

# **Effect of Micro Finance Service on Poverty Reduction in Pokhara Metropolitan City**

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**By:**

**Sagar Subedi**

Exam Roll No. 8866/18

T.U. Registration No. 7-2-781-55-2013

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## **OPERATIONAL DEFINITION OF TERMS**

**Microfinance:** Microfinance refers to an array of financial services, including loans, saving and insurance, available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan (Anyanwu, 2004).

**Poverty:** Poverty is a condition in which a person or community is deprived of the basic essentials and necessities for a minimum standard of living (Yunus, 1998).

**Poverty Alleviation:** Development interventions embracing microenterprises as the key to unlocking the potential of stagnant economies and improving the livelihoods of the poor (Momoh, 2005)

## **1. Background of the study**

Across the world, almost every country has to face poverty. Poverty is the condition in which low-income people cannot meet the basic needs of life. This situation leads to many difficulties like decrease health facilities, high illiteracy rate and quality of life (Okibo & Makanga, 2014). The World Bank defines Microfinance institutions as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services, CBS (1999).

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit i.e. lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective, which also includes insurance, transactional services, and importantly, savings (Barr, 2005). Bank and financial institution are the backbone of the development of the country. They are playing crucial role in promoting the various kind of industry, business and occupation. Financial institutions offer various forms of loan, overdraft and credit to people or businesspersons to promote industry, trade, commerce, agriculture, tourism, import, exports and other services sector. Even financial institution also gathers saving from people and mobilizing it to the productive sector by providing easy loan to the business plan.

### **1.1 Concept of Microfinance**

The term “micro” means “very small” (A.S.Hornby, 1989). Finance refers to the theory and practice of monetary credit, banking and promotion of operations in the most comprehensive sense. It includes money, credit, banking, securities, investment, speculation, foreign exchange, promotional reorganizations, underwriting, brokerage, trusts, etc. (Woelfel, 1994). Whereas, the term ‘credit’ refers the “borrowing up” to a certain limit allowed by a bank, etc. to an individual or a company (Singh, 1997). As mentioned in the world development report, ‘micro finance’ includes credit, saving and insurance and through it poor households have an access to the capital that helps to create or expand microenterprises (World Bank, 2000).

Microfinance is a term that is broadly used for the provision of financial services to low-income households and the self-employed people. It has involved on the approach of economic development intending to make low-income women and men more betterment. Although, some of the microfinance institution provide insurance and payment services but the main approach of the financial services is to provide a credit and rise the saving. Rather than a banking function, it comprises developmental tools. The main activities of the microfinance include (Ledgerwood, 1999);

- Small loans, typically for working capital
- Informal appraisal of borrowers and investment
- Collateral substitutes, such as group guarantees or compulsory savings
- Access to repeat larger loans, based on repayment performance
- Securing saving products

The poor community refers to the socially disadvantages and lagging behind group from the government's facilities and sponsors. Specially their main economy is based on agriculture and have limited owner of the land or capital, so their economic condition were relatively low or weak and that is a main problem of nation for development. So the concept of microfinance should help to remove this types problem by providing small and easy loan and encourage saving and mobilize it. In this report the researcher should try to find out the contribution of micro finance towards minority group and also try to access the involvement of this group in the micro credit program.

## **1.2 Poverty Alleviation**

Poverty is a condition in which a person of community is **deprived** of the basic essential and necessities for a minimum standard of living (Yunus, 2003). Since poverty is understood in many sense, the basic essentials may be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connection with other people of the society.

## 2. Statement of the problem

Nepal is a developing nation in the world. The major economic activities of the Nepal are agriculture, service, foreign employment and small no of industry. The agriculture census report shows that more than 65 percentage of the population are involved in agriculture. The poverty is stand for the lack to fulfill of the daily basis needs. Comparatively two types of poverty are widespread in the world, which can define below:

Pure poverty: People having lack of fulfillment of daily basic needs is known as pure poverty.

Relative poverty: Relative poverty is called the comparative poverty. People get success to the pure poverty than after these types of poverty will start. The relative poverty is stand for poverty in community, or people who is comparatively poor in the society. In this research work, the research should consider the pure poverty.

