

# Is Micro Finance the Most Effective Tool for Extending Financial Services to the Poor and Disadvantaged Groups in Remote Area ?

A Case Study of ThanaMoula and Kurga Village of the Parbat District, Nepal

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Abstract

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## Abstract

This study evaluates the impact of microfinance program implemented by UNDP Village Development Program (VDP) in two remote rural villages of Nepal. For the purpose of this study, hypothesis was set on the basis of literature review and status of microfinance in Nepal. The hypothesis of this study is 'is the microfinance effective tool for extending financial services to the low income family in remote area ? Does microfinance substitute the local moneylenders who often charge high interest rate ? Is VDP successful in extending microfinance services to the low income family in remote area ? The field survey questionnaire was organized on the basis of the above mention hypothesis. Data were collected through field survey by using questionnaire in member level. The survey data revealed that despites of limitation of resources and remoteness, microfinance program implementer VDP have positive impact on overall human as well as economic development. The study shows that extending microfinance services through group formation process by VDP has significant achievements. Study also shows that VDP implemented microfinance programs have not only substitute the high interest rate by money lenders, it build network between scattered household and empower people in different aspects of community and human development process. Furthermore the study shows that microfinance institution except VDP has nominal approach with people in two study villages. Majority of the people are borrowing credit from moneylenders, relatives and friends which means limited presence and approach of

other microfinance institutions.

The institutional survey shows that MFIs in Nepal are concentrate on Terai (flat) and accessible area. In rural hilly remote area where almost poor and downtrodden people are living, MFI have very limited approach. The overall performance of microfinance in Nepal is satisfactory but outreach performance in remote rural hilly area is not satisfactory. The Poor households in rural remote hilly area of Nepal face many problems in trying to save, invest and protect their livelihoods. Especially poor households where formal financial institutions are unavailable to solve their credit needs, depend on informal sectors like moneylenders, pawnbrokers, friends and relatives. Still, MFIs in remote rural hilly area of Nepal are less success on addressing credit needs of the poor household. In conclusion I can suggest that microfinance has great potential and one of the best methodology to overcome poverty but still MFI, Donors and government of Nepal need to think about the equitable distribution of microfinance services in rural remote area.

**Key words :** Microfinance institutions, informal sectors, rural remote area, moneylenders, Village Development Program (VDP).

## 1 Background

The conventional banking system in the developing world often fails to meet the loan target of the poor people. The major reason for not including the target of the conventional banking system is, the poor often have the lowest collateral or have no collateral. Unlike normal credit, microfinance is limited with collateral substitute and credit plus services. Microfinance thus becomes distinct from other regular credit where not only the credit amount is small and the clientele is poor, but also credit is provided with 'collateral substitute'<sup>1</sup> instead of traditional collateral.

The word "microcredit" (microfinance) did not exist before the seventies. Now it has become a buzz-word among the development practitioners. In the process, the word has been imputed to mean everything to everybody. No one now gets shocked if somebody uses the term "microcredit" (microfinance) to mean agricultural credit, or rural credit, or cooperative credit, or consumer credit, credit from the savings and loan associations, or from credit unions, or from money lenders (Younus, (2007)). Nobel peace prize winner Prof. Mohammed Younus has classified microfinance more broadly.<sup>2</sup> It means that microcredit is a type of credit where the poor, disadvantaged or marginalized farmer or people would have better access and have benefited. The idea of microfinance has now spread globally, with replication in Africa, Latin America, Asia and Eastern Europe as well as in richer economies like Norway, the United States and England. The latest count includes over 2500 institutions worldwide, each serving an average over 25000 low-income

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1 A pledged good, right or title that is neither marketable nor legally enforceable, but works as an incentive, screening and sanction mechanism to ensure repayment of a debt, that is collateral substitute.

customers. (Beatriz and Morduch J., (2005)). Almost all international agencies working in the areas of development agree that microfinance is the effective tool for poverty reduction. After Nobel committee decided to award the Nobel peace prize to Grameen Bank and Prof. Muhammed Yunus, its importance has spread all over the world.

In developing countries the vast majority of people do not have access to basic financial services. In India, about 73% of the 89 million farming households have no access to formal sources of credit (Nimal A Fernando, (2007)). Likewise 79% of the households do not have access to formal loans and 59% do not have access to a savings account in the formal sector (World Bank (2004)). The access problem is more severe for the poorer households in India where 87% of the poorest households have no access to a loan and 71% have no access to a savings account from the formal financial system (Fernando N. A., (2007)). In Pakistan, about 30% of adults have bank accounts and total borrowers from banking institutions are only 3% of the population, where there are only 171 deposit accounts and 30 loan accounts per 1000 people. Likewise agriculture, small and medium enterprise credit reaches only 1.6 million and 0.3 million borrowers, respectively. The high economy boom country of the present world, The People's Republic of China (PRC) also doesn't have a satisfactory record for access to financial services. The Organization for Economic Cooperation and Development (OECD) 2004 reports that only 16% farmers in the People's Republic of China (PRC) have access to formal or informal credit.

## 2 Microfinance in Nepal

This section will explore about the development and modalities of microfinance in Nepal. Microfinance practices in Nepal have three decades of experience, which has been exclusively recognized as a major tool for poverty reduction in rural area of Nepal. In order to overcome the severe poverty, microfinance plays distinct role not only in delivery of micro loan but also in delivering development services. It has been estimated that about NRs 3.5 billion is disbursed every year in microfinance sector from Microfinance Institution and NRs 2 billion by informal type of microfinance sector like NGOs formed community and self-help groups, mothers groups, cooperatives and traders in Nepal (Calculated from Annual Reports of Total Microfinance Institutions in Nepal). Similarly, Agriculture Development Bank and commercial banks also have lending

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- 2 a. Traditional informal microcredit (such as, moneylender's credit, pawn shops, loans from friends and relatives, consumer credit in informal market, etc) (b) Microcredit based on traditional informal groups (such as, tontin, su su, ROSCA, etc) (c) Activity based microcredit through conventional or specialized banks (such as, agricultural credit, livestock credit, fisheries credit, handloom credit etc.) (d) Rural credit through specialized banks. (e) Cooperative microcredit (cooperative credit, credit union, savings and loan associations, savings bank, etc). (f) Consumer microcredit (g) Bank-NGO partnership based microcredit. (h) Grameen type microcredit or grameen credit. (i) Other types of NGO microcredit. (j) Other types of non-NGO non-collateralized microcredit.

about 2 billion NRs every year for poor and dis-advantages people on the collateral basis. By 2007, altogether about NRs 26 billion have been disbursed and about NRs 21.5 billion have been repaid to MFI in microfinance sectors. From the commercial banks and Agriculture Development Bank of Nepal, about NRs 15 billion have been invested in low income family and priority sectors as well as about NRs 9 billion have been repaid subsequently. This volume of amount is very nominal in comparison to GDP which is less than 0.5%. The total GDP of Nepal is about twenty five hundred billion Nepalese Rupees in 2007. On the other hand, if we compare total benefited population from microfinance sector with total population it could be more than 20%. The overall performance of microfinance in Nepal is satisfactory but the resources investing in microfinance sectors are not adequate. The technological aspects and market infrastructure are major challenges to reform in microfinance sectors which are needed to incorporate government's plans and program.

Microfinance practices in Nepal can be grouped broadly into seven (7) models. These 7 microfinance models have similarity in group formation and lending on credit under group liability basis. But, procedure for program launching and credit repayment system, numbers of group members and targeted people could be different according to the objectives of MFI. For example, Grameen Model targets women from poor and disadvantages family. Small Farmers Cooperative Ltd Model targets small and marginal farmers who have a maximum ownership of 0.5 hectares of irrigated land, or 1 hectare of un-irrigated land, and an income level not higher than 50 percent of the average per capita income in Nepal. Under the Small Farmers Cooperative Limited (SFCL) model, a cooperative will be formed in a village representing from all group of members in different tier. Under Financial Intermediaries NGO (FI-NGO) Model, NGO borrows wholesale credit from wholesale lending microfinance institutions and lends credit to the group under group liability or guarantee basis and repayment is made by group members on specified schedule such as daily, weekly, monthly, half yearly and yearly basis.

