

## Impact of Microfinance on Economic and Social Spending Patterns of User Groups- Evidence from Western Hill, Nepal

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### ABSTRACT

Microfinance refers to financial services such as loans, saving, insurance and other basic banking products. These services are typically offered by MFIs, aiming to empower and support low income and underserved communities who are often excluded from formal banking sector due to the factors like poverty, lack of collateral and limited credit history. This paper delves into the impact of microfinance services on user groups in the Western Hills of Nepal. This research work follows mixed methods approach. Thematic analysis and statistical software have been applied for the analysis of data obtained from the field study. The majority of microfinance users in the study are found female, married, engaged in agriculture, having primary education and using this service for several years mainly for expanding business. As per the answer of the respondents, MFIs cater to the poor and fulfill their needs, improvement in household income, and access to education, healthcare and women participation in economic activities. The study revealed that there is significant increase in monthly income, saving and bank balance, spending on education and small business after the involvement in microfinance service. Consumption and health spending found decreasing, and festival spending remained relatively unchanged after the involvement. High interest rate and loan repayment system found challenging in the study area. This study suggests that there is need to address these challenges to enhance its effectiveness further and ensure financial stability for the microfinance user groups of the study area.

### 1. INTRODUCTION

A variety of financial products and services are referred to as "microfinance services" and are provided by microfinance institutions (MFIs) to people and small enterprises that are frequently left out of traditional banking systems. These services are designed to provide finance access to

low-income individuals and communities, and underserved people or marginalized groups including women, disabled individuals, Dalits, and other disadvantaged communities in both rural and urban areas, mainly in developing countries. Microfinance offerings typically include micro loans, savings account, and insurance

and sometimes even financial education. This idea came about as a result of the introduction of financial tools that made it possible for people from low-income backgrounds to interact with a banking intermediary and the recognition that micro-entrepreneurs and financially marginalized people are viable candidates for loan repayment and savings (Murray & Boros, 2002). The primary goal of microfinance is to empower individuals and communities by providing them the tools to manage their finances, invest in income-generating activities and improve their overall economic well-being. Microfinance has gained popularity because of its potential to reduce poverty, encourage entrepreneurship, and create financial inclusion among individuals without access to formal banking services.

Microfinance services in Nepal reflects a robust and widespread network that plays a pivotal role in promoting financial inclusion and empowerment. With a remarkable coverage spanning all 77 districts, microfinance institutions (MFIs) are making significant strides in bringing financial services to even the most remote areas of the country (Nepal Rastra Bank-NRB, 2023). Microfinance services play significant role in empowering women economically and socially. Overall, the existing microfinance landscape in Nepal is a testament to its role in fostering financial resilience and driving inclusive development throughout the nation.

In Nepal, there are 63 Micro Finance Institutions (MFIs) across various dimensions. It encompasses crucial parameters including the area coverage, districts served, staff count, branch and service center statistics, as well as group and member counts. In terms of area coverage and district presence, all 77 districts in Nepal are encompassed by the MFIs under consideration, with varying degrees of penetration. In terms of human resources, a total of 23,046 staff members contribute to the operations of these MFIs, distributed across diverse institutions. There is widespread outreach of microfinance services through a network of 5,093

branches and 44,127 service centers, enabling access to financial services across the country. Impressively, the MFIs collectively cater to an extensive client base, with 1,390,539 groups and 5,999,313 members benefiting from these services. This service has significant female participation. Notably, out of the total borrowers, comprising 3,161,616 individuals, females constitute a substantial majority, showcasing the pivotal role of microfinance in empowering women (Quarterly Report of NRB, April, 2023). The type of interactive insights unveils the substantial impact of microfinance services in Nepal, promoting financial inclusion and socio-economic development. This study is mainly focused on socio-economic spending patterns of microfinance user groups in Western hills of Nepal.

