
A Study on Poverty Reduction with Special Reference to Microfinancing Institution in Chitre Village Development Committee (VDC), Nepal

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Abstract: Microfinance refers to the provision of financial services to low-income clients, including self-employed. Microfinance organization services generally include savings and credit; however, some of them also provide insurance and payment services. Microfinance is not simply banking; it is a development tool as well. The cross-sectional study was conducted to assess the poverty reduction with special reference to microfinance institutions in Chitre Village development committee (VDC), Nepal. Data were collected by face-to-face interview of 139 Microfinance institution (MFI) users in different wards of Chitre VDC of Nepal. After involvement in MFI program respondents were much more attracted towards small trade business. 87.1% of the respondents were highly satisfied, 10.8% were in medium level of satisfaction and the remaining 2.2% were in low level of satisfaction regarding the Microfinance institution (MFI) program. Almost three fourth (73.4%) of the users reported that the loan repayment time was suitable for them, 85.5% reported improved food security as the main material benefit by joining the program and 48.9% ranked their standard of living as high after involving in microfinance program. The savings of respondents had increased significantly in the last one year. Level of satisfaction towards microfinance program was significantly associated with the sufficiency of loan amount ($p=0.004$) and improvement in life ($p<0.001$). Also, standard of living was statistically significant with the type of family (0.009), duration of MFI involvement ($p<0.001$), sufficiency of loan amount ($p=0.005$) and income sufficiency after involving in microfinance program ($p<0.001$).

Keywords: Microfinance, Institutions, poverty, Standard of living, satisfaction, loan.

1. INTRODUCTION

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. (Ledgerwood, 2000)

The two main mechanisms for the delivery of financial services to such clients are: (a) relationship-based banking for individual entrepreneurs and small businesses; and (b) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. In some regions, for example Southern Africa, microfinance is used to describe the supply of financial services to low-income employees, which is closer to the retail finance model prevalent in mainstream banking. (kannan and panneerselvam, 2013)

Microfinance providers seek to serve poor populations that have traditionally been unable to obtain access to credit by enabling them to secure loans and other financial services. The primary goal of microfinance is the reduction of poverty in developing countries by providing poor people with basic financial services that will enable them to earn more, accumulate assets and protect themselves from unexpected setbacks. With the assistance of microcredit, recipients are expected to be better able to transition from everyday survival to planning for the future, and investing in better nutrition, housing health and education. (Orrick et al. 2012)

1.1 Rational of the study

Despite, the operation of the microfinance institutions for many years in Nepal, very few studies has been conducted with same target as this study pursues. Hence, in addition to addressing this knowledge gap the findings

of the study may point potential areas that MFIs need to put more efforts when providing their services. Further, policy makers may also benefit in the sense that the findings provide informed suggestions on how institutional policy can be improved and how the community will be able to access and benefit from the services of MFIs. This study will be of benefit to the community at large. Additionally, the result of the study is hoped to serve as a base for further research that enable the one who want to conduct a further research on the same area and it will improve literature on Role of MFIs on accessing credit and poverty reduction in Pokhara.

2. REVIEW OF LITERATURE

Dilayehu Daniel Anjulo (2014) conducted a study on *The Role of Microfinance Institutions in accessing credit and poverty reduction in Rural Ethiopia: In the case of Omo Microfinance institution in Damot Gale Woreda, Wolaita* zone among 130 clients. Findings reveal that over 80% of clients are satisfied with rate of interest charged on loans. 57.6% of respondents agree that financial problem was the main reason why most of the beneficiaries joined the program and sought credit from the institution. The survey data indicates that a large proportion of borrowers about 49.6% took credit for productive purposes of agriculture and agriculture related activities, to buy farm oxen and other domestic animals, and 19% households borrowed for starting petty trade of retailing agricultural products. Survey data from the beneficiaries revealed that majority of respondents about 77% are unsatisfied with the loan size. Regarding securing other essential benefits from involvement in credit program, 46.6% purchased additional farm oxen, 24.4% improved food security, 13.8% constructed and repaired house, and 12.2% improved access to basic social services like health and education. 64.2% believe that loans have improved their lives and about 35.8% rejects the favorable impact of loans in their lives. Further, when asked to rank their standard of lives in contrast to before and after loan, 65.9% ranked medium, about 32% failed to experience changes and a small portion about 2.4% ranked high.