Almost all microfinance practices in other developing countries of the world have been adopted in Nepal. According to the performance of Micro Finance Institution, SFCLs model and FINGO model is the best performer. The Grameen model is the best model in the world but in the case of Nepal this model has not achieved good performance as its lowest repayment rate and outreach status. The newly open Microfinance Development Banks which are also working under Grameen model has good performance according to the outreach and repayment status. However, all microfinance models in Nepal have supporting to the poor and disadvantage groups of people though its sustainability is another part of evaluation. Similarly, scaling up microfinance program in remote rural areas is still lagging. Almost all microfinance institutions concentrate their program in accessible area because they argue extending microfinance in remote hilly area of Nepal is expensive as the high administrative cost and low rate of return. In this situation, government of Nepal has to formulate especial plan for extending microfinance services to the rural remote area. Moreover, success of microfinance model is depends upon its implementation process as well as monitoring and evaluation procedure. Modality of microfinance itself is not depends on success

and failure, it depends on commitment and working system of concerning Microfinance Institution, committed staffs and effective monitoring and evaluation system. Tables below presents existing situation of microfinance services in Nepal.

Table 1 presents the existence of financial service delivery units in different geographical region of Nepal. According to table 1 presence of SFCLs, MDBs and FI-NGOs are nil in mountain region. These three institutions are key actors of microfinance service providers in Nepal. Similarly, these three institutions have also nominal presence in inaccessible hilly region. Focuses of microfinance institutions are concentrated in accessible hills and Terai region. It proofs that microfinance institutions are reluctant to serve financial services in remote area. Numbers of branches of commercial banks shown in table are government and semi-government invested commercial banks and they have limited role to extend microfinance services. Basically, commercial banks established in districts headquarter are to support the fiscal management effort of the government.

Table 2 presents outreach of MFI in different geographical region. In mountain region, MFI like SFCLs, Grameen Bank/Microfinance Development Banks and FI-NGOs has zero outreach. If we compare to potential clients with serving clients, it is very nominal in mountain and inaccessible hills. It proof that MFI are reluctant to serve microfinance services to the remote areas. If we compare to potential clients with serving clients in Terai, it is significantly different where about 90% clients are benefitted from microfinance institution. The total numbers of saving clients served by microfinance institutions through different service delivery units are estimated 1,127,229 (about 50%). Estimated numbers in accessible hills and Terai are significantly higher than in mountain and inaccessible hills. The estimated saving clients are a major issue of duplication. Especially in Terai region, duplication is high where market is highly competitive and areas of investment are also wide. It is estimated that 25% saving clients in Terai, 15% in accessible hills, 9% in inaccessible hills and 5% in mountains are involved in more than one financial institution for

**Table 1.** Geographical distribution of financial service delivery units and potential clients.

S. N.	Geographical region	Potential Clients (HH)	Branches and Numbers of Financial Institution					Total
			SACCOs	SFCLs	CBs	Grammen/ MDBs	FI-NGOs	
1	Mountain	296,403	185	0	44	0	0	229
2	Inaccessible hills	485,267	326	5	63	1	1	400
3	Accessible hills	750,220	1363	54	181	5	15	1654
4	Terai (Flat)	873,999	1083	131	251	41	59	1718
Total		2,405,889	2957	190	539	194	75	4001

Source : Adopting from Institutional Survey done by Dhakal N. H., 2006.

NOTE: HH=House Hold, SACCOs: Saving and Credit Cooperatives, SFCLs: Small Farmer Cooperatives Ltd., CBs: Commercial Banks, MDBs: Microfinance Development Banks, FI-NGOs: Financial Intermediaries-NGOs.

saving. In mountain region only Saving & Credit Cooperatives and Commercial Banks are active for serving saving to the clients.

Table 3 shows about the coverage of microfinance services to loan clients. The coverage of MFI like SFCLs, Grameen/MDBs and FI-NGOs are zero in mountain area. In other hills area their coverage to serving the loan is also not satisfactory in comparison to Terai area. Almost all MFIs are concentrating their services in Terai (Flat) area where transportation and other infrastructure services are available. The total estimated numbers of loan clients under different microfinance institutions are 892,188. The highest loan serving microfinance institution is Microfinance Development Banks (MDBs) followed by SACCOs, CBs, SFCLs and FI-NGOs. However, the level of quality on coverage/outreach and institutional stability of SACCOs and SFCLs has often criticized by other actors of microfinance service providers whereas MDBs and FI-NGOs have serving microfinance services to the clients satisfactorily. The above data table shows loan clients are increasing in accessible hills and Terai region. MFI usually put their argument that cost of

Table 2. Outreach of microfinance services to saving clients by MFI

S. N.	Geographical Region	Total Savings Clients	SACCOs	SFCLs	CBs	Grameen/MDBs	FI-NGOs	Total Saving Clients (adjusted)
1	Mountain	17,676	13,320	0	4,356	0	0	16,792
2	Inaccessible hills	47,716	30,789	1,400	11,088	3,248	1,191	43,422
3	Accessible hills	294,119	160,347	26,838	39,458	45,486	21,990	250,001
4	Terai (Flat)	767,718	184,883	88,947	72,557	304,985	116,346	575,789
Total		1,127,229	389,339	117,185	127,459	353,719	620,705	886,003

Source : Adopting from Institutional Survey done by Dhakal N. H., 2006

Note : Total saving clients (adjusted) relates to adjustment for duplication which is estimated at 21% (5% in mountains, 9% in inaccessible hills, 15% in accessible hills and 25% in Terai)

Table 3. Coverage of microfinance services to loan clients by MFI

S. N.	Geographical Region	Total Loan Clients	SACCOs	SFCLs	CBs	Grameen/MDBs	FI-NGOs	Total Loan Clients (adjusted)
1	Mountain	12,681	8,325	0	4,356	0	0	12,174
2	Inaccessible hills	35,083	18,908	1,400	11,088	2,740	947	32,978
3	Accessible hills	220,283	98,136	26,838	39,458	38,076	17,775	191,646
4	Terai (Flat)	624,141	113,750	88,947	72,557	254,841	94,046	493,071
Total		892,188	239,119	117,185	127,459	295,657	112,768	729,869

Source : Adopting from Institutional Survey done by Dhakal N. H., 2006

Note : Total loan clients (adjusted) relates to adjustment for duplication which is estimated at 18% (4% in mountains, 6% in inaccessible hills, 13% in accessible hills and 21% in Terai)

**Table 4.** Potential households for microfinance services in Nepal

S. N.	Geographical Region	Market for microfinance			Total clients served (adjusted for duplication)			
		Total HH	HHs potential for MF services	% of potential HH	Saving clients	In %	Loan clients	In %
1	Mountain	331,918	296,403	89.3	16,792	5.7	12,174	4.1
2	Inaccessible hills	702,268	485,267	69.1	43,422	8.9	32,978	6.8
3	Accessible hills	1,551,644	750,220	48.4	250,001	33.3	191,646	25.5
4	Terai (Flat)	2,254,900	873,999	38.8	575,789	65.9	493,071	56.4
		4,840,730	2,405,889	49.7	886,003	36.8	729,869	30.3

Source : Adopting from Institutional Survey done by Dhakal N. H., 2006

operation in mountain and inaccessible hills are very high in comparison to Terai and accessible hills, but this is not the logical to escape from the mountain region for providing microfinance services to the people.

Table 4 presents status of microfinance services in Nepal. According to data presented in table 4, only 5.7% potential households are served on saving clients and 4.1% are served on loan clients in mountain region. This figure is highly different in comparison to accessible hills and Terai region where 33.3% and 65.9% saving clients are served by MFI respectively. Similarly, 25.5% and 56.4% loan clients are served in accessible hills and Terai respectively. The average rate of saving clients in Nepal is 36.8% and loan clients are 30.3% which is more than one third of potential household in Nepal.

### 3 Literature Review

In this section, literature review was conducted to understand the microfinance how it is serving to the rural poor people to lift out from poverty in various countries in the world. It has become evident from the literature that microfinance has become an important poverty alleviation tool and there is great pressure to extend its services in terms of numbers of institutions and number of clients served.

