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Role of Micro-Finance in Socio-Economic Development of Kathmandu, Nepal

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Abstract

The focus of this paper is to analyze the role of micro-finance in socio-economic developmentof Kathmandu. Microfinance is a simple but effective credit tool that enables the most poor to pull themselves out of poverty. The socio-economic status of loanees has improved consequently than when they started small business with loan in the earlier days. Moreover, it was found that their socio-economic status was higher than that of non-loanees. Microcredit is an effective tool for raising the socio-economic status of the poor people, particularly the women.

Keywords: Microfinance, socio-economic, Loanees, non-loanees and Kathmandu

1. Background

Microfinance is one of the best alternatives to generate self-employment. It provides services to the communities who have no collateral to offer against the loans they take but have indigenous skills and strong desire to undertake economic activities for self employment and income generation (Shrestha, 2009). Microfinance can build social capital to improve the effectiveness of desired outcome such as social empowerment of women (Basargekar, 2010). Not only empowered women, (Oderayo and Onaolapo, 2016) study shows that men are more than women in Nigeria.

With the purpose of alleviating poverty level, a form of lending that originated in Bangladesh in 1970s, with small loans made very small enterprises, called micro-enterprises.Microfinance can be defined as financial instruments, such as loans, savings, insurance and other financial products that are tailored only to the poor(Mokhtar, Nartea, and Gan, 2012).Microfinance, is banking system, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral.

Microfinance has emerged as an effective poverty alleviation tool because it is based on the fundamental principle that human beings are motivated to do whatever it takes to

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make themselves as well as possible. People in the society are not equally capable and skillful. Therefore, an access, opportunity, right to control over resources should provide these people according to their capabilities. Control over loan, loan related activities, and expenditure of earnings are three kinds of benefits that must be equally shared among male and female members in the family. The question arises whether loanees share the benefits or not.

Microfinance increases household income, which leads to food security, the building of assets, and an increased likelihood of educating children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability.

Nargis and Hussain (2004) described that Microcredit is found to have improved social welfare by stimulating income and self-employment in their research paper "Welfare Economic Analysis of the Impact of Microfinance in Bangladesh" department of Economics, University of Dhaka, Bangladesh. The study was focused on the absolute impact of microfinance in terms of poverty reduction and improvement in social indicators such as women empowerment. The paper tried income equalization and overall welfare impact of the consequences with the help of microcredit intervention.

The main questions addressed in the study were, how the participants and the non-participants of the microcredit program shared the overall economic growth performance, and to what extent had the micro credit program stimulated self-employment activities and income generation of its beneficiaries relatively to the non-participants.

The analysis was based on panel data of approximately 2,500 households trialed on Monitoring and Evaluation Study (MES) of microfinance Institutions in 1997-98, 1999, 2000 respectively and the follow-up in 2004 with the support of the Pally Karma Sahayal Foundation (an umbrella organization of MFIs) in Bangladesh. The MES was designed to monitor the performance of the MFIs and evaluate the socio-economic impact of microcredit, which involved comparing between program villages and control villages.

The research shows that average annual household income of sample households increased at an annual compound rate of 5.66 percent in 2004 compared with 1998. In particular, the median income had shown increased by 4.28 percent. It means poverty diminished in 2004 compared to 1998. The proportion of wage labor was almost constant over the period from 1998 to 2004. Similarly, drastic fall in the proportion of hours in farming by 30 percent in six years with related 12 percentage rise in non-agricultural self-employment which indicated that the incentive to withdraw from subsistence farming and shift towards more rewarding self-employment activities outside the agriculture sector.

Jamal (2008) has analyzed the impact of microfinance programs on income, expenditure, child education and women empowerment under the title of “Exploring the Impact of Microfinance in Pakistan” in his Research Report No.77. The study has been ideally for impact assessment, baseline studies and panel data are recommended so that one can capture the trend and secular impact of the intervention and can compare before and after scenarios.

Jamal's study concluded that, an econometric analysis is carried out to examine the impact with a relatively sizeable sample of about 3,400 respondents (borrowers and non-borrowers) from six large microfinance institutions of Pakistan. Empirical results suggest that microfinance intervention possibly helps in smoothing consumptions and, to some extent, generating income.

