha, Grameen Knitwear, Grameen Solution and Grameen Byabosa Bikas. The Grameen bank methodology has been replicated in over 50 countries worldwide. In Nepal, Grameen has over 50% share in microfinance market. BRAC, ASA and many other leading microfinance organizations of Bangladesh have been adapting Grameen model with some modification.

**Self-Help Group of India:** Self-help group model is more popular in India. NABARD claims that it has covered 70 million households in India, the largest microfinance program in the world. The features are:

- Self-help members of 10-20 (sometime may be more) formed a group and start savings
- Mobilize savings by providing loans within the members
- Self-help groups are linked to bank for loans
- It is one of the cost effective model in microfinance
- The success of self-help groups largely depends upon their functional linkage with the financial institutions.

**Micro-banking of Bank Rakyat Indonesia (BRI):** Government owned institution operating in highly dense population. BRI has over 40,000 permanent employees working in 4417 unit outlets and 76 village service posts. It has disbursed a total USD 4.4 billion microloans to 4.5 million customers by December 2008 with USD 50.25 billion profit. The

main strength of BRI the interest rate deregulated by the central bank and easy access to range of financial services which mainly includes credit and savings services

BankcoSol in Bolivia: BancoSol is a privately owned institution created by PRODEM, an NGO of Bolivia. It is a commercially oriented microfinance program serving over one quarter of Bolivias bank clients<sup>1</sup>. Its strength is high penetration both in rural and urban areas

Aga Khan Rural Support program (AKRSP) of Pakistan: AKRSP is a rural development organization initiated by the Agakhan Foundation in 1982. It was started working with village level institutions and women organizations in wide range of activities which include infrastructure, natural resource management, enterprise development and microfinance. Later microfinance program was separated from other programs. AKRSP working area is primarily northern mountainous areas of Pakistan. It lends by two ways either through village/women organizations or directly to individual borrower. Now it has established 'The First MicrofinanceBank Ltd" in Pakistan for microfinance operation. The strength is establishment of specialized bank for MF operation and implementation of development program through AKRSP (foundation)

Sarvodaya Economic Empowerment Development Services (SEEDS) of Sri Lanka: An institution of Sri Lanka, adopting credit plus methodology and delivering microfinance services either directly or through Sarvodaya societies which are promoted and registered by the SEEDS. It has three products; a) income generation b) consumption loan and c) creation of employment. The type (a) is disbursed on group guarantee and for type (b), 2 guarantors are required but for type (c) mortgage is compulsory. The strength is development of local level institutions by registering under SEED and lending through these institutions. In addition, it has been successful with credit plus model. It was operating in Sri Lanka even at Tamil insurgency period

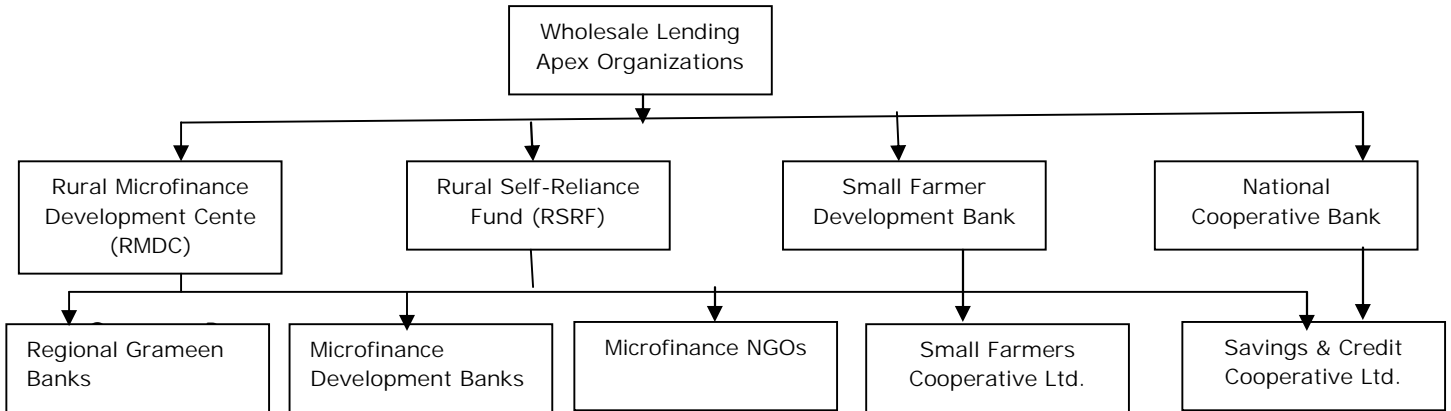
#### 4.4 Microfinance in Nepal

There are many microfinance models/schemes operating in the country. Considering the methodology, it can be grouped broadly into two categories, formal and semi-formal. Grameen Banks, Private Microfinance Development Banks (MFDBs) and Wholesale Lending Banks (Rural Microfinance Development Center, Small Farmer Development Bank, Rural Self Reliance Fund) fall under formal and semi-formal includes Microfinance NGOs (FINGOs), Savings and Credit Cooperatives (SACCOs), Small Farmers Cooperative Limited (SFCLs) and National Cooperative Bank (NCB). Accordingly, microfinance institutions can be grouped on the basis of wholesale lending organizations. For example RMDC provides wholesale loans to Gameen Banks, MFDBs, SACCOs and FINGOs while SFDB provides only to SFCLs.

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<sup>1</sup> The Microfinance Revolution, Sustainable Finance for the Poor by Marguerite S. Robinson

Figure 4: Microfinance Models in Nepal



Grameen Model: It is the replication of Grameen model of Bangladesh. Five regional development banks, one in each region, were established in between 1992 to 1995. Besides these private sectors microfinance banks came into existence. Nirdhan Bikas Bank, Swabalamban Bikas Bank, Deprosc Bikas Bank, Chimmek Bikas Bank, Nerude Bikas Bank, Mahila Cooperative and many NGOs are replicating this module in Nepal. The process of the Grameen model includes district selection on the basis of poverty level using secondary data, feasibility study for VDCs selection, orientation program for dissemination of program concept, formation of informal groups consisting five members in each group, conduction of compulsory group training for 7-10 days on basic philosophy, procedure and rules of the program to informal groups. Group recognition test is taken after completion of the training by branch manager. A total of 3-8 groups meet at a point (meeting point is called center) weekly/fortnightly or monthly for receiving financial services. MFI staff deliver services at center meeting conducted in the community. An individual member applied loan in group, the group discussed and submit to the center meeting for approval and center meeting approves loans proposed by the group members. The bank field staff prepares necessary documents at community. Borrower need to deposit 5% of approved loan as group savings/loan guarantee fund and loan is disbursed through branch office. Loan installment can be weekly/fortnight/monthly and loan duration varies from 12 to 18 months as per MFI policy. Interest rate ranges from 18-25% per annum depending upon MFI. Grameen bank module is exclusively focus on women, this is the most popular model in Nepal having over 50% share in the microfinance market.

Small Farmers Co-operative Ltd. Model (SFCLs): SFDP which was implemented by Agriculture Development Bank, Nepal (ADB/N) transferred as SFCL under the management of its clients. ADB/N has established Small Farmers Development Bank (SFDB) to provide wholesale loans to these SFCLs. As of October, 2009, a total of 146,734 members were associated with 226 SFCLs in the country. SFCLs is targeted program, disburse loan to their clients at the interest rate ranging between 12 to 18 percent per annum and the loan is repaid within 1 to 3 years from the date of disbursement. There are three tiers in SFDP/SFCL i) community level solidarity groups,

each group having 5-10 members ii) ward level inter-groups (representation of one from each group) and iii) VDC level main committee. The loan is first deal in group, discuss on intergroup and on the recommendation of loan committee, main committee approves the loans. In SFCL, in most of the cases loans are provided by taking physical collateral, however, they can provide without physical collateral on group guarantee too.

**FINGOs Model:** Financial Intermediary Non Government Organizations (FINGOs) have been providing microfinance service under the Financial Intermediary Act 1998 (1st amendment 2002). A total of 45 NGOs are under operation. FINGOs formed groups, mobilize savings and disburse credit on group basis. FINGOs modules vary with the situation. The interest rate varies from 18-25% per annum and loan duration is generally one year with weekly/fortnightly/monthly loan installments.

**Savings and Credit Co-operatives (SACCOS) Model:** It is member based model where at least 25 self-help members registered under cooperative act, 1992. SACCOS elected board of directors (BOD) from the general members and operate by forming loan sub-committee and account sub-committee. In most of the SACCOS, members meet once a month for savings and loans. On the recommendation of loan sub-committee, BOD approves loans. SACCOS start with members' savings as source. In addition, SACCOS borrow loans from Nepal Rastra Bank/Rural Microfinance Development Center/Financial institutions for loan fund. The loan generally flows on group guarantee without collateral. Loan generally disburses for one year and interest rate ranges from 12-18% per annum. Over 5000 SACCOS are presently in operation in the country. This module is popular in the hills of Nepal.

**Project-based Micro-financing Model:** A total of six donor-funded project based microfinance program were implemented in Nepal as follows.

**Production Credit for rural Women (PCRW):** This was implemented from 1982 to 1997 in two phases covering 82,416 women in the program. Under this module, district level women development division facilitated to form women groups and link them to Nepal Bank Limited, Rastriya Banijya Bank and Agriculture Development Bank for credit.

