Chapter One

Introduction

1.1 Background of Study

Nepal is facing high levels of poverty both in rural and urban areas. The majority of development interventions have focused primarily on rural areas due to relatively unequal distribution of economic resources between rural and urban areas with corresponding poverty incidence of 38% and 23% respectively (NPC 2002). The sectoral allocation of development assistance has been less successful in enhancing financial and social benefits on improving linkages between rural and urban areas despite ample evidence from other countries that an increase in income level and demand from rural towns, regional centres and urban areas and vice versa is the single most important factor promoting rural growth.

Urbanisation is rapidly growing in Nepal in the recent years. The present conflict has had profound impact on Nepal's urban areas. During early 1990s (prior to escalation of present national conflict) annual population growth in urban areas was 5.2% compared to an overall national growth rate of 2.4% per annum (CBS 2001). If the trend continues half of the Nepalese population will be living in urban areas in 2035, totalling 30 million people (UNDP 2001). The recent influx of Internally Displaced Persons (IDPs) have exacerbated this trend leading to a growth rate of up to 10% in some severely affected municipalities, increasing number of urban poor and creating an immense pressure to deliver basic services to citizens of these municipalities. Further, destruction of a wide range of municipal offices, ward offices and related infrastructure, conflict has resulted in a massive influx of IDPs. This influx is exacerbating unemployment level and laying a heavy burden on municipalities to provide needed basic services and promote income generation activities. A recent study estimated IDPs in Nepal to be around 150,000 with an influx resulting in an urbanization trend of between 7-10 percent per annum in the most affected municipalities including Kathmandu valley (UNDP 2001). With the limited financial and human resources at their disposal, municipalities have overwhelming challenges in meeting basic needs of their citizen. The mechanisms adapted to deliver services and target development are insufficient to meet such demands. The capacity to address demands of urban citizens varies greatly across municipalities and it is directly linked to unequal urbanization.

Due to the low per capita income, concentrated urban growth and high population growth rate Poverty reduction rate is low in Nepal. Out of the population of 23 million, 38 %[1] are below poverty line. Most of the poor people live in rural areas and they have limited little opportunity and access to financial resources. Microfinance will help its members by provide access to the financial resources for poor people who have no collateral, and have business opportunities to start new business activities from which they can generate employment and increase income. Although many programs have been implemented for poverty reduction in Nepal, only microfinance programs seems as a poor targeted program[2]. This will directly address the financial need of the poor.

Microfinance has evolved as economic development approach intended to benefit low-income people. The term Microfinance[3] (MF) refers to the provision of **financial services** to low-income members, including the self-employment. Financial service generally indicates saving and credit however, some microfinance organization also provide micro-insurance and money transfer services to its members. Microfinance provides financial services to poor and low-income households that have access to economic opportunities. This service develop the habit of saving among its members and allows house-hold and micro-enterprise to keep assets liquid and respond to the economic change by providing loans to its members without collator in the guarantee of its group members.

Though microfinance has positive impact to the local economy by developing micro-enterprises, creating jobs opportunities and increasing in income of household through promoting micro-enterprises, supply of goods and services to low-income populations this help to increase the productive use of capital.

1.2 Focus of the Study

Sustainable Microfinance plays the important role in the list developed country like Nepal. Since the Nepalese economy is rural based, most of the people who are settled in the rural and slum area having very low access to the financial services and because of this they are not able to utilize their entrepreneurial skill. Since the objective of the microfinance is to provide financial access to these people when there is no access of the financial services

[1] Source : - http://www.hotelnepal.com
[2] Source : - http://www.hotelnepal.com
[3] Refer to the book The World Bank Sustainable banking with the poor by Joanna Ledgerwood.

or have limited access to the financial services. Since the microfinance is provide financial access to its members those who don't have access to financial resources and develop the habit of saving among its members. So the entrepreneur skill of individual microfinance members need to be developed in order to transfer their microfinance institution into success, small scale rural enterprise involved in production, processing and other value added activities with reliable chain of demand and supply mechanism. So the microfinance could be the effective tools to uplift the economy.

The interest rate that the micro finance institution is charged must be calculated in the systematic manner which must be big enough to cover all the expenses of the institution. Micro finance organization performs best when their services are combined of successful practices from informal and formal financial institutions. Only sustainable rate is not enough for MFI's saving account offered to the poor must have numerous advantages like safe place to keep money and easy access to it when needed. So an effective saving service should offer Security, Liquidity, Convenience and Competitive returns because sustainable interest rate is the rate at which the institution will be sustain all the expenses of the organization will be covered from its own earning. Having sustainable interest rate is not enough for providing sustainable services in the society SCCs must be able to utilize its savings collected from the members in a safe portfolio, with sustainable interest rate, with efficient staff who can give the good outreach for sustainability of the SCC.

Hence the entire study is focused on the outreach, sustainable interest rate, portfolio quality, and efficiency of the staff working in the SCCs.

1.3 Statement of Problem

There are around 7 thousand saving and Credit Co-operative (SCCs) working in Nepal. Only some of the SCCs are able to provide sustainable microfinance services to its members. To improve the economic condition of the members associated with the SCCs. They should be able to provide effective credit services to their members. To be an effective microfinance service provider the SCCs should be Flexible, Quick or Ready to access, Collateral substitutes, Betting the Competition, Appropriate product, Easy access. Saving and credit co-operatives are growing with the several reasons, they promise to reach to the poor, and microfinance activities that can support income generating activities for enterprises opportunity to the low income households. To provide these services SCCs at first they themselves must be in sustainable situation.

An institution is said to be financially sustain when it generates sufficient income from its financial services and investment activities to cover its operating expenses and to mention its real value of its equity. To be a sustained organization all the effects of subsidies in Cash and in kind have to be removed from the statement, only revenue from ongoing financial services without donor services should be analyzed to find out the sustainability of the SCCs. Some of the organization does not do this to find out the sustainability. This financial sustainability will help to determine how profitable the SCCs are and help to understand elements of financial performance. Outreach analysis, Sustainable interest rate analysis, Portfolio quality analysis and efficiency analysis of the staff will help to answer the following questions of the SCCs.

- What is the outreach of the SCCs? Is the SCCs serving its all the potential members in the society?
- Are the SCCs under the study area sustainable? Will it be able to provide the sustainable services to its members in the future?
- What is the quality of the portfolio? Is the organization doing reasonable job of managing the most important asset of the SCCs?
- Is the staff working in the SCCs efficient enough? Are the staff providing in the efficient manner or not?

1.4 Objective of the Study

The study deals with the outreach, sustainability, portfolio quality, and efficiency of the staff working in the SCCs under the study area. The specific objectives of the study are

- To analyze the outreach of the SCCs under the study area,
- To determine the sustainability of the SCCs under the study area,
- To analyze the portfolio Quality of the SCCs under the study area,
- To determine the efficiency of the staff working in the SCCs under the study area.

1.5 Research Methodology

It deals with the methodology that is used to obtain the answers to the objectives of the study. It includes research design, study area, source of data, sample procedure, respondents, tools to data collect and data analysis procedure.

Research Design

Research design refers to the plan and strategy that helps to get the answers to the above research objective. It provides the methods and procedure for acquiring the needed information. It serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed.

The study is made to analyze the outreach, sustainable interest rate, portfolio quality and effectiveness of the staff working in the SCCs. So the research design is primarily related to plans and methods related to acquire the information on the outreach, sustainability, portfolio quality and effectiveness of the staff working under the study area.

Study area

This study will cover the saving and credit co-operative organization organized by women who are settled in slum and squatter area of the Kathmandu valley promoted by Lumanti.

Source of data

This research will be based on the secondary data. For this purpose all the selected co-operative will be visited to collect the required data. The basic source of the data for the study will be the audited income statement and balance sheet. For the other information chairperson of the organization will be interviewed and required information will be collected.

Sampling procedure

There is no any special sampling technique used in this research. All the saving and credit co-operative that have provided services for three (3) or more than three years in the slum and squatter area of Kathmandu valley promoted by lumanti will be taken as the sample SCCS.

Respondents

The microfinance specialist (Mr Upendra Shakya) of lumanti who is providing technical services to the SCCs, chairperson of each SSCa and staffs working in the SCCs under the study area are taken as the respondents of the study.

Tools of data collection

There are no any specific tools used for data collection in this study all the information required for the study are available in the balance sheet and income statement of the SCCs. Other information required for the study will be collected by the personal interview with the staff and board members of the SCCS.

Data analysis procedures

Analytical procedure helps to find out the target objectives. It refers to the procedure of using the analytical tools. There are not any specific tools that can be used to find out the desired outcome. For the study following tools will be used.

Outreach analysis of the selected SCCs will be done from the different dimensions. Length, Breath, Depth and Cost of outreach will be analyzed to determine the outreach of the Selected SCCs under the study area. All the required data have been collected from balance sheet, income statement and personal interview.

To overcome thought the problem of sustainability the annualized effective interest rate on investment has be calculated by using the formula.

$$R = \frac{AE + CF + LL + K}{1 - LL} - II$$

Operating self-sufficiency and financial self-sufficiency of the organization will be calculated and the sustainable of the selected SCCs will be analyzed.

Is the organization doing reasonable job of managing the most important asset of the organization? To determine the quality of the portfolio ratios will be used to determine situation of the portfolio of the selected SCCs. The portfolio quality ratio provides information on the percentage of no earning assets, which in turn decrease the revenue and liquidity position of an MFI. Three ratios are calculated here to measure the portfolio quality, the arrears rate, the portfolio at risk, and the ratio of delinquent borrowers.

Are the staffs working in the SCCs efficient enough to perform the job? Does the institution serve as the other institution does, in the lowest possible cost? And staff productivity will be analyzed (Shareholders per staff, saving members per staff)

1.6 Limitation of the study

This study is focuses on the selected SCCs which are managed by the slim and squatter in the Kathmandu valley and promoted by Lumanti. This research is purely academic research so the time frame will be managed as the time determined by the collage. Financial part will be taken in consideration because of the lack of financial expenditure the study will be carried out only in the selected area. Outreach, Sustainability, Portfolio quality and Efficiency of the staff working in the SCCs will be analyzed as mentioned in the data analyzed and presentation. The result of the research will base on the information provided by the Organization.

1.7 Organization of the Study

The study report has been organized in 5 chapters; the first chapter deals with introduction, the second chapter deals with review of literature and conceptual framework, third chapter methodology, fourth chapter data analysis and interpretation, fifth chapter conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter consist the conceptual framework, research review and relevant theories for the analysis of the study. The former section reveals the relevant aspect of the study and later one deal with research article in the related topics published in different national and international journals by different authors.

2.1 Conceptual Review

This section comprises of general concept of Microfinance, Definition of the microfinance, Basic principle of microfinance, concept of outreach, Concept of sustainability, Principle of sustainable microfinance, Sustainability of SCCs, Historical evaluation of Microfinance sector in Nepal.

2.2 Concept of Microfinance

Microfinance plays a significant role in uplifting the economic condition of economically backward people living in the country. It is primarily concerned with saving and credit in the past but now days to be a complete microfinance organization it must provide the service of Saving, Credit, Insurance and money transfer. However it is powerful tools of poverty reduction, which enables the poor to build assets, increase income level and reduce the vulnerability to economic weakness. It is estimated that in Southern Asia region has about 45% of all the people in use microfinance services in order to raise their living standards (Patel, 2007)

The main challenge for microfinance service provider is to provide sustainable financial services to those hard core poor. There are nearly one billion populations of people who are still lacking access to basic financial services, the goal of micro Credit Summit campaign (MCSC) is to reach 100 million of the world's poorest families with credit for self-employment and other financial and business services by 2005.

2.2.1 Definition of Microfinance

Simply defined micro finance refers to "the provision of financial services to the poor". However, many promoters and practitioners prefer a narrower, more specific definition.

Sometime the definition is quantified (i.e., in terms of the size of the Loan). At other times, the purpose of the loans provided is specified (usually in terms if loans for self-employment activities that generate income). Definitions of microfinance (MF) differ between countries, organizations and programs. Some of the standard features of such definitions are:

- **Size:** Loan are micro, or Very small in Size,
- **Saving Services:** Savings services in-built as integral part,
- **Target Users:** micro-entrepreneurs and low -income households,
- **Utilization:** the use of funds not only for income generation, and enterprise development, but also for community use (health/education), etc.
- **Terms and conditions:** most terms and conditions for microfinance are flexible and easy to understand, and suited to local conditions of the community.

This leads to some defining MF in terms of the extension of financial services to "the unbendable" i.e., those households not served by mainstream banks.

Consultative Group to Assist the Poor (CGAP) has defined Microfinance as Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks.

Poor people usually address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market.

Different types of financial services providers for poor people have emerged - non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale - offering new possibilities.