In Nepal different types of programs have been launched such as priority sector credit program (PSCP), small farmers development program (SFDP), integrated rural development program (IRDPA), micro enterprise development program (MEDEP) etc. which is aim to uplift the rural, poor, women and disadvantage group.

Despite its tremendous potential to alleviate human poverty, only less than one third of the people below the poverty line have access to micro finance services. Hence, there is a greater need to expand microfinance services. Hence there is a greater needed to expand microfinance services in Nepal. By mid-April2018, 65 micro-finance institution are in operation and each of them are focusing to provide their facilities to the client like the poor, women, trodden, minorities etc. In the Pokhara metropolitan city ward no 21 has also face various problem, and various microfinance companies, co-operative organization, developmental bank and even commercial bank provide some credit facilities to the people of the area. These institutions are playing a crucial role to remove poverty and improving the lifestyle or living standard of the people of poor. There are some problems still are containing inside this sector, so this research paper is conducted on the following problem or research question:

- What is the impact of micro-credit by microfinance institutions on poverty reduction **in Pokhara Metropolitan City**?

- What is the effect of saving by microfinance institutions on poverty reduction in Pokhara Metropolitan?
- What is the impact of training by microfinance institution on poverty reduction in Pokhara Metropolitan City?
- What is the effect of micro-insurance by microfinance institutions on poverty reduction in Pokhara Metropolitan?

### 3. Objective of the statement

The general objective of this study will to establish the effect of microfinance services on poverty reduction in Pokhara Metropolitan city. The specific objectives of this study will be;

- To determine the effect of micro-credit by microfinance institutions on poverty reduction in Pokhara Metropolitan city.
- To establish impact of saving by microfinance institutions on poverty reduction in Pokhara Metropolitan.
- To find out effect of training by microfinance institution on poverty reduction in Pokhara Metropolitan city.
- To determine impact of micro-insurance by microfinance institutions on poverty reduction in Pokhara Metropolitan city.

### 4. Rationale of the study

This study will be carried the involvement of poor group's into microfinance and test its effectiveness. This report will be beneficial to know the perception of poor people on micro finance institutions activities. This study will solve these questions ; how poor and disadvantages people are participating on micro finance institutions?, what is the awareness condition of the beneficiaries' ?, how poor people get services from there? and what types of activities are done through such services?. Especially this research output may help to the following stakeholder:

- The research study will be helpful to the [REDACTED] ward no 21 for assessing the relatively disadvantaged people from the government side and helpful to take an efficient decision to achieve the economic goals of the government.
- This research study will be helpful to the microfinance company as well to take a correct decision about the product.
- This study will become significant to those scholars who wanted to assign their research in the same topic.

## 5. Limitation of the study

This study has the following limitations:

- This study will concern only particular microfinance activities.
- The main study area of this study is Pokhara metropolitan-city ward no. 21.
- The conclusion of this study may be or may not be applicable to other areas due to differences in socio-economic conditions.

## 6. Literature review

A large volume of research studies are available on the various aspects of micro finance, such as micro finance impact assessment, women empowerment through self-help groups, impact of the self-help group bank linkage program, sustainability of microfinance institutions etc. Some of these studies are conducted in Nepal while others are conducted outside of Nepal. Studies are also available in the context of Pokhara, particularly studies on poverty removal missions. While the local level government also launched various kinds of programs to alleviate poverty in the nation. Here, researchers can find various groups like women empowerment assessment groups, small farmer development groups, impact assessments of micro finance etc. While some of the researcher's views, we can analyze below:

(Neupane, 2014) Conducted a study on the district of Nawalparasi to explore the effectiveness of microfinance in the Nepalese economy and discovered that the microfinance program has provided banking services to those who are underserved from traditional banking services. He also concluded that it has supported to respect the needs of the poor, small clients of women and indigenous groups of the deprived sector are greatly benefited. In sum, the researcher concluded that it helps to reduce poverty.

Similarly (Regmi, 2013) Has analysis a research program to explore the reduction of poverty in Goldhunga VDC Kathmandu district and he find out that almost all family who engaged in micro finance program is help to reduce the ratio of poverty in this area and start the member of this program are start to involve in small industry and commercial agriculture.

