CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal having the land area of approximately 14 million hectares is one of the least developed countries in the world (ADB; 2000:156). Having 31% of the 25.3 Million populations below poverty line, with proportion of the population below poverty line in urban areas 9.6% (2004) and population growth rate 2.3% (ADB; 2006:1), Nepal is considered as one of the poorest country in the world and in South Asia Region. Its poverty reduction rate is low, i) low per capital income, ii) concentrated urban growth and iii) high population growth rate, being the main reasons. Despite encouraging growth of other South Asian Countries coupled with the prospects of positive trickle – down effects of two shining economies of Asian giants – India and China, the real Gross Domestic Product (GDP) of Nepal in the year 2007 stood at mere 2.5%. The per capita income is estimated to be mere $386 on Fiscal Year 2007 (ADB; 2006:7). The weak GDP growth is attributed to poor agricultural growth. Agriculture is the largest sector, contributing around 40% of GDP. Poor geographic terrain and underdeveloped infrastructure continue to constrain Nepal's economic growth. Nepal is an overwhelmingly rural and agrarian economy. Over 85% of its people live in rural areas and draw their livelihood primarily from agriculture and related activities.

Nepal's planned development efforts began with the implementation of the first five year plan in 1956/57. Until the 1970s, the main focus of development plans was on developing basic infrastructure, it thereafter shifted to agriculture and rural development (ADB; 2000:13). The running tenth plan has the single objective of poverty alleviation. The plan has fixed the target of reducing the population below poverty line.

The term poverty refers not only to material deprivation but also to low achievements in education and health, vulnerability and exposure to risk and lack of voice and empowerment. All these elements continue to severely restrict the capability of an individual to escape poverty. And thus the necessity of micro finance is felt in our country.

1.2 Micro Finance Market

Micro finance services are provided by three types of sources in Nepal (ADB,2000:25):

- Formal institutions such as rural banks and cooperatives
- Semiformal institutions such as non government organizations
- Informal sources such as money lenders and shopkeepers

1.3 Introduction of RMDC

Rural Micro Finance Development Centre (RMDC) was established as an apex organization of micro finance 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 had 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.

The authorized capital of RMDC is 160 million rupees and the issued as well as the paid-up capital is 80 million rupees. Nepal Rastra Bank, eleven national level commercial banks, two regional commercial banks, the Deposit Insurance and Credit Guarantee Corporation and Nirdhan are the promoters and shareholders of RMDC. The 13 commercial banks and Nepal Rastra Bank have purchased 67% and 26% of the total paid-up capital of the Centre respectively.

The main objective of RMDC is to improve the socio economic condition of the poor, the landless and the assetless families by increasing their access to resources for productive undertakings and employment through micro finance institutions. RMDC has specified their objectives as follows:

- To provide wholesale funds to potential and viable micro finance institutions 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 micro finance 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 micro finance 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.

1.4 Objectives of the Study

- To assess the services of Micro Finance Companies funded by RMDC through the composition and outreach and assess its impact
- To examine the loan performance of RMDC
- To examine the input of RMDC towards development of micro finance in Nepal
- To examine the problems and prospects of micro finance and recommend the process

1.5 Statement of the Problem

Nepal is one of the poorest countries in the world as well as in South Asian Region. Nepalese economy is distinctly different in its character from the regional economies. Poverty, less developed geographical situation, technological backwardness, landlocked, dominated by two large economies, low per capital income, high population growth rate, concentrated urban growth and low level of educations are the main features of Nepalese economy. The outreach of micro finance services in Nepal, is still very limited. To change the aforesaid features of Nepal, the poor should be made aware of the products and services offered by the micro finance institutions.

Women of Nepal are suffering more than men due to complex social, cultural, traditional, geographical and economic characteristics. They lack access to health, education and economic resources. Nepalese women are underprivileged and disadvantaged in terms of their socio-economic status in comparison to their male counterpart. The contribution of women in agriculture production is 60.5% (National Population Census 2001), which is not considered as productive economically. Nepal, being an agrarian country has more women involved in agriculture. Women have a remarkable contribution in agro-businesses agro industries and small scale industries .

Full participation of the women power is highly necessary in agriculture programmes like agriculture publicity and promotion training use of imported seeds and chemical fertilisers improved farming techniques crop survey techniques etc executed for increasing productivity by involving the women in agriculture sector effectively. There is vast discrimination in getting wages for the similar work between men and women. The male dominating society in every aspect has suppressed the women since long time. This reality clearly desires the utmost need for the launching of effective programs to uplift the economic situation of the rural women. Economically active participation of women commonly gives momentum in all types of poverty reduction plan.

A major share of rural household income is derived from agriculture. According to the Rural Credit Review Study conducted by Nepal Rastra Bank in 1994, the average annual income of rural household during 1991/92 was Nrs. 26,000, varying from Nrs. 71,000 for the large holders (over 4 hectares) to Nrs. 17,000 for the functionally landless (less than 0.05 hectares) households.

Poor agricultural growth has resulted in a high incidence of rural poverty. According to the Nepal Living Standards Survey conducted by the Central Bureau of Statistics during 1994/95, 42 percent of the populations were living below the poverty line, defined as an income level below Nrs. 4,500 (about $68). Of this population, one quarter was identified as poor and 17% as hardcore poor. The National Planning Commission uses the word “hard core poor” interchangeably with “ultra-poor”, both defined as assetless population. In urban areas, the percentage of population living below the poverty line was estimated at 23% compared with 44% in rural areas. The mountains region had the highest poverty level of 56%, with 29.3% identified as poor and 26.7% as hardcore poor. In particular, the mid-western and the far-western hills and the mountains are the most poverty-hit areas in rural Nepal. These are also the areas having the least accessibility and the highest level of illiteracy. Thus, the incidence of poverty is higher in rural than in urban areas, and particularly extreme in more remote parts of the rural areas where levels of illiteracy are also higher. Studies tend to suggest that the level of rural poverty has increased rather than declined over the time.

So, this study would mainly focus on the following issues of micro finance :

- Are poor aware of the micro finance products and services available? What measures are taken and where to spread awareness of its facilities?
- Do poor understand micro finance products and services?
- Can access to financial services enhance the Quality of Life of clients of micro finance institutions?
- Is the cost of the financial services to the poor is reasonable for them to bear?
- Are the loan products appropriate for borrower's needs?
- Has the financial services towards poor through micro finance institutes have changed?

It is necessary to take the micro finance institutions services to the grass root level to keep this sector healthy and to understand the need of the poor. And RMDC is making efforts to be more focused on enhancing the POs capability besides disbursement of loans. RMDC considers the financial status, financial management and loan management of their POs to increase their quality service.

1.6 Significance of the Study

The efficiency of a micro-credit organization depends on its services and sustainability. Therefore, while extending the service of micro credit organization, performance of existing organizations needs to be assessed. This study is conducted to assess the services provided by the Micro Finance Companies. The performance of small micro credit organization can bring a great change in rural micro finance market, if it can be organized. So, the problems faced by the micro credit institutions as well as their customers will be studied along with their future prospects for the sustainable micro finance services.

All micro finance institutes are backed up and organized by an apex organization. RMDC is one of the apex organizations of MFIs in Nepal that plays the role of intermediary. At this point of time RMDC holds an important place for itself for the development of micro finance and to expand its working capacity. RMDC was established with initiative of Nepal Rastra Bank and Asian Development Bank. Its main aim is to enhance micro finance sector by providing wholesale funds to micro finance institutions, training the personnel of micro finance institutions and clients and developing awareness and policy in this field.

1.7 Research Methodology

Since there is not sufficient academic research in this aspect, available literature, their researches, reports and practices of different development agencies, NGOs, INGOs, and other agencies will be reviewed. As a guide of assessing the sustainability, financial standards derived from the World Credit Union will be reviewed.

The data and information used in this study will be based on a variety of sources including both primary and secondary sources of data. The secondary information will be gathered from National Planning Commission, National Bureau of Statistics and other related organizations. Some of the figures will also be collected and analyzed from Asian Development Bank, World Bank, UNDP and other International Organizations and their web sites on the Internet. Primary sources of data are mainly based on the questionnaires distributed to the end users of micro finance services.

The data of both quantitative and qualitative nature will be collected. The analysis part also focuses of both quantitative and qualitative data to identify key reasons of the success and failure of micro finance organizations.

1.8 Limitations of the Study

The study will be based on the data made available by the various Small and Saving Credit Organizations, Rural Microfinance Development Corporations and other institutions. It will not touch other areas of the project, such as local politics, national economic condition etc.

The comprehensibility and the accuracy of the study are based on the data made available from the concerned organizations and free response made the by the respondents to the research questionnaire.

1.9 Organization of the Study

The study is organized in five chapters, each devoted to some aspect of the study of Micro Finance in Nepal and RMDC. The fields of each of these chapters are as follows:

Chapter - I : Contains the introductory part of the study, this chapter describes the general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter - II : This chapter devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter - III : This chapter describes the research methodology implied in the study. This deals with the nature and sources of data, list of the selected companies the model of analysis, meaning and definition of Statistical tools.

Chapter - IV : This chapter deals with the presentation and analysis of secondary data by using various tools and it also deals with the presentation and analysis of primary data.

Chapter - V : This chapter state summary and conclusion, and major findings of the study. The bibliography, annexes are incorporated at the end of the study.

CHAPTER - II

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Micro Finance

Also known as Rural Finance, Micro Finance refers to the activity of provision of financial services to those who are excluded from the traditional financial services in an account of economic status. Microfinance is termed as the financial services rendered to the deprived groups of the people and small entrepreneurs in savings, credit, remittance, rural insurance etc to help them in developing self employment opportunities and various income generating activities. Small size of loan group savings small-scale entrepreneurs, diversified utilization and simple and flexible terms/conditions on credit (without collateral) are the determining characteristics of its definition. These financial services of Micro Finance mostly cover the micro credit and savings. Micro Credit in general means the small loans and savings also refers to the small amount of deposit. Micro Finance has potentiality to benefit poor people. It provides access to the financial services to the poor people, which in result help them to reduce their poverty, through increasing income levels. To achieve rapid and sustainable reductions in poverty it is necessary to have an integrated policy strategy, with the various elements of the strategy reinforcing each other. The main contribution of microfinance – Savings, Credit and Insurance – is to help people overcome financial constraints and facilitate the management of their money (Gulli, 1998:3) The World Development Report for 1990 found that poverty can be reduced most effectively through a strategy with two equally important elements.

1. The first element is to promote the productive use of the poor’s most abundant asset, their labour. Broad-based economic growth, through appropriate macroeconomic and microeconomic policies, is critical in this respect. There is also an important role for targeted policies to promote infrastructure development and encourage income-generating activities for the poor.
2. The second element is to provide basic social services to the poor. The World Bank found that primary health care, family planning, nutrition and primary education are especially important in this regard.

These two elements are mutually reinforcing. Increasing the productivity and incomes of the poor makes it easier for them to access social services such as health care and education. And policies to improve the health and education of the poor enable them to work more productively. The countries that have implemented both parts of the strategy effectively and in a sustained manner have tended to reap the largest gains in terms of poverty reduction (McGuire, Conroy & Thapa, 1998:5).

Similarly, studies also show that micro finance improves poor people's lives by contributing to improved healthcare, children's education and nutrition and women's empowerment as well. Can microfinance interventions reduce poverty? If poverty is understood as low levels of annual income per household, reducing poverty is about raising average income levels. If a particular level of annual income per head is used as a poverty line, poverty reduction could be measured by counting the number or proportion of people who cross that line-who are promoted out of poverty. Providers of financial services who aim to enable people to cross such a poverty line have focused on credit, in particular credit for small enterprises, including agricultural production (Johnson & Bogaly, 1997:15).

These financial services will most commonly take the form of loans, though some micro finance institutions will offer other services such as insurance and payment services.

Before microfinance viewed its clients as given, but today much of this has changed. The microfinance agenda is now increasing its client or market driven by providing broad range of financial services such as (Cohen, 2001:1) :

- Deposits
- Loans
- Payment Services
- Money Transfers
- Insurance to poor and low income households and their micro enterprises

Like everyone else people living in poverty need access to a diverse range of financial services, including loans, savings services, insurance and money transfers. Access to financial services enables the poor to increase income and smooth consumption flows, thus expanding their asset base and reducing their vulnerability to the external shocks that plague their daily existence. The availability of financial services acts as a buffer against sudden emergencies, business risk and seasonal slumps that can push a family into destitution. More and better financial services specifically geared towards low-income groups can help poor households to move from mere subsistence for daily survival to planning for the future investing in their better nutrition, improved living conditions and children's health and education.

Impact studies show that in many cases, micro finance reduced poverty through increasing income levels. Studies also show micro finance has resulted in improved healthcare, children's education and nutrition and women's empowerment.

In particular, the ability to borrow, save and earn income reduces economic vulnerability for women and their households (ADB; 2007:5). Increased financial and food security can bring a new confidence and hope which often translates to a greater sense of empowerment for those affected by micro finance.

Many micro finance and micro credit programmes target women, largely due to their (generally) higher repayment rates, but in many cases this is a mixed blessing. If a programme excludes men, particularly in areas where access to financial services is limited, the man may require his wife to get the loan for him, others have argued that exclusive access for women actually increase her bargaining power within the household. Nonetheless, micro finance is not a panacea. Even the most innovative and participative programmes can lead to unwanted negative impacts. In many cases, micro finance been shown to benefit the moderately poor more that truly destitute. Many early impact studies on micro finance showed increased income levels but more recent and better-designed studies have shown that the impact vary per income group. In most cases, the better-off benefit more from micro credit due to their higher skill levels, better market contacts and higher initial resource base. Lower income groups may be more risk-averse and benefit more from savings and micro insurance.

Difficult topography, remoteness, heterogeneous groups and culture etc have hindered for the successful delivery of microfinance in Nepal (NRB; 2007:1). Principally, microfinance institutions pursue the income generating activities to promote the interest of the poor by providing basic services and contribute in upgrading their economic and social standard.

Microfinance programmes are established and promoted in Nepal with diversified method and modalities. They are in public verses private sector modality, project based modality, wholesale lending based modality, community vs. deprived sector based modality etc. The micro-credit programmes such as PCRW, MCPW, GBBs replicates etc fall under gender based programmes while the programmes as PAPWT, TLDP, RMP, CGISP etc come on project based micro credit programmes. The wholesale microcredit programmes are RSRF, RMDC, SKBBL etc. The microcredit activities of SACCOPs and FINGOs come under the modality of community based. Besides, a member of self-help groups are also rendering micro financial services to the rural people (NRB, 2009:1).

1. Small Farmer Co-operatives Limited

Previously it was the Small Farmer Development Project under Agricultural Development Bank, which has been transferred to the local community under the Cooperative Act, 1991.

Table 2.1

Performance of SFCL

No. of SFCL	139
Benefited no. of members	85730
Benefited no. of groups	13322
Technical Support	IFAD, CGAP and GTZ
Financial Support	SKBBL

As of mid-July 2006

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

2. Priority Sector and Deprived Sector Credit Programmes

There is the mandatory provision for all commercial banks to disburse 2% and 3% of the total loan portfolio to priority and deprived sector credit programmes respectively. By mid-July 2007, the priority sector credit program will be phased out.

Table 2.2

Performance of Priority Sector and Deprived Sector

Rs. In Million

	Priority Sector	**Deprived Sector**
Direct Credit from Commercial Banks	8,057.71	1,208.24
Agriculture	1,206.76	776.86
Domestic Industries	1,813.52	85.50
Services	4,025.12	345.88
Power Sector	1,000.51	-
Machine and Import of Raw Materials	11.80	-
Indirect Credit through Microfinance Institutions	2,046.36	4,046.89

As of mid-July 2006

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

3. Rural Micro-Finance Development Banks

To provide the banking facilities for the socio-economic upliftment of the deprived people in the rural areas 5 regional rural development banks were established with the initiative of the government, NRB and some other financial institutions. Later 4 private sector microfinance development banks (Nirdhan, Swabalamban, Deprosc and Chimek) were also established.

Table 2.3

Datas of Rural Development Banks and Replication Banks

Rs. In Thousands

	5 GBBs	4 Replication Banks
Number of Centre	5046	7054
Number of Groups	36403	36717
Number of members	167886	185833
Number of borrowers	149255	146402
Total Disbursement	12484829	6642502
Total Repaid	11224716	5495863
Total Outstanding	1260113	1146639
District Covered	47	40
Member of Branch	142	120
VDC Covered	1038	1163

As of mid-July 2006

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

4. Financial Intermediary Non-government Organizations (FINGOs)

Out of about 10,000, only 47 NGOs are licensed by NRB for financial intermediary. They usually form the groups and collect deposit through MFIs as well as they obtain wholesale credit from MFIs and disburse it to the group members.

5. Savings and Credit Co-operatives (SACCOPS)

The co-operatives have been introduced in Nepal since 1956. About 8000 co-operatives are registered in co-operative Department of the Government of Nepal. Some near about 2600 cooperatives are involved with the savings and credit programmes. Of them only 19 cooperatives are licensed by NRB for limited banking transaction and 199 cooperatives are associated with RSRF.

6. Wholesale Micro-finance Institutions:

a. RSRF: To increase the income and render employment opportunity for the deprived people in the rural areas, the Government of Nepal has established the Rural Self-Reliance Fund in 1991 with the seed Capital Fund of Rs. 20 Million and added another Rs. 20 Million in 2004/2005. NRB has provided a total amount of Rs. 253.40 Million from its profit in this fund in different periods. In FY 2006/07 the Government of Nepal is injecting the amount of Rs. 50 Million in the fund. RSRF provides the wholesale credit for on-lending purpose to the deprived people through MFIs, Co-operatives and NGOs and long-term loan to the sector like tea, cardamom and local storage through ADB.

Table 2.4

Performance of RSRF

Rs. In Thousand

	Short Term (5 NGO, 199 SFCL)	**Mid and Long Term**
PFI	250	5
Total Disbursement	101359	159200
Total Repaid	68593	21666
Total Outstanding	32766	137534
District Covered	47	40
Family Benefited	9949	0

As of mid-July 2006

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

b. RMDC and SKBBL: To provide the wholesale loan to MFIs, SFCLs, RMDC and SKBBL were established in 2000 and 2002 respectively.

Table 2.5

Performance of RMDC and SKBBL

Rs. In Thousand

	RMDC	SKBBL
PFI		All SFCL
Total Disbursement	982602	827785*
Total Repaid	481748	724054
Total Outstanding	500854	1430539
District Covered	24	0

As of mid-July 2006

** Current year disbursement and repayment only*

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

7. Donor Sponsored Microcredit Programmes

There are six major donor funded micro-credit programmes that are running in the Country of which some are now in in-active stage. They are PCRW, MCPW, FLDP, PAPWT, RMP and CGISP. All these programmes are focused to reduce poverty and have contributed to the facilitation of micro-credit to the targeted groups and assisted in capacity building of PFIs.

a. To improve the socio-economic status of rural women by accessing them to institutional loan for their productivity the project Production Credit for Rural Women was launched in 30 November 1988.
b. To increase the economic status of the rural and urban women by providing micro-credit fro their micro businesses the project micro-credit project for women (MCPW) was launched in 15 December 1993.
c. To increase income and employment of rural poor by engaging them in Development Project was launched in 1997.
d. To increase participation of the deprived poor in western Terai for their socio-economic upliftments the project Poverty Alleviation Project in Western Terai was launched in 1998.
e. To increase the agriculture productivity by providing the irrigation facilities to the deprived community’s farmers for the poverty alleviation program the

project Community Ground Water Irrigation Sector Project was launched in March 1999.

Table 2.6

Performance of Donor-Funded Credit Programmes

Rs. In Thousand

	PCRW	**MCPW**	**TLDP**	**PAPWT**	**CGISP**
PFI	3	2	17	5	10
Total Disbursement	234593	195209	183464	136745	158748
Total Repaid	99702	48802	142157	62129	2870
Total Outstanding	134891	145407	41307	74616	155878
District Covered	35	42	19	8	12
Benefited Family	NA	NA	9773	21000	21262
Donor Agency	IFAD	ADB/M	ADB/M	IFAD	ADB/M
Project Period	1988-1997	1993-1999	1997-2004	1998-2004	1998-2007
Last Repayment to Multilateral Agencies	May-19	Nov-18	Mid July 2034	Mid July 2033	Dec-37

As of mid-July 2006

Source: http://www.nrb.org.np/mfd/mfd_brocher.pdf

8. Future Perspectives

To assist the poverty reduction programmes of the Government, Nepal Rastra Bank has played pivotal role inbuilding up the institutional Network and mechanism for easy and smooth availability of the micro-finance for the income generating activities of the poor and the deprived people. This has resulted in the emergence of many MFIs, which have been participating in the micro-financing operation using it as one of the effective financial tools for poverty reduction. However, these MFIs have not been able to provide services to all the targeted people. There is a wide scope and tremendous opportunity for these institutions to involve in microfinancing right through various rural financing programmes. The challenge of the day is first reaching out to the majority of the poor people with micro and rural finance and secondly making the MFIs viable, sustainable and profitable. Endorsement of National micro-finance policy and establishment of Second Tier Institutions (STI) as proposed by Government of Nepal will facilitate informal financing to provide easy access to the Microfinance. Besides, the cost effective and self-sustained MFIs are also, the pre-conditions for the successful implementation of such programmes. For this sound monitoring and supervision of MFIs is a must. This will certainly pave the way for meeting the national objective to expand the outreach of MFIs so far the targeted people.

Main Financial Highlights of Microfinance Development Banks

As of Mid-Jan 2008, total paid up capital in micro finance development banks is NPR 742,700,000, comprises of total 12 micro finance development banks. Total deposits in these banks is NPR 1,320,600,000. Swabalamban Bikas Bank has the highest deposit of NPR 226,500,000. Since RMDC is an apex organization, it has not provided the deposit service towards its clients. The total borrowings of these 12 micro finance development banks is NPR 7,563,100,000, out of which NPR 1,700,900,000 is of RMDC. The total performing loan as of Mid-Jan 2008 for micro finance development bank is NPR 4,879,100,000. RMDC has the highest amount in performing loan i.e NPR 1,189,900,000. Non performing loan is less than 1% in all the organization while RMDC has 0 Non performing loan. Loan loss provision varied according to the organization from 1.59% to 100%. Sana Kishan Bikas Bank has maintained 100% loan loss provision. In case of RMDC it is only 4% (NRB; 2009:1).