These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans, and their desire to save. In many institutions, there are multiple loan products providing working capital for small businesses, larger loans for durable goods, loans for children's education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients, but in some countries NGO microfinance institutions are not permitted to collect deposits.

Remittances and money transfers are used by many poor people as a safe way to send money home. Banking through mobile phones (mobile banking) makes financial services even more convenient, and safer, and enables greater outreach to more people living in isolated areas. Financial services for poor people have proven to be a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress.

2.2.2 Basic Principles of microfinance

Main objective of the microfinance is to provide financial services to the poor people that that does not have access to the financial services. The basic principle of microfinance program lies on the following.
Cost per unit of service held low The cost per unit of device held must be low enough so that poor people can have access to the services delivered by the Microfinance institution.

Client friendly procedure There must be variety of products in the SCCs so that members can select the products as their desire. SCCs must be able to offer different types of saving and loan products to its members.

Standardized, efficient procedure To satisfy the members by providing standardized, efficient procedure SCCs must be guided by the policy not by the Chairman or the staff of the SCCs if the policies are effective in the SCCs then the services provided by them will be standardized, efficient in the society.

Fees charged to cover cost SCCs are registered in the society with the motto of providing services to the members not for charity and profit. So to provide sustainable services in the society SCCs must charge some fees to the members against the service that which will cover the cost of the transaction.

Highly disciplined clientele and workforce the members which are affiliated with SCCs must be highly discipline in term of payment of the loan and saving the deposit in the SCCs on time. Work force working in the SCCs must be well discipline in term of financial matter and efficient enough to provide services to the member in the society.

Concern with impact of financial services on clients Only providing financial services to the poor is not the great work analyzing the impact of that credit is the most important. Financial services must uplift the leaving standard of the members by providing employment opportunity and increasing income of the members in the society.

Provision of sustainable financial services through a business model 3p is the important tools for SCCs to provide sustainable service in the society. 3p Stands for Policy, Planning, and PEARLS. SCCS must be guided with the policy, must have planning, and financial activities must be monitored by PEARLS monitoring system.

2.2.3 Key Operating Principles of Microfinance

Any micro finance organization that are operating in the society and has their desire to provide sustainable service in the society they must give emphasis on the following activities.

Understanding the market before providing services in any society SCCs must be able to understand the demand of the members leaving in that society. To provide sustainable services in the society SCCs must be able to analyses the need of the members. It the SCCs provides the services to the members by analyzing the need then they can utilize the resources in the productive manner.

Straight-line operation Straight line operation refers to the activities that are carried out by the SCCs must be equally treated to every member in the society. There must be the policy in the SCCs it must be guided by the policies.

Informal Sector Practices SCCs must be able to follow some of the practices that are followed by the informal sectors money lenders, the process must be short easy enough guided by the policy so that it will be easy for the members.

Repayment incentives Members of the SCCs must be motivated to pay the loan back on time by providing some of the incentives to the members I they pay loan on time.

Figure 1: Components of key operating Microfinance

Saving Services SCCs must be able to provide different types of saving schemes in the society from which they can collect the huge amount of funds which which will be important part of the SCCs to invest in the society. Saving services provided by the SCCs must be safe, reliable, and trust worthy in the society.

Viability and Growth SCCs must be able to attain the level of viability in the society by providing different types of services from the organization and to attain the sustainability the organization must be able to analyses the outreach of the organization.

No delinquency rate Delinquency is the poison for the financial organization. So SCCs must be able to identify the proper portfolio before investing its funds which have been collected from the members. All the investment made from the SCCs must be guided by the policy of the organization.

Sustainable interest Rate The interest rate charged by the SCCs must be large enough to cover the expenses of the organization. MFI's are for providing services not for charity and profit. The interest charges by the SCCs must be large enough to cover the expenses of the SCCs.

Linkage to the market only providing financial services to the member is not enough. They must have linkage to the market so that they can sell their product in the market and earn return from the investment. So that they will be able to pay interest and return the loan on time to the SCCs.

2.3 Concept of Sustainability

Sustainability is the ability of a micro-finance program to maintain its operations and continue to provide service to its customers or clients. A program is sustainable when internally generated revenues of the MFI are sufficient to cover all program expenses over long term.

2.3.1 Financial Viability

Financial viability refers to the ability of an MFI to cover its costs with its interest and fees. To be financially viable, an MFI cannot rely on donor funding to subsidize its operations. To determine financial viability, self-sufficiency indicators are calculated. There are usually two level of self-sufficiency against which MFIs are measured: operational self-sufficiency and financial self-sufficiency. If and organization is not financially self-sufficient, the subsidy dependence index can be calculated to determine the rate at which the MFIs interest rate need to be increased to cover the same level of costs at which the same revenue base .

Revenue is generated when the assets of an MFI are invested or put to productive use. Expenses are incurred to earn that revenue. To determine financial viability, to earn that revenue (Yield) is compared to total expenses. If revenue is greater than expenses, the MFI is self-sufficient. It is greater than expenses, the MFI is self-sufficient. It is important to note that only operating revenue (from credit and saving operation and investments) should be considered when determining financial viability or self-sufficiency. Donated revenue or revenue from other operation such as training should not be included, because the purpose is determine the viability of credit and saving operation.

Expenses incurred by MFIs can be separated into four distinct groups; financing costs, loan loss provisions, operating expenses, and the cost of capital. The first three expenses are the actual expenses that MFIs incur, while the last cost is adjusted cost that all MFIs must consider. Various adjustments are made to ensure that the MFIs financial statements adequately reflected total expenses

2.3.2 Two Levels of Self-sufficiency

As the microfinance industry matures, the definition of self-sufficiency has begun to narrow. A few years ago people speak about three (or four) level of self-sufficiency that MFI should progressively aim to achieve. Some analyst consider an MFI to be operationally self-sufficient (Level one) if the revenue it generated from operations covered its operation cost, including Loan loss provisions, Reaching level two meant that an MFI generated enough revenue to cover financing cost, operating expenses, and loan provision. Level three (financial self-sufficiency) referred to revenue that cover non-financial and financial expenses calculated on a commercial basis “profit without subsidy” (Christen and others 1995)

Currently, most people in the microfinance industry refer to only two level of self-sufficiency: operational self-sufficiency and financial self-sufficiency. However, the definition of operational self-sufficiency varies among different MFIs and donors. The difference centers on the inclusion of financing cost. Whereas actual financing cost used to be included only in levels to and three (as above), some analysts include them in calculating both operational and financial self-sufficiency and some only in calculating financial self-sufficiency.

2.3.3 Operational Self-Sufficiency

Operational self-sufficiency is defined as generating enough operating revenue to cover operating expenses, financing costs and the provision for loan losses. Operational self-sufficiency thus indicates whether or not enough revenue has been earned to cover the MFI’s direct cost, excluding the (adjusted) cost of capital but including any actual financing cost incurred.

Other MFIs argue that operational self-sufficiency should not include financing cost, because not all MFIs incur financing cost equally, which thus makes the comparison of self-sufficiency ratios between institutions less relevant. Some MFI funds all of their loans with grants or concessional loans and do not need to borrow funds – or collect savings and thus either do not incur any financing costs or incur minimal cost. Other MFIs, as they move progressively towards financial viability, are abeles to access concessional or commercial borrowings and thus incur financing cost. However, all MFIs incur operating expenses and the costs of making loan loss provisions, and they should be measured on the management of these costs alone.

Furthermore, MFIs should not be penalized for accessing commercial funding sources, nor should MFIs that are able to finance all of their loans with donor funds be rewarded. To increase its self-sufficiency, the MFI must either increase its yield (return on assets) or decrease its expenses (financing costs, provision for loan loss, or operating costs). It will be further clear from the picture below.

Figure 2**:** Components of operating self sufficiency

2.3.4 Financial Self-Sufficiency

Financial self-sufficiency indicates whether or not enough revenue has been encored to cover both direct cost, including financing costs, provisions for the loan loss, and operating expenses, and indirect costs, including the adjusted cost of capital.

The adjusted cost of capital is considered to be the cost of maintaining the value of the equity relative to inflation and the cost of accessing commercial rate liabilities rather than confessional loans.

Many MFIs funds their loans with donated funds and to continue funding their loan portfolio, they need to generate enough revenue to increase their equity to keep pace with inflation. (It the MFI was to operate with borrowed funds, the financing cost in the income statement would capture the cost of debt and the cost of inflation, because inflation only affect equity and not liabilities. Liabilities are prices by the lender to cover the cost of inflation, because the borrower in this case, the MFI repays the loan in the future with inflation currency. If it turns out that the rate of inflation is greater than the rate of interest on the loan, the leader loses money, not he MFI.) Furthermore many MFIs also access concessional financing (quasi-equity) at below-market rates. Consideration must be given to this subsidy and an additional cost of funds included, based on the MFI accessing commercial loans. Theoretically, this plus the MFIs on somewhat level playing field regardless of their funding structures (although this will vary depending on the degree to which the MFI is livered)

Ideally, MFIs move progressively towards achieving operational self-sufficiency first and then financial self-sufficiency. Often, as an MFI matures, it experiences increasing financing costs as it accesses market-rate funding, decreasing provisions for loan losses as it manages its delinquency, and decreasing operating costs as it become more efficient. (Financing costs are affected by changes in the cist of funds and the mix between debt and equity [grants, donations, and retained earning] in the MFI's funding structure. As increase in the interest paid by MFI or an increase in the debt portion of the portfolio funding (relative to donated equity) will increase financing cost. Each of this change affects the achievement of self –sufficiency.

2.3.5 Principles of sustainable Microfinance

Microfinance is the provision of financial services to the poor. This involves small amounts of savings, credit, insurance and money transfer services. There is significant net demand for financial services in many areas of the developing world, especially in rural areas. The formal banking system has so far been unable to fill the gap, even for the core services of safe savings and short-term credit for both productive activities and consumption. As a result a niche microfinance industry has emerged, and innovation and experimentation has led to success that has promoted the renewed interest and involvement of the commercial banking sector. A wide variety of methods have been used to reach these low-income communities with appropriate and affordable services, reflecting the diversity of contexts and environments in which these services are provided. While there are no specific methods that are appropriate in every context, there are certain principles that are recognized as good practice in delivering microfinance services. These principles are common to the range of institutions involved in the delivery of microfinance and reflect the fundamental principles of appropriateness and sustainability. The following is a summary of principles that are supported and promoted by the World Education Australia.

Microfinance services must fit the needs and preferences of clients

The delivery of appropriate financial services to low-income people requires a good understanding of their needs and desires. For example, loan sizes, terms and repayment frequency should match the affordability constraints of clients. Likewise, facilities for deposit collection and withdrawal should be accessible and convenient. A good understanding of these factors requires an ongoing investment in client research and feedback mechanisms, as it is the clients themselves that are best positioned to determine whether their needs and preferences are being met. Institutions should be willing to test new products, seek ongoing client feedback, and respond to client demands and preferences as required.

Poor households and communities need access to a variety of financial services, not just loans

Like other people, the poor need access to a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people generally need not only credit, but also access to savings, cash transfers, and insurance.

Microfinance is a powerful instrument against poverty

Access to appropriate and sustainable financial services enables the poor to increase incomes, build assets and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education. Microfinance products and services should be designed with clients' vulnerability and poverty context in mind, and those initiatives that have a poverty reduction agenda should measure and assess their performance in terms of poverty reduction.

Microfinance means building financial systems that serve the poor

In many countries, microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially responsible investors. In order to achieve its full potential of reaching a large number of poor people, microfinance needs to become an integral part of the financial sector. This requires the involvement of conventional financial service providers, regulators and related industry bodies.

Financial sustainability is necessary to reach significant numbers of poor people

Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself - it is necessary in order to reach significant scale and impact, far beyond what government or other donors can fund. Financial sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision and expansion of financial services to the poor. Achieving financial sustainability requires minimizing costs, offering products and services that meet client needs, finding innovative ways to reach the un-banked poor, and charging interest rates and fees that cover costs. Microfinance providers should always strive to achieve maximum efficiency in their operations so that they can provide their services at the lowest possible
Cost to clients.

Interest rate ceilings can damage poor people's access to financial services

The per unit costs involved in making many small loans are significantly higher than those associated with fewer, larger loans. Likewise, operating in high inflationary environments with weak financial markets, and engaging in uncollateralized lending to people living in remote areas, is considerably more expensive than collateralized lending to urban residents in a developed and stable economy. It is therefore not appropriate to compare interest rates and fees across countries, geographical locations, and clients. Unless microfinance providers can charge interest rates that are above average bank loan rates, they invariably cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding. When governments regulate interest rates, they usually set them at levels too low to permit sustainable microfinance. At the same time, microfinance providers must avoid setting a sustainable interest rate based on an inefficient operation as this results in operational inefficiencies and related costs being passed on to poor clients and may reduce the pressure on the provider to improve its performance. In order to avoid this situation, clear pricing policies and mechanisms should be in place and shared with stakeholders and founders to ensure that all parties can together monitor interest rates to ensure their appropriateness.

