

Course code: BE309E

Candidate number:

Boj Raj Kafle

**POVERTY ALLEVIATION IN NEPAL:
THE MICROFINANCE APPROACH
A CASE STUDY OF GAJEHADA V.D.C.
KAPILVASTU, NEPAL.**

Date: 18 May 2022

Total number of pages: 63

Abstract

Poverty is one of the big issues in developing countries around the world. One of the common solutions to alleviate poverty is microfinance (bank to the bottom billion), providing small loans to the poor. To find the best practices of microfinance, it is necessary to find the impact of microfinance on livelihood of poor through accumulation of economic and social assets . Ideal microfinance goal identified as outreach, impact and sustainability. This study focus on impacts of microfinance program implemented by Janautthan Samudayic Development Bank ltd in Gajehada V.D.C of Kapilvastu district, Nepal and make appropriate conclusion and recommendation. Study was conducted with the questionnaire filled up in personal interview and focus group discussions among 50 active microfinance members who have been in this microfinance program at least for 4 years.

Data from survey and national data shows that study area have done better in terms of children education, assets accumulation, household facilities, health and sanitation, women empowerment, alternative sources of income and minimizing vulnerability in order to reduce poverty. Study also reveals the emerging constrains of microfinance in achieving its impact, sustainability and outreach. It also shows that microfinance is one of the most dynamic tools to achieve the national goal of poverty reduction and economic growth. However, Microfinance has been a small scale and mostly subsidized by Government and donors, so outreach, sustainability and impact objective of microfinance needs interplay among government, Nepal Rastra Bank, formal financial institutions, local organizations, active poor women participation and appropriate policies.

There is huge gap between demand and supply of microfinance loan with just about one third (33%); of all demand for microfinance loan have been met till date and even greater need in rural hill and mountain region of Nepal. So all the concerning stakeholders should emphasize the importance of microfinance in poverty reduction and should act accordingly.

Acknowledgement

This report " Poverty Alleviation in Nepal, The Microfinance Approach, A Case Study of Gajehada V.D.C, Kapilvastu, Nepal" is prepared for the in support of the Degree of Msc. Master of science in business. I am proud to prepare this report under the guidance of Frode Nilssen, Professor, Marketing Strategy and Management, Nord University Business School – High North center for Business and Governance. I am greatly indebted to him for her continuous support in preparation of this report from beginning to the end. This present form of this report is because of his definite direction, motivation, professional suggestion, information, constructive comments and necessary inputs from her side despite his time bound. I owe a lot for his guidance and supervision without his guidance it was not possible for me to complete this report at this present form.

I like to express my gratitude to Mr. Ghanashyam Dahal, for conducting survey in study area and informing me the current socio-economic situation of study area at his best level despite time bound.

I would like to thank Mr. Gyanishor Panth, Program Manager of Janautthan Microfinance at Gaehhada V.D.C, who provided with much needed information about organization, its programs and impact of their program in daily life of their customer.

I owe a lot to those respondents and group members of twelve microfinance centers at Gajehada V.D.C, who not only contributed to this report by responding to the questionnaire but also creating peaceful environment to do the survey comfortably.

I would like to express my gratitude to Nord University for organizing this exciting study program, which have helped me a lot to broaden horizon of knowledge and skills in the field of business and marketing.

I would like to extend my gratitude to Ellinor Ida Jenssen Kirkfjell, Academic Adviser, Nord University Business School, for her help and much needed support during whole academic years

I acknowledge the help, advice and guidance rendered by Janautthan Microfinance team at Gajehada V.D.C, Kapilvastu, Nepal.

Table of Contents

Abstract	i
Acknowledgement.....	ii
Table of Contents	iii
LIST OF TABLES	vi
ABBREVIATIONS.....	viii
CHAPTER I: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Sources of Microfinance.....	6
1.2.1 Formal Sector	6
1.2.2 Semi-formal Sector	7
1.2.3 Informal Sector.....	8
1.3 Historical Development of Microfinance in Nepal	10
1.4 Microfinance Models.....	11
1.4.1 Cooperative Model.....	12
1.4.2 Small Farmer Cooperative Limited (SFCL) Model	12
1.4.3 Grameen Bank Model	12
1.4.4 Self-Help Groups (SHGs)/Community Organizations model.....	13
1.5 Microfinance Development and Outreach Growth	14
1.6 Statement of the Problem	16
1.7 Objectives of the Study.....	17
1.8 Significance of the Study.....	18
1.9 Limitation of the Study.....	19

1.10 Organization of the Study.....	20
CHAPTER II: LITERATURE REVIEW.....	21
2.1 Microfinance Definition.....	22
2.2 Impacts of Microfinance on Poverty Reduction	23
2.3 Review of books, related studies and articles.	24
CHAPTER III STORIES ASSOCIATED WITH MICROFINANCE.....	26
3.1 Success stories.....	26
3.2 Failure stories	27
CHAPTER IV : RESEARCH METHODOLOGY	28
4.1 Research Design.....	28
4.2 The Study Area Selection.....	29
4.3 Sampling Procedure	29
4.4 Method of Data collection.....	30
4.5 Data Collection Tools and Techniques	30
4.6 Data Analysis	30
CHAPTER V: DATA PRESENTATION AND ANALYSIS	31
5.1 General Information	31
5.2 Health and Sanitation	35
5.3 Assets and Livelihood	38
5.4 Effect of Microfinance Program	40
CHAPTER VI: KEY FINDINGS, LESSON LEARNED AND CONCLUSIONS	46

6.1 Key Findings	46
6.2 Conclusions	47
6.3 Lessons Learnt	49
6.4 Policy Highlights.....	50
REFERENCES.....	ix

LIST OF TABLES

Table No.	Title	Page
Table I	Age	31
Table II	Education	31
Table III	Children Education	32
Table IV	Children Education in Boarding school	33
Table V	Ownership of housing unit	33
Table VI	Type of foundation of house	34
Table VII	Type of outer wall	34
Table VIII	Roof of house	35
Table IX	Water supply status	35
Table X	Usual fuel for cooking	35
Table XI	Source of lighting	36
Table XII	Personal hygiene	36
Table XIII	Health services in last one year	37

Table XIV	Land holding	37
Table XV	Household facilities	38
Table XVI	Household facilities comparison with national data	39
Table XVII	Existing profession	40
Table XVIII	Income before involving in microfinance	41
Table XIX	Income after involving in microfinance	41
Table XX	No. of loan used	42
Table XXI	Loan utilization sector	43
Table XXII	Source of saving	43
Table XXIII	Expansion of business by taking loan	44
Table XXIV	Satisfaction of clients with Janautthan microfinance	44
Table XXV	Improvement in Livelihood	45

ABBREVIATIONS

MFI	: Microfinance institutions
MF	: Monetary fund
CBS	: Centre bureau of statistics, Nepal
NLSS	: Nepal Living Standard Survey
ADBL	: Agricultural Development Bank Limited
PSL	: Priority Sector Lending
NIDC	: Nepal Industrial Development Corporation
NPR	: Nepalese Rupees
RMFDB	: Rural Microfinance Development Banks
CB	: Commercial Bank
DB	: Development Bank
DDC/S	: District Development Committee/s
FINGO	: Financial Intermediary Non-government Organization
GB	: Grameen Bank
GO	: Government Organization
GDP	: Gross Domestic Production
IMF	: International Monetary Fund
MCPW	: Micro Credit for poor Women
PCRW	: Production Credit for Rural Women
NBL	: Nepal Bank Limited

NGOs : Non Governmental Organization/s

NLSS : National Living Standard Survey

NRB : Nepal Rastra Bank

RBB : Rastriya Banijya Bank

RSRF : Rural Self Reliance Fund

SCS : Saving and Credit Societies

SFDP : Small Farmers Development Project

VDC : Village Development Committee/s

WB : World Bank

DU : District Unions

SACCOS : Savings and credit co-operative societies

CHAPTER I: INTRODUCTION

1.1 Background of the Study

Nepal is a land locked and developing country with more than 83% (Kathmandu, 2014) of total population living in rural areas. It is a one of the least developed and poorest country in the world with \$1155.1 per capita income (Bank, 2020a). More than two third of households are dependent on agriculture as a primary source of income (Paudel & Acharya, 2021). Unfortunately out of total areas of the country only 16 % is under cultivation while agriculture productivity is one of the lowest in the world and is barely sufficient to feed the Nepali population for six months (Poudel, Kharel, & Upadhyay, 2021). Moreover, country is dealing with challenges like unemployment, underemployment, inequality, hunger, malnutrition, starvation, corruption etc. Furthermore, country is devastated by the recent natural disasters like earthquakes of 7.8 rectal scales in 2015 and many more flooding and soil erosion each calendar year (Basu, Ghosh, Jana, Bandyopadhyay, & Singh, 2017). As everyone knows poverty is a tangling and multifaceted phenomenon. In Nepal, it is everywhere and pervasive. If we define poverty in simple laymen words, it is a scenario where people are deprived from their basic needs. In other words, people with poverty can't afford to pay for good education, health services, and balance diets etc. Furthermore, it is a phenomenon that citizens are forced to fall into the vicious cycle of poverty, which in turn, creates the society full of scarcity, looting, gang rape, unemployment, corruption, and weak social and political participation because of unawareness.

In modern age of 21st century, examination, and measurement of reasons of poverty at household levels is an important aspect to formulate economic policy that helps to reduce the poverty at household levels. As a result on 25 September 2015, 193-Member United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, "The new agenda is a promise by leaders to all people everywhere"(Desa, 2016) . It is an agenda for people, to end poverty in all its forms (Innovation, 2006). Poverty hinder the poor people from their basic human rights, so eliminating it from every possible dimensions is one of the most universal challenge and an indispensable requirement for sustainable development. The United Nations 2030 Agenda for Sustainable Development resolves to eliminate all kinds of poverty from our planet and heal and secure our beloved planet.

The word 'poverty' is derived from the French word '**pauvre**' meaning 'poor' (Patel, 2012). It is a state of lacking material possession of housing or no means to support oneself (Patel, 2012). Throughout history, poverty has been an issue of concern, and different traditions have emerged and there have been important variations in the significance of poverty in different types of society and in different periods (Manzano, 2022). Prof. Mohammad Yunus, Nobel peace prize winner 2006 and Founder of Grameen Bank of Bangladesh, view poverty as negation of all human rights (Yunus, 2007). In his own words "poverty can be viewed narrowly as the denial of human right. A poor person has no right at all, no matter what one puts into the book" (Yunus, 2007).

In fact, there are many countries which have achieved improvements in eliminating poverty. There is continuous debate that it is like impossible to get an economic prosperity without reduction of Poverty (Barbier, 1987). As long as poverty is not eliminated from the society, nation and whole world, people can't afford to get basic needs like food, shelter, clothes, and other civic rights such as employment, education, health, electricity, freedom, and infrastructures. Indeed, poverty is a vicious cycle that traps poor peoples to be poorer and more desperate. Without reduction of poverty, it is very impossible to think of prosper country and society. If anyone wants to see betterment of the society and country, they have to eliminate the poverty from the grassroots society.