## 1.1 REVIEW OF LITERATURE

Microfinance encompasses the provision of financial and non-financial services to individuals with limited income, aiming to support their income-generating activities. These services primarily consist of small loans and savings accounts for impoverished clients. As outlined by Murray and Boros (2002), MFIs include provision of small loans and savings, offering short-term loans, payment schedules with frequent instalments, encompassing both principal and interest, interest rates higher than commercial banks but lower than loan-shark rates, streamlined client entry processes and simplifying access to microfinance services, recognition of timely repayments through eligibility for larger repeat loans and no collateral requirements as its features.

As per the directives of NRB (2016), supplying credit as stipulated, providing microcredit with or without collateral for micro-enterprise operations, obtaining loans or grants from licensed institutions or organizations, evaluating and approving micro-credit schemes, engaging in micro-enterprises to enhance the economic condition of low-income individuals, offering symposia, training, and technical assistance for micro-enterprise

development, facilitating group mobilization for micro-credit, accepting deposits with or without interest within Rastra Bank limits are the major function of microfinance. For the operation of such functions and to empower economically disadvantaged individuals and communicates, microfinance has evolved various models. These models utilize innovative approaches to provide financial services and promote socio-economic development.

As conceptualized by Nobel Laureate Muhammad Yunus (1970s), Grameen Joint Liability Group Model of microfinance is regarded as a highly effective microfinance model, particularly in Southeast Asia. This model focuses on economically disadvantaged groups of society lacking access to formal banking systems, aiming to improve their socio-economic conditions. According to this model, a banking unit is established with field managers, assistants, and personnel covering a cluster of villages identifying potential clients, forming joint liability groups, and gradually disbursing loans based on successful repayments. Notably, the Grameen model's loan provision methodology commences with two members, progressively expanding to others within the group. This phased approach leverages peer pressure as collateral, fostering a sense of collective responsibility and minimizing loan defaults (Panda, 2009). Similarly, Self-help Group Model, Village Banking Model, Community Banking Model, Rotating Saving and Credit Associations, Cooperative Model and Small Farmers Co-operatives Ltd are also the famous models of microfinance. But in Nepal, various microfinance institutions including Chartare Youth Club Laghubitta Bittiya Sanstha (CYCL), Dhaulagiri Laghubitta Bittiya Sanstha (DLBS) and National Educational & Social Development Organization Samridhi Laghubitta Bittiya Sanstha (NESDO) which are originated from NGOs based microfinance institutions and others Kalika, Ganapati and Infinity taken as a sample for the study, have adopted the Grameen model within their microfinance operations in Nepal. This paper is mainly

based on how is the socio-economic impacts of microfinance services to its user groups in Western hills of Gandaki province, Nepal.

Microfinance is widely recognized as a crucial tool for the economic empowerment of the poor (Arova, 2013). Microfinance products (saving and credit), supports and facilities (education, training and cultural norms) influence women's decision-making power and control over resources. Karki et al. (2021) highlighted the positive effects of microfinance including increased income, improved access to healthcare and education and the potential for poverty alleviation. It is also recognized as a tool to help poor people escape poverty through access to credit, savings, insurance, and fund transfers. Governments, NGOs, and donors support microfinance as a strategy to eradicate poverty, contributing to economic growth and development (Sharma, 2014). It facilitated income generation for better food, access to healthcare, and education for their children, thus yielding a positive overall impact (Adhikari & Shrestha, 2013). It complements basic infrastructure to effectively alleviate poverty (Appah et al., 2012). Similarly, productive loans from microfinance institutions positively affect multidimensional welfare indicators (Imai, Arun, & Annim, 2010). Microfinance supports the entrepreneurial aspirations of the poor, positively influencing their business development and standard of living (Alemu, 2006).

Yunus (2003) compared poor individuals to bonsai trees, suggesting that limited opportunities and resources hinder their growth. The poor possess untapped skills and that poverty arises from institutional and policy constraints. Microfinance enables individuals to break free from poverty's grip and promoting self-reliance (Yunus, 2004). Asemelash (2003) demonstrated the positive impact of microfinance on client lives in Ethiopia, showing improvements in income, asset accumulation, and access to education and healthcare. Microfinance services enhances the quality of life, self-confidence, and

income diversification of clients worldwide (Robinson, 2001). Similarly, Khandker (1998) highlighted the importance of microfinance in generating self-employment opportunities for the poor, especially women, and promoting economic growth.