Credit is not always appropriate

Credit is not appropriate for everyone or every situation. The destitute and hungry that have no income or means of repayment typically need other forms of support before they can make effective use of loans. In many cases, small grants, community infrastructure improvements, health and education services, employment and training programs and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, poor clients should be encouraged and supported to build a small savings base and develop basic money management skills prior to taking on the risks associated with credit. Principle Eight: The role of governments is as an enabler, not as a direct provider of financial services Governments play an important role in setting a supportive policy environment that stimulates the development of financial services while protecting poor people's savings. Governments can best support microfinance by promoting macroeconomic stability, avoiding interest-rate caps and refraining from distorting the market with unsustainable, subsidized loan programs. Governments can also support financial services for the poor by improving the business environment for micro-entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure. Government's are not well placed to provide financial services directly to clients, and tend to distort the market and reduce the quality and level of service provision when they do so. In certain situations, government funding for sound, independent microfinance institutions may be warranted when other funding sources are not available.

Donor subsidies should complement, not compete with private sector capital

Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity, etc.), and support experimental services and products. In some cases, longer-term donor subsidies may be required to reach sparsely populated and otherwise difficult-to reach populations. To be effective, donor funding must seek to integrate financial services for the poor into local financial markets; apply specialist expertise to the design and implementation of projects; require that financial institutions and other partners meet minimum performance standards as a condition for continued support; and plan for exit from the outset.

The lack of institutional and human capacity is the key constraint to the expansion of microfinance

Microfinance is a specialized field that combines banking with a social agenda. The technology and finance required to extend these services to the poor already exists, what is lacking in most cases is the institutional and human capacity required to link financial markets with poor clients. To address this constraint, capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government entities and donor agencies. Investments in the sector, both public and private, should focus on building the human and institutional capacity to release the full potential of microfinance.

The importance of financial and outreach transparency

Because microfinance has a social agenda and involves a wide range of stakeholders, it is important that accurate and comparable information be available to monitor and assess the social and financial performance of programs. This information is required by bank supervisors, regulators, donors, investors and clients so that they can adequately assess the risks and returns associated with various providers and services. The microfinance industry is vulnerable to political interference because of its need to charge higher than usual levels of interest to poor clients. Transparent financial and outreach reporting can help to mitigate concerns related to unfair pricing of products

2.3.6 Sustainability of the Saving and Credit Cooperative (SCCs)

Saving and credit cooperative (SCCs) are the Community Based microfinance service providers. Until and unless they are sustainable in the society they cannot provide sustainable service to its members. To obtain sustainability microfinance organization must pass though two different level of Self-sufficiency. Operational Self Sufficiency and Financial Self Sufficiency are the two different levels that the organization must pass through to obtain sustainability in the community. To obtain this sufficiency stage SCCS must charge the interest rate in such a way that will be big enough to cover all the cost of the organization.

2.4 Historical Evolution of Microfinance in Nepal

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

In 1981, NRB introduced the Intensive Banking Program (IBP) and compelled to the commercial bank to finance at least 7 percent on the priority sector, which was further increased to 12 percent in 1990. Now this compulsion is being phased out gradually.

In 1992, Grammen Bikash Banks were initiated by the government sector, crossing a milestone in rural micro-financing in Nepal and NGOs started grameen banking activities in certain areas.

Table 1: Evolution of the micro-finance sector in Nepal

S.No	Evaluation	Date
1	Credit co-operatives	1950s
2	Co-operative bank	1963
3	Small farmer groups	1970s
4	SFDP was established under ADB/N	1975
5	Commercial banks began to follow priority sector lending directives	1974
6	The IBP program tries to involve commercial banks in micro-credit	1981
7	Gender based micro-credit – PCRW	1982
8	Gender programs refined – MCPW	1994
9	Replication of Grameen Banking model	1992
10	Co-operative act was established to support the credit cooperatives	1992
11	Government-run MF programs - Bisheswor with the Poor, Women's Awareness program, government peace movement, etc.	

Source: - http://www.hotelnepal.com/nepal_news.php?id=2696

2.4.1 The MF Sector in Nepal

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

A) The Institutional Sector

Nepal Rastra Bank (NRB)

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

Micro-finance Wholesale Apex Institutions

RSRF (Rural Self Reliance Fund)

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

RMDC

Under the financial support of ADB, Manila, NRB, banks and financial institutions together injected equity to form the micro-finance apex institution Rural Micro-Finance Development Centre' (RMDC), incorporated in 1998 mainly to extend wholesale fund to the micro-finance institutions. As of mid-July 2002, RMDC had approved NRs. 204.8 million in loans to 17 MFIs and disbursed NRs. 107.8 million. Its mandate includes capacity building for MFIs and ultimate borrowers in addition to providing a fund for on lending to them.

Commercial Banks (CBs)

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

Small Farmer Development Bank (SFDB)

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

Development Banks

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

The Community Based Sector

FINGO (Financial Intermediary Non-government Organization)

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

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

Saving and Credit Co-operatives

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

Savings and Credit Groups

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

Traditional Savings and Credit Groups

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

Outreach

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

Table 2: Status of Major Micro-Finance Service Outreach

S.No.	Institutions	Members (in '000)	Borrowers (in '000)	Cumulative disbursement (Rs. in '000)	Outstand-ing loan (Rs. in '000)	Group saving balance (Rs. in '000)	Repayment rate in (%)
1.	SFDP	189	189	NA	890597	50388	40.42
2.	SFCL	69	69	1829125	980431	N.A.	80.05
3.	PCRW	67	67	360,000	168,000	N.A.	64
4.	EGB	53	49	2895883	354172	125803	97.5
5.	CGB	36	35	957597	220930	37873	100
6.	WGB	40	39	1481506	271314	78954	99.7
7.	MWGB	19	16	568250	92219	42195	93
8.	FWGB	19	11	668351	101097	45859	75
9.	NUBL	35	28	1184017	206900	56673	97.2
10	CSD	38	32	800,874	178,969	47,209	100
	DEPROSC	9	6	66570	30201	8561	100
12.	Chhimek Samaj	4	3	40826	20121	5379	100
13.	NRDSC	3	2	4,410	3,724	392	100
14	P S lending (RBB & NBL)	130	130	N.A.	N.A.	N.A.	N.A.
15	Informal Groups (SHGs)	240	120	-	480000	400,000	95%
16	SCCs	320	160	-	320000	300000	95%
	Total	1271	956	10857409	4318675	1199286	

Source: - http://www.hotelnepal.com/nepal_news.php?id=2696

2.5 Co-operative as a Microfinance Institution

Since all the analysis is based on the cooperative microfinance there are two main differences between co-operatives and other types of businesses, the purpose of a co-operative are to provide services to members. The international motto of the saving and credit co-operatives is "Not for profit, not for charity, bur for service.

Secondly, the co-operatives are on a democratic basis. All members in good standing have one vote when general meetings are held and decisions are made.
So in a co-operative, you are not just a client. You are an owner, a shareholder, a decision maker, a member and user.

2.5.1 Characteristics of a good financial institution:

The following are some of the desired characteristics of Financial Institutions (Training Manual 2000, CMF)

- Provide appropriate services as per the clients demand.
- Provide different types financial services
- Price the products reasonably keeping a balance between affordability and cost recovery.
- Financially stable, Sound and solvent
- be able to expand its operations
- Financially self-sufficient

- Good governing structure.
- Quick processing of loan and simple procedures.
- Maintain Sufficient Liquidity.
- Maintain low transaction cost
- Proper Management information system in people.
- Maintain transparency
- Clear policies
- Committed and efficient staff.

2.5.2 Strategies for providing sustainable microfinance services

The Sustainability of microfinance service is linked to two factors: Mobilization of internal resources and soundness of financial practices.

Internal Resources mobilization

Own internal resources mobilization through share capital, savings deposits and retained profit makes the MFIs independent of government and donor funding.

Micro-savings: Different saving products such as voluntary savings withdrew able at any time, fixed deposit, none withdraw able regular compulsory savings, daily savings through collection services at doorsteps etc. need to be offered at real positive interest rates.

Micro-credit: Micro-credit provides may be appropriately differenced in terms of maturities, installments, Services and collateral requirements (ranging from joint liability and personal guarantees to tangible collateral and pawning), rather than in terms of loan purpose, which is costly to appraise and for fundability reasons, difficult to control. Viability and Sustainable microfinance schemes focus on:

- Prudent adjustment to household’s savings.
- Investment and repayment capacities
- Small Loan Size
- Repeat Loan
- Dynamically growing saving to credit ratios
- Market rate of interest
- Loan maturities and repayment modalities according to client needs
- Incentives for timely repayment
- Cost effective monitoring system.

Micro insurance: Micro insurance is the most undeveloped part of microfinance. There are various schemes that are viable benefiting both the institution and the clients contributing to loan security and resource mobilization.

2.6 Research Review

This section deals with the review of articles published by different authors in international scenario and review of dissertation written by different authors. The articles and case study in sustainability and information about microfinance is started from the official website http://online.sagepub.com/. WOCCU, ACCU, Banking with poor (BWTP), and the review of dissertation is made by with respect to various authors from their master degree coerces visiting in central library, Kirtipur, Kathmandu.

2.7 Review of Articles

In the article Do Microfinance programs Really Serves the poor? Journal of South Asian Development, Vol. 3, No. 2, 253-268 (2008) Mr Chris D Gingrich states that. During the past 25 years development organizations worldwide have increasingly relied on microfinance programs to help alleviate poverty and achieve various development objectives. These programs typically aim to provide financial services to poor households otherwise cannot access formal financial markets. One such example programme is the Grameen Bikas Bank (GBB) in rural southeast Nepal. While GBB targets poor households, the evidence reveals that the vast majority of GBB clients are relatively wealthy, as measured by land ownership and other socioeconomic indicators. In addition, GBB's poor clients also feel less satisfied with its services than do wealthy clients, suggesting that GBB has not adequately tailored its products to the needs of the poor. Possible reasons for GBB's shortcomings include Nepal's caste system, rigid loan repayment schedules, and below-market interest rates on loans. Remedies to improve GBB's outreach to the poor include flexible repayment schedules, higher interest rates, and increased staffing to recruit poor households and monitor their loans.

In journal International Expert Organizations and Policy Adoption of The World Bank and Microfinance in the 1990s Cultural Dynamics, Vol. 19, No. 1, 5-38 (2007) by Umud K. Dalgic Microfinance as a development policy tool has enjoyed an increasing popularity in the last few years. The United Nations declared 2005 as the international year of micro credit. Since Muhammad Yunus and his Grameen Bank shared the Nobel Peace Prize in 2006, microfinance is once more under the spotlight. The prominence of development programs is mainly promoted by powerful international organizations like the World Bank. This article examines the World Bank's World Development Reports over time to demonstrate how the Bank became interested in, interpreted, and framed microfinance in accordance with its general background assumptions on poverty and development. The neoliberal interpretation by the Bank in the 1990s of notions such as social capital and gender is crucial for understanding its adoption of microfinance.

In the research paper " Factors Explaining the Rating of Microfinance Institutions" by Carlos Serrano-Cinca of University of Saragossa states that growing relevance of Microfinance Institutions (MFIs) has led to the development of specialized MFI rating agencies that perform global risk assessments. In this article, the authors have conjectured different hypotheses pertaining to the relationship between financial and social indicators and the ratings assigned. The authors tested the hypotheses empirically by using MFIs' accounting information and ratings from a leading agency. As expected, the larger, more profitable, more productive, and less risky MFIs achieved better ratings. This proves the usefulness of MFIs' ratings for providers of funds. In contrast, the authors did not observe any relationship between social performance and rating. Given MFIs' important social mission, agencies should develop ratings that accurately reflect the achievement of social goals.

In "Microfinance and Rural Household Development" by Mr Julius H. Kotir. Published in King's College London, United Kingdom concludes that though at the theoretical level, micro-credit is said to play a significant role in poverty reduction, empirical work on the role of micro-credit in poverty reduction is mixed with some studies indicating high levels of employment and income generation and others suggesting a worsening of poverty with micro-credit. Does micro-credit really get to the poor? Does it enhance or impede their productivity? Based on a study of 139 households in one rural area in the Upper West Region of Ghana, we find that: (a) Beneficiaries of micro-credit divert a significant portion of such loans into household consumption – albeit with moderate impact on house-hold productivity and welfare and (b) Micro-credit has modest impact on rural community development.