In the context of Nepal, The Nepal Living Standard Survey 2011/2012 uses 2,200 calorie consumption by a person per day and access to essential non-food items as the index to measure poverty in Nepal (Pandit et al., 2012). Based on current market prices, a person needs an income of at least Rs 14,430 a year to manage food equivalent to 2,200 calorie per day and other essential non-food items (Pandit et al., 2012). As per the report, an individual earning less than Rs 14,430 per year is below the poverty line (Pandit et al., 2012). Poverty is quantified and measured based on income, consumption level, price of the consumption products etc. According to the Nepal Third Nepal Living Standards Survey (NLSS-III), it is observed that there is 5.7 percent reduction on poverty in year between 2004 to 2011 (Thapa, 2013).

According to the world Bank study on poverty and equality, it shows that in the year 2018, poverty rate in Nepal was reported to 29% on a multidimensional basis (Bank, 2020b). Nepal National population and housing census, 2011 reported that 25.2 percent population were below the poverty line, of which about 27.43 percent in rural and 15.46 percent in urban areas in 2011

(Regmi, 2013) .Whereas the Nepal Living Standard Survey, conducted in 1996 estimated that about 42 percent of the total population were living below the poverty line (Regmi, 2013).Similarly, NLSS - II (2003/04) data estimated that 31 percent of the total population were below the poverty line (Regmi, 2013). The Survey defined "poverty as a state of affairs where a particular person is not financially stable or does not have the right sources to stay on their feet (Regmi, 2013). In other words, famine, lack of protection, being sick and not being able to see a doctor, not being able to send children to the school and illiteracy, not having a job, fear for the future losing a child to illness brought about by unhygienic water, incapacity, lack of representation and isolation all are considered as features of poverty (Regmi, 2013).

Nepal is overwhelmingly an agriculture based economy and poverty is mainly rural based (Karn, 2018). This is the time for proper understanding of basic characteristics of the individual, group of individuals and households to make progress in achieving poverty reduction. Nepal has 6 decades of development projects in a history, which was started with First five year development plan in 1956 to 1961. Experience from the past history of development plan has shown that reduction of poor people is the precondition for the overall development of the Nepal. It is very imperative for poor people to bring into the economic activity, decision making process on every issue concerning them. Economic development of the Nepal cannot be achieved such an ease because economic activity of poor people depends on their income, expenditure and saving, Which is the prerequisite for the development of the country as a whole and infrastructure development such as road, housing, schools, electricity, telecommunication etc. which are the indicator of development level of the Nepal.

The study of the past development plan shows that poverty reduction was not given top priority till the Fifth Five-Year Development Plan (1975–80). This is the first time in history of development plans Government of Nepal recognized poverty reduction; but no specific objective and strategy were not formulated. Thereafter, with the Sixth Five Year Development plan (1980–1985) till now, poverty alleviation is the top priority in each of next development plan. Nepal Government adopted various plans, projects and programs to alleviate the poverty which will be executed by NGOs, INGOs, cooperative unions, micro-finance institutions and many national and international agencies.

The Tenth Plan, (2002-07), being the first one leading to twenty-first century and the new millennium, is destined to enhance the concept of developing cultured, competitive, affluent

and equitable Nepali society reflecting the ultimate aspirations of Nepal and Nepali people at large (Commission, 2002). This development plan point out poverty alleviation as its first most important goal and various policies and programs, approaches and tools were adopted. It is realized that Microfinance is one very strong economic tool to achieve socio-economic livelihood of poor people living in both urban and rural areas.

Microfinance concept is not a new though its modern use of "Microfinancing "come to prominence only after 1970s, when 2005 Nobel Prize winner and Microfinance Pioneer Dr. Muhammad Yunus, established Grameen Bank of Bangladesh. Now a day's many developing countries of the world have been adopted micro financing as an instrument to poverty reduction(Ledgerwood, 1998). Various models and approaches of microfinance programs are being executed and adopted all over the world, and same is true for Nepal as well.

Microfinance is a type of banking services provided to poor, low – income individuals or unemployed or the group of people who otherwise have no access to the mainstream banking services with the intention of uplifting the standard of living of poor, marginalized and disadvantage people (Beck, 2015). The primary objective of microfinance is to provide poor, resources deprived people access to small scale capital resources, so that it will help them to become self-sufficient and uplift their standard of living. Micro financing provides options to customers with limited resources to promote participation in productive activities or to support a small business. While institutions participating in the area of microfinance are most often associated with lending small credit line, some microfinance companies offer additional services, including bank accounts and insurance (Ledgerwood, 1998). Additionally, some institutions provide information in the areas of financial literacy, such as understanding interest rates and managing financial risks (Ledgerwood, 1998).

Microfinance is a way to eliminate poverty by providing small loans to the low income and unemployed people in group. The objective is to provide small loans to the needy people in areas where there is no availability of main stream banking facilities(Yunus, 2007). There are three type of Microfinance – Formal, semi- formal and informal source of Microfinance and all of them play vital role in poor people's economic life. A recent survey conducted by Nepal Bureau of Statistics in 2014 shows that just 26% of people from rural part of Nepal have access to the formal source of Microfinance and rest is dependent on the informal source like jamindar, Sahumahajan, Sirpanch, Babusaheb etc(Shrestha, 2009) . They are the people in rural Nepal

with huge amount of money, land and other properties. It is clear that there is huge difference between demand and supply of microfinance loan (Shrestha, 2009). So Government of Nepal has to formulate policies to extend the Microfinance loan. In order to meet the demand of Microfinance credit, they have to establish large number of Microfinance institutions with large amount of capital and same applies to the rural development banks and NGOs & INGO to enlarge their credit. This will have positive effect to the economy of people, their empowerment and their participation. Moreover, Microfinance can help poor people to enhance their economic activities, widen knowledge, sharpen skills and raise their income. That is why Microfinance is not only a kind of banking services but more importantly it is a one of the most promising medium to eliminate poverty and bring welfare to the individuals and society as a whole.

Microfinance provides banking services to the poor, unemployed and people do not have access to the mainstream banking facilities. Microfinance services are small loan to do businesses, acceptance of deposits and saving and household emergency insurances. In Nepal, there are not enough banks in rural mountain and hill regions and even if they are there; it is not available to poor people because they can't fulfill banking procedures and documents and collateral guarantee to get loan. So they are fulfilling their financial needs mostly through informal lender with high rate of interest usually from 24% to 60% and sometimes even higher.

According to United Nations, "Microfinance" is defined as the "provision of small scale financial services such as savings, credit and other basic financial services to poor low income people". The term microfinance institution means to a wide range of organizations dedicated to providing these services and includes nongovernmental organizations, credit unions, co-operatives, private commercial banks, non- bank financial institutions and parts of state- owned banks (Regmi, 2013).

An example from Grameen bank of Bangladesh and other around the world; Microfinance have proved that it is one of the most promising panacea pill to cure the poverty that will help poor people to accumulate household assets, rise income level and reduce the risk of household emergencies because it foster saving as well. However, with almost 764 millions are living under extreme poverty level (Moatsos, 2021) and around 1 billion of people without access to the formal banking facilities in the world (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2020). Every government has to formulate proper policies and regulations to exploit the benefits

of microfinance. Nepal Rastra Bank has identified microfinance as financial institutions which loan size will not exceed NPR 100,000 (Shrestha, 2009).

1.2 Sources of Microfinance

1.2.1 Formal Sector

Microfinance is an approach for extending banking services to the poor and deprived group not outreached by mainstream banking sector. Despite its tremendous potential to alleviate deep-rooted and prolific level of poverty, only 33% of households below the poverty line have access to microfinance services in Nepal (Shrestha, 2009). There is an even greater need to expand microfinance services in the high hills and mountainous regions of the country (Regmi, 2013; Shrestha, 2009). In Nepal there are large numbers of active microfinance institutions that provide financial services to the poor. These institutions are regulated by government acts such as:

- The Bank and Financial Institution Ordinance (2004),
- The Cooperative Act (1991),
- The Financial Intermediary Act (1998).

Microfinance institutions working in the present legal and regulatory framework include:

- Forty-two Microfinance Development Banks classified under category 'D' by the NRB
- Five Regional Development Banks including ADBL and NIDC.
- Over 20,000 Savings and Credit Cooperatives
- Forty-five Financial Intermediary NGOs licensed by the Nepal Central Bank.

The following three categories of second tier refinance institutions have been established to provide wholesale loans to different MFIs in Nepal:

- Rural Self-Reliance Fund
- Rural Microfinance Development Center
- Sana Kisan Bikas Bank (Small Farmers Development Bank).

Source: Nepal Rastra Bank, January 2022. *Banking and Financial Statistics*; Bank and Financial Institution Regulation Department, Statistics Division

Despite of the large number of institutions and their diversity, only handful of them has managed significant outreach in providing microfinance services to the poor and rural people (Shrestha, 2009). In Nepal, Commercial banks with large amount of capital and resources have little involvement in the remote areas excluding three state-owned Nepal Bank limited, Rastriya Banijya Bank and Agriculture Development Bank limited (Shrestha, 2009). However, due to lack of capital and resources, outreaches of proper Microfinance institutions are limited and they account for only 4% of capital, 1% of Deposits and 2% of outstanding loan to the microfinance sector (Shrestha, 2009). When evaluate Microfinance industry in Nepal, it has achieved partial success in terms of the outreach, impact, and financial performances, however, many microfinance experts believe that it is not true because every microfinance institutions show their good performances in order to get the low interest rate loan from wholesale lenders.

1.2.2 Semi-formal Sector

This sector is operated by joint Government–donor support projects and is autonomous member-based institutions. These include NGOs and cooperatives. Most of the credit and cooperatives are under the Nepal Federation of Savings and Credit Cooperative Union Limited (NEFSCUN) (Majorano, 2007). Established in 1988, NEFSCUN is the central apex body of community-based SACCOS in Nepal (Majorano, 2007). Its **Vision : "Integrated and Sustainable Savings and Credit Cooperative Societies in Nepal and mission is to Ensuring the sustainable growth of integrated SACCOS network enabling them to provide quality financial services that improve lives of people"** (Majorano, 2007). NEFSCUN is guided by international Credit Union principles and values, whereas it is owned and controlled by its members. As of April 2017, 63 District Unions (DUs), 2903 SACCOS with more than 2.2 Million individual members from 74 districts are affiliated to NEFSCUN.

National and international donor are playing vital role in microfinance sector both in terms of capital resources investment in microfinance and the knowledge & technical support to capacity building. Various agencies and countries are supporting Nepali banking system – World Bank, Asian Development Bank (ADB) and international fund for Agricultural Development (IFAD) are main source of credit provider to the Nepal Rastra Bank (NRB), Rastriya Banijya Bank, Nepal Bank Limited etc. Other vital donor to Nepal includes USAID, UNDP, and Department for International Development (DFID), German Agency for Technical Cooperation (GTZ), Plan international, CECI Nepal and plan international. Moreover, many countries are providing financial support for development of Nepal. These vital donor countries include India, United States of America (USA), France, Germany, Norway, China, Finland, Sweden etc. These donors and Agencies often collaborate with Nepali not for profit Organizations like Centre for Microfinance (CMF), which " Promote and strengthen microfinance services through capacity building, training, knowledge management, research, policy lobbying, consultancy and networking with mutual trust and cooperation among service receivers, practitioners, and stakeholders". It is crystal clear that Donor-funded projects in collaboration with Nepali institutions have been performing very well in terms of both outreach areas and in targeting very poor marginalized, down trodden rural communities. Despite their success in terms of outreach and target; however, they have not managed to keep them sustainable because they pay little attention or just ignore the financial performances. This will happen because they rely on grants.