The results also confirm an upper hand of matured borrowers in terms of child school enrolment as the impact coefficients are positive and significant. The econometrical results regarding women empowerment are mixed, contradictory and in many cases, unexpected. It can be argued, therefore that microfinance interventions do not seem to have a significant positive impact on the different aspects of women empowerment.

Mathema (2008) has been able to give an overall picture of the policy, legal and regulatory framework adopted by the central bank under the title of “Microfinance in Nepal”. Specific microfinance institutions in the form of wholesale lending have also been setup. The Grameen Bank replicators have emerged as one of the sources of microfinance to the poorest of the poor, delivering credit at grass-root level.

Microfinance programs and projects like Priority Sector Credit Program, Small Farmer Development Program and Women Empowerment Programs have been analyzed with their impact evaluation. The author has also shown his expertise in dealing with the guarantee and insurance in microfinance.

Oliver (2010) analyzed that Micro finance has a significant interaction with income in its impact on socio economic status. This paper had tried to address an ongoing debate on poverty eradication and microfinance measurement. According to him, those who have more than 2-3 hectors of land, five goats, two cattle and a house with brick walls and iron roof were considered as well-off, whereas housed in a single-room, grass thatched hut vulnerable to being washed away in rains were considered as the poorest household in Malawi.

Malawi, an extremely poor country in central Africa, was selected to observe the setting for validating the proposed model. Data set of World Bank converted on household income and poverty in Malawi into a causal model using structural equation modeling (SEM). It measured the effect on socio-economic status (SES), using a reflective multi-dimensional construction in disparity to arrange financial substitute for SES, like purchasing power parity (PPP).

The result shows that Microfinance has a significant interaction with income in its impact on socio economic status (SES). It has also shown the difference between gender and the income level for the impact of microfinance. Author pointed out that MFIs were not clear in targeting their MF activities and had not improved the efficiency of their program. The author suggested that proposed approach offers a multipurpose procedure to evaluate the impact of MF thoroughly on other poverty reducing efforts in other countries and contexts enabling cumulative observed findings. He further suggested that on a practical level the study offers some guidelines how to target future microfinance operations.

2. Methodology

Women Support Cooperative Limited (WSC) situated in Kathmandu district has been chosen for the purpose of study. The social impact has been assessed examining the respondent's involvement in household decision-making, control over household financial resources, level of self-confidence.

The study has been based on primary data. For data, structured questionnaire has been used from sample respondents. Interviewer filled questionnaires by interactive discussions. Total numbers of 186 respondents were interviewed. Among them 121 were loanees and remaining 65 were non-loanees.

Qualitativeapproach was used for data analysis. The study has analyzed and compared the various indicators of socio-economic status between loanees and non-loanees.

3. Result and Discussion

General Loan

WSC provides general loan for the purpose of various income generating activities to the group members. Based on performance and the efficiency of the member, maximum limit of the general loan has been fixed from Rs.15, 000 to Rs.60, 000. The process of general loan payment is of 25 installments (bi-weekly). Rate of interest is fixed as 12.50 percent in flat system or 25 percent in diminishing rates. Those who are from comparatively deprived, needy and targeted family will be eligible for membership of WSC. Requirements for Membership of WSC:

Demographic Status

This section provides general socio-economic conditions of the respondents in the study area. The survey includes data on 121 loanees and 65 non-loanees Major demographic features like age structure, cast ethnicity, religion, family size of the respondents under study are presented.

Age Structure

The respondents' age structure shows that largest number of respondents was from the age group of 31 to 40 years and small numbers of respondents participating were from the age group of 51 years and above.

Higher percent (44.63 percent) of respondents (Loanees) were from the age group of 31 to 40 years followed by 37.19 percent from up to 30 years age. Result of non-loanees was also similar to the loanees. The higher percent (43.08 percent) of non-loanees from 31 to 40 years of age were participating in the institution. It reflects the younger age group was very attracted to microfinance program because they want to involve in economic activities. Similarly, they want to do some productive activities to uplift their socio-economic condition.