"The Economics of Microfinance" by Beatriz Armendariz de Aghion and Jonathan Morduch. Cambridge, Massachusetts: The MIT Press. 2005. ISBN: 0-262-01216-2, $45.00 352 pages. The most common story about what we now think of as microfinance involves Muhammad Yunus using $27 of his own money to make 42 small loans in 1976. This became the foundation for what is now known as the Grameen Bank in Bangladesh (Yunus 2002). Microfinance programs are well known for providing small loans to people who would not otherwise have access to credit because they are considered high risks by the commercial banking community (through lack of collateral or credit history).

Mamiza Haq, Michael Skully and Shams, Pathan School, The University of Queensland, St. Lucia, QLD, 4072, Australia, RMIT University, Victoria, Australia Department of Accounting and Finance, Monash University, PO Box 197, Caulfield East, Victoria, 3145, Australia and Faculty of Business, Technology and Sustainable Development, Bond University, Robina, Gold Coast, QLD, 4229, Australia.

Mr. Nara Hari Dhakal Microfinance Specialist, Advisor of Center for Empowerment and Development (CED-Nepal) on his study paper namely “Emerging Issues in Nepalese Micro Finance Sector” explores emerging issues on Micro Finance (MF) in Nepal and strategies towards developing a sustainable MF sector through a review of the state of the art on developing Nepalese MF sector. The paper has concluded that historically Nepal witness MF as an anti-poverty and development tools and demonstrated a significant paradigm shift on the sector beginning late 1990’s and it forward departure as an industry, which benefit thousands of the poor people, poor women, micro-entrepreneurs and peasant farmers and anticipate that the industry should transform further as a lucrative business providing financial services for the poor. In order that all these changes will happen the paper has identified emerging issues such as policy on macro-economy and financial system stability, regulation and supervision of MF sector, institutional capacity building, expanding the frontier of MF services in remote areas, introduction of Information and Communication Technology (ICT), encroachment or unfair competition and financial viability and uncovered the clear need to address these issues properly and in time.

Mr Puspa Raj Sharma on his study paper “Financial Sustainability of Selected MFIs of Nepal” he aims to analyze the financial sustainability of selected MFIs. He deals with concept of sustainability, financial sustainability including operational and financial self-sufficiency. It also deals operating performance, staff productivity, portfolio quality and relation of financial sustainability with other variables. Nepalese MFIs are not strong from status of sustainability perspective at present. PI-MFIs are in better position than GI-MFIs. The data had collected from a special survey carried out in hill and terai in 2004-2006 of Nepal.

Mr Puspa Raj Sharma on his journal namely “Millennium Development Goals and International Year of Microfinance 2005 in Nepal” The Journal of Nepalese Business Studies his findings is that No single intervention can defeat poverty. Poor people need employment, schooling and health care. Some of the poorest require immediate income transfers or relief to survive. Access to financial service forms a fundamental basis on which many of other essential interventions depend. Moreover, improvement in health care, nutritional advice and education can be sustained only when households have increased earnings and greater control over resources. Financial services thus reduce poverty and its effect in multiple, concrete ways. And the beauty of microfinance is that, it emphasizes to women empowerment and self-dependent financial approach. It emphasizes the financial sustainability also, which can contribute far beyond the limits of scarce donors. In this arena, International Year of Microfinance 2005 substantially contributes to achieve Millennium Development Goals (MDGs).

Mr Bamadev Sigdel on his study paper “Microfinance Vs Poverty Lessening Efforts in Nepal” he states that Micro Finance (MF) has been used as poverty lessening device by developing countries of the world. Nepal has been using this tool for more than three decades for poverty lessening programs by government, Nepal Rastra Bank (NRB) and other MF Institutions (MFIs) for more than three decades. Despite this, the outreach of MF has been clustered in accessible region and areas of the country. Majority of needy poorest of the poor and destitute are found to be still bypassed or untouched by various MF programs in Nepal. Without awarding proper access of finance to the poorest of the poor, neither Millennium Development Goals (MDGs) nor programs related to MF as launched by government, NRB, MFIs, etc would become successful. Outreach situation is still not yet satisfactory. For this all players and actors in MF sector should move hand in hand in policy, program, and activities interwoven with MF. Additionally, the success of 11th Three year Interim Plan lies on the move to amicably structure the outreach of MF especially in rural and remote areas of Nepal, where there is paucity of petty capital to conduct heterogeneous income generating activities through meaningful blending with local resources.

- In the 1990s, average per capita income growth was less than 3% in 125 developing and transition countries, and was negative in 54 countries. In a further 71 countries, growth was below the 3% a year needed to double incomes in a generation. (UNDP, Human Development Report, 2003)
- At least 30 million people now have access to microfinance (Unitus Website)
- The existing 10,000 Microfinance Institutes (MFIs) reach only 4% of the potential market (2001 World Bank Statistics)
- At least 90% of eligible self-employed lack access to Micro Credit programs. Unmet demand is around 270,000,000 (Unitus)

- In Africa, women account for more than 60 per cent of the rural labor force and contribute up to 80 per cent of food production, yet receive less than 10 per cent of credit provided to farmers. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- The World Bank estimates that there are now over 7000 microfinance institutions, serving some 16 million poor people in developing countries. The total cash turnover of MFIs world-wide is estimated at US$2.5 billion and the potential for new growth is outstanding. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- There is concern that official assistance will be diverted from vital primary care aid programs such as health, water projects and education into MFIs, owing to their popularity among donors. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- Though women appear to benefit most, studies indicate that many loans awarded to and paid back by women are in fact used by men. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- The widely-imitated Grameen Bank in Bangladesh aims to provide credit to those in extreme poverty. Some 94 per cent of those who meet the bank's criteria and take up loans are women. Grameen borrowers keep up repayments at a rate of around 98 per cent. The Bank lends US$30 million a month to 1.8 million needy borrowers. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- Savings are important both as a vital safety net for the poor and as a source of funding that do not rely on external sources. Many strong MFIs, notably in Africa, recycle the savings of needy clients as a principal source of loan funds for their customers. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- The Micro Credit Summit estimates that US$21.6 billion is needed to provide microfinance to 100 million of the world's poorest families. The Summit planners say it should be possible to raise US$2 billion from borrowers' savings alone. The final figure may be even higher. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- Studies have shown that during an eight year period, among the poorest in Bangladesh with no credit service of any type, only 4 percent pulled themselves above the poverty line. But with individuals and families with credit from Grameen Bank, more than 48%

rose above the poverty line. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- It is estimated that, worldwide, there are 13 million Micro Credit borrowers, with US$ 7 billion in outstanding loans, and generating repayment rates of 97 percent. It has been growing at a rate of 30 percent annual growth. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- Fewer than 2 per cent of poor people have access to financial services (credit or savings) from sources other than money lenders. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- Under 10 million of the 500 million people who run micro and small enterprises have access to financial support for their businesses. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- There is a potential demand for Micro Credit services from seven million borrowers. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- There is a potential demand for microsavings services from 19 million savers. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)

- The world's seven richest men could wipe out global poverty. Their combined wealth is more than enough to provide the basic needs of the poorest quarter of the world's people. (Data Snapshots on Microfinance - The Virtual Library on Micro Credit)
- Studies of the impact of Micro Credit in more than 24 countries found dramatic improvements in household income levels. These improvements took place primarily through growth in the borrower's business, which translated into increased household income. The studies found that access to Micro Credit allowed the borrower to increase the number of goods or services sold and reduce the costs of supplies and raw materials. As a result, sales increased and profits grew 25% to 40%. (Unitus)

- The top 5 MFIs reach almost half of the market. (2001 World Bank Statistics)

- Only 1% of MFIs are financially stable. (2001 World Bank Statistics)

- MFIs reach self-sufficiency through cost and income structures that vary by region: Asian FSS MFIs achieve a high level of profitability due to low costs. In the other regions, Eastern Europe, Latin America and Africa, MFIs face high costs and reach self-sufficiency through a combination of higher income and productivity. (Issabelle Barres, Microbanking Bulletin, 2002)

- In Indonesia, borrowers increased their incomes by 12.9 percent compared to increases of 3 percent in control-group incomes. Another study on Bank Rakyat Indonesia borrowers on the island of Lombok in Indonesia reports that the average incomes of clients had increased by 112 percent and that 90 percent of households had moved out of poverty. (CGAP, Focus Notes. 24, Elizabeth Littlefield)

- Microfinance programs from different regions report increasing decision-making roles of women clients. The Women's Empowerment Program in Nepal found that 68 percent of its members were making decisions on buying and selling property, sending their daughters to school, negotiating their children's marriages, and planning their family. These decisions traditionally were made by husbands. World Education, which combines education with financial services, found that women were in a stronger position to ensure female children had equal access to food, schooling, and medical care. TSPI in the Philippines reported that program participation increased the percentage of women who were principal household-fund managers from 33 percent to 51 percent. In the control group, only 31 percent of women were principal fund managers. (CGAP, Focus Notes. 24, Elizabeth Littlefield)

- The number of poor people with access to Micro Credit schemes rose from 7.6 million in 1997 to 26.8 million in 2001—21 million of them women, enabling them to control assets, make economic decisions and assume control of their lives. According to some estimates, 5% of microfinance program participants could lift their families out of poverty each year. (UNDP, Human Development Report, 2003)

- As of December 31, 2001, 2,186 Micro Credit institutions reported reaching 54,904,102 clients, 26,806,014 of whom were among the poorest when they took their first loan. Nine hundred ninety- four institutions submitted a 2002 Institutional Action Plan outlining their progress. Assuming five persons per family, the 26.8 million poorest clients reached by the end of 2001 affected some 134 million family members. (Micro Credit Summit Report 2002)

- Over the previous two years, the growth in the number of very poor women reached has gone from 10.3 million in 1999, to 14.2 million in 2000. Now, as of 2001, 21,169,754 women have been reached. This is a 49.6 percent increase in the number of poorest women reached from December 31, 2000 to December 31, 2001. This increase represents an additional 7,016,841 poorest women reported with micro loans in the last year. (Micro credit Summit Report 2002)

- Over the last five years the number of poorest clients reached has grown by 350 percent, from 7.6 million at the end of 1997 to 26.8 million at the end of 2001. (Micro Credit Summit Report 2002)

- Data from the Micro Banking Bulletin reports that 63 of the world's top MFIs had an average rate of return, after adjusting for inflation and after taking out subsidies programs might have received, of about 2.5% of total assets.

CHAPTER THREE

RESEARCH METHODOLOGY

This study has been carried out to find our weather the real microfinance organization Saving and Credit Co-operative (SCCs) organized by the women in the slum and squatter area of the Kathmandu valley promoted by LUMANTI will able to give sustainable services to its members or not. Selected SCCs were visited and the required data for the research was collected. While collecting the information only those SCCs were selected which were legally registered under the co-operative act in their respective district cooperative department. The field visits uncovered both formal and informal groups operation in the delivery of micro finance service of the SCCs.

Main target of the microfinance organization is to provide the microfinance activities to its members. Under the microfinance activities Saving, Credit, Money transfer, Insurance and other financial activities are included. The main tasks of the microfinance organization is to collect saving and to invest that savings in the proper manner. While investing that savings the organization should be able to identify the suitable portfolio so that the investment is secure and that will be collected in the desired time. In this report I have analyzed the portfolio quality so that it will be clear from the report weather the selected organization have the suitable portfolio quality or not.

To attain sustainability position every organization has to pass through two major stages operationally self-sufficiency and financially self-sufficiency.

3.1 Nature and source of Data

The study is mainly based on the secondary data, which has been obtained from annual reports, progress reports and publications of the SCCS covered under the study. Besides this, the primary information has been collected through the focus group discussion, one to one interview

3.2 Method of Data Analysis

To overcome through the research question and meet the objective of the study, Pricing of the product will be calculates.

3.2.1 Pricing the Product

Sustainability / Viability related to the ability of a micro-finance program to maintain its operation and continue to provide services to its customers or clients. To be financially viable and MFI needs to establish a capital base sufficient to support the desired scales of operations and also be able to meet all the costs through internally generated income over the long run. Attaining sustainability should remain the main thrust of MFI.

Income structure of the MFI has definite role in attaining viability to the MFI. Interest and fees determine the income of an MFI. Interest rate and fee structure should be judiciously set for attaining Sustainability of the MFI.

Technical Criteria for setting interest rates:

Interest and Fee income must be applied to following four basic areas.

- Institution's cost of funds,
- Operating and administrative expenses
- Expected losses related to risk increased in asset management (Loan Loss)
- Return on capital investment in the institution.

Even those MFI that utilize the best currently available lending and administrative technologies will have to continue to change interest rates that ranges somewhat higher that those commonly found in local banks, so that they may extend their operations over vast sectors of the local lower income economy.