1.2.3 Informal Sector

The informal financial system can be defined in simple words as "those institutions which was established through local peoples' involvement and resources mobilized by the institution comes from the local people and benefit will goes to those who contributed to the establishment of the institution"(G. Gawali, strength and potential of informal financial system in Nepal, 2011). In simple words it is an institution where local people get together to establish one self help financial institution and contribute certain specified money on certain periods and they will have access to the money when they need it.

Informal financial system comes into market when poor people don't have access to the obtaining consumption or accidental loans which are very common to the poor unemployed people and are not available from the formal banking system. In Nepal informal financial

system play vital role in the economy of the nation. However, importance of informal financial system has not given due attention from the Nepal Government because no data has been collected yet on a formal basis, analyzed on importance and significance of informal financial systems. There are numerous community based organizations in Nepal and it is estimated around 30,000 organizations such as local self help groups, Credit Association and rotating saving.

Furthermore, local Sahu, Mahajan, Jamindar Kajisahab(they are the well off people in rural Nepal), friends and traders are also main source of informal money provider in Nepal and they are the prime informal loan provider to the poor people in rural and urban Nepal. In Nepal, most of people get their loan from their family, relatives and friends which accounts for around 80% in urban areas and about 59% in rural areas.

Money lenders namely, Sahu, Mahajan, Jamindar Kajisahab play a minor but very vital role in urban areas while they account for Significant 31% of informal loans in rural areas. We have very little information about informal financial providers, so future research has to be done to understand it very clearly.

It is estimated that demand for credit in rural Nepal is NPR. 26 Billion; however, supply is around NPR 10 billion from both formal and semiformal sector including banks, microfinance, cooperative and other formal financial institutions. That is why nearly two third of credits line come from the informal sector. Furthermore, access to the credit line is not even. Upper and middle class people has more access to the formal banking system but lower middle class and people below poverty line has little or no access to the formal banking system. In addition, people from urban areas have more access to the formal banking system while people residing in rural hill and mountainous areas have little access to the formal banking system.

According to the report "Access to Financial Services in Nepal" (World Bank 2014), 26.9% of top quintile of population depends on informal credit line while it went up to 46.2% of bottom quintile of population who exclusively depends on informal money lenders.

It is estimated that formal banking sector excluding microfinance charge minimum of 10 percent on interest to maximum of 24 percent on credit line. However, informal lender most of cases usually charges more than 24 percent to 60 percent on their lending with average of 36 percent.

1.3 Historical Development of Microfinance in Nepal

The history of microfinance in Nepal is relatively new. The Nepali government's attempt to promote microfinance services dates back to 1975. It was recognized as an official poverty alleviation tool only in the country's Sixth Plan (1980/81-1984/85). The sector has, however, gained momentum after the restoration of democracy in 1991 (Shrestha, 2009).

With an example from Grameen Bank of Bangladesh and Microfinance around the world, it is clear that Microfinance is an effective tool to expand access to the banking and financial services to the low income, poor and disadvantaged people from remote areas of Nepal, who are not under the radar of formal banking services. In spite of its huge potential to alleviate human poverty, only 33 % of households below the poverty line have access to the microfinance services. In the high hill and mountainous regions of Nepal access to the financial services is in very pathetic condition. So there is greater need to expand microfinance services in these regions of Nepal.

There is no evidence of Microfinance term used in history of Nepal. It has been found used in Nepal only in the later part of 1990s (Shrestha, 2009). Rural credit in Nepal began in 1956 with the opening of Credit Cooperatives in Chitwan Valley to provide loans to the re-settlers coming from different parts of the country (Shrestha, 2009). The government through the creation of the Cooperative Development Fund (CDF) arranged some credit support to the re-settlers through those cooperatives (Shrestha, 2009).

In 1963, the Nepal Government established the Cooperative Bank, which was later converted into the Agricultural Development Bank Nepal (ADB) in 1968 (Shrestha, 2009). Because of growing number of corruption and embezzlement of microfinance capital for personal consumption by the officers in those organization. The government commissioned a fact-finding mission in 1968 to probe the operations of 1489 cooperatives then registered with the Department of Cooperatives and the mission found most of them at defunct stage and recommended for their liquidation (Regmi, 2013; Shrestha, 2009)

Thereafter, the government introduced the Cooperative revival Program in 1971 (Shrestha, 2009). It authorized the Agricultural Development Bank Nepal to run cooperatives under its

guidance and management (Shrestha, 2009). In 1976, 'Sajha Program' was launched and the Cooperatives were renamed as 'Sajha Societies' (Shrestha, 2009). The compulsory savings collected under the Land Reform Program of 1964 (2021 B.S) were converted into the share capital of the Sajha Societies (Shrestha, 2009). The Nepal Rastra Bank conducted a benchmark survey in 1983/84 to assess the situation of the cooperatives (Shrestha, 2009). The study found that 94% of cooperatives were dealing with transactions of agriculture inputs and 85% were also found extending credit (Shrestha, 2009). Most of the cooperatives were running at losses and over 75% of the outstanding loan was overdue for more than 1 year (Shrestha, 2009).

With the formation of Agricultural Development bank and Co-operative bank in year 1962 and 1986 respectively, we have observed implementation of many microfinance programs by Agriculture Development bank and Co-operative bank as such, production credits for rural women (PRCW), small farmer development programs (SFDC), rural self-reliance fund (RSRF). Rural Micro Finance Development Centre (RMDC) was also established to provide wholesale loan fund for microfinance.

The Ninth Plan (1997-2002) and the Tenth Plan (2002-2007) adopted poverty reduction as their top objective. The government has started various 11 microfinance programs in Nepal. The primary objective of such microfinance program is to bring poor, resources deprived society an access to the small capital base, so that they can utilize their skills and efforts to be self-sufficient, empower, involve in self-employment activities, encourage, and inspire them to be self-dependent economically.

After the economic liberalization in 1991, Nepal has given main concern to poverty alleviation. Efforts have been put to improve the standard of living of people and mitigate the gap between rich and poor. Therefore, the pivotal challenge for the country is to eradicate the poverty problem. Hence, microfinance program, I recognized as one of the tools for reducing the poverty, and this needs assessment in terms of its effectiveness from socio-economic viewpoint.

1.4 Microfinance Models

There is handful of very prolific microfinance models into practices in Nepal. These are small farmer cooperative model (SFCL), Cooperative model of Microfinancing, Grameen bank style

of microfinance and self help groups (SHG) or Community based organizations (Co). Each of these model has its own origin, history, background and model of operation called "modus operandi". They are explained in detail below one by one.

1.4.1 Cooperative Model

The history of cooperative in Nepal dates back to 1956, when the government first started cooperatives in Chitwan district (Shrestha, 2009). In 1991, the government of Nepal enacted the Cooperative Act 1992 and under this Act, a group of 25 persons from a community can form a cooperative by registering it with the Department of Cooperatives, Ministry of Agriculture and Cooperatives (Shrestha, 2009). Cooperative accepts deposits and saving from anyone and that person automatically will become member. Cooperative provides loans to its member for various purposes extending from household consumption to agriculture, micro-enterprises and other social purposes. The credit repayment term have 3 months to 3 years depending on size and type of Credit.

1.4.2 Small Farmer Cooperative Limited (SFCL) Model

In the year 1975, Agriculture Development Bank Nepal (ADBN) performed pilot project named small farmer development program (SFDP). SFCL model has three structures. At the ward level, local promoter facilitates to form a groups and households with common interest and locality integrated to inter- group associations. At the V.D.C level all groups and inter-groups form an executive committee through general assembly and they are responsible for hiring manager and other staff and setting up rules and regulation for smooth and effective operation of SFCL. Under this model, grassroots' groups organize regular meeting to collect loan repayments, mandatory savings and application for loan demand. Then loan application is forwarded to inter-group which analyze them and again forwarded to Executive committee for final decision. This model is confined to one V.D.C. and target only small farmers. Loan is provided with certain collateral security. However, they also provide loan without collateral in certain cases but such cases are less than 10 percent. SFCL model serves an average of 500 households (Shrestha, 2009).

1.4.3 Grameen Bank Model

"The Grameen Bank concept of lending propounded by Prof. Muhammad Yunus of Bangladesh was introduced in Nepal during 1990s by the Nepal Government and Nepal Rastra Bank by establishing five regional Grameen Bikas Banks (GBBs), one each in 5 development regions of Nepal. During the same time, two national level NGOs namely the Nirdhan and the Centre for Self-help Development (CSD) also launched microfinance programs replicating the same Grameen model and later they also established two microfinance development banks, Nirdhan Utthan Bank Limited (NUBL) at Bhairawa and Swablabmban Laghubitta Bank Limited, (SB bank) at Janakpur adopting the Grameen model" (Shrestha S. Man, State of Microfinance in Nepal, 2009).

Under this model, people form peer group comprising five members and such peer group of 3 to 10 form a centre at certain location that they can meet once a week or fortnight or month as decided by the members ("Institute for Inclusive Finance and Development (InM)," 2022). Each peer group elect group chairperson who oversees the activities of group members and maintain discipline, check utilization of loan and make sure timely repayment of loan. In such meeting as decided by the members, they collect savings, loan installment and interest due payment and make demand for loan (Development, 2011). They do not need to provide collateral security to get a loan demand approved; however, it has to be guaranteed by group for loan repayment.

Rural Appraisal (PRA) techniques is used to find the potential target group. After that they provide compulsory group training for a week on microfinance procedures and operation of groups and centre. The MFI field staff facilitates the fortnightly or monthly meeting, where they also collect mandatory and voluntary savings, loan repayment installments and loan demands from the members and also verifies the utilization of disbursed loans (Shrestha, 2009).

This model is most successful in Plain region of Nepal where there is ease access to transport facilities. Grameen Bikash Bank of Nepal is still follow the weekly meeting and other procedures of the traditional Grameen Bank Model that was first applied in Bangladesh (Shrestha, 2009). Some of the other Microfinance institutions have modified to best suit their local conditions and requirements.

1.4.4 Self-Help Groups (SHGs)/Community Organizations model

In Nepal there are thousands of self help groups in the name of Dhukuti , Aama Samuha (Mothers' Group) and many local groups with specific objective. They are informal in nature and operate, run and regulated by the members of the group. As it is informal organization, they have many ways of funding the organization. This type of self help groups needs not be pro-poor focused. Mostly, lower middle or middle class people are involved in this type of self help group activities. Aama Samuha is a group of local women with the objective could be women empowerment, income generation or solving the social issues. Most of Aama Samuha has an objective of fighting against alcoholism, injustice to women and other social issues at local level. They organize and participate in campaigns against alcoholism and other social issues. Aama samuha organizes programs like dancing, singing and lottery to collect money so that they can fund whenever they need it. They are common in all over the country. They have been in practice now for more than 3 decades. However, these groups are not recorded anywhere because of informal group in nature.