The latest economic survey of Nepal from Nepal Rastra Bank (Nepal Rastra Bank, 2018) shows that “By the end of mid-march of the current fiscal year, 984thousand 421 households have benefited from the program launched by poverty alleviation fund in 60 districts there are 75 percentage female members in community organization formed by this fund, 350 poor communities have been facilitating to promote the handicraft. Similarly 31 pocket sector development programs have been formed.”

It is indicated, “for the purpose of self-employments to poor and unemployed youth, there is a provision to provide a maximum of Rs.200 thousand without any collateral/securities through youth and small entrepreneurship self-employments programs.”

It also indicates, “for the purpose of self-employments to poor and unemployed youth, there is a provision of RS.200 thousand without any collateral/securities through youth and small entrepreneurship self-employments programs.”

(Sharma, 2019) Find out that an effective apex micro-finance institution could play an important role in ensuring the effective channeling of fund to targeted NGOs/MFIs and borrowers at reasonable interest rates. Sustainability of the micro finance sector is important and should be ultimate goal if any strategy to strengthen the sector.

He also concluded that micro finance leads to social and economic changes in the borrowers after the participations in these programs.

Another study done for micro finance can also revised, (Sherestha & Adhikari, 2013) they concluded, “Level of income was one of the indicators used to test the change in living standard of loaners. It was reporting that 98.00 percentage of the loaners said that they are earning profits. On an average, each of the loaners (except two) has earned NRS.98,941 as a profit. However, 79.33 percent of the loaners have earned profit up to NRS.150000.it reveals that the program has highly positive impact on the loaner’s economics status. Compared to the average profits NRS.98, 941 the ratio of probability of the loans was

416-56 percent. This shows that the micro finance programs have been very successful in the survey area.

All the report mention above concluded that government strategy and acceptance of such activities is required for the successful outcomes of such initiate and the researcher should agree with them and the researcher will consider the social, economic, consumption pattern of food, and basic infrastructure ability which some of mention report also consider the factor but it can be changed on time gap so the researcher should try to make refreshment on the researcher and it can be another pieces to study on role of microfinance in Nepal.

## **7. Research methodology**

### **7.1 Research design**

This study will be based on descriptive analysis, supported by quantitative factor wherever necessary. The study will be review the experience and seek to draw lessons from the review. Case study will be done. The information wills assimilation from the direct questionnaire etc.

### **7.2 Population and sampling procedure**

Micro finance program and impact on Pokhara Metropolitan City ward no 21 will be the main study area of researcher. The study will design especially targeting the microfinance beneficiaries group of that place. The group member or the beneficiaries of micro finance people from poor and who are involved in microfinance programs, that community will be the population of the study. **Moreover, the researcher will use Non-Random or Non-probability sampling technique such as connivance, quota sampling, etc.**

### **7.3 Method of data collection**

Required information, fact, data, idea will be collected from primary source and secondary sources.