**Micro-Credit Project for Women (MCPW):** This project was launched in 1994 to 2002 by Ministry of Local Development in coordination with NRB, RBB with financial assistance of ADB/Manila amounting to SDR 5.0 million. In this project, 95 partners (87NGOs and 8 SACCOSs) have been involved in "financial and social intermediation". The project was awarded best run ADB funded project in Nepal by ADB/M in 2001. With the completion of the project, many NGO's associated with the program as a credit agent later converted or upgraded into FINGOs and SACCOSs. That is, 82 women savings and credit cooperatives were organized and 25 (twenty five) of them were registered at the Cooperative Department. 25 SACCOSs have been able to become partner organization (POs) of RSRF. Similarly, 27 FINGOs formed by women groups under the MCPW have received licenses for limited banking from the central bank. Most of the SACCOSs and

FINGOs developed under this project are replicating Grameen module and have been received loan fund from RMDC.

Poverty Alleviation Project in Western Terai (PAPWT): This project was funded by IFAD and launched from 1997 to 2004 in selected Terai districts of western, mid-western and far-western development regions. The project is to cover below poverty level clients of the MFIs through 16 branches of Grameen Banks and its replicating institutions from 8 districts of western, mid-western and far western Terai. The project was based on pre-financing model under which the selected branches were pre-financed by the NRB for on lending their clients based on their branch viability plan. As usual, Ministry of Local Development (MOLD) was the major project implementing body for overall project management and NRB acted as a credit component implementing body.

Third Livestock Development Project (TLDP): The project was implemented from 1996 to 2004 with an aim to improve the quality of livestock and its production. The project was funded by ADB/Manila with a loan amount of SDR 2.0 million. The project was launched in three different phases in 26 districts of western, mid-western and far western regions of the country for targeted marginal and middle-income people. During the project period, TLDP has disbursed Rs. 170 million through its 17 PFIs. While NRB was the implementing agency for the credit component, the overall executing responsibility was with the Department of Livestock, Ministry of Agriculture and Co-operative (MoAC). The project had shown remarkable performance and as such has been rewarded three times (2000, 2002 and 2003) by ADB/M for its best performances.

Community Ground Water Irrigation Sector Project (CGISP): With the objective of increasing agricultural productivity of marginal and small farmers through community-based shallow tube-well irrigation system, CGISP was implemented in 12 districts of eastern and central Tarai in from 1999 to 2006. CGISP was funded by ADB/M with a loan amount of SDR 9.93 million for the STWs installation and production credit and US\$ 3.5 million as a grant from CIDA as technical assistance. RSRF (NRB) was the implementing agency for the credit component. As of mid-July 2006, RSRF under CGISP disbursed Rs. 134.98 million for 5365 STWs in-group thereby benefiting altogether 21,262 marginal farmers. The project has targeted to install 15,000 STWs (13,500 in groups and 1,500 in individual) through credit without subsidy. Department of Irrigation (DoI) had overall responsibilities for executing the project. Technical assistance part was implemented by Centre for International Studies and Cooperation (CECI).

Rural Micro-finance Project: This was an ADB/M funded project for a period of 1999-2005. With a loan amount of SDR 14.2 million under the project, RMP aimed at improving the socio-economic status of poor women through wholesale credit to PFIs for on-lending to income generating activities and institutional strengthening of MFIs. Rural Micro-finance Development Center (RMDC) implemented the credit component. With the project, there was the establishment of a whole sale micro-credit institution called RMDC in October 2000.



Village Bank or Community Based Self-Help Model: The PACT has introduced this model in Nepal to the households involved in the literacy program. In this module, a group of 10-25 members meet weekly and start savings. They elect chairperson, secretary and treasurer among them. The village bank also borrows loans from wholesale lenders to re-lend to its members. They do not registered but work in an informal way. In Nepal, after phase out of the PACT program, most of village banks have closed down their operation because of the lack of capacity of the members. However, similar to village banks, many self help groups are in operation in some parts of the country.

Wholesale Micro-financing Model: The deposit collected from the poor cannot meet the credit demand. In this context, wholesale loan provision has been made to provide soft loan to retail microfinance institutions.

Rural Self-Reliance Fund (RSRF): Established in 1991 with the seed money of the government amounting Rs.40 million. Latter NRB added Rs. 253.4 million in the fund. The fund is provided to SACCOs and FINGOs to re-lend to microfinance clients. Loan ceiling for is Rs. 40,000.00, Rs.50,000.00 and Rs.60,000.00 in the first, second and third loans respectively. RSRF charges 8% interest to retail microfinance institutions. It refunds 75% of the interest paid by MFIs to the concern MFIs, if the loan is paid on time and utilized as per agreement. MFI generally charges 18-25% per annum to clients. RSRF has been providing services to 334 MFIs working in 50 districts. As of Mid July 2008, a total of Rs. 193.4 million loans has been disbursed and Rs. 102.3 million recovered with Rs. 91.1 million outstanding (source: NRB annual report, 2007/08).

Rural Microfinance Development Center (RMDC): This is a wholesale lender for retail microfinance institution registered under development bank act in 1998 with the support of ADB/M amounting SDR 14.2 million. RMDC have made partnership with 82 microfinance institutions, which includes microfinance development banks, FINGOs and SACCOs. As of 13 March, 2010, it has disbursed a total of Rs. 3.984 billion loans and recovered Rs. 2.308 billion with loan outstanding Rs. 1.766 billion<sup>2</sup>. RMDC has been success in Nepal in disbursing retail loans to MFIs and enhancing their capacity.

Small Farmers Development Bank(SFDB): This is wholesale lender of SFCLs established by Agriculture Development Bank and operation in 2002. As of October 2009, SFDB has provided loans to 226 SFCLs with loan outstanding amounting Rs. 2.5 billion. However, due to continuous intervention of the government (such as waiver of SFCLs loans last year) SFDB has not been functioning as expected.

Deprived Sector Credit: The central bank introduced priority sector lending program in 1974 by making mandatory to the commercial banks to lend certain percentage in the agriculture, cottage, industry and service sectors. Latter in 1990, deprived sector lending program was introduced which made mandatory to the commercial banks to lend to deprived groups. At present, the commercial banks, development bank and finance company should lend at least 3%, 2.5% and 2% of their loan portfolio in the deprived sector respectively, either by direct retail lending or through microfinance institutions

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<sup>2</sup> RMDC report, loan approval and disbursement as of 13 March, 2010

such as FINGOs, microfinance development banks and SACCOs. This source has contributed Rs. 14.798 billion loan fund to microfinance sector <sup>3</sup>which is over 75% of the total resources available in the sector. There is no specific module for the priority and deprived sector. It varies with the institutions and situation.

#### 4.5 Microfinance Policy in Nepal

Nepal government has declared 'National Microfinance Policy' on 2065-01-22 B.S. The main goal of the policy is to contribute on the reduction of poverty through provision of sustainable, simple and accessible microfinance services. In order to achieve the goal the policy has following objectives.

- a) To implement income generation and self-employment activities by increasing access to financial services to deprived, economically weak and women groups
- b) To make the microfinance services easy and reliable through microfinance institutions
- c) To support microfinance institutions for achieving sustainability by enhancing their capacity
- d) To formulate necessary laws related to microfinance
- e) To develop institutional net work for increasing accessibility and maintaining discipline

To achieve the objectives stated above the 'National Microfinance policy' shall be as follows.

- 1) To simplify the microfinance services targeting to poor and taking into consideration the socio-economic diversification in rural and urban areas
- 2) To formulate standard norms for the identification of beneficiaries of microfinance and increase management capacity for imparting quality services with or without collateral
- 3) To support microfinance institutions (MFIs) for social mobilization, empowerment, institutional development and restructuring and encourages wholesale lending organizations to involve in the above activities
- 4) To implement poverty eradication program in affiliation and coordination with this policy
- 5) To establish coordination with entrepreneurship development agencies for entrepreneurship development of the target groups
- 6) To manage to provide license to local level organizations involved in microfinance and encourage them to coordinate with other MFIs
- 7) To increase microfinance services to deprived groups and orient them to participate in savings mobilization

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<sup>3</sup> Source: NRB report as of mid July 2009

- 8) To establish separate second tier institution for licensing, monitoring and development of MFIs
- 9) To establish 'National Microfinance Development Fund' for the management of sustainable resource to MFIs and donor supported international fund shall be deposited in this fund
- 10) To conduct survey on number, services and accessibility of cooperatives and microfinance institutions
- 11) To organize training to enhance the capacity of the individual involved in microfinance
- 12) To develop flexible policy on deposit collection depending upon the outreach and share capital of MFIs
- 13) To be flexible on the corporate tax and on the tax paid by microfinance clients on their deposit

#### 4.6 Livelihood and Microfinance

Livelihood is about the ways and means of making a living. In this sense, a livelihood can be defined as 'the activities, the assets, and the access that jointly determine the living gained by an individual or household (Ellis, 2000)

The most widely accepted definition of livelihood is given by Robert Chambers and Gordon- 'A livelihood comprises people, their capabilities and their means of living, including food, income and assets. Tangible assets are resources and stores and intangible assets are claims and access'.

Wallman defines livelihood as an umbrella concept, which suggests that social life is layered and that these layers overlap (both in the way people talk about them and the way they should be analyzed). He analyzed livelihood more than just of finding or making shelter, transaction money and preparing food to put on the table or exchange in the market place.

Livelihood essentially revolve around the resources such as land, crops, seed, labor, knowledge, cattle, money, social relationship and so on, but these resources cannot be disconnected from the issues and problems of access and changing political, economical and socio-cultural circumstances. It is also about creating and embracing new opportunities.

#### 4.6.1 Components of Livelihood

Broadly, livelihood consists of assets, activities and entitlements which enable people to make a living. Sustainable livelihood deals with risks, coping strategy and adaptation to long term changes.

**Assets:** It consists of natural resources, abilities, knowledge, skills and employment opportunities. It is not only natural resources but include social, political, human, physical and financial dimensions.

**Activities:** These are things that people do to gain a living, and these will usually be based on available assets. Land may be used to grow subsistence crops to earn income. It is based on acquired knowledge and skill.