3.2.2 Portfolio Quality

Portfolio quality ratios provide information on the percentage of non earning assets, which in turn decrease the revenue and liquidity position of a Credit union. Various ratios are used to measure portfolio quality and to provide other information about the portfolio (even though they are all referred to here as "portfolio quality" ratios). The ratios will be divided into three areas:

- Repayment rates
- Portfolio quality ratios
- Loan loss ratios.

3.2.2.1 Repayment Rates

Although the repayment rate is a popular measure used in MFIs, it does not in fact indicate the quality of the loan portfolio (This is, the amount of risk in the current outstanding portfolio). Rather, the repayment rate measures the historical rate of loan recovery.

This formula overstates the amount received by the prepayments and the amount received on past due loans (because it does not include past due amounts in the denominator). This is why repayment rates can sometimes be greater than 100 percent. The following formula will be used to calculate Repayment rates.

$$\text{Repayment rate} = \frac{\text{Amount received (including prepayments and past due amounts)}}{\text{Amount due (excluding past due amounts)}}$$

These formula overstates the amount received by the prepayments received by the prepayments and the amount received on past due loans. This is why repayment rates sometime are greater than 100 percentages.

3.2.2.2 Portfolio Quality Ratios

Three ratios will be used to measure portfolio quality: the arrears rate, the portfolio at risk, and the ratio of delinquent borrowers.

Arrears represent the amount of loan principal that has become due and has not been received. Arrears generally do not include interest: however, if the MFI records the interest owing as an asset (for more on capitalized interest). At the time loan is disbursed, it should also include interest in the amount of arrears rate provides an indication of the risk that a loan will not be repaid.

Arrears Rate

The arrears rate is the ratio of overdue loan principal (or principal plus interest) to the portfolio outstanding:

$$\text{Arrears rate} = \frac{\text{Amount in arrears}}{\text{Portfolio outstanding (including amounts oast due)}}$$

(Some organizations calculate the arrears rate as 1 minus the repayment rate. This works if the repayment rate. This works only if the repayment rate on the entire portfolio outstanding is considered, including past-due amounts, and just for a certatain period of loan disbursements).

The arrears rate shows how much of the loan has become due and has not been received. However, the arrears rate understates the risk to the portfolio and understates the potential severity of a delinquency problem, because it only considers payments as they become past due, not the entire amount of the loan outstanding that is actually at risk.

Portfolio at Risk

The portfolio at risk refers to the outstanding balance of all loans that have an amount over due. Portfolio at risk is different from arrears because it considers the amount in arrears plus the remaining outstanding balance of the loan.

The portfolio at risk calculated is done as follows:

$$\text{Portfolio at risk} = \frac{\text{Outstanding balance of loans with payments past due}}{\text{Portfolio outstnading (including amounts past due)}}$$

The portfolio at risk ratio reflects the true risk of a delinquency problem because it considers the full amount of the loan at risk-this is particularly important when the loan terms are long.

Delinquent Borrowers:

As a further indication of portfolio quality, it is useful to determine the number of borrowers who are delinquent relative to the volume of delinquent loans. If there is variation in the size of the loans disbursed, it is helpful to know whether the larger or smaller loans result in greater delinquency. If the ratio of delinquent borrowers is then it is likely that larger loans are more problematic than smaller ones.

$$\text{Delinquent borrowers} = \frac{\text{Number of delinquent borrowers}}{\text{Total number of active borrowers}}$$

In determining the number of delinquent borrowers it is also useful to see whether more loans are becoming delinquent at the beginning of the loan cycle or toward the end.

3.2.2.3 Loan Loss Ratio

There are two loan ratios that can be calculated to provide an indication of the expected loan losses and the actual loan losses for an MFI. The first is the loan loss reserve ratio and the second, the loan loss ratio.

Loan Loss Reserve Ratio

Loan loss reserve (recorded on the balance sheet) is the cumulative amount of loan loss provisions (recorded as expense on the income statement) minus loan write-offs. The amount of the loan loss reserve is determined based on the quality of the loan portfolio outstanding. Once the loan loss reserve has been determined, it is useful to state it as a percentage of the portfolio outstanding.

The loan loss reserve ratio shows what percentage of the loan portfolio has been reserved for future loan losses. By comparing this ratio over time, MFIs can determine how well they are managing delinquency. This ratio should decrease as the MFI improves its delinquency management.

$$\text{Loan liss reserve ratio} = \frac{\text{Loan loss reserve for the period}}{\text{Portfolio outstanding for the period}}$$

Loan loss reserve ratios for successful MFIs rarely exceed 5 Percent.

Loan Loss Ratio

The loan loss ratio is calculated to determine the rate of loan losses for a specific period (usually a year). The loan loss ratio reflects only the amounts written off in a period. It provides an indication of the volume of loan losses in a period relative to the average portfolio outstanding.

To determine the average portfolio outstanding, the portfolio outstanding at the beginning of the year is added to the portfolio outstanding at the end of year, and the result is generally divided by two. Because loan write-offs generally occur on older loans, the loan portfolio quality as the loan loss reserve ratio. The loan loss ratio will rarely be higher than the loan loss reserve ratio because some loans on which a reserve has been made are in turn repaid and the loan loss reserve itself is usefully greater than the actual write-offs.

$$\text{Loan loss ratio} = \frac{\text{Amount written off in the period}}{\text{Average portfolio outstanding for the period}}$$

The loan loss ratio can be compared over time to see if loan losses as a percentage outstanding portfolio are increasing or decreasing. It can also be compared to the amount of loan loss reserve to determine if the loan loss reserve is sufficient based on the amount of historical loan losses.

Productivity and Efficiency Ratios

Productivity and efficiency ratios provide information about the rate at which MFIs generate revenues to cover their expenses. By calculating and comparing productivity and efficiency ratios over time, MFIs can determine whether they are maximizing their use of resources. Productivity refers to the volume of business that is generated (output) for a given resource or assets (input). Efficiency refers to the cost per unit of output.

Both productivity and efficiency ratios can be used to compare performance over time and to measure improvements in an MFI’s operations. By tracking the performance of the MFI as a whole, well-performing branches, credit officers, or other operating units, an MFI can begin to determine the "optimum" relationships between key operating factors. From the PEARLS monitoring system productivity and efficiency ratios will be calculated.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

This chapter deals with the presentation and analysis of data collected from the different sources. As stated in the theoretical presentation, outreach analysis, portfolio quality analysis, efficiency of the staff, and sustainability of the selected SCCs have been analyzed have been done to determine the outreach, portfolio quality, sustainable interest rate and staff efficiency of the SCCS under the study area.

4.1 Overview of SCCs under Study

All three (Pragati, Navadeep, and Gyanjyoti) are Lumanti promoted SCCs represents an innovative approach to organize communities in slums and informal settlements as a self-help effort to manage provision of microfinance services. Emergence and growth of these SCCs has supported expansion of the institutional outreach of microfinance services to those sections of the society which are still neglected through government efforts. These SCCs covers 11 wards within Kathmandu municipality and 4 VDCs nearby. Total number of shareholders in these SCCs as of July 2009 was 1283 representing 75 self-help groups. Number of shareholders is higher (464) in Pragati followed by Gyanjyoti (451 shareholders) and Navadeep (368 shareholders).

Table 3: Characteristics of SCCs under the study 2009

S.N.	Particulars	Pragati	Navadeep	Gyanjyoti	Total
1	Date of establishment (year)	059/2/2	059/4/1	059/1/31	
2	Ward covered (No)	4	2	5	11
3	VDC covered (No)	1	3	-	4
4	Groups (No)	28	25	22	75
5	Shareholders (No)	464	368	451	1283

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Operational Strategy and Products Delivery

Primary reasons to facilitate emergence and growth of these SCCs lie at sustainable delivery of financial services to low income clients living in slums and informal settlements. These SCCs include two tier systems of operations. Lumanti facilitated savings credit groups willing to join in the SCCs as shareholders. Group coordinator of the savings and credit group acts as an intermediary between shareholders and SCCs. Only member of the women savings and credit groups promoted by Lumanti can be eligible for SCCS membership. Interested member must regularly participate in introductory workshop related to cooperatives organised in their/nearby settlements, after which members willing to acquire share of the SCCS share must complete the membership form with introduction by at least one shareholder. Hence, membership of these SCCs is confined among women members of the savings and credit groups living in slums and informal settlements. Along with application, members should include copy of the citizenship certificate, three copies photos (two pass-port size and one auto size); cash deposits of Rs. 25 as entry fee; and Rs. 10 as membership fee, Rs. 10 for pass-book fee. One shareholder must purchase five shares each with Rs. 100 and she must deposit minimum regular savings of Rs. 50 for the first month.

They operate from fixed place; an office established to undertake transactions and provides forum for their operations. Two staff recruited by BoD undertakes day to day operation. Their operations involve delivery of financial products (savings and loans) that provides fundamental basis for revenue generation. Group coordinators mainly act as a link between SCCs and shareholders as well as savings collection and lending activities in groups. They regularly deposit the amount in SCCs. Three sub-committees (account, education and loan) within each SCCS oversee, undertake in-depth assessment of different activities and recommend to BoD for final action. The BoD makes final decisions on all transactions under the recommendation of sub-committees and group coordinator. In general, such arrangements are cost and time effective though few minor cases of fraud and mis-use by group coordinator has been evident.

4.2 Outreach

If SCCS is to be able to increase access financial service to the poor over the long term, it must achieve both outreach and viability. Good outreach means reaching large numbers of people especially very poor with quality financial services. Viability means being able to operate at level of profit that support sustain services without the donor support and funds.

As of July 2009, these SCCs had 1283 shareholders, all participating in savings services and 1010 (79%) receiving lending services. Proportion of loan clients was highest (148 %) in Pragati and lowest (5%) in Navadeep. Percentage of loan client is more than 100% in Pragati Mahila because they are doing transaction out of shareholders but there are only 5 % of the members who are getting loan services in Navadeep because members are not interested on loan because of the diversification of the loan products in SCCs. All the three SCCs are characterized by significant growth (10.5%) in shareholders over last two years

(2007 and 2008) with variation across SCCs. The growth in membership in Gyanjyoti (18.6%) which is almost three times more in compare to Navadeep (6.5%) and Pragati (6.5%).

Table 4: General overview of SCCs under the study in 2009

S.N.	Particulars	Pragati	Navadeep	Gyanjyoti	Total
1	Shareholders (No)	464	368	451	1283
2	Regular savings (No)	464	368	451	1283
3	Daily Saving	342	0	235	577
4	Khutruke / Child Saving	92	67	123	282
5	Festival Saving	128	0	20	148
6	Loan clients (No)	687	17	306	1010
7	% of loan clients	148	5	68	79
8	Growth in shareholders last year	6.5	6.5	18.6	10.5

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

4.2.1 Breath of Outreach

Under the study the breath of outreach has been analyzed in two dimensions in terms of Growth in Shareholders and Number of saving members increased throughout the study period under the study period.

Growth in Share holders

Since SCCs cannot work with nonmembers to make the member he/she must buy the at least one share of the SCC. After buying the share the member is eligible to take do saving and take loan from the SCC.

All three SCCs covered under the study are women SCCs managed by women settled in slum and dwellers area of the Katmandu Valley. Since all three SCCs under the study are providing services to the members, who have no access or have limited access to financial resources.

Table 5: Growth of Shareholders in SCCs under Study (2005 - 2009)

S.N.	Year	Number of Shareholders			Growth in Shareholders (%)			
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Average
1	2005	375	254	239	-	-	-	
2	2006	392	286	289	4.5	12.6	20.9	12.7
3	2007	414	297	320	5.6	3.8	10.7	6.7
4	2008	434	324	367	4.8	9.1	14.7	9.5
5	2009	464	368	451	6.9	13.6	22.9	14.5

Source: Field Survey 2009 and Progress Report of concerned SCCs

The table above it shows that in average the growth in the membership is highest in the year 2009 (14.5 %) and followed by 2007 (6.7%), 2008 (9.5) and in the year 2006 (12.7). In Pragati Mahila the membership growth is below the stander the maximum % of growth in member ship is 6.9% in the year 2009.on the same way the membership growth in the Nava Deepa Jyoti is in fluctuation manner in the year 2009 it have 13.6% and on the same way in the year 2006 it have 12.6% but in the year 2007 & 2008 it is below the standard. But in Gyan Jyoti Mahila the membership growth is above the standard the maximum is 22.9% in the year 2009 and the minimum is 10.7 in the year 2007. The minimum standard prescribed by ACCU in ACCSSS is minimum of 10% growth in the membership. This indicates that except Gyan Jyoti Mahila other two SCCs are below the standard and have to give emphasis on increasing the membership in the SCCs.

Growth of saving Members

To get the service from the SCC members must buy at least one share. But to generate funds in the SCC, SCCs have a practice of accepting savings from the nonmembers like the children saving from the children of shareholders. Sometime even they collect savings from nonmembers on the guarantee of the shareholders to maintain liquidity in SCCs. But to be eligible to get the lending facilities he/she must buy at least one share of the SCC.