The World Bank revealed in its various studies that out of the total world population more than 6 billion, a total of 1.2 billion people, lives on less than \$1 a day (World Bank, (2004)). The majority of them are lives in Asia, which 40% population are in South Asia only. India alone is said to host about one third of the world's poor population. 70% of India's over 1 billion inhabitants live in rural or semi urban areas. 26% or 260 million people live below the poverty line of \$1 a day (World Bank, (2004)). Microfinance can be lift out from poverty to these low income families in the world. In Nepal 31% people lives below the poverty line of \$1 a day (Nepal Living Standard Survey, (2004)) and only 26 percent of Nepalese households have a bank accounts. Banks'

procedures are perceived as being the most cumbersome among the financial institutions in developing countries (World Bank, (2006)). Accordingly, clients prefer not to save in them. Banks dominated in urban areas and among the wealthiest. Financial NGOs and cooperatives run a close second as largest provider of deposit accounts, serving 18 percent of households (World Bank, 2006). Microfinance and regional rural development banks are a distant third provider of deposit accounts, serving only 4 percent of households; mainly poor, rural ones. About 38 percent of Nepalese households have an outstanding loan exclusively from the informal sector, 16 percent from both the informal and formal sector, and 15 percent from only the formal sector (that is, a bank, finance company, financial NGOs or cooperatives, or microfinance or rural regional development banks).

In Rural area of Nepal, informal providers of loans to households are relatives, friends and moneylenders. Most of the households who borrow from informal providers do not bother trying to borrow from financial institutions, mainly because formal institutions cannot meet their financial needs on time because of inaccessibility and lengthy process in comparison to informal providers who require less physical collateral or provide credit without collateral. Even among the wealthiest households, half of those with a bank account prefer informal lenders because of their rapid delivery. Similarly, informal lenders are the preferred providers of working capital for small businesses, again because they are faster at sanctioning loans than formal financial institutions. Financial NGOs and cooperatives are the largest provider of loans to the households (except for the wealthiest households). They dominate the market for loans under \$700, even for households with a bank account. Banks are the second largest provider — mainly in urban areas and for loans larger than \$700. Microfinance and regional rural development banks are the third largest providers, serving mainly in rural areas and in the flat area. Finance companies are the least preferred formal lenders, and operate mainly in the Kathmandu and other largest city. Very few Microfinance Institutions in rural remote area of Nepal and India are expanding their program. One of the largest Microfinance Institution in Nepal, Nirdhan Utthan Bank Limited (NUBL) has concentrated their program in flat area of Nepal. This institution has showing the problem of staffing requirements to scale up services in remote and sparsely populated rural mountainous area of Nepal (Sharma M. P, (2004)). In India also, expansion of microfinance services in the remote northern states has been less effective. Microfinance Institutions are reluctant to expand their program showing the high administrative expenses like staffing, transportation and monitoring etc (Sharma M. P. (2004)). In Bangladesh, average household income of the people who are involved in Grameen group members, is 43% higher than nonparticipant villagers' household income (Hossain M. (1988)). Similarly, Grameen Bank members spent 8% more per capita on food and 13% more on clothing than targeting non-participants in Grameen villages, and 35% more on food and 32% more on clothing than target household in comparison villages (Hossain M. (1988)). Microcredit is effective way of earning income in low income family. The Impacts of Microcredit: A Case Study from Peru shows that microcredit clients earned \$740 per year more than non-



microcredit clients and for all clients compared to non-participants clients, earned \$266 more per household member per year than non-participants clients (Elizabeth D. and Gorden A. J. Jr. (2001)). In ASHI, a Microfinance Institution in Philippines, found that among the microfinance clients, when they started with the program, 75% women were classified as very poor, at the time of the study only 13% were very poor compared to 49% of non-participants clients (Todd H. (2000)). It shows that microfinance role is significant to reduced poverty in rural area. In Andhra Pradesh India, comparing to the 125 old clients and 104 new clients (who had yet to receive any support from the program) that 58% new clients are very poor in comparison to 6% old clients and 39% new clients are moderately poor in comparison to 58% old clients (Todd H., (2001)). Furthermore, the study shows that 38.4% very poor lifted to moderately poor, 17.6% very poor clients lifted to non poor clients and 20.8% moderately poor clients lifted to non poor (Todd H. (2001)).

Moreover, microfinance is effective where creditworthy people have difficulty in getting credit from formal financial sources or are suffering from high interest rates. People in south Asia, Africa and Latin America are suffering from high interest rates which is from 30% to 300% p. a. by informal sources like money lenders, pawnbrokers etc. This exploitation and difficulty could be reduced or substitute by microfinance Institutions, providing accessible and low interest rates of credit. Each year 5% of Grameen bank, Bangladesh Rural Advancement Committee (BRAC), RD 12 of Bangladesh Rural Development Board (BRDB) borrowers escape from poverty (Khondkar S. (2001)). Microfinance is effective where entrepreneurs receive a loan and use the money creatively for the support of their livelihood. Among the Grameen Bank borrowing members, 42% of families have crossed the poverty line by 2001 (Yunus M. (2003)).

Microfinance in India also has great potential. India has probably, one of the biggest numbers of Self-Help Groups (SHG) in the world and the largest number of credit outlets. India alone has over 150,000 credit outlets including cooperatives in the rural institutional sector (Karmakar K. G., (2000)). This number is much higher nowadays. 15 years ago in 1993, outstanding loans for agricultural purposes amounted to more than Rs. 340 billion. In spite of this, rural people still have depends credit on money lenders for small business and consumption purposes. This type of dependence is pronounced in poor areas and in the case of marginal farmers, landless laborers, petty traders and artisans belonging to the socially backward classes, and tribal population. Moreover, the dependency upon moneylenders and local landlords has gradually decreased after people's participation in SHG in developing countries like India. Many studies reveal that increased availability of microcredit to the poor through microfinance, enable rural households to take up larger productive activities, empower the poor women, decrease the dependencies on exploitative local moneylenders and increase savings through the process of microfinance.

Microfinance also reduces unnecessary household expenses and generates savings. Study shows that the impact on microfinance group member's savings is significantly greater than the impact on other general household member's savings. After institutionalize the savings habit in group members in northeast Thailand, it encourage borrowing additional amount of money and

force to investing in new and creative projects for economic generation. The positive and significant impact can be seen in women's self-employment and expenses in member's households. The study shows positive impact on household agricultural production, household livestock production, women's livestock sales, women's business sales and expenses in committee member's households (Coleman B. E. (2002)). Such credit would otherwise not be available or would be only available at the very high interest rates charged by moneylenders (who often charge as much as 10% per month) (Morduch J. (1998)).

It is almost clear that all study, reports and dissertation related to microfinance shows that microfinance is the effective tool for poverty alleviation and it is the best way to support to low income family. But there is large volume of population in the world who are still out of minimum financial services like saving, credit and insurance. In Nepal, especially in hilly mountainous area, still a large volume of population is out of provision of minimum financial services. If microfinance Institutions extend their program in remote hilly village of Nepal, for low income family and disadvantage groups of people they can lift out from poverty gradually.

Methodologically, the literature has informed a case study approach as being most commonly in various studies, which is, thus, employed in this study. The methodology and hypothesis has been design on the basis of literature review, especially, presence of microfinance in rural remote area and its effectiveness. Details of methodology and hypothesis are discussed on the following chapters.

## 4 The Hypothesis

As the earlier sections 'microfinance in Nepal and Literature Review' suggest that microfinance is an effective tool for the low income family to escape from poverty. On the other hand it is also true that microfinance institutions expand their program mostly on accessible area and reluctant to expand program in remote rural area showing different problem (Sharma M. P). However, several study and reports suggest that microfinance has significant achievements to overcome poverty in developing world (World Bank, ADB, Todd H., Hossain M.). At present, microfinance has significant role to overcome poverty in developing world, especially the donors communities are encouraged to extend financial services to the low income family through microfinance methodology. Achievements of microfinance to overcome poverty in developing world are remarkable but still there are large volumes of people out of access to minimum financial services. People who are out of access to minimum financial services, are living in remote area with low income level, low educational status and socially downtrodden. As mention above, studying several literatures, study, reports and microfinance status of Nepal I came to in conclusion to pursue my research in rural remote area of Nepal, whether microfinance is really supporting to the rural remote area based low income family or not.

