

MICROFINANCE SERVICES FOR THE URBAN POOR

**A Case Study of Saving and Credit Cooperatives in Informal
Settlements Within Kathmandu Valley**

A THESIS

Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

Submitted by:
Amrita Aryal
Nepal Commerce Campus
Roll No. 670/060
TU Registration No. 7-1-52-9-97
Symbol No. 1155
Minbhawan, Kathmandu, Nepal.

In partial fulfillment of the requirement of the degree of
Master of Business Studies (MBS).

Minbhawan, Kathmandu.
January 2011

VIVA-VOCE SHEET

We have conducted the Vive-Voce Examination of the thesis presented

By

Amrita Aryal

Entitled

**Microfinance Services for the Urban Poor:
(A Case study of saving and credit cooperatives in informal settlements within
Kathmandu Valley)**

and found thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree of Business Studies (MBS).

VIVA-VOCE Committee

Chairman (Research Committee): -----

Member (Thesis Advisor): -----

Member (External Expert): -----

Date:

RECOMMENDATION

This is to certify that the Thesis
Submitted By:

Amrita Aryal

Entitled

**Microfinance Services for the Urban Poor:
(A Case study of saving and credit cooperatives in informal settlements within
Kathmandu Valley)**

has been prepared as approved by this department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.

(Dr. Sushil Bhakta Mathema)

Chairperson,
Research Department

(Dr. Sushil Bhakta Mathema)

Thesis Advisor

(Mr. Diwakar Pokhrel)

Campus Chief

Date:

DECLARATIONS

I, hereby declare that the work reported in this project report entitle " Microfinance Services For The Urban Poor: A Case study of saving and credit cooperatives in informal settlements within Kathmandu Valley" submitted to Nepal Commerce Campus, Faculty of Management, Tribhuban University, is my original work done in the form of partial fulfillment for the Master's Degree in Business Studies (M.B.S) under the supervision of Dr. Sushil Bhakta Mathema, Nepal Commerce Campus, Minbhawan, Kathmandu.

Amrita Aryal

Researcher

T.U.Roll No: - 7-1-52-9-97

Symbol No. : -1155

Nepal Commerce Campus.

ACKNOWLEDGEMENTS

This study on " Microfinance Services for the Urban Poor: A Case study of saving and credit cooperatives in informal settlements within Kathmandu Valley " is undertaken as per the partial requirement of Master's Degree in Business Studies (M.B.S) during the study, I have received support from a number of person and institutions. I would like to express my sincere gratitude and thanks to all of them, who directly and indirectly assisted me to complete this study.

At the outset, I would like to express my sincere gratitude and deep appreciation to my advisor Dr. Sushil Bhakta Mathema for his continuous encouragement, outstanding support, guidance and valuable feedbacks through the accomplishment of this study.

I am deeply indebted towards all the leaders, staff and members of Pragati Mahila Uthan, Nava Deep Jyoti Mahila and Gyan Jyoti Mahila Saving and credit cooperative Ltd for their support during undertaking the field visits. My special thanks go to Lumanti, and CED-Nepal for providing me all necessary logistic support during the process of undertaking this study.

During the study, I have taken the help of various books, articles, journals and publications of different institutions and persons; I am indebted towards them and equally thankful to Mr. Upendra Shakya Micro finance specialist of Lumanti who provided me the required information during the study.

Lastly, I don't like to state that this is a complete study. There may be various shortcomings and deficiencies. I am alone responsible for those shortcomings and deficiencies.

Amrita Aryal
Nepal Commerce Campus
Minbhawan, Kathmandu.

TABLE OF CONTENTS

Viva-Voce Sheet

Recommendation

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

List of Abbreviations

CHAPTER ONE

INTRODUCTION

1-7

1.1	Background of Study	1
1.2	Focus of the Study	2
1.3	Statement of Problem	3
1.4	Objective of Study	4
1.5	Research Methodology	4
1.6	Limitation of the Study	7
1.7	Organization of the Study	7

CHAPTER TWO

REVIEW OF LITERATURE

8-33

2.1	Conceptual Review	8
2.2	Concept of Microfinance	8
2.2.1	Definition of Microfinance	8
2.2.2	Basic Principles of Microfinance	10
2.2.3	Key Operating principles of Microfinance	11
2.3	Concept of Sustainability	13
2.3.1	Financial Viability	13
2.3.2	Two Levels of Self-sufficiency	13
2.3.3	Operational Self-sufficiency	14
2.3.4	Financial Self-sufficiency	15
2.3.5	Principles of Sustainable Microfinance	16