Microfinance aided impoverished clients, particularly women and indigenous groups, by increasing income levels and skill utilization (Neupane, 2014). It facilitated economic development, altered consumption patterns, and created employment opportunities through loans for various investments. Self-employed individuals with microfinance loans earned better incomes than those with external income sources (Khan, 2014). Similarly, Kunwar (2012) concluded that microfinance aids poverty reduction through efficient investments and financial intermediaries. Thus, microfinance plays a significant role in reducing poverty, unemployment, and inequality, contributing to self-employment and improved living standards of its user groups.

The research explored ways to enhance health, education, legal rights, sanitation, and living standards for the impoverished. Microfinance programs also enhanced women's security, self-confidence, and status within households. The similar study advocated that microfinance can diminish income and human poverty, primarily by empowering women (Bashyal, 2005). The study in Khushali Bank Clients in Pakistan showed a positive impact of microfinance programs on health and increased inputs for micro-enterprises. It emerged as a powerful tool for poverty reduction and informal credit replacement, particularly benefiting micro-enterprises in developed countries (Coleman, 1999). Thus, the collective findings from the review affirm that microfinance serves as a vital tool for fostering self-reliance, employment generation, income increment, business expansion, empowerment, and improved quality of life for marginalized populations.

## 1.2 RESEARCH QUESTION

Microfinance services supply to a diverse range of user groups, primarily focusing on low-income individuals, marginalized communities, and small entrepreneurs who lack access to traditional banking services. This service focuses on the poor, group-based approaches, repayment structures, interest rates, operational simplicity, and economic activity choices. Numerous studies have examined the positive social and economic impacts of microfinance on poverty reduction and overall living standards. However, there is a current research gap in understanding the impacts of microfinance services on its user groups in the study area. Although it is defined as a provider of financial services to low-income, poor, and very poor self-employed individuals (Otero, 1999). In this regard, this study is conducted in Western hills of Nepal mainly focusing on how is the impact of microfinance on economic and social spending patterns of user groups before and after involvement in the program?

## 2. METHODS AND MATERIALS

This research work follows a mixed-methods approach to comprehensively assess how micro-finance services impact the socio-economics well-being of user groups in Western hills of Nepal. Quantitative methods is employed while conducting surveys among a representative sample of micro-finance clients, utilizing stratified and random sampling techniques which captures the data on income levels, saving, asset accumulation and financial inclusion. Similarly, qualitative methods involve semi-structured interviews with key stakeholders including micro-finance clients and related experts, as well as focus group discussions and in-depth case studies to delve into the nuanced experiences and perceptions of the micro-finance user groups.

This research is mainly based on Western hills of Nepal, selecting it purposively. Of the total total district of Western hills, four districts of Dhawalagiri region (Baglung, Parbat, Magdhi and Mustang) are selected as a sample on the

basis of purposive sampling. Key informants are selected based on stratified random sampling representing, at least 50 respondents from each district. While selecting key informants, duplicated clients are taken as a sample categorizing from NGOs based and others of this area. For the study DLBS, CYCL and NESDO from NGOs based and Kalika, Ganpati and Infinity from others MFIs having head office in Gandaki Province of Nepal are selected purposively.

For the analysis of the data, thematic analysis for qualitative data and statistical software for quantitative data has applied. Ethical considerations, including informed consent and confidentiality has upheld throughout the study. Finally, the results of the study have synthesized to formulate policy recommendations and disseminated to stakeholders, thus contributing to an informed and holistic understanding of the socio-economic impact of micro-finance service user groups in the study area.