This study is a little bit different than Todd H. and Sharma M. P.. Study done by Todd H. has

focused on comparing microfinance achievements with the microfinance clients and non-clients. Her study revealed that income level of microfinance clients is significantly higher than non-microfinance clients. In my study I focused MFI outreach in remote rural area and achievements of microfinance program. Study done by Sharma M. P. revealed that MFI in Nepal and India are reluctant to extend their services in remote hilly area, showing the problem of high administrative cost. But, study done by M. P. Sharma is not focused on remote hilly area whether microfinance is effective tool to extend financial services in rural remote area or not.

The hypothesis for this study is set on the basis of status of microfinance in Nepal especially in remote area and suggestion gathered from microfinance literature in the areas of microfinance and its role for reduction of poverty in developing world. It is not rational to compare MFI of Nepal with the MFI's of Bangladesh, Latin America and Africa because of geographical difficulty to extend microfinance services in mountain and inaccessible area of Nepal. On the basis of the above envisages condition, the hypothesis for this study is set that 'is the microfinance effective tool for extending financial services to the low income family in remote rural area ?' Does microfinance substitute the local moneylenders, who often charge high interest rate ? Is the VDP successful in extending microfinance services to the low income family in remote rural area ? To accomplish this task, the Village Development Program (VDP) was selected for study, which is extending microfinance service in rural remote area based low income family from before 10 years. For this study 120 sample households were selected in two remote villages of Nepal. Details about study procedure are discussed on the following chapters.

## 5 Study Design and Methodology

For the purpose of the study I select UNDP supported microfinance program. I had working relation with UNDP/Nepal about 11 yrs, before starting my PHD Study. I request and express my interest to pursue my academic research to the UNDP authority in UNDP supported Village Development Program (VDP) related to microfinance in remote rural area of Nepal. They accept my request and get permission to pursue the study in VDP of Parbat District of western Nepal. The research questions are addressed through a case study approach. As such, in this study a mixed method is used for data gathering apart from field survey. The field survey for data collection process took place over the course of three weeks period from February 27 to March 16, 2008. Before having the field survey, I organized a meeting with UNDP project officials in central level and field level. The survey questionnaire was finalized after incorporating the suggestions and advises of UNDP project staffs from central and field level. The UNDP two Village Development Program (VDP) staffs supported for data collection in different phases.

By using mixed methods, surveys with 120 members, 4 focus group discussions, interview with 5 front line staffs and 2 board members were carried out.

In this study structure surveys consisting of 50 questions were carried out in 12 main headings

for the members those who are involved in group before two years and have borrowed loan at least one time from Village Development Program (VDP). Samples were selected randomly within the group members. On an average, it took 1-2 hours to administer each survey. The survey was conducted by me and staff of Village Development Program (VDP). Before organizing the field survey I orient shortly to the VDP staff about using the survey questions.

All the survey was conducted in members home or work station. The questionnaire instrument was first prepared in English and then, was translated into Nepali. The interview was conducted in Nepali. After completion of interview, data were entered in excel format and I used the data as per requirement of this paper. All the data are not included in this paper because of limitation of space for publication and theme of the paper.

## 6 The Survey Village

The survey village is located in western part of Nepal called the hilly District Parbat. Among the 75 district of Nepal, socio-economic status of Parbat district is not so low but some villages in remote area are still lagging from minimum condition of development facilities like Electricity, Telephone, Road etc. There are 55 Village Development Committee (VDC) in Parbat district. Among the 55 VDCs the research village name Kurga and Thanmoula is situated in south/east part of the district, 30 KM far from district headquarter. These VDCs are not close with rural road network. Geographically these VDCs are situated with sloping condition with 30% to 50% step slope. Approximately the altitude range of these VDCs is about 4000 to 7000 feet above mean sea level. The main castes in these villages are Bramin and Chhetri (so called high caste) and Magar, Gurung, Kumal (ethnic caste) and Sarki, Bishokaram, Damai and Muslims (so called lower caste). Economically, the people of these VDCs are defined pro-poor, poor and medium level.<sup>3</sup>

## 7 Field Survey on Performance of MFI in Two Villages

This section introduces about the features and performance of VDP implemented microfinance services in two villages by using the data gathered from VDP office. The Village Development Program (VDP) was implemented by Government of Nepal and UNDP through District Development Committee and Village Development Committee. It helps to form community organization in settlement level and federate community organization through Chairman Managers Conference

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3 The UNDP implemented Village Development Program (VDP) has defined Poverty as follows ;

- i. Pro-poor : Peoples who have less than 3 month food sufficiency from their own income.
- ii. Poor : Peoples who have 3 to 6 month food sufficiency from their own income.
- iii. Medium : peoples who have 6 to 12 month food sufficiency from their own income.

The World Bank Defined Poverty at the Global Level ; \$1 and \$2 per day in 1993 Purchasing power Parity times. Person who has consumption level below \$1 days are pro-poor and \$2 per day are poor.

(CMC) in village level. Every community organization has one Chairman, one Manager and other members. Manager keeps accounts of group savings and credit activities and Chairman gives leadership to the group. VDP helps to meet the socio-economic needs of the Community Organization's (COs) members through the package of benefits including training, seed grants, technology and credit, and enabling COs interact effectively with local Governments through bottom-up planning process and developing capacity to mobilize resources. COs are broad based groups, covering entire households in each Village Development Committee (VDC). VDP provide credit on the basis of business plan of COs members and volume of internal saving, for example VDP provides credit of up to five times of the COs internal saving. Credit is delivered to the Community Organization without collateral and COs deliver it to the members subsequently. Community Organizations (COs) is the group of members comprising on 5 to 30 members depending upon density of household residing in the settlement.

Before about 10 yrs, Village Development Program in two VDCs has launched several types of program related to social and economic generation. In the initial period VDP emphasize for community group formation and awareness generation. Later, gradually the program launched credit operation for economic generation and some infrastructure development activities on the basis of community participation. I have made my research study based on the microfinance program implemented by Village Development Program which is the only one microfinance implementation program in these two Villages, since these Villages are situated in rural remote area of Nepal. The research study has been pursued on the basis of activities implemented by VDP in these two Villages. This chapter is elaborating the activities and achievements of VDP since its program launching.

Tables below present's the activities of VDP on credit operation in two study Villages since the starting of program.

Table 5 presents coverage/outreach of Village Development Program (VDP) by economic and gender status. According to the data presented in table 5, about 50% people are medium level and remaining 50% is poor and pro-poor. Still significant numbers of household are left-out from group

**Table 5.** Status of coverage by Village Development Program in ThanaMoula & Kurga Village, Parbat District.

Name of Village	Economic Distribution of Group Members (Household)				Status of Household in group involvement					
	Pro-Poor	Poor	Medium	Total	No. of HH in Group		Total	No. of HH out of Group		Total
					Female	Male		Female	Male	
Thana Moula	123	94	130	365	206	159	365	49	56	105
Kurga	103	192	331	626	328	298	626	33	187	220

Source : Village Development Program, Quterly Progress Report page no. 4, March 2008.

where 105 and 220 households in ThanaMoula and Kurga Village respectively.

The intended objective of this research was to analyze the accessibility of microfinance institutions or program and its role in poverty reduction by substituting the traditional informal credit, such as money lenders and landlords who are lending credit in a high interest rates, as well as to study the access of financial institutions for the people to initiate and extend enterprise development activities. However, in my observation during the field survey, I got to know that a level of awareness has been created by VDP in the areas of credit borrowing and initiation of enterprises where a large numbers of people are joining in group process. Due to the constraints of resources and high requirements of people, the level of satisfaction towards VDP is less satisfactory.

Table 6 presents ratio of credit delivered by gender status. The table shows that a greater amount has been borrowed by male members even though the numbers of female members are more than male members. On an average NRs 15,500 has been borrowed by male members in comparison to NRs 9,410 for female members. This figure is during the period of about 10 years of the village development program (VDP) of two villages. It shows that the program has limitation of credit and other development packages. In my observation the group members need more credit for initiation of enterprise and different other proposes. Credit provided by VDP is not enough to initiate enterprises development activities. Similarly low volume of credit was delivered to female members in comparison to male members, which may be the reason for low participation of female members in their group meetings and other community development activities. In some cases women took participate in group process but later their role and interest to initiate enterprise development activities would be less because of engagement in household activities as well as lake of knowledge to inter new segments of enterprise development. Moreover, the overall credit delivered to the members is not satisfactory ; this factor is more serious in female members. It seems that VDP need to increase credit and training package on enterprises development, focusing to female members.