2.1.2 Role of microfinance in Poverty Reduction

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are majority of those without access to microfinance (Morduch, 2002:6).

While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can also benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium goals.

Microfinance has been extensively examined over the past 10-15 years and the resulting literature is now very large. A focused review of the literature was conducted to evaluate recent publications regarding the impact of microfinance on poverty reduction.

The number of rigorous studies of client outreach and impact has grown considerably, especially in the past few years, spurred in part by the development of monitoring tools like CGAP's Poverty Assessment Tool, Cashpor Housing index, SEF's Participatory Wealth Ranking, and USAID's AIMS Tools. The resulting studies show that:

- The tools are relatively inexpensive and practical to use and they yield useful data for both programs and donors
- Average loan size is an easy indicator to collect but proves to be unreliable when measuring depth of outreach. Minimal extra efforts in data collection can yield much richer information for marketing and evaluation
- Microfinance institutions (MFIs) show considerable diversity in their ability to reach poor populations
- Excellent financial performance does not imply excellence in outreach to poor households
- At the same time, reaching the poor is not at odds with maintaining excellent financial performance and professional business practices
- Programs that make poverty reduction an explicit goal and make it a part of their organizational culture are far more effective at reaching poor households than those that value finance above all else
- These lessons point out to natural evolutions in the microfinance sector. Many MFIs have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in evaluations (World Bank 1998). Currently, the majority of MFIs neither determines the composition of their clientele upon intake nor evaluates the effectiveness of their program in terms of poverty reduction. The development and use of the new tools for market analysis and evaluation suggests that failure to monitor and evaluate can cut costs in the short-run at the expense of achieving long-term social and economic goals.

Social and Economic Impacts

The review of the literature also points to several specific conclusions about the impact of microfinance on poverty reduction:

- Evidence shows the positive impact of microfinance on poverty reduction as it relates to the first six out of seven Millennium Goals

- While the quality of many studies could be improves, there is an overwhelming amount of evidence substantiating a beneficial affect on :
  - Increase in income
  - Reductions in vulnerability
  - There are fewer studies with evidence on health, nutritional status and primary schooling attendance, but the existing evidence is largely conclusive and positive (Morduch, 2002:7)

2.1.3 Rural Financial Institutions and Programs

2.1.3.1 Formal Sector

The financial formal sector comprises numerous institutions licensed by NRB including 23 commercial banks, 79 finance companies, 58 development banks, 10 microfinance development banks, 47 FINGOs, 16 financial cooperatives holding Limited Banking Licenses, 2,692 SACCOPs, and 219 SFCLs (Microfinance Industry Report, 2009:15). However, very few of them could provide their services to the rural and microfinance sectors. On the one hand, finance companies, commercial banks and development bans have very little involvement in rural areas and microfinance, except for the state-owned Rastriya Banijya Bank, NBL and ADBL. On the other hand, the outreach of proper MFIs is limited by the scarcity of their resources: they account for only 4% of capital, 1% of deposits and 2% of outstanding loans to the sector. This is so because at the initial stage, the interest rate at which there institutions had to receive loans was high as about 7%. As such, the operating costs of the institutions were high, affecting the prospects of mobilization of capital, deposits and outstanding loans.

Rural MDBs include five Grameen Bikas Banks (GBBs) and four MDBs. The GBBs were established by the Government to provide microfinance services in each of Nepal’s five development region. Their outreach and performance has been poor and like ADBL branches and small farmers cooperatives (SFCs), their being associated with the Government meant that they were affected by conflict. Microcredit development banks by contrast have shown better performance.

NGOs were acknowledged for the first time as partners in the development process by the Micro Credit Project for Women that used them as non-lending institutions responsible for social mobilization of groups and for imparting skills. But not until the enactment of the Financial Intermediary Societies Act in 1998 that NGOs were permitted to provide financial services. Now they can acquire a limited banking license fro the central bank and act as FINGOs. The first 13 licensed FINGOs were established in 2000 and have since grown considerably in number being now 47.

Four apex institutions currently operate in Nepal: Rural Self-Reliance Fund (RSRF), Small Farmer Development Bank (SFDB), RMDC and the National Cooperative Bank Limited (NCBL). Among these institutions, RSRF was established by the Government in 1990. It is financed through public funds, replenishments from NRB. It provides wholesale funds to SACCOS, NGOs and Grameen replications operating in the rural areas of 46 districts and it normally charges an 8% interest rate. Its scale of finance is limited to Rs. 500,000.00.

SFDB was established by ADBL in March 202 but it started operations only in July 2003. The bank's main function is to provide wholesale funds to SFCs. According to an evaluation done by ADB, SFCB's profitability, efficiency and productivity are weak. Loans are 80% of assets and borrowing in 73% of liabilities. Nearly 90% of SFCs loans are concentrated in livestock and agro services, both of which have poor repayment histories. Moreove, SFDB's performance is constrained by the fact that borrowing from ADBL at a 9% interest rate, it on-lends to SFCs at 12% - which is significantly higher that what they could obtain from other sources, such as commercial banks and RMDC.

RMDC was established in 1998 at the initiative of ADB and NRB and became operational in 2000. It provides MFIs with wholesale funds, and financial and technical support to strengthen their institutional capacity. It also organizes direct support for the final beneficiaries and acts as a financial intermediary between them and national and international donors. RMDC borrows from the Government and lends to MFIs at interest rates compatible with commercial banks, which allows it to compete with them under the deprived sector lending.

The NCBL was established in 2003 under the Cooperative Act (1992). NRB approved it to carry out wholesale banking for its member cooperative societies. NCBL's principal sources of funds are capital and deposits. Its management plans to develop this body as the leading institution responsible for monitoring and supervising cooperative societies (ADB, 2007:3).

2.1.3.2 Semiformal Sector

In the semiformal sector, there exist joint government –donor-supported projects and autonomous member-based organizations such as NGOs and cooperatives. Many cooperatives came together under the Nepal Federation of Savings and Cooperatives Union Limited (NEFSCUN). Established in 1988, NEFSCUN is the central apex body of community-based SACCOS in Nepal. Its mission is to promote , strengthen and provide a forum for SACCOS to become viable community-based financial institutions. NEFSCUN is controlled and owned by its members and guided by the International Credit Unions principles and values. Currently, 432 SACCOS with more than 70,000 members from 51 districts are affiliated with NEFSCUN. Local microfinance networks such as the Microfinance Association of Nepal, Microfinance Bankers Association, and the Grameen Network Association have been established in Nepal. However, they have now either disintegrated or become inactive, due to a lack of funding and leadership and the diversity and geographical isolation of their members (ADB, 2007:4).

2.1.3.3 Informal Sector

Informal agencies, both individual and groups, have traditionally played a dominant role in the rural financial market. The individuals mainly include moneylenders, landlords, traders, friends and relatives, while the groups include informal self-help groups and organizations. According to the Rural Credit Review Study, 80% of the borrowing households in the country during 1991/92 had borrowed from these informal sources. The dependence on informal sources was more compelling for the poorer households, marginal farmers and landless laborers as their borrowings from institutional sources were much lower (9% for the landless, 15% for marginal farmers and 38% for large holders). The study also confirmed that the poor and smallholders faced problems of collateral and higher level of transaction costs when borrowing from institutional sources. However, their loans from informal sources were largely used for consumption and social purposes and did not play a significant role in productive investments.

2.1.4 Origination and Development and Cooperative movement of Micro Finance in Nepal

The earliest initiatives for establishing micro finance services in Nepal can be dated back to the 1950s when the first credit cooperatives were established. These were primarily intended to provide credit to agricultural sector (Sinha, 1999:7). The cooperative program of micro finance in Nepal started on 1956, with the establishment of 13 cooperatives in Rapti Valley of Chitwan district. However, the program still existed before that in the form of Dhukuti, Guthi, which are still in use.

The credit cooperatives were registered under an Executive Order of the Government, as there was no Cooperative Act at that time. The objective of these co-operatives was to provide agriculture credit to flood-stricken people resettled in the Rapti Valley. Following the successful delivery of the agricultural credit by these cooperatives, the cooperative societies were promoted in other parts of the country.

The first Cooperative Act was promulgated in 1959. And in 1963 a cooperative bank was established to ensure that the cooperatives have sufficient capital to invest, which was converted into Agricultural Development Bank (ADB/N) in 1968, with broader scope of extending credit to cooperatives, individuals and corporate bodies engaged in agricultural activities and agro-based enterprises. In 1973 Land Reform Savings Corporation was merged in ADB/N, which was established in 1966 to handle the compulsory savings collected under the land reform program.

Before 1990s government used to set a target for registering cooperative societies. This usually restricted the public initiative to promote cooperatives. Hence, the growth was almost negligible. But the Cooperative Act 1992 provided a liberal and democratic framework for cooperatives societies, where government did not restrict cooperatives from being registered; cooperators were free to promote them. Hence a mushroom growth was recorded during 1990s.

- In 1974, NRB directed commercial banks to invest 5% of their total deposits in the "small sector". The objective of this measure was to promote rural finance. The activities to which credit was to be directed were collectively renamed the "priority sector" to cover agriculture, cottage industry and the service sectors, and the lending requirement for commercial banks to this sector was increased to 7% in 1976 and then further to 12% in 1999. NRB directed that 25% of these priority sector loans – 3% of the total portfolio, should be lent to the hardcore poor under the "deprived sector credit program."

- In 1976, the scope of the small sector was broadened to include agriculture cottage industry and services, and has since then been called "The Priority Sector".
- In 1981, to strengthen the priority sector program, NRB introduced the Intensive Banking Program (IBP) which was intended to do away with collateral requirements and to get the banks to engage in group-based lending. The program was undertaken by two large commercial banks – NBL and RBB – and later by the first joint venture bank in Nepal, the Nepal Arab Bank Ltd. (NABIL). Unfortunately, in practice, neither of the objectives of the program was achieved. In fact, it has largely bypassed the poorer segments of the population, reaching instead the non-poor sector.
- Starting in 1975, the Small Farmers Development Program was implemented by the Agricultural Development Bank of Nepal
- The next main step in the development of micro finance in Nepal in the form of the first gender-focused program, the Production Credit for Rural Women (PCRW), which was initiated in 1982 by the Ministry of Local Development in collaboration with the United Nation Children's Fund (UNICEF) and NRB. This involved the organization of groups of women training them to undertake group-based borrowing from NBL, RBB and ADB/N. Encouraged by the results, yet learning from the experience of this initiative, the same department in 1994 started the Micro Credit Project for Women (MCPW). This was more innovative since, for the first time in a government – sponsored program, it involved NGOs as intermediaries in financial service delivery.
- In 1990, the Government of Nepal established the Rural Self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and financial intermediaries for lending to the poor.
- In 1992, in an important initiative to augment the supply of micro finance, the first two RRDBs – one for the eastern region and one for the far-western region were established with government and NRB Funds as replications of the Grameen Bank of Bangladesh. Focusing on extremely poor women, RRDBs use

a group lending approach and a weekly repayment system. By mid-july 1997, five RRDBs had been established, one for each region in the country. While initially four of the RRDBs were established under the Commercial Banks Act, 1984, the fifth was registered under the Development Banks Act 1996.

- In 1990s, with the technical assistance from GTZ, local branched of Agricultural Development Bank Nepal under Small Farmer Development Program, started to be recognized into federations of Small Farmer Groups, the "Small Farmer Cooperatives Ltd". (SFCL) each operating as an autonomous cooperative.
- With the promulgation of the Development Bank Act in 1995, Nirdhan was the first NGO (1998) to transfer its micro finance portfolio into an autonomous micro finance rural bank (Nirdhan, Urban Development Bank). Since 200, three other micro finance rural banks were created through the same process first initiated by Nirdhan, with DEPROSC Development Bank in 2000, Swabalamban Bikas Bank Ltd. and Chhimel Bikas Bank in 2001. Acknowledging the poor performance of the RRDBs under public ownership, the Central Bank started a restructuring program, which will lead ultimately to the privatization of the five RRDBs.
- With a view to provide source of wholesale fund to regulate micro finance institutions, the Rural Micro Finance Development Cente (RMDC) was established in 1998 and later on opened its lending to other micro finance providers. In 2001, the Small Farmer Development Bank was established under the Development Bank Act to provide wholesale funds to Small Farmers Cooperatives Ltd. (SFCLs).

2.1.5 Regulatory Framework of Micro Finance Institutions in Nepal

In Nepal, microfinance activities are regulated under the newly promulgated "Bank and financial ordinance 2004", which covers category D 'Microfinance Development Banks', not allowed to perform regular development bank activities and category E. 'NGOs as financial intermediaries'. The ordinance includes the two specific acts promulgated by the parliament in recent years (ADB, 2000:17).

- Nepal Rastra Bank Act, 2002
- Commercial Bank Act, 1974
- Agricultural Development Act, 1967

- Development Bank Act, 1996
- Financial Intermediary NGOs Act, 1998
- Co-operative Act, 1992

The first attempt to provide any regulatory basis for financial promotion activity in the country was made when 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. This measure was followed in 1996 by the Development Bank Act, which provides for the establishment of financial institutions that have the mandate to operate in a more relaxed financial framework than the commercial banks. Regional Rural Development Banks are registered under this Act, which provides regulation by NRB. In 1999, Nirdhan, the largest MFI in Nepal, also obtained a development banking license for its newly operational Nirdhan Utthan Bank. Nirdhan is in process of transferring its entire micro finance portfolio to the new bank.

However, the most recent initiative to provide a regulatory framework to micro finance 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 (Sinha, 1999:12). On February 24, 2003, NRB issued regulations for the development banks, which are engaged in micro finance, as a guideline to develop MFIs activities.

There are various micro finance institutions established in Nepal to date. There are micro finance wholesale Apex Institutions also, which are acting as the intermediary to provide financial services to the rural poor households, specially woman of the village, through micro finance institutions. Such as, Rural Self Reliance Fund (RSRF), Rural Micro Finance Development Center Ltd. (RMDC), Commercial Bank (CB).

The central bank, Nepal Rastra Bank imposes ‘priority sector’ lending to commercial banks, which entails lending a certain percentage of their deposit liability to deprived population, including the usual microfinance clients. The ratio of priority sector lending over time has increased from 5% to 12% in which 0.25 to 3% must be invested in the ‘deprived’ sector, which aims at targeting the hardcore poor. Commercial banks can choose to lend the required amount to end clients directly, or disburse it through loan or equity in other microfinance institutions. Because of the creation of new wholesale funds and the liberalization of the financial system, NRB has recently decided to phase out its priority credit policy by 2007, with decreased ration of 6% in 2004, and 2% in 2006. However, the 3% deprived sector requirement will stay in place, and include microfinance. As of mid July 2003, Rs. 22,605 million was injected in the priority sector, while Rs. 3,563 million was allocated to deprived sector lending, from which 132.6 million was in the form of equity (BWTP; 3).

Under this priority sector lending agenda, the central bank has been playing an unusual development role, justified by the lack of commercial bank interest to lend in rural areas and the weak formal microfinance sector. NRB has directed microfinance oriented programs such as the Intensive Banking Program, which introduced group guarantee mechanisms in place of formal collateral, the Production Credit for Rural Women (PCRW) and Micro-Credit for Women (MCPW), which targeted low-income women, and were supported by donor agencies such as IFAD or the ADB. In 1992, NRB introduced the Grameen Bank model in Nepal by establishing five Regional Rural Development Banks, each operating in a separate development region. NRB also manages the Rural Self-Reliance Fund (RSRF), established in 1191, which provides wholesale lending to NGOs, cooperatives and financial intermediaries.

2.1.6 RMDC

RMDC, an apex institution of Microfinance in Nepal was incorporated on October 30, 1998 as a Public Limited Company under Companies Act 1996 and got license from NRB on December 6, 1999 to operate as a development bank within the framework of the Development Bank Act 1995. It has been operation since January 200. Its main aim is to enhance Microfinance sector by providing wholesale funds to MFIs, training MFO Personnel and Clients and developing awareness and policy in this field. RMDC has been implementing different projects for promotion and development of the Microfinance Industry in the Country.

RMDC has been implementing an Asian Development Bank funded project namely "Rural Microfinance Project" since 1999, which ended successfully on June 30, 2007. The primary objective of the project is to improve the socioeconomic status of the poor, especially women, by improving their access to quality financial services. The project scopes are (a) the provision of revolving line of credit for on-lending to the poor and women, (b) institutional strengthening of executing agencies and implementing Microfinance institutions and (c) capacity building of sub-borrowers and beneficiaries. Under the project, RMDC has access to the poor households through retails MFIs.

"Community Livestock Development Project (CLDP)" of RMDC 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 microfinance component of the project. Under the microfinance component, the project aims at creating access of microfinance services to 69,000 farmers through 100 MFIs. A loan of SDR 3,632,000 is available to RMDC through the Government to implement the microfinance activities.

A subsidiary agreement was made between the Government of Nepal and RMDC on October 29, 2004. However, the project has been effective in operation since December 2, 2005. The life of the project is six years.

RMDC has identified a number of FINGOs and SACCOPs to disburse livestock credit to small farmers. As of July 16, 2007, RMDC has approved loan amounting Rs. 2,328.76 million and disbursed Rs. 1,943.67 million to 45 Partner Organizations.

2.1.6.1 Loan Limit and Interest Rate

Initially, RMDC could approve a maximum Nrs. 40 million – and subsequently Nrs. 80 million – to a single MFI at a time. This loan limit was inadequate to meet the needs of bigger partners such as MDBs. The loan limit has only recently been raised to Nrs. 160 million. The initial lending rate to MFIs set by the project was 9.75%, much higher than the 5-7% charged by commercial banks. It prevented RMDC from disbursing its fund and conducting microfinance operations. During its life, RMDC had to put pressure on Government twice to change the lending rate (from 6% to 4% in 2001and from 4% to 2% in 2004) so that it could change its lending rate to MFIs to 6.5% and consequently to 5%.

2.1.6.2 Major Activities

RMDC operates ion 47 out of the 75 districts of Nepal. Its operations are concentrated in three areas: credit program, institutional development, and support for ultimate borrowers. It closely supervises its partner organizations and contributes to disseminating microfinance best practices. Its stated goal is “reaching 500,000 poor families with credit facilities through 100 partner organizations” (RMDC Business Plan 2004). It has supported partner organizations in various forms such as microfinance operations, institutional development, monitoring and supervision, and creating microfinance-friendly environment as discussed below:

- **Credit Program**

RMDC provides wholesale credit to Microfinance Institutions for on-lending to the ultimate borrowers for viable off-farm and on-farm economic activities. Eligible Microfinance Institutions can request RMDC for loans by negotiation between RMDC and the Microfinance Institutions based on the later’s business plan and institutional capacity.

Main features of RMDC’s Credit Program are :

- RMDC offers wholesale loan funds to all types of microfinance institutions, financial intermediary NGOs, savings and credit cooperatives or microfinance development banks – for on-lending to the poor for productive activities.
- Since July 17th 2007, RMDC charges 6% annual interest rate on all its loans disbursed to MFIs. Before that the rate was 5%. For the loans disbursed under CLDP, RMDC continues charging 5% annual interest rate.
- The loan term for the first loan is 2 years. The term for the second loan could be extended up to 3 years and for the subsequent loans up to 5 years based on the previous repayment records of the MFI. Grace period is given for six months for every loan, and the loan installments (both principal and interest) are to be paid quarterly.

- RMDC lets its partner organizations (POs) to set their lending rate for their clients. However, it suggests them to have an appropriate interest rate so as to meet their all financial and operational costs plus some profit in order to attain financial viability and sustainability over a reasonable period of time.

Salient features of Partner Organizations' Credit Program

As yet, RMDC has been providing funds to its POs for on-lending to the women of poor families living in both rural and urban areas. The important features of the POs micro-credit program are as follows:

- The landless, the assetless and the families living below the national poverty line are eligible for getting membership of a PO. POs use different techniques, such as Participatory Rural Appraisal (PRA), Participatory Wealth Ranking (PWR), household survey, etc., to identify poor households in a community.
- Only one member (woman0 from each eligible family can join an MFI. The eligible women participate in a week-long pre-group training (PGT), and at the end of the training, the interested trainee women form themselves into small solidarity groups (5 members each), which are then organized into a center.
- No physical collateral is taken against a loan approved to a client. This encourages the deprived and the poor to join microcredit program. Members of the groups or the whole center are jointly liable for the payment of the remaining loan amount of a default borrower.
- POs presently charge annual interest rate of 18-25 percent on its loans disbursed to their clients. The repayment period is generally one year, and the installments are paid weekly, bi-weekly or monthly depending on local situation and clients' demand.
- Compulsory regular savings from members is one of the basic savings products of all POs. Some experienced POs have also deployed voluntary savings and micro-insurance schemes for their members. POs give back 6-8% annual interest on their members' savings deposits.
- In addition to microfinance services, POs conduct training programs for the clients with an aim to improve the latters' confidence and occupational skills. POs also link the groups of their clients with the government and non-government agencies for necessary skills development, market supports. Health services, non-formal education.

- POs have been able to maintain over 99% loan repayment rate.
- Most POs have attained operational self-sufficiency level within 2-3 years

Institutional Development

The institutional development is paramount for the successful implementation and expansion of microcredit programs, sustainability of MFIs, and overall development of the microfinance industry in the country. However, the Microfinance Project was designed to make RMDC a wholesale lender for existing MFIs. Capacity building support only represented a secondary activity. But as most of the existing MFIs in 1999 had inadequate institutional capacity and poor performance and RMDC had very few potential partners, it had to change its role from lender to promoter and shift its focus from lending to capacity building.

RMDC provides on-site consultancy services to existing MFIs and promotes the establishment of new ones. It also provides training and technical support not only to its partner organizations but also to a much larger group of institutions. Its institutional capacity-building training program covers areas such as awareness building, orientation and skills development. So far, 18 MFIs have received training, and 38 have been developed from scratch. The main purpose of the service is to help MFIs establish good microfinance operational systems and develop their staff. Training has been provided an a variety of issues, such as: PWR/PRA techniques for identifying target groups; pre-group training, basic account, financial reports, business plan, operational manuals, auditing, monitoring and supervision, management information, financial analysis and delinquencies management, credit operation management and branch management.