## **2.1 CONCEPTUAL FRAMEWORK**

A conceptual framework is a structure that represents the key concepts, variables, and relationships within a specific area of study. In this study, it combines the key elements influencing the impact of microfinance services on user groups. It comprises mainly three components: microfinance services, user groups, and socio-economic impact. These services encompass different financial products (microloans, savings, and insurance). Interest rates, repayment terms, and other additional support are considered in these services. Women, marginalized communities, and small entrepreneurs, based on demographic, economic, and social characteristics, are the user groups of microfinance services. This service is mainly focused on their specific needs and challenges faced.

Applying a mixed-method approach incorporating surveys, interviews, and focus group discussions, qualitative and quantitative data are gathered to assess the impact of microfinance on the economic and social spending patterns of user groups before and after involvement in the program. Social factors, economic factors, and contextual factors are also considered. Thus, the study aims to contribute to a nuanced understanding of the impacts of microfinance services on user groups.

Socio-economic indicators such as women empowerment, participation in activities, financial inclusion, social standing, health improvement, income increment, consumption, saving, spending, and business expansion are interrelated and play pivotal roles in shaping the outcomes of microfinance services.

## **3. RESULTS AND DISCUSSION**

### **3.1 EXISTING SCENARIO OF MFIS IN WESTERN HILLS OF NEPAL**

There are 77 districts in Nepal and all of them covered by the 63 MFIs. In Western region of Nepal, there are 16 districts. Gandaki is the province of Western region of Nepal. Within the Gandaki Province there are 11 districts, with 11 MFIs having their head office in the province. Across all MFIs, there are a total of 23,046 staff members. In Gandaki Province, there are 1,987 staff members working in the sample MFIs. Similarly, there are 464 branches, 41,206 service centers, 114,560 groups, 448,927 members and 21,451 borrowers. The study focuses on six prominent MFIs within various categories, representing both NGO-based (DLBS, CYCL and NESDO) and other types (Kalika, Ganapati and Infinity). Additionally, this study is mainly centralized on the efficacy of microfinance on economic and social spending patterns of user groups of this hills before and after involvement in the services.