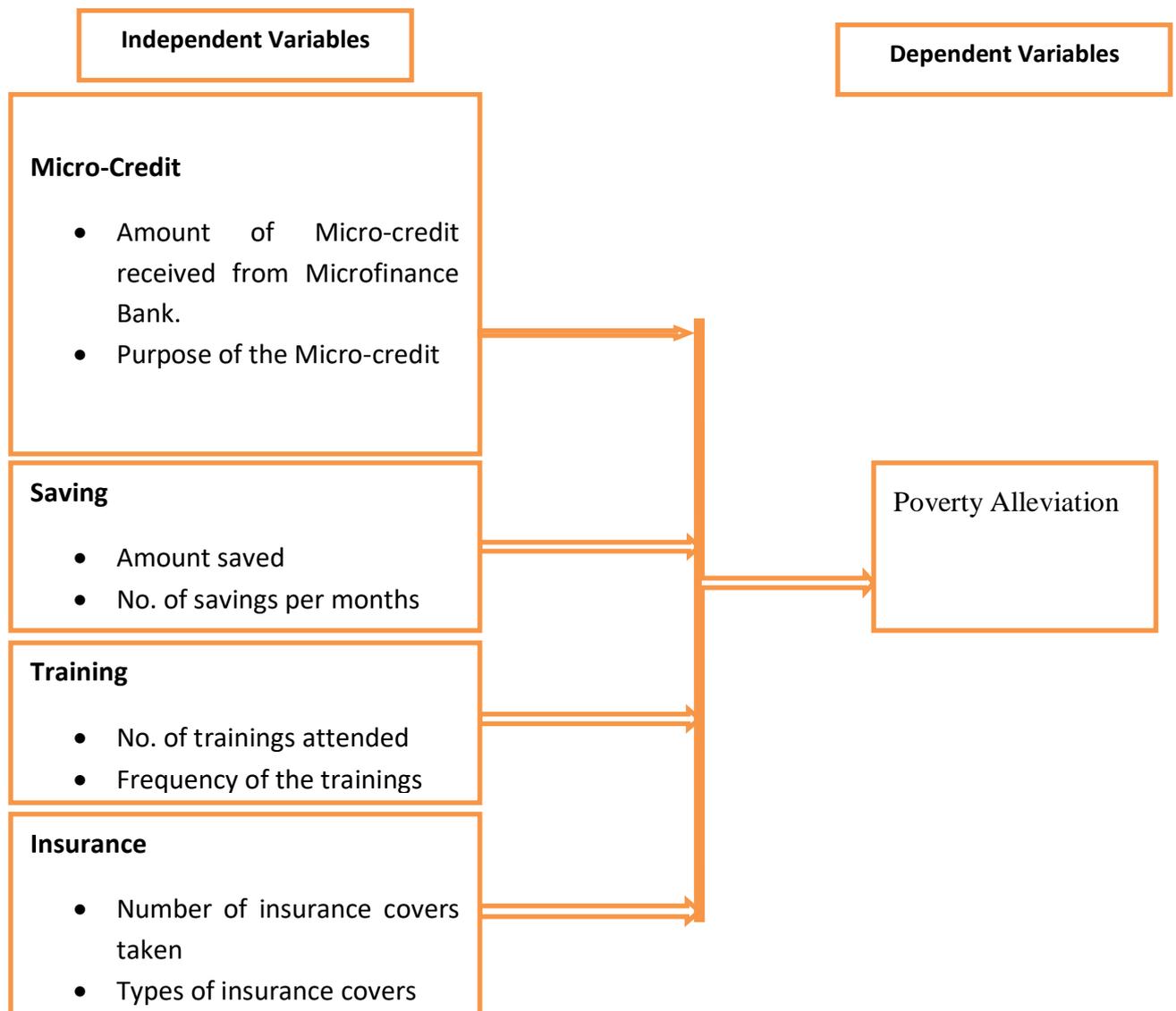
**The primary data** and information from respondent are collected by conducting observation, structure questionnaire, interview and focus group discussion etc.

The **secondary information** will be collected from previous research, journal article, published unpublished reports, internet and library help etc.

#### 7.4 Research framework and **definition of variables**

##### Theoretical framework

The main theme of the **project** can show in the following figure:



Source: (Mutua, 2017)

## 7.5 Method of analysis

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## 8. Work Plan

The major activities plan for the proposed study is given in the form of Gantt chart.

Table 1

*Tentative Work Plan for the Study*

S.N	Task	in months		
		1	1-2	2-3
1	Literature review and questionnaire preparation	■		
2	Data collection, coding and entering data		■	
3	Data analysis and model development		■	
4	Report writing		■	
5	Finalization, report printing			■
6	Report submission and presentation			■

## 9. Budget

The estimated expenditure for the research project is given below:

Table 2

*Estimated Expenditure for the Research Project*

S.N	Particulars	Amount (Rs)
1	Literature review (collection of journal articles, publications, reports, bibliographic cards, report keeping, visit to central library of TU and other libraries )	2,000
2	Questionnaire preparation and translation	1,000
3	Data collection (questionnaire distribution and collection and allowance to enumerator)	2,500
4	Stationery support	2,500
5	Printing, binding cost	5,000
6	Report presentation and official work	1,000
7	Registration fee	6,000
8	Total estimated expenditure	20,000

In words, rupees twenty thousand only.

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