1.5 Microfinance Development and Outreach Growth

Institutional development is a prerequisite for the promotion and development of credit programs for the poor and their outreach (Shrestha, 2009). Towards this, the Nepal Rastra Bank directed the two commercial banks (CBs) to invest 5% of their deposit balance to low income groups in 1974 (Shrestha, 2009). Later this kind of financing is named 'Priority Sector Lending' (PSL) and raised the limit to 8% of CBs loan and advances (Shrestha, 2009). The NRB initiated “Intensive Banking Program” (IBP) in 1981 and further raised the PSL limit to 12% in 1989 (Shrestha, 2009). The main partners of PSL were the Nepal Bank Ltd. (NBL) and the Rastriya Banijya Bank (RBB) - the two state-owned CBs. The CBs provided short, medium and long term loans of one, five and ten year-terms, respectively (Shrestha, 2009). In the year 1993, Nepal Government with the support from Asian development bank set up Micro-Credit Program for Women (MCPW) and 15 districts were selected for this program and total of NPR. 933 million were distributed in small loan to the group members. In this project total of 104 organizations mainly cooperative and NGOs were formed and operated under Micro-Credit Project for Women (MCPW) (Shrestha, 2009).

In 1975, ADB Nepal launched Small Farmer Development Program (SFDP) to provide small loans to the poor farmer by organizing them into groups and total of 142,711 farmers formed total of 19,597 groups and total of 1,471.8 million were distributed (Shrestha, 2009).

The decade of the 1990s is the landmark in the history of microfinance in Nepal. GBBs were established in the decade to expand outreach to the poorest segment of rural societies. Further, two private sector MFIs; Nirdhan and CSD also started microfinance during the same period" (Shrestha S. Man, State of Microfinance in Nepal, 2009).

In 1991, Government initiated Rural Self Reliance Fund (RSRF) under the management of NRB to provide money to NGOs and cooperative to lend to the poor people. In year 1998, NRB with partnership with Grameen Bikash Bank (GBB), commercial banks and other handful of institutions established a larger wholesaler for Microfinance called "Rural Microfinance Development Centre Ltd"

The government launched the Rural Microfinance Project (RMP) of US\$ 20 million with funding support from ADB to back up MFIs with wholesale loan for on lending to the poor in rural areas and to build up their institutional capacity by employing RMDC as the principal implementing agency; Meanwhile, government promulgated the Financial Intermediaries Act 1998 to facilitate legal entity of the NGOs operating microfinance in the country (Shrestha, 2009).

After establishment of wholesale lending for microfinance called Rural Microfinance Development Centre ltd (RMDC), and different programs of international agencies has given momentum to extension of Microfinance services from eight in July 1999 to as of 2021 there are 49 Microfinance institutions (D Class) under NRB which serves total of 1,984,828 people and other financial institutions number as follows: 13,985 saving and credit cooperatives (480 MFI coops), 525 small farmer agriculture cooperative limited (SFACL) and 27 FINGO. These institutions serve a tentative clientele of around 3,815,702 (Parent, 2020).

In the beginning of the same decade, the government enacted the Cooperative Act 1992 which has facilitated the establishment of the saving and credit cooperatives (SCCs) in the different parts of the country (Shrestha, 2009). In the last part of 1990s, a tremendous increase in the microfinance outreach was noticed in the country due to the creation of institutional infrastructure such as SCCs, GBBs, RSRF and RMDC (Shrestha, 2009)

With the beginning of 21st century, number of microfinance institutions skyrocketed and saw the greatest boost to the Microfinance industry with the training, technical and capacity

building support from Rural Microfinance Development centre ltd (RMDC). During the last one and half decade of time Microfinance industry has gone through notable changes in terms of number, outreach and services in Nepal. NRB allowed a huge number of NGOs to do the microfinance services and more than 50% of them are doing microfinance services through Grameen Bank micro financing model. NGOs, Grameen Bikash banks and D-Class Microfinance have the largest outreach in terms of member, and areas they cover.

In Nepal Microfinance sector is relatively new field and evolving very rapidly with 64% of all Microfinance are established after year 2005 and most of them using Grameen bank model of Micro financing. Moreover, it is reported that more than 75 % of all microfinance credit comes from the informal sector because no documentation, quick transaction, flexible loan repayment structure and ease access to fund is attracting people to informal sector despite quite high interest rate.

1.6 Statement of the Problem

The history of microfinance in Nepal is relatively new with the Nepal Government recognized as an official poverty alleviation tool and strategy in the country's sixth National plan (1980/1981 – 1984/1985) (Shrestha, 2009). Microfinance has gained momentum after the economic liberalization in 1991 and establishment of wholesale lending for micro-finance called "Rural Microfinance Development centre ltd in 1998. Since the establishment of RMDC, large number of microfinance institutions registered and operating in Nepal with the Government , private and donor initiatives. With examples from Grameen bank of Bangladesh and many microfinance around the world, it is crystal clear that microfinance is an effective tool to expand access to the banking and financial services and more importantly a vehicle to alleviate deep rooted and wide spread poverty in Nepal. Microfinance is very key industry in a country like Nepal because economic growth only possible through the strategy of improving the livelihood of those people who are living under the line of poverty and deprived from basic needs like food, cloth, shelter and list goes on and on. With the objective of achieving economic growth and improve the livelihood of poor people who otherwise don't have access to the formal banking and financial services, different microfinance programs have been materialized in different model and different regions and parts of Nepal. So it is necessary to timely review,

evaluate and continuously monitor the performances of past and present microfinance programs to choose, formulate the new strategy and target right group of people and program that bring positive economic and social changes in target group of people. In a country where around 70% of population depends on traditional and primitive agriculture and those agricultural outputs is just sufficient to feed nation just for half of the year, microfinance can play a vital role in transforming those surplus labor of agriculture into entrepreneurs and traditional and primitive agriculture must be modernized to improve the economic, social livelihood of household with the outputs growth and high per-capita income.

Despite all of this, large percentage of people living under poverty line is still do not have access to the formal banking and microfinance services. Such Microfinance projects have limited impacts in terms of extending the outreach of microfinance services to the people who don't have access to the formal banking and financial services. Microfinance programs and projects still could not outreach to the people living in high mountains and hills areas of Nepal. It is estimated that more than two third of the total poor population don't have access to any source of formal credit services at all. However, recently after establishment of RMDC and NRB licensing NGOs to do micro-financial activities, much new microfinance emerges in recent years.

Since, Micro-Finance is in its 40 years since first micro-finance in Nepal. We need to evaluate and analyze the performances of such Microfinance institutions objectively and measure the effectiveness and achievement of the programs. Furthermore, Nepali culture and values are constrained Nepali women inside the four pillars and mostly involved in household activities. Their work is not counted properly in the GDP calculations. With this study, it will assist us to understand the poor Nepali women, mostly involve in household as well as non-productive activities contributing to country development processes. Finally, it will help to design and execute micro-finance projects and programs that meet the needs of poor Nepali households.

1.7 Objectives of the Study

Main objective of this study is to measure the performance of microfinance program at a household level run by Janautthan Samudayik Microfinance Dev. Bank Ltd. in Gajehada V.D.C of Kapilvastu District, Nepal.

The specific objectives are as follow:

- Measure the performance of this microfinance program in those areas in terms of reduction in poverty.
- Measure the effect of this program in the rise in income level.
- Measure the effect of this program in terms of living standard improvement and women empowerment.
- Measure the effect of microfinance program in terms of health, education, nutrition, and other basic needs. and
- Analyze the limitations of this program and provide suggestion for betterment of such kind of Microfinance programs in the future.

1.8 Significance of the Study

Nepal is a country where poverty is everywhere with around 25.2 % are under the line of poverty and around 60% of population still live in rural remote areas. Agriculture is predominantly the main occupation among 65% of all population. However, agricultural outputs are sufficient to feed the nation just for the 6 months in a year. Agriculture is primitive and traditional and people involved in this agricultural activities to feed themselves rather than for the purpose of income generation. Nepal has long been associated with low income, production outputs, money saving, economic growth and widespread poverty.

Geographically, it has been divided into 3 regions; high mountain, hill and plain region called Madhesh. Despite dramatic changes in modern 21st century around the world, it has little effect on everyday life of Nepali rural households. More than two third of population don't have access to the formal banking and financial services and forced to informal money lenders despite of high interest rate. Poverty is such deep rooted and widespread that they cannot send their children to the school. In order to combat such pathetic situation of poor people and achieve economic growth, Government has recognized microfinance as a official tool and strategy since sixth national plan (1980/1981 – 1984/1985) and established wholesale lending for microfinance centre "Rural Microfinance Development centre ltd(RMDC)". Since then various microcredit programs intended to reduce deep rooted poverty have been identified and implemented in the certain targeted areas of the country and many new microfinance institutions are emerging at a mushroom growing rate with an objective focus on household women who otherwise just involve in household activities. It is clear that ignoring male

population which is half of the entire population behind, it is not possible to achieve economic growth and social changes in a sustainably. However, proponents argue that women are more reliable borrowers. They are more likely to use their loans productively and repay them properly. Nepal Government has given top most priority to the poverty alleviation and so as to Microfinance programs. It has been strongly supporting and promoting microfinance with various funding programs and legal initiatives like ease of licensing, technical support, capacity building, capital requirement, compulsory deposit and liquid reserve requirement to the "D" class development banks, NGOs, INGOs, and foreign donors.

Therefore, this study is expected to be a significant input to microfinance planner in various government and non-governmental organizations such as the Nepal Rastra Bank, Agriculture Department Bank, NGOs, INGOs as well as co-operative organizations, microcredit banks to identify typical local problems and offer tailer made practical and pragmatic solutions. Besides, it is expected to give a real picture of the socio-economic prospective of the people in Gajehada V.D.C, a typical village in Kapilvastu district, Nepal.

1.9 Limitation of the Study

This study is based on Gajehada V.D.C. district of Kapilvastu, Nepal where microfinance program by Janautthan Samudayik Microfinance Dev. Bank Ltd have been in operation since 2011. Gajehada V.D.C has total population of 13,470(Thirteen thousand four hundred seventy) and female population is 7,202. (Central Bureau of Statistics, National Population and Housing Census, 2011; Volume 06). 379 women are actively participating on this microfinance program. These 379 women are just a representative sample of entire population benefiting from the micro-financing programs in the country. The findings are in the context of the Gajehada V.D.C and may not represent the real scenario of the entire nation or may not even represent the total picture of Kapilvastu district. This study could not separate and delve into detail effect of past affiliation with other such micro financing programs as many of these women have participated in some of other micro-financing programs. This study is also confined to a study of the recent experiences for the period of 5 years and half because operation of this program was started in year of 2011, which is relatively quite short period of time to observe the relative changes in everyday life of participating households and in comparison to other micro finance programs which has longer operation time in different parts of the Nepal.

1.10 Organization of the Study

Chapter I give short introduction of Nepal, poverty level in the country, history of microfinance and its ongoing development. Historical developments of microfinance, sources of microfinance, outreach growth and institutional development are highlighted. It also deals with the statement of the problem, objective of the study, significance of the study and the limitation of the study.