POs receive support from RMDC not only for their staff, but also for their clients. It strengthens borrowers' groups and improves their income-generating skills. Such training programs vary according to the needs of the beneficiaries and include different subjects, such as literacy, gender sensitization, health awareness, skills developments and microenterprise management.

In view of the increasing number of poor families in urban areas, RMDC has been encouraging institutions to provide microfinance services in such areas as well. The main source of funding for institutional development operations in the rural and/or urban areas is a grant received from the Government of Nepal under the Rural Microfinance Project.

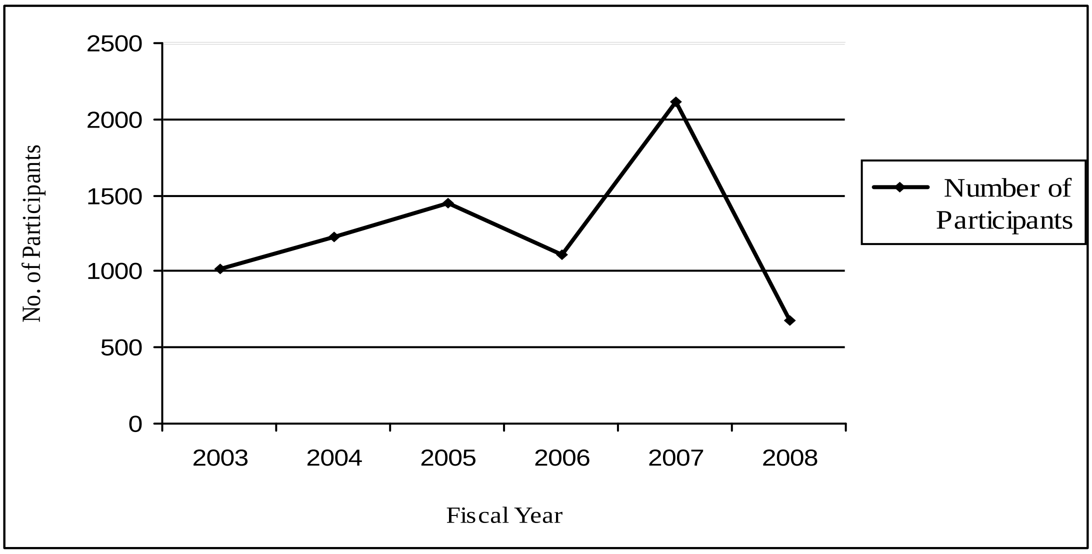
According to Table 8, RMDC had trained 6917 MFIs staff until FY2007. Its training program proved useful to introducing and updating operational systems, identifying the weaknesses of the organization, learning how to plan and design operations, reaching operational and financial sustainability, and guaranteeing quality service to clients. Courses on financial analysis, MFI management, business planning, auditing, and management information system are the most appreciated, along with on-the-job training for field staff and exposure visits. However, RMDC has no training center of its own and as such it uses the training facilities available in the country (Hakim 2003).

Table 2.7
Capacity – Building Support for MFIs Staff

Fiscal Year	Number of Participants
2003	1,020
2004	1,226
2005	1,446
2006	1,108
2007	2,117
2008	674
Total	7,591

Source: RMDC's Annual Reports

Figure 2.1
Capacity-building support for MFIs staff members



The focus of RMDC on capacity building has proved to be the key to successful programs and well-performing and sustainable MFIs. It is committed to develop quality and efficient MFIs.

In additional to training MFIs staff, RMDC also provides MFIs clients pre-group training, refresher training, leadership development training, and income-generating skills development training in areas like horticulture, livestock, and handicrafts. As Table 4 indicates, 281,291 MFIs clients participated in training programs organized by RMDC, which is more than the target of microfinance project (270,000).

Table 2.8

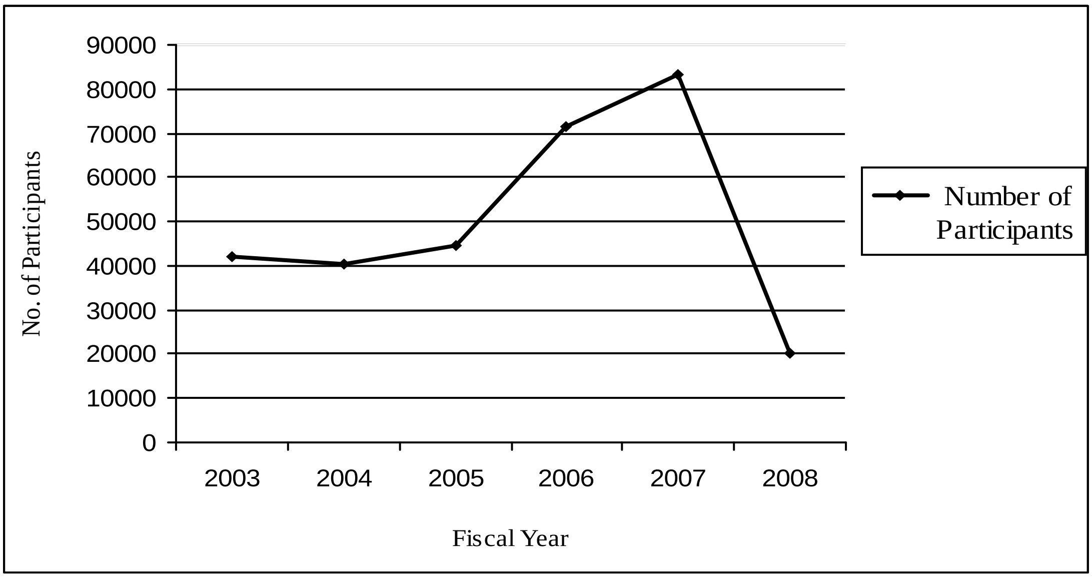
Capacity Building Support for MFIs Clients

Fiscal Year	Number of Participants
2003	41,962
2004	40,338
2005	44,506
2006	71,647
2007	83,087
2008	20,041
Total	**2,81,540**

Source: RMDC's Annual Reports

Figure 2.2

Capacity Building Support for MFIs clients



- **Supervision**

The POs regarded RMDC's supervision very important. It not only provides them with an assessment of their performance and consequent suggestions for improvement, but also gives an example of how monitoring and supervision should be carried out in each organization. The audit department of RMDC visits each PO at least twice a year. Besides, its credit department also visits each PO twice a year for regular inspections, as well as each time a new loan is demanded. They spend a whole day checking records in all the branches and cross-checking the smooth operation of programs in the field. Additionally , RMDC requires its POs to produce monthly report, on which it gives feedbacks. The POs are grateful to it for such controls and timely feedbacks, from which they continuously learn. However, due to the lack of adequate number of staff, RMDC in encountering difficulties in providing supervision services to its POs effectively.

- **Conducive Environment**

Promoting a microfinance-friendly environment, spreading best practices between MFIs, developing the market, and carrying out studies are among the major activities of RMDC. Its contribution to the development of the microfinance industry is well acknowledged. It interacts with a wide range of institutions at the grassroots and higher levels – government and nongovernment, and national and international – through seminars, workshops and interaction programs. Its contribution is noted for educating the policy makers, politicians, top government officials and professionals of development fields of essentials of microfinance and its importance for poverty reduction.

RMDC does not impose on its POs any restriction or condition regarding the lending rate to the clients, microfinance model or selection of clients. However, by disseminating and suggesting best practices, RMDC homogenizes the operations and systems of its POs.

Exposure visits are probably the most common and effective instruments to disseminate best practices. A large percentage of the staff of POs benefited from exposure visits and on-the-job training in Swabalamban Bikas Bank, considered one of the best-performing MFIs in Nepal. Moreover, exposure visits to Bangladesh are after organized for MFIs directors and managers.

RMDC produces quarterly newsletters both in Nepali and English with articles related to microfinance issues in Nepal and other parts of the world which are distributed to all POs as well as to other actors of microfinance.

RMDC goes for best practices and lobbies and works with government and donors to improve the legal and institutional frameworks in Nepal. It advises the Government on regulations and policy. Under its recommendation, the Financial Intermediary Act has been changed, allowing MFIs to accept savings from clients and requiring them to renew their license every 3 years rather than every year. More recently, the central bank has allowed development banks to expand their operation to five additional hill districts and has backed the possibility of creating a fund that would be invested in shares of MFIs. According to RMDC-the promoter of the initiative-the fund will represent a profitable and safe investment option for commercial banks and even forieng investors, which is a step forward commercialization of MFIs. This might increase MFIs equity base that will allow them to increase their borrowings and speed up operations.

- **Projects of RMDC**

RMDC has implemented three projects funded by the Asian Development Bank. The projects are:

- Rural Microfinance Project
- Community Livestock Development Project
- Japanese Fund for Poverty Reduction Assistance for optimizing productivity of Poor Water User Associations

Rural Microfinane Project

RMDC has implemented the Rural Microfinance Project since May 1999, and it has been completed on June 30, 2007. The primary objective of the project was the improvement of the socioeconomic status of the poor, especially the women through increasing their access to quality financial services. The scope project includes : (a) the provision of a revolving line of credit for on-lending to the poor and women, (b) institutional strengthening of executing agency and implementing microfinance 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 amount 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 Mission of ADB has awarded RMDC four times for its exemplary performance in the Project implementation. ADB 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 Microfinance 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 Development 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 microfinance component of the project. Under the microfinance component, the project aims at creating access of microfinance services to 69,000 farmers through 100 MFIs. A loan of SDR 3,632,000 is available to RMDC through the Government to implement the microfinance activities.

A subsidiary agreement was made between the Government of Nepal and RMDC on October 29, 2004. 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 SACCOPs to disburse credit to small farmers. As of July 16th 2007 RMDC has approved loan amount Rs. 158.00 million and 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)

ADB has agreed to provide through the government a grant assistance not exceeding the equivalent of US$ 1,000,000.00 to implement JFPR Project activities. The Department of Irrigation (DOI) takes overall responsibility in coordinating and managing the JFPR Project activities. In coordination with DOI, RMDC is responsible for implementing the microfinance activities. A grant fund of US$ 550,000 is budgeted for RMDC for the implementation of the microfinance activities, i.e. revolving credit fund for seed multiplication and micro-enterprise 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. As of July 16th 2007, RMDC has approved loan amounting Rs. 38.05 million and disbursed Rs. 23.05 million to 3 institutions under the project.

2.1.7 Outreach and Sustainability

It is apparent that micro finance in Nepal has evolved as a mix of formal financial institutions, informal institutions and traditional sources of micro finance. While directed credit, as priority sector lending, was introduced in 1974, no common definition of micro finance has been arrived as to date even though NRB used a simple, if rather limiting, definition of all loans below NRs. 15,000 until 1998. This upper limit has been increased to Nrs. 30,000 (Sinha, 1999:7).

Sustainable development has been defined as the use of natural resources to support economics activity without compromising the environment's carrying capacity, which is its ability to continue producing those economic goods and services (Manning and Dougherty 1995). Our common future describes sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987 in Murphy, 1994). Today there is a growing recognition that past growth and development have led to same serious impacts on the environment. Such recognition resulted in the rise of environmentalism and green consciousness that ultimately gave birth to the theory of sustainable development is not new, but its popularity is ever increasing.

For a development intervention to be successful, it must survive and thrive beyond the life of a project or a main stream in the agendas of national and substantial governments and all the relevant stakeholders (World Bank, 2001).

2.2 Review of Other Studies

There have been very few studies on Microfinance by MBS students. Only limited studies can be found to take as reference, where case studies on various Microfinance Institutes are done.

Biki Bhattarai (2006), student of Shanker Dev Campus had done study on "*An Overview of Microfinance in Nepal*" with following objectives:

1. To find out actual financial position of JBS
2. To evaluate the role of JBS in poverty alleviation and rural development program
3. To evaluate the changes in economic conditions of rural people after the intervention of JBS
4. To explore the results about the sustainability and viability of JBS as a MFI

His findings were:

1. JBS is under good financial position as the repayment rate is 100% throughout the year
2. It was found from the productivity ratio that increased in average number of active borrowers per credit officer from 80-536 has significantly increased total amount disbursed per period as well as average portfolio throughout the year.

Findings from his PEARLS analysis

1. It was found that the demand of loan is high due to which the ratio of investment made in the form of loan is more that their assets balance i.e. more that 100% where as recommended range is 60-80% of total assets.

He has concluded that in Nepalese context, even though Microfinance has been proven as effective and efficient mechanism in poverty reduction endeavor, most of the microfinance institutions have become unable to reach the poorest (ultra poor) due to their inability to identify and measure them. On the other hand, improving access to financial services has been commonly viewed as strong tool to credit institutions has been constrained due to high cost of their services delivered.

From her outreach analysis, it is found that all sample borrowers have properly utilized loan amount disbursed in each installment. Borrowers are involved in economically profitable and financially viable businesses after being part of JBS. The income level of borrowers increased to Rs. 5000 per month from 1000 after JBS intervention, leading to the improved living standard of people.

Smriti Kharel study on "Financial Performance of Micro Finance Institutions and the Women Economic Empowerment in Nepal" had the following objectives:

1. To analyze the financial performance of MPBRS and PMBRS
2. To access the female entrepreneurship of MPBRS and PMBRS
3. To access the empowerment of women in the related project
4. Impact on the life style of the members of MFIs.

Some of her major findings are listed as below :

1. 30-40 years working age group women are more involved in both MFIs as they are more conscious to their family. This age group is also involved kin decision making sectors
2. Most of the respondents of both MFIs are illiterate and again the membership percentages within 2 years of both MFIs are higher in comparison to other year which shows that they are moving faster in developing their entrepreneurship.
3. Repayment is 100% and debt is 0% of both MPBRS and PMBRS
4. Only 31% women of MPBRS and 20% women of PMBRS saved money from their own self business. 100% respondents of PMBRS take consent to borrow loan from their husband while in MPBRS case, they take consent not only from husband but from other members as well. It shows that women are still dependent to their family members to take consent and to make their decisions
5. Improvement in the living standard of the members
6. Majority of members were unknown about the voting system of such organization
7. Majority of members don't know about the process of federation and selection of chairman too. They are not even interest on such topics

Bindeswar Prasad Lekhak, 2004 had done dissertation on "Microfinance in Nepal and the case study of SFCL Anandavan, Rupendahi, ADB/N. He had outlined following objectives:

1. To study the financial sustainability and viability of SFCL
2. To know the facing change of society after SFCL
3. To know the major problem of SFCL Anandavan

Conclusions:

1. For SFCL Anandavan is focused to participatory planning domestic resources mobilization, human capital formation and promotion of self-help groups of the grassroots level.
2. Integrated development approach incorporating saving, credits, social and community development acitivities are major outcomes of the SFCL. Apart from it awareness development, sanitation, literacy attainment, community and social development are major contribution of SFCL Anandavan in society and financial viability and sustainable of SFCL is in better position.

William F. Steel and Stephanie Charintoneko have conducted the thesis entitled "*Rural Financial Services: Implementing the Bank's strategy to reach the rural poor*" in March 2003, having main objectives as follows:

1. To seek to expand access by the rural poor to a suitable diversity of products and institutions that fill the financial needs of low income rural clients in income generation and reduction of vulnerability
2. To explore the characteristics of rural financial markets and constraint to their development
3. To review recent implementation experience of Bank RMF operations and emerging issues
4. To develop approaches for strengthening implementation of the Bank's strategy for rural financial market development at the levels of macro policies, institutions, communities and clients
5. To focus on the access of the rural poor to financial services and development of the capacity of rural and mircofinance institutions RMFIs to deliver services.

6. To elaborate 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
7. To articulate how the Bank views current best practices in rural finance and attempts to incorporate them into its operations, as a common frame of reference for policymakers in client countries, Bank Staff and other donor agencies
8. To prepare an operational framework for the Bank and its 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 a variety of sectors in trying to respond to the demands of developing countries for assistance in rural development:

1. Achieving real sector objectives in agriculture and rural infrastructure
2. Commercializing microfinance in rural areas and
3. 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 a sustained basis and building the capacity of RMFIs to respond to demands from rural households and enterprises. On the whole, the research is focused on reaching reliable access to credit when needed in more important to smallholders and the poor than the interest rate and that savings mobilization is an effective toll for expanding outreach and achieving financial self-sustainability.

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

The main objectives of the research were as follows:

1. To provide information about present ongoing conflict in Nepal
2. To give the overview of the rural financial sector in Nepal and outlines some recent developments
3. To analyze the financial performance of the Small Farmer Cooperatives Ltd. within the context of Nepal’s Armed conflict
4. To focusing of adverse effects of the Maoist insurgency on financial performance of Small Farmer Cooperatives Ltd. (SFCLs)
5. Attempt to reveal some of the coping strategies of these grassroots organization in relation to conflicts

The main findings of this research were:

1. The main reasons of armed conflict are inequitable social-economic and political access, bad governance/corruption and poverty
2. 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 a prime target of the Maoist insurgency
3. The financial institutions are facing higher costs due to reconstruction efforts, branch staff is often in a 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.

Joanna Ledgerwood of Microfinance International, Canada and Development project service center, Nepal (DEPROSC-NEPAL, 1997) has jointly conducted research on “Critical Issues in Nepal’s Micro Finance circumstances”. The specific objectives of this study were:

1. To review the circumstances regarding current microfinance activities and create a ‘snapshot’ of the microfinance situation;
2. To identify and confirm critical issues in microfinance in Nepal

3. 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 microfinance institutions
4. To examine the effectiveness and outreach of microfinance organizations in Nepal, leading to the identification of critical issues currently faced b these organizations

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

1. Financial viability of microfinance institutions, including financial self-sufficiency, financial reporting and subsidies
2. Transformation of government programs from retail banking to wholesale banking
3. Expansion of the provision of financial services to the Hills
4. Encroachment or unfair competition between microfinance institutions
5. Lack of appropriate institutional structures and the inability to form a federation of microfinance institutions

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

The main findings of this study were:
Microfinance organizations in Nepal appreciate the costs and benefits associated with microfinance. However, outreach is limited, particularly in the remote hill areas and financial management is poor, leading to microfinance institutions which are largely unsustainable over the longer term.

The microfinance sector in Nepal is characterized by a social service approach rather than a business approach. Continued reference to microfinance clients as beneficiaries is characteristics of a ‘social banking’ approach rather than sustainable ‘client focuses’ financial intermediation.

Ultimately microfinance organizations in Nepal will have to adopt an approach focused on providing valued services to 'clients' rather than treating them as beneficiaries who require hand-outs and subsidies. Its suggests that all microfinance activities should be designed to meet the need of the clients, i.e. be demand-driven rather than supply-driven, taking into account the particular needs of women.

Financial reporting of microfinance activities in Nepal is better than in many South Asian countries, because microfinance organizations in Nepal take into consideration the financial and operating costs of financial intermediation.

A number of subsidies are provided to microfinance institutions in Nepal, including subsidized capital for on 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/SACCOPs (Saving and credit cooperatives) in the Hill areas using village banking models designed in Latin America and West Africa, and community loan funds. The Grameens have 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 microfinance institutions. In addition, once interest rate subsidies are removed and as each institutions 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 microfinance 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 microfinance institutions and to enable cooperatives and NGOs to form federations freely and according to their specific needs.

This study is conducted to summaries the critical issues of microfinance organizations and solutions to these issues are proposed and specific recommendations for government, donors, and microfinance practitioners are provided.

Rural Finance Development in Nepal, A Medium-Term Strategy issued by Asian Development Bank in March 2000 has outlined followings as the major issues in the rural finance sector:

1. Weak Financial Viability and Sustainality
2. Limited Outreach
3. High Transaction Costs
4. Inadequate Legal and Regulatory Framework
5. Poor Governance and Weak Institutional Capacity
6. Lack of Institutional Autonomy
7. Limited Focus on Savings and Other Financial Products
8. Inadequate Information and Database
9. Unclear Distinction between Microfinance and Development Finance

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

A study cannot be completed without its procedures. It is very important to know how the study has been performed, what type of methodology has been used, what are the sources of data used, what type of data is taken in study, what are the tools and techniques used for data analysis has been taken into account etc. All these plan of action to be carried out in connection with a research project is Research Design.

3.2 Nature of Data

Data required for this study are collected from both primary and secondary sources. The primary data was collected directly from the clients of micro finance services. Secondary data was obtained from various studies, annual reports and websites.

3.3 Sample Population

The users of micro finance services are taken as the population for the collection of primary data. Total 50 questionnaires were distributed to them out of which only 35 responded. Out of 3 wholesale microfinance institutes – Rural Self-Reliance Fund, Sana Kisan Bikas Bank Ltd. and Rural Micro Finance Development Coporation, Rural Micro Finance Development Corporation is chosen for the study. And out of 58 microfinance institutes funded by Rural Micro Finance Corporation, following 8 microfinance institutes are taken as sample:

1. Nepal Rural Development Society Centre (NRDSC), Biratnagar
2. Manushi, Gyaneshwor
3. Forum for Rural Women Ardency Development (FORWARD), Sunsari
4. Jeevan Bikas Samaj, Morang
5. Swabalamban Laghubitta Bikas Bank, Janakpur
6. Nepal Mahila Utthan Kendra, Lalitpur
7. Centre for Selfhelp Development (CSD), Kathmandu
8. Grameen Mahila Bikas Sansthan, Dang

3.4 Data Analysis Tools

Both qualitative and quantitative tools are used to analyze the data for this study. For quantitative analysis, the percentage analysis is alone to compare the two or more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors. “PEARLS” analysis tool for financial stabilization monitoring and evaluation research monograph of the World Councila of Credit Unions (WOCCU) is also used. The PEARLS System is comprises 44 Financial Ratios under the following headings:

P = Protection
E = Effective Quality
A = Asset Quality
R = Rates of Return and Costs
L = Liquidity
S = Sign of growth

In this study only 14 indicators have been analyzed according to the need and availability of data. The first alphabet P, which indicated Protection, is used to measure the adequacy of the provisions for loan losses. P1 measures the adequacy of allowances for loan losses when compared to the allowances required for covering all loans delinquent over 12 months. There are other 6 indicators under protection, however they are not calculated in this study. Effective Financial Structure measures the composition of the most important accounts on the Balance Sheet. There are total 9 indicators, which deals with loans, investments, deposits, borrowed funds, member shares and institutional capital. In this study, we have used 4 tools to measure the financial structure that is related to loan, investments and shares.