**Entitlements:** It refers to those things that people may rely upon because of legal or customary rights. Access to common property resources, employment benefits, rights to live in extended family and assistance given by church when family member dies are the example of entitlements.

#### 4.6.2 Sustainable Livelihood

There are five key indicators for assessing the achievement of sustainable livelihood as follow.

- ) The creation of working days
- ) Poverty reduction, well being and capabilities
- ) Livelihood adaption
- ) Vulnerability and resilience
- ) Natural resource base sustainability

Sustainability has three components; first livelihood requirement must be met without degrading or destroying the city's environment. Second, cities must have a sustainable relationship with their outskirts, since cities in this increasingly globalized world often have large ecological footprints. Finally, ecological sustainability involves "intergenerational justice", in which current needs are met without compromising the ability of future generations to meet their needs in a sustainable way (Evans, 2002).

#### 4.6.3 Correlation in Between Livelihood and Microfinance

Livelihood and microfinance are correlated because both deals with mobilization of resources for income generation. For example, one of the components of livelihood is assets which include natural resources and skills. Without financial support the assets cannot mobilize. The primary objective of microfinance is to create self-employment for improving lives of the poor. Livelihood is also concern with lives of poor and focus on activities. Furthermore, livelihood deals with social norms and customs which need to consider while implementing microfinance program.

## 4.7 Social Institutions and Microfinance

Broadly social institution refers to internalize the social norms and values of the society where it lives. In other word, it means net-working of norms and values. For example, family is a social institution where there are norms and values to manage relationship in between father, mother and children. But norms and values vary with the social status. The expectation which father has with mother not necessary same with children and responsibility also differ with social positions.

As per R.T. Sachaefer and R.P. Lamn "Social institutions are organized patterns of belief and behavior centered on basic social needs". Collins Dictionary of Sociology say "Social Institutions refers to arrangements involving large number of people whose behavior is guided by norms and roles". Ginsberg defined as "Institutions are definite and sanctioned forms or modes of relationship between social beings in respect to one another or to some external object".

The above definition in brief say that social institutions are system, rules, norms and values established to fulfill needs of the human beings. The institutionalization of social institution only occurs if the norms are accept, obey and internalized by the members of the society. Institutional norms changes over time and space. The changes could be due to changes in time and place over the period or the changes could be due to social evolution. For example, in the initial stage the marriage was based on Consanguine Family where brothers and sisters of the same parent marriage. After that, Punaluan Family types developed which prevented marriage in between sisters and brothers up to three generations. Later Syndyasmiam Family developed tribes and clan. Tribes is the larger unit of clan. Clan generally does not marry with same clan but with the members of other clan.

### 4.7.1 Types of Social Institutions

Broadly there are two types of social institutions.

- i) Micro-Social Institutions which includes marriage, kinship, community
- ii) Macro –Social Institutions which includes economic institution

Marriage: Marriage is a ritually recognized union between a man and women that the spouses live together and that the couple has clearly recognized mutual sexual rights (Westermarck, 1929). As per Hoebel "Marriage is the complex of social norms that defense and control the relations of mate pair to each others, their kinship, their offspring and society. Marriage could be i) exogamy- members of a social group must find a mate in another social group ii) endogamy-members of a social group must be found within the same group iii) polygyny-system of keeping several wives by a husband

iv) polyandry-system of having several husbands of a women v) group marriage-several husbands married with several wives.

Kinship: Kinship is created either by blood relation or by marriage relation. It is also a social institution. Maclver defined kinship as the bond of blood or marriage which bind people together in group. D.N. Majumidur describes "In all societies people are bond together in groups by various kinds of bonds. The most universal and the most basic of these bonds in human drive and is called kinship". These definition shows kinship as i) it is universal ii) it has been created either by blood or marriage iii) the use of kinship differ with culture iv) it was central point of unity in traditional society and v) kinship decide the heirship (successor of the property).

Community: Community refers to the group of people living in a particular geographical area having common tradition, culture, livelihood, habits and more importantly have feeling of ours among the members of the group. In most of the cases, each community has common language, religion, citizenship and cloths such as Newar community, Gurung community, Sherpa communitu etc. The characteristics of the community are i) we feeling ii) based on equality iii) permanent residence in the community iv) have special name v) have some norms and values vi) norms and values institutionalized.

Economic institution: The basic ideas, norms and statues which govern the allocation of scare goods any society, whether the primitive or civilized we call it economic institution (Kingsley Devis). The human beings had economic activities since time immemorial for the food and to meet the basic needs. Hunting in group, cultivation living in society and initiation of industrialization, all these activities created economic institutions in the society. In other words, the procedure, practices and rules which were developed during communist period, slavery period, capitalist period and socialist period are different forms of economic institutions. In Nepal, 'guthi sanstha' is an example of economic institution.

#### 4.7.2 Social Institutions and Microfinance

Microfinance is a social banking. Therefore, detail study of society is necessary for the effective implementation of microfinance. The family, their culture, tradition, social values and social norms need to be aware before initiating any microfinance program in any particular area. The social institutions such as family, kinship, community and economic institutions should be analyzed because program can only be effective if it fits with the various social institutions existing in the society. For example, the tradition of marriage is different in Gurung and Brahamin community. In Gurung community marriage is allowed among sister or brother in law but it is prohibited in Brahamin community. Similarly, the other customs and culture are also different in between Newar and Sherpa community. Furthermore, some communities could have established local economic institution.

## Chapter III: Research Methodology

### 1. Research Design

The research was started with bringing thoughts on identifying the problem areas based on literature reviews and preparing scientific research proposal based on the concept developed. During the research process, the series of discussion with advisor encouraged critical thinking and thoughts provoking the concepts used in this research. Data were collected using various methods like personal observation, key informant surveys and focus group discussion, informal talk with different stakeholders. The overall research process is shown in the figure below.

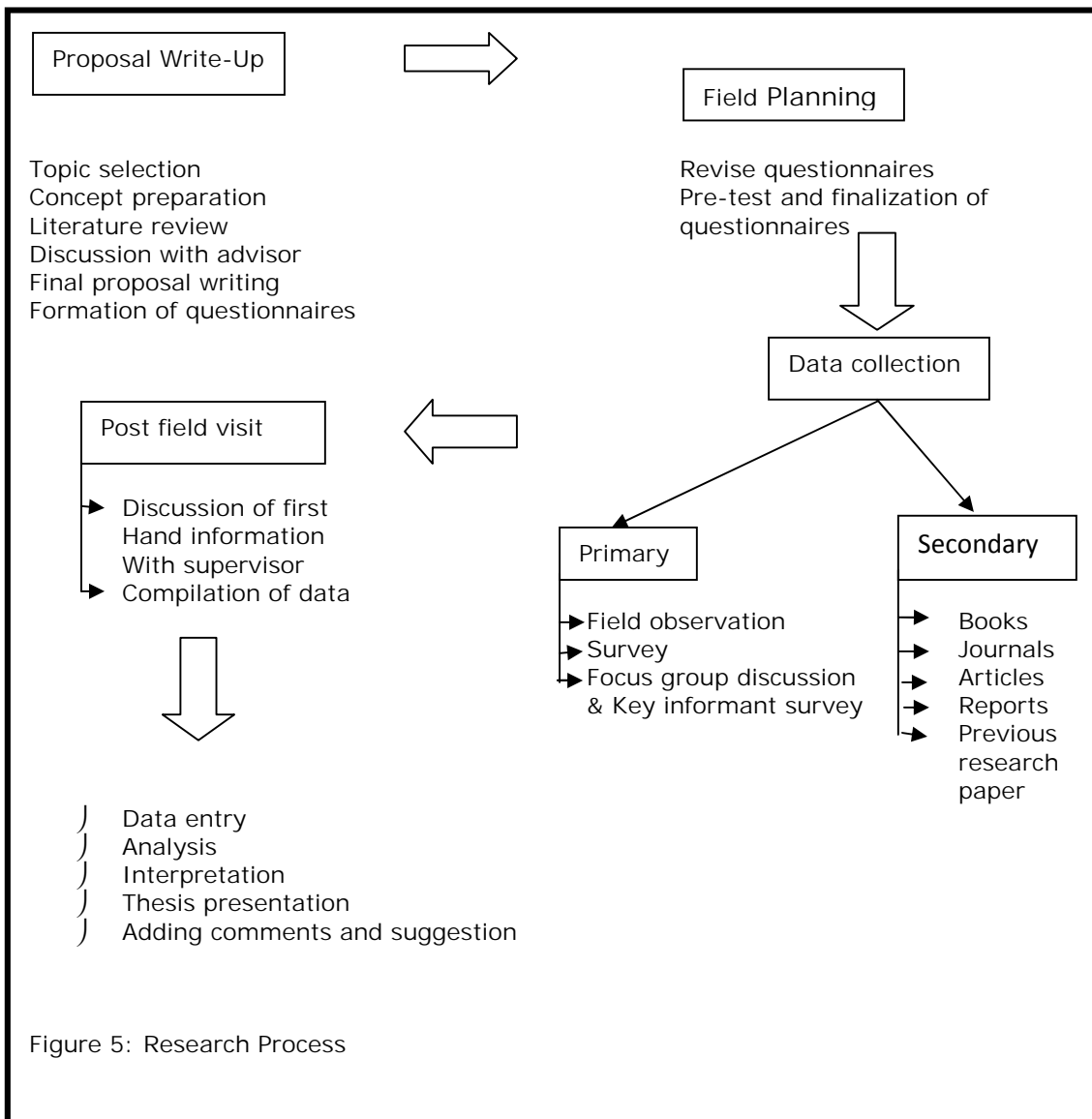


Figure 5: Research Process

## 2. Selection of the Study Area

The study was done by taking a case study in Chapagaun Village Development Committee (VDC) of Lalitpur district. Considering the limited time and financial resource, the location is chosen which is nearby, has good transport facility and have high program intensity. Lalitpur district has a total of 41 VDCs and one sub-metropolitan city. Chapagaun is located at 10 km. south of Managal Bazar and famous for Bajrabarahi temple. The VDC is bounded with Godawari in the east, Chhampi VDC in the west, Thecho VDC in the North and Lele VDC in the South. As per Central Bureau of Statistic census 2001, it has 2390 households with 6234 male and 6214 female population. Several microfinance institutions are working in Chapagaun VDC. DDBank, CSD and WCS are some having significant customers. For this study clients of these three institutions have been taken. These all three microfinance institutions are implementing microfinance program using Grameen model which is similar one way or other and operating in other part of the country with separate branches or units.