Chapter II it highlights the review of literature, give definition of microfinance from books and related articles, it analyze the role of microfinance in poverty reduction around the world. It also deals with review of related thesis, articles and books.

Chapter III review and highlights the some of the success and sad stories associated with microfinance institutions in Nepal and around the world.

Chapter IV it highlights the research methodology. It explain in details of information about research design, study area selection, sampling procedure, method of data collection, data collection, data collection tools and techniques.

Chapter V deals with findings of study, it also highlight the role of microfinance in absolute poverty reduction in selected study. Additionally, it also point out that real impact of microfinance program on participated household family members hygiene, cleanliness, education, improvement in livelihoods and assets, improvement in income through microfinance participation, improvement in economic generating skills, expansion of the businesses.

Chapter VI it concludes the thesis with key findings and author conclusions of the study. It also highlights the lesson learnt, policy highlights and further research recommendations. Lastly, there are references which referred while carrying out entire research work.

CHAPTER II: LITERATURE REVIEW

The history of Microfinancing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty (Roy, 2010). But it was at the end of World War II with the Marshall plan the concept had a big impact (Ledgerwood, Earne, & Nelson, 2013). Today use of the expression micro financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, where starting and shaping the modern industry of Microfinancing (Hulme & Arun, 2009).

All the credit goes to the 2006 Nobel peace prize winner Prof. Mohammad Yunus, Founding father of Modern Microfinance and founder of Grameen Bank of Bangladesh. Prof. Yunus is the first person to pioneer the concept of microfinance; proving small loans to the poor people and applied through the Grameen bank of Bangladesh in 1976 as a University action project and then it became a pilot project (Yunus, 2007). This pilot project was implemented with the financial support from the Central Bank of Bangladesh (Yunus, 2007). With the success from the pilot project, then it was implemented in several districts of Bangladesh and in 1983, independent financial institution, Grameen bank was established under the Grameen Bank Ordinance, 1983 passed for its creation (Karmakar, 2008). Today, this bank is owned by the women whom it serves 90% and rest is owned by Government of Bangladesh 10% (Karmakar, 2008). This bank is the first to implement the Grameen Bank model and their operation approaches is that first find out the target people through local facilitator and ask them to form peer group with 5 members. Then they will go though long one week training about concept and procedures of microfinance. Grameen model does not ask any collateral guarantee for micro

loans. However, it does ask peer group guarantee on repayment. Responsibility for repayment of the micro loan depend on the individual borrower, while group members oversee that everyone is utilizing loan properly and no one will get into the default problem.

2.1 Microfinance Definition

Microfinance is the provision of financial services to low-income poor and very poor self-employed people (Otero, 1999). According to the Investopedia Microfinance, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise have no other access to financial services(Kagan, 2022). While institutions participating in the area of microfinance are most often associated with lending (microloans can be anywhere up to \$100, many offer additional services, including bank accounts and micro-insurance products, and provide financial and business education (HULM & Arun, 2009). Ultimately, the goal of microfinance is to give impoverished people an opportunity to become self-sufficient (HULM & Arun, 2009). Similarly according to Asian Development Bank (ADB), Microfinance is the provision of a broad range of financial services such as deposits, loans, savings, payment services, money transfers, and insurance to the poor and low-income households and their microenterprises who are excluded from the formal financial systems.

Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral (Morduch & Armendariz, 2005). In general, banks are for people with money, not for people without (Van Maanen, 2004)

Microcredit is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor and charity is not the answer to poverty and it only helps poverty to continue (Yunus, 2007). It creates dependency and takes away the individual's initiative to break through the wall of poverty (Yunus, 2003). Unleashing of energy and creativity in each human being is the answer to poverty(Ahmed, 2004; Yunus, 2003).

In my view, Microfinancing is a way of providing micro credit loan and support to those people who have not served by the formal banking services because they could not provide the

collateral guarantee, or they are living in very remote areas where formal banking services are not available. It is way to improve the economic life of those unbankables and economically deprived people. Microfinance helps poor people with providing financial services like small loan, accepting deposit, and micro-insurance that they can invest in small business, save their earning and protect against the unexpected events in daily household life. Microfinance, have become one of the most essential tools to systematically fight the poverty, so that poor societies can stand on their own feet through sustainable income generation, assets and wealth build up and finally, breaking the vicious cycle of poverty.

2.2 Impacts of Microfinance on Poverty Reduction

There are lots of research have been done in the past to measure the impacts of micro financing on poverty reduction. Various study on impact of microfinance on poverty reduction shows that it has significant positive impact on empowering poor households and reducing poverty. According to Littlefield, Morduch and Hashemi, there have been increases in income and assets and decreases in vulnerability of microfinance clients (Morduch, Hashemi, & Littlefield, 2003). Research also showed that significant difference in increased income, economic awareness and finally exiting from the vicious cycle of poverty (Hulme & Mosley, 1996). In a book *Finance Against Poverty*, argue properly managed microfinance programs have been able to help poor to escape from vicious cycle of poverty (Hulme & Mosley, 1996). Their study on several countries shows that microfinance with primary objective of reducing poverty, it observed that microfinance participants performed well as compared to non-participant households. It also observed that high amount of loan borrower from microfinance performed very well because, they are willing to take risks and invest on promotional activities, whereas, very small loan borrowers from very poor households, use that loan for subsistence and consumption. Microfinance has little or no impact on those very poor, small microcredit borrowers. These loans do not tend to produce dramatic changes in borrower income and in some cases can even lower income possibilities by plunging the borrower deeper into debt (Hulme & Mosley, 1996). Even though, microloans performed little impact on very poor households, it also observed that proper management of those small loans on income generating activities by the very poor households increased their income significantly. It does not necessary that increasing the income level of poor means microfinance are reducing the poverty. It heavily relies on what poor do with that money. So that objective should not only be increasing the income of poor

but how to help the poor to sustain specified level of well-being by providing multitude of financial services to curtail their needs.

Government of Nepal has recognized microfinance as a tool to combat deep rooted poverty and implemented various microfinance programs since sixth national plan 1980/1981 – 1984/1985. They believe that if microfinance programs are institutionalized in best possible manner, it will help to eliminate poverty from all households and will lead to high economic growth. In a research report Economic impact of Microfinance in Nepal by Shrestha and Adhikari, concluded that The economic status of loanees has improved consequently than when they started small business with loan in the earlier days (Shrestha, 2009). Moreover, it was found that their socioeconomic status was higher than that of non-loanees. From all these we can conclude that microcredit is an effective tool for raising the socio-economic status of the poor people, particularly the women. Hulme & Mosley, mention that microfinance is not the panacea for eliminating poverty and there are some cases that poor members of microfinance programs are even getting worsen economically (Hulme & Mosley, 1996). So that recent microfinance experts should focus on what impede the poor to escape the vicious cycle of poverty (Hulme & Mosley, 1996).

2.3 Review of books, related studies and articles.

In a book, What's Wrong with Microfinance, Harper & Ditcher mention that Microfinance has been a long-lived development fashion (Dichter & Harper, 2007). It has been around since the 1980s, and in 2005 it enjoyed the accolade of a UN international year. The reasons for this success are obvious. It reaches millions of poor people, particularly women, and it can be profitable both for some of its customers and for the institutions which finance it. They also discussed there are some problems; some of them arise because of high expectation of microfinance, bad program design, mismanagement and erroneous basic policies. They also warn to the microfinance experts, Governments, donors and general public to reassess their expectations and rethink some policies. Microfinance is never a panacea and may sometimes be actively damaging to its intended customers (Dichter & Harper, 2007).

Johnson & Regally, Microfinance and poverty reduction, emphasis has been laid on the need that poor people have for a wide range of financial services (Johnson & Rogaly, 1997). These

needs are evidenced by the uses made of financial services that already exist but which are usually informal in nature. Providing microfinance can give poor people the means to protect their livelihoods against shocks and as well as to build up and diversity also a means of protecting their livelihood activities by investing loan capital.

Yunus, Banker to the Poor, Today, if you look at financial systems around the globe, more than half the population of the world - out of six billion people, more than three billion - do not qualify to take out a loan from a bank (Yunus, 2007). He also states that To overcome poverty and the flaws of the economic crisis in our society, we need to envision our social life (Yunus, 2007). We have to free our mind, imagine what has never happened before and write social fiction (Yunus, 2007). We need to imagine things to make them happen and If you don't imagine, it will never happen (Yunus, 2007)

Yunus, "Micro-finance and Grameen Bank in Bangladesh are not the outcome of single day effort. It is the result of a tremendous performance over a long time by an outstanding personality. Grameen Bank is neither a magician want that makes the audience confused about the right and wrong of neither the show nor it is same impractical concept of a theoretician with the ambition of gaining honor and money in a short time. Every staff member of micro-finance and GBB style institution should be dedicated and honest in dealing with deprived people. To run Grameen Bank of Bangladesh smoothly, its staff should have the power of endurance and patience and be willing to work under hardship and pressure in the remote areas" (Yunus, 2007).

CHAPTER III STORIES ASSOCIATED WITH MICROFINANCE

This chapter will review the some of the positive and negative stories of microfinance projects.

3.1 Success stories

Five years ago, Parbati Karki was living under poverty and her family was facing lots of household problems including children education, food, clothing and so on. Meanwhile Mahila Sahayogi Sahakari Santha, a microfinance program in her village started its operation. She participated on that program and she manage to get NPR. 50,000 as loan. With that money she bought a jersey cow and now she has successful milk selling business. Recently, she built a new house from the money she made from selling milk and her husband earnings. Now, she is sending her children to local boarding school, there is sufficient food for family and is dealing with household emergencies such an easily.

Sita Aryal, from Gajehada V.D.C. used to face lots of household problems in daily basis because of lack of money to fund household expenditure. Six years ago, she participated in Microfinance program run by Janautthan Samudayic Development Bank Ltd. After few months, she got microfinance loan of NPR.80, 000; with that money she send her husband to Qatar for work. Now, her husband earns more than 100,000 per month as salary. Currently she bought 0.5 hector land for agriculture and erects a RCC house. Her children are going to the local private school and her family is very happy now.

Sarda Hamal, recently bought a Ghaderi (Land for real estate house) in Kathmandu, Capital city of Nepal. 10 years ago she had hard time managing her household expenditure and children education. 10 years ago she got a microfinance loan of Rs.30, 000 for small business loan. With that money her husband started a small restaurant in east-west highway. They manage to make profit from the restaurant and bought a Jeep (small van for public transport). Again they make profit from transport and manage to buy a bus. Now they have three buses, one jeep and bigger restaurant. Her children are going to the boarding school and one of her son went to United States of America for higher education.

It seems that Microfinance is the one panacea to alleviate all the problems of the poor, unemployed and deprived people.

3.2 Failure stories

There are loads of success stories associated with microfinance institutions but there are very few published sad stories associated with MF institution. Here, effort has been made to review some of the very sad, eye opening stories associated with MF institutions around the world.