A study by **Asmamaw Yigzaw Chirkos (2014)** on *The Impact of Microfinance on Living Standards, Empowerment and Poverty Alleviation of the Poor People in Ethiopia, A Case Study in ACSI*. Data were collected from the clients of Debratabor and Estie branches of ACSI shows that with regard to savings, the clients were asked whether their savings in the last 12 months had increased, decreased, remained the same and it shows 70% having increased savings while 20% said it decreased and 10% said it remained constant. The main reason given as to why people save is to enable them in case of severe crisis and to provide protection against risks, used to acquire another microfinance cycle and also to expand the existing economic activities. Concerning training about loan utilization, almost all clients (98 %) received training or orientation before they received the loan. However, 13% of the clients complained about the amount of loan provided by ACSI that means the loan were not enough to fulfill their purpose.

The study by **Bichanga Walter Okibo and Njage Makanga (2014)** on *Effects of micro finance institutions on poverty reduction in Kenya* used descriptive survey design. The target population was 9 staff/administrators and 46 clients or recipients of PAWDEP. The study employed stratified sampling technique to select staff of the selected MFIs and clients. Both qualitative and quantitative data analysis methods were used. The majority of the respondents 86.9% indicated that their standard of living had improved.

A research study conducted by **kumar et al. (2012)** to explore the *role of microfinance banks in raising the living standard of people in Larkana district* among 100 customers of First Microfinance Bank (FMB) found that the microfinance (size of loan) causes very small variation in the Living Standard of the borrowers. There is huge impact of some other factors on the living standard of the borrowers, i.e. micro insurance, savings, other microfinance financial services etc. Overall analysis concludes that through the assistance of microfinance activities poor can stand on their own, sustain, survive and improve their living standard.

Anis Choudhary (2009) in his article *"Microfinance as a Poverty Reduction Tool— A Critical Assessment"* states that Microfinance gives the unemployed and the poor some opportunities, hope and self-esteem. Being employed (whether self-employed or by an employer) gives a person a significant boost to his/her sense of self-respect and dignity. Furthermore, microcredit allows people to signal their creditworthiness. If their success makes banks more willing to lend them larger sums and leads to even more economic activity, then that should help reduce poverty in the long run.

Eddy Balemba Kanyurhi (2009) conducted *a study on Evaluation of customer satisfaction with services of a microfinance Institution: Empirical Evidence from WAGES' customers in Togo*. The results confirm that responsiveness remain the most important dimension in microfinance sector. Results from the Customer Satisfaction Index revealed that WAGES' customer satisfaction level is high attending 71.2% and varying in function of specific financial services. In general, customers are more satisfied with saving services than with loans products.

3. OBJECTIVE OF THE STUDY

- To find out the pattern of improvement with respect to saving and assets holding after availing MFI services.
- To assess the standard of living of the rural households after taking the services of MFI.
- To find out the level of satisfaction of customers towards MFI in Chitre VDC of Nepal.

3.1 HYPOTHESIS OF THE STUDY

- Ho: Microfinance institution has no significant impact on poverty reduction.
- H₁: Microfinance institution has a significant impact on poverty reduction.

4. RESEARCH METHODOLOGY

4.1 Study design

Descriptive cross sectional study design was used to fulfill the objectives.

4.2 Study area

Study was conducted on all Wards of Chitre VDC of Nepal.

4.3 Study population

All current MFI user households of all Wards of Chitre VDC of Nepal were included in the study.

4.4 Survey technique

Whole MFIs enrolled populations of Chitre VDC were included for the study. So this study was a form of census survey.