## 3. Sampling Technique and Procedure

The clients of Deprosc Development Bank (microfinance bank), Center for Self-help Development (Microfinance NGO) and Women Cooperative Society Ltd. (Cooperative) have been chosen for the study. There are many microfinance institutions working in Chapagaun, reasons for choosing these three microfinance institutions are outreach (coverage), volume of the business, duration and each representing separate type of the institutions. A total of 20 samples were chosen among the clients of each institution. The random sampling procedure was applied to choose the sample from the census. The sample was chosen at a fixed interval. A total of 60 samples were included from three institutions. The interval was based on the total size of population. From this method it is expected that selected sample could be more representative.

## 4. Data Collection Methods

Methods adopted for collecting data for this study includes review of relevant documents, interview schedule with clients, key informants interview and focused group discussion.

### 4.1 Primary Data Collection

The study is mainly based on the primary data. The following methods were used to collect the primary data.

Interview Schedule: The predetermined structure questioners as in annex-1 was developed and filled by conducting interview with households. The interviewer asked questions in a face to face contact to the household and noted in the given space. The enumerator was not used for interview schedule.



**Key Informants Interview:** Key informants means collecting information from stakeholders such as VDC chairperson/secretary, local volunteers, local leaders, local teachers and staff of the organizations involved in the program which can be government and non-government agencies. In this study key informants include staff of the microfinance organization. Questioner was developed as in annex-2 to conduct key informant interview.

**Focus Group Discussions:** FGDs were conducted to collect information from policy holders to get their opinion and leaders and staff of the implementing organization to collect information on various dimension of operation. In addition, it was also used to collect common view of the group on some issues, feedback, strengths and weaknesses of the program.

#### 4.2 Secondary Data Collection

Secondary data required for the study were taken from the literature and books related to sociology/Anthropology theory, development theories and microfinance. The annual reports of the concern district development committee, village development committee and concern microfinance organizations were referred. Any related previous research reports was consulted. Experience of microfinance program implemented in other part of the world was reviewed.

#### 5. Data Analysis and Presentation

The first hand information was discussed with advisor. The first hand collected raw data were edited, coded and entered into excel spread sheet for the analysis. As the study is based on descriptive analysis, simple statistical tools such as table, percentage, average, maximum and minimum have been used for the further analysis.

## Chapter IV: Socio-Economic Condition of Client Families

The first objective of the study is to find out the socio-economic condition of the community. Before describing socio-economic condition of the community it may be necessary to summarize status and working modality of the microfinance service providers working in Chapagaun V.D.C.

### 1. Overview of Microfinance Service Providers

There are many MFIs which include cooperatives, NGOs and microfinance development banks working in the V.D.C. Among these, three have significant portfolio and coverage. This study has selected three leading microfinance institutions working in the V.D.C. The MFIs selected for this study include Deprosc Development Bank (DDBank), Center for Self-Help Group (CSD) and Women Cooperative Society (WCS). Deprosc Development Bank is a microfinance bank registered under company act and have got license from the central bank to operate microfinance program. Accordingly, center for self-help development (CSD) is microfinance NGO, registered as Non-Government Organization in district office Kathmandu and have got financial intermediary license from the central bank as per Financial Intermediary Act, 1999. The Women Cooperative Society Ltd. is registered as a cooperative in division cooperative office and have got limited license for the implementation of microfinance from the central bank. These all three have branches in other parts of the country with significant outreach. Legally, to date, these three types are major legal provision for the implementation of microfinance program in Nepal. There are also other community based organizations such as self-help groups which have been running microfinance program locally but lack legal identity.

Table 1: Overview of the Selected Microfinance Service Providers

S.N.	Particular	Unit	Deprosc Development Bank	Center for Self-help Development	Mahila Cooperative Society Ltd.
1	Operation started	Year	2001	2004	1995
2.	District	No.	23	13	3
3	VDC/Municipality	No.	423	221	82
4.	No. of Branches	No.	45	31	9
5	Members	No.	56,617	55,155	16,106

S.N.	Particular	Unit	Deprosc Development Bank	Center for Self-help Development	Mahila Cooperative Society Ltd.
6	Borrowers	No.	42,527	37,692	10,470
7	Savings Balance	Rs.000'	194,938	224,761	89,932
8	Loan portfolio	Rs.000	932,021	472,403	199,489
9	Loan recovery rate	%	99	99	99
10	Total number of staff	%	134	173	56
11	Members per staff	No.	423	319	288
12	Average loan size	Rs.000	16	9	12
13	Operational self-sufficiency	%	113	115	108

Source: Monthly report of Mansir, 2067

As shown in the above table, WCS started operation on 1995, CSD on 2004 and DDBank on 2001. There exist differences among the selected service providers in terms of working area, outreach, savings and portfolio. All three have over 99% loan recovery. The largest membership base is found in case of DDBank and the smallest in case of WCS. The working area also varies with the institution. DDBank has program in 23 districts covering 423 VDCs while WCS has program in 3 districts and 82 VDCs. Savings is the source of fund for lending and also work as collateral substitute. CSD has highest savings balance amounting Rs. 22.4 million while WCS has lowest Rs. 8.99 million. In terms of loan portfolio, DDBank has highest loan portfolio amounting Rs. 93.2 million and WCS has lowest (Rs. 19.9 million). But loan size is lowest in case of CSD which show it has deepest outreach. If we analyze the productivity, DDBank has highest with 423 members being served by each staff while WCS has comparatively lowest productivity (288 members per staff).

The outreach, sustainability, savings and loan volume, portfolio quality and productivity of these three microfinance institutions (MFIs) are encouraging. This shows these MFIs have achieved good financial performance. But changes in livelihood of the participating families and socio-economic development have not been measured. This study has attempted to measure the role of microfinance program on socio-economic development of the community.

Area Selection Technique: All three microfinance has more or less same process for identifying the working area. First secondary data is collected from national census and number of population and people living below poverty line is calculated. After that a

feasibility survey is done to know the existing microfinance institutions working in the district. Gap between demand and supply is assessed. On that basis potential market is determined. On completion of survey, business plan is prepared and submitted to the central bank for necessary approval. The approval is generally based on potential clients, paid up capital of the MFIs, available financial and human resources. In case of WCS being cooperative it has to take permission from division cooperative office in addition to the central bank. Once the district is decided then MFIs work for the selection of VDCs within the approved district. The selection of VDCs is done on the basis of secondary information collected from the concern VDC and overall observation. The existing collaborators and competitors are analyzed before deciding VDC. A meeting is conducted with local leaders, women groups, local volunteers and representative of government line agencies for interaction and requirement of such program in the community. The entrance of more than one MFI in the same district and VDCs is because one cannot provide services to all household and multi-organizations creates competition. The overall area coverage is highest in case of DDBak country wise but at Chapagaun VDC, WCS has the highest intensity.

Membership Criteria: All these three microfinance institutions have been implementing microfinance program targeting to the people living below poverty line. Therefore, per capita income of the participating family is assessed and that fall below poverty line is taken as eligible for membership. As stated above, as per the market price of 2003/2004, an individual with income less than NRS.7696.00 (USD 105.00) per person per day is considered as poor. It is calculated that a person need this much amount minimum to met the cost of taking 2124 kilocalories and cost of basic cloth, health o institution has been applying its own methodology.

DDbank performs participatory wealth ranking and fills pre-household socio-economic survey for assessing the assets and income of the family. The household with less than NRS. 7696.00 per capita income as per market price of 2003/2004 is enrolled as member. The inflation is adjusted to know the present market price. The bank gives priority to poor women entrepreneurs who have been excluded from the main stream of financial services. All the clients of DDBank are women. Nevertheless, middle poor and non-poor vulnerable have been also found serving by DDBank. The housing type, unemployment level and current assets are also taken into consideration while selecting the clients by DDBank.

CSD client selection procedure is almost similar to DDBank but it emphasized on housing type. Household with thatch is given priority. But in the VDC such as Chapagaun, most of the households have either plain sheet or cemented roof. In addition to that, CSD also calculate per capita income as proxy for the selection of clients. CSD does not conduct participatory wealth ranking as in DDBank. However, CSD also target exclusively to women poor entrepreneur.

WCS has two wings i) General Banking Program and ii) Microfinance Program. In general banking, there is no specific criteria for the selection of clients while in microfinance program, it has targeted to the people living below poverty line. As in DDBank and CSD, it has also taken per capita income for the selection of microfinance clients. The loan size is big in case of general banking program. The microfinance clients upon completion of some cycles can be graduated for general banking program. Like in DDBank and CSD, all microfinance clients are women in WCS.

All these three MFIs organize orientation meeting in the village and request to form group of five to join in the compulsory group training for 7-10 days (2 hrs/day) and after the training test is taken which is called group recognition test to know whether members are committed for discipline savings and credit. After that loan is disbursed for 2 or 3 members of each group of five depending upon MFI. All the financial transaction is done in one point called center meeting which is organized monthly in case of DDBank and WCS and fortnightly in case of CSD.

**Products and Services:** These three institutions have been offering products and services which are similar with minor modification.