Table 7 presents area of investment by Village Development Program (VDP) in two villages. According to the data presented in table 7, significant volume of credit is invested in ThanaMoula village for livestock. In Kurga village, agriculture is also high potential area of investment whereas livestock is first. Demographically and geographically, Kurga village is bigger than ThanaMoula

Table 6. Ratio of Credit delivered from VDP by gender

S. No.	Name of Village	Amount Delivered to Members (In NRs)		Total	No. of Members		Total
		Male	Female		Male	Female	
1	ThanaMoula	1,863,500	1,420,000	3,283,500	148	161	309
2	Kurga	3,133,780	2,899,220	6,033,000	174	298	472
Total		4,997,280	4,319,220	9,316,500	322	459	781

Source : Village Development Program, Quterly Progress Report page no. 4, March 2008.

village. Kurga village is also potential for agriculture production because of its landscape and fertile land in comparison to ThanaMoula village. On the other hand some parts of the Kurga village are close to nearest seasonal road network where other types of trade and business are also potential except agriculture related activities. However, Nepalese rural area is potential for agricultural related activities where most of the people's occupation is agriculture.

Table 8 presents credit delivered from the Village Development Program (VDP) in two villages. According to data presented in Table 8, about 55% of credit was delivered to the pro-poor and poor. Volume of credit delivered to the medium level is also significant, which is about 45%. The ultimate objective of VDP is to alleviate poverty through credit operation, awareness generation and construction of community infrastructure. To achieve the objective of VDP, delivered credit to the poor and pro-poor is not sufficient where primary goal of the program is to alleviate poverty from the village. After observing during my field study I can say that still pro-poor and poor people have inadequate of credit.

The basic criteria of microfinance for credit delivery is group formation and group saving. In the initial stage, group members generate internal savings and do community activities spontaneously, like preservation of community forests, construction of rural foot trails, sanitary activities and other simple community construction in their own surrounding by their own initiatives. Microfinance institutions judge the community performance on the basis of their spontaneously done community activities. Data presented in table 9 shows that about two million NRs was collected in group savings and the cumulative investment<sup>5</sup> is about NRs 10 million for 797 mem-

Table 7. Credit delivered by area of investment

S. N.	Name of Village	No. of borrowers & amount invested by area of investment (NRs.)										Total	
		Agriculture		Livestock		Trade		Cottage industry		Others		No.	Amount
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		
1	Thana Moula	73	122,500	200	2,890,000	36	271,000	0	0	0	0	309	3,283,500
2	Kurga	143	2,106,000	168	2,283,000	69	494,000	3	64,000	89	1,086,000	472	6,033,000

Source : Village Development Program, Quterly Progress Report page no. 5, March 2008.

Table 8. Credit delivered from VDP by economic status (in NRs.)

S. No.	Name of Village	Pro-Poor		Poor		Medium		Total	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Thana Moula	84	421,000	169	1,377,000	56	1,485,50	309	3,283,500
2	Kurga	110	1,182,000	250	2,221,000	112	2,630,000	472	6,033,000
Total		194	1,603,000	419	3,598,000	168	4,115,500	781	9,316,500

Source : Village Development Program, Quterly Progress Report page no. 6, March 2008.



Table 9. Internal saving<sup>4</sup> and investment by Community Organization

S. No.	Name Of Village	Saving (In NRs)	Cumulative Investment (NRs)	Amount Invested (NRs.)		No. of Borrower		Total
				Male	Female	Male	Female	
1	ThanaMoula	654,353	2,472,200	1,024,700	1,447,500	142	167	309
2	Kurga	1,260,015	8,156,200	2,344,400	5,811,800	217	271	488
Total		1,914,368	10,628,400	3,369,100	7,259,300	359	438	797

Source : Village Development Program, Quterly Progress Report page no. 7, March 2008.

bers in two villages. The cumulative investment in Kurga is significantly higher than ThanaMoula. In ThanaMoula cumulative investment is four times than savings, whereas in Kurga it is about seven times than savings. It shows that financial transaction is significantly higher in Kurga than ThanaMoula village. Similarly, amount invested to female members in Kurga is also higher than in ThanaMoula. The volume of funds collected under internal saving is not sufficient to fulfill their enterprise creation requirement. It is a tinny volume of amount which will support during the emergency economic crisis like urgent medical expenses, premature death, theft, natural disaster like drought, floods etc. However, internally generated funds has also significant role in rural area to support their emergency needs, food consumption and to meet social obligation, though the volume of amount is not sufficient. It is appreciable steps under microfinance package which is sustainable in rural area.

Data presented in table 10 shows the area of investment on internal savings. The purpose of main area of credit borrowing from internal savings is livestock and agriculture. Similarly, other areas of using internal savings are especially for household consumption, children's education and fulfilling other requirements of social obligation. Data presented in table 10 shows that majority numbers of members have borrowed credit for the purpose of agriculture and livestock sector. In Kurga village high numbers of members borrowed credit for the purpose of agriculture and livestock in comparison to ThanaMoula village. In Nepal more than 80% of people are depends on agriculture related occupation. In rural area almost all people's occupation is agriculture related activities like farming, animal husbandry, poultry etc. Occupations of nominal percentage of people are trade and business related activities which are also indirectly related with agriculture. In my field study and observation, I found that some numbers of people have adopted local trade as a secondary occupation except agriculture in both villages. In rural area of Nepal internal saving also plays vital role for solving various needs of the people. It is further needed additional mechan-

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4 Internal saving is that type of saving where group member collect certain amount of money on the basis of weekly/monthly. Internal saving will be used by group member, fixing certain rate of interest, on the basis of decision made by group.

5 Cumulative investment refers to the total amount of investment after getting repayment.



Table 10. Area of investment borrowing from internal savings

S. N.	Name of Village	Agriculture		Livestock		Trade		Other		Cumulative Total	
		No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
1	Thana Moula	23	187,750	104	606,300	44	238,900	140	1,439,250	311	2,472,200
2	Kurga	184	2,573,000	147	2,969,000	27	1,029,200	130	1,585,000	488	8,156,200
Total		207	2,760,750	251	3,575,300	71	1,268,100	270	3,024,250	799	10,628,400

Source : Village Development Program, Quterly Progress Report page no. 9, March 2008.

ism for systemic operation and management of internal saving and credit which can be develops from government and Microfinance Institution.

## 8 Results of Field Survey

This section concentrates on discussions of survey results of 120 members of groups in two villages as well as observation of group members during field study. The structure survey of 120 randomly selected group members were taken equally on the basis of numbers of members in two village where village Kurga has more members in comparison to village ThanaMoula. The data presented here are primarily drawn from individual interviews. I discuss with some members collectively except the designed questionnaire related to effectiveness of microfinance in their village. My insight focus on field study was, "is microfinance really effective for extending financial services by substituting the traditional informal financial system which is high interest rate and suffering domination from landlords to borrow credit". I found 'yes' it is really effective though the microfinance institution has limited resources to extend adequate credit and other services. Except extending credit, microfinance institution like VDP has developed networking and collaboration with other NGOs, government agencies and technology developing groups. Furthermore, VDP form community groups of scattered households and make a common platform for extending development services which is the significant achievements in microfinance, since microfinance is not limited in general financial system.

This study is not able to cover all the aspects of human development which is directly or indirectly with microfinance. Major focus is dependency level with informal financial system for borrowing credit and level of the satisfaction with VDP implemented microfinance program.

Tables below presents about the status and results of the survey.

Data presented in table 11 shows the access to formal and informal sources of finance in two villages. Except the Village Development Program (VDP), most of the people in these two villages are dependent on moneylenders and relatives. It means that other financial sectors are inaccessible in these villages.