Table 1: Existing scenario of MFIs in the sample areas

| Particulars                   | Total Consolidated Data of 63 MFIs | Sample MFIs of Gandaki Province |        |         |         |        |        |        |        |        |             |          |        |        |                    |        |        |        |        |      |
|-------------------------------|------------------------------------|---------------------------------|--------|---------|---------|--------|--------|--------|--------|--------|-------------|----------|--------|--------|--------------------|--------|--------|--------|--------|------|
|                               |                                    | NGOs based                      |        |         |         |        |        |        | Others |        |             |          |        |        |                    |        |        |        |        |      |
|                               |                                    | DLBS                            | %      | CYCL    | % NESD  | O      | %      | Total  | %      | Kalika | % Gana pati | % Infity | %      | Total  | % Total in Sampled |        |        |        |        |      |
| Area Covered District         | 77                                 | 77                              | 77     | -       | 77      | -      | 77     | -      | -      | -      | 77          | -        | 77     | -      | -                  | -      | -      | -      | -      |      |
| District Served               | 77                                 | 21                              | -      | 77      | -       | 17     | -      | -      | -      | 36     | -           | 23       | -      | 47     | -                  | -      | -      | -      | -      |      |
| Total No. of Staffs           | 2304                               | 6                               | 177    | 17.79   | 535     | 53.77  | 283    | 28.44  | 995    | 50.08  | 408         | 41.13    | 226    | 22.78  | 358                | 36.09  | 992    | 49.92  | 1987   | 8.62 |
| Total Branches                | 5093                               | 44                              | 19.13  | 130     | 56.52   | 56     | 24.35  | 230    | 49.57  | 100    | 42.74       | 43       | 18.38  | 91     | 38.89              | 234    | 50.43  | 464    | 9.11   |      |
| Total Service Center          | 44412                              | 7                               | 2994   | 16.34   | 9133    | 49.86  | 6,191  | 33.8   | 18318  | 44.45  | 7,734       | 33.79    | 3,469  | 15.16  | 11,685             | 51.05  | 22888  | 55.55  | 41206  | 9.28 |
| Total Groups                  | 13905                              | 39                              | 11,940 | 21.35   | 28,347  | 50.68  | 15,647 | 27.97  | 55934  | 48.83  | 37,071      | 63.23    | 9,870  | 16.84  | 11,685             | 19.93  | 58626  | 51.17  | 11456  | 8.24 |
| Total Members                 | 5999313                            | 35,625                          | 15.63  | 114,472 | 50.24   | 77,769 | 34.13  | 227866 | 50.76  | 78,933 | 35.71       | 42,773   | 19.35  | 99,355 | 44.94              | 221061 | 49.24  | 448927 | 7.48   |      |
| Male                          | 1801                               | 30                              | 990    | 20.72   | 2,776   | 58.1   | 1,012  | 21.18  | 4778   | 44.25  | 2,325       | 38.63    | 0      | 0      | 3,694              | 61.37  | 6019   | 55.75  | 7      | 5.99 |
| Female                        | 581418                             | 3                               | 34,635 | 15.53   | 111,696 | 50.07  | 76,757 | 34.41  | 223088 | 57.48  | 26,608      | 16.12    | 42,773 | 25.92  | 95,661             | 57.96  | 165042 | 42.52  | 388130 | 6.68 |
| Total Borrowers               | 3161616                            | 16,243                          | 14.52  | 54,688  | 48.9    | 40,908 | 36.58  | 111839 | 52.89  | 32,667 | 32.79       | 23,479   | 23.57  | 43,466 | 43.64              | 99612  | 47.11  | 211451 | 6.69   |      |
| Male                          | 97611                              | 595                             | 21.97  | 1,383   | 51.07   | 730    | 26.96  | 2708   | 58.81  | 1,380  | 72.75       | 0        | 0      | 517    | 27.25              | 1897   | 41.19  | 4605   | 4.72   |      |
| Female                        | 3064005                            | 15,648                          | 14.34  | 53,305  | 48.84   | 40,178 | 36.82  | 109131 | 52.76  | 31,287 | 32.02       | 23,479   | 24.03  | 42,949 | 43.95              | 97715  | 47.24  | 206846 | 6.75   |      |
| Out of 11 of Gandaki Province | 7                                  | -                               | 11     | -       | 9       | -      | -      | -      | 9      | -      | 5           | -        | 6      | -      | -                  | -      | 47     | -      | -      |      |

Source: NRB Report, 2023 and Internal Documents of Sample MFIs, 2023.

Overall, the data overwhelmingly shows how MFIs have become a critical element in empowering rural communities within the Western hills of Gandaki Province. Their

extensive reach, dedicated workforce and diverse services cater to the financial needs of various groups, fostering financial inclusion and economic development.

### 3.2 DEMOGRAPHIC INFORMATION OF THE STUDY AREA

Microfinance institutions provide financial services to the underserved and economically marginalized people for poverty alleviation and enhancement of social outstanding through women empowerment, better access to health and education, participation of women in decision making, conduction of skill

development training and self-employment program, access to credit and saving facilities to income generating activities. This research is mainly based on these issues taking the sample of microfinance user groups of Western hills of Gandaki Province, Nepal. The overall demographic status of the study area is mentioned below.

Table 2: Demographic information of the sample area (N=250)