To measure the quality of assets, only one tool out of 3 has been used. It measures the percentage of the total assets not producing income. R, which indicates rates of return and cost, have 12 evaluation tool, however in this study we have calculated R1 to measure the yield on the loan portfolio, R9 to measure the operating expenses and R12 to measure the adequacy of earnings. Liquidity indicators show whether the Credit Union is effectively managing its cash so that it can meet deposit with withdrawal requests and liquidity reserve requirements. In addition, idle cash is also measured to insure that this non-earning assets does not unduly affect profitability. Here, we have calculated L3 only to measure the percentage of total assets that is invested in non-earning accounts as other calculation requires Savings Deposits. Sign of Growth indicators measure the percentage of growth in each of the most important accounts on the financial statement. Out of 11 signs of growth, only the growth in loan, investments and assets have been measured.

Table 3.1

The PEARLS System of monitoring and evaluation indicators

Area	Pearl	Description	Goal
P = Protection	P1	Allowances for Loan Losses / Allowances Required for Loans Delinquent > 12 months	100%
	P2	Net Allowance for Loan Losses / Allowances Required for Loans Delinquent less than 12 months	35%
	P3	Total Charge-Off of Delinquent Loans >12 months	100%
	P4	Annual Loan Charge-offs	Minimal
	P5	Accumulated Loan Recoveries / Accumulated Loan Charge-offs	100%
	P6	Solvency	>=100%
E = Effective Financial Structure	E1	Net Loans / Total Assets	70 - 80%
	E2	Liquid Investments / Total Assets	Max 20%
	E3	Financial Investments / Total Assets	Max 10%
	E4	Non-financial Investments / Total Assets	0%
	E5	Savings Deposits / Total Assets	70 - 80%
	E6	External Credit / Total Assets	Max 5%
	E7	Member Share Capital / Total Assets	10 - 20%
	E8	Institutional Capital / Total Assets	Min 10%
	E9	Net Institutional Capital / Total Assets	Same as E8
A = Asset Quality	A1	Total Loan Delinquency / Gross Loan Portfolio	<=5%
	A2	Non-Earning Assets / Total Assets	<=5%
	A3	Net Institutional & Transitory Capital + Non Interest-Bearing Liabilities / Non-earning Assets	>200%

R = Rates of Return & Costs	R1	Net Loan Income / Average Net Loan Portfolio	Entrepreneurial Rate
	R2	Total Liquid Investment Income / Average Liquid Investments	Market Rates
	R3	Total Financial Investment Income / Average Financial Investments	Market Rates
	R4	Total Non-Financial Investment Income / Average Non-Financial Investments	Greater than R1
	R5	Total Interest Cost on Savings Deposits / Average Savings Deposits	Market Rates > Inflation
	R6	Total Interest Cost on External Credit / Average External Credit	Market Rates
	R7	Total Interst (Dividend) Cost on shares / Average Member Shares	Market Rates > = R5
	R8	Total Gross Income Margin / Average Total Assets	Variable - Linked to R9, R11, R12
	R9	Total Operating Expenses / Avg. Total Assets	5%
	R10	Total Loan Loss Provision Expense / Average Total Assets	Dependent on Delinquent Loans
	R11	Non-Recurring Income or Expense / Average Total Assets	Minimal
	R12	Net Income / Average Total Assets	Linked to E9
L = Liquidity	L1	S.T Investments + Liquid Assets - S.T Payables / Savings Deposits	Min 15%
	L2	Liquidity Reserves / Savings Deposits	10%
	L3	Non-Earning Liquid Assets / Total Assets	<1%
S = Signs of Growth	S1	Growth in Loans to Members	Dependent on E1
	S2	Growth in Liquid Investments	Dependent on E2
	S3	Growth in Financial Investments	Dependent on E3
	S4	Growth in Non-Financial Investments	Dependent on E4
	S5	Growth in Savings Deposits	Dependent on E5
	S6	Growth in External Credit	Dependent on E6
	S7	Growth in Share Capita	Dependent on E7
	S8	Growth in Institutional Capital	Dependent on E8
	S9	Growth in Net Institutional Capital	Dependent on E9
	S10	Growth in Membership	> 12%
	S11	Growth in Total Assets	> Inflation

For Qualitative analysis of data, the real successful stories, no. of human resources, no. of trained human resources etc are used.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Background

This Chapter consists presentation and analysis of primary and secondary data related with different variables using both financial and statistical tools. The basic objective of this Chapter is to achieve the objectives, which are set in first chapter. In order to achieve these objectives, the gathered data are presented, compared and analyzed with the help of different tools. Hence, it is the focal part of this study, which helps to analyze; the problems and prospects of micro finance in Nepal, the services of Micro Finance Companies funded by RMDC, through their composition and outreach, the loan performance of RMDC, and the input of RMDC towards the development of microfinance in Nepal.

4.2 Analysis of Primary Data (Questionnaire)

Primary data is collected from the questionnaires asked to various consumers of micro finance services. Total 11 questions were asked to the respondents and there participation has helped me to complete the analysis. For question no. 1, most of the respondents have same views. They thought that financial services are not easily accessible in Nepal for the small holders. In the below table, we have summarized the views of respondents.

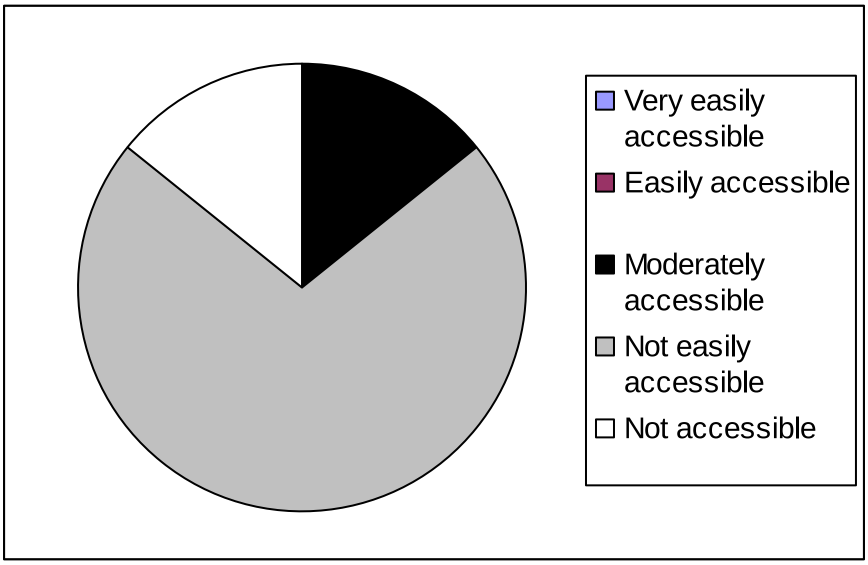
Table 4.1

Level of accessibility of microfinance services for question no. 1

Response	No. of respondents
Very easily accessible	0
Easily accessible	0
Moderately accessible	5
Not easily accessible	25
Not accessible	5
Total	35

Source: Field Survey

Figure 4.1
Level of accessibility of microfinance services



In question no. 2, the best type of financial services for poor was asked. And micro finance services is ranked as no. 1, i.e. micro finance services are considered as the best type of financial services for poor. The other alternative is Co-operative services. Below table shows the rank of various services:

Table 4.2

Ranks of Alternatives for Services for Question no. 2

Alternative	**No. of Respondents**	**Rank**
Microfinance services	23	1
Co-operative services	8	2
Development services	3	3
Commercial services	1	4
Indigenous financial services	0	5

Source: Field Survey

Figure 4.2

Ranks of Alternatives for Services

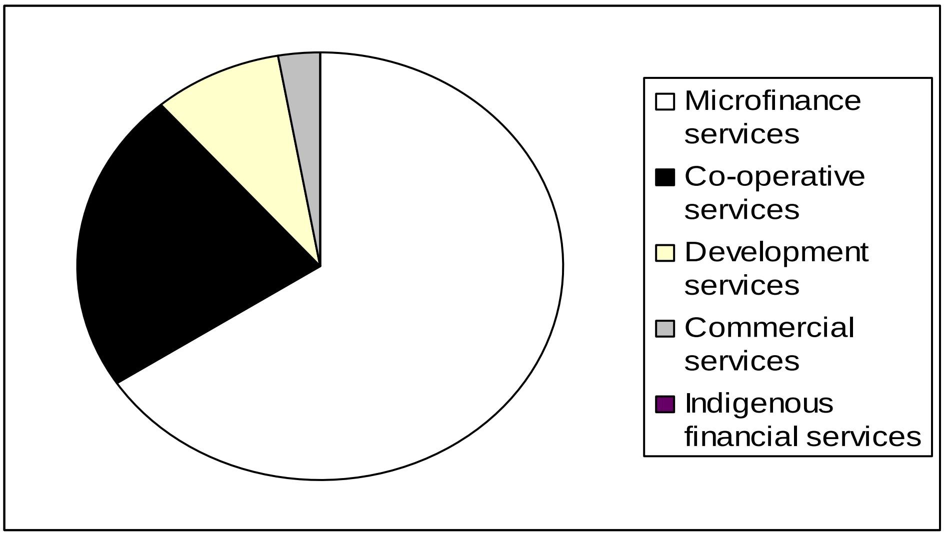


Table 4.3

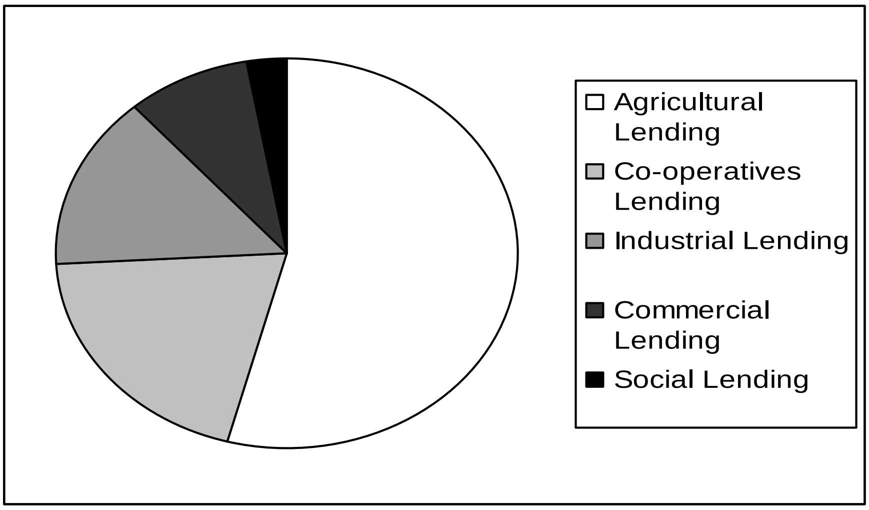
Ranks of Alternatives for Lending for Question no. 3

Alternative	Rank
Agricultural Lending	1
Co-operatives Lending	2
Industrial Lending	3
Commercial Lending	4
Social Lending	5

Source: Field Survey

Figure 4.3

Ranks of Alternatives for Lending



For question no. 4, all the respondents are affirmative that the small holders will be able to obtain financial support from the services ranked in question no. 3, but in small scale. Some of them viewed that they can obtain in medium scale and some also expressed that the financial support obtained from them is in very small scale.

Table 4.4

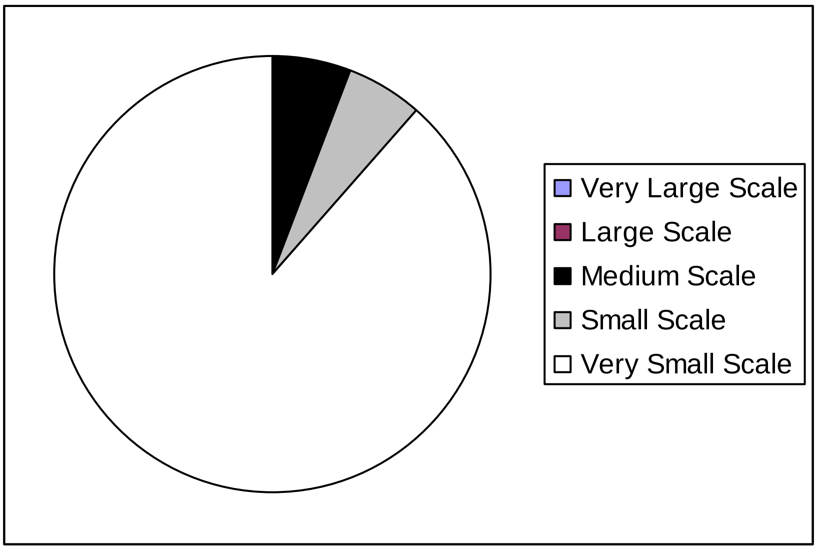
Level of Financial Support for Question no. 4

Level of financial support	No. of Respondents
Very Large Scale	0
Large Scale	0
Medium Scale	2
Small Scale	2
Very Small Scale	31

Source: Field Survey

Figure 4.4

Level of financial support



To question no. 6, regarding the level of satisfaction towards performance of microfinance services, most of those who are receiving the services expressed their moderate satisfaction. To their justification, they mentioned that due to microfinance services available to them, they are able to meet their both ends and uplift their standard of life. Some of them are satisfied to medium level because of their interest rates. And some of them are not very satisfied reason being the services provided to them are limited. Though microfinance clients are not very satisfactory with the services, none of them said they are not satisfactory at all.

Table 4.5

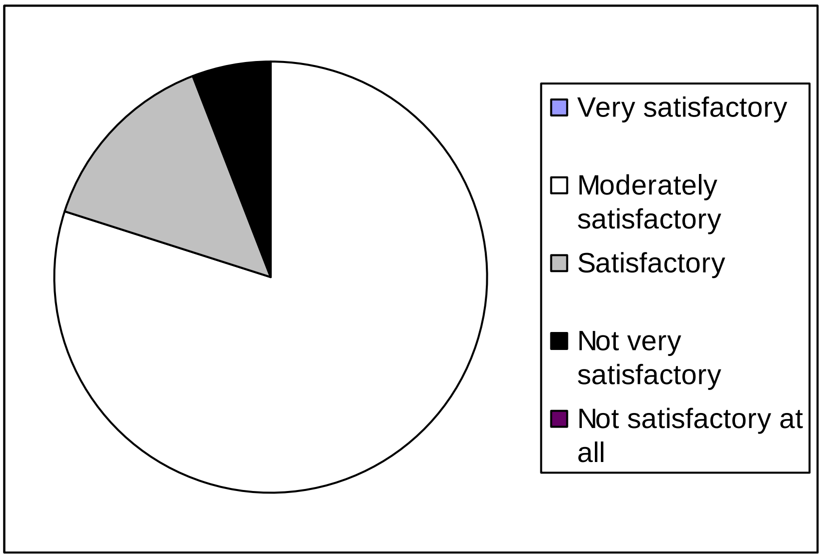
Level of Satisfaction

Level	No. of Respondents
Very satisfactory	0
Moderately satisfactory	28
Satisfactory	5
Not very satisfactory	2
Not satisfactory at all	0

Source: Field Survey

Figure 4.5

Level of Satisfaction



In question no. 8, the respondents were asked to rank how the performance of Microfinance system in Nepal be enhanced and improved. Most of them ranked Training to the MFIs no. 1. When the Microfinance Institutions are trained properly they will be able to deliver their services to poor more accurately. The unsatisfied clients is the example of improper services and lack of knowledge and hence awareness programme to borrowers is ranked in no. 2. Coordination, which is ranked no. 3 is always integral in all the aspects of work and so as in microfinance system. The policy has been ranked no. 4 and Eliminatory duplication of programmes is ranked no. 5.

In question no. 9 different 12 models which are used in Nepal are listed and rank them as more appropriate model in the context of Nepal. Most of the microfinance service receiver gave more priority to Microfinance model for woman and Grameen Banking Model.

In question 10, where the role of state to develop micro credit system in Nepal, many focused on the development of infra structure and proper mobilization of fund in every regions. And for question no. 11, many told than financial institutions should be fare in interest rates and the maturity period of loans depending on its nature.

4.3 PEARLS Analysis

Table 4.6

PEARLS Analysis of RMDC

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
P1	3.22%	1.31%	6.77%	2.15%	5.28%	0.44%
E1	23.95%	21.94%	35.56%	42.53%	50.89%	48.48%
E2	27.10%	25.34%	16.88%	58.40%	49.92%	55.32%
E4	0%	0%	0%	0%	0%	0%
E7	16.10%	13.31%	8.98%	8.61%	11.47%	12.42%
A2	21.46%	18.89%	12.48%	11.24%	13.85%	8.67%
R1	7.99%	6.63%	5.17%	12.60%	10.56%	11.12%
R9	0.43%	0.39%	0.26%	0.23%	0.14%	0.075%
R12	5.82%	5.57%	5.13%	3.45%	3.54%	3.86%
L3	1.53%	1.39%	1.24%	0.23%	0.33%	0.60%
S1	111.10%	10.39%	144.13%	47.57%	126.62%	10.52%
S2	17.58%	13.08%	-1.22%	350.74%	60.51%	31.00%
S3	37.00%	31.50%	28.25%	21.10%	43.47%	45.75%
S11	44.27%	20.92%	48.25%	30.32%	87.77%	18.21%

Source: RMDC Annual Reports

P: Adequate protection of assets is a basic term of the new credit union model. Protection against the loan losses is deemed adequate if a credit union has sufficient provisions to cover 100% of all loans delinquent for more than 12 months and 35% of all loan delinquent for 1-12 months. Inadequate loan loss protection produces two undesirable results inflated asset values and fictitious earnings.

In case of RMDC also the outstanding loan is Rs. 1135.04 million, which is delinquent for more than 12 months, however, they have not arrange / protect entire amount. Most credit unions are not anxious to recognize loan losses and much less to charge them off against earnings. That unwillingness lends to widespread abuse if the principles of safety and soundness. Reported net income is overstated asset values are inflated, provisions for loan losses are inadequate and member savings are not adequately protected. From the analysis pf P1, i.e. allowances for loan losses / allowances required for loan delinquent more than 12 months, RMDC has not provisioned the loan loss properly according to PEARLS analysis. The highest loan loss provision was on Fiscal Year 2004-05 which was maintained at 6.77%, however decreased to 2.15% during Fiscal Year 2005-06. It rose to 5.28% on Fiscal Year 2006-07, but been minimized to 0.44% on 2007-08.

E: E stands for Effective Financial Structure. The financial structure of the credit union is the single most important factor in determining growth. Potential, earnings, capacity and overall financial strength.

Assets:

- 95% productive assets composed of loans (70 – 80%) and liquid investments (10-20%)
- 5% unproductive assets composed of primarily fixed assets (land, buildings, equipments etc.)

Credit Unions are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the credit union, the world council of Credit Union, Inc, recommends 70-80% of total assets in the loan portfolio.

In case of RMDC, E1, the financing to productive assets is 23.95% for the year 2002-03, which is not as per the requirement of PEARLS analysis. And it further dropped down to 21.94% during Fiscal Year 2003-04. However, it risen to 35.96% on 2004-05 and to 42.53% on 2005-06. During Fiscal Year 2006-07 the investment to productive asset was 50.89%, which was good, but again declined to 48.48% on 2007-08.

E2 is used to measure the percentage of total assets invested in Short Tem investments. The goal of E2 is maximum 20%. However during Fiscal Year 2002-03, it was 29% which gradually decreased to 25%, then to 17% on Fiscal Year 2003-04 and 2004-05 respectively. The short term investment of RMDC, drastically went up to 58% on Fiscal Year 2005-06 however, it managed to drop it down to 50% on Fiscal Year 2006-07. And on 2007-08, it was maintained at 55.32%.

E4 is used to measure the percentage of total assets invested in non-financial investments. It can also be 0%. It is calculated non-financial assets/total assets. In case of RMDC, non-financial assets are not found. Hence it is 0% during all Fiscal Years, from 2002-03 to 2007-08.

E7 is to measure the percentage of total assets financed by members' shares. The optimum level of E7 is 20%. And RMDC's, E7 is below 20% for the last 6 Fiscal Years. During 2002-03, it was 16.09% but gradually decreased up to 8.61% until Fiscal Year 2005-06. During Fiscal Year 2006-07, it was 11.47% and on 2007-08, it increased by 1.05% only.

A: Assets Quality. A non-productive or non-earning asset is the one that does not generate income. An excess of non-earning assets affects credit union earnings in a negative way. The following PEARLS indicators are used to identify the impact of non-earning assets:

a. Delinquency Ratio: Of all the Pearls ratios, the delinquency ratio is the most important measurement of institutional weakness. If delinquency is high, it usually affects all other key areas of credit union operations. By using the PEARLS formula to accurately measure delinquency. Credit unions are properly informed of the severity of the situation before a crisis develops. The ideal goal is to maintain the delinquency rate below 5% of total loans outstanding.
b. Percentage of Non-Earning Assets: A second key ratio is the percentage of non-earning assets owned by the credit union. Higher the ratio, the more difficult it is to generate sufficient earnings. The goal also limits non-earning assets to a maximum of 5% of the total Credit Union assets.

c. Financing of Non-Earning Assets: While reducing the percentage of non-earning assets is important, the financing of those assets is just as important. Under the WOCCU model, the objective is to finance 100% of all non-earning assets with the credit union's institutional capital, or with other liabilities that have no explicit financial cost. By using no-cost capital to finance those assets, credit union earnings are not unduly affected.

A2 is used to measure the percentage of the total assets not producing income. According to WOCCU, A2 should be less than or equal to 5%. However, RMDC has not been able to maintain it below 5%. During Fiscal Year 2002-03, A2 of RMDC was 21.46%, which is the highest among last 6 years. It has managed to gradually decrease its non-income in the following years to 18.90% and 12.48%. On 2005-06, it was only at 7.19% but again almost doubled on 2006-07. On 2007-08, it was 8.67%.

R: Rates of Return and Costs

The PEARLS system segregates all of the essential components of net earnings to help management calculate investment yields and evaluate operating expenses. In this way, PEARLS demonstrates its value as a management tool. Unlike other systems that calculated yields on the basis of average assets, PEARLS calculates yields on the basis of actual investments outstanding. This methodology assists management in determining which investments are the most profitable.