Due to the absence of financial institutions, people in rural areas of Nepal are highly depends on

Table 11. Loan borrowing from formal and informal sectors<sup>6</sup>

Name of MFI	Number of Members Borrowing Loan (no. of sample = 120)	Interest in %	% of Borrowing Members
VDP	120	15-18	87.5
Commercial Bank	5	12-18	4.16
Cooperatives	0	0	0
Money Lenders	115	24-30	95.83
Relatives	106	24-30	88.33
Total Respondents	120		100

Source: Field Survey, 2008

money lenders and relatives for borrowing credit. Recently implemented Village Development Program (VDP) alone can't meet the requirements of the people. This program is mobilizing the few amounts of credit supports and limited training packages to the group members. Data shows that more than 90% of people still depend on money lenders for credit. After implementation of VDP, dependency levels on money lenders for borrowing credit seem to be reduced. But due to the resource constraints and high financial requirements of the people they also depend on other informal sectors. The overall implication of microfinance program like VDP is positive though the program has limited packages of credit which is not enough to fulfill their credit needs. It can be suggested that either VDP has to extend more credit or make network with other financial institution.

Table 12 presents the numbers of loans borrowed from formal and informal sectors. Survey data shows that 2 to 4 times borrowing credit from Village Development Program is highest numbers of people. Similarly, 5 to 8 times credit borrowing from money lenders and 2 to 4 times from relatives is highest. Data shows that more than 9 times credit borrowing members from money lenders and relatives are also significant which is 18 and 13 respectively. The access to other commercial banks and cooperatives sectors in these villages are very limited where only 1 time credit borrowing members are 5 and 0 respectively.

People in rural area of Nepal, usually do transaction with relatives and friends. They borrow money and return as per mutual agreement. Similarly, in the case of money lenders sometimes they make oral and sometimes they make written agreement. Repayment with interest rate will be done as per agreement made during the time of borrowing the credit. Borrowing credit from

6 i. Formal Sectors include Commercial Banks, Microfinance Institutions, Cooperatives, Government and non-government support programs, Financial Intermediaries NGO.

ii. Informal Sectors include Money Lenders, Pawnshops, Land Lords, Relatives, Friends and non registered organized groups.

moneylenders is ad-hoc process. Sometimes moneylenders and even relatives could be refused to give credit ; in that case there would be no alternatives to borrow credit from financial institutions. From the result of this survey, I can suggest that either microfinance institutions like VDP or government should assure credit needs of the people where people are suffering for borrowing the credit.

Primary occupations of almost all group members are agriculture. Besides agriculture, people have other secondary occupation like local government jobs, small trade, foreign jobs etc. but almost all women are engaging on agriculture related occupation.

Data Table 13 presents the purpose of borrowing loan. Most of the people have borrowed money for the purpose of agricultural related enterprises. The survey data shows that about 90% people borrow credit for the purpose of agricultural and livestock related enterprises. Data above presents about the purpose of credit from VDP only. The purpose of other informal sector's credit is unknown though they use it for their family consumption and sometimes for the purpose of enterprise activities. Microfinance institutions and government agency has to make special provi-

**Table 12.** Numbers of loan borrowing from formal/informal sectors during last 6 years

Numbers of Loan	VDP	Commercial Bank	Money Lenders	Relatives	Cooperatives
0 to 1	34	5	21	25	0
2 to 4	69	0	29	35	0
5 to 8	17	0	47	33	0
9 to 12		0	18	13	0
More than 13					0
Total Respondents	120	5	115	106	0

Source : Field Survey, 2008 March.

**Table 13.** Purpose of borrowing loan from Village Development Program (VDP)

Purpose of Credit	Numbers of Members	% of Members
Business	10	8.33
Agriculture	47	39.16
Livestock	52	43.33
Poultry	5	4.16
Cottage and Small Industries	6	5
Housing	0	0
Others	0	0
Total Respondents	120	100

Source : Field Survey, 2008 March.

sion for strengthen of agriculture program in rural area since agriculture is the major occupation of the rural people in Nepal.

Table 14 presents the yearly earning from enterprises with the VDP credit. Data shows that more than 70% people earn less than US\$152 from the microfinance credit (34.16% earn US\$76 and 39.16% earn US\$152). Especially these people are schedule castes and low income families as well as marginal farmers. They use microfinance for additional source of income generation. Because of low income and marginal farmers, areas of knowledge for investment are also limited. They do not have confidence to enter new area of enterprise so that their earnings are also low in comparison to medium level farmers where their earnings are up to US\$228 per year by using microfinance credit. People in rural mountain area are suffering from problem for marketing to sale their product and to buy raw material for enterprise development activities. Especially the low income family have problem to make link with the market. Their enterprise is limited with in local base or agriculture base enterprises like small scale poultry farming, goat farming etc. Moreover, their yearly income has been increasing in comparison to previous time which is the reason of microfinance where they got opportunity to borrow credit to initiate small enterprise development activities. During my field survey I found that earnings from enterprises of VDP credit has also plays significant role in their household consumption and also significant role on their gross income.

Data presented in Table 15 shows the education status of the members. Data received from the survey shows that 34.1% members are illiterate, 38.33% have formal education until 5th grade, which means they can simply read and write, 8 to 10th grade are 22.43% and until high school are only 4.1%. The illiterate and low level of education directly affects the enterprise development activities especially for market related activities, like selling and buying function. If the producers sell their own goods in the market directly, they can get a higher price than by selling through a mediator. Education also gives confidence to penetrate into new areas of enterprise development activities. The success and failure of microfinance in rural areas is also depends on level of education. During my observation I found that entrepreneurship done by educated people has

Table 14. Yearly income from enterprises with VDP credit

Income in NRs	Numbers of Members	% of Members
Yearly up to NRs 5,000 (US\$76)	41	34.16
Yearly up to NRs 10,000 (US\$152 Approx.)	47	39.16
Yearly up to NRs. 15,000 (US\$228 Approx.)	19	15.83
Yearly > NRs 15,000 (More than US\$228)	13	10.83
Total Respondents	120	100

Source : Field Survey, 2008 March.

Note : 1 US\$ = 68 NRs. Approximately.

good achievements and they are more confidence to extend additional enterprises.

Table 16 presents availability of service centers in the two survey villages. In both survey villages, very few service centers are available. Village Kurga has more service centers in comparison to Village ThanaMoula. People from ThanaMoula also get agriculture and livestock health service from Kurga based service center. But they have to consume more time to get the services which would be bad effect for their crops and animal health because of late. Similarly both villages have not available of any other financial institutions like cooperatives and commercial banks. The project based village development program is providing limited financial services like small credit and members saving which is not for financial transactions. One NGO is supporting for awareness and providing basic training about vegetable farming. Based on the available services and infrastructure, extending microfinance services seems to be high challenging. Government agency and policy maker should think for establishment of basic and primary service center which would support for extending microfinance services to the poor and disadvantages people in remote area

**Table 15.** Educational status of credit borrowing members

Level of Education	Numbers	Percentage
Illiterate	41	34.1
Until 5th grade	46	38.33
Until 8th grade	16	13.33
Until 10th grade	11	9.1
Until high school	5	4.1
Graduate	0	0
Total Respondents	120	100

Source : Field Survey, 2008 March.

**Table 16.** Numbers of Service Centers in the Village

S. No.	Name of Service Center	Number of Service Center	
		ThanaMoula	Kurga
1	Sub Health Post	1	1
2	Agriculture Service Sub Center	0	1
3	Livestock Health Service Sub Center	0	1
3	Commercial Banks	0	0
4	Cooperatives	0	0
5	Microfinance Institutions	0	0
6	Microfinance Institutions (VDP)	1	1
7	Non-Government Organization (NGO)	1	1

Source : Field survey, March 2008

like these villages. If minimum service centers are available people can extend enterprise development activities by borrowing credit from microfinance institutions.

Indicators presented in Table 17 shows the status of members before and after joining in VDP microfinance program. After joining VDP, 90% survey members out of 120 survey members say they are benefited from VDP microfinance program in some extent. Moreover, changes in overall status of their lifestyle might not be only the reason of VDP but to compare before joining in VDP and after joining the VDP there is certain change in overall development of the people. In my observation and discussion with survey members, several factors are related changing their overall development ; such as education, health, local infrastructure development like road, drinking water, agriculture inputs and services which are provided by government system. However, it is appreciable aspects of VDP on group formation, awareness generation, net-working and collaboration, which is the significant aspects of VDP for getting the services from different other development agency as well as easy to deliver development services.

