CHAPTER –I

INTRODUCTION

Micro finance may be defined as the micro-financial services or product such as micro deposit, micro loan and micro insurance to the poor households and micro institutions. Micro finance institutions (MFIs) are the financial institutions that provide micro financial services or product in financial markets.

The Asian development bank has defined the term micro finance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to the poor and low-income households and micro enterprises. World Bank has defined the term micro finance as the provision of financial services to low income clients, including self employed. It includes both financial intermediation and social intermediation. It is simply not banking it is a development tool.

A considerable history in micro finance activities has been developed in Nepal. The official policy reorganization of the importance of this sector in poverty alleviation came in sixth plan (2037-2042) programs to ensure that the poor and especially woman who have not been access to formal credit could acquire it. This has been developed and implemented by both government and non-governmental institutions.

A further reason is that bank offices are usually to be found in large towns while poor people, and particularly woman, live in rural areas and have neither the time nor the money to travel to town. Limited economic opportunities and minimal arable land result in low income and reduce saving capacity. Nepalese Woman is significantly poorer than Man is, have less control over economic decisions. Providing access to credit and savings, services help to contribute towards -poverty reduction and the empowerment of rural people.

Throughout the 1980’s and 1990’s, micro credit program throughout the world improved upon the original methodologies and banked conventional wisdom about the financing the poor. They had shown that the poor repay their loans and are wiling and able to pay interest rates that covered the cost of providing the loans. These two features, high repayment and cost recovery interest rates permitted micro finance institution to achieve large term sustainability and which reach large numbers of clients.

During the 20th century, it is accepted that micro finance is one of the most significant contributors on poverty reduction. It was first introduced in Bangladesh, Muhammad Younus who used to provide loan to the poor people without any collateral and low interest rate. The repayments were available to over 97% of the total loan. Today, all international donor organizations are involved in supporting MFIs, including the World Bank.

1.1. Background of the study

Most of the people in Nepal are living below poverty level. Especially the people living in village do not have enough financial background to work and improve their productivity. Difficult geographical circumstances make the delivery of financial services to the poor particularly challenging. The poor hardly ever access services through the formal financial sector. Therefore, they perform their need for financial services through a variety of financial relations; mostly informal credit is available from informal commercial and non-commercial money- lenders but usually at a very high cost to borrowers. Providers of financial services to the poor include donor supported, non-profit organization (NGOs), cooperatives, and community based development institutions. NGOs and other non-bank financial institutions have led the way in developing workable credit mythologies for the poor and it makes success to reduce large number of the poor.

NRB plays a vital role to develop the micro finance system in Nepal by introducing policy systems and institutions as well. NRB launched directed credit approach. It makes an effort to meet the gap of development financing in rural and small finance. Priority sector credit, intensive banking program (IBP), deprived sector credit program were different name give at different point of time. These directives have created different waves in the field of rural and micro finance in Nepal.

In order to support the national goal of poverty reduction, NRB has been carrying out a number of developmental functions along with its core function of central banking. For the development of rural financial system in particular, the NRB has initiated institutional development programs as well as various rural financing programs aimed at raising the standard of living of the people living in abject poverty below the poverty line and reduce the regional disparities. At the same time, it also encourages private sectors to take part in the rural financial system.

There are large numbers of private institutes for micro-finances have come into existence and are performing well in the field. Such as Nirdhan Utthan Bank, Swawalamban Bikas Bank, Chhimek Bikas Bank, Neighborhood society and many others.

The level of poverty in Nepal is not yet decreased, even though financial supporters in any form have been introduced in different areas of the country. The only indication of economic development of country is the upliftment of financial strength of the rural poor people. The introduction of the micro finance concept in Nepal has emerged the sense of strengthening the financial strength of rural poor people. Moreover, this may be the only source, which can contribute the upliftment of Nepalese economy.

1.1.1 Micro finance in Nepal

Nepal is one of the least developed countries in the world having US$ 384.00 per capita income. The Nepalese economy is predominantly an agricultural economy. About 81% of the population is engaged in agricultural sector whereas about 86% of the population lives in the rural sector of the country.

Nepal has been witnessing planned development efforts since the last four and a half decades. With the completion of tenth five-year plan, now it is witnessing three years interim plan. During the Tenth Plan period, the average annual growth rate remained low at 3.4 percent against the targeted growth rate of 4.3 percent. The growth rate in agriculture sector was 2.7 percent and that in non-agriculture sector 3.8 percent. There have been some structural changes in the economy during the plan period. The contribution of agricultural sector to GDP was 37.4 percent and that of non-agricultural sector 62.6 percent in the base year of the Plan. Their contributions changed to 33.1 percent and 66.9 percent respectively in the final year of the Plan. The gross capital formation remained 25.6 percent of the GDP. Similarly, the gross domestic saving was an annual average of 10 percent and gross national saving 28.1 percent of the GDP. The macro economic indicators of the country portray the reducing financial strength to date.

Thus, the poor people living inside urban area are or outside the city in the remote villages always remain outside the financial sector. Ordinary banks do not consider poor to be creditworthy since they often the cost of administering many small amounts is considered too high. **(Sources: www.npc.gov.np dated 09.06.2009)**

In 1950s, the first credit cooperatives were established for providing rural financial services as first step. These co-operatives provide credit only to the agriculture sector. The next micro finance service commenced in Nepal in 1975. When the small farmer development program after that there was a massive endeavor by many national organizations, international non-government organizations (INGOs), donor agencies, Government of Nepal, Nepal Rastra Bank (NRB) etc.

The establishment of ADB/N was landmark in the development of rural financial market in Nepal. However, it would be worth mentioning that the institutionalization of rural credit was actually begun in 1956, when cooperatives were established in Chitwan with a view to providing credit support to the resettles. In the year 1974, the NRB introduced the concept of directed lending so that a said proportion of the commercial bank’s sources could be utilized for the development of rural and agricultural sectors. The concept of directed lending was also considered groundbreaking initiatives in the development of small sector comprising agriculture, cottage industry and services.

NRB has placed various efforts to develop the micro-finance system in Nepal. It has introduced the priority sector-lending program in 1975 and the intensive banking program in 1981. Further, in 1992, NRB participated in equity and management to develop the “German Banking System” by introducing regional rural banks as a replication of Bangladesh “German Banking Model”.

The Central Bank also made it mandatory for commercial banks to involve in micro finance operations. Commercial bank instead provide funds to individual micro financing institutions through market operations of buying shares and providing loans, which has been approved by the central bank as being involved in the program itself.

Generally, micro finance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny business. But micro finance has been emphasizing on poverty reduction through various activities such as (credit, saving, insurance etc.). This study has focused on micro credit out of all these functions. Micro credit is about Small amounts of money loaned to persons who are poor, have no credit history, have little or no assets and do not have access to normal banking institutions. Generally provided for short terms and secured by personal or minimal collateral. Primarily for working capital requiring repayment in small, frequent intervals.

Development of any country is demonstrated by the development of the financial sector of the country. Finance plays very dominant role in the economic development.

1.1.2 Nepalese financial market

The prominent participants in the Nepalese financial market can be categorized into three sectors: Formal, semi-Formal, and informal. The type of participants and their numbers by sector, as of mid January 2003 are as follows.

1.1.2.1 Formal Sectors

- Commercial Banks
- Development Banks
- Rural Microfinance Development Banks
- Finance companies

1.1.2.2. Semi-formal sectors

- Saving and credit co-operatives(SCCs)

- Financial intermediary NGOs

1.1.2.3. Informal Sectors

- Saving and credit Organizations
- Self Help Group
- Landlords, Merchant /Traders/, Goldsmiths, Friends and relatives

1.1.3. Introduction of Rural Micro Finance Development Centre(RMDC), Nepal

RMDC was established as an apex micro finance institution with the initiative of NRB and ADB. It was registered on 30 October 1998 as a public limited company under the company Act 1996 and got license from central bank to operate as a development bank Act, 1995. It has been operational since January 2000. Its promoter shareholders are Nepal Rastra Bank (The central Bank), 13 commercial Banks including the joint venture private banks, 5 regional Grameen Bikash Banks(GBBs), the Deposit Insurance and Credit Guarantee Corporation and Nirdhan(NGO). It has a 7-members board of directors, in which two members from the central banks and five members from the commercial banks. It aims to run it in an efficient and cost effective manner with minimum staff, differentiating it from the traditional institutions in Nepal.

It operates as a wholesale lender to MFIs such as rural development banks, rural cooperatives, NGO financial intermediaries, which are providing micro- finance services to the poor, the marginalized and the deprived with main focus on women living below the poverty line. RMDC also provides support to MFIs for their institutional strengthening and capacity building.

1.1.4. Micro Finance Institutions in Nepal

A micro finance institution (MFI) is an organization that provides financial service to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability. However, all share the common characteristics of providing financial services to a clientele poorer and more vulnerable than traditional bank clients provide.

Historical context can help explain how specialized MFIs developed over the last few decades. Between the 1950s and 1970s, governments and donors focused on providing subsidized agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. During the 1980s, micro enterprise credit concentrated on providing loans to poor women to invest in tiny business, enabling them to accumulate assets and raise household income and welfare. These experiments resulted in the emergence of NGOs that provided financial services for the poor, In the 1990s, many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.

A MFI can be broadly defined as any organization-credit union, downscaled commercial bank, financial NGO, or credit cooperative-that provides financial services for the poor.

In recent year, Micro Finance Institutions have become one of the most important instruments in development policy. Before the micro finance revolution, poor peoples' opportunities to take up loans had been severely limited. First, with few substantial possessions poor households cannot offer collateral to back up their loans. Second, the potential addresses of small loans in less developed counties often live in remote rural villages beyond the reach of the traditional banking system. Third, although loans needed for individual projects are small, their myriad nature makes monitoring and enforcement costs prohibitively high. Poor villagers only access to credit had been through non-commercial development programs that provided subsidized credit. However, since these schemes faced the same monitoring difficult as traditional banks they often suffered from poor repayment rates, high costs and were typically doomed to failure for that reason.

Micro finance institutions use innovative means to overcome these problems. In a typical micro finance schemes, a small holder with individual risky projects from group is apply for loans together. The whole group is under obligation if one or more group members default. Even if an individual project fails and some of the borrowers are unable to repay, the whole group might still be able to do so. These types of joined liability serve as substitute for collateral.

1.2 Focus of the study

Micro finance is one of the factors that will enhance the countries developments. The history of institutional micro credit program in Nepal dated back to 1975/76. A number of micro credit programs or projects have been implemented since then, however only a meager section of the poor population has access to micro finance services. This has been mainly due to lack of adequate number of professional MFIs, which could provide quality microfinance services to the poor households in the country. Most MFIs have been constrained due to lack of financial resources to expand the outreach of services to the deprived population.

Against this backdrop, RMDC was established with initiative of the NRB and ADB. Its main aim is to enhance Micro Finance sector by providing wholesale funds to MFIs, training MFIs personnel and clients and developing awareness and policy in this field. Although RMDC functions with different objectives, the current study is carried out mainly to diagnose the loan performance of RMDC, Nepal.

1.3 Statement of the Problem

The outreach of Micro Finance services in Nepal, still very limited. Credit mobilization and continuous repayment of these credits is the main problem faced by micro finance institutions. Micro Finance is widely accepted as a tool of poverty reduction. Therefore, Micro Finance institution should investigate the existing financial services to the poor before mobilization of credit. Steel there is no such study about the effect of credit mobilization by apex institution.

Therefore, the RMDC, in Nepal is also trying to mobilize funds through the MFIs to the rural poor households mainly the woman. It works as monitoring and supervises the partner MFIs that helps to mobilize credit in proper way and there by helps to enhance economic development.

Though the RMDC is in existence from a decade, no effort has yet been made to study the role of the centre in development of Micro credit of the MFIs and small holders.

The main source of getting financial supports to the poor people is moneylenders who charge high interest on loans. Even they have to contribute great in case of incapability of repayment in time. The lenders also intend to takeover the mortgaged assets of borrower in any way. Buying goods on credit is also more expensive than buying in cash. Local rotating savings and credit circles take deposits but provide loan only at inflexible time intervals and in strict amounts.

Micro finance requires proper identification of the very poor, and this operation requires staff, which needs to survey the population and their economic status in the rural areas. Due to the lack of such staff, the commercial banks are not able to involve themselves in the program. However, it is not only the unavailability of staffs but also the overhead cost in employing them that pose a problem. How much RMDC is able to flow the credit to the needy small holders is also not properly found through any research study.

The study raises some issues to be examined that are stated below.

- Is RMDC helping in the field of Micro credit?
- How RMDC mobilize the credit through MFIs?
- What is the procedure to select partner MFIs?
- What is the procedure of repayment credit?
- Which Micro finance models in practice in Nepal?

1.4 Significance of the Study

In an under development country like Nepal there is the great importance of capital mobilization and collection through micro finance. There is huge population, which lives in village areas, where many people did not get financial opportunities. Therefore, they missed important opportunities. There is worldwide consensus that Micro finance is useful and powerful tool for poverty reduction. This tool is duly materialized in Nepal as source of finance to rural poor people.

Until date, the research in relation to the micro finance is found to be related with micro finance institutions and mostly the loan flow to the rural poor woman and the impact of loan provided to them. These researches analyses the performance of MFIs and the loan provided by them for the financial upliftment of rural poor woman. No more studies have been found on the loan performance and institutional strengthening of MFIs through the apex institution like RMDC that provides the wholesale loan to its members for the purpose of on lending to ultimate users. Therefore, this research is conducted to find out the loan performance of the RMDC, which is one of the apex micro finance institution. This research also provides the glimpses of the micro finance model adopted by RMDC Nepal and its member MFIs. The level of benefit received by small holders and MFIs through the mobilization of micro finance loan is also depicted in this study. This research will be beneficial to those who want to know the loan performance of apex micro finance institution like RMDC, Nepal, benefit received by Small holders and MFIs and the different micro finance model adopted by RMDC Nepal and its member MFIs. This is a noble research study so far apex institution is concerned.

1.5 Objectives of the study

The overall purpose of the present study is to examine the role played by RMDC in promoting Micro credit in Nepal. Micro finance programs support the production and consumption of the poor. Loans in easy repayment terms help smooth consumption and create jobs for the unemployed. There is very few numbers of studies that had been done by private institutions according to their needs; so many people are still unknown about the term Micro finance in detail. This study helps them to fulfill certain knowledge about it.

However, the specific objectives can be set as follows:

- To examine the micro finance loan performance of RMDC
- To find out the benefit received by MFIs from RMDC
- To find out the model applied by RMDC and its member MFIs

1.6 Limitations of the study

No study can be free from its own limitations. Therefore, the present study has also some limitations. Lack of research experiences is the major limitation. This study is simply presented to fulfill a partial requirement of M.B.S degree in Management. Therefore, it is not a comprehensive study and it focused to analyze certain aspects of micro finance.

Some limitations can be enlisted as follows:

- Studies and references were extremely limited in the perspective of Nepalese Micro finance.
- Relevant data and information will be collected from RMDC and concerned organizations and related personnel. Therefore, the data may be actual or estimated.
- The study covers only a period of five years.
- The study is fully based on the student's financial resources and it is to be conducted and submitted with in a time constraint. Further, the study is not a final study on the subject.
- The time factor is not sufficient for the detail study.
- Out of the three apex institutions, namely Rural self Reliance Fund (RSRF), Sana Kisan Bikash Bank Ltd (SKBBL) and Rural Micro Finance Development Centre (RMDC), only RMDC is taken for the study.

As a whole, this study suffers from the limitations, which are common in most of the empirical studies.

1.7 Organization of the study

This study has been broadly divided into five chapters, which are as follows.

Chapter I	-	Introduction
Chapter II	-	Review of Literature
Chapter III	-	Research Methodology
Chapter IV	-	Presentation and Analysis of data
Chapter V	-	Summary, Conclusions and Recommendations

The first chapter "Introduction"; consists background, micro finance in context of Nepal, focus of the study, statement of problem, need of the study, objectives of the study, limitation of the study and finally organization of the study.

The second chapter "Review of Literature" consists of conceptual framework, review of related literature. It includes review of the books, various published and unpublished reports, articles, journals and empirical studies.

The third chapter deals with the research methodology, which includes research design, source of data, data gathering procedure, tools for analysis.

The fourth chapter attempts to analyze and evaluate the data with the help of analytical tools and interpret the results so obtained and,

The fifth chapter sums up the result obtained through analysis and state the summary, conclusions and recommendations of the study.

A bibliography and appendices are enclosed at the end of the study.

CHAPTER II
REVIEW OF LITERATURE

Micro credit is the most demanded and recognized tools for the poverty alleviation .It is recognized as the most reliable method for the economic upliftment of rural poor people. It is mostly concentrated to the rural sector on which the ultimate borrowers gets the fund from different kind of micro finance institutions and mobilize those for the achievement of their goal. The provided funds are mostly used in local resources which are easier to mobilize from the perspective of rural people. So, the present research is conducted to know the micro credit loan performance of RMDC Nepal, its contribution to micro credit development and its impact on economic upliftment of rural people. For this purpose, it needs to review related literatures in concerned area which will help researcher to get clear ideas, opinions and other concepts. All related questions are reviewed which has provided useful inputs in this research work. This chapter emphasizes about the literatures which were concerned in this connections. Therefore, in this chapter conceptual frameworks by different authors and intellectuals of this area are incorporated. The sources of materials reviewed are from various books, articles, research papers, periodicals, booklets and concern websites. Moreover, regulatory environment and models regarding to Micro-finance are reviewed and an attempt has been made to present them properly.

2.1 Conceptual frame work

2.1.1. Development Process

Development is the most valued and perhaps, also the most imprecise concept, and one that could be defined to have an infinite number of meanings in both scholarly and everyday discussions. It only acquires a more useful meaning when it makes a reference for theories, contexts, problems, and policies concerning the developing countries. Clearly, it is an evaluative concept that establishes the ground rules for debate about what development is and what it ought to be. In particular, and in general, the crucial analytical power of the concept remains valid, but it forces us to consider why certain theories are more relevant than others and why others cannot stand before logical discourse and scientific testing. The following analysis will chiefly reflect upon development with reference to developing countries.

Since the Second World War, the world, especially the developing countries, has passed through a volatile period of enormous social, political, economic, and ecological change. Some of the developing countries, commonly grouped as the third world, have achieved remarkable speed in industrialization and sustained economic growth rate. But, they have failed to achieve self development and distribute the new wealth among their population equitably. As a result, the rural population, which makes up a vast majority in most of the developing countries, has been left behind. Their situation has even deteriorated sharply over the same time. Despite the execution of various development programs and projects directed toward improving the situation of the rural poor in the last few decades, the living conditions of the poor in most of the developing countries continue to decline.

Most of the people in developing countries live in rural areas marked by an increasing number of the landless and the jobless, who have to invest more and time and energy every day in different jobs to ensure their daily survival . The returns from labor in the agricultural sector are acutely low and those in the off-farming sectors woefully lower. Migration or the cities or industrial centers cannot be a solution for the vast majority of these rural poor, due to the shortage of employment opportunities for unskilled labors caused by the labor-saving technologies in the industrial sector. The vast gap between the rich and the poor, especially between industrial and agricultural societies, has thus become a cruel fact of modern life.

Development theorists and practitioners working with non-governments organizations (NGOs), both in the North and in the south, were concerned about the dilemma they were in about what to do with the widening gap between the very few rich and the very large majority of the poor of the developing countries. Conclusions drawn from these debates varied from proposals to stop all development aid (Since every intervention in the process of change in the developing countries would have a negative even disastrous impact) to efforts toward better strategies and concepts for rural development. Quite a number development planners, disillusioned by and disenchanted with the failure of the modernization concepts for improving the living conditions of the poor population in the developing countries, started to systematically discuss alternative development strategies, such as the integrated development approach, the basic needs approach, community participation, self-help, ecodevelopment, and self-reliance concepts.

It was said that in projects that covered wide areas and various sectors, the real needs and wishes of the poor population who were the actual target groups, were not considered. In these projects people were 'targets' for example, of recipients rather than participants in the development process. Development planners and project officers learned that they should not mainly consider the acceptability of their projects but should base the proposed development projects on local needs and demands. A case for the successful execution and lasting effects of any development projects or program is to be found in the participation of the target population from the very beginning of each project, when project activities are designed.

During these discussions a general agreement was reached that there was a need for new and innovative approaches for an equitable and just development. Modernization concepts embodied large-scale development programs –where trickle-down effect to the poorest majority was desired but really achieved. They also realized that the top-down planning strategies should be superceded by bottom-up planning procedures and by more poverty-alleviation programs. The inflated vision of green revolution has undermined the constructive possibilities attached to land reforms and the transformation of rural economy through raising the productivity of land and labor. The reality of poverty, inequality, and ecological decline faced by developing countries suggests that land reform is still a valid concept of development today as the poor majority largely depends on agriculture for its sustainable livelihood.

These alternative concepts, approaches, and strategies frame the basic elements of the development approach which is based on self-help and oriented towards self-reliance. Over the last few years civil society forces, particularly the NGOs, the UN development agencies, self-help promotion institutions, cooperatives, consumer associations, and the western funding agencies have started to implement and – later – to support development projects and programs based on these concepts. Education of the masses through these autonomous associations is expected to help enlist their active participation towards the consolidation of the civil society and the expansion of social development. **(Heinz Bongartz, Dev Raj Dahal, "Development Studies: Self Help Organizations, NGOs and Civil Societies", p.1-4.)**

www.idrc.ca reflected the five indicators of development mentioning the reaching on broad consensus of **"Kelburn workshop"** as per below.

- **Literacy, education, and skills** (literacy, education, training and skills, and opportunities for all members of society to increase their capacities) — The availability and level of education is an indicator in its own right; it also contributes to increased individual and social choice, and is a prerequisite for better democracy and governance.
- **Health** (life expectancy, maternal and infant mortality, quality of life, and the levels of health care available in situations of morbidity) — Physical health and well-being are basic requirements of stable population growth and the ability to function more effectively on a regular basis.
- **Income and economic welfare** (high levels of employment, high incomes per capita, and increased gross national product, with appropriate corrections for environmental protection and for income equity) — Personal savings and investment to support structural change are important.
- **Choice, democracy, and participation** (participation in social and economic affairs, with fair economic rewards, the availability of reasonable choice, and participation in the democratic process) — the political process can enable or inhibit development. The importance of good government and appropriate democratic institutions to articulate social goals cannot be over-emphasized. Participants were not greatly concerned with the formality of these organizations, but were much more interested in their effectiveness in serving social goals.
- **Technology** (the capacity to develop technological innovations and to make technological choices) — Few countries are capable of radical innovation as R&D becomes more expensive and complicated. For these countries, a more appropriate indicator is the capacity, in terms of know-how and wealth, to make the appropriate choice between competing technologies and to develop or adapt technology to fit their own needs.