It also permits the credit unions to be ranked according to the best and worst yields. By comparing financial structure with yields, it is possible to determine how effectively the credit union is able to place its productive resources into investments that produce the highest yield. These powerful analysis techniques help management stay abreast of the financial performance of the credit union.

Yield information is computed on four main areas of investment:

a. Loan Portfolio
b. Liquid Investments
c. Financial Investments
d. Other Non-financial Investments

Operational costs are also important. They are broken down into three main areas :

a. Financial Intermediation Costs
b. Administrative Costs
c. Provisions for Loan Losses

For rate of return and cost, R1, R9 and R12 are calculated. We can get R1 by dividing Net Loan Income by Average Net Loan Portfolio. There is no fixed rate for this and optimum R1 depends on Entrepreneur Rates. Net loan income rate of RMDC for Fiscal Year 2002-03 is 7.99%. It decreased by 1.636% during Fiscal Year 2003-04 and further went down to 5.17% during Fiscal Year 2004-05. R1 increased to 12.60% on 2005-06. However again dropped down to 10.56% to 11.12% during 2006-07 and 2007-08 respectively. R9 is calculated to see the ratio of total operating expenses rate is very low and is in decreasing trend. During this last 6 years, its operating expenses are less than 1%.

L: Liquidity. Effective Liquidity management becomes a much more important skill as the credit union shifts its financial structure from member shares to more volatile deposit savings. In many movements following the traditional model, member shares are very illiquid and most external loans have a long payback period, therefore there is little incentive to maintain liquidity reserves. Liquidity is traditionally viewed in terms of cash available to lend –a variable exclusively controlled by the credit union. With the introduction of with drawable savings deposits, the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals – a variable the credit union can no longer control.

The maintenance of adequate liquidity reserves is essential to sound, financial management in the WOCCU credit union model. The PEARLS system analyzes liquidity from two perspectives:

a. Total Liquidity Reserves: This indicator measures the percentage of savings deposits invested as liquid assets in either a National Association or a commercial bank. The “ideal” target is to maintain a minimum of 15% after paying all short-term obligations (30 days and under).

b. Idle Liquid Funds: Liquidity reserves are important but they also imply a lost opportunity cost. Funds in checking accounts and simple savings accounts earn negligible returns, in comparison with other investment alternatives. Consequently, it is important to keep idle liquidity reserves to a minimum. The “ideal” target of this PEARLS ratio is to reduce the percentage of idle liquidity to as close to zero as was possible.

In case of Liquidity, only L3 for RMDC is calculated by dividing non-earning liquid assets by total assets. The optimum L3 is less than 1%. It was 1.53% during Fiscal Year 2002-03. It decreased to 1.39% on 2003-04. L3 of RMDC had been in the decreasing trend. On 2004-05, it was maintained at 1.24%, however only during 2005-06 it was less than 1% as per the requirement of PEARLS analysis, i.e. only 0.23%. On 2006-07, it was at 0.33% and 0.60% on 2007-08.

S stands for sign of growth. The indicators of this section measure the percentage of growth in each of the most important accounts on the financial statement as well as growth in membership. S1 is used to measure the growth in loans. Its goal is as follows:

- To increase the percentage of total loan outstanding, it must be greater than S11
- To maintain the percentage of total loans outstanding, it must be equal to S11
- To decrease the percentage of total loans outstanding, it must be less than S11

S2 is used to measure the growth in liquid investments and is measured in same manner as S1. And S3, which is used to find out the growth in financial investments, is also measured with the same goals as well. S11 is calculated to measure the year-to-date growth of total assets. It should be greater than the inflation rate, however, in this study S11 is calculated, also to measure the growth of RMDC’s loans and investments.

In Fiscal Year 2002-03, the percentage of total loan outstanding of RMDC has increased as S11 is only 44.27% and S1 is 111.10%. However, the investments have decreased during this year. In the Fiscal Year 2003-04, S11 is at 20.92%, whereas S1, S2 and S3 is 10.39%, 13.08% and 31.50% respectively. This shows that loan outstanding and liquid investment has increased and financial investment is decreased. For the Fiscal Year 2004-05 only loan outstanding has increased as S1 is 144.31%, while S11 is only 48.25% Financial Investment decreased in Fiscal Year 2005-06 and in subsequent year as well but increased in 2007-08, while the loan outstanding decreased.

4.4 Percentage Analysis

This part analyzes the contribution of RMDC's loan in various sectors, total no. of member clients of RMDC, loan approved and distribution, loan recovery ratios, for the last five years.

4.4.1 Analysis of Total Loan Approved and Total Loan Disbursed

Table 4.7

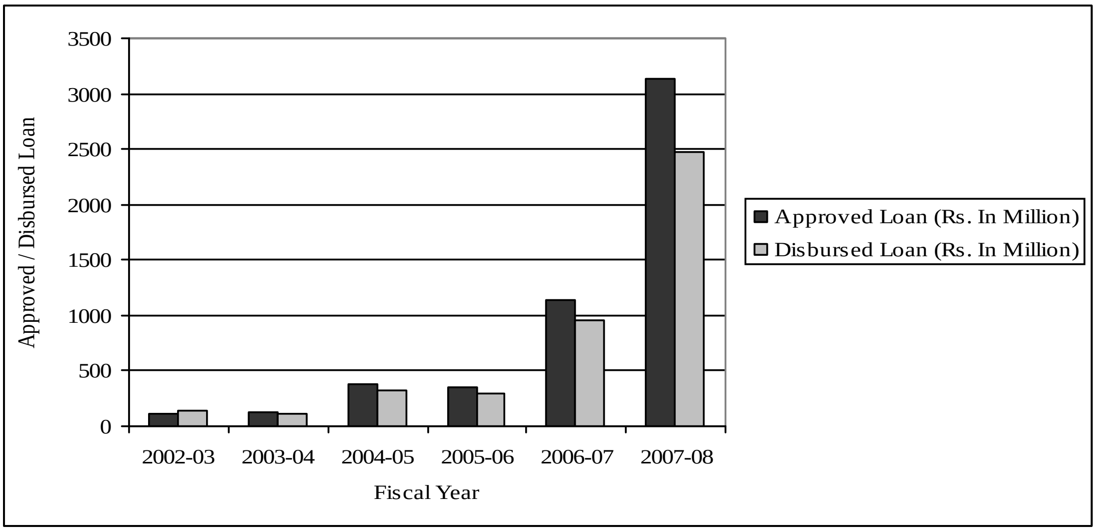
Loan Approved and Disbursed by RMDC

S.N.	Year	Approved Loan (Rs. In Million)	Disbursed Loan (Rs. In Million)	Percentage
1	2002-03	116.52	137.05	118%
2	2003-04	123.2	118.81	96%
3	2004-05	382.77	320.65	84%
4	2005-06	357.83	298.24	83%
5	2006-07	1143.68	961.07	84%
6	2007-08	3129.00	2468.70	79%

Source: RMDC's Annual Report

Figure 4.6

Loan Approved and Disbursed by RMDC



As of 16th July 2007, RMDC has approved a total of Rs. 2,124 million for 58 MFIs of which Rs. 1,835.82 million have been disbursed Among the borrowing institutions 2 are Regional Grameen Bikas Banks, 4 Private Microfinance Development banks, 6 Development Banks, 24 Financial Intermediaries NGOs and 22 Savings and Credit Co-operating Societies. In the Fiscal Year 2002-03, the disbursed loan amount is higher than the approved loan amount by Rs. 20.53 million while in the consequent years it is reduced, however for the last three years it remained at around 84%. During the Fiscal Year 2007-08, the disbursed loan amount is around 74% of the approved loan amount.

The approved loan amount in the last five years has increased drastically and the disbursed amount has also increased. In the year 2006-07 approved loan amount has increased vastly i.e. from 357.83 million to 1143.68 million.

4.4.2 Analysis of Total Loan Disbursed and Loan Recovered

On 16th July 2007, total outstanding loan amount of RMDC with its Partner Organizations stood at Rs. 1135.04 million. So far, RMDC has been able to maintain 100% loan recovery rate. The outstanding loan rate is zero.

Table 4.8

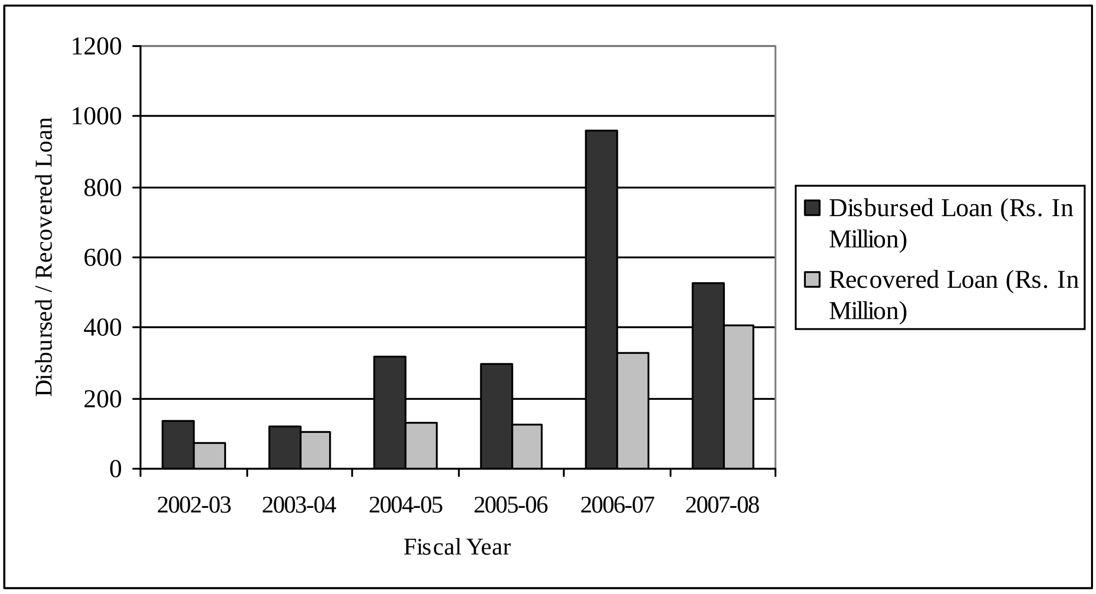
Loan Disbursed and Recovered by RMDC

S.N.	Year	Disbursed Loan (Rs. In Million)	Recovered Loan (Rs. In Million)	Outstanding Loan (Rs. In Million)
1	2002-03	137.05	73.42	120.91
2	2003-04	118.81	106.25	133.47
3	2004-05	320.65	128.29	325.84
4	2005-06	298.24	123.22	500.85
5	2006-07	961.07	326.88	1,135.04
6	2007-08	525.02	405.64	1,254.42

Source: RMDC's Annual Report

Figure 4.7

Loan Disbursed, Recovered and Outstanding of RMDC



The loan term for the first loan is 2 years. The term for second loan could be extended up to 3 years and up to 5 years for the subsequent loans, based on the previous repayment records. RMDC's recovery growth rate increased by 165.28% in the year 2006-07, though it was decreased by 3.95% and 20.7% in the Fiscal Year 2005-06 and 2004-05 respectively. However, RMDC has succeeded to maintain its NPA rate at 0%.

Disbursed loan amount in the year 2006-07 is increased by 222.24% and recovered amount is also increased by 165.28%. During the last five years, 2002-03 to 2006-07 the total loan disbursed is NPR 1835.82 million and recovered is 758.06 million which is 58.70%. During the year 2007-08 the disbursed loan amount is 525.02 million while recovered is 405.64 million only. The disbursed amount has decreased by 45.37%.

4.4.3 Analysis of Annual Outreach

Although informal system still remains dominant microfinance sector has expanded remarkably in Nepal over the last one and a half decade. Currently, 11 Micro Finance Development Banks (2 wholesale lenders, 5 Grameen Banks and 4 private sector banks) provide services to 392,770 rural poor (mostly women): Mid July 2007 through 79594 groups across 47 districts. Savings and Credit Co-operative has served 403,126 individuals (Female 172,852) Mid July 2007 through 3392 SACCO's in 72 disctricts SFCL has been providing its services to 129,900 individuals as of Mid-July 2007 through 219 SFCL's. FINGO's has 257,956 clients (Mid July 2007) through 47 FINGOs. Hence the aggregate Outreach of Micro finance services is to 1,183,752 out of which 842,197 is female and 341,555 is male. This represents 4% of the total population and 14% of population below the poverty line.

Table 4.9

Geographical Outreach and Need

Development Regions	MF Service Coverage	Population in need of MF	% Coverage of Population in need
Eastern	306388	2543536	12%
Centra l	472810	2806561	17%
Mid-West	117126	1043790	11%
Western	237772	1518415	16%
Far Western	49657	766722	6%
Total	1183753	8679024	14%

Source: The state of microfinance depth and breadth, G B Thapa, 2008

Figure 4.8

Region wise MFI Coverage and Population in need of Microfinance

Above table shows us how may people of Nepal are in need of microfinance services according to the regions of the Country. It shows the number of people who are getting microfinance services. In Eastern Region 2543536 population are in need of microfinance services and 306388 population are receiving the services, which is only 12% of the requirement. In Central Region, out of 2806561 population only 472810 (17%) are receiving the microfinance services. 117126 population are receiving the microfinance services in Mid-West region which is only 11% of total requirement. In Western region 16% of 1518415 population are receiving microfinance services, whereas in Far Western region only 6% of 766722 population are receiving the services.

In average only 14% of 8679024 population are receiving the microfinance services. Central region has the highest of requirement and the highest percentage of fulfillment is also in Central region i.e. 17%. The coverage of services in Far Western region is only 6%, which is very low in comparison to other regions.

Table 4.10

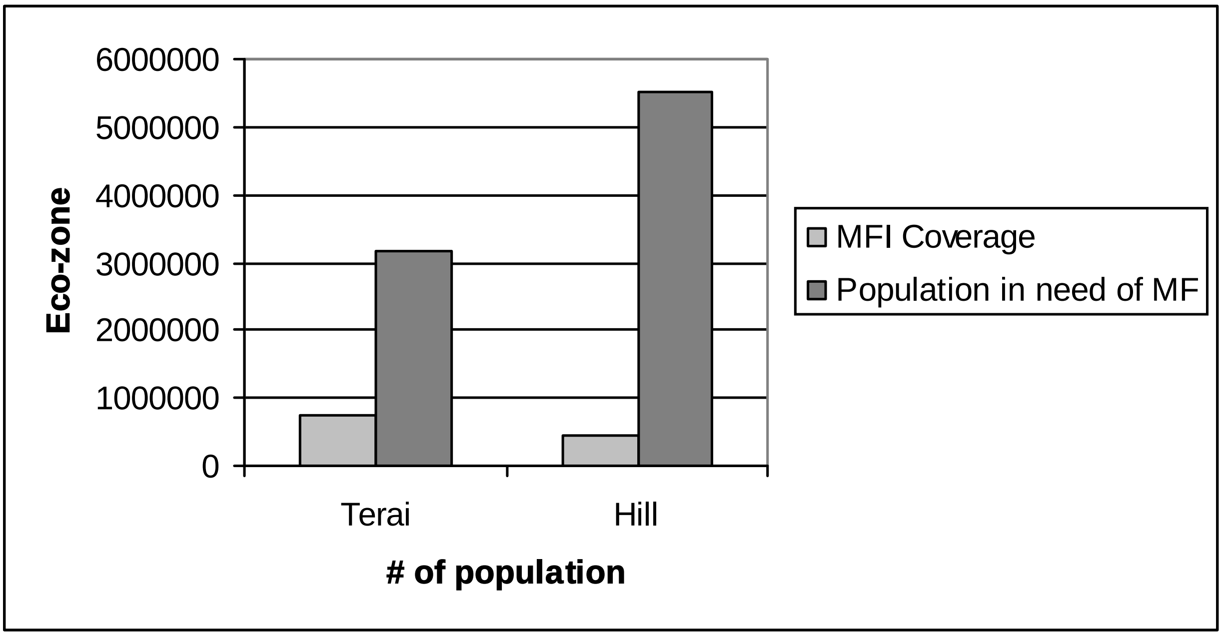
Region wise MFI coverage and Population in need of Microfinance

Eco-Zone	**MFI Coverage**	**Population in need of MF**	**% Coverage**
Terai	743423	3153752	24%
Hill	440330	5525272	8%
Mountain	NA	NA	NA
Total	1183753	8679024	14%

Source: The state of microfinance depth and breadth, G B Thapa, 2008

Figure 4.9

Micro Finance Institutions Coverage and Population in Need of Micro Finance



In Terai region 24% of 3153752 population are provided with microfinance services. In the Hilly region, only 440330 population are provided with microfinance while the rquirement is for 5525272 population. The requirement of microfinance services is more in hilly region than in Terai Region. However only 8% of the population of hills are receiving these services.

Table 4.11

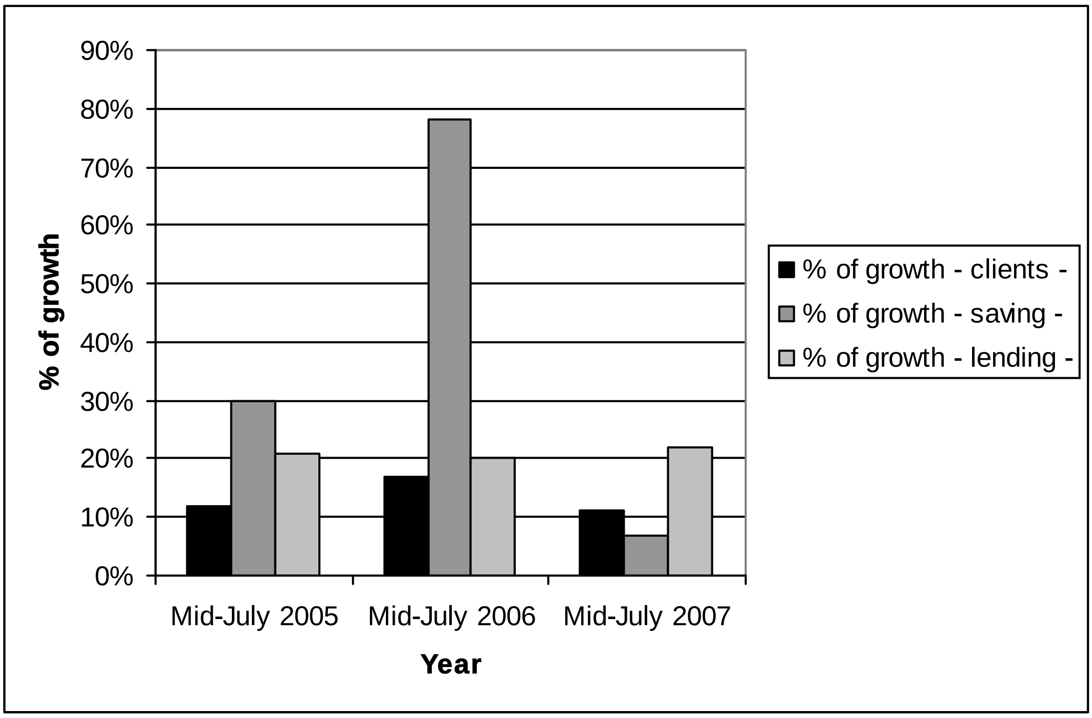
Outreach and Services of Grameen Model

Outreach	**Mid-July 2004**	**Mid-July 2005**	**Mid-July 2006**	**Mid-July 2007**
# of Clients	270,030.00	303,348.00	353,719.00	392,770.00
% of growth	-	12%	17%	11%
Saving (Million Rs)	68.77	89.51	159.67	170.94
% of growth	-	30%	78%	7%
Lending (Million Rs)	14,755.72	17,865.35	21,481.97	26,127.41
% of growth	-	21%	20%	22%

Source: The state of Microfinance Depth and Breadth, G B Thapa, 2008

Figure 4.10

Annual Outreach and Growth Rate of Grameen model



Grameen model is providing the services to 392770 clients as of Mid-July 2007. As of Mid-July 2006 the number of clinets receiving services from Grameen Model is 353719. The number of clinets have increased by 11.04%. The number of clients during July 2006was increased by 16.61%. And in the Fiscal Year 2004-05, the number of clients of Grameen model was 303348, which was 12.34% more that Mid-July 2004. Savings of Grameen Model for Fiscal Year 2003-04 is Rs 68,770,000. It increased to Rs. 89,510,000 (30.16% more) on Mid-July 2005. On July 2006, the Savings has increased by 78.38% and on July 2007 the Saving was Rs. 170970000 which is 7.07% more in comparison to the previous years. Rs. 14755.72 million was lent by Grameen Banks to its clients. It increased by 21.07% on 2005. On 2006, the lending amount was Rs 21481.97 million and was increased to Rs. 26127.41 million on Mid-July 2007.