One observation I found a case about a woman Mrs Bishnu Maya VK during my field visit. She is living with one child, husband and mother in-law. Her family has owned few agriculture lands. Income from agriculture is not sufficient for her family. Her husband was interested to go to foreign job in Malaysia. To go to Malaysia they need at least \$1200. But they were unable to manage that money. As a group member of VDP she borrowed some money from VDP, some

Table 17. Socio-economic indicators of members before and after joining VDP

Indicators	Before Joining VDP MF	After Joining VDP MF	Unknown
Loan helped family	0	90 %	
More confidence in planning for future	6 %	91 %	3 %
Increase in income and changes in appearance	39.5%	60.5%	
Status of household income after joining in VDP :			
Increase greatly		15 %	
Normal increase		60 %	
No change		25 %	
Increase in financial ability to pay school fee	32.5%	67.5%	
Increase in financial ability to provide food ;			
● Enough quantity and variety of food.	43 %	43 % (0)	
● Enough quantity but not variety of food.	34.5%	47.5%	42 %
● Sometimes not enough to eat.	22.5%	10.5%	
Increase in financial ability to pay health care fee	31.5%	57.5%	11 %
Increase in business income after joining VDP		59.5%	40.5%
Increase in household expenses		75.5%	24.5%
Having regular saving	0	100 %	

Source : Field Survey, March 2008

money from local money lenders and friends. In this way they collected money to go to Malaysia for foreign job. Now her husband is earning satisfactory amount from foreign job and her family's living standard is significantly changed than before. In this case they are benefited from VDP but the sole reason for changing their living standard is not only VDP.

From the overall observation comparing to before ten years, now 91% members say they are more confident for planning their future. Similarly, 60.5% survey members out of 120 say they have increased their income and change appearance, 15% members household income have increased greatly, 60% members household income have increased normally and 25% members have no change on their income status period. And 67.5% members have increased their financial ability to pay school fees. In terms of food consumption, 43% members say enough quantity of food as before, before VDP 34.5% members say they had enough quantity of food but not variety of food, but after VDP 47.5% say they have enough quantity of food but not variety of food, before VDP there was 22.5% people who have sometimes not enough to eat food but after VDP only 10.5% are in this condition. It means food consumption capacity has increase.

Likewise 57.5% people have increased their financial ability to pay health care fee, 59.5% people increase in business income after joining VDP, 75.5% members have increased their household expenses and 100% survey members are saving regularly on their groups.

Basically the Village Development Program is focusing on the poorest of the poor women and Dalit caste who are below the poverty line (people who have difficulty having even one meal a day from their own income). I am confident that VDP is not moving away from the target but due to the various constraints still they are away from the services despite of the numerous efforts adopted by VDP. Despite of limited resources, services provided by VDP seems significant. But one important point to be understood that the overall changes before VDP and after VDP is not only the reason of VDP which I have described in this column earlier. We just took baseline of VDP for study. Role of VDP to build community organization and generating awareness is appreciable.

Data Table 18 presents information on the knowledge obtained from different program and policy of government and non-government organization. During the survey, 100% members say they are unaware about the policy of government on money lenders, similarly only 6% are aware about the reservation policy for women, low caste people etc. Among the survey members, most of them are aware about the health care system, public school management. 37% members are aware about the different types of government scheme and program. One of the important achievements of VDP is, increased level of people awareness in different area. Due to the lack of education, still people have some difficulty to understand whole system but if we compare before, it is appreciable.

Table 19 presents status of community member's participation in community activities. Participation in community activities shows the empowerment status of community members. One of the important objectives of VDP microfinance program is to create social and economic empower-

Table 18. Knowledge about programs of government and non-government agencies

Subjects	Knowing from VDP training	Knowing from neighbors and communication system	Un-Known
Local governance structure	10%	45%	45%
Election process	5%	15%	80%
Reservation policy	0	6%	94%
Government policy on money lenders	0	0	100%
Government schemes (rainwater harvesting, watershed management, waste land development program, community-based rehabilitation program, family planning program, handicaps scheme, Scholarship programs for children, Inter-caste marriage subsidy, government old-age pension scheme, widow's pension, medical camps)	0	37%	63%
Health care providing	10%	78%	12%
Public school system	0	67%	33%

Source : Field Survey, March 2008.

ment of people. It shows that still there need to be launched additional social awareness program and provide additional trainings, to empower the people so that their participation would be increase in community development activities. In comparison to before joining people in VDP, the level of empowerment is significantly changed, which we can fell and observed in overall human development like social, community, housing, women empowerment, children schooling and many more aspects. According to data table significant participation can be seen in general events like international women's day, village level public meeting and issues related to infrastructure development. Minimal participation can be seen in other area, like skill development training, domestic violence, local governance and PRA etc. From the above presented data table it can be reached in conclusion that people in this two villages are interested to participate and to get training and knowledge in different new area, if VDP provide opportunity to get training and knowledge.

Data table 20 shows the services receiving from VDP microfinance. Major services receiving from VDP are saving and credit services. Other services are VDP trainings and networking federation like chairman managers conferences (CMC). To some extent VDP's microfinance services is supporting to the poor people in rural area. Still there are several things to be provided under microfinance services. Government should be responsible to provide minimum financial services to the poor and disadvantages people living in rural remote area. VDP just introduce the process and way of extending financial services. It is not possible to extend full financial packages as well as development packages from VDP side. Government agency and professional microfi-



Table 19. Status of member's participation in community activities

	Participants only	As a Leader	Participate after Joining VDP
1. Local governance and PRA (Participatory Rural Appraisal)	2	0	2
2. Voting or other political campaigning	3	0	0
3. Village level public meetings	75	0	10
4. District or national level public meetings	0	0	
5. Meeting with local government officials	5	2	2
6. Infrastructure development activities (e.g. road maintenance, public bus, electricity, etc.)	80	0	15
7. Right-based groups (watershed, tenant sangham, gem cutters'sanghams, local grievance, etc)	30	1	10
8. Addressing domestic violence and abuse (incl. counseling for marital mistreatment)	2	2	2
9. Campaigning for government schemes	0	0	0
10. Training to other community members	2	2	2
11. International Women's Day	60	5	60
12. Others ( <i>specify</i> )	0	0	0
99. Does not participate in any of the above	0	0	0

Source : Field Survey, March 2008.

Note : total respondents = 120

nance institution has to provide additional support to the rural remote area based people. My argument is that especially government should launched special packages for development of rural remote area providing some subsidy in interest rate as well as more trainings and technology development packages.

## 9 Findings

People in two survey villages are facing the problems on financial services which I observed. They have enthusiasm to do entrepreneurship if they got opportunity to borrow micro loan and knowledge for market linkages. Microfinance service provided by village development program is in a very beginning stage. Loan, training, entrepreneurship services provided by village development program is not sufficient. According to the group members, most of the members do not get any training yet. Obviously, it is not possible to provide adequate training to all the people since VDP has limited resources. In my observation I found that some credit borrowing members use their credit to go to foreign employment which is out of enterprise development but VDP credit

Table 20. Services received from microfinance institution (VDP)

Name of Services	Numbers of Members Receiving Services	% of sample survey members
Loan	120	100
Saving	120	100
Insurance	0	
Pension	0	
Marketing linkage	10	
Matriculation school	0	
Child Labor school	0	
Right based sangam/groups	0	
Net-working federation	120	100
Leadership skill training	31	25.83
Awareness training on addressing social issues	0	
Awareness training on addressing infrastructure issues	0	
Awareness on political issues and government system	0	
Gender training	0	
Health training	0	
Not receiving any training	89	74

Source : Field Survey, March 2008.

help their interested area of income generation. Migrating to foreign employment in rural Nepal is very common. To go to foreign employment they borrow credit especially from local money lenders and in some cases they sold their property. In some extent this problem is substituted by group fund and VDP credit for their different requirement including consumption.

Some credit borrowing members made significant economic progress from the VDP credit and skill development training provided by VDP. I observed some success entrepreneur and I found their commitment and dedication was guiding for success to their enterprises. After seeing the success factors I can say credit is not panacea, it is only the supporting factor but it is very important in rural area. After completion of my field survey I have concluded the following findings on the areas of services provided by Village Development Program.