DDBank offers microcredit, savings, insurance and remittance services. Under microcredit, initial loan size varies from Rs. 10,000.00 to Rs. 35,000.00 without collateral (group guarantee) and Rs. 90,000.00 to Rs. 200,000.00 with collateral but loan with collateral does not exceed 33% of total loan portfolio. Loan need to repay in 10 monthly installments with one month grace period. The bank charges 21% per annum on loan (on declining balance) with 1% of service charge. In addition, the client needs to pay 0.5% of the borrowed amount as insurance premium. Insurance waived the outstanding loan if the client dies. If livestock loan is borrowed, the loan needs to pay additional 3% of the loan amount to insure the livestock. The loan is used mostly for petty trades (including retail shop), agriculture, livestock, garments, education and foreign employment.

Under savings, the bank has three types of savings i) compulsory savings ii) voluntary savings and iii) loan guarantee savings. The depositor can withdraw compulsory savings keeping one third of loan or when client left the group. The client can deposit and withdraw as and when necessary any amount in voluntary savings and it is done by members on voluntary basis. The clients need to deposit 5% of loan disbursed as loan guarantee savings which can be withdrawn upon payment of loan installments.

Center for Self-help Development also offers microcredit, savings, remittance and insurance services. Under microcredit, it has general loans and seasonal loans but installments are fortnightly and interest rate is 25% on declining balance. CSD has implemented micro-insurance, Clients need to deposit 5% of the loan to the organization. The insurance scheme covers death of the member and fire of member's house.

CSD has also compulsory savings called group savings, voluntary savings and pension savings. The members can withdraw group savings after five years. Voluntary savings can be deposit and withdraw as and when necessary. Pension savings is the long term scheme.

Women Cooperative Society offers microcredit and savings services. Under microcredit, it has two products, general and seasonal loans. It has monthly meeting system and interest rate is just like CSD. Under savings scheme, it has group savings which need to save monthly at least Rs. 50.00 and can be withdrawn keeping minimum balance Rs.2000.00. Members should deposit 5% of loan in center fund which can be withdrawn keeping Rs. 3000.00 balance. WCS has also personal savings like DDBank. In addition, it has Housewife Savings of different terms and Upkar Savings as welfare fund in each center.

Linkages with Non-Financial Services: DDBank and CSD don't implement non-financial services such as health program, education program, nutrition program, drinking water and other infrastructure development program, entrepreneurship development program and market development program and other non-financial services which is necessary in addition to microfinance services. It links the clients with concern line agencies which could be government or NGOs. But in case of WCS, it organizes skill development program, market development program and social awareness program particularly on women and child rights. DDBank and CSD provide social awareness program during center meeting. Thus, the program of DDBank and CSD is called minimalistic and WCS as integrated.

Constrains for Growth: Several constrains were identified for the growth of MFIs program in the study area. This has been grouped in two sections i) From MFIs perspective and ii) From Clients perspective.

- a) MFIs Perspective: The constraints of these MFIs are almost same because all are adapting Grameen model for the implementation of the program. As the services need to render at the door step, the program operation cost is relatively high. Moreover, the MFI require long social mobilization to enroll the clients. In addition, loan recovery is another problem as loans are disbursed without collateral particularly when clients ran away from the respective area. Resource is another issue which all these three MFIs are facing because savings of clients are not sufficient for lending them. External resources need to explore. Product development is one of the important challenges for these MFIs because all are offering supply driven products imported from Bangladesh. Market survey may be necessary for this purpose.
- ii) Clients Perspective: Clients have problem when they require a little bit larger loans. There is limitation on loan size by the central bank as Rs.90,000.00 without collateral and Rs.200,000.00 with collateral. As the business grow, this limit may not be

suitable for graduated clients. There is criticism from client regarding interest rate. However, the interest rate charge by MFIs is far low than the informal sector and it is reliable source too. Clients also complain on the limited products provided by MFIs and demanding other services such as micro-insurance and remittance. In addition, new savings products and demand driven loan products are demands of the clients.

## 2. Socio-Economic Condition of the Participating Families

A total of 20 households were surveyed from clients of each MFI making total 60 as sample. The socio-economic survey was conducted gathering information on sex, age, education, economically active family members, occupation of the members, type of house, land holding pattern and food security situation of the participating families.

Family Structure by Age and Sex: The survey reveals that there are all together 316 members in 60 families. The ratio of male and female is almost same. However, in the microfinance program only women are enrolled as clients by all three MFIs. The age group analysis of the selected households reveals 20% are children of the age below 15 yrs. and 40% are old of the age above 60 yrs. and 40% in between 15-60 yrs. age (economically active population). However, many populace of age group below 15% and above 60 are also economically active. Therefore, economically active population falls approximately 40-50% of the population. The family size ranges from 4-6, however average family size is 5.26 which is slightly lower than national average (5.44) and towards at decreasing trend. The economically active population (15-60 yrs.) is 40% which is also lower than national average which is 53% (CBS 2001). It is to be noted that people above 60 yrs. is 40% which is very high than national average (6%). This could be due to population taken from specific group of poor and moderate poor having high average life expectancy. The high number of old aged group shows that the community is relatively at better condition regarding life expectancy. Gender balance is also found in demography in the survey area. Moreover, in many cases, family size of poor is generally large but it is not found in case of Client families of Chapagaun. This shows high awareness on family planning.

Table 2: Family Structure by Age and Sex

S.N.	Particulars	Unit	DDBank	CSD	WCS	Total	Percentage
1	Sex						
	Male	No.	56	49	52	157	49.6
	Female	No.	55	56	48	159	50.4
2.	Family Size	No.	5.05	5.25	5	5.26	100

S.N.	Particulars	Unit	DDBank	CSD	WCS	Total	Percentage
3.	Age						
	Below 15 yrs	No.	18	22	22	62	20
	15-30 yrs	No.	21	28	32	81	25
	31-60 yrs	No.	20	9	17	46	15
	Over 60	No.	51	46	30	127	40
	Total	No.	111	105	100	316	100

Source: Field Survey, January 2011

Educational Status: As the program is targeted to poor household education level is a little bit below than average level of the community. However, the number of school enrollment has been increased by 36% after the program intervention. When analyze the gender wise, enrollment has been increased in girls compare to boys. The data of three years back has been counted for the calculation of changes. The illiteracy is high in female compare to male. But overall literacy status of the community is (69.6%) high than the national average (54.1% CBS 2001). The net school enrollment at primary school is as high as 90% which is encouraging and girl enrollment has been increasing. This could be due the area close to Kathmandu and high awareness on education through program. The primary school enrollment is similar to achievement of MDG. There is low number of family members of BA or above which shows high drop out of school even though the area is close to Kathmandu. In CSD and WCS, members should be able to write their name in order to enroll in group which is not compulsion in case of DDBank. All three MFIs has awareness program for children education. In summary, it can be concluded that the program intervention has been found positive on awareness on education particularly on girl education.

Table 3: Educational Status

Sex	Illiterate	Literate	Primary	Secondary	Intermediate	Bachelor or above	Total
Male	40	45	30	20	15	7	157
Female	56	50	22	16	11	4	159
Total	96	95	52	36	26	11	316

Source: Field Survey, January 2011



Table 4: Gender Wise Changes in Scholl Enrollment

Scholl Enrollment	Unit	Before the Program	After the Program	% increased
Son	No.	50	65	30
Daughter	No.	27	40	48
Total	No.	77	105	36

Source: Field Survey, January 2011

Economically Active Family Members: Microfinance program provides financial services for the augmentation of income generation activities in local area. In addition, it provides self-employment. The data reveals that economically active population has been increased by 27% after the program. The program has been contributing on changing occupation from agriculture to off-farm business. Furthermore, people participation in agriculture has been decreased by 3% and wage labor has been found transferred into business. This could be due to off-farm trading business less risky compare to agriculture and repayment system and products of microfinance more suitable to off-farm income generating activities which include skill based microenterprise and petty trading. The data reveals that there are 7 new entrepreneur initiating new enterprises in the community.

Table 5: Economically Active Family Members

Type of activities	Members engaged before the program	Members engaged after the program	% increased
Agriculture	60	58	(-3)
Business	10	35	250
Wage labor	30	25	(-16)
Service	10	15	50
Other	-	7	100
Total	110	140	27

Source: Field Survey, January 2011

Housing Type: Housing types have been reported improved after the program intervention. It is not necessary that it is exclusively because of microfinance program. But respondent expressed that they have been able to improve their house from the income generated from the project run with the support of microfinance program. A total of 6 households changed mud with thatch roof to brick with thatch roof. The houses

made of brick with plain sheet roof increased from 15 to 21 in three year period. Similarly, six houses have changed their roof from brick with plain sheet to brick with cemented roof. The housing type in Chapagaun is relatively better than other remote areas of Nepal. Even though program is targeted to poor but housing types are found relatively better than in remote area and high hills of Nepal. It can be concluded that the program has been contributing in improving shelters of the clients.

Table 6: Housing Type

Housing Type	Before the program	After the program	% changed
Mud with thatch roof	12	6	(-50)
Brick with thatch roof	9	3	(-66)
Brick with plain sheet roof	15	21	40
Brick with cemented roof	24	30	25
Total	60	60	Not applicable

Source: Field Survey, January 2011

Land Holding Pattern: There is no significant change in land holding pattern. However, three households sold the land and divert the business. Accordingly, some families purchased land. Because of the availability of financial services 12 families rented the other's land for vegetable production. But in the same community 3 families have rented out the land to other involve in business. The price of land went very high last year and in that period many people sold some land. There are 7 landless in the community who has been implementing off-farm business in the community with the financial support of microfinance program. The role of the microfinance program found less on land holding pattern. However, there is 33% increment on other's land rented by client families. This could be due to easy access to formal credit for commercial farming.