The above presentation widely depicts the scenario of vast difference between the poor people and rich people. The conclusion can be made that the rich peoples are being rich day by day while poor people are suffering from the dashing of poverty day by day. The scholars were really worried about the above concluded scenarios and began to discuss the economic upliftment of rural people in any way. They began to think in a little different way to the financing to the rural poor people in order to quick economic upliftment and propounded the concept of micro finance. The indicators of development also include the income and economic welfare factor as a prominent part. So, micro financing to the rural sector is one of the best alternative of minimizing the immense gap between the poor and rich people.

2.1.2. Micro Finance Concept

To most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products.

Micro credit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. The important difference of micro credit was that it avoided the pitfalls of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors towards the building up of local, sustainable institutions to serve the poor. Micro credit has largely been a private (non-profit) sector initiative that avoided becoming visibly political, and as a consequence, has outperformed virtually all other forms of development lending.

Traditionally, microfinance was focused on providing a very standardized credit product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks.

Thus, we see a broadening of the concept of microfinance-our current challenge is to find efficient and reliable ways of providing a richer menu of microfinance products.
The Micro finance was first set up in the form of the Grameen Bank in 1976 by Bangladeshi economist professor Muhammad Yunus. Micro loans, He started which may be anything from a few pounds upwards, are used for income-generating activities such as buying rice to husk and sell, or to protect a borrower from having to pay high rates to moneylenders for essential needs such as house repairs, wedding or funerals. The loan is given at an interest rate higher than bank rates, to cover the high costs of administering small loans, but lower than money-lenders' rates. Saving is also crucial to microfinance, both institutionally in that they make up much of the loan capital, and also a safe place for people to deposit their money. Grameen Bank defined three C's of credit as follows. **(Grameen Bank Micro credit summit", p.2-4 February1997)**

Character – how a person has managed debt obligations in the past from the credit history and personal background, honesty and reliability of the borrower to pay credit debts is determined.

Capacity – how much debt a borrower can comfortably manage. Income streams are analyzed and any legal obligations considered as they could interfere in repayment.

Capital – borrower's current available assets, such as real estate, savings or investment that could be used to repay debt if income should be unavailable.

These three characters, capacity and capital play a great role in credit repayment viability of a loner.

Micro finance has evolved as an economic development approach intended to benefit low-income woman services to low-income clients, including the self employed. Financial services generally include savings and credit. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial management capabilities among members of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. Micro finance is not simply banking it's a development tool. Its activities usually involve:

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

Although some MFIs provide development services for institutional development such like skills training, marketing and social training. **(Joanma Ledger Wood, "Sustainable banking with the poor", p.1.)**

2.1.3. Poverty and Micro-credit:

There is an on going debate whether credit alone or credit plus is needed for poverty reduction. There are views that credit alone on its own is inadequate to fight poverty. The need for other services is also important in this respect. Such views, although, do not negate the role of credit; fail to appreciate the role of credit on its own merit.

Nobody says that credit alone is cure for all. Most of the practitioners believe that credit plays a vital role as an instrument of intervention for a poor person to discover her potential and to stride for better living. Muhammad Yunus advocates that Credit is a human right. Once this right is established, the entitlement to other rights for leading a dignified life becomes easier. It empowers to break the vicious cycle of poverty by instantaneously creating self-employment and generating income. When in the ultimate analysis nothing can be said to be panacea, by overemphasizing that micro-credit is not a panacea is in a sense overreacting and underestimating the role of credit as an instrument to combat poverty. Micro-credit is itself a very powerful tool. But if it is combined with others, it is definitely more empowering.

How micro-credit can reduce poverty may better be understood by understanding conceptually the mechanisms by which financial services can affect the lives of the poor. It is important to consider the fulfillment of basic needs (food, clothing, shelter, health, education and psychological well-being), the means to achieve welfare at present and in the future, social networks and empowerment and vulnerability to risk.

It is known that poor people live in a high risk and vulnerable conditions. Their ability to take advantage of opportunities that will lead to increasing their income or economic status, to protect themselves against risks of crises, and to cope with these when they occur is very important. Reduction of poverty is partly a process of increasing income and economic stability which enables fulfillment of basic needs and access to different kinds of services. This may also be understood in the form of developing a range of assets that will reduce the vulnerability of the poor to physical, economic and social shocks. These assets may be defined as financial (income size, regularity and security, savings, loans or gifts), human (skills and knowledge, ability to work, good health, self- esteem, bargaining power, autonomy and control over decisions), physical (housing, land, productive and nonproductive possessions etc.) and social (networks, group and centre membership, trust based relationship, freedom from violence and wider access to society and social institutions. Poverty reduction may also be considered from both short term and long term perspectives. In the short term it can be understood with reference to individual borrowers, their households and also the society at large. Different studies conducted in Bangladesh and elsewhere show that there is positive correlation between micro-credit programs and their accrued benefits in terms of employment, income generation and promotion of social indicators. **(H. I. Latifee, "Micro-credit and Poverty Reduction", P.6)**

2.1.3.1 Reaching to poor and sustainable Micro Finance Services

Micro Finance services are generally intended by development oriented and, in many cases, if not all, organizations initially established with a social services motive. In Nepal also, if one review the micro finance advent in Nepal, initially the government commended projects and programs to empower the poor people by providing subsidized Micro Finance services. The Government of Nepal initiated policies like priority sector lending and deprived sector lending where 12% and 3% (of the 12%) respectively of the outstanding loan of commercial banks had to be given out to the priority and deprived sector. Because of this policy, even the commercial banks started getting involved in subsidized lending to the poor people. The private sector in

Nepal started getting involved in subsidized lending to the poor. The private sectors in Nepal started emerging initially with a motive of social services of providing micro finance services to the poor with other development services. There are many institutions were established by lenders in financial sector of Nepal including ex-official of the central bank of Nepal , ADBN etc. who had visions of providing financially sustainable micro finance institutions for the poor of Nepal. (Namrata Sharma, Tulsi Uprety, Navaraj Simkhada "Review of micro Finance services in Hill of Nepal", P.10)

According to Narahari Dhakl, when talking about reaching the poor and sustainable micro finance services there are two schools of thoughts.

1. Sustainability focus model
2. Poverty focus Model

Sustainability focus: The sustainability camp says it is possible for MFIs to be sustainable and that the MFIs should do the following and reach sustainability.

- Increasing number of poor clients
- Product diversification (Credit/saving and other support services)
- Maintaining average outstanding and average loan size
- Increasing willingness to pay (high repayment rate)

Poverty focus: While the poverty focus camp argues that the MFI should reach the poor by doing as following

- To reduce social overhead cost of MFI, they should coordinate their program with other agencies.
- Have product diversification
- Create local and national level pressure group

2.1.3.2. Micro Finance in Nepal

Nepal is one of the poorest country in the world and the poorest in the South Asia region. Its poverty reduction rate is low. The main reasons for this low poverty reduction rate are: (i) low per capital income, (ii) concentrated urban growth, and (iii) high population growth rate. Out of a population of 23 million, 38% are in below the poverty line. Most of the poor people live in rural areas and have little opportunity.

Micro-finance could help poor people who have no collateral, but a willingness to work and a desire to do some business activities from which he/she will acquire employment as well as income.

Although many programmes have been implemented for poverty alleviation in Nepal, only micro-finance programs are seen as a poor targeted and rural based.

In Nepal agriculture based co-operatives were initiated in the 1950s as a first step in micro-finance. Poverty alleviation rural based programs were initiated through the small farmers development program (SFDP) on a pilot test basis in 1975 by the ADB/N. The success of the pilot tests in Dhanusa and Nuwakot districts encouraged policy makers to expand formal rural based micro-finance programs.

The SFDP is now being transformed into several autonomous, self-help organizations called Small Farmers Cooperatives Limited (SFCLs), which are managed by farmers themselves. Other micro-finance development programs, such as Priority Sector Lending Program (PSLP), Intensive Banking Programme (IBP), Production Credit for Rural Woman (MCPW) and Rural Self-Reliant Fund (RSF) have been implemented. After studying the pros and cons of various microfinance development programs government began to rethink the delivery mechanisms of micro-finance.

In 1992, government set-up two Grameen Bikash Banks as a replication of the Bangladesh Grameen model of micro-finance delivery. Government also created a situation to encourage participation in the micro-finance by the private sector. Subsequently Nirdhan, CSD, Chhimek and other organisations came into existence. RMDC was also established to support micro-finance institutions by giving wholesale credit, initiating training and other necessary support to the MFIs. Some Government directed Programs (TLDP, Bishweshwor with poor, PAPWT, Community Ground water project, etc.) have been implemented in coordination with NRB.

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

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

The services provided can be targeted specifically at the poor and poorest of the poor. These services can make a significant contribution to the socio-economic status of the targeted community.

The institutions that deliver these services can develop, within a few years, into sustainable organizations with steadily growing outreach.

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

Micro-finance is more than the provision of credit. It involves the provision of other financial services (most usually savings and insurance) and recognizing that even the poor have a variety of needs, not just credit.

Securing sustainable access to micro-finances for low-income communities involves building (or reforming) micro-finance institutions- not just the delivery of time-bound micro-finance programs (such as offering short-term revolving funds)

Challenges in Micro-Credit Delivery in Nepal

Nepal has a varied topography at varied development stages, a mix of different cultures and different ethnic groups, which challenges the successful delivery of micro-finance. The major challenges are:

Formulating a micro-credit delivery mechanism that is better suited to the people in hills and mountains.

Successfully extending the outreach to the hills and mountains.
Redesigning existing programs of the formal MFIs to better target the poorest.
Unsustainable delivery mechanisms of government initiated MFIs and programs.

Evolution of Micro-Finance

The earliest initiatives for establishing micro-finance in Nepal date back to the 1950s, when the first credit cooperatives were established. For providing rural financial services, this was the first step. These cooperatives primarily intended to provide credit only to the agriculture sector. The next milestone was SFDP in 1975 within ADB/N. This program covers the entire country and aims to organize farmers into small groups to provide credit without collateral.

In 1981, NRB introduced the Intensive Banking Program (IBP) and compelled to the commercial bank to finance at least 7 percent on the priority sector, which was further increased to 12 percent in 1990. Now this compulsion is being phased out gradually. In 1992, Grammen Bikash Banks were initiated by the government sector, crossing a milestone in rural micro-financing in Nepal and NGOs started Grammen banking activities in certain areas.

- The evolution of the micro-finance sector in Nepal
- Credit co-operatives were established in the 1950s.
- Co-operative bank was established in 1963
- Small farmer groups were established under SFDP (1970s)
- SFDP was established under ADB/N (1975)
- Commercial banks began to follow priority sector lending directives (1974)
- The IBP program tries to involve commercial banks in micro-credit (1981)
- Gender based micro-credit - PCRW (1982)
- Gender programs refined - MCPW (1994)
- Replication of Grameen Banking model (1992)
- Co-operative act was established to support the credit cooperatives (1992)
- Government-run MF programs - Bisheswor with the Poor, Women's Awareness program, government peace movement, etc.

The MF Sector in Nepal

Within Nepal there are a wide range of institutions active in the micro-finance sector, each with its own way of going about the task of making financial services accessible to the poor. Some writers distinguish between the so-called informal and formal sectors, but given that many of the informal organizations are in fact registered societies, the preferred terms to use are community-based sector and institutional sector.

The Institutional Sector

Nepal Rastra Bank (NRB)

NRB is a central bank and an apex institution of the financial system. It has placed various efforts to develop the micro-finance system in Nepal. It introduced the priority sector (small sector) lending program in 1975 and the intensive banking program in 1981. Further, in 1992, NRB participated in equity and management to develop the Grameen Banking system by introducing regional rural banks as a replication of Bangladesh Grameen Banking model. NRB plays a vital role to develop the micro-finance system in Nepal through introducing policy, systems and institutions as well.

Micro-finance Wholesale Apex Institutions

RSRF (Rural Self Reliance Fund)

In 1990, HMG (FORMER)/N introduced a fund of NRs. 10 million to provide a wholesale fund for small cooperatives and rural based NGOs to on lend to micro entrepreneurs. Further in 1999, government provided additional support of NRs. 10 million to the RSRF. Since the beginning, the fund has been handled by NRB. Up to mid July 2002, RSRF sanctioned loans to 48 NGOs and 129 cooperatives amounting to NRs. 18.15 million and 34.21 million respectively.

RMDC (Rural Micro-Finance Development Centre)

Under the financial support of ADB, Manila, NRB, banks and financial institutions together injected equity to form the micro-finance apex institution Rural Micro-Finance Development Centre' (RMDC),Its mandate includes capacity building for MFIs and ultimate borrowers in addition to providing a fund for on lending to them.

Commercial Banks (CB)

According to the NRB directive, commercial banks need to extend at least 3 percent of their total loan outstanding to the deprived sector. CBs are extending the 3 percent fund in equity and also providing wholesale loans to MFIs. At present, 17 commercial banks are extending credit to the deprived sector, amounting to NRs. 3482.6 million.

Small Farmer Development Bank (SFDB)

SFDB was established in 2002 under the development bank act of 1996 to provide wholesale funds to Small Farmer Co-operatives Ltd. (SFCLs). SFCLs were developed by the SFDP of ADB/N to make groups of small farmers self-reliant and sustained. Until now, the total number of SFCLs affiliated with the SFDB is 35 and the total number of groups within the SFCL is 3,434. The total loans disbursed to the group member's amounts to NRs 25.4 million.

Development Banks

Some development banks formed under the development bank act 1996 are implementing micro-finance activities in rural areas. Prior to becoming development banks, some institutions were active as NGOs in the field of social development, as well as in micro-finance. Among these banks, 5 are regional rural development banks in the government sector and 6 are micro finance development banks established by private sector.

The Community Based Sector

FINGO (Financial Intermediary Non-government Organization)

Normally, NGOs in Nepal (at least those registered under the Societies Act) have not been entitled to undertake profit-oriented activities, such as financial intermediation. However, the rapidly growing engagement of NGOs in social development has created a need for extending some basic financial services such as micro-finance services. To address the lack of institutions providing MF services in many areas of the country, the Central Bank of Nepal (NRB) has provided a mechanism by which selected NGOs can engage in financial intermediation activities. These activities are defined as the borrowing and on-lending of funds, but do not include direct deposit taking from the public. Currently, a couple of dozen NGOs have already been licensed by NRB. The last session of parliament approved changes in the Financial Intermediary Act of 1998, which now allows FINGOs to collect savings from the members of groups. Those NGOs that are operating in financial services transactions and opting for an NRB license are referred to as FINGOs.

As a replicator of Grameen Model, some NGOs were established to extend credit facility to the rural poor: Nirdhan (1991), CSD (1991), Chhimek, Deprosc (1994). In 1996, the development bank act came into existence and the above-mentioned NGOs became development banks. Since the financial intermediary act was implemented in 1998, 37 NGOs have received permission to extend credit and collect savings from the rural poor in group-based activities. The main objectives of these NGOs are to extend micro credit activities and help towards raising the living standard of the poor.

Saving and Credit Co-operatives

SACCOS are member owned, controlled and capitalized organizations, which provide financial services to members. There are more than 2,300 SACCOS registered with the Co-operative Department in Nepal and approximately 400 of these are a member of the national federation, NEFSCUN.

Savings and Credit Groups

There are tens of thousands of unregistered SCGs in Nepals, some of which are quite large even though they are not registered either as NGOs or co-operatives. The vast majority of these SCGS grew out of assorted development initiatives (literacy programs, water and forestry user groups, mother and child programs, etc.) into which a savings component had been introduced, if only to strengthen the likelihood that the group would continue to meet and be active, after the specific program intervention had been competed. Given the limited prospects of such smaller groups, and the problems that promoting agencies face in maintaining outreach to large numbers of scattered, small groups, considerable attention is being paid nowadays to mechanisms for federating and institutionalizing these groups.

Traditional Savings and Credit Groups

Nepal has a long history in the operation of traditional savings and credit associations, often referred to in the literature as a rotating savings and credit associations (ROSCAs), but known locally as Dhukuti or similar terms. These tend to be non-registered, but quite formally structured in terms of membership rights and obligations, etc.

Outreach

In Nepal, traditionally there were many programs developed by government and government agencies in the formal micro-finance sector and by private organizations in the private and informal sector. The present status and estimated micro-finance outreach of various programs is as follows:

Table no.2.1. Status of Major Micro-Finance Service Outreach

S.No.	Institutions	Members (in '000)	Borrowers (in '000)	Cumulative disbursement (Rs. in '000)	Outstanding loan (Rs. in '000)	Group saving balance (Rs. in '000)	Repayment rate in (%)
1.	SFDP#	189	189	NA	890597	50388	40.42
2.	SFCL##	69	69	1829125	980431	N.A.	80.05
3.	PCRW###	67	67	360,000	168,000	N.A.	64.0
4.	EGB*	53	49	2895883	354172	125803	97.50
5.	CGB*	36	35	957597	220930	37873	100.00
6.	WGB*	40	39	1481506	271314	78954	99.70
7.	MWGB*	19	16	568250	92219	42195	93
8.	FWGB*	19	11	668351	101097	45859	75
9.	NUBL##	35	28	1184017	206900	56673	97.20
10.	CSD###	38	32	800,874	178,969	47,209	100.00
	DEPROSC#	9	6	66570	30201	8561	100.00
12.	Chhimek Samaj##	4	3	40826	20121	5379	100.00
13.	NRDSC	3	2	4,410	3,724	392	100.00
14	Priority Sector lending (RBB and NBL)	130	130	N.A.	N.A.	N.A.	N.A.
	Total	711	676	10857409	3518675	499286	
15	Informal Groups (SHGs)	240	120	-	480000	400,000	95%
16	SCCs	320	160	-	320000	300000	95%
	Total	560	280	-	800000	700000	

Source: Upreti up dates and CMF estimates,

(www.hotelnepal.com/nepal_news.php, 24th March, 2008, 03.07.16GMT)

2.1.4. Profile of RMDC, Nepal

An Introduction of RMDC, Nepal

Rural Microfinance Development Centre (RMDC) is an apex organization of microfinance in Nepal. It was incorporated on October 30, 1998 (2055/7/13 B.S.) as a public limited company under the Companies Act. 1996 and has got license from the Nepal Rastra Bank (the central bank) on December 6, 1999 to operate as a development bank within the framework of the Development Bank Act 1995. It has been operational since January 2000.

Objectives

RMDC was established with the main objective of improving socio-economic condition of the poor, the landless and the assetless families through increasing their access to resources for productive undertakings and employment. The specific objectives of RMDC are:

- To provide wholesale funds to potential and viable microfinance institutions (MFIs) for on-lending to the ultimate borrowers for undertaking productive activities.
- To help build and strengthen institutional capacity of the partner organizations (POs) so that they can implement microfinance programs effectively and efficiently.
- To promote financially viable and sustainable MFIs by providing necessary financial and technical supports to start-up and existing institutions.
- To support and/or undertake studies and researches on innovative approaches and on impact of microfinance in order to promote new product and develop sound practices.
- To assist POs in strengthening capacity of their members and their occupational knowledge and skills through skills upgrading training and exposure visits.
- To act as a financial intermediary to channel international and national resources to the poor through MFIs.

Management

General Body

The General Body, consisting of 21 members representing the central bank, 13 commercial banks, 5 regional Grameen Bikash Banks, the Deposit Insurance and Credit Guarantee Corporation and the Nirdhan Utthan Bank, gives overall policy guidelines and directions for the efficient functioning of RMDC.

Board of Directors

The Board of Directors (BoD) of RMDC comprises seven members - one representative from the Nepal Rastra Bank, one from professional and the other five from the commercial banks representing the other shareholders. The BoD takes policy decision to pursue and carry out the objectives of the Centre. The Chairman of the Board is elected from among the Board members. The term of the BoD is four years.

Management Team and Staff

RMDC management is headed by a Chief Executive Officer (CEO). He has a team of experienced and professional staff to carry out its day-to-day operations. Besides CEO, there are 3 department senior managers, 3 senior officers, 8 officers, 2 support staff, 1 driver and 3 messengers. RMDC has maintained thin staffing to attain cost effectiveness.

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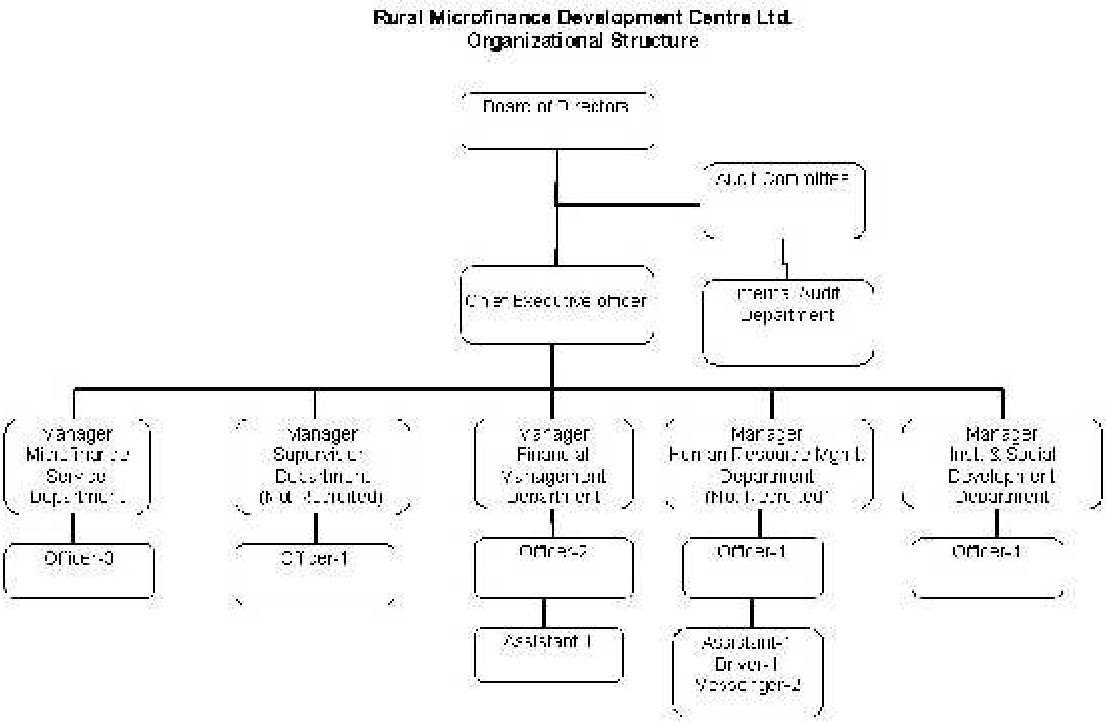
Table no. 2.2. Number of Staffs in Different Fiscal Years

Fiscal Year	Professional Staff*	Support Staff	Total Staff
1999-00	7	4	11
2000-01	8	4	12
2001-02	8	4	12
2002-03	7	4	11
2003-04	7	5	12
2004-05	9	5	14
2005-06	12	6	18
2006-07	12	6	18

* Includes the Chief Executive Officer

Organization Chart



Equity and funding

The share capital of RMDC has significantly increased in this fiscal year. Now the authorized capital of RMDC is NRs.640 million ,the issued capital NRs.320 million and the paid up capital NRs.2560 million .Its promoters and share holders are the Nepal Rastra Bank(NRB),13 commercial Banks,5 regional Grameen Bikash Banks(RGBBS),the Deposit Insurance and Credit Guarantee and Nirdhan Uthan Bank

Limited. The 13 commercial banks and Nepal Rastra Bank hold 88.44 percent and 8.42 percent of the total paid up share capital of the centre respectively. RMDC had access to a loan of SDR 14.2 million from the ADB financed Rural Micro Finance Project, which has ended on June 30th, 2007. RMDC still have access to a loan fund of USD 5.2 million under community livestock development project and grant fund of USD 5,50,000 under JFPR Project. The recent decision of NRB has enabled RMDC to access the deprived sector lending funds from commercial banks and that could be a major source of fund for its regular lending program in future.