Table 4.12

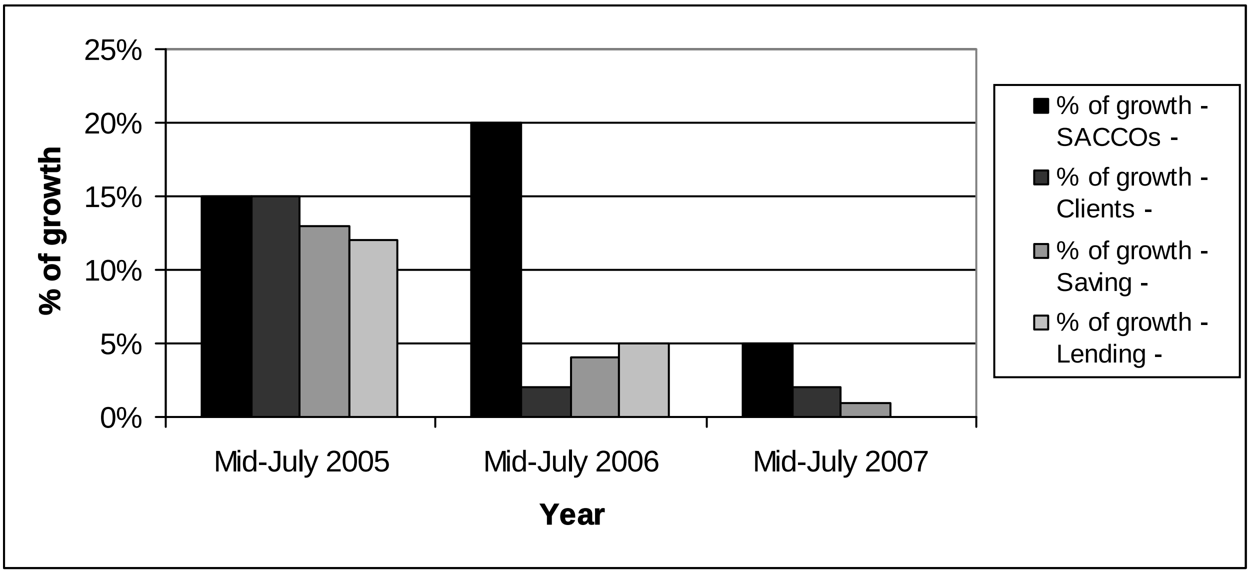
Outreach and Services of SACCOs

Outreach and Services	Mid-July 2004	Mid-July 2005	Mid-July 2006	Mid-July 2007
# of SACCOs	2,345	2,692	3,241	3,392
% of growth	-	15%	20%	5%
# of Clients	342,370	393,826	393,826	403,126
% of growth	-	15%	2%	2%
Saving (Million Rs.)	7,504	8,883	8,883	8,963
% of growth	-	13%	4%	1%
Lending (Million Rs.)	13,132	15,055	15,055	15,099
% of growth	-	12%	5%	0%

Source: The State of Microfinance Depth and Breadth, G B Thapa, 2008

Figure 4.11

Outreach Growth of SACCOs Model



Total 3392 SACCOs are been operating in the nationa. During the end of Fiscal Year 2003/04, only 2345 SACCOs were on operations, which was increased by 347 SACCOs on Mid-July 2005. July 2006, it was increased by 20%. The number of clients has also been increasing from 342370 in Mid-July 2004 to 403126 in Fiscal Year 2007 which is 18% more. The savings at SACCOs has also improved by Rs. 1379 million during July 2005. On Mid-July 2006, it remained same however increased by10% on July 2007. As for the lending amount for July 2004 it was Rs.

13132 million, which was increased by 15% during Mid July 2005 and remained same i.e. 15055 million till July 2006. During the Fiscal Year 2006/07, its lending amount increased to Rs 15099 million (increment by 0.44%).

Table 4.13

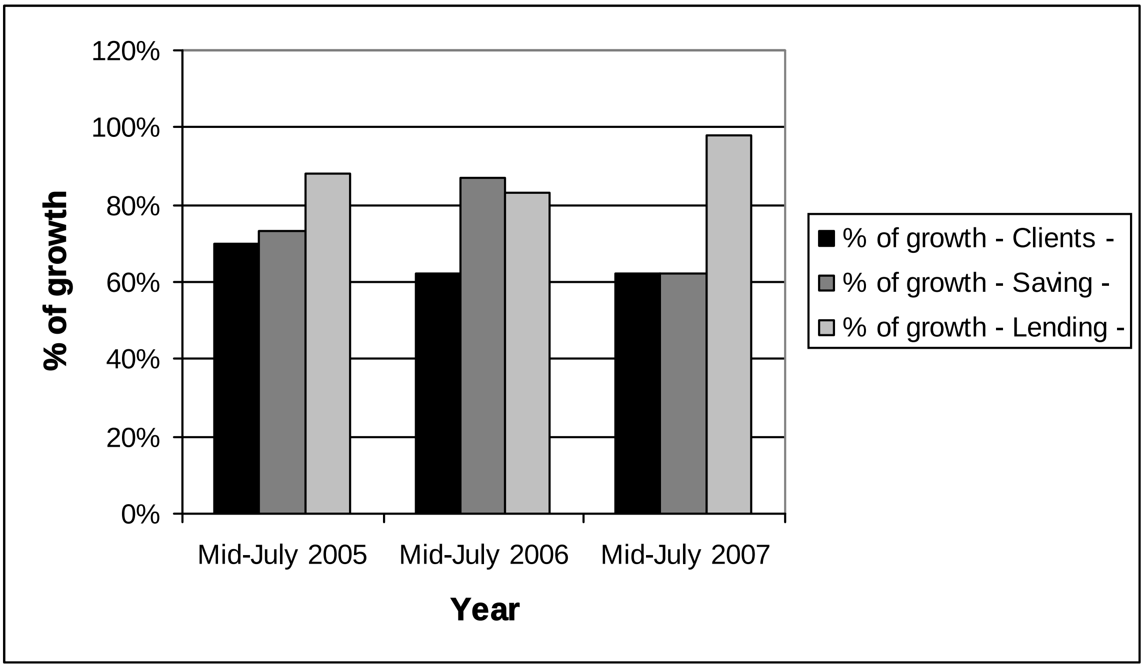
Outreach and Services of FINGO Model

Outreach	Mid-July 2004	Mid-July 2005	Mid-July 2006	Mid-July 2007
# of Clients	57,818	98,291	159,232	257,956
% of growth	-	70%	62%	62%
Saving (Thousand Rs)	196,000	340,000	635,000	1,029,000
% of growth	-	73%	87%	62%
Lending (Tousand Rs)	218,000	409,000	749,000	1,482,000
% of growth	-	88%	83%	98%

Source: The state of microfinance depth and breadth, G B Thapa, 2008

Figure 4.12

Outreach Growth of FINGO model



During Mid-July 2004, the number of clients of total FINGOs was 57818, which was increased to 98291 during Fiscal Year 2005. There was an increment by 62% in July 2006 and on Mid-July 2007, the number of clients was 257956 which was increased by 98724 in numbers. The savings has also been in increasing trend for FINGOs. As of Mid-July 2004 the total savings was Rs. 196 million. Rs. 340 million was the savings for Fiscal Year 2004/05 which was improved by 87% on July 2006. During Mid-July 2007, the amount of saving was Rs. 1029 million which is increment by 62%. As for lending of FINGOs model, it was only Rs. 218 million for Mid-July 2004. It increased to 409 (88% increment) during Fiscal Year 2004/05. As of Mid-July 2006 the lending amount was Rs. 749 million and it was increased by 98% for the Fiscal Year 2007.

Tabel 4.14

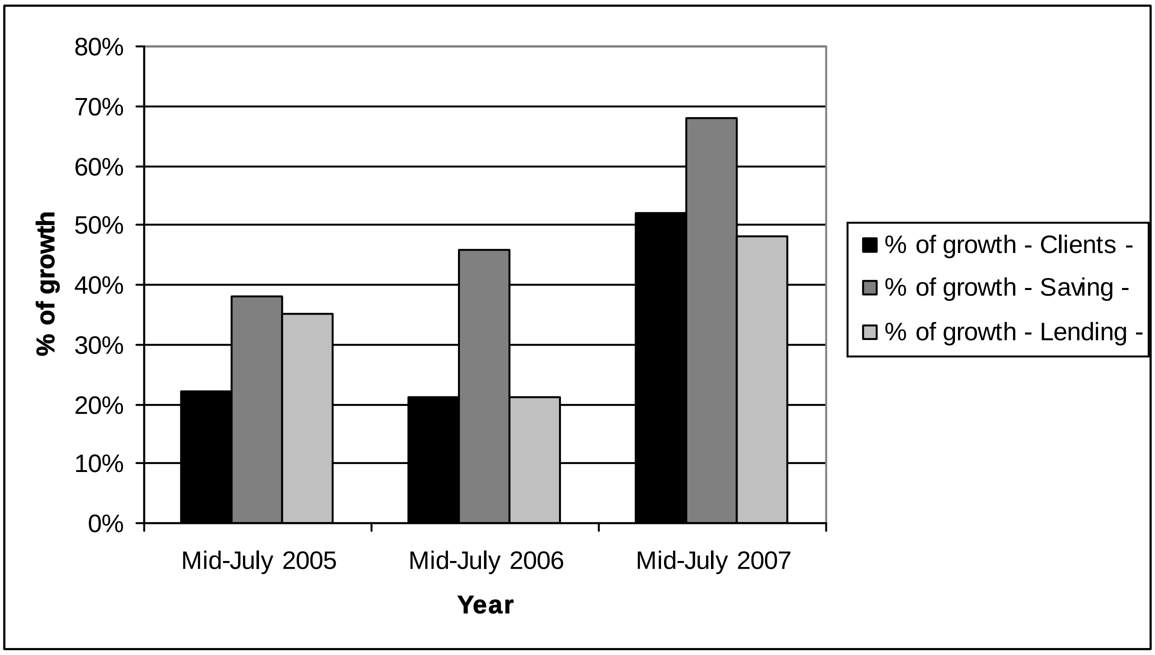
Outreach and Services of SFCL

Outreach	**Mid-July 2004**	**Mid-July 2005**	**Mid-July 2006**	**Mid-July 2007**
# of Clients	58300	71010	85700	129900
% of growth	-	22%	21%	52%
Saving (Thousand Rs)	215000	297000	433000	727000
% of growth	-	38%	46%	68%
Lending (Thousand Rs)	509000	687000	832000	1232000
% of growth	-	35%	21%	48%

Source: The state of microfinance depth and breadth, G B Thapa, 2008

Figure 4.13

Outreach growth of SFCL Model



129900 numbers of clients were involved under SFCL model. During Mid-July 2004 the numbers of clients were only 58300 which was increased by 22% for the Fiscal Year 2005. On July 2006 the number of clients was increased by 14690. Savings under SFCL model was Rs. 215 million during July 2004. It was increased by Rs. 82 million for the Fiscal Year 2005. During Mid-July 2006, the saving amount was improved by 46% i.e. Rs 433 million which was improved to Rs. 727 million. The Lending amount of SFCL is also in increasing trend. During Mid-July 2004, it was Rs. 509 million and on July 2007 it is Rs. 1232 million which is a drastically improvement. During Fiscal Year 2005 the lending amount was Rs. 687 million increased to Rs. 832 million (21% increment) on July 2006.

A total of 2117 staff members and 83,087 clients of Microfinance Institutes participated in different training programs conducted with the financial and technical supports of RMDC. A total of 22 new institutions in the orientation training programs on Microfinance Operations. A total of 347 new staff members of Microfinance Institutions have been provided with six-month long induction training program on microfinance operation. The partners Microfinance Institutions together have served additional 136 thousand households in the fiscal year, which makes a total outreach of RMDC over 500 thousand households. During the Fiscal Year 2007-08, RMDC's outreach to districts through its Partner Organization is 68% of the total districts.

Table 4.15

Annual Outreach of RMDC

Fiscal Year	Partner Organizations	Total Clients	Clients Trained	Microfinance Institutes Trained	Staff Trained	Districts
2002-03	23	1,79,195	41,962	100	1,020	35
2003-04	28	2,16,002	40,338	112	1,226	39
2004-05	35	2,75,690	44,506	130	1,446	38
2005-06	45	3,68,819	71,647	138	1,112	40
2006-07	58	5,04,819	83,087	160	2,117	47
2007-08	69	6,67,818	3,84,419	193	10,814	51

Source: RMDC's Annual Report

Figure 4.14

Outreach of RMDC and its Partner Organization

Table 4.16

Outreach of Partner Organizations of RMDC

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Swabalamban Bikas Bank	8	8	10	10	15	17
WDCN	1	1	2	2	3	5
FORWARD	1	2	2	2	7	8
WSC	1	1	1	1	1	1
Manushi	1	1	1	1	2	2
CSD	1	3	4	5	6	8
JBS	1	1	1	1	3	3
NRDSC	2	2	2	3	3	7

Source: RMDC's Annual Report

Figure 4.15

Outreach of Partner Organizations of RMDC

The outreach of RMDC's partner organization is also in the growing trend. Swabalamban Bikas Bank spread its outreach to 17 districts of the Country. Similarly NRDSC has increased its outreach from 3 districts in 2006/07 to 7 districts in 2007/08.

4.4.4 Financial Performance

RMDC's financial performance partly depends on the financial performance and potentiality of its partner organizations. Deliberately and rightly, RMDC chooses its partners according to their performance, keeps them under strict controls and continuously trains them to improve their financial management. Consequently, RMDC's partner organizations have reached a very satisfactory level of performance. Their operational self-sufficiency was 127.7% in FY 2006.

RMDC has been making profits since the first year of its operations and has increased the profitability every year, demonstrating cost control and efficiency.

Ratio Analysis

1) Current Ratio: This ratio clarifies the relation between current assets and current liabilities. To calculate this ratio, current assets is divided by current liabilities

and 2:1 is considered as optimum. However, more the value of current assets, the better it is because of the depreciation. Higher current ratio shows higher capability of the organization to meet their current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.17

Current Ratio Analysis of RMDC

Year	Current Assets	Current Liabilities	Times
2002-03	45,663,048.65	15,774,641.49	2.89
2003-04	61,038,732.74	22,439,658.95	2.72
2004-05	65,262,046.53	100,361,055.66	0.65
2005-06	50,425,108.79	118,754,348.32	0.42
2006-07	260,199,811.50	347,612,906.22	0.75
2007-08	188,669,801.53	348,893,115.56	0.54

Source: RMDC's Annual Report

Figure 4.16

Current Ratio of RMDC

The above table shows that the current ratio of RMDC is in decreasing trend. The current liabilities of RMDC has increased a lot more than the assets, though there is drastic change in both current assets and liabilities from the year 2005-06 to 2006-07. During the year 2002-03 and 2003-04 the ratio is very good, as per the requirement that is more than 2 times. However it has fallen to 0.75 times in the year 2006-07.

2) Return on Capital Employed: This ratio would inform us about the proper utilization of total debts received. With this profit can also be known. Profit is related to the Capital. Hence, investors look into this ratio before injecting their money. The formula to calculate return on Capital employed is as follows :

$$\text{Return on Capital Employed} = \frac{\text{Net Profit After Tax}}{\text{Capital Employed}}$$

Table 4.18

Return on Capital Employed of RMDC

Year	Net Profit After Tax	Capital Employed	Percentage
2002-03	5,276,921.69	481,270,723.50	1.10%
2003-04	6,043,357.21	578,595,723.70	1.04%
2004-05	6,845,228.84	775,442,020.70	0.88%
2005-06	11,976,368.47	1,042,411,931.48	1.15%
2006-07	15,083,797.30	1,832,734,334.00	0.82%
2007-08	44,206,462.68	2,228,530,254.47	1.98%

Source: RMDC's Annual Report

Figure 4.17

Return on Capital Employed of RMDC

Higher the ratio of Capital Employed, it could better be concluded as proper utilization of debts. If the ratio is low, it is understood that assets are not properly used. In case of RMDC, the ratio is in decreasing trend. While in the Fiscal Year 2002-03, the return on Capital Employed is 1.10%, it is reduced to 1.04% in the Fiscal Year 2003-04. It is further decreased by 0.16%. A slight improvement was seen in the year 2005-06 with the ratio increased to 1.15%, however it dropped back to 0.82% on 2006-07. RMDC managed to increase its ratio of Capital Employed to 1.98% during the Fiscal Year 2007-08.

3) Return on Asset: It can also be called as profit to assets ratio because after all kinds of investments, the ration between profit and asset helps to know the profit. It is calculated as below :

Table 4.19

Return on Asset of RMDC

Year	Net Profit After Tax	Total Assets	Percentage
2002-03	5,276,921.69	497,045,365.09	1.06%
2003-04	6,043,357.21	601,035,382.64	1.01%
2004-05	6,845,228.84	875,803,076.37	0.78%
2005-06	11,976,368.47	1,161,166,279.80	1.03%
2006-07	15,083,797.30	2,180,347,240.07	0.69%
2007-08	44,206,462.68	2,577,423,370.03	1.72%

Source: RMDC's Annual Report

Figure 4.18

Return on Assets of RMDC

This ratio analyses the profit of investments. Thus, higher ratio is considered better. However, RMDC's rate of return on Asset is in decreasing trend. In the year 2006-07, it stood at 0.69% which is very low in comparison to other years. In the year 2002-03 it was 1.06%, however since then it has been declining.

Though net profit after tax of RMDC is increasing assets of the corporation has also increased drastically since last five years. In the year 2005-06, it is little better, standing at 1.03% in comparison to previous year and subsequent years. But the ROA of RMDC has increased to 1.72% during the Fiscal Year 2007-08.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest}}{\text{Total Assets}}$$

Table 4.20

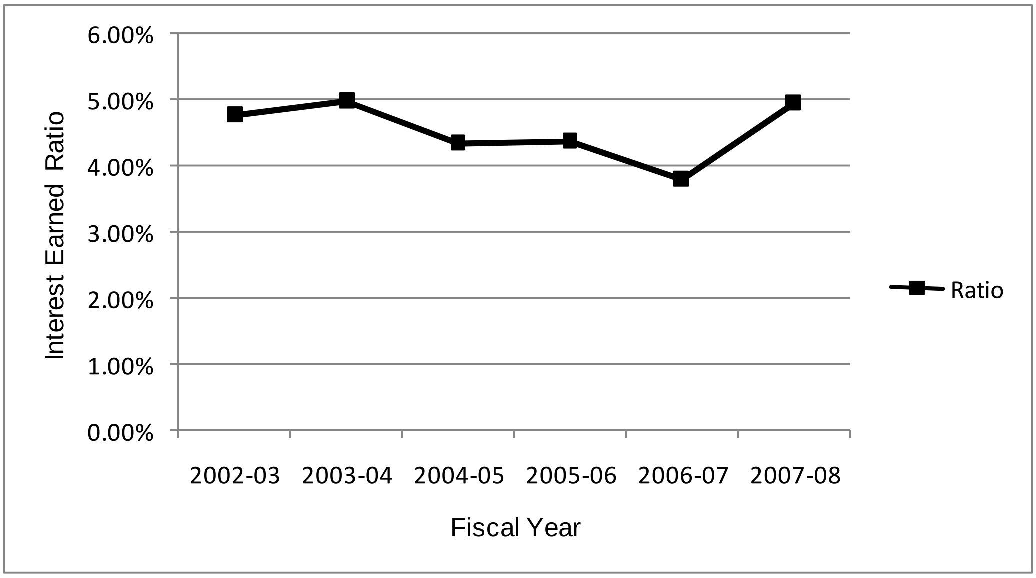
Interest Earned Ratio

Year	Interest	Total Assets	Ratio
2002-03	23,723,095.85	497,045,365.09	4.77%
2003-04	29,992,046.76	601,035,382.64	4.99%
2004-05	38,186,930.01	875,803,076.37	4.36%
2005-06	50,799,795.17	1,161,166,279.80	4.37%
2006-07	82,891,063.31	2,180,347,240.07	3.80%
2007-08	127,535,798.81	2,577,423,370.03	4.95%

Source: RMDC's Annual Report

Figure 4.19

Interest Earned Ratio of RMDC



The ratio of Interest earned to total assets is considered to be better when it is higher. In case of RMDC, the ratio has increased to 4.95% in 2007-08 while it was only 3.80% in the Fiscal Year 2006-07. Since 2002-03 to 2005-06, it was fluctuating, but has decreased during 2006-07.

4) Debt Ratio: Company's Assets is always completer with internal as well as external resources. Debt ratio will make us able to know the contribution of external resources to total assets of the Company. External Resources could be loans or debt of Company. It is calculated by dividing total liabilities by total

assets. And the increasing trend of Debt Ratio is not healthy for the Company, because the risk also increased.

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Table 4.21

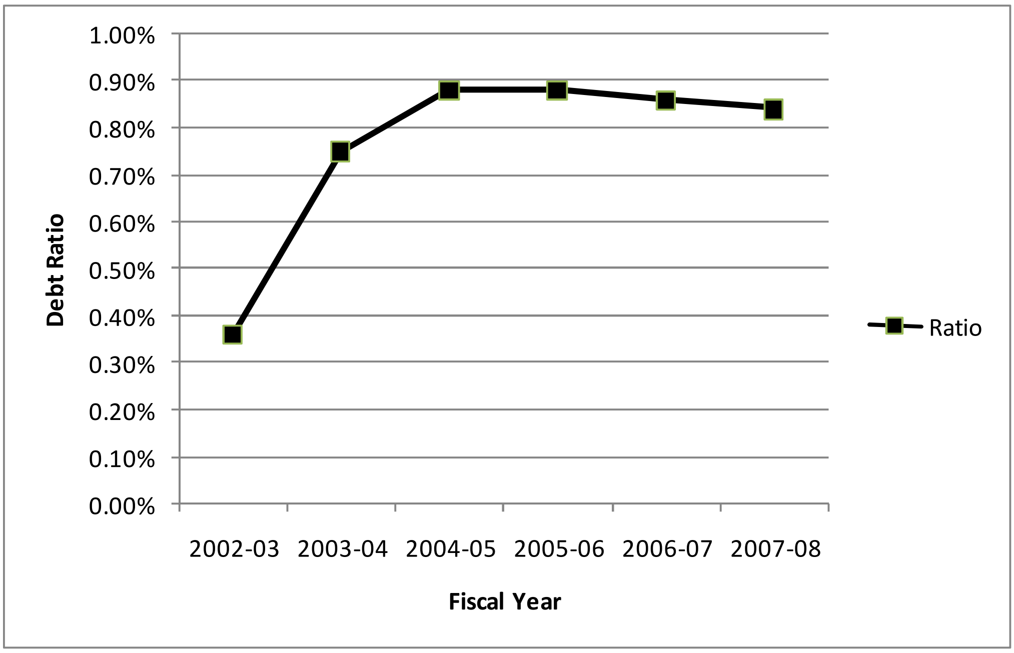
Debt Ratio of RMDC

Year	Total debt	Total assets	Ratio
2002-03	178,757,226.50	497,045,365.09	0.36%
2003-04	452,865,344.00	601,035,382.64	0.75%
2004-05	767,380,355.66	875,803,076.37	0.88%
2005-06	1,022,367,263.00	1,161,166,279.80	0.88%
2006-07	1,881,563,777.00	2,180,347,240.07	0.86%
2007-08	2,176,439,499.98	2,577,423,370.03	0.84%

Source: RMDC's Annual Report

Figure 4.20

Debt Ratio of RMDC



The debt ratio of RMDC seems to be quite good but it has an increasing trend. In last five years, it has increased to 0.86 times from 0.36 times which not a good sign. In the Fiscal Year 2003-04, the debt ratio is double of previous year. This shows that

RMDC's total debt is increasing however the assets are not increased in the same ratio. It is believed that lesser the debt ratio, better for Company.