From the table below it shows that the increment in the membership is in increasing order but in the fluctuation manner. In the year 2006 Pragati Mahila have negative increment in the membership (-5.9%) this indicates that there was decrease in the membership during that year on the same way in the year 2008 the growth in the membership is highest (36.9%) in compare to other SCCs under the study. In Nava Deep Jyoti increment in the membership is in the increasing order it varies from (5.1%) increment in the year 2007 to (19.9%) increments in the year 2006. On the same way in Gyan Jyoti Mahila the increment in the membership is in increasing order it varies from (20.1%) in the year 2007 to (34.4 %) increment in the year 2008.

Table 6: Savings and Growth in Savings in SCCs under Study (2005 - 2009)

S.N.	Year	Number of Saving Members			Increase in %		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	520	254	239	-	-	-
2	2006	491	317	314	-5.9	19.9	23.9
3	2007	506	334	393	3.0	5.1	20.1
4	2008	802	376	544	36.9	11.2	27.8
5	2009	1026	435	829	21.8	13.6	34.4

Source: Field Survey 2009 and Progress Report of concerned SCCs

This indicates that the SCCs are in the process of expanding the breath of outreach. According to the PEARLS standard the growth in the saving members must be > 10% depending upon the member of staff working in the SCCs at least there must be 500 individual saving members per staff in the SCC.

4.2.2 Length of Outreach

Under the study the length of outreach has been analyzed from the dimension of product diversification (saving product diversification and loan product diversification). The impact of the service diversification has been analyzed under length of outreach. SCCs must be able to introduce the products and services according the the need of members and the services and product diversification must so that new members will be attracts towards the SCCs.

Saving product diversification.

Most of the SCCs working in Nepal have one product which is compulsory saving. With the span of time SCCs have started introducing different types of products in the SCCs. This will be clear from the table below. All together there are four types of saving products in the SCCs in the year 2009.

Table 7 : Saving Composition of SCCs under Study in 2009

S.N.	Type of savings products	Saving Composition			Percent of Saving Composition		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	Regular savings	4,250,116.0	7,142,083.1	6,000,000.0	45.3	84.6	51.2
2	Daily savings	3,124,521.0	-	3,518,914.4	33.3	0.0	30.1
3	Khutruke	840,514.0	1,300,324.9	1,937,225.0	9.0	15.4	16.5
4	Festival savings	1,158,412.0	-	252,475.6	12.4	0.0	2.2

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

From the table above it shows that Pragati and Gyanjyoti have introduced four types of saving products to its members but in the case of Nava Deep Jyoti they have only two types of saving products. The highest saving amount collected is in Gyanjyoti (Rs, 11,708,615) and followed by Pragati Mahila (Rs, 9,373,563) and Nava deep (Rs, 8,442,408). For Nava Deep 45.3 % of the Fund is collected from regular saving, 33.2 % is from the daily saving, 9% from the Khutruke saving and finally 12.4 % from the festival saving. On the same way for Gyan Jyoti 51.2 % of the Saving is collected from regular saving, 30.1 % is from the daily saving 16.5% from the Khutruke saving and finally 2.2 %

from the festival saving. In Nava Deep 84.6% is from the regular saving and 15.4 % from the khutruke saving. From this analysis it is justified that by introducing the new types of saving scheme more amount of saving amount can be collected in the organization.

Loan Product diversification

Amount collected as a saving must be invested in the good portfolio to return that saving in the good order at the time of request from the member. If SCCs can return the saving to the members in good order when requested then only it will be the safe place to the members to deposit saving. So SCCs have to diversify their loan products that will be suitable for the members. From the table below it shows that there are 8 types of loan scheme available for the members in Pragati Mahila and Gyanjyoti Mahila but in the case of Nava Deep Jyoti they have five types of loan scheme available.

Table 8: Amount of Loan portfolio in different schemes in the year 2009

S.N.	Type of savings products	Amount of Loan (Rs)			Percent of Loan Amount		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	Medical loan	700,000	-	750,000	7	-	6
2	Enterprise loan	1,300,000	5,000,000	4,000,000	14	59	34
3	Housing loan	2,059,000	1,600,000	1,700,000	22	19	15
4	Education	2,000,000	1,200,000	898,749	21	14	8
5	Debt management	2,400,000	1,000,000	1,434,090	26	12	12
6	Land purchase	1,255,008	-	1,031,300	13	-	9
7	Foreign employment	1,774,205	-	1,130,000	19	-	10
8	Others	2,681,270	703,503	1,556,655	29	8	13
9	Total	14,169,483	9,503,503	12,500,794	151	113	107

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

The above table shows the different types of loan schemes available, including amount outstanding loan under each scheme at the end of the year 2009. In Pragati Mahila and Gyan Jyoti Mahila there are eight types of loan scheme available for the members this indicate that members have lots of choice they can chase according to their need. Loan product diversification in the SCCs will help to diversify the risk of the outstanding loan also. In Pragati Mahila the maximum amount of the loawn outstanding is s of 29% in one scheme whereas the lowest is 7% lowes, followed by Gyan Jyoti Mahila have maximum of 34% and lowest of 6% and on the same way Nava Deep have only five portfolio and the highest amount of loan used in one scheme is 59% and the lowest is 8 %. As much as the scheme of loan is available in the SCCS that much the portfolio can be formed and the risk will be diversified. Because of the desired scheme and services available in the SCCs it will help to increase the membership and help to increase the length of the SCCs.

Trend in growth of loan clients

The main earning of the SCCs depends on the amount of loan issued to the member. Easy and efficient loans and Savings services of the SCCs will help to increase the membership in the SCCS, because members are getting unnecessary hasselment from the mainstream financial institutions. Easy and efficient service from the SCCs will spread the positive message to the nonmember in the society and they will be attracted towards the SCCs.

Table 9: Detail of loan members in the SCCs during the study period

S.N.	Years	Number of loan members			Percent increment of loan members		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila	Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	196	98	146	-	-	-
2	2006	323	121	168	39.3	19.0	13.1
3	2007	397	179	203	18.6	32.4	17.2
4	2008	541	24	245	26.6	-645.8	17.1
5	2009	687	17	306	21.3	-41.2	19.9

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Above table shows that the increment of loan member in the SCCs under the study area is in the increasing order except in Nava Deep Jyoti it shows the negative increment of (-645.8%) in the year 2008 and (-41.2%) in the year 2009. This is because they have not introduces the new schemes of saving and loan to the members according as per the demand of the members. But in the case of Gyan Jyoti Mahila and Pragati Mahila the increment is in the positive manner.

4.2.3 Depth of Outreach

Depth of outreach has been analyzed from two dimensions average saving balance and average loan balance what is the trend of taking loan and saving the money in the SCCs. If the SCCs are able to provide small loan ranging from 5000/- (Five thousand) to 50,000/- (Fifty thousand) then it is considered as serving to the real micro finance members.

Average loan size

Average loan size refers to the amount of loan outstanding per loan member. This will shows the average loan portfolio outstanding per loan client in the society. It must be small enough to the members so that they can pay without difficulties.

Table 10: Average loan size in SCCs under Study (2005 - 2009)

S.N.	Year	Average Loan Size		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	13293	15183	13736
2	2006	17352	29796	24871
3	2007	19964	38431	33090
4	2008	20543	207395	36865
5	2009	20625	559030	40852

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Above table shows that the average loan size is between 13 thousand to 20 thousand in Pragati Mahila, and in Gyan Jyoti Mahila it varies from 13 thousand to 40 thousand which can be bearded by the poor people leaving in the slum area. But in the case of Nava Deep Jyoti the average loan size Differ from 15 thousand to 5 lakh 59 thousand. This is beyond the limit of microfinance members that are settled under the slum area.

Average saving balance

Since poor do not have the habit of saving[4] SCCs have to develop the habit of saving among the members. To develop the habit of saving among members SCCS must introduce different types of saving products that are suitable for the members. Saving it the one of the important tool for resign the funds in the organization. So the average saving balance of the each SCCS during the study period is listed in the table below.

Table 11: Average Saving Balance in SCCs under Study (2005 - 2009)

S.N.	Year	Average Saving Balance		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	4914	5762	7531
2	2006	7852	7705	9538
3	2007	11252	14952	12246
4	2008	8986	9184	11956
5	2009	9136	19408	14124

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

[4] Joanna Ledgerwood (July 200) "Sustainable Banking with the poor" The World Bank.

From the table above it shows that the average saving balance is in fluctuation manner. But it is in the increasing order. In Pragati Mahila there was Rs 4914 Average annual saving in the year 2005 and it increased to Rs 9136 in the year 2009. On the same way in Nava Deep Jyot there was Rs 5762 in the year 2005 and it increased to Rs 19408 in the year 2009. And on Gyan Jyoti Mahila there was Rs 7531 Average annual saving in the year 2005 and it increased to Rs 14124 in the year 2009. Since there is a continuous increment in the average saving balance this indicates that the impact of the SCCs Microfinance program have increased the income of its members by providing financial access to coop with the change in the market it might have developed the habit of saving among the members.

4.2.4 Cost of outreach

Since outreach is defined as defined as SCCs' ability to provide high quality financial services to a large number of clients and this concept addresses fundamental difference between SCCs and normal commercial finance institutions - most SCCs are established to accomplish a mission that is partly or wholly socially motivated and not simply to maximize shareholder's return. Although these missions differ, most SCCs are involved in extending financial services to the poor and excluded and commonly used outreach indicators[5].

Operating cost per shareholder.

Since the main objective of the SCCs is to provide financial services to its members to coop with the change in the economic to perform entrepreneurial activities in the society. But it will be the duty of the SCCs to increase the shareholders wealth in the SCCs also. From the table below it can be clearly seen that the operating cost per shareholders is in the increasing order.

In the year 2009 operating cost per shareholder is highest in Nava Deep Jyoti Mahila (Rs 3471) and followed by Pragato Mahila (Rs 3391) and in Gyan Jyoti Mahila (Rs 3202). In the year 2005 cost was lowest (Rs 730) Nava Deep followed by Pragati Mahila (Rs 885) and by Gyan Jyoti Mahila (Rs 934). From this it can be clearly seen that the increment of the operating cost per share holder is highest in Nava Deep Mahila, and followed by Pragati Mahila and Gyan Jyoti Mahila. Since the the operating cost per shareholder is in

[5]These are the indicators recommended by CGAP for assessing SCCs' performance.

the increasing order this indicate that the increment of the shareholders in compare to operating cost is low.

Table 12: Operating Cost per Shareholder in SCCs under Study (2005 - 2009)

S.N.	Year	Operating cost per shareholders		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	885	730	934
2	2006	1454	1285	1447
3	2007	1809	1625	1965
4	2008	2877	2813	2891
5	2009	3391	3471	3202

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Operating cost per saving members

From the table below it shows that that operating cost per saving member is highest in in the year 2009 in Nava Deep Jyoti (Rs 2936) and followed by Gyan Jyoti Mahila (Rs 1742) and Pragati Mahila (Rs 1533). Since the operating cost per saving member is in the increasing order this indicate that the increment in the saving members in the SCCs is low.

Table 13: Operating Cost per Saving Members in SCCs under Study (2005 - 2009)

S.N.	Year	Average Saving Balance		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	638	730	934
2	2006	1161	1160	1332
3	2007	1480	1445	1600
4	2008	1557	2424	1951
5	2009	1533	2936	1742

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Pricing the Product

Product pricing refers to the interest rate that the organization is charging on their products. Income structure of SCCS will define the role in attaining the viability of SCCS Interest rates and fees structure of the SCCS must be judiciously set for attaining viability of the SCCS. Under this study is carried out and analyzed on the institutional cost of funds, operating and administrative expenses, Expected losses related to risk increased in assets management and return on capital investment in the institution. And finally the interest rate will be calculated.

Institutional cost of the funds

Table below shows the institutional cost of the funds for all three SCCs. Institutional cost for all the SCCs under the study area are in the increasing order. In the time of 5 year span total institutional cost of the funds for the five year time is highest in Pragati Mahila (Rs 2,166,164.9) followed by Gyanjyoi (Rs 1,944,868.4) and Nava Deep Jyoti (Rs 1,217,181.6). This indicates that higher the expenses higher must be the income to increase the income the interest rate charge must be high or SCCs can raise funds by introducing different types of saving schemes and invest that collected funds in different loan portfolio by increasing the membership in the SCCs.