Table no.2.3. Promoter Shareholders and their shareholdings patterns

S.N.	Name of Shareholders	Amount (Rs.)	% of Total Share Capital
1	Nepal Rastra Bank	21,045,000	8.42%
2	Standard Chartered Bank Nepal Ltd.	38,590,000	15.44%
3	Himalayan Bank Ltd.	37,500,000	15.00%
4	Nabil Bank Ltd.	37,500,000	15.00%
5	Nepal Investment Bank	25,000,000	10.00%
6	Nepal Bank Ltd.	21,685,000	8.67%
7	Nepal SBI Bank Ltd.	18,895,000	7.56%
8	Nepal Industrial & Commercial Bank Ltd.	16,211,000	6.50%
9	Rastriya Banijya Bank	6,495,000	2.60%
10	Bank of Kathmandu Ltd.	5,195,000	2.08%
11	Nepal Credit & Commerce Bank Ltd.	5,195,000	2.08%
12	Nepal Bangladesh Bank Ltd.	4,531,000	1.81%
13	Everest Bank Ltd.	3,120,000	1.25%
14	Paschimanchal Grameen Bikas Bank Ltd.	2,300,000	0.92%
15	Lumbini Bank Ltd.	1,151,000	0.46%
16	Madhyapaschimanchal Grameen Bikas Bank Ltd.	1,151,000	0.46%
17	Deposit Insurance & Credit Guarantee Corp.	1,000,000	0.40%
18	Madhyamanchal Grameen Bikas Bank Ltd.	1,000,000	0.40%
19	Nirdhan Utthan Bank Ltd.	800,000	0.32%
20	Purbanchal Grameen Bikas Bank Ltd.	800,000	0.32%
21	Sudhurpaschimanchal Grameen Bikas Bank Ltd.	800,000	0.32%
	Total	250,000,000	100.00%

Partner organizations

The target partners organizations (Pos) of RMDC are all micro finance development banks, savings and credit co-operatives (SCCs) and financial intermediary NGOs(FINGOs) that lend to the poor, mainly the woman living below poverty line. Till July 16th, 2007, RMDC has made partnership with 58 organizations comprising 6 micro finance development banks (MFDB), 6 development Banks (DB), 24 FINGOs and 22 SCCS.

Table no.2.4. List of partners organizations of RMDC

S.N.	Partner's Name
1	Nirdhan Utthan Bank Ltd. (Bittiya Sanstha), Bhairahwa
2	Centre for Selfhelp Development (CSD), Kathmandu
3	Bindhabasini Savings & Credit Cooperative, Banepa, Kavre
4	Nepal Rural Development Society Centre (NRDSC), Biratnagar
5	Sahara Nepal Savings & Credit Cooperative, Charpane, Jhapa
6	National Educational and Social Development Organization (NESDO), Parb
7	Chartare Yuwa Club (CYC), Baglung
8	Society of Local Volunteers' Effort (SOLVE), Dhankuta
9	Rural Awareness Forum (RAF), Baglung
10	Dhaulagiri Community Resources Development Centre (DCRDC), Baglung
11	Community Women Development Centre (CWDCC), Rajbiraj, Saptari
12	Mahuli Community Development Centre (MCDC), Mahuli, Saptari
13	Deprosc Bikas Bank Ltd. (Bittiya Sanstha), Bharatpur
14	Western Grameen Bikas Bank Ltd. (Bittiya Sanstha), Butwal
15	United Youth Club (UNYC), Bardiya
16	Chhimek Bikas Bank Ltd. (Bittiya Sanstha), Hetauda
17	Mid-Region Grameen Bikas Bank Ltd. (Bittiya Sanstha), Janakpur
18	Swabalamban Bikas Bank Ltd. (Bittiya Sanstha), Janakpur
19	Manushi, Gyaneswor, Kathmandu
20	Nepal Mahila Utthan Kendra, Lalitpur
21	Jeevan Bikash Samaj, Amahibariyati, Morang
22	Forum for Rural Women Ardency Development (FORWARD), Sunsari
23	Mahila Sahayogi Sahakari Sanstha, Balaju, Kathmandu
24	Srijana Samudaik Bikas Kendra, Chohanwa, Siraha
25	Nepal Mahila Samudayik Bikas Kendra, Ghorahi, Dang
26	Srijana Bikash Kendra, Pokahra
27	Women Entrepreneurs' Association of Nepal (WEAN), Kathmandu
28	Royal Cooperative Society, Syangja
29	Social Welfare Action Nepal (SWAN), Dang
30	SUPER, Dang
31	Grameen Mahila Bikas Sanstha, Dang
32	Nawapratibha Savings & Credit Cooperative, Nawalparasi
33	Grameen Mahila Utthan Kendra, Dang
34	Karnali Savings & Credit Cooperative, Jhapa
35	Sewa Savings & Credit Cooperative, Itahari
36	Gorkha Ghorelu Savings & Credit Cooperative, Gorkha
37	Shramjivi Savings & Credit Cooperative, Lahan, Siraha
38	Indragram Punarmilan Savings & Credit Cooperative, Narayanghat
39	Ideal Cooperative Society, Rajbiraj, Saptari
40	Navodaya Multipurpose Cooperative Society Ltd., Topgachhi, Jhapa
41	Bouddha Grameen Savings & Credit Cooperative, Surkhet
42	Bateswari Sadhan Multipurpose Cooperative, Surkhet
43	Kalika Multipurpose Cooperative, Rasuwa
44	Gaurishankar Bittiya Sanstha Ltd., Nawalparasi
45	Mahila Upkar Manch, Kohalpur, Nepalganj
46	Triveni Bikas Bank Ltd., Narayanghat
47	Palpa Rara Savings & Credit Cooperative, Palpa
48	Krishak Jagaran Cooperative, Lamjung
49	Udayadev Multipurpose Cooperative, Mahendranagar, Kanchanpur
50	Palung Multipurpose Cooperative, Palung, Makwanpur
51	Karnali Bikas Bank Ltd., Nepalganj, Banke
52	Excel Development Bank Ltd., Birtamod, Jhapa
53	Patan Business & Professional Women, Pulchowk, Lalitpur
54	Chameli Savings & Credit Cooperative, Lalbandi, Sarlahi
55	Gangamala Savings & Credit Cooperative, Chhinchu, Surkhet
56	Bageswari Dev Bank Ltd., Nepalganj, Banke
57	Maitri Multipurpose Cooperative, Tamghas, Gulmi
58	Siddhartha Dev Bank Ltd., Butwal, Palpa

Activities

The main activities of RMDC are providing wholesale credit, institutional strengthening and capacity building supports to MFIs, and training supports to the ultimate borrowers through the concerned MFIs.

Wholesale Credit to MFIs

RMDC provides wholesale credit to MFIs for on-lending to the ultimate borrowers for making investment into viable agriculture and off-farm economic activities. An eligible MFI can apply for loan to RMDC. It has to fill up a loan application form and submit it along with its business plan and documents related to registration, governance and management structure, human resources, position of portfolio, financial statements, etc. Based on the documents and field assessment, the institution is appraised and then a decision is made on the application. The loan size, loan term and repayment schedule are determined and negotiated between RMDC and the MFI based on the latter's business plan and institutional capacity.

Table no.2.5. RMDC's Eligibility Criteria for Lending

Institutions willing to borrow credit from RMDC should fulfill the following requirements.

An organization should

(i) have registered under an appropriate act and received a license for microfinance operation;

(ii) have minimum of one year experience in operating microfinance activities;

(iii) have savings balance at least 5% of the loan outstanding in the 1st year, 10% in the 2nd year, 15% in the 3rd year, and 20% in the 4th year and onward;

(iv) have attained minimum 90% loan recovery rate;

(v) have committed and dynamic executive committee;

(vi) have active and professional management;

(vii) have appropriate management information system;

(viii) have an appropriate business plan;

(ix) have adopted modern accounting system;

(x) have appropriate policies and procedures for implementing and monitoring its credit program;

(xi) have at least 50 active borrowers;

(xii) have at least 25% female borrowers;

(xiii) have minimum financial resources Rs. 250,000;

(xiv) have minimum net-worth of Rs. 100,000;

(xv) have a trend towards self-sufficiency as per the last three years' financial position; and

(xvi) have audited in time.

Institution Building of MFIs

RMDC strengthens institutional capacities of Partner Organizations (Pos) through need based training programs and regular off-sites and on-site supervisions. RMDC also offers loan funds to its Pos for purchase of equipments and vehicles to enhance their physical capacities and thereby to expand outreach. RMDC also offers institutional strengthening to banks, NGOs and cooperatives, which have potentials of developing into viable MFIs and meeting basic standard of RMDC in future.

Table no.2.6. RMDC's operational Approaches for promotion of MFIs

(i) Potential institutions (NGOs, cooperatives, banks) are identified based on their institutional profile, experience and commitment;

(ii) An exposure visit program is organized for executive committee members of the potential organizations to allow them to do self-study and observe best practices of microfinance;

(iii) After the visit, the participating members are invited to take part in a 3-day interaction program, which includes sharing of experiences from participants, discussions on the major issues, essentials of microfinance and steps of implementing microfinance programs, and factors affecting viability and sustainability of MFIs, setting appropriate interest rate, and so on;

(iv) A few field staff of the interested institutions are provided with 2-month long on-site practical training on operational systems at field offices of a successful MFI;

(v) The institutions' staff are also trained on PRA/PWR methodologies, which they can use to assess problems and potentialities for implementing microfinance programs in their respective area, to identify poor households;

(vi) A few officials of the institutions are provided with on-site guidance on preparing their institutions' 3-year business plans;

(vii) The institutions are given on-site consultancies on establishing appropriate operating systems (e.g. accounting, MIS, reporting, monitoring a nd supervision, internal control, etc.) and on conducting pre-group training and center meeting;

(viii) Regular off-site and on-site monitoring and supervision to the borrowing institutions are undertaken to correct shortcomings and boost up their morale and improve performance quality;

(ix) Special on-site technical assistance is also given to an MFI as per its need and demand.

Training supports to ultimate borrowers

RMDC, through its Pos, provides necessary training to their clients for strengthening their groups and improving their entrepreneurial and income generating skills. The training program may include adult literacy, non-formal education, gender sensitization, group development, leadership development, entrepreneurial and occupational skills development etc.

PROJECTS

Rural Microfinance project

RMDC has implemented the Rural Micro Finance Project (RMP), Asian Development Bank funded project, since 1999 and it has been completed on June 30, 2007. The main objectives of the project is the improvement of the socio economic status of the poor specially the woman by improving their access to financial services. The scope project includes (a) provision of revolving line of credit for on-lending to the poor and women (b) institutional strengthening executing agencies and implementing micro finance institutions (c) capacity building of sub-borrowers and beneficiaries. Under the project, RMDC had access to SDR 11.79 million amount of loan fund from ADB for on-lending to the poor households through retail MFIs.

AS of mid-july 2007, RMDC has approved loan amounting Rs.2,122.94 million and disbursed Rs.1,876.77 million to 42 MFIs under the project. During the 7 years of the project, Nepal Resident missions have also expressed high satisfactions over the performance of the project. At the end of the project, RMDC conducted a study on “Impact of Micro finance on the Clients”’ which has shown positive changes in the socio-economic conditions of the participating families.

Community livestock development project (CLDP)

The community livestock project (CLDP) is funded with a loan assistance of ADB. The objective of CLDP is to reduce the incidence of poverty in rural communities of the project area. Department of Livestock (DLS) is the executing agency of the project and it is responsible for overall implementation of all project activities. RMDC is executing agency for implementation of the micro finance component of the project. Under the micro finance component, the project aims at creating access of micro finance services to 69,000 farmers through 100 MFIs . A loan of SDR 36, 32,000.00 is available to RMDC through the government to implement the micro finance activities.

A subsidiary agreement was made between the government of Nepal and RMDC on October 29, 2005. However, the project has been effective only from December 2,2005. the life of the project is six years.

RMDC has identified a number of FINGOs and SCCs to disburse credit to small farmers. As of July 16,2007, RMDC has approved loan amounting Rs. 158.00 million disbursed Rs.34.65 million to 19 MFIs under the project.

Japanese fund for poverty reduction assistance for optimizing productivity of poor water user associations (JFPR Project)

Japanese Fund for Poverty Reduction Assistance for optimizing productivity of poor water user Associations (JFPR Project) is being conducted on the assistance of the grant to the government of Nepal not exceeding the equivalent of US$ 1,000,000.00. The department of irrigation (DOI) takes overall responsibility in coordinating and managing the JFPR project activities. In coordination with the DI, RMDC is responsibilities for implementing the micro finance activities. A grant fund of US$5, 50, 000.00 is budgeted for RMDC for implementation of micro finance activities, i.e. revolving credit fund for seed multiplication and micro enterprises for women. The life of the project is 3.5 years. The project is being implemented in the eastern and the central development regions of the country.**("Annual Report of RMDC"2006-07)**

2.1.5. Regulatory Environment

There are no specific regulations that apply MFIs in Nepal. Until the advent of the Financial Intermediary Societies Act, 1998 (FISA), there was no single Act that was pertinent to micro finance. Rather, one or more Acts govern all institutions that are engaged in microfinance in Nepal. The commercial banks function under the Commercial Bank Act, 1984 and are supervised by NRB. ADBN operates under its own charter and for deposit taking and other commercial banking activities it is supervised by the central bank under the Nepal Rastra Bank Act, 1955. Cooperatives work under the Cooperative Act and some are licensed by NRB for deposit taking under the NRB Act. NGOs operate under the Society Registration Act, 1978, and the Social Welfare Act, 1991, and a few are licensed for deposit taking under the NRB Act. There are a large number of NGOs and over 800 cooperatives undertaking lending and savings mobilization-in the latter case, even from nonmembers. Though under the NRB Act no institution can undertake credit and savings activities without NRB's prior approval, this has been tolerated on account of the importance of microfinance for poverty alleviation and also since the transactions have been considered insignificant in volume.

While poverty alleviation has been an important issue since the 1950s, it is only over the past few years that, with an increasing focus on microfinance and a significant growth of informal sector savings and credit organizations, efforts have been made to develop a more orderly environment for this sector. The first attempt to provide any regulatory basis for financial promotion activity in the country was made when NRB devised the concept of the limited banking license for NGOs and cooperatives. This license provides for supervision by NRB of the registered MFIs in exchange for permission to undertake limited deposit taking from members.

Country to popular perception, however, the limited banking license does not carry with it any right to generate deposits from nonmembers. On the other hand, licensed cooperatives, already generating deposits from nonmembers under the Cooperative Act, have used the stamp of approval implicit in the limited banking license to demonstrate their financial soundness to the general public and, thereby, to fuel their deposit-taking activities.

However, the most recent initiative to provide a regulatory framework to microfinance in Nepal has turned into something of a fiasco. The FISA requires that all NGOs registered under the Registration of Associations Act, 1977 with the objective of working as a financial intermediary are to be registered with NRB and to be regulated by it. Savings and credit organizations are either unregistered or, often, registered under the Cooperatives Act and are, therefore, not covered by this Act. One of the provisions of the FISA is for "the final obligation to meet such financial liability relating to the financial intermediation of the Society as cannot be met from the Society's assets [to] vest in the Bank." At the same time, the Act is silent on the issue of deposit taking/savings mobilization from members of nonmembers by such societies. This has been interpreted by NRB's legal department as a ban on deposit taking by all societies registered under the Act.

Thus, before it can take effect, the FISA has come to be known as a guarantee instrument for lenders to MFIs rather than as a tool for facilitating microfinance. It is widely expected in Nepal that the Act will need to be substantively amended before it can be realistically implemented.

2.1.5. Financial Sector

There are three microfinance sectors in Nepal, **(Joanma Ledger Wood," Critical issue in Nepal's micro finance circumstances", P.6-23)**

I) Informal financial sector

II) Formal financial sector

III) Semi formal financial sector.

All Microfinance institutions, Informal, Formal and Semi formal, provide financial services which help in creating self-employment and income opportunities among the poor.

2.1.5.1 Informal Financial Sector

Most of the informal lenders in Nepal are individual lender such as landlord, merchants, farmer-lenders, goldsmiths, pawn brokers, friends, and relatives. Group informal institutions include dhukuti, dharam bhakari, and guthi. Informal lenders regarding repayments credit without procedural complexities, and have flexibility regarding repayments and collateral which does not exist in the formal sector.

Moneylenders exist in most villages and are also often significant landholders. They tend to lend either with gold or silver as collateral or sometime without collateral but with some implicit arrangement for crop production, labor services, or land as security. The interest charged by money lender is generally very high, starting at 36% per annum and occasionally exceeding 100% per annum. In addition, they often receive either labor services or other small gifts as part of the request for the loans. As a result, loan from moneylenders are generally used for emergency purposes such as medical crises or socio cultural obligations such as weddings and funerals.

Traditional rotating credit groups such as dhikuties, dharma, bhakari, guthies, etc. are well established and widespread in Nepal; they represent a truly local and indigenous response to credit needs. Savings mobilized and credit delivered through informal rotating credit mechanisms like dhikuties represent an enormous level of financial activity, which provides some indication of the resources yet untapped yet the formal and semi-formal sectors. However, their successes and failures have not been well documented in a formal sense.

Dhikuties are groups formed with in villages for the purposes of savings and credit activities. They are based upon the collection of equal amounts of savings collected each month (or other period) which are lent out to each member in a rotating sequence. A bidding process generally determines the rotation where the bid with the highest interest rate receives the loan. Dhikuties have an average membership of 20 to 30 people with individual savings amounts ranging from Rs. 100 to Rs. 1,000. At the end of the rotation, the surplus from interest paid is distributed equally to the members. The main risks are that those borrow will not repay principal or interest due to business setbacks, or that a contributing member will drop out once hr or she has received the group collection.

Dharam bhakari (literally, “welfare storage”) are group grain associations. Each member provides an equal contribution of grain at harvest. He may then “borrow” it in the off- season, repaying at rates between 1.25 and 1.5 times the borrowed amount at the next harvest. These exist among small to medium farmers, and are a good safeguard against starvation. Guthi are cultural heritage associations, common amongst the Newari and some tribal groups. They are like dhikuti in their form of standard collections of amounts from the groups, but accumulated funds are largely used for funerals of community welfare activities such as festivals. The groups decides whether the user pays interest or not on the funds, and whether they are a loan or grant, based on the relatives wealth and situation of the person requesting funds.

2.1.5.2 Formal Sectors

Most activities in the formal financial sector are commercial in nature, resulting in large loan sizes concentrated in industrial productive activities. The vast majority of loans are made to men, as women are not normally involved in larger businesses. “The proportion of rural households reporting borrowing from the formal or institutional sources during 1991/92 is estimated at a low of 8%. Across regions, the proportions are 4%, 8% & 9% for the Mountains, the Hills and the Terai regions respectively.”

Formal sector government financial institutions provide micro finance services only through mandated government programs. Each of these formal financial sector institutions implements government microfinance programs, often with assistance and funding from international donors. The following briefly describes each of these institutions and identifies the government microfinance programs with which each is involved. A full description of the microfinance programs is provided in the next section under Government–Initiated Microfinance Programs and the Semi-Formal Financial Sector.

The Nepal Rastra Bank (NRB) was established in 1956 and is Nepal’s Central Bank. It is responsible for regulating and supervising the country’s formal financial sector. In addition, NRB provides capital to NGOs and RRDBs for on lending through the Rural Self-Reliance Fund. The NRB also mandates commercial banks to lend directly to micro entrepreneurs through the Intensive Banking Program. Under NRB mandate, up to 12% of the loan portfolio of any commercial bank must be lent to priority sector borrowers. Of this 12% up to 2% must be lent either directly or indirectly as micro credits. The Agricultural Development Bank Program of Nepal (ADB/N) was formed in 1968 from the existing Cooperative Bank. It is wholly owned by the government and is the sole financial institution in Nepal specializing in agriculture and rural credit. The ADB/N began collecting deposits in the mid 1980s. The ADB/N operates the small Farmer’s Development Program and the Institutional Development Program. The Nepal Bank Ltd (NBL) was formed in 1937 as a privately owned commercial bank. In the mid 1950’s, the NBL was converted into a semi-government institution with the majority of shares held by HMG(FORMER)(Former) (51%). This was followed by the establishment of the Rastriya Banijya Bank (RBB), a fully – owned government bank, in 1963. These two state-owned commercial banks have a large urban branch network and control over two thirds of the total deposits mobilized in the country.

Their loans are primarily short terming nature, and the smaller ones are mostly for trade credit or social obligations, provided against the hypothecation of gold and silver. These two banks participative in the Intensive Banking Program of the NRB and provide micro- loans to clients of the Production Credit for Rural Women Project. In 1992, HMG(FORMER) established two Regional Rural Development Banks (RRDB), or Grameen Bikas Banks (GBBs), to provide financial services to the rural poor. Two more RRDBs were opened in 1995 and a fifth began operations in late 1996. These banks are based on the Grameen Bank model of Bangladesh and provide credit and savings services to low- income women. The Banks each have paid-up capital of Rs60 million provided by HMG(FORMER) and the Nepal Rastra Bank (75%) and by selected commercial banks (25%). The commercial banks can count this investment and any loans to the RRDBs against sector lending requirements.

2.1.5.3 Semi formal sector

The semi formal financial sector provides micro finance services through NGOs and SCCs. The semi-formal financial sector is described as such because NGOs and SCCs are some times registered entities, but are not regulated nor supervised like formal financial sector institutions.

It is difficult to offer a generalization of the different micro finance models in Nepal as there is substantial overlap of government and non- government programs. However, it is possible to loosely classify them into four models based on their organizational structure. The four models are:

- Government – mandated models implemented through commercial banks and government line agencies;
- NGO/SCC models developed/financed by government and NGOs (external funds);
- Indigenous or self-emerged NGO/SCC models (internal funds);
- Grameen replications.