4.5 Size of population

Among all the households of Chitre VDC 139 households were member of the operating microfinancing institution during the study period. So, all 139 MFIs enrolled households were included in our study sample.

4.6 Data collection tools and technique

Semi-structured interview schedule was used for face-to-face interview of the participants using the survey technique.

4.7 Validity and reliability

The questionnaire was constructed by doing extensive review of related literature and by taking reference of various research papers. Expert's opinion was also sought and incorporated in every aspect of the study.

4.8 Statistical analysis

Data entry and analysis were done in SPSS version 23.0. Descriptive and inferential statistics were used to describe the demographic characteristics of the sample. In order to test the statistical significance of cross-tabulated data, non-parametric chi-square test was applied.

5. RESULTS AND DISCUSSION

5.1 Socio-demographic profile of respondents

Table 5.1: *Socio-demographic profile of respondents*

S.N.	Socio-demographic characteristics	Frequency (n=139)	Percentage (%)
1.	Age groups (years)		

	20-30	24	17.3
	31-40	30	21.6
	41-50	42	30.2
	51-60	31	22.3
	61-70	10	7.2
	71+	2	1.4
	Mean age of respondents= 42.16±11.29 years		
2.	Religion		
	Hindu	101	72.7
	Buddhist	38	27.3
3.	Marital Status		
	Unmarried	12	8.6
	Married	118	84.9
	Divorced	1	0.7
	Widow	8	5.8
4.	Family type		
	Nuclear	102	73.4
	Joint	37	26.6
5.	No. of family members		
	Less than 5	88	63.3
	Greater or equal to 5	51	36.7
6.	Educational status		
	Illiterate	57	41.0
	Primary	30	21.6
	Secondary	31	22.3
	Senior secondary	18	12.9
	Under graduate	3	2.2
7.	Main source of family income		
	Agriculture	33	23.7
	Business	12	8.6
	Government service	33	23.7
	Private service	15	10.8
	Labor	11	7.9
	Foreign employment	35	25.2
8.	Monthly family income (NRs.)		
	<25,000	81	58.3
	25001-50000	41	29.5
	50001-75000	5	3.6
	75001-100000	3	2.2
	>100000	9	6.5
9.	Head of the family		
	Male headed	77	55.4
	Female headed	62	44.6

Source: primary probe

The table shows the demographic information of users of microfinance program. It shows that most (30.2%) of respondents were between the ages of 41 to 50 years. Similarly, majorities (72.7%) of the respondents were Hindu. Maximum (84.9%) of the respondents were married. Majority (73.4%) of the respondents belonged to nuclear family. It shows that maximum (63.3%) respondents had less than five numbers of family members. Regarding the educational status, most (41%) of the respondents were illiterate. Furthermore, It indicates that one fourth (25.2%) of the respondents rely on foreign employment as the major source of income in the family. More than half (58.3%) of respondents had their family monthly income of less than NRs 25000. It shows that more than a half (55.4%) of the respondents had male-headed family.

5.2 Profile of clients of Microfinance Program

Table 5.2: *Main reasons to join microfinance program*

S.N	Reason to join MFI	Frequency (n)	Percentage (%)
1.	Financial problem	80	57.6
2.	Nearby service facility	14	10.1
3.	Payment is good compared to others	15	10.8
4.	Influence from friends and staffs	30	21.6

Source: primary probe

More than half (57.6%) of the respondents joined microfinance program due to financial problem. 21.6% due to the influence of friends and staff, 10.8% thought payment is good as compared to others and the remaining 10.1% due to near location of microfinance institution.