| Factors        | Demographic variables  | Frequency | Percent |
|----------------|------------------------|-----------|---------|
| Category       | NGos based             | 128       | 51.2    |
|                | Others                 | 122       | 48.8    |
| Gender         | Male                   | 21        | 8.4     |
|                | Female                 | 199       | 79.6    |
|                | No response            | 30        | 12.0    |
| Marital status | Unmarried              | 19        | 7.6     |
|                | Married                | 178       | 71.2    |
|                | Single                 | 39        | 15.6    |
|                | No response            | 14        | 5.6     |
| Age            | Age 18-30 years        | 23        | 9.2     |
|                | Age 31-40 years        | 92        | 36.8    |
|                | Age 41-50 years        | 81        | 32.4    |
|                | Age 51 and above years | 44        | 17.6    |
|                | No response            | 10        | 4.0     |
| Education      | Never been to school   | 47        | 18.8    |
|                | Primary school         | 96        | 38.4    |
|                | Secondary school       | 78        | 31.2    |
|                | Technical education    | 16        | 6.4     |
|                | University education   | 6         | 2.4     |
|                | No response            | 7         | 2.8     |
| Occupation     | Students               | 4         | 1.6     |
|                | Agriculture            | 127       | 50.8    |
|                | Government job         | 24        | 9.6     |
|                | Private job            | 51        | 20.4    |
|                | Other                  | 36        | 14.4    |
|                | No response            | 8         | 3.2     |

Source: Field Survey, 2023.

Table 5.2 presents the categorical data set of "NGOs based" and "others", gender, marital status, age, education and occupation of the study area. The category NGOs based has a frequency of 128 which

represents 51.2 percent of the total count. Similarly, the category "Others" has a frequency of 122 which accounts 48.8 percent of the total sample size 250. This analysis suggests that among the data set

of 250 total observations, NGOs based comprise the majority (51.2 percent), while the remaining 48.8 percent covers "Others" category.

Of the total, female respondents constitute the majority of 79.6 percent which is a significant portion of the sample size, while male respondents accounting for 8.4 percent. MFIs, by providing financial services, want to give women more power, serve rural area and provide loans to poor and marginalized people (Lamichhane, 2020; Serrano-Cinea & Gutierrez- Nieto, 2014). Similarly, a group of 12 percent respondents of the total count found no response pertaining to the issues.

Table 5.2 also provides the data set of marital status of the respondents taken as a sample of the study area. Married member of microfinance user groups constitutes the most significant portion making up 72.1 percent of the respondents. Similarly, unmarried individuals represent the smaller portion at 7.6 percent. Single individuals account only 15.6 percent of the total count and a small group of individuals did not respond in the given issues. Similarly, it presents the data breakdown based on age groups of the sample area. The highest representation lies in the age group 31-40, constituting the largest segment at 36.8 percent, while age groups of 41-50 represents 32.4 percent of the total sample. Similarly, age group of 51 and above accounts 17.6 percent and the youngest age groups (18-30) is found smallest segment which covers only 9.2 percent of the respondents. Of the total, four percent of the groups did not respond to the survey question regarding this issue.

Regarding education level, of the total respondents, largest group of respondents attended the primary education which is covered 38.4 percent. Those who have attained secondary education, never been to school and technical education represent 31.2 percent, 18.8 percent and 6.4 percent respectively. Only six respondents attained university education which represents 2.4 percent of the total sample. A small portion (2.8

percent) did not disclose their educational background.

Similarly, Table 5.2 also represents categorical background of the respondents based on different occupations of the study area. In the sample area agriculture is found the most prevalent occupation which constitutes the largest segment at 50.8 percent. The next significant category of occupation is private job which comprises 20.4 percent and followed by other jobs (14.4 percent) of the total sample. Similarly, government job constitutes 9.6 percent of the respondents. A small group of respondents (3.2 percent) taken as sample did not disclose their response regarding this issue.

### **3.3 MICROFINANCE SERVICES AND ITS IMPACT ON USER GROUPS**

This study delves into the multifaceted influence of microfinance on diverse user groups within Western hills of Gandaki province, Nepal. Beyond its role as a financial catalyst, it examines microfinance's broader societal impact on empowerment and social progress. The investigation assesses this influence through various lenses, including loan repayment challenges, income and spending changes across categories like consumption, health, education, business, festivals, and travel, as well as pre- and post-microfinance involvement savings and bank balances from the sample area of this region which are mentioned below.