A) Government – Mandated Models

The major government-mandated models (excluding the RRDBs) implemented through commercial banks and government line agencies include : I) The Intensive Banking Program (IDP) developed by NRB in 1974 mandating commercial banks (including joint venture banks and state-owned banks) to lend a percentage of their outstanding portfolios to priority sectors; II)The Small Farmers Development Program (SFDP) developed by the ADB/N in 1975 to meet the needs of small farmers and other rural poor; III) The Production Credit for Rural Women (PCRW) project implement by the women's Development Division (WDD) of the Ministry of Local Development (MLD) in 1984 with two public commercial banks (NBL and RBB) and UNICEF as their partners, specifically targeted to women.

B) NGO/SCC Models (External Funds)

There are a substantial number of NGOs and SCCs in Nepal providing micro finance services. They can be loosely divided into those which use external funds (provided by the government and / or INGOs), and those that use their own savings (internal funds).

I. Government Programs

There are main government programs, which provide funds to NGOs and SCCs for the delivery of financial services: I) Rural Self-Reliance Fund (RSRF) maintained by the NRB to provide funds to NGOs for on lending to micro entrepreneurs. II) Micro Credit Project for Women (MCPW) funded by the Asian Development Bank aimed at developing a mechanism to use NGOs as credit agents to connect clients to commercial banks. The MCPW program is administered by WDD of MLD and was initiated in1994 as an extension of PCRW, and is actually a hybrid since it uses NGOs to source clients, but the clients borrow directly from commercial banks as per the PCRW. III) Institutional Development Program (IDP) by ADB/N within SFDP; management of the savings and credit activities is handed over to small farmers organizations called Small Farmers Cooperative Ltd. (SFCL). The SFCLs obtain wholesale funds from the ADB/N and provide retail credit to small farmers. These programs differ from the first model-government-mandated model – in that they provide wholesale funds to NGOs/SCCs rather than lending directly to the poor.

II. International NGOs (INGOs)

INGOs actively supporting local NGOs/SCCs in the provision of microfinance activities generally provide some or all of the following services:

- Revolving funds for on lending
- Grants to cover operating costs including staff and administration expenses, rent, and transportation
- Matching funds where by the INGO matches (or provides a multiple of) the amount of savings collected by the NGO/SCC from its members
- Technical assistance including program development, group formation, staff and client training, and financial management

Management INGO-supported NGOs/SCCs focus on reaching the 'poorest of the poor' with financial services. And specifically target women, believing that the benefits of increased economic power will be greater for women since they are generally responsible for the health and education of their children and the welfare of the community itself. However, INGOs frequently combine the delivery of financial services with that of social services. This often results in lower rates of payment, as the social services are usually delivered free of charge while financial services are not. Additionally, when the advisor and colleague becomes debt collector, it is more difficult for the NGO client to receive help if something goes wrong.

III. Indigenous NGO/SCC (internal Funds):-

There are several indigenous saving and credit groups exist in Nepal. They are generally small, unregistered organizations owned and managed by local village members. Decision making is highly participatory and democratic.

Indigenous NGOs/SCCs are, by definition, financially sustainable since they utilize their own funds and cover their minimal operating costs. Most of the NGOs/SCCs have developed simple accounting and reporting systems to suit their requirements. A typical NGO/SCC reporting system includes a loan ledger, income and expenditure records, and some statement of assets and liabilities .Similar to the other models, indigenous NGOs/SCCs also do not records loan losses or adequately assess the quality of their loan portfolios however, since they appear to have very high rates of repayment, this is less of an issue for indigenous NGOs/SCCs.

NGOs/SCCs focus more on maintaining their operations or expanding the number of clients rather than improving their management system such as record keeping, policy making, financial management, auditing, etc. In spite of their ability to achieve financial sustainability, as indigenous NGOs/SCCs grow their institutional viability becomes questionable due to following:

Leadership crisis: The success of many NGOs/SCCs has been found to be attributable to the leadership provided by one or two committed, honest and voluntary members. There is lack of second tier leadership in most NGOs/SCCs, which may result in a lack of institutional viability if the leaders leave.

Lack of the ability to hire full-time employee(s): Many NGOs/SCCs provide microfinance services using voluntary labor. Unlike other community development and social intermediation activities, microfinance services involve cash transactions on a regular and continuous basis. As these activities grow, it is unlikely that voluntary services will be sufficient, particularly in the light of the responsibility and accountability for managing cash.

Lack of capital funds: The potential growth of many NGOs/SCCs is limited due to a lack of available funds for on lending. Savings generated by the members are often not sufficient to meet credit demand. Additional sources of capital funds are required. This could be achieved through the federation of NGOs/SCCs to take advantages of wholesale funding available from the commercial banks or government initiatives. However, at this point, federation of NGOs is not allowed and the federation of SCCs is limited to one federation per district and one national federation.

Weak management system: NGOs/SCCs have been found to have very poor management systems particularly in terms of record keeping, policy making, financial management, auditing, etc. In addition, there appears to be a lack of planning to improve their management capabilities.

Lack of basic physical facilities: Most NGOs/SCCs lack basic facilities such as office space, basic equipment and supplies, etc. required to implement their program and to expand with their clients.

If and when indigenous NGOs/SCCs expand their outreach, they may require external assistance and/ or funding to ensure their viability in the long-term.

IV. The Grameen Bank Model

This Grameen Bank Model was developed in Bangladesh and is being replicated in Nepal through two NGOs, Nirdhan and the Centre for Self-Help Development (CSD), and five government owned Regional Rural Development Banks (RRDBs), or Grameen Bikas banks (GBBs). These banks/NGOs are works to improve access of women to formal credit for income generating activities as a means to reduce their level of poverty.

Grameen Bank replicators (GBR) target rural women from households with less than 0.6 ha. Of land in the Terai and 0.5 ha. Of land in the Hills. About 52,000 women have accessed financial services through RRDBs and the NGO Grameen. The Grameen replications in Nepal target women only, who have incomes of less than Rs.2,500 per year ($46), land of less than 1 acre for their household, and in the case of the NGO Grameens no persons with permanent jobs in the households.

GBRs use groups for the delivery of financial services. They charge 20% interest on loans and pay 8% interest on savings (compulsory).GBRs do not use the savings collected to fund their loan portfolio, preferring to borrow capital from the commercial banks at 6-8%.

The success of GBRs in Nepal is encouraging. Outreach appears to be growing and all are moving towards financial sustainability. However, GBRs are concentrated in the Terai regions. Due to the requirement of weekly meetings and loan repayments, it is unlikely that this model can be expanded to the Hill areas. In addition, government ownership of the RRDBs results in interest rate subsidies being made available to RRDB clients (and not CSD clients). Finally, there has been evidence of increasing political interference in terms of staffing and target areas, which will have a negative effect on viability and overall growth options.

2.1.6. Practice of Micro finance Models in Nepal

A model is a conceptual framework for doing thing in some particular ways. In micro finance, we could term model as uniform or semi uniform modalities practiced at least in more than one location by more than one institution over the period of time. It can also term Micro finance model as common operational modalities being participated by a few institutions at different locations, nationally or internationally.**(Namrata Sharma, Tulsi Uprety, Navaraj Simkhada" Review of micro finance services in hill of Nepal" CMF, August 2002,p. 13-20)**

Informal finance

Informal financial sector can be divided into two groups. I) Traditional non-commercials sources II) Commercial sources

The both sources exist predominantly in both hills and plains of rural Nepal. The traditional non- commercial sources cover the Dhukuti, Dharma Bhakari, Parma, Guthi Saghan and village welfare trusts etc.

The commercial sources comprises of money lenders and pawn shops. They existed both in the past and exist at present day situation as well. Their operation being cheap, they are always there in lending to rural poor. Many people criticize them for charging very high interest rate. But some think that with some advanced methodology they could be potential in rural finance even in the future.

Grameen Bank Model

Grameen Bank Model was developed in Bangladesh by prof. Muhammad Yunus, a professor of economics at Chitageng University. He started this model as an action research project in 1976. But Grameen bank was formally established it in 1983.

After success in the above objectives Grameen Bank established Grameen Trust with an aim of helping replication elsewhere. Nepalese MFI enthusiasts were also attracted to this idea .It was since the year 1990 both government and private sector organizations started replicated Grameen Bank Financial Services (GBFS) in 1991.

Government and NRB jointly established Eastern and Far-western Grameen Banks in 1992. Since government and NRB have established Grameen in all five development regions. Nirdhan has created a formal development Bank called Nirdhan Uthan Bank Ltd. (NUBL).other significant Grameen replication programs are, centre for self-help development (CSD) program, Development Project services Centre (DEPROSC), Chimek, Women's Co-operatives Society (WCS), NERUDO, an NGO involved in micro finance (GBR).

Community Based Models:

Nepal has a history in development activities where various development projects initiated small groups termed as the Community Based Organization(CBOs) or Self Help Groups(SHGs) in the rural/urban areas, their number and functions arenot recorded in detail, but their existence can be seen everywhere. Many of these groups are commenced by various development activities commenced both by the government or NGOs like health, employment, irrigation, community forestry etc. In some cases they are also commenced as saving and credit organizations (SCOs). No matter what, it has been observed that many money and start SCOs are without much experienced in managing the funds they start collecting. CBOs and SCOs arenot formal institution. Some of these group who are mainly promoted by various organizations may chose to resister as formal SCCs with the cooperative department and become formal organization providing microfinance services to their members.

Commercial Bank's programs; IBP (Intensive Banking Program), BWTP (Biseswor with the poor)

As per Nepal Rastra Bank requirement Nepalese commercial bank are required to lend at least 3% of their total loan assets in the deprived sector. Loans not exceeding Rs.30,000.00 to the poor people are considered as loans for the deprived sector. Some banks disburse loans to such communities themselves and some provide this money to MFIs in he form of equity or loans. NBL, RBB and NABIL are engaged in the capital IBP program to some extent .RBB for the same reason has instituted Banking with poor(BETP) model in some of its branches. This is similar to NGO linkage model promoted by APRACA and practiced in some countries. In the recent years political and social situation has not been conducive to the banks and program has suffered a lot.

Local Governance Program(LGP)/ PDDP:

The main objectives of LGP are to enhance local governance, better management of local development and support in poverty alleviation. It also promotes community organizations, entrepreneurial skills, empowerment of people and gain institutional strengths through social mobilization and helps to achieve self reliant/self governed institutions.

PDDP (Participatory District Development Program) also focuses on participation of local people, using politically elected bodies as well to develop various sectors in a given area and also includes economic awareness and development. Both of these could be termed as co-coordinated program rather than model.

Government Managed Program ie. Bisheswor with the poor, Women's Awareness (Jagriti) etc.:

This program was launched in 1999/2000 year's budget with a budget of Rs.100.00 million and Rs.80 million with an aim of reaching 20500annually for five years time and 65400 women of 940 VDCs in the first year itself, respectively. This program was highly subsidized (in term of announcement but not having mechanism of providing it to the implementing agencies). The program could be implemented as desired and now they will be merged in the activity of Poverty Alleviation Fund (PAF) to be created soon.

SFDP and SFCL:

ADB/N introduction SFDP in the year 1975 as group based targeted (People having not over 0.5 hector of Land or per capita income not exceeding Rs.25000) micro finance project. Currently it has 242 sub-project offices in 75 districts covering 540VDCs. The total beneficiaries are estimated to be 166000 (male 131000 and female 35000). This project was supported by IFAD, GTZ etc. in different point of time SFCL as sustainable micro finance model. By 2002 mid January, 106 expected that transformation from SFDP to SFCL will improve scale of economy, recovery rate (in SFDP it was as low as 39 p.c) and development institutional base. SFDP is a focused program and SFCL is a model, but it has used SCO model as a tool in the transformation process.

PCRW/MCPW

Initial in 1982 (PCRW) by HMG (FORMER), UNICEF and IFAD it was a coordinated program to develop skills, income and status of woman in rural areas. It served more than 66000 women, disbursed credit of Rs.663 million through banks. Its main problem was poor recovery rate (less than 55%). Due to subsidization and high cost of operation long term sustainability of the program could not be envisaged and the program was at stand still. With improvement in PCRW mechanism a new project called Micro finance project for woman. (MCPW) was launched in 1994 by HMG (FORMER) in collaboration with ADB/M. It is also a coordinated project with banks, line agencies. But to cut the high cost of operation NGOs are brought into as Financial Intermediaries between members are banks. NGOs participate in three different capacities in the project as social mobilizer, credit agent and FIs. This project focuses both urban and rural woman. The major weakness of the project is high cost due to the coverage in highly scattered manner; some from of subsidy is also creating some concern for its long term viability. Both the program could not be termed as separate Micro finance model. Both of them have used development model and more recently MCPW has used FINGO model for its sustainability purpose.

Village Banking Model

Pact, Nepal started Woman's Empowerment Program (WEP) in 1995 in collaboration with USAID. Since 1999 it started Village Banking (VB) model in 2 hill and 19 plain districts of Nepal. This model was replication if VB model practiced in many Latin American Countries. Its main aim is to deliver micro financial serviced at lower cost, using large group of people and focusing on saving first approach. Around 35000 women out of 125000 involved in WEP are engaged in VB activity. Its modality group base activity in large size (20-40 people in a group). Its second most important feature is 'saving first' approach. Another important feature include; small amount of saving once a week, loan to group members and non-members, one loan at a time, loan for petty business, loan period 4-16weeks, interest rate 2%per month to member and 3% for non-members, saving as collateral and transparent accounting system. Its main problem is linkage development (linkages with formal financial and other institutions). Due to donors short term program lack of linkages may create problems to the VB groups. VBs being most economical model its needs nurturing for a reasonable time. In absence of appropriate monitoring, guidance and support they may be in problem. These groups could be considered as SCOs/SCCs.

FINGO Model

Nepal Rastra Bank started providing limited banking license to some NGOs active in the field of Micro finance since 1990s. Nirdhan, CSD DEPROSC, Chimek, RRN and Many NGOs started their Micro finance programs the poorest people. Their operational methods were similar and different in some parameters. They used to extend credit directly to clients in the plain and promote SCOs/SCCs in the hills for long term sustainability. After implementation of MCPE, ADB/M promoted the idea of FINGO. NRB, CECI-CMF, HMG(FORMER) and ADB/Mall worked together to bring FINGO Act, which came into existence in 1998.It provided opportunities for NGOs act as FI, borrow funds from local and foreign institutions and as on fund to poor people in a group based on targeted approach. This law was not considered useful by its users due to some weakness. As it did not allowed saving services Micro finance activities cannot grow and become sustainable. This Act was revised by parliament and amended on August 2002. Now the FINGO are allowed to mobilize member’s saving. Some other problem areas are also rectified and therefore it is expected that this model becomes popular in the days ahead.

Other Programs

There are a number of other programs, in small scale, by donors or local agencies, with limited outreach. Such programs include TLDP, CFISP, PAPWT, small SHGs and SCOs (in large numbers), informal finance sources etc. Their impact on outreach is not easy to calculate, but definitely have some impact. Some of these projects are mixed in nature (micro and non micro finance, woman only or mixed, poor only or mixed etc.)

Creation of Apex Institution/Fund

Since 1990s rural self Reliance Fund (RSRF) was established by HMG (FORMER)/N and implemented by NRB. Its main objective is to strengthen SCCs and NGOs by providing cheap wholesale loans to reduce poverty in Nepal. This fund has provided loan to 100 and more institutions for on lending purposes.

Similarly, RMDC is also work under it, which was established in 1998 as part of Rural Financial Project (REP) in active collaboration if HMG (FORMER) and ADB/N with the some purpose. Its aim is clearer i.e. providing wholesale fund to MFIs, help toward institutional development. At the advent of tenth national plan HMG (FORMER) has purposed to establish a 'Poverty Alleviation FUND' (PAF). Donor agencies are expected to participation in Nepal's effort of poverty reduction through this fund. The fund will be used for on lending fund, rural infrastructure development and capacity building.

Social Development Model

Many organizations local or donors, active in development field enter into Micro finance programs gradually. But there are smaller unnoticed saving and credit programs being implemented by different agencies. For example: Park to people, SNV Supported Program, participatory District Development Program (PDDP), Local Governance Program (LGP), Action AID supported program, ICIMOD activity local community supported saving and credit programs etc.

These all programs may not be considered as models. But these are common operational modalities being practiced by micro finance in Nepal.

2.2. Review of Articles

Articles are not full research framework for giving complete direction to the concerned authorities however it gives co-operation to the researcher. So it is taken into the account for the literature review that how many persons have written so many articles in favor the micro finance and it's loan procedure and it's effectiveness to reduce poverty in least development country like Nepal. There are very few articles relating micro finance are published in Nepal. Some of them, which are significant in this study, have drawn in this section.

"In Nepal, over half a dozen micro credits institution has been in operation since the early 1990s. These institutions now serve a total 223,521 poor households with the total cumulative loan disbursement of Rs. 6.69 billion." **(Staff Reporter, 'Micro finance lends support to rural economy", The Rising Nepal, April 20, 2002)**

"The Women's Empowerment Program now has more than 123,000 participants, and it has helped them set up some 1,000 village banks, in a dramatic departure from traditional micro finance programs".**(One country newsletter, Vol. 12 issue 4/January-March 2001).**

"It has been proved in many countries that investments in rural development have been successful and has enriched the country in due course of time. The economy and prosperity of a country is based in its villages and rural areas. And if these countryside are developed properly; what we call rural finance, the country's economy would surely receive a boost." **(Indra Adhikari, "Micro finance lends support to rural economy", The Rising Nepal, January 29, 2003).**

"Nimal Fernando, ADB Lead Rural finance Specialist, says "there has been uneasiness among promoters of micro finance about failure to reach the poorest defined as those in the bottom half below the poverty line. The core issue is whether it is realistic to expert that micro finance services can be provided to the poorest on a sustainable and large-scale basis," **(Micro Finance can help reduce poverty", The Himalayan Times, April 12, 2004).**

"Asian Development Bank (ADB) always does their job to help micro finance programs in Nepal. Recently (ADB) granted $36 million loan to Nepal for implementation of their different projects and programmes. Beyond that on is micro finance. A slab of $20 million was provide for micro finance for reducing poverty in rural communities raising awareness and involving woman and poor farmers n livestock development and management activities. The development of lice stock and under the ministry of Agriculture and the rural Micro Finance development Centre

(RMDC) will be execute the project" **("ADB grants $ 36m aid", The Himalayan Times, April 8, 2004).**

Micro credit summit of 1997 set the goal to reach 100 million poorest families with micro credit. Micro credit campaign show that by the end of 2001 more than 54 million families around the world have benefited from micro credit of this number 268 million are among the poorest. **(Newsletter by Grameen Trust, Jan 2003)**

"Though there are numerous institution working in the rural financing, (Asian Development Bank Nepal) ADB.N occupies the major portion of credibility today. It has the share of 60 to 70 of the rural finance. The rural credit Review survey conducted by the Nepal Rastra Bank, with financial support of Asian development Bank Nepal, Manila (ADB/N) in 1991-92 revealed that ADB/N services reach 85% of the loan borrowing families in the rural areas. But these services reach them through informal sources. For instance, a person taken loans from ADB/N and he then distributes them to the villagers at higher rate of interest than he has to pay to the bank.

In spite of its effectiveness, there are many problems and obstacles that these banks, institutions and co-operatives societies have to face such as political instability, terrorist activities and inadequate infrastructure. They system has not been as effectives as per the target set in the initial stage. This is because of the lack of market and access of the produced goods to the towns. Inadequate financial structure, various institutional weaknesses, weak cooperative and financial governance, lack of proper auditing and accounting systems, improper management and information system and inadequate regularity and supervisory environment and framework are some of the drawbacks seen in the rural financing in Nepal". **(Indra Adhikari, "Micro finance lends support to rural economy", The Rising Nepal, January 29, 2003)**

"Micro finance was an effective tool alleviates poverty and transforms society." According to national planning commissions vice Prithvi raj Ligal "poverty alleviation is the prime goal of the 10th five year plan. Micro finance can be a powerful tool to achieve this goal. We are determined to push ahead micro finance schemes aggressively in the next five years. He added not all micro finance providers were equally successful and asked the less successful ones to learn from others experience. They should take care to reduce overheads and keep themselves secure." "Resource won't be problem; they can pool if necessary" **(Staff Reporter, "Micro finance lends support to rural economy", The Rising Nepal, April 20, 2002).**

According to chief Executive Officer of RMDC Shankar Man Shrestha, "policy makers had not recognized the importance of micro finance despite its capacity to build up the national economy. Micro finance can raise the working class people into entrepreneurs, but it has yet to get the due recognition." "Micro credit providers worked transparently and provided loans directly to the needy people without collateral. There is little change of leakage and corruption in micro credit programmes." **(Staff Reporter, "Micro finance lends support to rural economy", The Rising Nepal, April 20, 2002).**

According to Dr. Richard Vokes, Resident Representative, Asian Development Bank, "In the financial sector, the focus of ABD support is on improving the legal and regulatory framework and the sustainability of the non-bank financial sector, in particular the development banks and the micro finance sector. At the same time, the World Bank is providing support in the commercial banking reform while the IMF is supporting the Government's efforts to improve the overall regulatory and supervision environment and strengthen the capacity of the Nepal Rastra Bank," "while corporate and financial sector reform undoubtedly represent a great challenge to the region and Nepal, an even greater challenge is the task of improving the quality of life of the millions of people who remain in poverty. According to a commonly used definition of poverty –those who live on less than US$ 1 a day – about 900 million people were poor in 1998. This is about twice as many poor people as in the rest of the developing world combined," **("Asian Development Outlook 2000" (ADO), A Political & Business Weekly, April 27th - May 3rd 2000).**

According to Dr. Tilak Rawal, The micro finance sector is gaining ground in the rural areas of Nepal as a solution to the economic problems of the rural masses. "he highlighting the importance of this sector" micro finance is the key to poverty elimination and lot of opportunities are open to the rural masses because of proper resource mobilization under this concept." **("Role of Micro Finance Highlighted", A political & business weekly, edition of Feb 10-16, 2000).**

According to Stuart Rutherford, founder chairperson of save, Bangladesh," The success of the micro finance sector depends very much on the management of money. The extremely low saving rates in South Asian region is because of the presence of a large number of money lenders. **("Role of Micro Finance Highlighted", A political & business weekly, edition of feb 10-16, 2000)**

Now a day's Micro finance became very effective part of development. All financial institution directly or indirectly connected to micro finances. Micro-finance is the banking term used to refer to different methods for giving poor people access to financial services. More than 20 years' experience of micro-financing around the world shows that poor people with little education are reliable borrowers who invest wisely and are willing to save if given the chance. **("Micro Finance in Nepal" NCM Business Magazine).**

"Micro finance is based on the concept that the poor can save, are creative, resourceful, and disciplined, and are also participants in development. The repayment rate is over 95%, and attendance at the weekly center meetings is near 100%. At these meeting, borrowers receive through education on the necessity of repaying the borrowed funds." **(Professor Ritsumeikan, "A paper in microfinance in Japan", Asia Pacific University).**

"If it were true that the poor were just like the rich but with less money, the global situation would be vastly easier than it is. As it happens, the poor live in different ecological zones, face different health conditions and must overcome agronomic limitations that very different from those of rich countries. Those differences, indeed, are often a fundamental cause of president poverty." **(Jeffrey Sachs,"The Economist", 14th August, 1999 / P.17)**

"Linda Mayoux, from open university, UK .Study on "Woman's caucus: Recommendations on Micro Finance Programs" **(Newsletter Published in Outreach 2000:4)**

Linda Mayoux gave priorities in evidence of the impact on gender relations of micro finance programs. She focused in these points:

There is an urgent need to look at how the negative impacts of micro finance will be for the reinforced by some of the commonly agreed principles of financial sustainability best practice currently being imposed by donors, in particular:

- © High interest rates and service charges to cover costs of delivery;
- © Rapid program growth to benefit from economies of scale;
- © Reducing staff and staff costs through narrow focus on micro finance;
- © Reducing complementary services;

Use of ‘voluntary’ contributions of clients and groups to identify eligible borrowers, ensure repayment and decrease costs of service delivery;

Failure to incorporate empowerment indicators in Management Information Systems (MIS).