Table 14: Institutional cost of the funds of SCCs under Study (2005 - 2009)

S.N.	Year	Institutional Cost of Funds		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	153,384.5	54577	103110
2	2006	239,313.3	139166	192387
3	2007	361,660.0	232536	294359
4	2008	505,484.0	342432	463363
5	2009	906,323.1	448470	891649
Total		2,166,164.9	1,217,181.6	1,944,868.4
Average		433,233.0	243,436.3	388,973.7

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

From the table above it shows that the average institutional cost of funds is highest in Pragati mahila (Rs 433233) and followed by Gyan Jyoti Mahila (Rs388973) and Nava Deep Jyoti (Rs 243436). This clearly shows that the institutional cost of fund is directly related to each other. It the membership is higher the institutional cost will be high if the membership is low the institutional cost will be low. It is clear from the above table.

Salaries and administrative expenses

Salaries and administrative cost of the SCCs is one of the important essential expenses that organization has to do. Staff and administrative work are the life blood of the SCCs. Since without staff and administrative work the organization is like a dead body it cannot perform any operation. From the table below it shows the salaries and administrative expenses of the SCCs under the study area during the study period. It will help to determine the sustainable interest rate of the SCCs.

Table 15: Salaries and administrative Expenses of SCCs under Study (2005 - 2009)

S.N.	Year	Salaries and administrative Expenses		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	178,396.5	130724	120230
2	2006	330,828.0	172580	184135
3	2007	307,814.0	249951	269173
4	2008	521,016.0	362542	417089
5	2009	454,369.9	645629	427544
Total		1,792,424.3	1,561,426.1	1,418,171.1
Average		358,484.9	312,285.2	283,634.2

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

On the time span it shows that the administrative and salaries expenses is in the fluctuation manner in average the administrative and salary expenses is highest in the Pragati Mahila (Rs 358484) and followed by Navadeep Jyoti (Rs 312285) and Gyan Jyoti Mahila (Rs 283634). This is administrative and salary expenses is analyzed here because to calculate sustainable rate of the SCCS. It is the one of the important and biggest expenses have to do by the SCCS. So it plays an important role on fishing the sustainable interest rate of the SCCS.

Return on the capital investment

SCCs which is running in the society they have to collect the institution funds that which will help them to run smoothly in the bad time. On the SCCS they collect these types of funds by shelling shares and collecting membership fee from the members. This types of funds collected in the SCCs is the one of the important funds of the organization. From this they will buy the needed material for the organization to raise the zero investment funds in SCCS. All the SCCS under the study area has the return on the capital investment as thy get interest from the different loan portfolio. From the discussing during the field visit all the SCCs under the study charge 18% interest rate in average to all the loans including other expenses.

Sustainable interest rate

Viability of SCCs, and consequently their sustainability, is closely linked to their financial spread. SCCs' lending interest rates (24% at declining balance) are obviously higher than prevailing rate around 18% in formal market. In effect, SCCS mostly operates in urban and semi-urban areas, where risks and transaction costs are relatively low.

Operating self-sufficiency

Operating self-sufficiency indicates weather or not enough revenue has been earned to cover the MFI direct cost, excluding (adjusted) cost of capital but including any other actual financial cost incurred.

From the table below it shows that the operating self-sufficiency of the SCCS is in Fluctuation manner in the year 2009 Pragati Mahila have the Highest Higher operating self-sufficiency stage (135.1%) and followed by Gyan Jyoti Mahila (131.6%) and Nava Deep Jyoti (125.1%). This shows that all the SCCS under the study have more than 100% operating self-sufficiency this indicate that they are able to earn sufficient earning which is enough to cover direct dost of the SCCs.

Table 16: Operating Self Sufficiency of SCCs under Study (2006 - 2009)

S.N.	Year	Operating Self Sufficency %		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2006	144.6	128.2	152.6
2	2007	176.3	131.4	154.6
3	2008	136.8	127.6	133.6
4	2009	135.1	125.1	131.6

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Financial Self-Sufficiency

It indicates weather or no enough revenue is enough to cover both direct cost and indirect cost, including financing cost, provisions for the loan loss and operating expenses and indirect costs, including the adjusted cost of capital.

From the table below the financial self-sufficiency of the selected SCCs under the study area shows that all are able to attain financial sufficiency from their day to day operation. In the year 2009 Nava Deep Jyoti has the highest financial self-sufficiency (106.3%) followed by Gyan Jyoti Mahila (102.6%) and Pragati Mahila (101.8%). This shows that all the SCCs have the financial self-sufficiency greater than 100 % this indicate that they all are viable in the society and they need not to depend on the donors fund to provide sustainable services in the society to the member.

Table 17: Financial Self Sufficiency of SCCs under Study (2006 - 2009)

S.N.	Year	Financial Self-sufficiency %		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2006	110.7	101.4	118.9
2	2007	131.7	97.4	119.8
3	2008	105.7	105.8	105.6
4	2009	101.8	106.3	102.6

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

Sustainable interest rate

Since the all the SCCs are charging the interest rate higher enough in random manner to earn as much as earning they can can earn SCCs under the study are charging the rate without proper calculation. They just fixed their interest rate with compare to the market interest rate.

Table 18: Sustainable interest rate

S.N.	Variables	Calculated Variables		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	CF	0.05	0.05	0.06
2	AE	0.04	0.06	0.04
3	LL	-	-	-
4	II	0.16	0.16	0.15
5	K	0.18	0.18	0.18
R		11.9383	12.8439	12.3823

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

The above table shows that the interest rate at which they will be sustained. The interest rate needed for the Navadeep Jyoti is highest (12.84%) and followed by Gyan Jyoti Mahila (12.38%) and Pragati Mahila (11.93%). All the three SCCS have their different sustainable interest rate though thy have charged same interest rate in every product. This is because of the outreach of the SCCs.

Sustainability if the SCCs depend upon the outreach of the SCCs if they have enough share capital, funds to invest, growth of members and including loan member helps the SCCs lower down the sustainable interest rate. This is the reason why the different SCCs have different sustainable interest rate.

4.3 Portfolio quality

Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of a Credit union. Various ratios

(Repayment ratios, Portfolio quality ratio, and loan loss ratio) are used to measure portfolio quality and to provide other information about the portfolio quality.

Repayment rates

Although the repayment rate is a popular measure used in MFIs, it does not in fact indicate the quality of the loan portfolio (This is, the amount of risk in the current outstanding portfolio). Rather, the repayment rate measures the historical rate of loan recovery.

Table 19: Repayment rate of the SCCs under the study area (2005 to 2009)

S.N.	Year	Repayment rates %		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	100.0	100.0	100.0
2	2006	100.0	100.0	100.0
3	2007	100.0	100.0	100.0
4	2008	100.0	100.0	100.0
5	2009	100.0	100.0	100.0

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

From the above table the repayment rate of all the SCCs under the study area are in 100% repayment. This indicates that there is no any delinquency in the payment and they are able to invest the funds in the secured secter and have the proper loan portfolio.

Portfolio quality ratios

Under portfolio quality three ratios will be calculated to measure the portfolio quality of the selected SCCS. Repayment rate, arrears rate, portfolio at risk, and delinquent borrowers will be studied.

Arrears rate

Although the repayment rate is a popular measure used in MFIs, it does not in fact indicate the quality of the loan portfolio (This is, the amount of risk in the current outstanding portfolio). Rather, the repayment rate measures the historical rate of loan recovery.

Table 20: Arrears Rate

S.N.	Year	Arrears Rate %		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	0	0	0
2	2006	0	0	0
3	2007	0	0	0
4	2008	0	0	0
5	2009	0	0	0

From the table above it shows that the arrears rate is 0 % because the repayment rate is 100%. This indicates that SCCs are able to manage the funds in the proper manner in a good portfolio.

Portfolio at risk

The portfolio at risk refers to the outstanding balance of all loans that have an amount over due. Portfolio at risk is different from arrears because it considers the amount in arrears plus the remaining outstanding balance of the loan.

The portfolio at risk ratio reflects the true risk of a delinquency problem because it considers the full amount of the loan at risk-this is particularly important when the loan terms are long.

Since the repayment rate is 100% and arrear rate is 0% of the selected SCCs under the study area this indicates that SCCs have 0 % of the portfolio at risk all the portfolio is safe.

Delinquent borrowers

As a further indication of portfolio quality, it is useful to determine the number of borrowers who are delinquent relative to the volume of delinquent loans. If there is variation in the size of the loans disbursed, it is helpful to know whether the larger or smaller loans result in greater delinquency. If the ratio of delinquent borrowers is then it is likely that larger loans are more problematic than smaller ones.

Since the SCCs have no delinquent borrowers it indicates that the lending is secure till date and lending must be done on the same way.

Loan Loss Ratio

There are two loan ratios that can be calculated to provide an indication of the expected loan losses and the actual loan losses for an MFI. The first is the loan loss reserve ratio and the second, the loan loss ratio.

Loan Loss Reserve Ratio

The loan loss reserve ratio shows what percentage of the loan portfolio has been reserved for future loan losses. By comparing this ratio over time, SCCs can determine how well they are managing delinquency

Table 21: Loan Loss Reserve Rate.

S.N.	Year	Loan Loss Reserve Ratio		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	-	-	-
2	2006	1.0	1.0	1.0
3	2007	1.0	-	1.0
4	2008	2.0	4.1	2.0
5	2009	1.5	1.0	1.0

Source: Field Survey 2009 and Progress Report of concerned SCCs
Note: Year relates to corresponding FY e.g. 2005 corresponds to July 2005

From the table above it shows that the loan loss reserve for the Nava Deepa Jyoti SCCs is highest (4.1%) and followed by (2 %) of Pragati mahila and Gyanjyoti Mahila SCCs for the year 2008. In the year 2007 Nava Deep Jyoti have no loan loss reserve because of the income they earned.

According to ACCU there must be 1% loan losses reserve ratio mentioned at the time of issuing the loan. From the calculation above it presents that all the SCCs under the study area meet the standard of ACCU.

Loan Loss Ratio

The loan loss ratio is calculated to determine the rate of loan losses for a specific period (usually a year). The loan loss ratio reflects only the amounts written off in a period. It provides an indication of the volume of loan losses in a period relative to the average portfolio outstanding.

To determine the average portfolio outstanding, the portfolio outstanding at the beginning of the year is added to the portfolio outstanding at the end of year, and the result is generally divided by two. Because loan write-offs generally occur on older loans, the loan portfolio quality as the loan loss reserve ratio. The loan loss ratio will rarely be higher than the loan loss reserve ratio because some loans on which a reserve has been made are in turn repaid and the loan loss reserve itself is usefully greater than the actual write-offs.

From the analysis of balance sheet and income statement it shows that the SCCs under the study area have not faced the situation to write off the loan losses reserve this means the Loan Loss Ratio of the SCCS is 0 % percent.

4.4 Efficiency of the SCCs

Efficiency of the SCCs can be measured in the different ways but under this study the saving members per staff, Shareholders per staff and Loan clients per staff have been calculated to determine the efficiency of the selected SCCs.

Saving members per staff

Saving members per staff refers to the number of saving members that is handled by the staff in the SCCs. There is a bench mark standard prescribed by ACCU. From the benchmark provided by WOCCU if per staff saving members is below 200 then that is poor, 200 to 359 Good, 350 to 499 very good, above 500 excellent.

Table 22: Saving Members per Staff

S.N.	Year	Saving Members Per Staff		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	260.0	127.0	119.5
2	2006	245.5	158.5	157.0
3	2007	253.0	167.0	196.5
4	2008	401.0	188.0	272.0
5	2009	513.0	217.5	414.5

From the table above it shows that per staff saving members is in the increasing manner. In the year 2009 Pragati Mahila has highest per staff saving member (516) and followed by Gyan Jyoti Mahila (414) and Nava Deep Jyoti (218).

Shareholders per staff

Shareholders per staff refer to the number of shareholders handled by the administrative staff in the organization. As much as number of shareholders handled by the staff that is the good for the organization and efficiency of the staff goes on increasing. Table below shows per staff shareholders in the SCCs under the study area.

Table 23 : Shareholders per staff

S.N.	Year	Share Holders Per Staff		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	188	127	120
2	2006	196	143	145
3	2007	207	149	160
4	2008	217	162	184
5	2009	232	184	226

All the three SCCs show the increasing trend of per staff shareholders. But the increment of the shareholders is not that satisfactory in the SCCs. The highest shareholders pre admin staff is in Pragati Mahila (232 Shareholders) and followed by Gyan Jyoti (226 Shareholders) and Nava Deep Jyoti (184 Shareholders).

Loan Client per Staff

Loan clients per loan staff will help to determine the efficiency of the loan staff in the SCCs. From the table below it shows that the loan members per loan staff is in increasing order except in Nava Deepa Jyoti but it is in the increasing order in the Pragati Mahila and Gyan Jyoti Mahila SCCs.