### **3.4 ANALYSIS OF RESULTS ON THE BASIS OF PAIRED SAMPLE STATISTICS**

Table 5.3 shows the impacts of microfinance on its user groups in Gandaki Province of Nepal. Regarding monthly income, the mean before and after involvement in microfinance groups is Rs. 28, 598. As indicated by the t- value of 16.741 and a p-value of .000 indicates that there is a significant different between the before and after income of microfinance user groups and found highly significant change. The correlation between income before and after is also found strong and robust relationship between the two



( $r=0.871$ ). In the study area, consumption spending before and after is found decreasing (Mean = Rs. -1323.200). As per the response of the respondents, it is due to increase in awareness and skill development training conducted by the microfinance institutions. As indicated by the t- value of -7.067 and a highly significant p-value of .000, there is substantial difference between the before and after spending. The value  $r = 0.948$  indicates high correlation and strong relationship. Similarly, there is found significant difference between the before and after spending on education ( $t = 15.549$ ,  $p$ -value = .000,  $r = 0.867$ ). The mean spending on health before and after is found decreasing and a noticeable difference with a t- value of 15.549 and a

highly significant p- value of .000. The value of  $r$  (0.141) indicates less consistent relationship. Of the variable taken into consideration, the mean spending on small business before and after (Rs.23, 214.8), t- value (9.001) and p -value (.000) indicate strong and a highly significant difference. The value of  $r$  (.845) shows a robust relationship. No significant difference is found regarding spending on festivals before and after involvement in microfinance user groups. The correlation between the festivals spending is found moderates. From the study it is also found that spending on travels and tours is decreasing and found significant difference. Saving and bank balance is found increasing and difference is significant with moderate relationship.

**Table 3: Changing patterns on variables before and after involvement**

| Variables (V1-8)             | Mean        | Std. Deviation | T        | df  | Sig. (2-tailed) | Correlation |
|------------------------------|-------------|----------------|----------|-----|-----------------|-------------|
| Monthly income               | 28598.000   | 27009.358      | 16.741   | 249 | .000            | .871        |
| Spending on consumption      | (-1323.200) | 2960.317       | (-7.067) | 249 | .000            | .948        |
| Spending on education        | 1617.600    | 1644.856       | 15.549   | 249 | .000            | .867        |
| Spending on health           | (-3150.400) | 12555.772      | (-3.967) | 249 | .000            | .141        |
| Spending on small business   | 23214.800   | 40778.745      | 9.001    | 249 | .000            | .845        |
| Spending on festivals        | (-69.200)   | 1890.234       | (-.579)  | 249 | .563            | .850        |
| Spending on travel and tours | (-595.600)  | 1413.028       | (-6.665) | 249 | .000            | .855        |
| Saving and bank balance      | 3579.200    | 3051.033       | 18.549   | 249 | .000            | .537        |

Source: Result based on computed data/SPSS, 2023.

In general, all the variables considered, such as income, consumption, education, health, small businesses, travel, festivals, and savings, show significant differences except for spending on festivals before and after participating in microfinance. There is a strong correlation indicating consistent changes, except for health spending in the Western hills of Nepal. Dhungana (2018) concluded that the creation of micro businesses and

enterprises by people significantly improved after participating in a microfinance program. Micro finance influences the business development and level of living of people (Alema, 2006). Similarly, Karki et al. concluded that microfinance program positively impacted on income level, poverty reduction, access to healthcare and education. Thus, this research also supports the conclusions drawn by these researchers.

Table 4: Independent Sample Test (N=250)