She pointed out, there are a number of ways in which women’s empowerment and sustainability could be increased.

- Repayment schedules and interest rates to maximize impact on incomes;
- Registration of assets used as collateral or purchased with loans in women’s names or in joint names;
- Incorporating clear strategies for woman’s graduation to larger loans;
- ‘Multiple choice’ options based on participatory consultation including loans for new activities, health, education, housing etc;

Range of savings facilities which include higher interest deposits with more restricted access

Outreach and advertising of loan availability to women and women’s groups.

She also comments on issue for donors “Increasing impact will require changes in donor policy. Donors need to include empowerment concerns in all funding guidelines, monitoring and evaluation and program support. Micro finance itself can only make a marginal contribution to women's empowerment and poverty alleviation without explicit support for women's grass roots movements explicitly addressing gender inequality and mainstream the concerns of poor woman in all macro level economic and social policy."

She also tried to focus on traditional Credit Systems and Rural Banks:

Traditional Credit Systems of Rural Women need to be recognized and accepted as one component of the financial system of fund distribution (Saving and credit).

Governments should approve the establishment of Rural women Banks owned by the rural women farmers with their tradition of wealth creation methodology.

The main focused points of her article were gender issue, empowerment of woman and sustainability of micro finance. They plays very crucial role in development of micro finance. There is an urgent need for more explicit measures to address all these subordination both at the enterprise and house hold levels.

2.3. Review of Dissertations/ thesis

There are very few dissertations written by various researchers in previous years. Some of them which are supported to be relevant have been reviewed and presented in this section.

Mr. William F. Steel and Stephanie Charitonenko have conducted the thesis entitled "Rural Financial Services: Implementing the bank's strategies to reach the rural poor" in March, 2003.

The main objectives of the study were as follows:

To seek to expand access by the rural poor to all suitable diversity of products and institutions that feel the financial needs of low income rural client in income generation and reduction of vulnerability.

To explore the characteristics of rural financial markets and constraint to their development.

To review recent implementation experience of bank RMF operations and emerging issues.

To develop approaches for strengthen implementation of the bank's strategy for rural financial market development at the level of macro policies, institutions, communities and clients.

To focus on the access of the rural poor to financial services and development of the capacities of rural and micro finance institution RMFIs to deliver services.

To elaborate rural finance aspects of the World Bank's rural development strategy by giving an overview of recent implementation experience, discussion current issues, and highlighting priorities for the future

To articulate how the bank views current base practices in rural finance and attempts to incorporate them into it's operation, as a common frame of reference for policy maker in client countries, bank staff, and other donor agencies.

To prepare an operational framework for the bank and it's regional operations to revitalize rural development activities

The main conclusion of the research was:

This study elaborates rural finance aspects of the World Bank's rural development strategy by giving an overview of recent implementation experience, discussing current issues, and highlighting priorities for the future. The wide range of rural finance issues discussed in this paper can be grouped into three critical areas that confront task managers in variety of sectors in trying to respond to the demands of developing countries for assistance in rural development.

Achieving real sector objectives in agriculture and rural infrastructure;

Commercializing micro finance in rural areas; and

Addressing problems of resource transfer to the very poor, Post-conflict situations, and HIV/AIDS.

This paper is intended to chart a course that will be illuminated through subsequent more detailed operational notes and guidelines on particular issues, drawing on lessons of experience.

The emphasis of project is supports the financial systems approach to developing rural finance based on the principle that commercially viable institutions are most likely to reach large numbers of clients on sustained basis and building the capacity of RMFIs to respond to demands from rural households enterprises. On the whole, the research is focused on reaching reliable access to credit when needed is more important to stallholders and the poor than the interest rate and that savings mobilization is an effective for expanding outreach and achieving financial self sustainability.

A research conducted by **Armin Hofmann (German Technical Cooperation - GTZ Nepal)** and **Helmut Grossmann (Free-lance Consultant)** with the Research support by Eugen Doce (Bankakademie International, Frankfurt) Kathmandu / Frankfurt, December 2005 in the topic "RURAL FINANCE IN CONFLICT ENVIRONMENTS– EXPERIENCES FROM NEPAL'S SMALL-FARMER COOPERATIVES LIMITED (SFCL) mostly focuses how the Small Farmer Cooperatives Limited (SFCLs) of Nepal have reacted to the conflict in the country.
The Conflict has severely affected government-owned rural banks and MFIs whereas community-owned cooperatives have survived fairly well. The Community Based Co-operatives are less affected by the conflict due to the following reasons.

— Co-operatives are owned and managed by the community people themselves. Local people's financial needs are fulfilled by the community based co-operatives. If rebels attack these co-operatives, they will be in threat of losing the community's support.
— Community based co-operatives are more transparent than other financial institutions and their members have contacts with local rebels and security personnel.
— Most of the lower cadres of the Maoist rebels are from socially excluded and disadvantaged groups, similar to the members of community based co-operatives.
— One of the Maoist political objectives is socio-economic development through community owned co-operatives.

The above study further explains the main reason of growth of MFIs in the conflict was found to be the followings.

- MFIs with active members, capable leaders and sound practices can even grow during the conflict.

- Promoting good practices, women empowerment and social inclusion will help MFIs to transform internal and external conflicts.
- Cooperative Federations help their members to cope with the conflict.

Mr. Ulrich Wehnert and Roshan Shakya of Rural Micro Finance Nepal (RUFIN) has conducted research on topic “Micro Finance and Armed Conflict in Nepal: The Adverse Effects of the Insurgency on the Small Farmer Cooperatives Ltd.(SCFLs)”in January 2003.

The main **objective of research** was as follows:

- To provide information about present ongoing conflict in Nepal
- To give the overview of the rural financial sector in Nepal and outlines some recent developments.
- To analyze of the financial performance of the small Farmer Cooperatives Ltd.within the context of Nepal’s armed Conflict.
- To focus on adverse effects of the Maoist insurgency on Financial Performance of Small Farmers Cooperatives Ltd.(SCFLs)
- To attempt to reveal some of the coping strstegies of these grassroots organization in relations to conflicts.

The **main findings** of this research were:

The main reasons of armed conflict are inequitable social-economic and political access, bad governance/corruption and poverty.

The costs of the conflict are estimated to be around 8-10% of Nepal’s gross domestic product. The banking sector in particular, with its exposed branch network in the rural areas, has been prime target of the Maoist insurgency.

The financial institutions are facing higher costs due to reconstruction efforts, branch staff is often in state of fear and continuous tension due to security concerns. Thus, consolidating or moving towards institutional sustainability in the present context of Nepal is a veritable challenge for all financial institutions.

With regard to the recent development of small farmer cooperatives Ltd (SFCLS), team has arrived in the following conclusions.

With around 73,000 rural household members, the 125 small farmer cooperatives ltd. (SCFLs) could expand their share in the rural financial market to more than 10%. Despite the relative slow transformation process, small farmer cooperatives Ltd. (SCFLs) are one of the Nepal's fastest growing grassroots microfinance models.

The path towards profitability of small farmer cooperatives Ltd.(SCFLs),as seen prior to the year 2000,is clearly interrupted. Major financial indicators such as the financial and operational self sufficiency ratios, the loan portfolio quality and financial margins have decreased over the last couple of years. The average financial self sufficiency ratio for our 77 SCFL sample stands now at 85% as of July 2002, compared to 104% by July 2000.

The reason for the decline in performance can be attributed to the activities of the Maoist insurgents. Out of 125 small farmer cooperatives ltd. (SFCLs), 34 have been attacked by Maoists, six small farmer cooperative ltd. (SFCLs),lost their offices through fire; in all cases important documents were destroyed. On the one hand, the local maoist commanders are pressuring the small farmer cooperatives ltd. (SCFLs)to lower the loan interest rates; on the other hand the Maoists are encouraging the farmers not to repay the loans.

There is much speculation as to the reason why small farmer cooperatives ltd.(SFCLs) have become the targets of the Maoists. For one, with the ever increasing escalation of the conflict, the Maoists have become more hostile towards community and development work in general. The more practical argument suggests that the small farmer cooperatives ltd. (SCFLs)are perceived by the Maoists as an extension of the ADBN, an institution, which since the beginning of the conflict in 1996, has been a prime target. By destroying the loan records of ADBN's branches, the Maoists assume that the farmers will not have to repay the loans.

The small farmer cooperatives ltd. (SFCLs), attacked and non-attacked, are trying to cope with the present conflict in many ways. Some of the coping mechanisms identified by the study team are the following :a) information campaign at local, district and national level b) indirect dialogue with the Maoists on local level c)special security arrangement for cash and file management temporary transfer of operation to district headquarters and the immediate reconstruction, rehabilitation and re-launching of activities.

The immediate re-launching of the SFCL services, despites threats and warnings of the Maoists, is one of the most amazing and encouraging findings of the study team. Thirty out of 34 attacked small Farmer Cooperatives Ltd.(SFCLs)are up and running business and services again. Most of them are heading towards modest recovery. This fact is even more impressive it we look at the 81 SPOs of the ADBN, which were destroyed by the Maoists. Most of them had to be closed or merged with the branches or shifted to their district headquarters after the attacks.

The members' trust (or distrust) will decide on the destiny of the grassroots micro finance institutions. Despite the crisis, small farmer co-operatives Ltd.(SCFLs)evidenced increasing deposits. Paid up capital and outstanding loans as the members' manifestations of confidence in their organizations.

This study was based on 77 small farmer Cooperatives Ltd.of Maoists conflict areas. In this study, research has been done to analyze how grassroots micro finance institutions cope within the context of ongoing armed conflicts and how they restart there operations after attack **(Mr. Whenert and Shakya(Rufin),2003 : 1-3,20,23-25)**

Mr. Joanna ledger wood of micro finance international, Canada and Development Project Service Centre, Nepal (DEPROSC-NEPAL) (1977) has jointly conducted research on "Critical Issues in Nepal's Micro Finance Circumstances."

The specific **objective** of this study was:

To create the circumstances regarding current micro finance activities and create a "Snapshot" of the micro finance situation.

To identify and confirm critical issues in micro finance in Nepal

To suggest means of creating favorable conditions to support both expansion to poor groups not current served (Particularly Woman), and mechanisms to improve the long term sustainability of micro finance institutions.

To examine the effectiveness and outreach of micro finance in Nepal, leading to the identification of critical issues currently faced by these organizations.

In particular, it is necessary to identify which models work best for both expansion and sustainable provision of micro finance services to those who need it most-rural poor women. The critical issues identified include:

Financial viability of micro finance institutions, including financial self sufficiency, financial reporting and subsidies;

Transformation of government programs from retail banking to wholesale banking;

Expansion of provision of services to the hills;

Encroachment or unfair competition between micro finance institutions;

Lack of appropriate institutional structures and the inability to form a federation of micro-finance institutions.

This study examines the current circumstances of micro finance in Nepal, assesses the critical issues, and provides recommendations to improve the efficiency and effectiveness of the micro finance sectors.

The main **findings of this study** were:

Micro finance organizations in Nepal appreciate the costs and benefits associated with micro finance. However, outreach is limited, particularly in the remote hill areas, and financial management is poor, leading to micro finance institutions which are largely unsustainable over the longer term.

The micro finance sector in Nepal is characterized by a social service approach rather than a business approach. Continued reference to micro fiancé clients as beneficiaries is characteristic of a ‘Social banking’ approach rather than sustainable ‘client focused’ financial intermediation.

A number of subsidies are provided to micro finance institutions in Nepal, including subsidized capital for lending, technical assistance, and government interest rate subsidies to borrowers. Subsidies should only be provided for capacity building of institutions, developing organizational capabilities of groups, and in isolated circumstances, for initial capital funds for on lending.

The government and donors support the development of local NGOs/SCCs (Saving and credit cooperatives) in the hill areas using village banking model designed in Latin America and West Africa, and community loan finds. The Grameen shave also proposed modifications such as subcontracting local individuals for service provision, and this type of experimentation can be encouraged. Continued support may be required to provide incentives for organizations to work in remote areas.

Most microfinance organizations in Nepal concentrate their services in the Terai (Lowlands) area. This has lead to the duplication of services and claims of ‘encroachment’ from some institutions, particularly in light of the subsidies accepted on behalf of some borrowers (government programs) and not others. Field visits indicate that encroachment to date is small and localized in the eastern Terai. It is suggested that a central information mechanism be established to enable credit organizations to share names of borrowers or villages accessing services from each micro finance institution. In addition, once interest rate subsidies are removed and as each institution clearly defines the target market and designs its services accordingly, encroachment should no longer be an issue.

The lack of an appropriate institutional structure for micro finance organizations in Nepal and the inability of cooperatives to form more than one federation are seen as impediments to effective financial intermediation for the poor. So legal reforms are required to establish an institutional structure that takes into account the needs and characteristics of micro finance institutions and to enable cooperatives and NGOs to form federations freely, and according to their specific needs.

This study is conducted to summarize the critical issues of micro finance organizations and solutions to these are proposed and specific recommendations for government, donors and micro finance and micro finance practitioners are provided.(March 1997)

Mr.Laxman Chalise conducted the research entitled **"Performance of Grameen Bikas Bank, 2004**.The specific objectives of this study was:

- To provide the conceptual thought on Grameen Bikash Bank and its operation.
- To examine the current issue of Grameen Bikash Bank
- To evaluate the progress of Grameen Bikash Bank.
- To suggest the measures for more effective implementation of the Grameen Bikash Bank on the basis of findings.

Main findings of this thesis were:

1. The financial income was increasing in higher rate than operating cost increment
2. There was positive trend between no of loans account, loan disbursement account, loan collection and loan outstanding account.
3. PGBB was the highest performing bank in terms of saving account and volume of savings.
4. All GBB outstanding ratios were in completely good position.
5. General indicators of GBBs were more performing in initial period.
6. The efficiency of the employees of all GBBs was not so satisfactory level.
7. Except PA-GBB in recent two years, all others banks in the study period were in loss situation.
8. All banks were not meeting given standard and norms in terms of branch and employees in the period of 2001/02 in most of the cases.
9. The structural reform program 2058 was seems satisfactory most of the programs were in implementation.

2.4. Review of Web sites

From Microfinance to Macro Change: Highlights from the Panel Discussion

The intimate link between poverty, poor health and inequality is widely acknowledged. Addressing these three issues together through microfinance programmers, coupled with health education or services, was the subject of a panel discussion hosted by UNFPA and the Micro credit Summit Campaign in conjunction with the 50th Session of the Commission on the Status of Women (March 2006).

Microfinance – a major development success story of the 1990s – means offering small loans at reasonable rates to poor people, usually women who would not qualify for conventional loans, to help them start or improve small-scale businesses. Groups of borrowers mutually guarantee each others loans and learn basic business principles. Increasingly, their group meetings are also used as an opportunity to educate and inform women.

A new publication, From Microfinance to Macro Change calls for combining health education with microfinance to empower women and reduce poverty. The publication offers evidence that this strategy, taken to scale, is one of the most promising and cost-effective ways to address the Millennium Development Goals. The following panelists talked about the power of microfinance to affect the lives of women, their families, their communities and the world.

Ambassador Iftekar Chowdhury, Permanent Representative from the Mission of the People's Republic of Bangladesh to the United Nations

Poverty reduction is one of the most challenging tasks for humanity. Microfinance teaches us that the poor have the innate ability and creativity to work them out of poverty, given the opportunity. It illustrates that the simplest of concepts can effect profound changes in society.

Bangladesh is considered a thought leader in this field. Its major microfinance institutions reach 15 million clients, resulting in better family life for 75 million – that's more than half the population.

Micro credit is only a means to an end. When it is packaged with education and services it can bring about a sea-change in the life of clients, allowing them a way out of the claptrap of poverty. But there is a critical need for an integration of complementary services. The multidimensional aspects of poverty require multi-pronged solutions.

Micro credit can be a great leveler in traditional societies like Bangladesh. Empowering women financially led to political empowerment. It caused a transformation of society that marginalized extremist thinking and action. It achieved a reformation in spiritual thinking.

Thoraya A. Obaid, Executive Director, UNFPA

As I reflect on the profound impact this work can have, I am reminded of a story from Columbia University Professor, Jeffrey Sachs' recent book, The End of Poverty, where Sachs describes visiting BRAC microcredit clients in Bangladesh and learning that the women all had, or planned to have, no more than two children each. Sachs says:

Perhaps more amazing than the stories of how microfinance was fueling small-scale businesses, were the women's attitudes to child rearing…Here was a group where the average number of children for these mothers was between one and two children…This social norm was new, a demonstration of a change of outlook and possibility so dramatic that Dr. Allan Rosenfield [the Dean of the Columbia University School of Public Health] dwelt on it throughout the rest of his visit….he remembered vividly the days when Bangladeshi rural women would typically have had six or seven children.

Dean Rosenfield was stunned by this transformation, but it is the sort of transformation that we will see more and more as an increasing number of women worldwide gain access to microfinance that is integrated with health education. This is the case because with increased status, independence, income and negotiating power, women are better able to exercise their right to sexual and reproductive health. And when women are better off, so are families and societies. Women's empowerment and participation is essential to economic growth, democracy and social justice and human rights.

Sam Daley-Harris, Director of the Microcredit Summit Campaign

Sometimes we forget how revolutionary microcredit is. When banks lent to the rich microcredit programmes lent to the poor. When banks lent to men, microcredit programmes lent to women. When banks made large loans, microcredit programmes made small ones. When banks required collateral, microcredit loans were collateral free. When banks required a lot of paperwork, microcredit loans were illiterate-friendly. When clients had to come to the bank, microbankers went to the clients.

The Microcredit Summit Campaign is passionate about breaking with business as usual in international development – by making sure that the very poor aren't excluded as they often are. We are also passionate about scaling up action as evidenced in our goal to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005.

Several years ago two friends of mine were speaking with a group of 40 clients at a micro-bank in South Asia. Through the translator, they asked the 40 women what impact the bank had had on the husbands of the non-borrowers; not their husbands, but the husbands of women who are not with the bank. The clients said, 'Before we took our loans, our husbands were day-laborers, working for others whenever they could find work. When we took our loans our husbands stopped being day-laborers and worked with us – bicycle rickshaw, husking rice, growing garlic on leased land. This caused a shortage of day-laborers in this area, so the husbands of the non-borrowers who were day-laborers—their wages went up.' That was the impact of this bank on the husbands of the non-borrowers.

Imagine what might happen when 100 million of the world's poorest families are reached. How many other families might benefit who are not among the 100 million reached? And how might that outreach empower women and their families even more if they are armed with education in reproductive health and other health information? (WWW.UNFPA.ORG,13TH MARCH, 2008)

In the policy research working papers "Micro finance and poverty", estimate the long run impact of Micro Finance on household consumption and poverty in Bangladesh.This paper used household panel data from Bangladesh to address three issues.

It will determine whether the poor who lack both physical (Such as land) and human capital (Such as education) actually participate more micro finance programs

This paper will assess the long term impacts of micro finance on poverty.

It will access the aggregate impact of micro finance to determine if the program is helping the poor beyond program participation.

Sue wheat writes an article in “resurgence Magazine” about “small Loan”. She tried to find the answer to world poverty probably features as top of the collective wish list for humanity. Every so often solutions are proposed to halt this never ending struggle.”

The latest idea is rooted in the faith of missionaries, the paternalism of aid or the domination of technology over nature, but good economic sense-providing the poor with small loans to enable them to step out of poverty through their own work and resourcefulness. **(Resurgence Magazine, http://resurgence.gn.apc.org/articles/wheat.htm)**

2.5. Research Gap

The study on micro finance in Nepal by the students is very little and negligible. Some other institutional studies are done for the own use as per their requirement. So, the required references for different purpose cannot be found easily. The little studies available are mostly focused on empowerment of rural women through micro credit. Some studies were found to be touching with a decade longer Maoist conflict in Nepal. Like wise some studies were found to be touching with development of country as well as micro finance. No studies were found to be related with micro finance loan performances of any MFIs. So, this study focusing the loan performance of RMDC, Nepal could be useful and effective for the further study as well as it will be new step forward towards research in the field of micro finance.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction:

This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. ‘Research Methodology’ is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. “Research methodology” refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view”. So, it is a way presenting the collected data with meaningful analysis.

Research means to research the problem again and again to find out something more about the problem.”

Similarly, methodology refers the various steps that are generally adopted by a research in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically so that we can solve the research problem.

This chapter deals to the methodology adopted and implied for the resources used in achieving the pre determined objectives as start in the earlier chapter. Thus this chapter contains: Research Design, Sources of Data and information, Data collection techniques, and statistical tools used.

3.2 Research Design:

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”

Research design is the conceptual framework created by the researcher within which the research will be conducted and will obtain the answer to the research questions. The researcher makes research design before undertaking the research work, for saving the time of study. We can also explain it as plan of an activity that in the final analysis would constitute a research study.

According to P.V.Yong it is the logical and systematic planning and directory of a piece of research. The research design in a way tells what observations to make, how to make then how to analyze the quantitative presentation of the observations. It provides only a guideline for the right direction in order to achieve the goal.

A well settled research design is necessary to fulfill the objective of the study. Generally, research design means definite procedures and techniques that guide to sufficient way for analyzing and evaluating the study. The main objective of this study is to evaluate the loan performance of RMDC Nepal and the model applied by RMDC and its MFIs, so this study attempts to analyze the different factors relating to loan performance namely funds available, approved loan, disbursed loan and recovery of loan. This study also analyses the micro finance model adopted by RMDC itself and its member financial institutions. Thus, it is based on descriptive and analytical method. In course of financial analysis, percentage analyses method is adopted to find out the result from different tools as well as statistical tools are also employed to provide analytical insights and to achieve prescribed results. In other hand, in order to achieve the predetermined objectives of research, both secondary and primary data have been used. Thus, it is not possible for researcher to conduct a research work without a research design.