Table 7: Land Holding Pattern

Land holding pattern	Unit	Before the program	After the program	% changed
Own land more than one ropani	No. of family	15	12	(-20)
Own land less than one ropani	No. of family	30	33	10

Land holding pattern	Unit	Before the program	After the program	% changed
Other's land rent in	No. of family	9	12	33
Own land rented out	No. of family	6	3	(-50)
Total		60	60	Not applicable

Source: Field Survey, January 2011

Food Security Situation of the Participating Families: The data shows that 16% families are unable to meet the basic cost even for six months period (slightly below national poverty average which is 25.4%) and 47% have not been able to meet the cost of food throughout the year from their income. Rest 53% family reported that their family income can bear the cost of food throughout the year. There are a total 5 households who have surplus annual income but enjoying microfinance program. This could be due to easy access to loans and their interest on keeping relationship with group members. This show although the poor and moderate poor are taken into account for analysis but their socio-economic condition has been found better than other poor of the country and found towards reducing chronic poverty prevails in the community.

Table 8: Food Security Situation of the Participating Families

Economic Status	Unit	DDBank	CSD	WCS
Have surplus income	No. of HHs	2	1	2
Income sufficient to cover annual cost	No. of HHs	10	8	9
Income just cover the cost for 6 months	No. of HHs	5	7	6
Income cover < than 6 months	No. of HHs	3	4	3
Total	No. of HHs	20	20	20

Source: Field Survey, January 2011

## CHAPTER V: Role of Microfinance on Economic Development

Economic Development is a vague term which includes both macro as well as micro-economic development. The microfinance is concern with micro-economic development. It deals with economic development of an individual and society. The disposal income has been found increased after the program intervention. In addition, there are changes on economic activity because of credit program intervention. However, the finding of this study has not been found supporting any specific economic theory described in the literature review. It could be the negligible role of microfinance on macro-economic development because it has limited share in terms of economic volume. Role of microfinance on economic activity and income has been described hereunder.

### 1. Sources of Borrowings Before and After the MFIs

The data indicates that only 5% were getting loan from the traditional bank before the program. Over 67% borrowed loans from local traders and merchants at high interest ranging from 4-5% per month and 25% borrowed from friends and relatives with 2-3% per month. The MFIs working in the area are charging from 1.75 to 2.08% per month which is cheaper than informal sector. Moreover, these MFIs are found reliable sources and providing institutional based financial services. After the MFIs program, sources have been diverted from informal to formal sources (microfinance has been able to work as substitution of informal sector). A Total of 71% MFIs clients have borrowed loans from microfinance institutions.

Informal Sector Status: The interest rate in informal sector has been decreased from 5% to 3% per month after the program intervention. It could be due to availability of other options for loans. The loan from friends has not been decreased both before and after program intervention. However, local land lord and pawn maker has not shared after the program intervention. Furthermore, some have borrowed both from formal and informal sources (from more than one source), may be due to products or limit of the one source insufficient or not meeting the need. The social relationship between microfinance clients and local informal leaders has been changed after the program intervention because after the program the clients found less dependent on informal sector for borrowings. In addition, they felt their bargaining power has been increased due to the alternative source. The informal sector in other hand found searching other windows for investment such as establishment of savings and credit cooperative. Regarding social status, none of the social conflict has been noticed due to the program in the community.

Table 9: Sources of borrowings and interest rate before MFIs

Sources	Number of households	Average interest rate per month	Percentage covered
Local merchant	13	5	22
Local land lords	5	4	8
Local traders	12	4	20
Pawn maker	10	5	17
Relatives	10	3	17
Friends	5	2	8
Commercial banks	2	1.5	3
Other	3	2	5
Total	60	-	100

Source: Field Survey, January 2011

Table 10: Sources of borrowing and interest rate after MFI

Sources	Number of households	Average interest rate per month	Percentage covered
Local merchant	6	3	10
Local land lords	-	-	-
Local traders	5	3	8
Pawn maker	-	-	-
Relatives	4	2	7
Friends	5	2	8
Commercial banks	1	1.5	2
MFIs	43	2	71
Other			
Total	60	-	Not applicable

Source: Field Survey January 2011

## 2. Changes in Economic Activity

The community has diverted their occupation from agriculture to other off-farm business. Even in farming, subsistence farming has been towards commercial because of availability of fund for inputs. The highest loans have been used more for petty trades which include retail shop and small trades. The community is found more business oriented and has changed from subsistence to commercial farming. Livestock has been found second largest economic activity. Livestock farming has also been increasing because of the program. A total of 10 out of 43 borrowers have used loan for livestock. This could be the area close to capital and availability of the market. Agriculture still stood at third position on uses of loans by clients. In addition to direct investment on enterprise, loan has also been used for education and foreign employment. When there is chance of foreign employment many have been found interested to go abroad. This could be limited scope for educated person in the country. The data shows that there is provision of loan increment as the cycle goes ahead but if the client needs big volume of loan at the initial stage to run specific enterprise, he/she will not get that and in that case, the person has to depend upon informal sector or other option. The microfinance program has increased income generation activities in the community. It can be concluded that the community is moving towards business from agriculture and even in agriculture towards commercial from subsistence level. The preference of the community on foreign employment shows that society has been analyzing most of the activity in monetary terms and importance has been given to indirect investment such as education.

Table 11: Loan Uses Pattern affecting the Economic Activity

Uses of Loans	First cycle		Second cycle		Third cycle	
	No. of Households	Average loan amount	No. of Households	Average loan amount	No. of Households	Average loan amount
Petty trades	10	10	15	15	20	20
Agriculture	6	9	5	12	7	15
Livestock	4	12	7	20	10	30
Cottage industry	2	11	4	13	3	20
Education loan	-	-	1	10	1	30
Foreign employment	-	-	1	50	1	50
Other	-	-	-	-	1	30

Rs. 000'

Uses of Loans	First cycle		Second cycle		Third cycle	
	No. of Households	Average loan amount	No. of Households	Average loan amount	No. of Households	Average loan amount
Total	22	10	33	16	43	22

Source: Field Survey, January 2011

### 3. Changes in Disposal of Income

Disposable income has been increased after the program intervention. But choice of the sector has been found as per local situation. More focused has been made on housing with increased income (233%). Then second importance has been found on social function (186%) and third to education (89%). This shows that change on nutritional habit has not found as changed as expected. This could be due to community still having rice as stable food and little attention (knowledge) on nutritional food. In addition, investment in other sector has also been increased by 100%. As per respondent, this is due to purchase of assets from savings (livestock, land, ornaments etc.). The other important finding is growth of business by 60%. This could be analysis being concentrated on MFI clients and increasing trend of business growth in the community. The data shows that both the cost of agriculture production and enterprise implementation has been increased along with the increment in income. Accordingly, with the average increase in income by 78% the average cost has been increased by 81%. This could be due to inflation and increasing trend of expenditure on availability of regular income. However, it is to be noted that overall income and expenditure is not balance, expenditure being more than income which shows community may need integrated development programs to reduce the deep rooted poverty. Furthermore, this trend may increase indebtedness over the period and community could have problem. The data reveals that overall economic activities have been found at increasing trend in the community. In summary, the role of microfinance has been found positive for increasing economic activities by increasing self-employment opportunities which has ultimately contributed for increasing disposal income of the client families.

Role of Remittance: Nevertheless, it is to be noted that of the total income, over 17% income has been shared by other sources and in majority of household foreign employment is one of the other sources of income. Taking into consideration it can be said that remittance have significant role in improving economic condition of the participating households. In addition, foreign employment has absorbed remarkable labor force of the community regardless of many development programs run in the community including microfinance.

Table 12: Changes in Income Before and After the program

Indicators	Unit	Before the Program	After the Program	% Changed
Agriculture	Average Rs. Per HH Per Annum	30,000	45,000	50
Livestock	'do'	36,000	54,000	50
Wage labor	'do'	3,000	6,000	100
Business	'do'	20,000	48000	140
Service	'do'	15,000	45,000	200
Other	'do'	30,000	40,000	33
Total	'do'	134,000	238000	78

Source: Field Survey, January 2011

Table 13: Average Expenditure Before and After the Program

Indicators	Unit	Before the Program	After the Program	% changed
Agriculture	Average Rs. Per HH Per Annum	20,000	30,000	50
Livestock	'do'	22,000	30,000	37
Wage labor	'do'	-	-	-
Business	'do'	7200	11520	60
Service	'do'	-	-	-
Other	'do'	15,800	9600	-39
Food	"do"	45,000	62,000	37
Clothing	"do"	30,000	40,000	33
House building or renovation	"do"	6000	20,000	233
Health care	"do"	10,000	17000	70
Education	"do"	9000	17000	89
Festivals/Social functions	"do"	7000	20000	186
Communication and travel	"do"	2000	3000	50
Other	"do"	4000	8000	100
Total	"do"	148,000	268120	81

Source: Field Survey January, 20



## Chapter VI : Role of Microfinance in Social Development

The third objective of the study is to analyze role of microfinance in social development. Social development is a process of organizing human energies and activities at higher levels to achieve greater results. Social development deals towards improving quality of life. It is vague because it focuses on material results such as higher income, longer life, lower infant mortality and more education. Peace, democracy, social freedom, education, technology can create enabling environment for social development. It should go to human beliefs, opinions, attitudes, behaviors, customs, laws and social institutions. As stated above social development has infinite field in space and time. It is belief that society discover its own create potentials and human beings as the real source of those potentials. Society should have aspiration and expectation for growth. Social development occurs when freedom of choice increases, capacity to fulfill choice increases, has collective will for growth, has own cultural values, physical security, social beliefs and political structures. Social organizations are powerful vehicles for social development and social attitudes, awareness to opportunities and challenges are important.