2.3.6	Sustainability of Saving and Credit Cooperatives	19
2.4	Historical Evolution of Microfinance in Nepal	20
2.4.1	The MF Sector in Nepal	21
2.5	Cooperative as a Microfinance Institution	24
2.5.1	Characteristics of a Good Financial Institution	24
2.5.2	Strategies for Providing Sustainable Microfinance Services	25
2.6	Research Review	26
2.7	Review of Articles	26

CHAPTER THREE

RESEARCH METHODOLOGY 34-39

3.1	Nature and Sources of Data	34
3.2	Method of Data Analysis	34
3.2.1	Pricing the Product	34
3.2.2	Portfolio Quality	35
3.2.2.1	Repayment Rates	35
3.2.2.2	Portfolio Quality Ratios	36
3.2.2.3	Loan Loss Ratio	37

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION 40-60

4.1	Overview of SCCs under Study	40
4.2	Outreach	41
4.2.1	Breath of Outreach	42
4.2.2	Length of Outreach	44
4.2.3	Depth of Outreach	46
4.2.4	Cost of Outreach	48
4.3	Portfolio Quality	53
4.4	Efficiency of the SCCs	57
4.5	Major Findings of the Study	58

CHAPTER FIVE	
SUMMARY, CONCLUSION AND RECOMMENDATIONS	61-65
5.1 Summary	61
5.2 Conclusion	62
5.3 Recommendations	64
BIBLIOGRAPHY	66
ANNEXES	68

LIST OF FIGURES

Figure 1: Components of Key Operating Microfinance	12
Figure 2: Components of Operating Self-sufficiency	15

LIST OF TABLES

Table 1: Evolution of the micro-finance sector in Nepal	20
Table 2: Status of Major Micro-Finance Service Outreach	24
Table 3: Characteristics of SCCs under the study	40
Table 4: General overview of SCCs under the study	42
Table 5: Growth of Shareholders in SCCs under Study	42
Table 6: Savings and Growth in Savings in SCCs under Study	43
Table 7: Saving Composition of SCCs under Study	44
Table 8: Amount of Loan Portfolio in Different Schemes	45
Table 9: Detail of loan members in the SCCs during the study period	46
Table 10: Average loan size in SCCs under Study	47
Table 11: Average Saving Balance in SCCs under Study	47
Table 12: Operating Cost per Shareholder in SCCs under Study	49
Table 13: Operating Cost per Saving Members in SCCs under Study	49
Table 14: Institutional cost of the funds of SCCs under Study	50
Table 15: Salaries and administrative Expenses of SCCs under Study	51
Table 16: Operating Self Sufficiency of SCCs under Study	52
Table 17: Financial Self Sufficiency of SCCs under Study	53
Table 18: Sustainable interest rate	53
Table 19 : Repayment rate of the SCCs under the study area	54
Table 20: Arrears Rate	54
Table 21: Loan Loss Reserve Rate	56
Table 22: Saving Members per Staff	57
Table 23 : Shareholders per staff	57
Table 24 : Loan Clients per Staff	58

ABBREVIATIONS

ADB/N	Agricultural Development Bank in Nepal
AGMs	Annual General Meetings
APA	Average Performing Asset
BDS	Business Development Services
BoD	Board of Directors
BWP	Banking With Poor
CBs	Commercial Banks
CBS	Central Bureau of Statistics
CECI	Canadian Centre for International Studies and Cooperation
CGAP	Consultative Group to Assist the Poorest
CMF	Centre for Microfinance
FSS	Financial Self Sufficiency
FY	Fiscal Year
GBB	Gramin Bikas Bank
GDP	Gross Domestic Product
IDPs	Internally Displaced Persons
MDGR	Millennium Development Goals Report
MIS	Management Information System
NPC	National Planning Commission
NGO	Non Government Organisation
NEFSCUN	National Federation of Savings and Credit Cooperative Unions Ltd
OSS	Operating Self Sufficiency
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self Reliance Fund
SCC	Savings and Credit Cooperatives
SCO	Savings and Credit Organization
SDI	Subsidy Dependence Index
UNDP	United Nations Development Programme
VDC	Village Development Committee