| Variables                                      | Category   | Mean     | Std. Deviation |
|--|------------|----------|----------------|
| Monthly income before involvement              | NGOs based | 14007.81 | 9342.559       |
|  | Others     | 14786.89 | 19228.607      |
| Monthly income after involvement               | NGOs based | 41421.88 | 23029.802      |
|  | Others     | 44627.05 | 50741.060      |
| Spending on consumption before involvement     | NGOs based | 8062.50  | 6973.516       |
|  | Others     | 7905.74  | 7538.423       |
| Spending on consumption after involvement      | NGOs based | 6708.59  | 4677.893       |
|  | Others     | 6614.75  | 5331.098       |
| Spending on education before involvement       | NGOs based | 3957.03  | 2521.582       |
|  | Others     | 4508.20  | 3322.216       |
| Spending on education after involvement        | NGOs based | 5479.69  | 2724.354       |
|  | Others     | 6225.41  | 3776.757       |
| Spending on health before involvement          | NGOs based | 3174.22  | 1796.113       |
|  | Others     | 5303.28  | 18004.769      |
| Spending on health after involvement           | NGOs based | 1069.53  | 1095.845       |
|  | Others     | 1055.74  | 1015.015       |
| Spending on Small business before involvement  | NGOs based | 18490.63 | 30258.332      |
|  | Others     | 17196.72 | 24707.258      |
| Spending on small business after involvement   | NGOs based | 46105.47 | 76199.119      |
|  | Others     | 35795.08 | 39948.715      |
| Spending on festival before involvement        | NGOs based | 5226.56  | 3204.856       |
|  | Others     | 5569.67  | 3919.814       |
| Spending on festival after involvement         | NGOs based | 5152.34  | 3006.580       |
|  | Others     | 5505.74  | 3488.619       |
| Spending on travel and tour before involvement | NGOs based | 4758.59  | 2740.324       |
|  | Others     | 4549.18  | 2695.581       |
| Spending on travel and tour after involvement  | NGOs based | 4188.28  | 2233.306       |
|  | Others     | 3927.05  | 2224.099       |
| Saving and bank balance before involvement     | NGOs based | 4385.16  | 2731.072       |
|  | Others     | 4444.26  | 2996.059       |
| Saving and bank balance after involvement      | NGOs based | 7835.94  | 3144.242       |
|  | Others     | 8158.20  | 3666.057       |

Source: Result based on computed data/SPSS, 2023.

Table 5.4 provided statistics compare various financial aspects between microfinance users involved with NGOs based and others MFIs. From the study it is found that after involvement, both groups experienced an increase in mean income. Spending found decreased for both groups except for spending on small businesses which increased notably. Mean of spending on small business is found higher in NGOs based MFIs compared to others. Regarding savings and bank balance, both groups found similar mean values before and after involvement, with others having slightly higher balances. Similarly, after

involvement, standard deviations still remain higher for others group, indicating continued variability in their financial outcomes compared to the NGOs based MFIs. The high standard deviations and variability in some categories especially in 'others' imply diverse financial situations within these groups.

#### 4. CONCLUSION

From the study, it is found that the majority of respondents were female, married, aged between 31- 50 years with primary or secondary education, mainly engaged in agriculture and had more than

five years of experience with microfinance services. Most of the respondents have used a combination of microfinance services (loans, savings and insurance). Majority respondents found utilized microfinance for business expansion and followed by self-employment generation. Regarding overall impact of microfinance services, most of the respondents perceived positive changes in their social standing, improved income, and enhanced employment opportunities, improved access to education and health, spending on small business. Mean spending on small business is found higher in NGOs based MFIs. But it is found decreased spending on consumption and travels and tours due to increase in awareness of users. Finally, notable changes were observed in various social and financial aspects of the study area.

Thus, microfinance services positively impacted on respondents' lives improving income, education, business and access to essential services. Financial status of respondents found improved and spending patterns found fluctuating in the study area. As per the respondents' answer, there is found notable concerns regarding high interest rates, challenges in loan repayment and minimal asset accumulation. It is, thus concluded that it contributed to societal development, women's empowerment, healthcare access and education improvement. This study suggests that regulation on interest rates to make it more accessible and sustainable, asset diversification apart from livestock to ensure long-term financial stability, financial literacy programs for users to ensure better utilization of microfinance products and mitigate challenge in loan repayment are required to conduct. Similarly, social awareness programs about the benefits and potential risks related to microfinance service for better engagement is essential for the betterment of the program.

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## Ethical Approval for the Research

I declare that this research work has been conducted ethically.

## Conflict of Interest:

There is no conflict of interest with any institutions and individuals.

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