Table 1: Distribution of Respondents by Age group

Age of Respondents	Loanees		Non-loanees	
	Number	Percentage	Number	Percentage
Up to 30 years	45	37.19	25	38.46
31 to 40 years	54	44.63	28	43.08
41 to 50 years	16	13.22	12	18.46
Above 50 years	6	4.96	0	0.00
Total	121	100.00	65	100.00

Source: Field survey, 2012

Caste/Ethnicity

Table 2 demonstrates the caste composition of the respondents. Newar and Brahmin/Chhetri dominated the survey area in both respondents (loanees and non-loanees). Finding shows the equal percent (36.36 percent) of loanees from Newar and Brahmin/Chhetri. In case of non-loanees, more than fifty percent non-loanees were Newar followed by Brahmin/Chhetri (24.62 percent).

Table 2: Distribution of Respondents by Cast/Ethnicity

Cast/Ethnicity	Loanees		Non-Loanees	
	Number	Percentage	Number	Percentage
Newar	44	36.36	35	53.85
Brahmin/Chhetri	44	36.36	16	24.62
Gurung/Rai/Tamang	29	23.97	9	13.85
Others*	4	2.48	5	7.69
Total	121	100.00	65	100.00

Source: Field survey, 2012

*Others – Majhi (1), Ale (1), Magar(1) and Muslim(1)

Religion

Majority of respondents were Hindu in both Loanees and Non-loanees. However, the result varies for the second place for Loanees and Non-loanees; Buddhist took up second place in case of loaneeswhere as Christian took second place for Non-loanees.

Table 3 explains the percentage of respondent's religion. Majority (81.82 percent) of loanees were Hindu followed by Buddhist (10.74 percent). Likewise, more than ninety percent of non-loanees were Hindu followed by Christian. One loanee was from Muslim community who has established herself as a successful entrepreneur.

Table 3: Distribution of Respondents by Religion

Religion	Total Number of Respondent			
	Loanees	Percentage	Non-loanees	Percentage
Hindu	99	81.82	59	90.77
Buddhist	13	10.74	2	3.08
Muslim	1	0.83	0	0.00
Christian	8	6.61	4	6.15
Total	121	100.00	65	100.00

Source: Field Survey, 2012

Family Size

Table 4 shows that majority of loanees residing in the study area were migrant with small family, and the non-migrant (indigenous) respondents were Newars of joint family. There was no substantial difference between family size between loanees and non-loanees. Table explains that three-fourth of loanees (78.51 percent) have the small family size (1-5 members) followed by 21.49 percent of medium family size (6 -10). Similarly, non-loanees also have the same trend; the small size of family is the largest number (70.77percent). There was a huge difference (57.02 percent) between small and medium family sizes respondents. The difference between small and medium family size of loanees was higher than non-loanees' percentage (43.09 percent).

Table 4: Distribution of Respondent by Family Size

Family Size	Total Number of Respondent			
	Loanees	Percentage	Non-loanees	Percentage
Small (1-5)	95	78.51	46	70.77
Medium(6-10)	26	21.49	18	27.69
Large(11-15)	0	0.00	1	1.54
Total	121	100.00	65	100.00

Source: Field survey, 2012

Educational Status of Respondents and Household Head

The respondents of that area were highly influenced by urban society. Likewise, the study area was also influenced by urban education system.

Table 5 reveals the education status of the respondents (loanees and non-loanees). The percentage of literate respondents was higher in both the loanees and non-loanees. Higher number of respondents from both loanees and non-loanees (46.28 percent and 41.54 percent) were only literate. The lower percent (4.13 percent) of loanees has passed the level of 12 and above while 7.69 percent of non-loanees from the level of primary and secondary.

The same table 5 indicates that the higher percentage of loanees as well as non-loanees' household heads were just literate. Very low percent (11.57 percent) of loanees' household heads secured a higher level of education. Lack of higher education may be the reason why they were not being able to join the higher-level job. So, they were further attracted to involve themselves in microfinance program.