Microfinance in other hand is one of tools of social development. The attitudes, beliefs, culture and social organization plays vital role in microfinance. The aspiration/will is necessary for effective participation in microfinance. The microfinance being one of the effective social development programs can contribute for social development. The role of microfinance in social development means to measure microfinance role in improving quality of the life of the participating client families which include awareness level, education enrollment, changes on social existing social beliefs, social institution building, social attitude, aspiration/will to work in group and women and child rights.

### 1. Social Development Level

The data indicates a series of social development has been accelerated because of the program intervention. All households reported that they belief and feel comfortable to work on group after the program initiation, savings is the most important where all have participated. Social development also needs development of leadership. Out of 60 households, participation of women in local leadership has been increased from 1 to 4 and women participation in household decision making increased from 10 to 40. It is assumed that this increases physical security and improve quality of life of women. Similarly, the community reported that knowledge on women rights and child rights increases after the program intervention. The analysis shows that, program has also contributed on increasing primary school enrollment which is enabling environment for social development. The respondent reported that many past social beliefs such as

touchable and untouchable and superstition has been changed. However, many social values, cultural, and norms which are strength of the society cannot be changed in a short period. It has taken long time to establish in the society and it also takes long time to change. For example, law has encouraged widow to marry and prohibited discrimination on the basis of caste but it still prevails in the society. This indicates that until and unless society obey, accept and internalized, any forced law cannot be implemented. Awareness of opportunities and challenges has been increased because of microfinance program. This could be due to easy access to financial services and linkage to updated technology/communication. In addition to microfinance, the changes seen in the community could be because of time period and concept of globalization.

While assessing the capacity of the clients in creating linkage with line agencies, the data reveals (Table 13) that approximately 50% have been receiving services from agriculture sub center, health center and security service (police) and civil societies. Over 80% households have been obtaining services from public school and 100% have received microfinance services (Because all samples were taken from MFIs clients). There is not any evidence which shows direct link of microfinance program with the linkages of the participating groups to government and non-government line agencies. It is noticed in the field that each of the line agency has been working independently, lacking coordination among them. Moreover, no direct relationship has been found in between microfinance program and activities of other development programs. But, microfinance being one of means of poverty alleviation can be effective, only, if it is blended with other development activities. However, overall participation of MF clients in other development activities is found more than 50% which can be said good starting. Furthermore, the services of other line agencies can be increased by organizing regular meeting at local level. In addition, coordination at the central level is indispensable for making conducive environment for coordination at the community level. However, because of group formation, it is found that, MFIs clients are in better position in receiving services from different line agencies. Nevertheless, still, bottom poor are found excluding from the services rendered by different line agencies in the community.

Table 14: Role in Social Development

Particulars	Unit	Before the Program	After the Program	Participation % after the program
Belief on group work/collective voice	No. of HHs	20	60	100
Belief on community work	No. of HHs	15	40	67
Establishment of social institutions	No. of Center	0	20	100

Particulars	Unit	Before the Program	After the Program	Participation % after the program
Awareness on opportunities	No. HHs	11	43	72
Attitude change on superstition and some social past beliefs	No. HHs reported	Not Available	30	50
Participation of Clients on local politics	No. of HHs	1	4	7
Participation of women on household decision	No. of HHs	10	40	67
Net Primary School enrollment	No. of HHs	36	57	95
Knowledge on Basic Women Rights	No. of HHs	15	50	83
Knowledge on Child rights	No. of HHs	10	35	58
Helping to each other	No. of HHs	45	50	83
Sharing the knowledge	No. of HHs	45	55	91

Source: Field Survey, January 2011

Table 15: Linkages with Line Agencies

Agencies	Unit	DDBank	CSD	WCS	Total
Agri. sub center	No. of HHs	10	8	13	31
Health center	No. of HHs	11	10	9	30
Public school	No. of HHs	18	17	16	51
Security services	No. of HHs	11	12	14	37
MFIs/Banks	No. of HHs	20	20	20	60
Other (civil society/NGOs)	No. of HHs	10	9	8	26

Source: Field Survey January, 2011

## 2. Social Performance Level<sup>4</sup>

CERISE, a microfinance knowledge exchange network, has been developing the social performance indicators (SPI) tool to assess social performance since 2002. SPI collects data on 70 indicators that measures objectives, processes and immediate output of four key dimensions of social performance as follows.

- J Targeting and outreach refer to the MFIs strategies to reach the poor and excluded. It can be geographic (for specific remote area), individual (target group) and methodological (design for poor and excluded). In the study area most of the participating households are poor. However, non-poor vulnerable and medium poor are also participating in the program. Outreach growth and program intensity is high and as Grameen methodology has been adopted by all MFIs participation of poor is relatively high compare to cooperatives working in the area.
- J MFIs capacity to offer a range of financial service of high quality as well as innovative and non-financial services contributes on social performance in microfinance program. In the study area MFIs are serving mainly two products savings and credit. However, there is also micro-insurance and remittance services in some MFIs. Quality of the service depends on consumer satisfaction and MFIs capability. Except WCO, other two MFIs are not offering non-financial services which may be required for increasing social performance.
- J Building social capital by fostering trust and transparency and encouraging participation and developing activities that promote empowerment is the third dimension of social performance in microfinance program. The field study reveals that trust among the participating clients have been increased because of group concept. One can mark women empowerment as women groups have been formed, their role in decision making have been increased and their participation in economic activities increased. However, as compare to cooperative model social capital building is found less in the participating clients as the program is run by external agencies instead of community itself.
- J Social responsibility extends to employees through appropriate human resource policies to clients by guaranteeing respect of consumer protecting principles to the community and the environment by respecting the context where the MFI operate. This is also related with providing quality service. Compare to other financial institutions, MFIs working in the area has better rapport with the community. This could be due to frequent visit and service delivery at the door-step. All MFIs have human resource policies in place thereby contributing in taking social responsibility by employees. Consumer protection is a subject of frequently discussed in microfinance. The program should not create environment of over indebtedness. None of the clients reported over indebtedness.

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<sup>4</sup>The relationship in between social and financial performance, MicroBanking Bulletin # 19, December 2009, published by CGAP/MIX

### 3. Social Theory and Findings

The finding of this study has not covered many social theories mentioned in the literature review. For example, the finding has not analyzed the human potential for improving quality of life of the participating families. In theory, development is conceived in terms of a set of desirable results—higher incomes, longer life expectancy, lower infant mortality, more education. However, recently emphasis has shifted from the results to the enabling conditions, strategies and public policies for achieving those results—peace, democracy, social freedoms, equal access, laws, institutions, markets, infrastructure, education and technology. But due to the limited scope, the finding of this study lacks on the underlying social process of development that determines how society formulates, adopts, initiates and organizes. The microfinance intervention alone has not shown direct relation in increasing social aspiration and expectation for growth. In addition, social intervention is supposed to cope with human beliefs, opinions, attitudes, values, behaviors, customs, prejudices, laws and social institutions. But, this study shows, microfinance has not been able to cope with the issues such as social values, social customs and laws. Microfinance deals particularly on money business, savings and credit but social development encompasses a potentially infinite field in space and time. Values such as hard work, sense of responsibility, integrity in human relations, tolerance and respect for others are not just noble ideas or ideals. They are pragmatic principles for accomplishment which society has learned and transmitted to successive generations as a psychological foundation for its further advancement. These things found lacking in microfinance program. Nevertheless, the microfinance program has found contributing on creating enabling environment for the social development.

## Chapter VII : Summary and Conclusion

### 1. Summary

Nepal is predominantly agriculture based country where 80% population lives in rural area. The government has been attempting to address chronic poverty prevails in the country by implementation of various programs. Microfinance is one of the many which has been recognized as an effective tool. It has been perceived in worldwide as a potential instrument for reduction of poverty. Considering this various microfinance institutions (MFIs) are operating in various parts of world ranging from Asia, Africa, Latin America and even in USA. History of microfinance started since the time immemorial when well to do used to lend money for the members of their society as and when needed. However, the institutional history of microfinance in the world began as early as in 1844 in England when 28 factory labors started Rochdales Society of Equitable Pioneers. In Nepal, the formal microfinance program was introduced in 1957 by establishing 13 cooperatives in Chitwan Valley to rescue flood affected population (Kunwar 2002). In addition to savings and credit cooperatives, Small Farmers Development Program and Grameen Banks are some of the promising programs in microfinance.

The performance of microfinance program is generally measured in terms of financial indicators such as outreach, self-sufficiency level, portfolio quality, productivity and profitability. However, the main mission of microfinance is to improve the lives of the poor. In many cases socio-economic indicators are not considered. This study has attempted to analyze the role of microfinance for the socio-economic development of the community. Chapagaun VDC in Lalitpur district was chosen for the study. There are several MFIs working in the VDC. Considering the intensity and duration of the program the clients of three MFIs were selected. The clients of DDBank (a microfinance development bank), CSD (an intermediary financial NGO) and WCS (Cooperative) were selected.

There were three objectives set while preparing the proposal i) to find out the socio-economic condition of the community ii) to analyze role of microfinance in economic development and iii) to analyze the role of microfinance in social development.

Analysis of the experiences of MFIs working in other parts of the world such as Grameen Bank of Bangladesh, Self-help group of India, Micro-Banking of BRI-Indonesia, BankcoSol of Bolivia, AKRSP of Pakistan and SEEDS of Srilanka shows that strengths of these programs should be borrowed in Nepal for improvement.

Microfinance is also called development banking. In this context, development theories such as modernization theory, dependency theory, world system theory and people centered development theory need to analyze while initiating microfinance program. However, microfinance having negligible share in macro-economy affects less on the whole development process. But microfinance in another hand is taken as one of the effective community development programs.