3.3 Sources of Data:

The study is mainly based on both primary and secondary data. Primary data are those data, which are collected a fresh and for the first time on the account of concerned investigation. The primary data is thus original in characters. While the secondary data can be defined as those data collected from already published or unpublished sources which are not fresh as like primary data but can be used as the most important part of the research study. The required data have been collected from secondary sources. Primary sources of data are mainly based on interviews, queries and questionnaire and secondary data are mainly based on booklets, RMDC's Newsletter, and annual reports especially from profit and loss accounts, balance sheet and other publications made by the micro finance relating institutions. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Centre of Micro Finance Entrepreneurs Development Centre etc. Besides these, some well known information, magazines and journals, other available empirical studies also have been reviewed in this study. The libraries of various authorities have also been consulted for the collection of additional information in completing this study. The websites of RMDC as well as many more websites was also used. There are limited data in the field of micro finance, so web site has played a great role to fulfill data for reference.

3.4 Data Collection Techniques:

Using purposive sampling technique facts, information or premises systematically collected and formally present for the purpose of drawing inferences, may be called data. Data collection is the process of obtaining valuable and reliable information for purposes of research.

For the purpose of this study, the different data's are obtained from different sources. In order to collect the necessary information and data for the present analysis, a systematic process has been employed as follows:

- First of all, need of the study has been identified.
- After identified need of the study, nature of data has been identified.
- To collect the data, most pertinent organization and official authorities has been identified.
- Personal approach has been made to collect the required data and information.
- On the basis of these information and data, analysis has been done.

For collecting the primary data, questionnaires are also distributed among the related individual officers and teachers. Total 10 questionnaires were distributed among the staffs of RMDC and all the 10 questionnaires were returned from respondents.

3.4.1 Questionnaire Construction

The questionnaire is designed to collect the best information from micro finance related personnel. All of the questions are designed in simple manner so that all the personnels can easily filled out their view. All questions are equally emphasized in course of the construction to fulfill the objective of the research. Some questions are objective, some are ranking according to their importance. And other related and important questions are asked to related personnel by face to face interview in necessary situations.

3.5 Data Analysis Tools

There are different tools used for the analysis in course of this research study. The tools can be identified as financial tools and statistical tools. The following are the non- statistical tools-

3.5.1 Tools for Financial Analysis

The percentage analysis is done to compare two or more financial data extracted from the annual reports for general information. It is used as a method to find the increase or decrease in the financial data, which assists in analyzing the performance of RMDC Nepal in difference subjects. Using these tools, Funds available, loan outflow, approval and disbursement of loan, loan recovery, and number of member MFIs and their clients, training and exposure visit program are analyzed in terms of change in the parameters and impact of such change in the performance.

3.5.2 Tools for Statistical Analysis

There are different factors in any financial institutions, which play the vital role in loan performance. Among them, funds available, loan approved, loan disbursed and loan recovery etc. are the main factors of determining the loan performance. These factors are interrelated to each other and plays vital role to determine loan performance. The inter relation among funds available to RMDC; loan distribution and loan recovery are taken to analyze the loan performance of RMDC.

The multiple correlation coefficients are used to analyze the interrelation among those parameters. Correlation may be defined as the degree of linar relationship existing between two or more variables. The correlation shows the degree and direction of relationship among the variables. On the basis of number of variables involved in correlation analysis, we have simple, partial and multiple correlations. Simple correlation coefficients measure the degree of simple relation between the two variables. When there exist more than two variables under the study, it is either partial or multiple. When the relationship between two variables are measured by the correlation coefficient after neutralizing the effects of other variables that make impact on this relationship, the measure relationship is known as partial correlation.

In case of simple correlation we study the degree of relationship between two variables, one independent and the other dependent variable. But in real life so many independent do affect the dependent variable and the study on degree of relationship between a single dependent variable and a number of independent variables in combination is called multiple correlation analyses. The relationship is measured by multiple correlation coefficients, is denoted by $R_{1.23..........n}$. The subscript left to the dot is the dependent variable and to the right are the independent variables. If we consider the variables say X_1, X_2 and X_3, then

$R_{1.23}$= Correlation coefficient between dependent variable X_1 and joint effect of the independent variables X_2 and X_3 on X_1

R2.13= Correlation coefficient between dependent variable X2 and joint effect of the independent variables X1 and X3 on X2

R3.12= Correlation coefficient between dependent variable X3 and joint effect of the independent variables X1 and X2 on X1

We have assumed Funds available as variable X1, Loan Distribution as variable X2 and Recovery of loan as variable as X3.

The formulae for the calculation of multiple correlation coefficients can be expressed in terms of r1.23, r2.13 and r3.12 as follows.

$$R_{1.23}=\sqrt{\frac{r_{12}^2 + r_{13}^2 - 2r_{12} \times r_{23} \times r_{13}}{1 - r_{23}^2}}$$

$$R_{2.13}=\sqrt{\frac{r_{12}^2 + r_{23}^2 - 2r_{12} \times r_{23} \times r_{13}}{1 - r_{13}^2}}$$

$$R_{3.12}=\sqrt{\frac{r_{12}^2 + r_{23}^2 - 2r_{12} \times r_{23} \times r_{13}}{1 - r_{12}^2}}$$

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

Introduction

This chapter consists of the presentation and analysis of data related with different variables using different analytical tools. The basic aim of this chapter is to forward towards the achievement of the objectives, set in course of this research study. In order to achieve these objectives, the gathered data are presented, compared and analyzed with the help of different tools. Hence, it is core part of the study. It also analyzes RMDC's loan distribution and recovery ratio in yearly basis from the Fiscal year 2059/60.

4.1. Financial Analysis of RMDC

4.1.1. Funds Available to RMDC: RMDC, being one of the Apex micro finance institutions, does not accept the deposits from individuals; rather it collects the funds in the form of Grants and loans from different sources and flows to its ultimate beneficiaries through channel of different member MFIs. One of the main objectives of establishment of RMDC is to provide wholesale funds to potential and viable micro finance institutions for on lending to the ultimate borrower for undertaking productive activities. Thus, the analysis of available funds is the core part of this study. The total fund includes the shareholders fund, borrowings and other different funds in the form of grant and loan from different sources. In the research period, RMDC received the grant and loans for on lending purpose for micro finance project, Aus-aid fund and JFPR Credit revolving Fund. It started borrowing from the Fiscal years 2061/62. in the fiscal year 2059/60, RMDC received a sum of 137,329,0000 comprising Rs.27,859,000 from Government and Rs.109,470,000 from ADB under the rural micro finance project for re lending purpose. For the same project, it received Rs.97,674,300 from ADB in the FY 2060/61, Rs.257,443,100 from ADB and Rs.10,000,000 from government in the FY 2061/62, Rs.236,593,615 in the FY 2062/63 from ADB and Rs.435,749,083.84 in the FY 2063/64 from ADB. It also started to receive loan assistance from FY 2061/62 under ADB assisted "Japanese Fund for Poverty Reduction (JFPR) revolving Fund". It received Rs.25,00,000.00 in the FY

2061/62, Rs.903,612,915 in the FY 2062/63 and Rs.1,533,950,871.61 in the FY 2063/64 under the JFPR credit Revolving Fund. The break down of the available funds within the research period is presented below.

Table No.3.1 : Statement of sources of Funds

S.N	Sources of Fund	2059/60	2060/61	2061/62	2062/63	2063/64
1	Micro Finance Project	377,327,299.97	468,598,292.40	723,056,684.78	959,650,299.78	1,395,399,383.62
2	Aus-Aid Fund	7,142,942.24	7,009,892.69	6,909,568.32	6,841,519.13	6,806,195.12
3	JFPR Credit Fund	-	-	2,500,000.00	12,500,000.00	29,050,000.00
4	Borrowings	-	-	667,019,300.00	903,612,915.00	1,533,950,871.65
	Total	**384,470,242.21**	**475,608,185.09**	**1,399,485,553.10**	**1,882,604,733.91**	**2,965,206,450.39**

(Sources: Annual Report from 2058/59 to 2063/64)

This part of the study depicts the availability of funding of RMDC, which reaches to the ultimate micro finance customers. The available data used for the study does not include the shareholders fund.Since RMDC does not accept the deposit and flows the loan through fund accumulated from loans, grants and borrowings, it is tried to study the performance such sources of funds which ultimately reaches to the ultimate clients.

Table No.3.2 :Funds Available to RMDC

Years	Total Funds (NRs)	Increase	Yearly increase
2059/60	384,470,242.21	-	-
2060/61	475,608,185.09	91,137,942.88	23.70%
2061/62	1,399,485,553.10	923,877,368.01	194.25%
2062/63	1,882,604,733.91	483,119,180.81	34.52%
2063/64	2,965,206,450.39	1,082,601,716.48	57.51%
Total Increase		**2,580,736,208.18**	671.24%

(Sources: Annual Report from 2058/59 to 2063/64)

The above table presents the funding situation of RMDC Nepal from the F/Y 2058/59 to 2063/64. The fund position of RMDC is in increasing trend. The ratios are 23.70%, 194.25%, 34.52% and 57.51% from the FY 2060/61 on wards. The fund available is increased in the FY 2061/62 in comparison to the FY 2059/60, but in the year 2061/62, it increased with a large ratio i.e. 194.25%. Such a large increase is due to the borrowing, which is started by RMDC from the same FY. The ratios are decreased to 34.52% in the FY 2062/63. This is due to that the parameters are same as per previous year and no new parameters are added. The ratio reached to 57.51% in the year 2063/64. In total, the available funds increased by 671.24% in the FY 2063/64 in comparison to the FY 2059/60. The only reason for such a large increment is due to the borrowing started by RMDC from the FY 2061/62. With the analyses of the availed data, it is found that RMDC started the borrowing to simplify the availability of funds and to increase the volume of micro finance loan. It is easier and faster to get the borrowed fund rather than to get the fund in any sources in the form of grant or loan from international agencies. It also helps to maintain the good cash flow situation to the centre so that it can prompt disburse the loan at the time of demand by MFIs.

4.1.2. Analysis of Total Annual loan flow out of Funds available to RMDC:

The loan flow is the lifeblood of RMDC, because the main objective of providing wholesale fund to MFIs is directly associated with loan flow. RMDC caters its total fund mainly to sectors namely loan to MFIs and investment in national saving certificates, bonds and fixed deposit. RMDC established in the year 2055/56 but it started loan distribution only from the year 2056/57. The following table shows the annual loan flow position of RMDC out of total funds available.

Table 3.3: Total annual Loan flow out of Available Funds of RMDC

Year	Total annual Loan flow	Total Funds Available	Percentage %
2059/60	120,905,699.00	384,470,242.21	31.45%
2060/61	133,467,248.00	475,608,185.09	28.06%
2061/62	325,835,100.00	1,399,485,553.10	23.28%
2062/63	500,853,915.00	1,882,604,733.91	26.60%
2063/64	1,135,043,825.00	2,965,206,450.39	38.28%
Total	**2,216,105,787.00**	**2,965,206,450.39**	74.74%

(Sources: Annual Report from 2058/59 to 2063/64)

The annual loan flow is taken as the investment in micro finance loan by RMDC. RMDC invested 31.45%, 28.06%, 23.28%, 22.66% and 38.28% as loan to MFIs from the FY 2059/60 to 2063/64 respectively. The annual loan flow is in decreasing trend up to the FY 2061/62 in comparison to the previous fiscal years. The ratio increased in to 26.60% and 38.28% respectively from FY2062/63 to 2063/64. Since the availability of fund is more increased from the year 2061-62 with beginning of borrowing from banks but the flow of micro finance loan has decreased year by year. RMDC couldnot flow the micro finance loan to the MFIs as expectation. The political instability and armed conflict between the state and the CPN (Maoist) was in increasing ratio. Because of which the MFIs, who directly reaches to the small holders, felt no safe environment to invest the fund. The scope of safe investment was limited at that moment and they couldnot reach to all the small holders of remote poor villagers. They invested the fund to the safer place only. However, at the end of the research period, when such conflict was moving towards the solution, the ratio of loan flow seems to be increasing in slow pace.

4.1.3. Analysis of Annual loan Approved and Disbursed by RMDC:

Since the providing the fund to invest in micro finance to the MFIs is the main function of RMDC, the annual approval of loan and its disbursement plays the vital role to find out the position of loan performance. RMDC disburse the loan in the form of micro finance loan, micro finance loan seed fund and JFPR loan. The following table shows the annual loan approval and disbursement position of RMDC.

Table No.3.4: Annual approval and disbursement of Loan by RMDC

Year	Disbursed Amount(RS)	Approved Amount(RS)	Percentage %
2059/60	137,050,000.00	116,520,000.00	117.62%
2060/61	118,815,000.00	123,200,000.00	96.44%
2061/62	320,655,000.00	382,765,000.00	83.77%
2062/63	298,236,900.00	357,834,000.00	83.35%
2063/64	961,065,225.00	1,143,675,000.00	84.03%
Total	**1,835,822,125.00**	**2,123,994,000.00**	**86.43%**

(Sources: Annual Report from 2058/59 to 2063/64)

In the year 2059/60, RMDC approved Rs.116 million and 137 million were disbursed in the same year. However, in the year 2060/61, RMDC disbursed 118 million out of Rs.123 million approved. The disbursement ratios are 117.62%, 96.44%, 83.77%, 83.35% and 84.03% out of annual approval of loan.RMDC's disbursement of loan was 117.62% in the FY 2059/60, which was due to the disbursement of loan from the annual approval of Previous Fiscal Years. From the FY 2060/61 on wards, the percentage disbursement was below the total approval. It could not distribute 3.56%, 16.23%, 16.65% and 15.97% amount out of total approval amount from the FY 2060/61 onwards. . In total, RMDC distributed Rs. 1,835,822,125 out of approved amount Rs. 2,123,994,000 from the year 2059/60 to 2063/64, which is 86.43 % of total loan approved. This shows RMDC disbursed 82.62% out of its total approved loan amount. Hence, from the above table it can be observed that, RMDC could not disburse total approved loan amount to MFIs from the FY 2060/61 to 2063/64, because of the prevailing political situation and armed conflict, so that the investors could not feel secured. The financial institutions at rural and remote areas were leaving their place of assignment and moving towards the more secured place. They were reducing their scope of works, they began to invest in urban areas in most profitable, and secured sector only. Therefore, the MFIs did not utilize the total limit of loan approved from RMDC. They only utilized the limit to the extent of secured investment they could make.

4.1.4. Analysis of Loan Recovery Ratio:

This part analyses the states of the annual Loan recovery out of the annual loan disbursement by RMDC from the 2059/60 on wards. As the micro finance loan disbursement is the main function of RMDC, Nepal to the small holders through MFIs, recovery of loan is another and most important part of the business. The recovery of loan provides the right way of business to its existence. If the loan recovery is poor in any financial institution, it directly affects the existence of them. The following table shows the situation of loan recovery status upto the FY 2063/64.

Table No.3.5: Annual Loan Recovery out of annual Loan Disbursed by RMDC

Year	Recovery Amount(RS)	Disbursed Amount(RS)	Percentage %
2059/60	73,417,998.00	137,050,000.00	53.57%
2060/61	106,253,451.00	118,815,000.00	89.43%
2061/62	128,287,148.00	320,655,000.00	40.01%
2062/63	123,218,085.00	298,236,900.00	41.32%
2063/64	326,875,315.00	961,065,225.00	34.01%
Total	**758,051,997.00**	**1,835,822,125.00**	**41.29%**

(Sources: Annual Report from 2058/59 to 2063/64)

RMDC disbursed Rs.137 million in the year 2059/60 and recovered Rs. 73 million, which is 53.57% of disbursement. It disbursed Rs.118 Million, 320 million, 298 million, and 961 million and recovered 106 million, 128 million, 123 million, and 326 million respectively from the fiscal year 2060/61 to the fiscal year 2063/64. The recovery ratios are 89.43%, 40.01%, 41.32% and 34.01% respectively. In total RMDC recovered total Rs. 758,051,997.00 out of its total distribution Rs. 1,835,822,125, which is 41.49 % of total disbursement.

The above table states that the recovery ratio in the year 2059/60 is 53.57%, which increased to 89.43% in the year 2060/61. However, the ratio decreased to 40.01% in the year 2061/62 and slightly increased by 1.31% and reached to 41.32% in the year 2062/63. The ratio again decreased to 34.01% in the year 2063/64.The recovery ratio of RMDC seems 41.29% in overall from the year 2059/60 to 2063/64. Although the funds available to RMDC increased from the year 2061/62 due to the borrowing, RMDC's loan flow has not increased rather. The total loan flow is decreased to the 23.28% in the year 2061/62 as per table no.2 but disbursement ratio decreased to 83.77% as per table no.3 and recovery ratios decreased to 40.01% as per table no.4. The reasons of such decreasing in loan flow, disbursement and recovery is the unsecured environment of investment due to increasing armed conflict between state and the CPN (Maoist) and the political instability due to such conflict. This decreased the investment of MFIs towards the small holders that caused that MFIs reduced their scope of investment and began to invest only to the safer and secured place. This also reduced the scope of business of MFIs and their earning from the investment. Since the earning from the investment is also reduced, their capability of repayment is also decreased.

Mostly in the FY 2061-62, the funds available to RMDC was higher due to borrowing while the annual loan flow, disbursement, approval and recovery of loan are decreasing in the corresponding FY and after this.

4.1.5. Analysis of member MFIs and Annual increase:

The total numbers of member MFIs and its yearly increasing trend is analyzed in this section to know the relation between member MFIs and RMDC. Since the MFIs are, the main channel to provide the micro loan to the ultimate user, the analysis of member MFIs and annual increment is important for this study. It is because the rate of participation of MFIs reflects the annual involvement of small holders to the micro finance. The following table shows the total number of MFIs and its annual increasing percentage of MFIs.

Table 3.6 : Total number of MFIs and annual increment

Year	No of Member MFIs	Increment	Percentage %
2059/60	25	-	-
2060/61	32	7	28.00%
2061/62	36	4	12.50%
2062/63	45	9	25.00%
2063/64	58	13	28.89%
Total	**196.00**	**33**	**56.90%**

(Sources: Annual Report from 2058/59 to 2063/64)

In the year 2059/60, the number of member MFIs of RMDC was 25 which reached to 32 in the fiscal year 2060/61, which increased by 28%. The percentage of annual increment was 12.50%, 25% and 28.89% from the fiscal year 2060/61 to 2063/64. The number of member MFIs increased by 33 reached to 58 from 25 in comparison to the fiscal year 2059/60 to 2063/64, which is 56.90% in comparison the year 2059/60. Hence, from the above table it can be observed that, RMDC has the good relation with its member MFIs and the policy of RMDC is suitable to its member MFIs, so that the number of member MFIs is increasing trend. The increasing and fluctuating trend of annual increment in the number MFIs shows that the MFIs were eager to invest the fund to the small holders. They intend to proceed towards the investment in micro finance loan and they are able to manage the fund after being the member of RMDC Nepal. The investment environment was different from their intention to increase earning through investment in micro finance. The position of annual loan flow, approval, disbursement and recovery of loan of RMDC Nepal is not satisfactory and the different situation from the expectation of MFIs is clearly portrays by the current position of such parameters. If the situation was favorable to them, those indicators must have been in increasing trend rather than fluctuating.

4.1.6. Analysis of total number of clients of Member MFIs and Annual change:

The total numbers of clients of member MFIs of RMDC and annual changes in members are analyzed in this point. The following table shows the total number of clients' of member MFIs and its yearly change.

Table 3.7 : Total number of Member of MFIs and annual increment

Year	No of member of MFIs	Increment	Inc.Percentage %
2059/60	41,962.00	-	0.00%
2060/61	40,338.00	(1,624.00)	-4.03%
2061/62	44,506.00	4,168.00	9.37%
2062/63	71,671.00	27,165.00	37.90%
2063/64	83,087.00	11,416.00	13.74%

(Sources: Annual Report from 2058/59 to 2063/64)

In the year 2059/60, total number of members of RMDC's client was 41,962.00 while the no of clients were 40,338, 44,506, 71,671 and 83,087 respectively from the FY 2060/61 to 2063/64. This shows the both increasing and decreasing trend of clients of RMDC's member MFIs. From 2059/60 to 2063/64, the number of client changed respectively by -4.03%, 9.37%, 37.90% and 13.74%. The trend of annual change in the number of clients of member MFIs are also in increasing and fluctuating. It can be observed that the ultimate user or small holders are also affected by the prevailing political instability and armed conflict. With the comparison of trend of annual change in the MFIs and clients of member MFIs, the ratios are not similar. It means the ratio of change in the MFIs is increasing while the ratio in the change of clients of MFIs are in decreasing trend. All the indicators of this analysis show in decreasing position except total funds available and the decreasing number of member of clients is the root cause. Since the security of investment is not sure, the MFIs did investment in the selected areas, because of which the number of small holders reduced and the business of MFIs limited to the small investment.

4.1.7. Analysis of Training and Exposure Visit Program Organized by RMDC:

RMDC Nepal is one of the apex organizations of micro finance institutions, So it not only provides fund for on lending purpose to MFIs but also assists in building and strengthening institutional capacity of partner organizations. Among the different objectives, one of the main objectives of RMDC is also to help building and strengthening institutional capacity of partner organizations. In this regard, RMDC has organized different training programs like micro finance operation trainings, training on internal audit of micro finance institutions, income generating skill development training, account-keeping training to self-help groups etc. and exposure visits programmes in order to strengthen MFIs capacity. The following table depicts the status of such programmes organized within the research period.

Table 3.8: Training and Exposure Visits Program organized by RMDC

Year	MFI's Staffs		MFI's Client	
	No of Programs	No of Participants	No of Programs	No of Participants
2059/60	77	1020	1125	41962
2060/61	61	1226	1482	40338
2061/62	101	1446	1717	44506
2062/63	95	1127	2614	71671
2063/64	160	2117	3199	83087
Total	**494**	**6936**	**10137**	**281564**

(Sources: Annual Report from 2058/59 to 2063/64)

In the year 2059/60, 77 programs organized by RMDC to MFI and 1020 staffs of MFIs benefitted from such program. While 1125 programs were organized to MFIs clients and 41962 were participated in the program. Likewise, the programs organized from the FY 2060/61 to 2063/64 to MFIs were 61, 101, 95 and 160 respectively, from which 1226, 1446, 1127 and 2117 respectively participants benefitted from the programs organized by RMDC. Similary, RMDC also organized different programs to the MFIs client from the FY 2060/61 to 2063/64. The number of programs organized were 1482, 1717, 1614 and 3199 respectively, and 40338, 44506, 71671 and 83087 participants were benefitted from the programs organized by the RMDC for the MFIs client.