4.5 Impact of Microfinance

4.5.1 Impact of Microfinance on Loan Transactions from Various Loan Sources

Microfinance institutions have a guideline to follow while extending loans to their clients. They provide loans to the targeted poor households through group approach at their doorstep on group guarantee without requiring tangible collateral. The loan size is small but requiring frequent repayments with interest. The loan operation is simple with free choice of economic activities by clients, who are disciplined and who have been provided with pre-group training. The process itself provides sufficient background for 100% or near 100% repayment rate.

Table 4.22

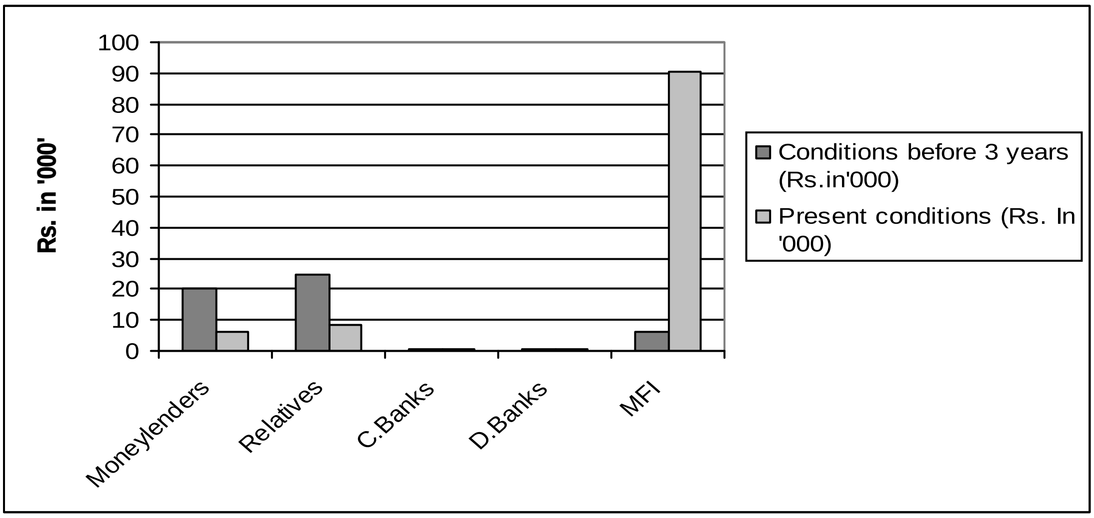
MFI-wise number of respondents taking loans from various sources

	Moneylenders	Relatives	C.Banks	D.Banks	MFI
Conditions before 3 years (Rs.in'000)	20.40	24.51	0.41	0.32	5.98
Present conditions (Rs. In '000)	6.29	8.70	0.35	0.51	90.44

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Figure 4.21

Comparison of Loans Taken from Different Sources



In the absence of microfinance provision, some of the poor women like any other people are dependent on village moneylenders for their credit needs. Twenty two sampled women (11.46%) out of 192 respondents were found taking loans from moneylenders. The average figure of all respondents indicates that the loan size taken from moneylenders 3 years before participation in MF programme was Rs. 20,400 which has been reduced to Rs. 6,290 at present. Thus, there is a reduction of loans taken from moneylenders by almost 69% within 3 or more years of participation in the MF programme. Participating women have more scores of examples of seeking loans from their relatives at various occasions. About 14% (26 respondents) of the total sample (192) also took loans from their relatives. The average loan size taken from relatives was Rs. 24,510 three years before participation in the MF programme. At present, this also has gone down to Rs. 8,700 a decrease by 65%. It may be because they now can take the loans from the MFIs. Some women participating in the MF programme have also taken loans from commercial and development banks. 2 respondents (1%) out of 192 have taken larger loans from commercial banks. Previously, loan size taken from commercial banks in an average was only Rs 410. With the Microfinance loan provision, this has gone down to Rs. 350 after 3 or more years of participation in the MF programme. Thus, the change in average loan size taken from commercial banks has decreased by over 16%. Similarly, the average loan size taken from development banks has surged from an average of Rs. 320 three years back to Rs. 510 at present – an increase by almost 58%. There are some 5 respondents (3%) out of 192 samples who have taken loans from the development banks. All in all 55 respondents (29%) have taken loans from other sources in addition to loans taken from microfinance institutes.

4.5.2 Impact on Income-Source

Microfinance promotes diversification of income sources and brings about positive changes in investment, income received and savings made from each category of income sources when compared to those before programme implementation. Income sources have been categorized into six different headings such as crops, livestock, services, cottage industries, trade and others. Clients were supported with loans from MFIs to engage in income earning activities under the categorized income sources. The MFI and sometimes the RMDC also provides capacity building training focusing on knowledge and skill development as well as management capability development.

Table 4.23

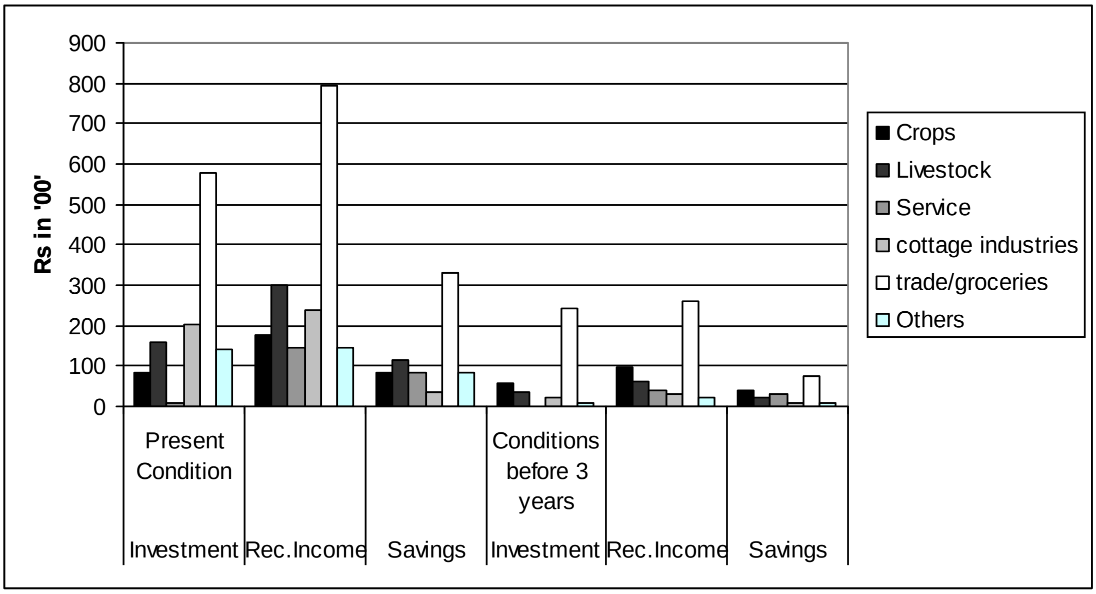
Impact on Income Source (NPR in '00')

	Investment	Rec.Income	Savings	Investment	Rec.Income	Savings
	Present Condition			Conditions before 3 years		
Crops	83.20	176.59	84.42	56.17	96.32	40.77
Livestock	158.11	301.62	114.63	34.30	61.82	22.04
Service	8.42	144.74	81.98	1.30	41.82	29.33
cottage industries	204.35	239.23	33.69	21.96	32.10	9.10
trade/groceries	576.71	795.19	328.76	244.24	258.78	76.91
Others	142.50	143.52	83.92	9.91	23.51	10.29

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Figure 4.22

Impact Income Source



After joining the MF programme by the poor women, there is a remarkable increase in their investment, income and savings of all categories of income sources as indicated in the above chart.

Normally, people tend to invest in those sectors where they get comparatively higer returns. However, the sectoral investment allotment is much influenced by the resource endowments and the managerial capability of the concerned clients. For the sampled respondents, the average investment in crops has increased from a level of Rs. 5,617 to Rs. 8,320 (48% up) while it has increase from Rs. 3,430 to Rs. 15,811 (361% up) in case of livestock, Rs. 130 to Rs. 842 (548% up) in services sentor Rs.

2,196 to Rs. 20,435 (830% up) in cottage industries Rs 24,424 to Rs. 57,671 (136% up) in trade sector and Rs. 991 to Rs. 14,250 (1338% up) in others.

Income received from the sector/source is the cash income received from marketable surplus by the respondent household. It does not count the value of the item that goes for family consumption. Income received in crops has increased from a level of Rs. 9,632 to Rs 17,659 (83% up), in livestock from Rs 6,182 to Rs 30,162 (388% up), in services sector from Rs 4,182 to Rs 14,474 (246% up), in cottage industries from Rs 3,210 to Rs 23,923 (645% up) and in trade from Rs. 25,878 to Rs 79,519 (207% up). The change in income received from other sources of income has increase from a level of Rs 2,351 to Rs. 14,352 (510% up).

Savings from a particular income source is the money saved from the received income of that source in that particular season or time. It is not exactly the difference amount between received income from and investment in that income source. There is also a substantial increase in savings from different income sources when compared situations before and after participation in the microfinance programme. Saving from crops has increased from a level of Rs. 4,077 to Rs. 8,442 an increase by 107% in livestock from Rs 2,204 to Rs 11,463 up by 420%, in services sector from Rs. 2,933 to Rs. 8,198 up by almost 180%, and in cottage industries from Rs 910 to Rs 3,369 up by 270%. With regard to trade, the saving has increased from Rs. 7,691 to Rs. 32,876 a jump by 327%. The savings from other income activities have increased from Rs. 1,029 to Rs. 8,392 (715% up).

4.5.3 Impact on Assets

Participating women in microfinance programme get loans to purchase living assets such as goats, buffaloes, cows, pigs, chicken etc., which are productive and help increase income of the participating women. The average figures of all the observations are plotted to indicate the increased number of livestock heads of difference categories and their respective values when compared with 3 years' before situation. Similarly, the programme also provides loans to acquire non-living assets related to enterprise development that also generate more income. Part of the income is consumed to meet their basic needs, part is used for buying further income generating assets, part is saved and part is used to buy durable items some of which are used for amenities such as radio, TV, computer and some for safeguarding the increase wealth such as utensils, gold, ornaments, land, houses, etc.

Table 4.24

Impact on Assets of clients

	Goats	Buffaloes	Cow/ Bullocks	Pigs	Ducks	Chickens
Status before 3 yrs	679.59	2897.81	1827.79	220.27	41.43	363.48
Present Status	2939.27	6835.02	5465.34	2393.25	148.93	1696.7
Progress in %	333%	136%	199%	987%	259%	367%

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Figure 4.23

Impact on assets

Livestock is an integral part of livelihood earning in the rural setting of Nepal. In rural Nepal, keeping livestock comes second to cultivation of crops supporting to earn livelihood. When compared the situation of respondents' holding of livestock animals in value terms with 3 or more years' before the programme implementation, the value of goats has increased by 333%, buffaloes by 136%, cows by 199%, pigs by 987%, ducks by 259% and chickens by 367% as indicated in chart presented above. The increase in the value of livestock heads is mainly due to the numbers of heads increase after joining in the MF programme and partly also due to price escalation.

The MF activities have greater impact in increasing the number of livestock heads as goats, pigs and other cattle multiply with the passage of time. Raising pigs and goats are found more paying than other livestock heads, however in terms of total value the impact on buffaloes and cows topple all other livestock heads.

4.5.4 Impact on Non-living assets

The poor people when increase their income tend to buy assets like radio, television, utensils, ornaments and furniture to ease their way of lives. With the coming of modernity they are switching from radio to TV, old basic utensils to energy efficient stoves, cookers, etc. The average value of radio owned by the respondent women has increased by 248% i.e. from Rs. 264-919. Similarly the value of TV owned by the respondent households has increased from about Rs. 2000 to about Rs. 8,000. The impact on acquisition of utensils with the earned money from microfinance supported enterprises is seen the highest 717% as against that of gold ornament (252%) and furniture (296%) which are also very significantly in positive direction. Generally people gradually improve the standard of non-living assets, from Black and White TV to Color TV, ordinary utensils to golden ornaments, ordinary furniture to cupboard and other valuable items.

Table 4.25

Impact on non-living assets

	Radio	**TV**	**Utensils**	**Gold/Ornaments**	**Furniture**
Status before 3 years (in 100)	2.64	19.92	26.66	49.12	29.89
Present status (in 100)	9.19	80.51	217.68	173.13	118.38
Progress in %	2.48	304	717	252	296

Source: Impact of Microfinance Services on the Clients of RMDC's Partner Organization, RMDC

Figure 4.24

Impact on Non-Living Assets

Major Findings

The study was conducted to analyze the problems and prospects of microfinance in Nepal. RMDC has been providing its services in the field of microfinance in Nepal since 1998. Its efficiency towards the rural population of Nepal has been observed through this study. The study facilitate us the current situation of Microfinance in Nepal and gives some light on the pertaining problems. RMDC works for its strong objectives, which can impose the country to the poverty elimination. To fulfill the major objective, RMDC provides wholesale funds to MFIs. Not only does it provides the loan but also focuses on institutional capacity building and strengthening of MFIs and its staff members as well. The research found a very good impact of RMDC in the field of micro credit, to its partner organizations and to the small holders who used these credit facilities.

- The main clients of RMDC are women. Many women lacking skills and confidence lean on their husbands to make use of their loans.

- Though RMDC's outstanding loan balance is 0%, in terms of Non-Performing Loans, however it seems some risky in protection point of view of PEARLS Analysis (P1).
- Ratio E1 is increasing showing that the demand of loan is high. The recommended range is 70-80%. In ratio E2, it is found that the liquidity position of RMDC is very poor. As liquidity position of the Organization must be at maximum 20%, here RMDC has it more that 20%. Their liquid investment is very high. Ratio E4 indicates the non-financial investment and it shows RMDC does not have non-financial investments. Ratio of E7 shows that RMDC has maintained the optimum level (i.e. in between 10-20%) of member share capital / total assets.
- Ratio A2 of RMDC is in decreasing trend. This is a good indication as its optimum level is <=5%.
- R1 indicates the loan income, which is good in case of RMDC as it has been increasing. R9 ratio is very low in RMDC. Though its optimum level is 5%, its operating expense is less than 5%. R12 is decreasing in RMDC. However, since its income is more than expenses we can still say its not performing bad.
- The optimum level of L3 is <11% and RMDC has managed to decrease it in these last 6 years.
- S1, S2, S3 and S11 indicates the growth in loan to members, liquid investments and financial investments, which is good in RMDC as it has tried to maintain it in increasing trend.
- During the first year, RMDC's disbursed loan is higher that approved loan. And RMDC has increased its disbursement during last six years. And there is also no Non-Performing Loan in RMDC.
- The outreach of RMDC is in 51 districts out of 75 districts. RMDC's partner organization, which are taken as sample in this study has also extended its services to many districts. However, there are also few Partner Organization, which needs to be given special consideration as it is only in 1 or 2 districts.
- In terms of Financial Performance, Current Ratio shows the capability of RMDC to meet the current liabilities is not much effective. Return on Capital Employed and Assets is also fluctuating. Interest earned to total assets ratio can

be considered good as it is increasing and it better when higher. And the Debt Ratio of the Organization seems good as it is less than 1%.

- The outreach of RMDC is in 51 districts out of 75, which is a very good indication. Their partner organization are also spreading their services many districts.
- Loan disbursement and recovery of RMDC is increasing which shows that more poor people are getting their services.
- The study also shows that RMDC as an Organization is performing well, which is analyzed through PEARLS and Ratio Analysis.

The findings of the study towards the problem and prospects of microfinance in Nepal is determined through the outreach and field survey which is summarized as below:

- Geographical Outreach shows us that the services of Microfinance Institutes has not been very good and is mainly focused on Central Region. The Far Western Region is most deprived of the services as only 6% of the population is covered.
- Region wise, Terai Region has received the services in comparison to Hilly Region
- Grameen Model of Microfinance Services have increasing number of clients. But the saving amount has not increased in same percentage. Lending amount is comparatively good.
- Outreach and Services of SACCOs is also rising. Despite, number of SACCOs providing services to increasing number of clients has also improved; the lending amount has not been able to rise in the same ratio.
- Outreach and Services of FINGO Model is very impressive as their lending amount increased by 98% on 2007 whereas their Savings and Number of Clients only boost up by 62%.
- Outreach and Services of SFCL is also good. The number of SFCL had been increased by 52% on 2007 and their lending amount also grew by 48%, which can be considered as effective services.
- There has been significant impact on various aspects of poor people life due to the services rendered by Microfinance Institutions. The Income Sources and

Assets of Microfinance Service Clients have improved. The amount of loan transaction from other sources with high interest rates has been decreased tremendously after Microfinance Institutions intervened. However the loan transaction with the money lenders and relatives still persists in significant percentage.

- We can say that though the Financial Services have been chosen as the best services by field survey report, they also say that microfinance service is not easily accessible. Notwithstanding the previous statement, those who are receiving the services are moderately satisfied. The Microfinance Lending should mainly focus on Agriculture as per the requirement.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATION

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 need to develop micro finance in Nepal.

5.1 Summary

This study was conducted to analyze and to show the present scenario of micro finance in Nepal and the role played by RMDC in the field of micro credit to develop micro finance in Nepal. It also examines RMDC's contribution to micro credit in Nepal.

Micro finance is not an unfamiliar word to us. It is the way to access financial services for the poor and low income group. Financial Services included micro-credit, savings and insurance as well. Micro finance is been accepted universally as an effective tool for addressing poverty. In the context of Nepal, the establishment of Agricultural Development Bank/Nepal 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 are working to promote micro finance related work. And RMDC is one of them.

RMDC 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 the needy institutions.

The study is based on primary and secondary data. The study uses the descriptive approach also based on the technical as well as logical aspects. Logical aspect is based on the primary data collected using the questionnaire and observation surveys.

For the questionnaire, survey questionnaire were distributed to clients of microfinance services. As for technical aspect, different statistical tools were used for both primary and secondary data. Secondary data were collected from RMDC and other micro finance related offices based on Kathmandu. The Secondary data covered the period of six years. However, in some of the information, data for last 4 or 3 years only could be presented as per availability. The statistical tools like PEARLS analysis, percentage analysis and ratio analysis were used to analyze the primary and secondary date.

The objectives of RMDC were analyzed with the procedural analysis and impact of RMDC to its partner organization were also analyzed. The objectives of RMDC, its loan procedures, selection procedures and pay back procedures are pointed out in the study and its impact towards its Partner Organization and end-users are also studied. Various training programs to its partner organizations and to the clients and capacity building programs are also described in the study.

Percentage analysis is used to analyze the performance of RMDC in last six years. The loan amount disbursed, loan paid-back by Partner Organizations, number of Partner Organizations, its outreach are compared and analyzed. Percentage analysis is also used to compare the outreach of Micro Finance services in the Country through various sources, its impact over the years and overall affect as well is studied. Ratio analysis and PEARLS analysis in used to analyze the performance of RMDC for last six years.

5.2 Conclusion

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, under developed 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 finance institutions could obviously play an important role to mobilize local savings, extend credit as well as channelize borrowed fund / grant to the local rural people.

From the study we can conclude that microfinance programs are very pertinent instrument in our Country. It is estimated that 8679024 population are in need of microfinance services but only 1183753 population are being provided the services through various Micro Finance Institutions, Grameen Banks, Financial Intermediary Non Governmental Organizations and Savings and Credit Cooperatives. The effort of RMDC is seen on its gradually increasing number of clients and loan amounts.

Microfinance is dedicated to the women and other marginalized segment of the Community. So, it has the inclusive impact on the development of women and marginalized group. But there is much to be done as still there is low outreach of microfinance services to the ultra poor. Microfinance Institutions will provide financial services to economically uplift the ultra poor of the Country with the support from Government Sector and Donors.

Microfinance services are provided at the door-step of the poor, based of the principle that they should not go to bank. Hence, microfinance services are qualitative and durable for poor. Trainings provided by RMDC is also an example to their viability and sustainability services towards the poor.

Furthermore, loan product alone is not sufficient to uplift poor. The poor are not only poor financially but also in education, awareness, social, health and sanitation. The overall developments of the poor are not possible from single microfinance institution. The microfinance can provide a platform for development activities to improve the situation of poor people. And product diversification is very important. Microfinance institutions are not only providing micro credit services to their clients but also providing the savings and insurance facilities. This can be a big step towards further development of microfinance services in Nepal. In Bangladesh, Grameen Shakti program was introduced by Grameen Bank for the development of renewable energy and resources for poverty alleviation. This is the most successful program in Bangladesh.

Besides the above stated advantages of the microfinance services in Nepal, there are still some problems which can be taken as barriers towards its development. The socio-political situation of our Country is another major factor in microfinance services. The Bandhs and strikes called upon most of the days by various party is making the microfinance services suffer. Also, the unstable political condition affects each and every aspects of Country and microfinance is a part of it. Another factor that is also affecting the microfinance in Nepal is lack of trained staff members and adequate resources to train and educate the staff members. The end-users of microfinance services also needs to be trained and educate to some extent but due to the short of funds, it could not be achieved. In addition to it, end users of microfinance services are not fully aware of the facilities they are being provided.

With the establishment of RMDC, it is apparent that a clear focus is emerging in Nepal for promoting and strengthening the operations related to micro finance activities. Before RMDC, there were many organizations that provided micro finance loans as mediator. But as a wholesale lender, RMDC is not only providing the micro credit to its Partner Organizations but also carrying out capacity building programs.

RMDC has made significant contributions to promoting and developing the microfinance sector in Nepal. It developed 69 Micro Finance Institutions, supported 193 institutions by providing trainings and helping them strengthen and provided potential institutions with exposure visits to best practices and gave basic orientation training. It has cultivated professionalism in its Partner Micro Finance Institutions, through intensive capacity building programs. Besides, it has cultivated strong commitment for financial sustainability among its partner organizations. As a result, its Partner Organizations' staff members and institutional capacity has improved sustainability. Its Partner Organizations have proved that without donor supports or subsidies, they can sustain on their own. Many works under RMDC are performed as their objectives are set.

We have also studied the impact of microfinance on loan transactions taken from various loan sources, impact on income-source and assets of end users. And from the findings we can conclude that RMDC's efforts are paying off to some extent. Though some of the clients of microfinance services are taking loans from their relatives, very few are approaching to Development Banks, Money Lenders and Commercial Banks. After the intervention of RMDC, incomes of their clients have improved significantly. At the present condition, the total savings by end users of microfinance services is

727.40 which is around 300% more than 3 years back. Besides the savings, the productive assets of end users have increased progressively.