Suku maya Tamang,(name changed) 19 years old uneducated girl from Lamatar V.D.C, district of Lamjung, Nepal is working as prostitute in kathmandu. She comes to this profession because her mother borrowed Rs. 50,000 for her tailor shop from Microfinance program at her village and she could not manage to make repayment one time and microfinance company terrorize them saying that if she could not repay her outstanding loan, they will take her existing home. Suku Maya wanted to repay her mother loan and save her home. Suku, a young uneducated girl from remote village and with no possibility to earn sufficient money to repay the microfinance, she decided to prostitute her to help her mother and her house. Now, she manage to repay her mother's microfinance loan and now she don't tell her mother she works as prostitute instead she tells her mother she work in a big hotel.

Above featured stories makes everyone uncomfortable and leave the moral question of what is right and what is wrong of prostitute and suicide aside. I think this is not the way MF institutions' goal to collect the due money from the default borrower.

CHAPTER IV : RESEARCH METHODOLOGY

Chapter IV deals with research methodology that followed for carrying out the study.

4.1 Research Design

Report is based on descriptive analysis, corroborated by primary quantitative data whenever necessary and lessons are inferred from the past experiences. Case studies have been done and detail qualitative information is collected from the some of the entrepreneur's members in

Janautthan Samudayik Microfinance Dev. Bank Ltd microfinance program. Primary data is collected from the sample representative participants of the microfinance program under study area and secondary data is collected from various sources whenever necessary to give the shape of this study. Rigorous work has been done to measure and evaluate the opinions of the participants.

4.2 The Study Area Selection

There are different microfinance program in different parts of Nepal and around the world with different modalities, target customers and institutions involved in it. Similarly, study area microfinance program is run by Janautthan Samudayik Microfinance Dev. Bank Ltd targeting women. This microfinance program at Gajehada V.D.C. is typical type of microfinance program in Nepal because all the participants are from different culture, race, cast and ethnicity background. Moreover, they are more or less the same in terms of economic background. The institution involved in that program is registered in April 10, 2010 under Company Act, 2006 and started banking operation from November 14, 2010 under the Bank and Financial Institution related Act, 2006. Since its establishment the bank has been involved in the Global Microcredit Summit Campaign and received certificate of appreciation for its contribution to bring the poor families out of poverty and also involved with the Smart Campaign for Client Protection. Institution is providing hard core poor people with their C++++ services (credit plus individual intervention, social empowerment and skill enhancement/business development services). Selected study area represents the whole Nepali society in terms of cultural diversity, agricultural subsistence, infrastructures development. Moreover, this is the place where study author was born and lives his life, so it will be easier to understand even untold stories and opinions. That is why this area has been selected for the study of this project.

4.3 Sampling Procedure

There are 379 (three hundred seventy nine) active members in that microfinance program operated by Janautthan Samudayik Microfinance Dev. Bank Ltd at Gajehada V.D.C. with 12 (twelve) microfinance centre. sample have selected 4 active member from each centre totaling 48 and 2 extra member from Ward no 7 where there are largest number of participant members 77 (seventy seven) members. Total number of women at Gajehada V.D.C Seven thousand two

hundred two (7,202) is the population of the study. Moreover, all the respondents are participating in microfinance program for least four (4) years.

4.4 Method of Data collection

Primary and secondary source were used to collect data and information. Primary data were collected through personal interview, conductor's personal observation and focus group discussion. Secondary data were collected from various books, published reports, and articles to conceptualize the study, compare the findings, so that it will help to make proper conclusion.

4.5 Data Collection Tools and Techniques

During the process of primary data and information collection, personal interview were conducted with selected sample regarding microfinance, its activities, changes on daily life, their business etc and reconfirmation is made through group discussion and observation on given information. Mr. Ghanashyam Dahal is the key field person to collect primary data whereas Mr. Gyanishor Panth, is the program manager of Janauttan Microfinance at Gahehada V.D.C who provided us with much needed information about organization, its programs and impact of their program in daily life of their customer.

Most of the secondary statistical data were collected from Central Bureau of Statistic Nepal, Janautthan Samudayik Microfinance Dev. Bank Ltd and Nepal Rastra Bank (Central bank of Nepal) websites and remaining are collected from various agencies websites.

4.6 Data Analysis

First of all primary and secondary data are collected, followed by editing, processing and coding with the help of tables.

CHAPTER V: DATA PRESENTATION AND ANALYSIS

This chapter presents the responses from sample respondents, describe and analyze on the basis of their responses. Responses have been collected from fifty (50) microfinance participants in Gajehada V.D.C, Kapilvastu, Nepal.

5.1 General Information

Table I: Age

Age Group	Total	Percentage
< 20	2	4
20-30	16	32
30-40	11	22
40-50	11	22
50-60	7	14
60+	3	6
Total	50	100

Field Survey, 2017

Above table shows women aged between 20-30 are more likely to participate in microfinance program than any age group women with 32%, followed by 22% in both age group 30-40 & 40-50 age group, 14% of 50-60 and least in both over 60+ and aged less than 20 years with 6% and 4% respectively. This shows that more women aged between above 20 and less than 50 are more actively participate in microfinance program. This means if microfinance programs target women aged among 20 - 50, they can retain their clients.

Table II: Education

Education Background	Total	Percentage
Illiterate	9	18
Literate	13	26

Below 10 class	17	34
SLC	10	20
College Level	1	2
University	0	0
Total	50	100

Field Survey, 2022

It is not clear that whether microfinance programs makes women literate or not because microfinance program don't have such educational programs but table above shows that illiterate women involved in microfinance program are just 18%. It is quite impressive as compared to national literacy 54.715% (UNESCO, 2015). Moreover, it is clear that more educated women are less likely to participate in microfinance programs because they have other opportunities around them. Similarly, women with little educational background are more likely to involve in microfinance programs, so that they can do their own business and make income for their household.

Table III: Children Education

Particular	No of Respondents	Percentage
Send School	50	100
Do not Send School	0	0
Total	50	100

Field Survey, 2022

It is very clear that all of the women (100%) participated in microfinance program send their children to the school because of their experience from the group, which is impressive as compared to national statistics 90% (child poverty and disparities in Nepal, 2010). It means microfinance is helpful in children education.

Table IV: Children Education in Boarding School

Particular	No of Respondents	Percentage
Send Private School	22	44
Send Public school	28	56
Total	50	100

Field Survey, 2022

As we compare with national statistics 28% (PABSON) of all school students goes to private school which is performing good in terms of student performance and School leaving certificate level, whereas rest goes to the Government school. It is seen that microfinance can help participating households to generate income so that they can afford their children to the private school (44%).

Table V: OWNERSHIP OF HOUSING UNITS

Particular	No of Respondents	Percentage
Own house	49	98
Rented House	1	2
Institutional House	0	0
Other Arrangements	0	0
Total	50	100

Field survey, 2022

Table above shows that almost all respondents are living in their own house (98%) as compared to 85.26% national average (National Population and Housing Census, 2011). Similarly, just 2% of the sample respondents are living in rented house which is quite as compared to 12.81% national average (National Population and Housing Census, 2011). Similarly, none of the respondents are living in institutional house and other arrangements which is quite impressive as compared to national average of 1.30% and 0.63% in other arrangements and institutional houses (National Population and Housing Census, 2011).

Table VI: TYPE OF FOUNDATION OF HOUSE

Particular	No of Respondents	Percentage
RCC pillar	23	46
Cement-bonded bricks	11	22
wooden pillar	3	6
Mud bonded bricks	9	18
Other type of foundations	4	8
Total	50	100

Field Survey, 2022

Nearly half of the households (46%) are living in a house with foundation of RCC pillar, which is quite high as compared to national average of 9.94% (National Population and Housing Census, 2011). Similarly, 22% are living in Cement bonded bricks, which is also relatively good as compared to national average of 17.57 (National Population and Housing Census, 2011). Likewise, 6% have wooden pillar as compared to national average of 24.9 % (National Population and Housing Census, 2011). 18% and 8% are living mud bonded bricks and other types of foundations respectively. Above table shows that microfinance clients have better house foundation than national average.

Table VII: TYPE OF OUTER WALL

Particular	No of Respondents	Percentage
Mud bonded bricks	17	34
Cement bonded bricks	22	44
Bamboo wall	0	0
wood/planks	11	22
Total	50	100

Field Survey, 2022

Above table shows that largest number of households (44%) have cement bounded bricks as compared to national average of 28.74% (National Population and Housing Census, 2011), followed by 34% have mud bounded bricks as compared to 41.38 national average 41.38 National Population and Housing Census, 2011). In a study area no one is living under bamboo wall, but national average is 20.23%. Similarly, 22% of households have house wall made of wood/planks which is almost four times high as compared to country average 5.31% (National Population and Housing Census, 2011).

Table VIII: ROOF OF THE HOUSE

Particular	No of Respondents	Percentage
RCC cemented roof	28	56
Galvanized sheet	7	14
Tile/slate	9	18
Thatched/straw roof	6	12
Total	50	100

Field Survey, 2022

Majority of respondents have RCC cemented roof 56% as compared to national average of 22.48% (National Population and Housing Census, 2011), followed by tile/slate roof with 18% which is quite low as compared 28% national average (National Population and Housing Census, 2011). Similarly 14% have galvanized sheet and 12% of respondents have roof made of Thatched or straw. It is clear that microfinance clients at study area have better house roof than national average.

5.2 Health and Sanitation

Table IX: Water Supply Status

Particular	No of Respondents	Percentage
-------------------	--------------------------	-------------------

Household with Personal Tap	34	68
Do not have Personal Tap	16	32
Total	50	100

Field Survey, 2022

It is observed that 68% of household have personal tap for drinking water, which is quite impressive as compared to national statistics 45% have access to piped drinking water and only half of them have private connection (NLSS 2011).

Table X: Usual fuel for cooking

Particular	No of Respondents	Percentage
Firewood	36	72
LPG	1	2
Bio-gas	13	26
Kerosene	0	0
Electricity	0	0
Total	50	100

Field Survey, 2022

Given table shows that almost three fourth of the households (72%) are using firewood as main source of fuel for cooking, followed by 26% Bio-gas and only 2% is using LPG gas. Similarly, no households are using kerosene and electricity for household cooking. It implies that given study area has access to jungle nearby. Similarly, 26% of household use Bio-gas means, they have animal husbandry, so that they are utilizing animal dung through bio-gas production system called Gobar –Gas (Bio-Gas).

Table XI: Source of lighting

Particular	No of Respondents	Percentage
electricity only	24	48
Electricity + Solar	23	46

Electricity + Bio Gas	3	6
Kerosene	0	0
Total	50	100

Field Survey, 2022

Table above shows that all (100%) study households have access to electricity as source of lighting as compared to 67.26% of national average (National Population and Housing Census, 2011). It is interesting to see that more than half of them (52%) have alternative backup plan when there is electricity load shedding. Electricity load shedding is usual phenomena in Nepal.

Table XII: Personal Hygiene

Particular	No of Respondents	Percentage (%)
Having Modern Toilet	44	88
Not Modern Toilet	6	12
Do Not Have Toilet	1	2
Total	50	100

Field Survey, 2022

As we compare with national statistics with 38.17% of total household do not have toilet (National Population n and Housing Census, 2011). It shows that microfinance program play vital role in inspiration, motivation and financial support to built toilet in each participating households. Microfinance program inspire people to care for sanitation and hygiene and it has very impressive positive impact on general health of people.