From the above table it is observed that 6,936 staffs of MFIs are benefited from 494 different programs while 10,137 different programs organized by RMDC, Nepal, benefit 281,564 clients of MFIs. From this, it can be concluded that 100% of clients of MFIs were benefited each year from the different programs and exposure visits organized by RMDC Nepal in course of its capacity building programs.

4.2 Statistical Analysis of Loan Performance of RMDC:

There are different factors in any financial institutions, which play the vital role in loan performance. Among them, funds available, loan approved, loan disbursed and loan recovery etc. are the main factors of determining the loan performance. These factors are interrelated to each other and plays vital role to determine loan performance. The inter relation among funds available to RMDC; loan distribution and loan recovery are taken to analyze the loan performance of RMDC.

The multiple correlation coefficients are used to analyze the interrelation among those parameters. The following table shows the status of Funds available, loan distributed and recovery, used for the analysis in the research period. In course of the study, the three parameters Funds available, loan distributed and loan recovery are denoted as X1, X2 and X3 in order to ease the process of mathematical calculation respectively.

Table no. 3.9: Status of funds available, Loan distribution and loan recovery of RMDC

SN	Funds available	Loan Distributed	Loan Recovery
1	384,470,242	137,050,000	73,417,998
2	475,608,185	118,815,000	106,253,451
3	1,399,485,553	320,655,000	128,287,148
4	1,882,604,734	298,236,900	123,218,085
5	2,965,206,450	961,065,225	326,875,315
Total	**7,107,375,165**	**1,835,822,125**	**758,051,997**

(Sources: Annual Report from 2058/59 to 2063/64)

The calculation of correlation among the funds available to RMDC, loan distribution and its recovery (as per appendix-I) shows that the value of coefficient of multiple determination $(R_{12})^2$ is 0.87.

The calculated value of multiple correlations among the funds available to RMDC, Loan Distribution and its recovery depicted that the value of coefficient of multiple determination is 0.87, from which we may conclude that the 87% variation in funds available to RMDC is due to the loan distribution and its recovery and 13% is due to the any other reason. It means 87% of the funds available comprise loan distribution and its recovery. This refers that the role of loan and its recovery has great contribution to the funds available to RMDC. They contribute 87% of the funds and remaining will be contributed by other sources namely loans, grants and borrowings etc.

4.3. Analysis of Model Applied by RMDC and its member MFIs:

There are different kinds of micro finance models adopted in Nepal from a long time. The longer time span in this field shows that different new models like Grameen Banking Model, Community Based Models, Intensive Banking Program (IBP), Bisheswor with the poor (BWIP), Local Governance Program (LGP), village Banking Model, Apex institution/ Fund Model etc were invented and adopted. The informal finance sector namely traditional non-commercial sources like Dhukuti, Dharma Bhakari, Parma, Guthi, Saghan etc. and commercial sources like money lenders(sahu, Mahajan) and pawn shops etc were the pioneer models of Micro Finance in Nepal. For the elimination of such informal models, which were having lesser benefits like lower costs of operation but higher disadvantages of expensive borrowing, government made different policies, and as per the policies different models adopted.

In the year1990, Rural self Reliance Fund (RSRF) was established by Government of Nepal and implemented by NRB. Its main objective is to strengthen SCCs and NGOs by providing cheap wholesale loans to reduce poverty in Nepal.

Following this model, RMDC was established in 1998 as part of Rural Financial Project (REP) in active collaboration of Government of Nepal) and ADB/N with the basic purpose to provide wholesale fund to MFIs and help toward institutional development. This model followed by RSRF is recognized as the creation of Apex institution /fund.RMDC acts as an Apex institution to mobilize Apex fund in order to provide finance to the ultimate borrower through different member MFIs.

Going through the profile of 32 member MFIs of RMDC Nepal, there are different types of micro finance institutions. In the year, 2063/64, there are 58 member MFIs, out of which 6 member MFIs are Micro finance development Banks, 6 member MFIs are Development Banks, 24 member MFIs are financial intermediary NGOs and 22 member MFIs are saving and credit Cooperatives. The adoption of micro finance models by member MFIs of RMDC depends upon the work place of the institutions and remoteness and isolation of communities.

Most of the Terai based MFIs have adopted Grameen Bank Model of Micro finance, where the population is dense, road facility, market facilities and other infrastructures are comparatively more developed than in the hills and mountains. It is also a region where traditional financial organisations, such as commercial and development banks operate. In the hills and mountains, community-based organisations, such as Self Help Groups, Credit and Savings Associations and Cooperatives, seem the most adapted to the remoteness and isolation of local communities.

The main focus of Grameen Banks Model is to empower the rural poor women by improving the access of women to formal credit for income generating activities as a means to reduce their level of poverty. The methodology is based on peer groups of five members incorporated into centres of up to ten groups. Weekly meetings are used to collect compulsory payments from members to contribute to the group's fund - incorporating both savings and loans. The group fund, managed by the group, may be used to make additional loans to members. Loans are made initially to two members, then to two others and finally to the last member, with a four to eight week interval between each disbursement. The group members guarantee each other's loan repayments. Microfinance providers using the Grameen methodology will typically offer general loans, seasonal loans, specific loans (sanitation, housing) and the loans issued from the group fund. Savings products are generally the compulsory group fund savings, and any additional personal, voluntary savings. In recent years, several leading microfinance providers have started to move away from the traditional Grameen model, to focus on new practices for Nepal, such as a streamlining of operations, the introduction of customer friendly products, and a strong emphasis on institution and staff capacity building. New products have also been offered to clients by several organisations, such as micro insurance covering risks related to health, life and livestock.

Most of the member MFIs of RMDC Nepal (Appendix-III) is Terai based. All the MFIs including those who work inside Terai region and those who are working outside Terai region but more developed hilly region follow the Grameen Banking Model which is comfortable to them to mobilize the credit smoothly. Due to the requirement of weekly meetings and loan repayment, it is obvious that this model cannot be adopted in hilly region and remote areas.

The member MFIs who works remote found to be adopting community based model, such as the methodology implemented by Savings and Credit Cooperative Societies (SCCS), providing a wide range of savings and loan products to their members. It is because there is no possibility of weekly meetings and loan repayment. The population is not as dense as in Terai region and the infrastructure is not so developed. SCCs through the organisation established by development programs also provide loan to the poor with a stronger basic theme of serving the disadvantaged group. They commonly require compulsory savings, but also offer individual or group saving products, deposits, and festival and educational savings services. Loans provided by SCCS have a minimum term of 3 months and can be extended for more than 18 months, covering specific purposes, such as agriculture, microenterprise, housing, or, in some cases, emergency or social reasons.

From the above, it is concluded that the RMDC follows the Apex fund/ institution model of micro finance while the MFIs follow different model as applicable. The Terai and hilly developed areas based MFIs follow the Grameen banking model which is comfortable to them to mobilize the credit smoothly. The MFIs working at remote areas follow the community based model. They mostly use the methodology implemented by Savings and Credit Cooperative Societies (SCCS), providing a wide range of savings and loan products to their members. They commonly require compulsory savings, but also offer individual or group saving products, deposits, and festival and educational savings services.

4.4. Analysis of Primary Data:

The second and the most important part of this research study are to analyse primary data and fulfil the objectives of this research study. The outcome of this analysis plays the most important role to meet the objective of this study. In this course questionnaires (Appendix III) were prepared for the staffs of RMDC. RMDC Nepal is located at Putalisadak, Kathmandu from its establishment. Currently, it has 20 staffs in total. The random sampling method was used to get the answers for the prompt completion of the study process. The questionnaires were distributed to 10 staffs of RMDC which represents 50% of the total staffs. The result of this primary research is interpreted on the percentage analysis basis.

4.4.1. Analysis of the Questionnaires and answers from the staffs of RMDC:

The 10 staffs of RMDC Nepal were requested to answer the questionaries as prepared in this course and the answers were received accordingly.

The question number 1 was related to management of funding to provide loan from RMDC. The question was "How the RMDC is managing funds for on lending purpose?" and the 4 options were from "loan from government and international financial institutions", "Grant from government and international financial institutions", "Borrowing from Banks" and "All of the above". The entire respondent responded the funds were managed from Loan and grant from Government and international financial institutions as well as the borrowing from domestic banks. 100% of the respondent responded for all of the sources.

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

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

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

The question number 5 was related to the criteria of eligibility for taking loan from RMDC. The question was "What are the main criteria of being eligible for lending to MFIs?" and out of the 4 options as "should possess the support from political parties ", " should possess the support from donor agencies ", "should fulfil the eligibility criteria as required by RMDC" and "No any criteria", the entire respondent chose the option no.3, it means the MFIs should fulfil the eligibility criteria as required by RMDC to take the loan form RMDC. 100% of the respondent responded that MFIs need to fulfil the eligibility criteria prescribed by RMDC to be eligible for taking loan from RMDC.

The question number 6 was related to the amended/ changed of the current lending policy of RMDC. The question was "Do you think the present lending policy is to be amended/changed?" and the 2 options were "Yes "or "No ". Out of the 10 respondents, 5 chose the option no.1, 5 chose the option no.2, it means 50% of the respondent viewed as lending policy should not to be amended / changed and 50% of the respondent viewed as lending policy is to be amended/ changed. In question no.6.1, the reason of policy to be amended or changed was asked to those who viewed as the policy needs to be amended/ changed. 3 respondents choose the option no.1, 2 respondents choose the option no.3. It means 40% of the respondent viewed the policy is not applicable in this context and 60% of the respondent viewed as to increase the more earning.

The question number 7 was related to the benefit received by small holders being a part of RMDC in view of the staff of RMDC. The question was "Are smallholders really getting benefits from RMDC's micro loan?" and the 2 options were "Yes "or "No ". Out of the 10 respondents, entire respondent chose the option no.1; it means the small holders are getting benefits after being the part of RMDC in view of the staffs of RMDC. In question no.7.1, the scale of benefits received by small holders in view of RMDC's staffs was asked. 2 respondents chose the option no.1, 3 respondents chose the option no.2 and 5 respondents chose option no.3. It means 20% of the respondent viewed that small holders are getting benefits in very large scale and 30% of the respondent viewed that small holders are getting benefits in large scale, while 50% of the respondent viewed that small holders are getting benefits in medium scale.

The question number 8 was related to the model of micro finance adopted by RMDC. The question was "What model of micro finance is adopted by RMDC?" and out of the 4 options as" Informal finance ","Village Banking Model ", "Creation of apex fund/institution" and "Community based model". Out of the total 10 respondents, entire respondent chose the option no.3, it means the 100% of the respondent viewed that RMDC is following the "Creation of apex fund/institution" model.

The question number 9 was related to the model of micro finance adopted by member MFIs. The question was "Are MFIs following the same model of micro finance as adopted by RMDC?" and out of the 2 options as "Yes "or "No ", entire respondent choose the option no.2, it means the MFIs are not following the same model of micro finance as adopted by RMDC. In question no.9.1, the reason of not following the same model of micro finance was asked.10 respondents chose the option no.2. It means 100% respondents viewed as member MFIs aren't the apex institutions like RMDC.

The question number 10 was related to the benefit received by MFIs after being a member of RMDC. The question was "Are MFIs getting benefits after being a member of RMDC?" and out of the 2 options as "Yes "or "No ", entire respondent chose the option no.1, it means the MFIs are getting benefits being the part of RMDC in view of the staffs of RMDC. In question no.10.1, the benefits received by MFIs in view of RMDC's staffs was asked and entire respondents choose the option no.4, which means 100% of the respondent viewed that MFIs are getting all the benefits mentioned in the questionnaires i.e. financial strength is increasing, highly reputed in society and mostly reputed among small holders.

4.5. Major Findings of study:

In the field of micro finance, RMDC is one of the pioneer organizations, so its contribution towards uplifting the financial strength cannot be underestimated. It has played great role in micro finance development in Nepal. This research is also conducted to find the loan performance of RMDC and its contribution to the development of micro finance loan.

4.5.1. Findings from the Secondary Data Analysis:

- The funding of the RMDC seems in fluctuating trend. Sources of funding are from different sources namely loans and grants from international financial institution, government of Nepal and borrowing of funds through banks. The unexpected increase in the year 2061/62 is due to the beginning of borrowing of funds from the banks. RMDC has no problems of funds for lending to the MFIs.
- Though RMDC has managed plenty of funds for lending but could not flow the loan due to political instability and armed conflict as expectation because of the MFIs were not sure about the security of investment. The scope of MFIs was compacting day by day due to the unfavourable situation in the investment. So, they were not using their full limit of loan approved during the study period.
- The trend of annual loan approval and disbursement is also fluctuating. The decreasing trend is higher than increasing trend. This trend is also the outcome of security problem in investment. MFIS couldn't utilise the full limit of loan approved. It means MFIs could not go to the real field of investment in micro finance with a fear that they couldn't repay the loan in time.
- The loan recovery is increased in 2060/61 but began to decrease from 2061/62 onwards. This is also the fluctuating trend of loan recovery. From this it can be assumed that the loan recovery position is only medium as the ratio in each year is below 50% in three years. MFIs have the fear of return of investment. The main cause for this is also the security problem in investment. The return is possible when the investment is broad but the disbursement of loan is decreasing here. The lower investment provides lower returns and could repay the loan as per there return.
- The number of MFIs seems to be annually increasing, which shows that the relation with its member MFIs is good. The number of MFIs is increasing, although the trend of loan flow, disbursement and recovery is decreasing annually. RMDC has tried to expand the investment through the MFIs in lending micro loan to small holders and MFIs are

also interested to participate. But due the security problem, their performances are contracted towards the limited geography. They could not go to remote area. They searched the secured place only for investment.

- But the different relation appears between the relation of MFIs and ultimate user of micro finance loan. The number of clients of MFIs decreased in the year 2061/62 and after that started to increase. From the both trend, it can be analysed that the loan disbursed to the MFIs could not reached to its ultimate user and the main reason could be the insecurity of loan which directly affected the accessibility of micro finance loan to the ultimate user who mostly lives in the remote area.
- The position of available funds is increasing from the beginning of the research period. The number of MFIs in the same period is also increasing but the number of clients of MFIs is in fluctuating trend. The position of annual loan flow and approval loan is also increasing trend but the loan disbursement is not in the same trend. It is decreasing annually, because of which loan recovery is also decreasing except in the year 2060/61.
- Being an apex organisation, RMDC organised training and exposure visit programs to the MFIs and the clients of MFIs for their capacity building and institutional strengthening. The number of exposure visits nd training programs organised for the MFIs staffs and MFI's client both are increased to the previous years. The main achievement of RMDC in this matter is 100% MFIs clients are benefited from the training and exposure visit programs in each fiscal year. These type of programs need to be continued because the outcome of those comes in long term. This is also the sign of the long term development.
- The statistical analyses conducted in this course clearly portrayed the interrelation among funds available to RMDC, loan distribution and recovery. 87% variation in funds available to RMDC is due to the loan distribution and its recovery and 13% is due to the any other reason. It means 87% of the funds available comprise loan distribution and its recovery.

- RMDC is one of the apex micro finance institution and it is operating apex fund to mobilize for the enhancement of micro finance loan. So it is following the "Apex institution/ Fund" model of micro finance, Most of the member MFIs of RMDC Nepal is Terai based and few members are working in out of Terai region but more developed hilly region and they follow the Grameen Banking model which is comfortable to them to mobilize the credit smoothly. The member MFIs who works remote area are adopting community based model such methodology adopted by saving and credit co-operatives.

4.5.2. Findings from the analysis of Primary Data:

The primary study was conducted with the staffs of RMDC to meet the objective of this study.. The study concluded the followings.

- RMDC is managing funds from different sources like loan and grant assistant from government and international financial institutions and borrowing from banks. This outcome of primary analysis can be verified from the secondary data analysis. RMDC receives the loan and grant for different projects from different international financial institutions and the government. While it also collects the funds from borrowing from banks.
- It has been performing different activities including providing wholesale credit to MFIs, institutional strengthening and capacity building supports to MFIs and training support to MFIs and ultimate user.
- The annual loan flow is both in increasing and decreasing trend.
- RMDC is not facing any difficulties in micro finance loan till date except the political pressure in some cases. It has also face the lacking of fund some time but for very short period. But it is able to sustain by neglecting such hindrances.
- It has certain eligibility criteria, which any MFIs should fulfil to get loan and become a member of RMDC. 50% of the respondent respond that the current loan policy need not be amended or changed and 50% respondent respond to be amended/ changed. The reasons viewed by

40% respondent as the policy is not applicable in this context and 60% viewed that to increase the more earning in future.

- The scale of benefit being received by small holders is in medium scale. It means the small holders are receiving the benefit in average from the micro finance institutions.
- The micro finance model followed by RMDC is "Apex institution/ Fund" model and the same could not be adopted by MFIs because they are not apex institution like RMDC.

MFIs benefit are increasing from micro finance loan received from RMDC after being its member, which can be proved through the benefits such as financial strength is increasing, highly reputed in society and mostly among small holders.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 SUMMARY

This study was conducted to analyze loan performance of RMDC Nepal, benefits received by MFIs and the micro finance model adopted by RMDC and its clients.

Micro finance is not new word for a developing country like Nepal. In the context of Nepal, the establishment of (ADB/N) was a landmark in the development of rural financial market in Nepal. The institutionalization of rural credit began since the establishment of credit cooperatives in 1956. Since then, many institutions have been established in Nepal, who has been working to promote micro finance related works.

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

The study is based on primary and secondary data. The study use the descriptive approach also based on both the technical and logical aspects. Logical aspect in based on primary data, collected by using the questionnaire. For the questionnaire, survey questionnaire were distributed the staffs of RMDC. From the collected questionnaire, primary data analysis was conducted.

As a technical aspect, statistical tool mainly correlation is used for secondary data analysis to see the relation among different factors relating to loan micro finance.

Secondary data were collected from the RMDC and other micro finance related offices based on Katmandu. The secondary data covered the period of five years.

The collected answers of the questionnaires were then analyzed by using percentage analysis method and statistical tools and the views collected from questionnaires were analyzed as their perceptions.

The percentage analysis was used to observe the funds available to RMDC, total loan flow out of funds available to RMDC, analysis of loan approved, loan disbursement and loan recovery, member MFIs, their clients and annual increment. This method is also used to analyze the primary data.

5.2 Conclusions

Micro financing in a mountainous country like Nepal is considered as an effective system as it helps deliver credit in rural areas in a very simple and easy way. Commercial banks and other financial institutions normally do not like to go in that area because of the geographical constraints, underdeveloped infrastructure and other physical constraints. However on the other hand, there is a substantial demand of micro credit in the rural areas. In this scenario, locally operating micro financing institutions could obviously play an important role to mobilize local savings, extend credit as well as chanelize borrowed fund/grant to the local rural people.

About 86 percent of the economically active rural population is engaged in agricultural activities. The total micro credit demand in the rural areas has been found to be 18 billion each year but only 5 billion is being supplied through MFIs. At the same time, commercial banks with branches in rural areas have also been merging their branches to nearer viable branches, and they have also been closing some of the rural branches to nearer viable branches, and they have also been closing some of the rural branches because of the security problem as well as unavailability of the branch. On the other hand, agricultural sector contributes a lot for the country and more than 80% of the population is engaged in this sector. In this scenario, micro financing services should be enhanced and extended to the rural areas of the country. It will help to create conducive environment for income generating activities in the rural areas and thereby boost up the economy as a whole.

With the establishment of the RMDC, it is apparent that a clear focus is emerging in Nepal for promoting and strengthening the operations as related to micro finance activities.

The funding available to RMDC is slowly increasing in comparison to previous except in the FY 2061/62, as it was unexpectedly increased due to the starting of borrowing from the banks. RMDC is able to flow the available funds to MFIs in satisfactory but not as per expected. The annual disbursement out of total approval is 86% in average. While the recovery of loan out of disbursement is 41.29% in average which is also only satisfactory but not as expected.

The number of member MFIs is increasing annually except in the year 2061/62. the number of member MFIs were 25 in the year 2059/60 which reached to 196 in total and increased by 33. The average rate of increasing is 56.90%. But the number of clients of MFIs is in both increasing and decreasing trend. The rate of increasing of clients of member MFIs is not as per the respecting trend of increasing the number of MFIs. It shows that the loan flow of RMDC is not actually reaching to the ultimate user as expected by RMDC, although RMDC has organized different exposure visits and trainings program to MFIs and ultimate clients of micro finance. RMDC has made optimum effort to the capacity building of MFIs and their clients.

The statistical analysis of multiple correlations among the funds available to RMDC, Loan Distribution and its recovery depicted that the value of coefficient of multiple determination is 0.87, from which we may conclude that the 87% variation in funds available to RMDC is due to the loan distribution and its recovery and 13% is due to the any other reason. It means 87% of the funds available comprise loan distribution and its recovery.

RMDC, being one of the apex micro finance institution, has adopted the "Creation of apex funds/institution" model of micro finance. It acts as an apex institution to mobilize the apex fund in order to provide the finance to the ultimate borrower through different member MFIs. The model followed by its member MFIs is different from the model followed by RMDC, because of the business and the place of business performed. In the Terai region (plain); more densely populated, with better transport infrastructure and easier access to clients; the Grameen Bank model has been adapted by a large number of organisations. It is also a region where traditional financial organisations, such as commercial and development banks, operate. In the hills and mountains, community-based organisations, such as Self Help Groups, Credit and Savings Associations and Cooperatives, seem the most adapted to the remoteness and isolation of local communities.

The analysis of primary data plays a great role to achieve the objective of this research. The primary data were collected from the staffs of the RMDC, Nepal. The following can be concluded from the analysis of primary questionnaires and answers from the respondents.

The RMDC manages the funds from loan and grant assistance of government and international financial institutions and borrowing from the banks. It performs different activities namely provides wholesale credit to MFIs, Institutional strengthening and capacity building supports to MFIs and training supports to MFIs and its members. The trend of loan flow form its initial stage seems to be both increasing and decreasing trend. Some of the respondents pointed out some problems like political pressure and demand of loan could not be fulfilled in time, while some of the respondents pointed out that there are no difficulties in providing loan. RMDC has made a list of the qualification of criteria to be eligible to get loan from it and the MFIs should fulfil such criteria to be eligible. The present lending policy seems to be applicable to some extent in this financial market but some of the respondent pointed out the need of amendment of such policy to increase more earning and make more applicable to current financial market. The member MFIs are getting benefit from the micro finance loan provided through RMDC and able to get more earning and become financially strength. They become highly reputed in society and mostly among small holders. The small holders are also getting benefits from the loan received from MFIs through RMDC in very large, large or medium scale. The RMDC being an apex institution is following "Creation apex fund/ institution" model of micro finance. The analysis also concluded that member MFIs are not following the same micro finance model because the MFIs are not apex institutions like RMDC. They are found to be following the Grameen Banking Model or community based model as per applicability in the field.