Table 5.3: Purpose of taking loan from Microfinance institutions

S.N	Purpose of taking loan	Frequency (n)	Percentage (%)
1.	Livestock raising	62	44.6
2.	Business	20	14.4
3.	Agriculture	23	16.5
4.	Foreign Employment	22	15.8
5.	Home stay	12	8.6

Source: primary probe

This reveals that majority (44.6%) of the respondents took loan for the purpose of livestock raising, 14.4% for business, 16.5% for agriculture and 15.8% for foreign employment. Only few (8.6%) took loan for the purpose of home stay. A study by PVM Sophy and Thun Valentina in Cambodia, almost one-fifth (20%) respondents used loan for agricultural purpose, 15% for animals and only few 4% used for small business. This is different from our study as the majority of rural population of Nepal in today's context is much attracted towards animal raising and small trade/business for economic activity.

5.3 Satisfaction of respondents towards Microfinance Institution

Table 5.4: Level of satisfaction of respondents

S.N.	Levels of satisfaction of respondents	Frequency (n)	Percentage (%)
1.	Low	3	2.2
2.	Medium	15	10.8
3.	High	121	87.1

Source: primary probe

Majority (87.1%) of the respondents were highly satisfied, 10.8% satisfied at medium level and remaining 2.2% were in low level of satisfaction regarding the Microfinance program. This clearly reveals about the success of microfinance institutions in small villages of rural Nepal.

5.4 Clients' saving profile after engaging in MFIs

Table 5.5: Saving profile of MFI clients

S.N.	Parameters	Frequency (n=139)	Percentage (%)
1.	Saving in the institution from where the clients borrowed		
	Yes	125	89.9
	No	14	10.1
2.	Status of savings after Microfinance program		
	Yes	122	87.8
	No	17	12.2
3.	Status of savings of clients in last 12 months		
	Decreased	3	2.2
	Increased	105	75.5
	Constant	31	22.3

Source: primary probe

Most (89.9%) of the respondents saved in the institutions from where they had borrowed and the rest 10.1% did not. This is supported by the study of Asmamaw Yigzaw Chirkos (Ethiopia) where majority (85%) had savings and the rest did not have. Most (87.8%) of the respondents have saving after involvement in microfinance program and 12.2% didn't have. Similarly regarding the saving status in last 12 months, three fourth (75.5%) of the respondents reported that their savings had increased, 22.3% reported constant status of savings and 2.2% reported decreased saving status in last 12 months.

5.5 Assets holding pattern among clients of MFI

Table 5.6: *Assets holding pattern of MFI*

S.N.	Parameters	Frequency	Percentage (%)
1.	Holding of livestock after engaging in MFI	(n=139)	
	Yes	134	96.4
	No	5	3.6
2.	Holding of livestock before engaging in MFI	(n=134)	
	Yes	93	69.4
	No	41	30.6

Source: primary probe

It shows that almost all (96.4%) of the respondents reported that they owe some form of livestock and the remaining 3.6% did not owe any form of livestock. In the study conducted by Dillayehu Daniel about eighty eight percent (87.8%) owed livestock animals. This may be due to the fact that small villages in Nepal depend on agriculture and livestock raising for their living. It shows that more than two third (69.4%) of the respondents owed livestock in the past prior to enrollment in microfinance program and the remaining 30.6% did not owe any livestock.

Table 5.7: *Improvement in the lives of clients after joining Microfinance program*

S.N	Improvement In life of clients	Frequency (n)	Percentage (%)
1.	Yes	127	91.4
2.	No	12	8.6

Source: primary probe

Most (91.4%) of the respondents reported improvement in their lives after joining microfinance program, whereas 8.6% reported no improvement in their lives. But this is contradictory with the findings by Bichanga Walter Okibo and Njage Mkanga (Kenya), which report only 39.1% showed improvement in standard of living after taking loans.

Table 5.8: *Users rank in standard of living in contrast with involvement in MF program*

S.N	Standard of living	Frequency (n)	Percentage (%)
1.	High	31	22.3
2.	Medium	40	28.8
3.	Low	68	48.9

Source: primary probe

Table above states that almost half (48.9%) of the respondents ranked their standard of living as high after enrolling in microfinance program, 28.8% ranked medium and the rest 22.3% reported low rank of standard of living. However, the study by Dillayehu Daniel shows only few (2.4%) respondents perceived their standard of living to be high after microfinance program involvement, which is contrary to that of our study. The reason may be that the microfinance programs in Nepal are directed towards improving the life of rural communities and they are gaining success in this field.