Table XIII: Health Services in last one year.

Particular	No of Respondents	Percentage
Adequate	17	34
Moderate	26	52

Little	3	6
Have not got	4	8
Total	50	100

Field Survey, 2022

Table shows that most of the participants have got medical services during last one year with 34% adequate, followed by 52% moderate and 6% and 8% with little and no health services at all respectively. As we compare with national statistics, it is estimated that around two third (2/3) of population with acute illness are seeking medical doctor's consultation.

5.3 Assets and Livelihood

Table XIV: Land Holdings

Particular	No of Respondents	Percentage
Having Land	48	96
Without Having Land	2	4
Total	50	100

Field Survey, 2022

It has been observed that most of the respondents have land 96%, because agriculture is their primary source of food. When we compare with national statistics, 76% (National Population and Housing Census, 2011) household is agriculture based households. With these national and sample data, we can infer that microfinance programs helps to improve agriculture skills, provide much needed modern hybrid agriculture seeds, equipment and professionalism, so that they can generate extra income and tend to buy more land to do agriculture than past with traditional agriculture.

Table XV: Household Facilities

Facilities	No of Respondents	Percentage of Household
Radio	31	62
Television	26	52

Cable television	19	36
Computer	4	8
Internet connected Compu.	0	0
Telephone	7	14
Mobile phone	50	100
Motor	2	4
Motorcycle	16	32
Cycle	44	88
Other vehicle	1	2
Refrigerator	17	34

Field Survey, 2022

Given table shows that all households have mobile phone and 88% of households have at least one cycle and 2% of households have other vehicle. Despite 8% of households have computer but none of them have connected with internet, because may be there is no internet service provider or affordability is not clear.

Table XVI: Household Facilities Comparison with National Data

Facilities	Study area household (%)	National household (%)
Radio	62	50.82
Television	52	36.45
Cable television	36	19.33
Computer	8	7.28
Internet connected Compu.	0	3.33
Telephone	14	7.37
Mobile phone	100	64.63
Motor	4	1.57
Motorcycle	32	9.58
Cycle	88	32.38
Other vehicle	2	0.68

Refrigerator	34	7.16
--------------	----	------

Source: National Population and Housing Census, 2011

Given table shows that study area has higher percentage of households having more facilities than national households have, except internet connected computer. It means microfinance clients households are enjoying the pleasure of having more household facilities than national average households are having. It clears that microfinance have very positive role in household assets collection and usages.

Table XVII: Existing Profession/Livelihood

Particular	No of Respondents	Percentage
Agriculture only	27	54
Agriculture + Own Business	12	24
Other jobs	11	22
Total	50	100

Field Survey, 2022

It has been seen that around half of the population have more than one alternative source of income with 46 % (24+22), whereas 22% of households have more than two alternative source of income. Poor households tend to have more alternative source of income because one source of income is not sufficient to feed the family. They are involving in labor activities like construction labor to earn extra income to feed the family.

5.4 Effect of Microfinance Program

Table XVIII: Income before Involving in Microfinance (In NPR.)

Particular	No of Respondents	Percentage
Below 10,000	2	4
10,000 to 50000	9	18
50000 to 100000	22	44
100000 to 200000	12	24
200,000 and above	4	8
Total	50	100

Field Survey, 2022

Dollar to Nepali Rupees conversion rate as of 3 January 2022, **1 USD =105.59 Rupees.**

Source: Nepal Rastra Bank (NRB)

It has been observed that before microfinance program, 4% of household reported earning less than 10,000 Rupees per year, 18% reported earnings below 50,000, 44% reported earnings below 100,000, 24% reported earnings below 200,000 and just 8 percent reported earnings above 200,000.

Table XIX: Income after Involving in Microfinance (In NPR)

Particular	No of Respondents	Percentages
Below 10,000	0	0
10,000 to 50,000	3	6
50,000 to 100,000	11	22
100,000 to 200,000	23	46
200,000 and above	13	26
Total	50	100

Field Survey, 2022

Two tables above clearly show the differences in household income before and after participating in microfinance program for (at least for 4 years). Before involving in

microfinance program, there were 4% of households below income of less than 10,000 per year but there is no household with less than 10,000 income level after participating in microfinance program. Similarly, we can observe that there are huge differences in income level before and after participating. Likewise, there were 8% of households with income more than 200,000 per year before, but currently 26% of households with more than 200,000 incomes per year. It is crystal clear that microfinance programs have significant impact on income level. However, it is not clear that the changes in income are only due to microfinance program or other economic changes around sample respondents during the microfinance program.

Table XX: No. of Loan Used

Particular	No of Respondents	Percentages
One	4	8
Two	2	4
Three	8	16
More Than Three	33	66
Not sure	3	6
Total	50	100

Field Survey, 2022

Table above shows that 8% of households took microfinance loan only one time and just 4% with two times. Similarly 16% of households taken loan 3 times and 6% are not quite sure about how many times they took the loan. However, majority of respondents 66% have taken loan more than three times during the whole microfinance program under the study. It implies that there is positive correlation between number of loan and income level.

Table XXI: Loan Utilization Sectors

Particular	No of Respondents	Percentages (%)
Agriculture	11	22
Animal husbandry	26	52
Retail shop(Kirana Pasal)	4	8
Other businesses	7	14
Household emergencies	2	4
Total	50	100

Field Survey, 2022

Given table above shows that majority of loan is used in animal husbandry like rearing goat, buffalos, pig, chicken, fish etc, followed by agriculture 22% which includes seeds, machines, fertilizers, etc and 14%, 8% and 4% in other businesses, retail shop and household emergencies respectively. It is inferred that microfinance programs helps to raise the capital of household assets and also give opportunities to do other business then their traditional businesses with that borrowed capital from microfinance program.

Table XXII: Source of Saving

Particular	No of Respondents	Percentages
Agriculture	4	8
Animal husbandry	24	40
Kirana Pasal(Retail Shop)	4	8
Other Business	5	10
No Saving	13	26
Total	50	100

Field Survey, 2022

Given table shows that most of respondent's source of saving is from animal husbandry (40%), followed by no saving 26%, and 10% from businesses not mentioned in the table. As we observed from the loan utilization sector, 4 out of 4 respondents reported that they got money to save from their Kirana Pasal(Retail shop). It seems that retail shop is most profitable business to do in study area. Likewise, only 4 respondents out of 11 who used loans in agriculture, could make saving. It means agriculture is not so much profitable.

Table XXIII: Expansion of Business by taking Loan

Particular	No of Respondents	Percentages
Yes	48	96
No	2	4
Total	50	100

Given table shows that 96% of respondents are saying that they been able to expand their businesses through getting loans from microfinance program and 4% of respondents are reported that they are not been able to expand businesses. It means almost all clients (96%) are enjoying the businesses expansion and income growth accordingly.

Table XXIV: Satisfaction of Client with Janautthan Microfinance program

Particular	No of Respondents	Percentages
Maximum Satisfied	33	66
Moderately Satisfied	14	28
Not Satisfied	3	6
Total	50	100

Field Survey, 2022

Given table shows that majority of women clients (66%) are fully satisfied with Janautthan Microfinance Program whereas 28% are moderately satisfied and only 6% of respondents are not satisfied with the Janautthan Microfinance Program services at Gajehada VDC. It is seen that there is some works to do from the Janautthan side to make all clients happy and satisfied.

Table XXV: Improvements in Livelihood

Particular	No of Respondents	Percentages
Yes	47	96
No	3	6
Total	50	100

Field Survey, 2022

Given table shows that there is improvement in livelihood of participating clients 96% where just 6% of respondents reported that there is no such improvement in livelihood. It is crystal clear from above table that microfinance program can have very positive effect if it is organized and operated properly with needed support to enhance the economic and social life of very poor people. Microfinance programs can have positive effect on children education, social participation, role in the family, improvement in health & sanitation, sufficient food, added household assets and saving etc.

It shows that Janautthan Microfinance Program have very positive effect in these respect and we can say Janautthan Microfinance Program have been successful in Gajehada VDC in terms of their objective to improve the livelihood of poor households.

CHAPTER VI: KEY FINDINGS, LESSON LEARNED AND CONCLUSIONS

6.1 Key Findings

Most of the household involved in microfinance program in Gajehada V.D.C. performed well than national average. These are the some key findings from study area.

- Majority of married young women aged between 20 to 40 years are participating in microfinance programs.
- All of the households are sending their children to school and almost half of them been able to send to private schools.
- Almost all households have their own house and their roof, foundation, outer wall found satisfactory.
- Drinking water supply in the family engaged in microfinance have satisfactory.
- Majority of microfinance client's households use firewood for cooking, followed by bio-gas and LPG gas.
- All households have electricity connection as a source of lighting and more than half of them have alternatives as solar & bio gas, which is quite outstanding.
- Almost all have modern toilet, which is quite impressive as compared to national statistics.
- Households got satisfactory level of health services.
- Almost all households have their own land holding to do agricultural activities.
- Microfinance client's households found outstanding level of household facilities including mobile phone, cycle, refrigerator, motor, television etc.
- Almost half of households of study area have other profession excluding agriculture.
- Half of the microfinance clients have many alternatives of income.
- Most of the clients have improved their income level by utilizing loan from the microfinance institution.

- Most of the households are utilizing their microfinance loan in animal husbandry, and agriculture seeds. So microfinance loans should be distributed accordingly.
- Almost all microfinance clients are satisfied with the microfinance program of Janautthan Samudayic Development Bank ltd and some work has to be done in order to make every client happy.
- Microfinance loans give opportunities to fund the capital requirement to grow businesses and money to deal with household emergencies.
- Through the involvement in different process of microfinance activities helped women to be empower reflected through decision making process in the home, involvement in the social activities.
- Microfinance is one of the most important strategic tools to reduce deep rooted and prolific poverty in Nepal.

6.2 Conclusions

The objective of this study is to analyze whether microfinance programs are really effective in reducing the poverty and improving the daily life of poor household as promised by the microfinance institutions through economic & social participation and accumulation of household assets. This report is prepared through analysis of descriptive information; which were collected through the rigorous questionnaire to the active member of Janautthan Samudayic development bank ltd at Gajehada V.D.C, Kapilvastu district of Nepal. In the study area, main source of income is agriculture.

In Nepal, majority of people are without access to formal mainstream banking services which includes commercial bank, development banks, microfinance institutions and other NGOs and INGOs. Moreover, some location poor people can't get the loan, deposit and other banking services because they are poor and they can't provide collateral against the loan and other banking procedures that is not suitable for them. So they have to depend on informal money lenders; who will charge high rate of interest – often 40 to 60 percent as compared to formal bank 12-24 percent. Fortunately, microfinance offers loans at sustainable rate as well as other banking and non-banking services including saving deposit, insurance against the household emergencies, training and many personal development programs. Furthermore, microfinance

has outreach to the millions of poor people living in rural villages in contrast to commercial banks; who concentrate on city centre and downtowns.