RMDC's loan repayment rate with its Partner Organizations is 100% from the very beginning. This has been possible due to close supervision after loan disbursement and institutions development supports. Microfinance services of its partners have been trying to reach the poor of the families. The total clients served by RMDC during Fiscal Year 2006-07 are 667818 and the population under need of this service is 8679024. This shows that there is long way to go for RMDC to reach the poorest. Through the repayment rate of RMDC is 100%, its recovery rate is less than 50%. This could be a major problem to RMDC in future as a wholesale lender.

All clients of RMDC's Partner Organizations are women. Besides economic progress, the women clients have also improved their confidence, leadership, decision-making capacity and entrepreneurial skills after participating in the micro finance program. In this respect, RMDC's micro finance program could also be an inclusive program as all deprived communities and races have been served by its Partner Organization.

However, RMDC has been facing challenges, such as coordinating Micro Finance Institutions. It has to reckon with the lack of efficient accounting and management. Both RMDC and its Partner Organizations do not have computer software and depend upon manual system, which are cumbersome and time consuming. Many Micro Finance Institutions are still at an early stage of development, which gaps in their systems, financial management, leadership, staff development and organizational structure. They still lack adequate subsidized Capital and qualified and experience staff members. Some Micro Finance Institutions are also weak in business planning, financial discipline and staff management.

From the study we can also conclude that RMDC has improved the loan transactions, income sources and savings and living and non-living assets of the clients of its Partner Organizations. The partner organizations of RMDC have also been improving its performance. The outreach has increased significantly in last 6 years. Swabalamban Bikas Bank has managed to spread its services in 17 districts, while its services were available only in 8 districts on Fiscal Year 2002-03.

The study also shows that within last 3 years, the number of borrowers taking loan from other sources likes moneylenders, relatives and commercial banks have decreased. And borrowers taking loans from Microfinance Institutions have increased drastically. Similarly the income source, investment and savings in various sectors like crops, livestock service, cottage industries have grown steadily in during last 3 years. Microfinance services have made a very good impact on the assets (both living and non-living) of borrowers. The progress in living assets is more than 100% and in some case it is 987%. Its impact towards non-living assets is also more than 200% in last 3 years. From this we can conclude that microfinance services through RMDC is helping its clients to improve their living standards as well as improving its own services towards its clients.

The outreach of microfinance services is still low and the market for micro and rural financial services appears to be huge. As shown in Table 11, the total population in need of microfinance services is 8679024, while only 14% of them are able to receive the services. Hence, the breadth and depth of outreach is yet to be expanded to ensure access of microfinance services to people below the poverty line which mostly includes the excluded groups. An analysis of concentration of microfinance services reveals that Microfinance Institutions are concentrated in the Terai and accessible hills. The microfinance services are more concentrated in urban and semi-urban areas and such services are very limited for the poorest of poor. This fact can be concluded from Table 11, where only 6% population of the Far Western Region have access to Microfinance Services, whereas 17% poor of Central Region are receiving the services. Similarly table 12 shows that only 8% of the poor people of Hilly Region are getting the microfinance services, while in case of Terai Region, 24% of them have access to microfinance services. Microfinance services are being reached to the poor people through various models like Grameen, SACCOs, FINGOs and SFCL. In last 3 years these models have also improved their services and its efficiencies could be recognized through its outreach. From table 20, we can conclude that Grameen model had reached to 392770 clients on Mid-July 2007. During Mid-July 2004, the numbers of clients were only 270030. Similarly its savings and lending also increased significantly during 2004 to 2007. From table 11 showing the outreach of SACCOs, we can conclude that number of SACCOs has been in increasing trend and likewise its outreach, savings and lending towards the clients of microfinance services. FINGO model and SFCl model are also proved to be beneficial towards the poor as their outreach is also increasing steadily.

After analyzing the questions surveyed, some conclusion drawn from it are listed below:

After question 1 is analyzed, it can be concluded that the small holders were not easily accessible of financial services because they don't have enough capability to reach out to these financial services as they can't show their guarantees.

After analyzing question no. 2, it can be concluded that Micro finance services are the most appropriate financial services to the small holders for poverty reduction. They should get micro finance services in reasonable rate of interest and without collateral to uplift their life style. This shows that most of the clients preferred microfinance services however it is not easily accessible to them. And it comparison to other services microfinance is considered as the optimum one.

From question no. 3, it is concluded that Agricultural lending is the best alternatives for reducing poverty, because agricultural lending is a fast and recoverable lending for reducing poverty. Most of them have got the idea about agricultural field. So, they can easily use and repay these kinds of lending at time. Social lending because, it isn't considered to be a productive household. These kind of lending are mainly taken for occasional or non-productive uses.

After analyzing question 4, it can be concluded that small holders obtain financial services but in a very small scale. Nowadays, poor household also have access to financial services. However, they couldn't get a large scale of financial support which could be a barrier for them. So, they get in only in a small scale, which is also easy for repayment. And after analyzing question no. 6, it can be concluded that the performance of Microfinance in Nepal is still not very satisfactory.

To question no. 10, most of the respondent informed that state should focus on the awareness of the programs. In most of the cases, though the microfinance services is available in certain areas, due to ignorance/illiteracy, people are not able to make the use of it. Hence awareness program should be extended. Secondly, the microfinance program should be spread nationwide and thirdly the state should make some effort to make it easily accessible by giving some compensation of interest rates.

Most of the respondents were not able to reply to this question properly however some of them said that financial institutions should not take microfinance service as profit oriented but service oriented organization. And staff members should also be trained accordingly. Like to have patience with their illiterate clients who take time to understand their services.

From Table 18 also, we can see that microfinance services are more focused in Central Region. State should make effort to spread the services to other regions as well.

5.3 Recommendations

The total outreach of Micro Finance service is only 14% of the total requirement. The supply of these services have not met the demand. Hence, there is a need of proper support for increasing micro finance outreach. The support could be extended through commitment towards the services, proper regulations to control and satisfactory incentives for motivations to everyone involved. From the study the need for increasing speed of expansion of Micro Finance services is felt and there is also need for elaborate mapping of poverty and services available. In the overall context, Hilly region should be focused more as Terai region has higher coverage of services. Hence strong commitment by the Government and other official agencies to attain the declared goal is necessary.

Further, there should be the adequate information and database. Flow of rural credit is seriously constrained by asymmetric information about an already high-risk client. In Nepal the information and database on the supply side are limited, while those on the demand side are non existent. On the supply side, the Banking Operations Department of Nepal Rastra Bank, maintains some data on formal sector financial institutions and these datas are not easily accessible to those in rural areas, who are in real need of money. Thus the poor people also needs to be educated about the services available.

RMDC should also contribute more to promoting and developing the Micro Finance industry in Nepal with support from the Government and donor agencies. It should work for providing Micro Finance services in the districts not yet covered by Micro Finance Institutions especially in the hills and mountains and for intensifying its services to the poorest in the areas where the services are already established.

The efforts of RMDC to give quality Micro Finance services is admirable. However more support is necessary to involve a large number of weak Micro Finance Institutions from around the Country whose staff members are often not adequately qualified. To meet this need, RMDC should increase both the Capital channeled into training and numbers of its staff members employed in such activity. Its intervention is required also to coordinate the operations of its Partner Organizations. Microfinance Institutions should give up their reluctance to work in the most remote areas and continue to support the poor and the poorest. Besides, programs should also be designed for the small entrepreneurs just above the poverty line who are covered by the formal financial sector. Along with skill development, social programs should be implemented and integrated with microfinance. Given the difficulties to cover the cost of social programs with their own funds, microfinance institutes should explore opportunities of partnership with NGOs and funding from donor agencies. Microfinance Institutes should also attract funding from commercial sources. Increasing the size of operations is also fundamental to achieve scale advantages, reduce costs and improve performance. A system of data collection could be designed and regular screening of targeted communities carried out to track the evolution of the living conditions of the clients, identify the impact of microfinance programs and eventual new needs.

The study shows that some of the Micro Finance Institutions clients are still taking loans from their relatives and other traditional sources. To avoid this, the loan procedures should be simplified and more flexible. It should be strong but in some cases flexible also. Like in case when loan user uses loan for agricultural sector they should get period of time to fertile the product.

Micro Finance service, sometimes could be presumed as not beneficial to the poor. Therefore, it is very essential to create awareness on the Micro Finance programme among all types of stakeholders especially the local level stakeholders. RMDC and its Partner Organization need to collaborate jointly and contribute at their respective levels to educate the stakeholders.

To develop Micro Finance in Nepal, government should provide some facilities to Micro Finance Institutions to encourage them to spread its programs all over the Country. Micro Finance could be scaled up with good product design to accommodate the needs of graduated clients. This is support to help achieving higher employment generation, reduced poverty and also helping Micro Finance Institutions to achieve outreach with sustainability. There should be effective monitoring and supervision from government level. Further, the reason of Far Western Region and Hilly Region deprived of the adequate services could be the poor infrastructure where other facilities could not reach easily.

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Appendix 1

Calculation of PEARLS

		2002-03	2003-04	2004-05	2005-06
P1	a. Allowances for Loan Losses	1,845,376.98	1,585,903.46	9,029,386.56	7,000,752
	b. Delinquent loans more than 12 months	57,295,268.68	120,905,699.00	133,467,248.00	325,835,100
	a/b	**3.22%**	**1.31%**	**6.77%**	**2.15%**
E1	a. Net Loans	119,064,623.02	131,884,096.54	316,810,613.44	493,849,247
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**23.95%**	**21.94%**	**35.56%**	**42.53%**
E2	a. Total Liquid Investments	134,692,798.71	152,310,622.00	150,447,961.14	678,136,025
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**27.10%**	**25.34%**	**16.88%**	**58.40%**
E4	a. Total Non-Financial Investments	0	0	0	0
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**0.00%**	**0.00%**	**0.00%**	**0.00%**
E7	a. Member Shares	80,000,000.00	80,000,000.00	80,000,000.00	100,000,000
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**16.10%**	**13.31%**	**8.98%**	**8.61%**
A2	a. Non-earning Assets	106,666,738.24	113,561,960.65	111,185,300.30	130,535,019
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**21.46%**	**18.89%**	**12.48%**	**11.24%**
R1	a. Total Loan Income	7,115,757.15	8,433,306.38	11,866,268.47	50,799,795
	b. Average Net Loan Portfolio	89,089,698.00	127,186,473.50	229,651,174.00	403,327,429
	a/b	**7.99%**	**6.63%**	**5.17%**	**12.60%**
R9	a. Operating Expenses	1,789,987.57	2,117,913.79	1,956,369.53	2,331,877
	b. Average Total Assets	420,787,687.80	549,040,373.80	746,029,434.90	1,026,094,883
	a/b	**0.43%**	**0.39%**	**0.26%**	**0.23%**
R12	a. Net Income	24,494,846.85	30,595,512.76	38,302,811.01	35,370,678
	b. Average Total Assets	420,787,687.87	549,040,373.87	746,029,434.97	1,026,094,883
	a/b	**5.82%**	**5.57%**	**5.13%**	**3.45%**
L3	a. Non-earning Liquid Assets	7,608,288.87	8,339,826.80	11,080,859.79	2,673,702
	b. Total Assets	497,045,365.09	601,035,382.64	891,023,487.29	1,161,166,279
	a/b	**1.53%**	**1.39%**	**1.24%**	**0.23%**
S1	a. Current Loan Portfolio	120,905,699.00	133,467,248.00	325,835,100.00	480,819,758
	b. Loan portfolio of last year	57,273,697.00	120,905,699.00	133,467,248.00	325,835,100
	(a/b)-1X100	**111.10%**	**10.39%**	**144.13%**	**47.57%**

Appendix 2

Volume of Loan Transactions from Various Loan Sources

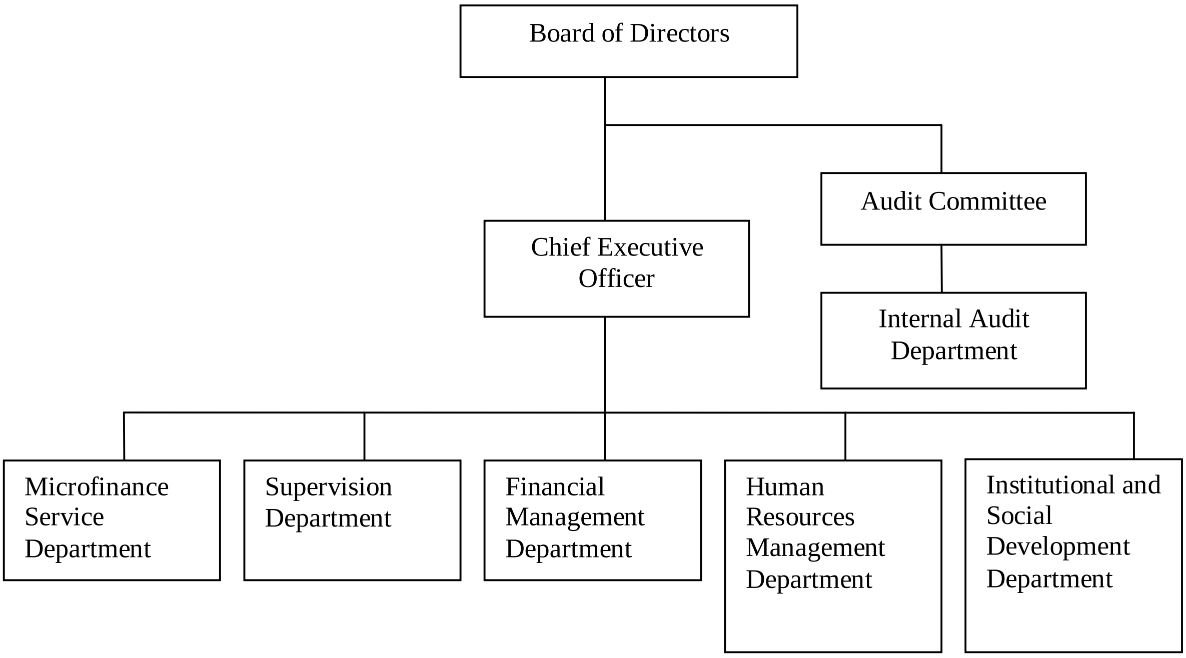
Sno	MFI	Money lenders	Relatives	Commercial Bank	Development Bank	Micro Finance Institution	Total Responden	
							Sample Size	Takin loans from other source
1	WSC, Balaju	0	2	0	0	10	10	2
2	Manushi	0	1	0	0	19	19	1
3	CSD	4	9	0	0	30	30	13
4	WDC, Lele	0	0	0	0	7	7	0
5	WDC, LP	4	1	1	0	10	10	6
6	FORWARD	4	2	0	0	21	21	6
7	JBS	1	1	0	2	21	21	4
8	NRDSC	5	6	0	2	24	24	13
9	SB, Gaighat	1	1	1	0	10	10	3
10	SB, Lahan	0	0	0	0	9	9	0
11	SB, Dhalkebar	0	0	0	1	10	10	1
12	SB, Bhimphedi	2	1	0	0	10	10	3
13	SB, Birgunj	1	2	0	0	11	11	3
Total		22	26	2	5	192	192	55
% over total sample size		11.46%	47.27%	1.04%	9.09%	100.00%	100.00 %	28.65%

Appendix 3

Loan Portfolio of RMDC with its Partner Organizations

Partner's Name	No. of Loans	Approved Loan (Rs.)	Disbursed Loan (Rs.)	Outstanding Loan (Rs.)
Nirdhan Utthan Bank Ltd., Bhairahwa	4	280,000,000.00	200,000,000.00	91,000,000.00
Centre for selfhelp Development (CSD), Kathmandu	5	250,000,000.00	150,000,000.00	74,070,000.00
Bindhabasini Savings and Credit Cooperative, Banepa	1	1,000,000.00	1,000,000.00	-
Nepal Rurual Development Society Centre (NRDSC), Biratnagar	7	144,755,000.00	144,755,000.00	-
Sahara Nepal Savings and Credit Cooperative, Jhapa	8	199,595,000.00	199,595,000.00	130,455,000.00
National Educational and Social Development Organization(NESDO), Parbat	5	76,755,000.00	61,755,000.00	41,295,000.00
Chartare Yuwa Club (CYC), Baglung	4	28,425,000.00	19,425,000.00	11,363,000.00
Society of Local Volunteers' Effort (SOLVE), Dhankuta	2	10,000,000.00	9,600,000.00	3,011,000.00
Rural Awareness Forum (RAF), Baglung	1	2,000,000.00	1,400,000.00	-
Dhaulagiri Community Resources Development Centre (DCRDC), Baglung	4	37,000,000.00	24,500,000.00	11,192,000.00
Community Women Development Centre (CWDEC), Saptari	6	76,694,900.00	50,694,900.00	20,447,000.00
Mahuli Community Development Centre (MCDC), Saptari	6	91,060,000.00	67,060,000.00	37,709,600.00
Deprosc Bikas Bank Ltd., Bharatpur	1	5,000,000.00	5,000,000.00	-
Paschimanchal Grameen Bikas Bank Ltd., Butwal	1	40,000,000.00	40,000,000.00	-
UNYC NEPAL, Bardiya	3	28,200,000.00	10,200,000.00	6,960,000.00
Chhimek Bikas Bank Ltd., Hetauda	6	224,100,000.00	194,100,000.00	83,165,000.00
Madhyamanchal Grameen Bikas Bank Ltd., Janakpur	1	40,000,000.00	40,000,000.00	-
Swabalamban Laghubitta Bikas Bank Ltd., Janakpur	4	311,000,000.00	311,000,000.00	140,000,000.00
Manushi, Kathmandu	4	55,000,000.00	40,000,000.00	22,422,000.00
Nepal Mahila Utthan Kendra, Lalitpur	5	44,520,000.00	38,520,000.00	25,625,000.00
Jeevan Bikas Samaj, Morang	8	178,420,000.00	148,417,000.00	93,560,000.00
Forum for Rural Women A rdency Development (FORWARD), Sunsari	9	274,065,000.00	243,600,000.00	149,285,000.00

Appendix 4
Organization Chart of RMDC



Appendix 5

Questionnaire Surveyed

Name of respondent :

Position :

Organization :

1. What is the level of accessibility of financial services to the small holders in Nepal?

    1. Very easily accessible
    2. Easily accessible
    3. Moderately accessible
    4. Not easily accessible
    5. Not accessible

2. What types of financial services could be the best alternative for poor people? Please Rank (1) for the highest.

    1. Commercial Services ( )
    2. Development Services ( )
    3. Micro Finance Services ( )
    4. Indigenous financial Services ( )
    5. Co-operatives financial Services ( )

3. Which type of lending plays the vital role in reducing poverty in Nepal? Please rank (1) for the highest.

    1. Commercial Lending (Trade) ( )
    2. Industrial Lending ( )
    3. Agricultural Lending ( )
    4. Social Lending ( )
    5. Co-operative Lending ( )

4. Do you think that the small holders will be able to obtain financial support from the above services?

    Yes ☐ No ☐

5. On what scale do they obtain?

Appendix 6
Responds to the Questionnaire Survey

Question No.	Options	Respondents	Total Respondents	Percent
1	1. Very easily accessible	0		0%
	2. Easily accessible	0		0%
	3. Moderately accessible	5	35	14%
	4. Not easily accessible	25		71%
	5. Not accessible	5		14%
2	1. Commercial Services	23		66%
	2. Development Services	8		23%
	3. Micro Finance Services	3	35	9%
	4. Indigenous Financial Services	1		3%
	5. Co-operatives Financial Services	0		0%
3	1. Commercial Lending (Trade)	3		9%
	2. Industrial Lending	5		14%
	3. Agricultural Lending	19	35	54%
	4. Social Lending	1		3%
	5. Co-operative Lending	7		20%
4	1. Yes	35	35	100%
	2. No	0		
5	1. Very large scale	0		0%
	2. Large scale	0		0%
	3. Medium scale	2	35	6%
	4. Small scale	2		6%
	5. Very small scale	31		89%
6	1. Very satisfacotry	0		0%
	2. Moderately satisfactory	28		80%
	3. Satisfactory	5	35	14%
	4. Not very satisfactory	2		6%
	5. Not satisfactory at all	0		0%
8	1. Awareness programme to borrowers	8		23%
	2. Training to MFIs	15		43%
	3. Coordination	6	35	17%
	4. Policy shift	4		11%
	5. Eliminatory duplication of programmes	2		6%

Appendix 7

Success Stories

Rukmini: A Laborer Turned into an Entrepreneur

Source: Chhimek Bikas Bank

Mrs. Rukmimi Mahato, 28, resident of Gitanagar-5, Chitwan is one of the successful clients of the Chhimek Bikas Bank Ltd., Hetauda. Born in a poor family, Rukmini could not study beyond grade four and had to work in other houses as a laborer to earn for her family. At 15, she was married to a man of a poor family in a nearby village. In the same year, they got separated from the joint-family. On their share they got only one Kathha of land (0.03 hacs). They had no choices other than working as wage laborers to earn for their livelihood. Out of the wages, her husband could save Rs. 2,000, which they invested in a teashop. But, unfortunately they had to close the teashop in about a year as they could not do well in it. They even lost their invested capital. Having no options, disappointed Rukmini started working again in others' farms on daily wages, and her husband in a meat shop. One day, while going to work, Rukmimi came to know from a staff of the Chhimek Bikas Bank Ltd. about its service of providing collateral free loan to the poor like her.

On learning this, Rukmini got excited and decided to make a try for loan. She got enrolled as a group member of Parsadhap Branch Office of the Bank in July 2002. After 3 months, she took first loan of Rs. 10,000 from the branch to start a small business of buying and selling vegetables and fruits. She realized in a few weeks that the business could go well. Her average daily sale was Rs. 300 / 400, and daily profit Rs. 60 ? 70. She repaid all monthly loan installments on time. After clearing the first loan in a year as per the contract, she took second loan of Rs. 15,000 to open a meat shop for her husband, who had gained experience earlier as a laborer in such a type of shop. Both shops were opened next to each other, and were running smoothly with satisfactory returns. Having good repayment record with the bank, Rukmini easily got the third loan of Rs. 20,000 in