- **Coverage/outreach** : People of these two villages have not any collective connection with other financial institutions except few individual, who borrow credit from district headquarter based commercial banks. It shows that they are almost disconnecting with other financial

institution (Table 11 and 12). The outreach of Village development Program in village ThanaMoula is 78% and Kurga is 74% (table 5). It means VDP is only one organized institution supporting microfinance services but unable to meet all the requirements of the people due to the limited resources and monitoring problem. The most important aspects of VDP is, it organizes the people and makes linkages with other development partner and upgrade absorbing capacity. There is no doubt that microfinance programs can increase incomes and lifted out families from poverty. Access to microfinance can improve children's nutrition and increase their school enrollment rates, and many other things.

- **Credit** : People of these villages are almost depends on informal credit such as moneylenders and relatives (Table 11 and 12). Credit borrowing from financial institution is almost zero. However, informal credit and internal saving is also important as a source of initial working capital for micro enterprises and useful for various consumption purposes (Table 9 and 10). I found that most of the Pro-poor, poor and women's member need additional loan because of insufficient VDP loan (Table 6, 7 and 8). The volume of VDP credit and credit from internal saving is very small which is not sufficient for creation of enterprise and they are compelled to borrow credit from moneylenders and sometimes from relatives or friends. Within the ten years period one member credit extended by VDP is NRs 9,410 (US\$138) for female members and 15,500 (US\$227) for male members (Table 6) which is completely insufficient for creation of any enterprise development activities. In my observation I found that at least NRs 50,000 (US\$735) is needed to initiate any new micro enterprise development activities.
- **Savings** : There is no any saving institution in these two villages. If people wants to save the money in a banking system they should go to the commercial banks, based in district head-quarter. Saving system operated by village development program is on weekly or monthly basis, equally saving by group members and manages by group themselves. This saving fund will be used by group members on the basis of requirement and consensus made by group meeting (Table 9 & 10).
- **Training on skill development** : Success of microfinance depend upon people income generation activities. To enter in new segments of enterprise development, people need skill development training on new area for adopting new technology. It is important for microfinance program that before lending credit, training plays vital role for successfully implementation of enterprises which will be significant for sustainable microfinance program. I observed implementation procedure of VDP, where training packages has been included before lending credit to the clients. But due to the resource constraints VDP was not able to providing sufficient training to all the clients before lending credit, which is important to make effectiveness for enterprise development activities. During my field survey, people express their

dissatisfaction about limitation of training and technology provided by VDP (Table 18 and 20). Especially their requirements on training and technologies are in agriculture sector (Table 13).

- **Problems and constraints extending of microfinance services**: people in these villages are residing on scatter. Due to the unavailable of communication, transportation and banking facilities, extending microfinance is also difficult (Table 16). Success of microfinance is also depends on education and socio-economic status of the people. Low education status affects to the transaction of marketing and production activities in two villages (Table 15). Majority of the people are either illiterate or semi literate in these two villages. Their level of education do not guide to extending enterprise development. On the other hand, significant time have to be consume to meet the people for extending microfinance services because of their engagement in other activities and scattered of residence. Microfinance is that type of service where success and failure is depends on monitoring and evaluation. For effective monitoring and evaluation, staffs role is crucial. Geographically mountain area is more difficult for monitoring in comparison to flat area where more staffs required and administrative cost would be increase. Despite of unavailability of all modern technology and facilities, the achievement level of VDP supported microfinance is meaningful. Significant changes have been achieved by VDP despites of limited resources and many more other problems for extending financial services (Table 17).

In conclusion, based on the hypothesis and methodology adopted for survey of VDP supported microfinance in rural remote villages of Nepal, it can be say without any hesitation that VDP is the successful program to extend microfinance and raising the awareness generation for human development, despites of using very minimum resources and working in low profile.

- **Further Research**: Microfinance is not only limited in general or conventional finance. It is related with overall human development. Success and failure of microfinance is also depends on other development factors like health, education, infrastructure etc. Indeed, this research cannot cover all the aspects of microfinance, where so many questions would be arising. This research is “just tried to explore the status of microfinance in remote area and whether microfinance is effective tool or not for extending financial services in remote rural area where people are facing of financial problem because of unavailable minimum financial services”, since minimum financial service is the human rights. VDP, the microfinance related program is tried to meet the financial requirement of remote rural area and introducing to the people for credit borrowing technique and networking from other financial institution where VDP itself is not able to meet all the requirement of the people. Further research can be pursue in the areas of financial requirements of the people, effectiveness of microfinance and regulatory framework etc. (Money, says the proverb, makes money. When you have got a little, it is

often easy to get more. The great difficulty is to get that little. – Adam Smith)

**Others :** As the earlier sections of this paper have revealed, the present knowledge based on the extent, extending financial services to the poor in remote area of Nepal is relatively lagging. However, there are four firm observations that can be made. First, poor people do not have adequate property to offer financial institutions to borrow the loan. Second, commonly they live in less accessible areas (geographically or in terms of physical insecurity) and have social positions that makes connecting them problematic, for example the lower caste people often busy for labor works and women do not give responsibility for meeting to other people. Third, they do not have knowledge about the production of new product and market linkages. Fourth, still there exist social barriers like gender, ethnicity, caste, disability etc. Financial services through financial institution cannot remove the entire problem existence in the remote rural area. Extending financial services is a part of development endeavors where people are facing problem of financial services like loan, money transfer, insurance etc. Effectiveness of financial services is depend upon the bulk of development services to the poor people including health, education and water and other infrastructure services like road, electricity, telephone, housing etc, which is the responsibility of the state authority.

## 10 Concluding Remarks

The majority of the populations in developing countries do not have access to financial services. This condition can also be seen in Nepal where more than 75% of people are out of access to financial services. Especially in hilly areas the figure could be more (See chapter 2, Table 1-4). In comparison to other neighboring countries like India and Bangladesh, the role of microfinance for improving to the living standard of the people in Nepal is less effective. Microfinance institutions in Nepal are successful for improving small deposits and small loans to the poor people in Terai (flat land) and less success in rural hilly areas because of mobility and infrastructure facilities. Microfinance works to empower economic status by supporting small loans to initiate new and dynamic enterprises. In Nepal, more than 60% of people are small farmers ; they need such micro loans to start agriculture based enterprises, such as agriculture farming and animal husbandry. Small and marginal farmers as well as low income family are benefited by microfinance. But microfinance services are not easily accessible to the people living in rural remote area. One of the important aspects for Nepal's microfinance is, not to have dynamic and extended regulatory framework. If the regulation drives to the financial institutions to lend the credit in rural area, people living in rural remote area could be benefited.

People in rural areas suffer from high interest rates from money lenders, pawnbrokers and other exploiting groups. I found in my study that majority of the people borrow credit from money lenders and relatives. Due to the inaccessibility and lengthy process of borrowing loan

from financial institutions, people in rural area are compelled to borrow money from money lenders and pawnbrokers in a high interest rate. The data presented above in this article shows that, very few people borrow money from microfinance institution and development banks. People who borrowed money from commercial banks have a level of high standard of living. Those who do not have access to conventional financial institutions and have not collateral to borrow money from financial institutions will borrow credit from money lenders and relatives. Moreover, financial institutions prefer to lend credit in urban and accessible area. The conventional financial institutions have not introduced any encouraging policy to lend credit for the poor. They have lengthy process of paper work and less motivation to borrow credit. It seems some disparity to borrow credit from financial institution. To reduce this disparity, the government of Nepal needs to explicitly recognize access to finance for all un-served and underserved people as an important goal to pursue. Similarly, the government of Nepal should be decentralize the branch of commercial banks by creating enabling environment in the rural area to serve the poor people and subsidized in the interest rate. It is also important for the government to initiate reform programs to transform state owned financial institutions with a mandate to serve low-income people into viable and dynamic service providers. According to the above study it can be reach in the conclusion that the majority of people in rural areas still do not know about the general financial system and the procedure for borrowing the credit. The need of creditworthy clients can be maintained if the microfinance institutions and government system expand their services on the basis of rational and decentralized way.

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