Microfinance is often considered as a first ladder to economic growth. Microfinance participants can get loans on a group guarantee and without long hassle free banking procedures at their doors and accumulate the household assets and improve their economic as well as social life through group participation; where each member help each other. They have consolidated the trust among group members. As a result they can easily deal with daily household problems because they have friends who can provide financial and non-financial assistance when they need. Therefore, the entire group members in microfinance are very important in maintaining and consolidating microfinance programs.

Week long initial training followed by follow up training during the microfinance program and monthly meeting have helped participating women to enhance the social life and empowerment. Moreover, specified weekly or monthly group meeting help members to exchange the information among group members on their experiences.

Loans from the microfinance program utilized in income generating economic activities like animal husbandry, agriculture tools and equipments, small retail shop and other business, so that they will be able to make timely repayment of the loans and afford basic household facilities like children education, health, clean water supplies, foods, cloths and other human needs. Moreover, saving will foster, income will rise, and loan size and loan repayment terms will be raise. Those saving will help in the future to deal with household emergencies and emergencies that happen with their businesses.

There is clear difference between those members participating in microfinance program and those non-microfinance clients in how they see the opportunities and how to exploit those opportunities; no matter how much agricultural land they have. Because of training, supervision and capital, those microfinance members focus on income generating activities like animal husbandry, fish farming, modern agriculture seeds & tools, small retail shop and other income generating businesses; while non-member can't take advantage of those household level income generating activities because they don't know how to exploit those opportunities.

When study reviews the overall benefit of microfinance intervention to the rural poor, it has helped to accumulate household assets and increased income due to microfinance loans and

other services. Study show that poor clients have accumulated more productive and quality household assets than those non-clients poor households. for example, client member have more household facilities like clean water supply, electricity, cooking fuel, modern bathroom & toilets, health checkups, children education and sufficiency of food etc. than those non-member poor households. Moreover, client members more aware about health, education, family planning and other household concerning issues.

Furthermore, accumulations of household assets and changed household activities have contributed to the daily household strategies. It is observed that significant difference in income level between client households and non-client household. Moreover, non-client poor household have limited source of income and their income come from the non-farm activities, which is more risky than farming activities because of seasonality; whereas microfinance client households have diversified sources of income; so that they have reduce the risk of seasonality and unfavorable conditions.

Finally, Microfinance program helped to enhance the livelihood assets and raise the income level through different household activities. It is observed that there is not only microfinance clients can raise the income of their household through involving in economic activities but also they can foster saving on food and vegetables by growing household consumable items in their gardens and agriculture land. Over and over, microfinance program's training, supervision, consultation, specified monthly meeting and sharing of experiences have helped to make women more empowered in their home and society and enhance their capacity through capacity building training of microfinance programs. Enhanced capacity and women empowerment have contributed to decision making in everyday household issues effectively and efficiently. Lastly, those client household have easy access to the capital for their businesses at reasonable interest rate to make profit and make repayments; so that they can afford saving and reduce risk of financial insolvency.

6.3 Lessons Learnt

This study has taught me lots of things including relationship between poverty and microfinance, human behavior and strategies to live life with just below 1 dollar a day. Every human being are capable of achieving wellbeing gradually if they have opportunities; no matter how small opportunities. Same applies with poor women; they can achieve their wellbeing with

the opportunities of small loans and other services from microfinance over certain period of time. Every human being is trustworthy and credible if provided favorable circumstances. So microfinance programs have to be well organized, prioritized, and implemented as per the situation of the poor people. Microfinance is the first ladder to the wellbeing and prosperity and in achieving these; we need strong participation, interaction and involvement of all the stakeholders in microfinance programs.

6.4 Policy Highlights

The study shows that there is gap between demand and supply of microfinance loans, so Government of Nepal in association with Nepal Rastra Bank, should formulate policies and programs to enhance the capital resources of microfinance institutions. In order to meet the demand of microfinance credit they have to establish large number of microfinance institutions with sufficient level of capital and other resources.

There is lack of microfinance programs in rural mountain and hill regions of Nepal, so all the microfinance stakeholder should focus their programs in those areas.

There is not functional Microfinance credit information bureau in Nepal to provide easy access to the credit information about clients and institutions, therefore Government of Nepal in coordination with Nepal Rastra bank and other microfinance institutions should make it full-fledged functional in order to reduce the default risk in the future of microfinance institutions.

Microfinance is the first ladder to break the vicious cycle of poverty, so establishment of Microfinance and during its growth needs effort from all the stakeholders including government, local authority, microfinance institutions, and participating clients during early stage. Once it is fully functional and strong, other services like training, specified scheduled meeting, individual consultation, saving and other services should be provided to enhance their capacity and confidence. . Therefore, capacity building should be emphasized.

On the one hand it is clear that microfinance programs only can't address all the problems faced by the poor people, especially rural poor women. On the other hand, there is weakness in current policy and guideline to promote and facilitate the microfinance programs in remote hill and

mountain villages in Nepal. So all the concerning stakeholder should emphasize the urgent needs of microfinance programs in rural Nepal. Moreover, there is lack of policy to promote the interplay between current microfinance institutions.

6.5 Further Research

Study shows that microfinance without any question has a huge impact in alleviating poverty. Microfinance helps poor households through providing small credit line to involve in income generating activities, women empowerment and capacity & confidence building process. However, the remaining concern is that; how microfinance can be more effective in achieving its objectives, develop further and outreach to all region and all poor households in the future. In order to achieve the objective of outreach growth and impact, how to reduce the transaction cost of microfinance and what are the regulations and policies that obstacle the microfinance in achieving its objectives. Therefore, how to make microfinance more effective and efficient in achieving its objectives should be studied in the future. Furthermore, more case studies in different ecological region of the Nepal and around the world needed in the future.

REFERENCES

- Ahmed, S. (2004). Micro credit and poverty: new realities and strategic issues. *Attacking poverty with microcredit*.
- Country Profile Nepal, (2020a).
- Bank, W. (2020b). *Poverty and equity*. Retrieved from https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/SM2020/Global_POVEQ_NPL.pdf
- Barbier, E. B. (1987). The concept of sustainable economic development. *Environmental conservation*, 14(2), 101-110.
- Basu, M., Ghosh, S., Jana, A., Bandyopadhyay, S., & Singh, R. (2017). Resource mapping during a natural disaster: a case study on the 2015 Nepal earthquake. *International journal of disaster risk reduction*, 24, 24-31.
- Beck, T. (2015). *Microfinance*: Washington, DC: Independent Evaluation Group.
- Commission, N. P. (2002). Tenth Plan 2002 -2007. Retrieved from https://npc.gov.np/images/category/10th_eng.pdf
- Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2020). The Global Findex Database 2017.
- Desa, U. (2016). Transforming our world: The 2030 agenda for sustainable development.
- Development, C. f. E. a. (2011). *HOUSING MICROFINANCE IN NEPAL: STATE OF THE ART AND FUTURE DIRECTION*. Retrieved from <http://www.cednepal.org.np/files/listingfiles/Housing%20Microfinance.pdf>
- Dichter, T. W., & Harper, M. (2007). *What's wrong with microfinance?* : Practical Action Pub.
- HULM, D., & Arun, T. (2009). The future of microfinance. In *Microfinance* (pp. 245-251): Routledge.
- Hulme, D., & Arun, T. (2009). *Microfinance: A reader*: Routledge.
- Hulme, D., & Mosley, P. (1996). Finance against the poor (Vols. 1–2). In: Routledge, London.

- Innovation, G. U. N. f. (2006). *GUNI series on the social commitment of universities*: Palgrave Macmillan.
- Institute for Inclusive Finance and Development (InM). (2022). In.
- Johnson, S., & Rogaly, B. (1997). *Microfinance and poverty reduction*: Oxfam.
- Kagan, J. (2022). Microfinance. *Investopedia*. Retrieved from <https://www.investopedia.com/terms/m/microfinance.asp>
- Karmakar, K. (2008). *Microfinance in India*: SAGE Publications India.
- Karn, S. K. (2018). Challenges and opportunities of microfinance in Nepal. *International Journal of Social Sciences and Management*, 5(3), 72-75.
- Kathmandu, N. (2014). Central Bureau of Statistics. *Population (in million)*, 33, 34.30.
- Ledgerwood, J. (1998). *Microfinance handbook: An institutional and financial perspective*: World Bank Publications.
- Ledgerwood, J., Earne, J., & Nelson, C. (2013). *The new microfinance handbook: A financial market system perspective*: World Bank Publications.
- Majorano, F. (2007). An evaluation of the rural microfinance development centre as a wholesale lending institution in Nepal. *Asian Development Bank, Nepal Resident Mission (NRM)* □ Srikunj, Kamaladi, Ward(31).
- Manzano, F. A. (2022). Traditions and Plurality of Definitions in Thinking About Poverty. In *Inequities and Quality of Life in Argentina* (pp. 1-20): Springer.
- Moatsos, M. (2021). Global extreme poverty: Present and past since 1820.
- Morduch, J., & Armendariz, B. (2005). *The economics of microfinance*: mit Press.
- Morduch, J., Hashemi, S., & Littlefield, E. (2003). Is microfinance an effective strategy to reach the Millenium Development Goals?
- Otero, M. (1999). Bringing development back, into microfinance. *Journal of Microfinance/ESR Review*, 1(1), 2.
- Pandit, B. H., Neupane, R. P., Pandit, N. R., Gautam, D. K., Sitaula, B. K., & Bajracharya, R. M. (2012). Role of Medicinal and Aromatic Plants in Reducing Poverty and Changing Livelihoods in the Mountains of Nepal. *Asia-Pacific Journal of Rural Development*, 22(2), 105-116.
- Parent, A. (2020). Centre for Microfinance Nepal.
- Patel, S. P. (2012). Poverty incidence in Nepal by caste/ethnicity: Recent levels and trends. *Academic Voices: A Multidisciplinary Journal*, 2, 59-62.
- Paudel, R. C., & Acharya, C. P. (2021). Cooperatives and economic growth in a developing country: The case of Nepal. *Annals of Public and Cooperative Economics*.

- Poudel, O., Kharel, K. R., & Upadhyay, Y. M. (2021). Assessing the Contribution of Agriculture for Boosting Nepalese Economy. *BMC Journal of Scientific Research*, 4(1), 31-41.
- Regmi, B. N. (2013). *Role of Microfinance in Poverty Reduction (A Case Study of Microfinance Program of Manushi In Goldhunga Vdc of Kathmandu District)*. Central Department of Rural Development, Faculty of Humanities and Social ... ,
- Roy, A. (2010). *Poverty capital: Microfinance and the making of development*: Routledge.
- Shrestha, S. M. (2009). State of microfinance in Nepal. *Institute of Microfinance, prepared for presentation in SAARC Micro-credit Summit in Kathmandu.*
- Thapa, S. B. (2013). Relationship between education and poverty in Nepal. *Economic Journal of Development Issues*, 148-161.
- Van Maanen, G. (2004). *Microcredit: Sound business or development instrument*: SGO Uitgeverij.
- Yunus, M. (2003). *Expanding Microcredit outreach to reach the millennium development goal: some issues for attention*. Paper presented at the International seminar on attacking poverty with microcredit, Dhaka.
- Yunus, M. (2007). *Banker to the poor: Micro-lending and the battle against world poverty*: PublicAffairs.