The economic development theories such as Mercantilist, Physiocrats, Classical School, Marginalist School, Marxist School, Institutional School and Keynesian School found less affecting on microfinance compare to other sector. The main aim of microfinance is poverty reduction. The causes of poverty, effects of poverty, poverty measuring tools and target set by millennium development goals for Nepal is also related because microfinance is one of the effective tools of poverty reduction. The data shows that people under poverty line is 25.4 % in Nepal (NPC 2010). As the microfinance program is a target oriented program focused particularly to bottom poor and deprived groups but study shows that medium poor and non-poor vulnerable groups have also enjoying the program.

Social development is a process of organizing human energies and activities at higher levels to achieve greater results. Social development deals towards improving quality of life. It is vague because it focuses on material results such as higher income, longer life, lower infant mortality and more education. Peace, democracy, social freedom, education, technology can create enabling environment for social development. It should go to human beliefs, opinions, attitudes, behaviors, customs, laws and social institutions. Society should have aspiration and expectation for growth. Social development occurs when freedom of choice increases, capacity to fulfill choice increases, has collective will for growth, has own cultural values, physical security, social beliefs and political structures. Social organizations are powerful vehicles for social development and social attitudes, awareness to opportunities and challenges are important. In this context, microfinance has been found contributing for social development. The MFIs are found implementing microfinance taking into consideration the mission of social development. The social institutions such as marriage, kinship, community and economic institutions also play role in microfinance because it influences the norms, values and social structure of the society.

## 2. Conclusion

The ultimate goal of microfinance is socio-economic development of the community. Moreover, it is a target oriented program. The study reveals that it needs to analyze while implementing microfinance program. The socio-economic analysis performed in Chapagaun V.D.C. reveals that most of the indicators such as family size, male to female ratio, literacy level, housing types and income level are better than in other rural areas of

Nepal. Moreover, education level, assets level and housing types have been changed after program intervention.

While calculating economic development, disposal income has been increased but still overall expenditure is more than annual income. This could lead to increase in indebtedness in the community in the long term. The economy activity in the community in the participating clients has been found changing from agriculture to off-farm business such as petty trades. In agriculture also, commercialization has been introduced. However, foreign employment is still found attractive to the youth. The share of informal sector in lending has been reduced because of availability of financial services through microfinance. However, many are borrowings both from formal and informal sectors. The study reveals that microfinance has been found playing positive role in improving economic level of the community.

Regarding social development, the program has contributed in creating enabling environment for the social development. For example, awareness level on education and opportunities have been increased. Similarly, society develops habit working in group and raising collective voices. Furthermore, client families found increasing knowledge on women and child rights and gender issue. This study show regardless of many constraints of growth, the program has been towards meeting social as well as economic goal. But the program can be more effective if the limitations and shortcomings are corrected timely. However, this study has not been able to deal many social theories. This means microfinance program alone cannot contribute significant on social development.

As the assets level and employment opportunities have been increased there by contributing on poverty reduction. One of the reasons could be availability of reliable financial services at cheaper rate.

The main mission of microfinance is poverty reduction. However, In most of the cases, the outreach, profitability, portfolio quality, productivity and sustainability of the program is considered thereby ignoring social mission. In case of Chapagaun, the study shows there is not mission driven. The program has admired the concept of development banking.

As per National Planning Commission people having per capita income less than NRs. 7696.00 as per market price of 2003/2004 is considered poor. But in many clients economic level were found above these criteria. The program need to concentrate and target oriented, otherwise, elites and better-off will enjoy in the program thereby excluding poor and vulnerable.



The study found lack on appropriate financial products development, has limited loan ceiling, limited program for capacity enhancement of staff and absence of entrepreneurship development and non-financial programs to clients and scarcity of the financial resources in MFIs. MFIs need to address these issues. The pricing was also issued raised by clients. Micro-insurance products have been started with limited services. It needs to review and develop particularly in DDBank and WCS.

The study came to in conclusion that this type of study needs to conduct frequently at least 2-3 years interval covering other parts of the country for implementation of the microfinance program without mission driven. The experiences of other MFIs working in other parts of the country shall be updated for necessary improvement organizing national level workshop or participating in international seminars. Furthermore, socio-economic indicators shall be added in the microfinance annual report in addition to financial indicators.

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## Appendix-1

### Interview Schedule for the participating households

#### 1. General Information

- a) Name of the respondent
- b) Age
- c) Sex
- d) Occupation
- e) Ward no.

#### 2. Family Structure by age and sex

Sex	Below 10 yrs	11-30 yrs	31-60 yrs	> 60 yrs	Total
Male					
Female					
Total					

#### 3. Level of education

No. of family members	Illiterate	Literate	Primary	Secondary	Intermediate	BA or above
Male						
Female						
Total						

#### 4. Changes in children education enrollment

School enrollment	Before the program	After the program
Son		
Daughter		
Total		

## 5. Economically Active Family

Type	Before the program		After the program	
	No. of Members engaged	%	No. of Members engaged	%
Agriculture				
Business				
Wage labor				
Service				
Other				
Total				

## 6. Type of house

Type of house	Before the program	After the program
Mud with thatch roof		
Brick with thatch roof		
Brick with plain sheet		
Brick with cemented roof		

## 7. Land holding pattern

Holding pattern	Before the program	After the program
	Area (Ropani-Aana-Paisa)	Area (Ropani-Aana-Paisa)
Own land		
Other land on rent		
Own land rented out		
Total		

## 8. Income source

### 8.1 Income from Agriculture

Source	Before the program			After the program		
	Quantity	Price	Total	Quantity	Price	Total
Paddy						
Wheat						
Pulse						
Vegetable						
Livestock						
Other						
Total						

### 8.2 Income from wages and business

Type of source	Before the program	After the program
	Average monthly income	Average monthly income
Wage labor		
Business		
Service		
Other		
Total		

### 8.3 Food Security Situation of the Participating Families

Economic Status	Unit	DDBank	CSD	WCS
Have surplus income annually	No. of family			

Income sufficient to cover annual cost of basic needs	No. of family			
Income just cover the cost for 6 months	No. of family			
Income cover less than 6 months	No. of family			
Total				

### 9. Expenditure pattern (Rs.)

Heading	Before the program			After the program		
	Annual average expenditure			Annual average expenditure		
	Quantity	Price	Total	Quantity	Price	Total
Food						
Clothing						
House building or renovation						
Health care						
Education						
Festivals/Social functions						
Communication and travel						
Other						
Total						

### 10. Access and use of the financial services

#### 10.1 What was the source of borrowing before the program

- Local merchant  
 Local land lord  
 Local traders



- Pawn maker
- Friends
- Relatives
- Traditional bank
- Others, if any specify.....

10.2 How long the member is associated with MF program

- Three years
- >2 to 3 years
- >1 to 2 years
- < 1 year

10.3 What is the amount and purpose of borrowings from MFI

Purpose	First cycle (Rs.)	Second cycle (Rs.)	Third cycle (Rs.)
Petty trade (working capital)			
Cereals			
Vegetables			
Livestock			
Cottage industry/Small garments			
Education			
Foreign employment			
Assets purchase			
Other			
Total			

10.4 Social behavior changes

Indicators	Unit	Before	After	Participation % after the program
Belief on group work	No. of HHs			
Belief on community work	No. of HHs			
Participation on local politics	No. of HHs			

Participation of women on household decision	No. of HHs			
Knowledge on schedule vaccination	No. of HHs			
Net Primary School enrollment	No. of HHs			
Nutritional food habit changes	No. of HHs			
Savings habit started	No. of HHs			
Knowledge on Basic Women Rights	No. of HHs			
Knowledge on Child rights	No. of HHs			
Helping to each other	No. of HHs			
Sharing the knowledge	No. of HHs			

## Appendix-2

### Questionnaire for the selected Microfinance Service Providers

Name of the surveyor:

Date:

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#### 1. General Information of the service provider

I. Name of the service provider:

Address:                      District:                      VDC:                      Ward:                      Tole:

II. Year of operation started:

III. Overall status as of Mansir 2067

- ) District covered
- ) VDC covered
- ) No. of branches
- ) No. of members/clients
- ) Savings balance
- ) Loan portfolio
- ) Repayment rate
- ) No. of staff
- ) Members per staff
- ) Average loan size
- ) Operational self-sufficiency level

#### 2. Microfinance Model

I) What type of the model are you using for implementing microfinance program?

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.....  
.....

II) Please give in brief the features of your model

.....  
.....  
.....  
.....  
.....  
.....

III) What are the differences in your model compare to original one ?

.....  
.....  
.....

3. Membership enrollment

I) Who are your customers for the financial services

.....  
.....

II) How do you identify the target groups

.....  
.....  
.....

4. Product development

I) Did you take market survey to develop product

.....

II) How did you know the demand of microfinance services

.....  
.....  
.....

5. Pricing of the services

I) Did you use actuarial calculation in pricing? Yes/No

II) Did you get some technical support on pricing? Yes/No

III) Do you charge flat or declining rate on loan? Flat/Declining

IV) What is the rate of interest on loan?

.....

V) Do you charge any upfront fee or service charge on loan? If yes, how much?

.....

VI) Do you have micro-insurance product?, if yes, How much is the premium rate?

.....

VII) What are the savings products you offered and how much interest you provide on savings products?

.....  
.....  
.....  
.....

6. Linkage with non-financial social services

I) Do you provide non-financial social services to your clients? If yes, list down the non-financial social services you are providing?

.....  
.....  
.....  
.....  
.....

II) Is there any linkage between financial and non-financial services?

.....  
.....

7. Constraints faced on:

- J Program growth  
.....  
.....
- J Financial resource management  
.....  
.....
- J Human resource management  
.....  
.....
- J Business development (Loan disbursement)  
.....  
.....
- J Portfolio quality maintain  
.....  
.....
- J Pricing and obtaining operational self-sufficiency  
.....  
.....
- J Demand driven product development  
.....  
.....
- J Social linkage development  
.....  
.....  
.....  
.....

) Other, specify (regulatory authority or social structure or social customs or social norms or social values etc.)

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