Table 24 : Loan Clients per Staff

S.N.	Year	Loan Clients Per Staff		
		Pragati Mahila	Nava Depa Jyoti	Gyan Jyoti Mahila
1	2005	98	49	73
2	2006	162	61	84
3	2007	199	90	102
4	2008	271	12	123
5	2009	344	9	153

There is a bench mark standard prescribed by ACCU. From the benchmark provided by ACCU if per staff sloan member is below 200 then that is poor, 200 to 359 Good, 350 to 499 very good, above 500 excellent. From the data above in the table it is clear that our SCCs are below the standard they are not able to cross the bench marking standard of 200 to 359 which is good. The loan clients pre staff is only (9 Loan Client per Staff) in Nava Deep Jyoti SCCs whereas Pragati Mahila has (344 loan client) and Gyan Jyoti Mahila (135 Loan Client).

4.5 Major Findings of the Study

Outreach Analysis

The shareholders growth shows that the growth of shareholders is increasing on average and stood at the highest point in 2009 and at the lowest point in 2007. Individual analysis shows that Gyanjyoti SACCOS has the highest increment in share members with 22.9 percent followed by Navadeep Jyoti SACCOS 13.6 percent and Pragati Mahila SACCOS 6.9 percent in year 2009.

Overall saving and growth in saving shows that the saving is increasing during the study period but in the individual analysis of the saving we find a negative growth in Pragati Mahila (-5.9%) in year 2006 however in Navadeep and Gyanjyoti SACCOS there is a positive increment in the savings.

Saving product composition analysis shows that diversification of products is important for the SCCs. They must introduce various saving products that are suitable for their shareholders that will help to increase the growth of saving amount in the SCCs. It was found that there were only four types of saving products in the Pragati and Gyan Jyoti SCCs whereas only two types in Navadeep. The highest proportion of saving is collected from regular saving followed by daily saving, khutruke saving and festival saving.

The loan product composition analysis shows that diversification of the loan portfolio is one of the important areas that will enable SCCs to make the loan secure. There are eight different types of loan available in Pragati and Gyan Jyoti whereas only five products in Navadeep. The highest proportion of the loan is invested in Entrepreneurial sector (34%) followed by housing (22%) and debt management (22%).

The analysis of the demand of the loan members shows that there is the increment in the number of loan clients during the study period although there is negative growth in Navadeep Jyoti in year 2008 and 2009 (-645.8% and -41.2%). The incremental rate in Gyanjyoti and Navadeep recorded at 18.6% to 39.3% and 19.9% to 13.1% respectively in year 2008 and 2009. This indicates that the SCCs are increasing their outreach by providing loan to more members.

The average loan size over the past five year is growing indicating the increased capacity of the SCCs to provide loan. The loan per member is highest in Navadeep and lowest in Pragati Mahila.

The average saving balance per member is increasing each year indicating the funds collected from the members is growing.

Pricing the Product

The SCCs are able to finance all of their cash expenses from their own earning which indicates that operational self-sufficiency and financial self-sufficiency have been achieved in the SCCs under study. This means the SCCs under the study need not rely on donations and other support from outsiders since all the expenses are covered from their own earnings. The SCCs are not using proper interest calculation methods while fixing the interest rates to the products since it is fixed in a random manner. The sustainable interest rate on loans for Pragati Mahila is 11.94%, Navadeep 12.84% and Gyan Jyoti 12.38% whereas the actual rate charged by all the SCCS is 18%.

Portfolio Quality

Since the delinquency rate was Zero percent (100% recovery rate), the portfolio quality of the SCCs is found very good. The study shows that there are no delinquent borrowers in the SCCs under study indicating fully secured investment. While extending the loans, it is required to maintain 1 percent loan loss reserve ratio but the actual reserve ratio is more than the required in Pragati Mahila (1.5%).

Efficiency of the SCCs

From the analysis, it can be concluded that the efficiency of the staff working in the SCCs is above the standard prescribed by ACCU in the ACCESS, even though all the management of the SCC is managed by two individual staff with out proper job description. Hence job description is felt most to increase the efficiency of the staff.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

Microfinance experiences of selected SCCs under the study has opened new dimensions in Nepalese microfinance circumstances, especially on addressing financial needs of urban poor living in the slums and informal settlements. The efforts have been instrumental to expend outreach of microfinance services to low income urban women using credit union methodology. This study made an assessment on Outreach, Sustainable interest rate, Portfolio quality and Staff productivity in these SCCs for the sustainability of the SCCs. This section summarizes the major Summary, conclusions and recommendations of this study.

5.1 Summary

Since the performance of the SCCs on achieving the sustainability has been analyzed from the dimensions of Outreach, pricing the product, portfolio quality and staff performance has been analyzed in depth to find the answers to the research question

From the analysis it is summarized that performances of these SCCs are mixed owing to deficiencies on diverse aspects of their operation such as outreach, portfolio quality, sustainable interest rate and staff efficiency. Outreach analysis shows that average increment in the shareholders is relatively low in compare to average increment in the number of average saving members. But the increment of shareholders and the saving member is in the positive trend above the standard. This positive increment is because of the product diversification in the SCCs it have introduced four different types of different saving scheme whereas 8 different types of lending scheme. Product diversification is the one of the effective tool to increase membership in the SCCs.

Since they are able to attain OSS and FSS this indicate the interest rate and fees charged by SCCs large enough to cover all expenses this shows that they are sustain. Portfolio analysis shows that the portfolio has been diversified in different products because of this the organization have diversified the risk. Delinquent loan is 0%, recovery rate is 100% and loan loss reserve ratio is greater than 1% which is on the standard immediately the loan is issued from the SCCs 1% of the loan is treated as the delinquent loan this makes the SCCs strong enough to work in the market.

Since the job description is essential for staff which will guide him to perform the task accordingly. There is lack of job description because of this it make difficult to analysis the performance of the staff. Since there are two staff working in each SCCs whole the organization is managed by this two staff they are responsible to perform all the activities single staff is looking after the saving, loan, and administrative activities. Though there is no any prescribed job analysis of staff efficiency is outstanding.

Analysis from the dimensions of Outreach, pricing the product, portfolio quality and staff efficiency shows that the outreach is in the increasing order and providing services to its potential members in the society. From the product pricing it conclude that SCCs are able to meet the stage of sustainability because they have already passed two level of sufficiency (OSS & FSS) so that organization will be able to provide same types of services to the members in the future also. Because of the efficient Board of Directoes (BoD) and Staff organization is able to manage the loan in excellent portfolio.

5.2 Conclusion

Lumanti promoted three SCCs have ensured access to the poorest of the poor women from urban squarer families to bring them out to the formal money markets and provided them relief out of exorbitant interest rates charged by the informal money lenders or live in miserable and inhumane conditions. In other word, the initiatives have united most vulnerable and vastly neglected women and to a large extent created an environment wherein women create their own security.

SCCs Outreach

Data analysis and presentation under outreach it concluded that the growth in the shareholders, saving members, is in increasing order in the year 2009 which is above the standard prescribed by ACCU in the ACCESS. On the same way SCCs has belief that products and serviced delivered should be done keeping in the SCCs to cover the potential members in SCCs so they have introduced 4 saving and 6 loan schemes. Because of product diversification SCCs are able to increase saving membership and loan client as per the standard of PEARLS.[6]

[6] Detail of the PEARLS can be Seen in the book …………………………………….

Product pricing

Product pricing is one of the important tasks of the organization that have to perform before investing. From the above calculation it shows that SCC will be sustain at 13 % interest on the loan if it gives 8 % interest on the saving accumulated in the SCC. There is a margin of 6% with this six percent all the other expense of the SCCs can be covered. But SCCs are charging the interest of 16% in the loan. This indicates that they charging higher interest rate. They can reduce the interest rate what they are charging.

Portfolio Quality

Reporting system of these SCCs are below standard. The reporting inaccuracies are more serious for factors such as non-performing loans, aging of overdue loan and loan loss provisioning. SCCs should improve reporting system as per standards suggested by international institutions such as CGAP[7] or WOCCU[8] that sets reporting standard of microfinance operation. For instance, as an immediate practice, loan loss provision should be sufficiently made as per directives provided by legal and regulatory authorities and a matching of loan loss provision with reserve requirement should be ensured. Establishing reserve fund is a noble practice adopted by SCCs, but it should have certain linkages with loan loss provision.

Staff and Board Efficiencies

At the outset, it seems that there is no problem on overall governance and management of the SCCs. Effort has been made to make executive body and management separate through a built in mechanism for check and balance. Though the BoD is quite strong and effective, need and effectiveness of three sub-committees (account, education and loan) is either not justified or often doubtful. There is no doubt on the importance of the existence of these sub-committees, but some concrete measures must be started to involve them on addressing much of SCC management issues. These SCCs are working almost in isolation and their linkages (horizontal and vertical) with other institutions are almost non-existence, hence, highly dependent with Lumanti. Hardly they have been benefited from mistakes of others and moved towards self-reliance. In order to scale up activities, these SCCs must

[7] For the detail information please visit the web site www.accu.org
[8] For the detail information please visit the web site www.accu.org

establish professional linkages with wholesale microfinance service providers such as Rural Microfinance Development Centre (RMDC) and Rural Self Reliance Fund (RSRF), as well as other BDS providers and cooperative promoters such as CMF, NEFSCUN. Such professional linkages will be instrumental to improve professionalism on managing these SCCs.

5.3 Recommendations

Current performance of three Lumanti-promoted SCCs reveals that Lumanti had promoted these SCCs with sufficient home works and clear vision. These SCCs are operating at efficiency level that is significantly higher than other SCCs of similar years of operation. They have attained two level viability are running in the level of sustainability, this study has identified some areas requiring immediate action as recommendations.

In conformity with best practice experiences of SCCs in other parts of the country and relatively high operating cost in urban based SCCs compared to the rural ones, the SCCs membership should reach to a tune of 500 so as to attain their operations at a critical mass within shortest possible time frame. Membership expansion and new savings as well as loan products development should adopt market-led approach for greater efficiency and effectiveness.

The capacity of the BoD should be enhanced on different aspects such as accounting, financial management, internal control and supervision, etc. Need and effectiveness of three sub-committees (account, education and loan) should be revisited to enhance their roles on addressing management issues. These SCCs requires external support to establish both horizontal and vertical linkages with other institutions to learn from mistakes done by others and reduce their dependence with Lumanti. In the context of likely management problems and capacity constraints, there is a need to review the role of group coordinator. Also needed is to review the reporting system of these SCCs so as to make it as per standards suggested CGAP or WOCCU. There is a need to back the establishment of reserve fund in these SCCs with the loan loss provision exercises in addition to upgrading simple internal control system of these SCCs in context of their complex management structure primarily to check fraud and mis-use. External support need to gear towards strengthening financial management system as well as BoD’s capacity on financial analysis, especially on fund management.

Despite operating at modest cost and staff inputs, administrative expenses constitute single largest components in the cost structure of the SCCs. Sustaining viability level already attained requires improvement on operating efficiency. Two SCCs (Pragati and Gyanjyoti) have attained OSS and FSS and Navadeep also possess prospects of attaining OSS and FSS. Maintaining efficiency level attained is a challenge to these SCCs for future which requires improved fund management and efficient cost control policies. Further, these SCCs have reached a level of operation that requires adequate MIS. Use of efficiency MIS as well as other innovative management and product development technologies can contribute to a reduction in administrative costs, an increase in staff productivity and improve credibility of accounting system. While using new technology can be strongly beneficial for SCCs in the long run, it introduces additional costs which can handicap their performance in immediate future should not be ignored in addition to the fact that using technology requires some capabilities. Lumanti's support to these SCCs in short and medium term need to focus on identifying best practices as well as cost-effective technologies to improve their outreach, efficiency and client satisfaction.

Loan disbursement should be directed more on trade/IGAs and shareholders should be encouraged to invest on education and health care out of revenue from IGAs, rather than borrowing. In order to motivate them to borrow on trade/IGAs, credit plus services should be provided through training on skill and entrepreneurship development, marketing networking and business consultancy services. Loan products should be diversified so as to promote business investment through proper linkages with government and non-government BDS providers and including features of investment finance rather than simply microfinance to facilitate emergence and growth of production oriented enterprises. Similarly, agro-based entrepreneurs will benefit greatly through a support to establish business linkages with government BDS providers (District Agriculture Office, District Livestock Service Offices) for ensuring access to required technical services.

Promotion of trade/IGAs must be backed by access to (i) required production inputs; (ii) new skills on business improvement - increasing productivity, and reducing production costs or accessing more profitable market; (iii) up-to-date and reliable information in various forms - business consultancy services or special events such as exhibitions and trade fairs; and (iv) support for establishing and operating an enterprises such as legal services (e.g. registration of enterprises), training of owners and workers, special laboratory services for testing goods produced by the enterprises, and intermediation to establish contracts with larger firms through networking and linkages for efficiency and effectiveness.

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ANNEXES