The overall study of the different parameters used in this course of analysis finally reached to the conclusion that the parameters are fully affected by the problem of security of investment. Except the funds available to RMDC, all the parameters show the decreasing trend and that is because of the security matters only. The parameters loan flow, disbursement of loan, loan recovery is fully affected in this research period. The member MFIs and their clients are also fully affected by the security problem. Due to the security problem, the aggressiveness in business towards the achievement of the targeted objectives of RMDC as well as its member MFIs is not in the full pace which caused the decreasing in all the parameters.

5.4 Recommendations

- The trainings program should be provided to unprofessional and inexperience MFIs who are the main loan provider to small borrowers. This enhances RMDC to trap the new MFIs to expand the business.
- To give quality in micro finance services, RMDC's work is admirable. To reach all around the Nepalese poor people they need to provide their facilities all over the Nepal because most of the poor live far from the countryside (in rural areas) and they can't reach out to financial supports.
- RMDC also need to spread its capacity building and training program to all over poor people who don't have good knowledge about micro finance. Now it is only limited to its MFI's clients and their staff. Mainly poor people of hilly regions can't get the micro finance services because of difficult geographical circumstances. RMDC should also spread over its credit and capacity development programs to hilly region. There is an urgent need for the development of small MFIs since the larger NGOs in Nepal have found it more cost effective to focus their micro finance operation in the plains of the Terai.
- Loan procedure should be clear and flexible as per the problem seen by MFIs. It should be strong but in some cases it could be flexible. Like in case, when

loan user uses loan for agricultural sector they should get period of time to fertile the product.

- To develop micro finance all over the country, the state should have formation of conductive policy environment in this field. Fund should be raised from the government resources and all the financial institution also invest certain portion of their profit and share on it. If funds collected from our own resources, interest rate could be reduced. Government should give priority to fund management and provide these funds directly to MFIs.
- To develop micro finance in Nepal, government should provide some facility to micro finance institution to encourage them to spread its program all over the country. Micro finance could be scaled up with good product design to accommodate the need of graduated client. This is support to help achieving higher employment generation, reduced poverty and also helping MFIs to achieve outreach with sustainability.
- The main problem in this research period is the problem of security of investment caused by the decade longer political instability and armed conflict which has not yet reached in the conclusion. The government as well as the political power centre like the political parties must take this problem seriously to resolve the conflict. The only way of the development of the country is the financial and economic revolution and which is possible only when there is peace and political stability in the country. The RMDC only cannot play the role for this but it can recommend the government with the assistance of small holders and MFIs who are really in the field for the resolution of the conflict showing the current problems and the prospective achievement of security of investment of the fund availed.

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Appendix-I:

Calculation of Correlation coefficient

Funds Available(X_1)	Loan Distribution(X_2)	Recovery of loan(X_3)	$d_1=X_1-1399$	$d_2=X_2-298$	$d_3=X_3-123$	d_1d_2	d_2d_3	
384	137	73	-1015	-161	-50	163415	8050	5
475	118	106	-924	-180	-17	166320	3060	1
1399	320	128	-	22	5	-	110	
1882	298	123	483	-	-	-	-	
2965	961	326	1566	663	203	1038258	134589	31
7105	**1834**	**756**	**110**	**344**	**141**	**1367993**	**145809**	**38**

$$r_{12} = \frac{n\sum d_1d_2 - \sum d_1 \times \sum d_2}{\sqrt{n\sum d_1^2 - \left(\sum d_1\right)^2} - \sqrt{n\sum d_2^2 - \left(\sum d_2\right)^2}} =$$

$$\frac{5\times 1367993 - 110\times 344}{\sqrt{5\times 4569646 - (110)^2} - \sqrt{5\times 498374 - (344)^2}} = 0.92$$

$$r_{23} = \frac{n\sum d_2d_3 - \sum d_2 \times \sum d_3}{\sqrt{n\sum d_2^2 - \left(\sum d_2\right)^2} - \sqrt{n\sum d_3^2 - \left(\sum d_3\right)^2}} =$$

$$\frac{5\times 154809 - 344\times 141}{\sqrt{5\times 498374 - (344)^2} - \sqrt{5\times 44023 - (141)^2}} = 0.99$$

$$r_{13} = \frac{n\sum d_1d_3 - \sum d_1 \times \sum d_3}{\sqrt{n\sum d_1^2 - \left(\sum d_1\right)^2} - \sqrt{n\sum d_3^2 - \left(\sum d_3\right)^2}} =$$

$$\frac{5\times 384356 - 110\times 141}{\sqrt{5\times 4569646 - (110)^2} - \sqrt{5\times 44023 - (141)^2}} = 0.89$$

$$R_{1.23} = \sqrt{\frac{r_{12}^2 + r_{13}^2 - 2r_{12}\times r_{23}\times r_{13}}{1 - r_{23}^2}} =$$

$$\sqrt{\frac{(0.92)^2 + (0.89)^2 - 2\times 0.92\times 0.99\times 0.89}{1 - (0.99)^2}} = 0.93$$

$(R_{1.23})^2 = 0.87$

Appendix-II: PROFILES OF MEMBER MFIS

1. Centre for Self-help Development (CSD)

Address: Dillibazar, Kathmandu

In 1994, Centre for Self-help Development (CSD), Kathmandu commenced Microfinance operation in 1994 with a self-help banking program for the poor in three Terai districts. Having encouraging performance and impacts, it began expanding its outreach to more districts. With the objective of formalizing its program, in 1998, CSD promoted SB Bank with transferring its all microfinance business, leaving the microfinance operation in Dang, which was not legally allowed for that. After a long gap, CSD again began expanding its outreach opening branches in Kathmandu valley in 2004. Now, it operates in 113 VDCs and 12 municipalities of 6 (Kathmandu, Lalitpur, Bhaktapur, Kavre, Sindhupalchowk and Dang) districts, where it has served 31,005 women of the poor families, and disbursed credit to 20,534 of them. Till 16 July 2007, its total disbursement was Rs. 647.46 million. On 16 July 2007, its loan outstanding was Rs. 157.50 million and member savings balance Rs. 69.21 million. Loan recovery rate in the fiscal year was 99.9 %.

2. Chartare Yuwa Club (CYC)

Address: Baglung

Established in September 1992, CYC commenced microfinance operation in 1997. It became a partner organization of RMDC in 2001. It operates in Baglung, Gulmi and Lamjung districts, where it has served 3,421 women of the poor households, and provided microcredit to 1,402 of them. Till 16 July 2007, its total disbursement to its clients was Rs. 27088 million. On the date, its total loan outstanding was Rs. 7.40 million and member savings balance Rs. 3.98 million. Loan recovery rate in the fiscal year was 100%.

3. Chhimek Bikas Bank Ltd.

Address: Heatuda , Makwanpur

Established in August 2001, Chhimek Bikas Bank Ltd commenced microfinance operation in October of the same year. It operates in 212 VDCs and 12 municipalities of 10 districts (Bara, Parsa, Makawanpur, Rautahat, Chitwan, Kaski, Nawalparasi, Rupandehi, Tanahun and Gorkha) where it has served 37,217 women of the poor households, and provided microcredit to 29,118 of them. Till 16 July 2007, its total disbursement to its clients was Rs. 1,185 million. On the date, its total loan outstanding was Rs. 280.55 million and member savings balance Rs. 106 million. Loan recovery rate in the fiscal year was 99.70 %.

4. Community Women Development Centre (CWDEC)

Address : Rajbiraj, Saptari

Established in December 1994, CWDEC commenced microfinance operation in 1997. It became a partner organization of RMDC in 2001. It operates in 69 VDCs and 2 municipalities of Saptari and Siraha districts, where it has served 7,398 women of the poor households and disbursed credit to 6,022 of them. Till 16 July 2007, its total disbursement to its clients was Rs. 153.43 million. On the date, its total loan outstanding was Rs. 37.86 million and member savings balance Rs. 12.30 million.Loan recovery rate in the fiscal year was 99.83%.

5. Dhaulagiri Community Resources Development Centre (DCRDC)

Address : Baglung

Established in September 1995, DCRDC commenced microfinance operation in 1997.It became a partner organization of RMDC in 2001. It operates in 27 VDCs and 1 municipality of 4 districts (Baglung, Parbat, Myagdi and Kaski), where it has served 3,500 women of the poor households, and provided microcredit to 2,257 of them. Till 16 July 2007, its total disbursement to its clients was Rs. 62 million. On the date, its total loan outstanding was Rs. 16.71 million. and member savings balance Rs. 5.88 million. Loan recovery rate in the fiscal year was 100%.

6. Forum of Rural Women Ardency Development (FORWARD)

Address : Sunsari

Established in April 1995, FORWARD commenced microfinance operation in 2000. It became a partner organization of RMDC in 2003. It operates in 123 VDcs and 7 municipalities of 7 districts (Morang, Sunsari, Jhapa, Udayapur, Ilam and Panchthar), where it has served 28,907 women of the poor households, and provided microcredit to 23,272 of them. Till 16 July 2007, its total disbursement to its clients was Rs. 406.74 million. On the date, its total loan outstanding was Rs. 142.28 million and member savings balance Rs. 36.72 million. Loan recovery rate in the fiscal year was 99.81%.

7. Gorkha Gharelu Savings & Credit Cooperative

Address : Gorkha

Gorkha Gharelu Savings & Credit Cooperative commenced microfinance operation in 2000. It operates in Gorkha district, where it has served 140 women of the poor families, and disbursed credit to 88 of them. Till 16 July 2006, its total disbursement was Rs. 690,000. On 16 July 2006, its loan outstanding was Rs. 375,200 and member savings balance Rs. 60,775. Loan recovery rate in the fiscal year was 100%. It became a partner organization of RMDC in 2004.

8. Grameen Mahila Bikas Sanastha

Address : Tribhuvanagar - 11, Dang

Grameen Mahila Bikas Sanastha commenced microfinance operation in 1995. It operates in 4 VDCs of Dang district, where it has served 1,235 women of the poor families, and 275 women among them have borrowed credit from it till 16 July 2006. Its total disbursement is Rs. 1,985,200. On 16 July 2006, its loan outstanding was Rs. 766,187. Loan recovery rate in the fiscal year was 100%. It became a partner organization of RMDC in 2004.

9. Grameen Mahila Utthan Kendra

Address : Dang

Grameen Mahila Utthan Kendra commenced microfinance operation in 1996. It operates in Dang district, where it has served 1,491 women of the poor families, and disbursed credit to 739 of them. Till 16 July 2006, its total disbursement was Rs.5,698,220. On the date, its loan outstanding was Rs. 1,961,553. and member savings balance Rs. 1,200,418. Loan recovery rate in the fiscal year was 100%. It became a partner organization of RMDC in 2004.3 development banks, 24 FI-NGOs and 30 cooperatives.

10.Jeevan Bikas Samaj

Address : Amahi Bariyati,Morang

Established in September 1997, Jeevan Bikas Samaj commenced microfinance operation in 2001. It became a partner organization of RMDC in 2003. It operates in 44 VDCs and 1 municipality of Morang district, where it has served 10,096 women of the poor households, and disbursed credit to 8,447 of them. Till 16 July 2006, its total disbursement to its clients is Rs. 88,494,700. On the date, its total loan outstanding was Rs. 34,426,188. and member savings balance Rs. 9,770,488. Loan recovery rate in the fiscal year was 100%.

11.Karnali Savings & Credit Cooperative

Address : Anarmani, Birtamode, Jhapa

Karnali Savings & Credit Cooperative commenced microfinance operation in 2000. It operates in 9 VDCs of Jhapa district, where it has served 1,897 women of the poor families,and disbursed credit to 1,774 women among them. Till 16 July 2006, its total disbursement was Rs. 15,454,840. On the date, its loan outstanding was Rs. 7,594,568 and member savings balance Rs. 1,875,678. Loan recovery rate in the fiscal year was 100%. It became a partner organization of RMDC in 2004.

12.Mahuli Community Development Centre (MCDC)

Address : Mahuli, Saptari

Established in 1994, MCDC commenced microfinance operation in 1998. It became a partner organization of RMDC in 2001. It operates in 49 VDCs and 1 municipality of Saptari district, where it has served 5,134 women of the poor households, and provided microcredit to 4,430 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 72,785,500. On the date, its total loan outstanding was Rs. 22,351,187. and member savings balance Rs. 6,022,412. Loan recovery rate in the fiscal year was 98.02 %.Bs, 13 development banks,

13. Manushi

Address : Gyaneswor, Kathmandu

Established in March 1991, Manushi commenced microfinance operation in 2001. It became a partner organization of RMDC in 2003. It operates in 15 VDcs and 2 municipalities of Kathmandu district, where it has served 3,049 women of the poor households, and provided microcredit to 2,458 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 50,601,600. On the date, its total loan outstanding was Rs. 15,992,221 and member savings balance Rs. 6,769,519. Loan recovery rate in the fiscal year was 100%.

14.National Educational and Social Development Organization (NESDO)

Address : Parbat

Established in June 1995, NESDO commenced microfinance operation in 1996. It became a partner organization of RMDC in 2001. It operates in 24 VDCs and 1 municipality of Parbat and Kaski districts, where it has served 2,245 women of the poor households and 1,359 clients among them have borrowed credit. Till 16 July 2006, its total disbursement to its clients was Rs. 28,700,310. On th date, its total loan outstanding was Rs. 9,192,071 and member savings balance Rs. 2,313,217.Loan recovery rate in the fiscal year was 99.91%.

15.Nawaprativa Saving & Credit Cooperative Ltd.

Address : Arunkhola, Nawalparasi.

Established in December 1997, Nawaprativa Saving & Credit Cooperative Ltd commenced microfinance program in partnership with RMDC in July 2004. It has made 871 members under the microfinance program and disbursed credit to 510 of them. Till 16 July 2006, its cumulative disbursement was Rs. 3,734,000. On the date, its outstanding loan was Rs. 2,043,083 and member savings balance Rs. 178,064.

16.Nepal Mahila Samudayik Sewa Kendra

Address : Tribhuvannagar - 11, Dang

Established in August 1993, Nepal Mahila Samudayik Sewa Kendra commenced microfinance operation in August 1994. It became a partner organization of RMDC in 2003. It operates in Dang district, where it has served 1,416 women of the poor families, and provided microcredit to 801 of them. Till 16 July 2006, its total disbursement was 13,532,073. On the date, its total loan outstanding was Rs. 4,006,147 and member savings balance Rs. 1,570,905. Loan recovery rate in the fiscal year was 100 %.

17.Nepal Rural Development Society Centre (NRDSC)

Address : Biratnagar, Morang

Established in September 1993, NRDSC commenced microfinance operation in 1997.It operates in 65 VDcs and 5 municipalities of 3 districts (Sunsari, Morang and Jhapa), where it has served 19,945 women of the poor households, and provided microcredit to 18,473 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 401,919,200. On the date, its total loan outstanding was Rs. 93,727,701 and member savings balance Rs. 35,443,760. Loan recovery rate in the fiscal year was 99.79%.

18.Nepal Women Development Centre

Address : Lalitpur

Established in November 1995, Nepal Women Development Centre commenced microfinance operation in 2001. It became a partner organization of RMDC in 2003. It operates in 22 VDCs and 2 municipalities of 2 districts Kavrepalanchowk and Lalitpur), where it has served 2,885 women of the poor households, and provided microcredit to 1,497 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 24,827,200. On the date, its total loan outstanding was Rs. 8,675,864 and member savings balance Rs. 3,841,154. Loan recovery rate in the fiscal year was 100%. 2 GBBs, 13 development banks, 24 FI-NGOs

19.Nirdhan Utthan Bank Ltd.

Address : Bhairahawa, Rupandehi

Nirdhan Utthan Bank Ltd. was established in September 1998. It is being promoted by Nirdhan (a microfinance NGO), which started microfinance operation in March 1993. It now operates in 418 VDCs and 6 municipalities of 10 districts, where it has served 75,263 women of the poor households, and provided microcredit to 58,679 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 3,064,493,330. On the date, its total loan outstanding was Rs. 556,264,284 and savings outstanding Rs. 161,326,687. Loan recovery rate in the fiscal year was 98.67%.

20. Royal Cooperative Society Ltd.

Address : Syangja

Established in 2003, Royal Cooperative Society, Syangja commenced microfinance operation in 2004. It operates in 6 VDCs and 1 municipality of Syangja district, where it has served 1,164 women of the poor households, and provided microcredit to 873 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 12,126,500. On the date, its total loan outstanding was Rs. 5,904,560 and member savings balance Rs. 1,752,307. Loan recovery rate in the fiscal year was 100%.

21. Rural Awareness Forum (RAF)

Address : Baglung

Established in 1994, RAF commenced microfinance operation in 1997. It became a partner organization of RMDC in 2001. It operates in 6 VDCs of Baglung district, where it served 744 women of the poor households, and 195 clients among them borrowed credit till 16 July 2006. Its total disbursement to its clients is Rs. 5,539,200. On 16 July 2006, its total loan outstanding was Rs. 1,196,805 and savings outstanding Rs. 422,266. Loan recovery rate in the fiscal year was 97.23%..

22.Sahara Saving and Credit Cooperative Ltd

Address : Charpane, Jhapa

Established in September 1993, Sahara Saving & Credit Cooperative Ltd. commenced microfinance operation in 2001. It operates in 31 VDCs and 1 municipality of Jhapa district, where it has served 7,664 women of the poor households, and provided microcredit to 7,172 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 107,401,250. On the date, its total loan outstanding was Rs. 39,439,214 and member savings balance Rs. 10,711,102. Loan recovery rate in the fiscal year was 100 %.

23.SB Bank Ltd.

Address : Janakpurdham

SB Bank Ltd. was established in October 2001. It is a transformed institution of selfhelp banking program of the Centre for Self-help Development (CSD), which started microfinance program in January 1994. SB Bank Ltd. is now operates in 354 VDCs and 10 municipalities of 10 districts, where it has served 61,739 women of the poor households, and provided microcredit to 47,811 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 2,894,167,990. On the date, its loan outstanding was Rs. 322,540,610 and member savings balance Rs. 146,401,009. Loan recovery rate in the fiscal year was 99.82 %.

24.Sewa Savings & Credit Cooperative

Address : Sunsari

Sewa Savings & Credit Cooperative commenced microfinance operation in 1998. It operates in 5 VDCs and 1 municipality of Sunsari district, where it has served 1,202 women of the poor families, and disbursed credit to 957 of them. Till 16 July 2006, its total disbursement was Rs. 20,302,550. On 16 July 2006, its loan outstanding was Rs.6,655,227 and member savings balance Rs. 2,356,270 Loan recovery rate in the fiscal year was 99.89%. It became a partner organization of RMDC in 2004.

25.Social Welfare Action Nepal (SWAN)

Address : Sonpur - 1, Narti, Dang

Established in July 1994, SWAN commenced microfinance operation in 1997. Itoperates in 7 VDCs of Dang district, where it has served 1,038 women of the poor households, and disbursed credit to 264 of them. Till 13 April 2006, its total disbursement to its clients was Rs. 1,883,000. On the date, its total loan outstanding was Rs. 380,225 and member savings balance Rs 487,266. It became a partner organization of RMDC in July 2004.

26.Society of Local Volunteers' Effort (SOLVE)

Address : Dhankuta

Established in October 1989, SOLVE commenced microfinance operation in 1995. It became a partner organization of RMDC in 2001. It operates in Dhankuta district, where it has served 1849 women of the poor households, and 541 clients among them have borrowed credit. Till 15 July 2005, its total disbursement to its clients was Rs. 10,483,543. On the date, its loan outstanding was Rs. 3,265,062 and member savings balance Rs. 1,684,534. Loan recovery rate in the fiscal year was 100%.

27. Srijana Bikas Kendra

Address : Pokhara, Kaski

Established in June 1980, Srijana Bikas Kendra commenced microfinance operation in 1994. It became a partner organization of RMDC in 2003. It operates in Kaski district, where it has served 1,500 women of the poor families, and provided microcredit to 1,272 of them. Till 16 July 2006, its total disbursement was Rs. 27,558,500. On the date, its loan outstanding was Rs. 10,182,990 and member savings balance 2,656,127. Loan recovery rate in the fiscal year was 100%.opment banks, 24 FI-NGOs and 30 cooperatives.

28. Srijana Community Development Centre

Address : Chandralalpur - 2, Siraha

Eastablished in December 1992, Srijana Community Development Centre commenced microfinance operation in 1995. It became a partner organization of RMDC in 2003. It operates in 18 VDCs of Siraha district, where it has served 1,605 women of the poor families, and provided microcredit to 1,450 of them. Till 16 July 2006, its total disbursement was Rs. 22,593,500. On the date, its loan outstanding was Rs.9,165,031 and member savings balance Rs. 1,749,595. Loan recovery rate in the fiscal year was 99.96%.

29.SUPER

Address : Tulsipur - 5, Dang

Established in August 1992, SUPER commenced microfinance operation in 1995. It operates in 6 VDCs and 1 municipality of Dang district, where it has served 805 women of the poor families and disbursed loan to 534 of them. Till 16 July 2006, its cumulative disbursement was Rs. 3,287,000. On the date, its total loan outstanding was Rs.1,628,390 and member savings balance Rs.535,727. Loan recovery rate in the fiscal year was 100 %. It became a partner organization of RMDC in July 2004.

30.United Youth Club (UNYC)

Address : Jotpur - 8, Bardia

Established in March 1995, United Youth Club commenced microfinance operation in 2001. It operates in 4 VDCs and 1 municipality of Bardiya district, where it has served 765 women of poor families, and provided microcredit to 191 of them. Till 16 July 2006, its total disbursement to its clients was Rs. 2,514,400. On the date, its total loan outstanding was Rs. 435,860 and member savings balance Rs. 424,096. Loan recovery rate in the fiscal year was 100 %.

31.Women Entrepreneurs Association of Nepal (WEAN)

Address : Kathmandu

Established in 1988, WEAN commenced microfinance operation in 1994. It became a partner organization of RMDC in 2004. It operates in 12 VDCs and 2 municipalities of 3 districts, where it has provided services to 889 women of the poor households. Till 16 July 2006, its total disbursement to its microfinance clients was

Rs.13,212,000. On the date its loan outstanding was Rs. 2,736,926 and member savings balance Rs. 1,128,486. Loan recovery rate in the fiscal year was 98.15 %.

32.Women Support Cooperative (WSC)

Address : Balaju, Kathmandu

Established in December 1999, Women Support Cooperative commenced Microfinance operation in September 2002. It became a partner organization of RMDC in 2003. It operates in 10 VDCs and 1 municipality of Kathmandu district and has served 2,263 women of the poor families and disbursed credit to 1,529 of them. Till 16 July 2006, it has disbursed Rs. 39,239,700. On the date, its loan outstanding was Rs. 10,493,880 and member savings balance Rs.5,706,972. Loan recovery rate in the fiscal year was 99.65%.