Table 5: Distribution of Respondents and Household Heads by Educational Status

	Total number of Respondent		Total Number of Household Head	
Description	Loanees (Percent)	Non-loanees (Percent)	Loanees (Percent)	Non-loanees (Percent)
Illiterate	14 (11.57)	9 (13.85)	20 (16.53)	14 (21.54)
Literate(read and write)	56 (46.28)	27 (41.54)	37 (30.58)	17 (26.15)
Primary Passed	12 (9.92)	5 (7.69)	15 (12.40)	10 (15.38)
Lower Sec. Passed	20 (16.53)	5 (7.69)	16 (13.22)	3 (4.62)
Secondary Passed	14 (11.57)	13 (20.00)	19 (15.70)	14 (21.54)
Passed 12 and Above	5 (4.13)	6 (9.23)	14 (11.57)	7 (10.77)
Total	121 (100.00)	65 (100.00)	121 (100.00)	65 (100.00)

Source: Field Survey, 2012

Economic Status of the Respondents

Under the economic status, respondent's household income, land-holding sizes, type of occupation are the main variables considered for the study.

Net-Profit from Loan provided by WSC by Range

With the ventures undertaken by the loans provided by MFI (WSC), the loanees were found making good profits. Majority of loanees (83.47 percent) have been investing(using) the loan in their own name whereas the remaining have invested in their family member's name.

Table 6 explains the amount of profit the loanees earned in the current year.

Out of 121 numbers, only two loanees reported a loss in their ventures. Actually, only one was a business failure- a furniture business. Another failure was due to serious illness of the loanee. With the exceptions of two, all the rest of 119 loanees reported good profits. On an average, 121 loanees (including two losses) have earned Rs. 98,941 in the current year. The minimum profit was Rs. 12,000 and the maximum was Rs.3, 00,000. Most of the loanees were using second, third and fourth loan cycle, so the profit range also varied within Rs. 1, 50,000. Profit range depended upon the amount (loan cycle) invested by loanees.

Table 6: Number of Loanees Earning Net-Profit/year from Loan provided by WSC:

Net-Profit Range (Rs.)	Earning Net-Profit/loss	Percent
Up to 50,000	24	19.83
50,001 to 100,000	44	36.36
100,001 to 150,000	28	23.14
150,001 to 200,000	15	12.40
200,001 to 250,000	6	4.96
250,001 to 300,000	2	1.65
loss -30,000+	2	1.65
Total No.	121	100.00
Average Income of Loanee	98,941	
Minimum Income of Loanee	12,000	
Maximum Income of Loanee	300,000	

Source: Field Survey, 2012,

Sources of Loan Repayment

The loanees business was running in profit. They could repay their bi-weekly loan installment from their own business. Majority of loanees (87.60 percent) have been paying their installments from the same business whereas only 22.31 percent were using household income for repayment purpose. The table 7 reflects their level of independency and increased positive attitude towards their business. Some loanee's repayment was made from household income.

Table 7: Distribution of Loanees by Source of Loan Repayment:

Sources of loan repayment	No. of Loanees	Percent
Money earned from same business	106	87.60
Other household income	27	22.31
Borrowing from other institution	1	0.83
Relatives/friends	7	5.79
Total (n=121)		

Source: Field Survey, 2012

4. Conclusions

The study has shown satisfactory results. The socio-economic status of loanees has improved a great deal. Furthermore, it was found that their socio-economic status was higher than that of non-loanees. It is concluded that the microfinance is an effective means for raising the socio-economic status of the poor people (particularly the poor women).

Thus, the study has highlighted that microfinance is an effective tool for bringing positive impact on the socio-economic status of the respondents along with their family members. It has helped to generate extra income for their family and their own use. The extra income allows the respondents family to buy nutritious food, access to modern health care services and they can afford to send their children to the school.

As revealed by the study, the loanees were demanding that the loan size should be increased; effective means should be developed to identify the poor and target them for loan, training, and regular follow up should be conducted. The outreach of the institution should be enhanced. Modern technology should be applied to increase the efficiency and to provide service in remote areas.

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