5.5 Association between different variables

Table 5.9: *Association of level of satisfaction with loan amount sufficiency and improvement in life*

Sufficiency of loan amount	Level of satisfaction				Test of significance (χ^2)	p-value
	Low	Medium	High	Total		
					11.294	0.004*

	n= 3 (2.2%)		n=15 (10.8%)		n=121 (87.1%)					
	n	%	n	%	n	%	n	%		
Yes	0	0	4	5	76	95	80	100		
No	3	5.1	11	18.6	45	76.3	59	100		
Improvement in life									93.36	0.000**
Yes	0	0	6	4.7	121	95.3	127	100		
No	3	25	9	75	0	0	12	100		

*Significant at 0.05 level **Significant at 0.01 level

Source: primary probe

It was found that level of satisfaction was statistically significant with the sufficiency of loan amount ($p=0.004$). It indicates that those who felt the loan amount to be sufficient for them were highly satisfied with the microfinance program also Association of level of satisfaction with improvement of life was found to be highly statistically significant at 0.01 level.

Table 5.10: Association of standard of living with type of family of respondents and duration of microfinance involvement

Type of family	Standard of living								Test of significance (χ^2)	p-value
	Low n= 3 (2.2%)		Medium n=15 (10.8%)		High n=121 (87.1%)		Total			
	n	%	n	%	n	%	n	%		
Nuclear	27	26.5	33	32.4	42	41.2	102	100	9.386	0.009*
Joint	4	10.8	7	18.9	26	70.3	37	100		
Duration of microfinance involvement	Low n=31 (22.3%)		Medium n=40 (28.8%)		High n=68 (48.9%)		Total		50.901	0.000**
	n	%	n	%	n	%	n	%		
	Less than 2 yrs	25	61	4	9.8	12	29.3	41		
2-4 yrs	6	6.1	36	36.7	56	57.1	98	100		

*Significant at 0.05 level **Significant at 0.01 level

Source: primary probe

From the table above it was found that standard of living was significantly associated with type of family ($p=0.009$) and highly statistically significant with duration of microfinance involvement ($p=0.000$) Standard of living increased with the time period of enrollment in microfinance program.

Conclusion of the association between variables

Standard of living of clients after involving in microfinance program has changed significantly which is supported by the significant association of standard of living of respondents with type of family of respondents, duration of involvement in microfinancing institution, this shows that clients are being more able with respect to their savings, income, loan amount and are also satisfied with the microfinance program which is shown by the significant association between sufficiency of loan amount and improvement in the life. Hence the formulated research hypothesis has been accepted or verified from the chi square test performed in the study findings.

6. CONCLUSION AND SUGGESTIONS

6.1 Conclusion

The study shows that the income of the clients has increased significantly after engaging in microfinance institutions. The respondents also began to progress with increasing saving after meeting their needs after a period of one year and above. The asset holding pattern of respondents has also significantly improved than before enrollment with microfinance institutions. Thus, the study indicates that with increase in income and saving, there was significant rise in the standard of living of the clients. The study also reveals that after getting help from the

financial institutions, the people involved in more small business or trade. Therefore, they were highly satisfied with performance of microfinance institutions and they were able to pay loan as per schedule.

Level of satisfaction towards microfinance program was significantly associated with the sufficiency of loan amount and improvement in life. Also, standard of living was statistically significant with the type of family, duration of involvement in microfinance program.

6.2 Suggestions

- Coverage of rural microfinance institutions should be increased so as to reach to maximum poor rural people.
- Microfinance institutions should evolve and initiate development of new products and services that add to benefits of the clients.
- Improvement in awareness campaigns and client training programs should be done so that the expected beneficiaries can be able to utilize all economic activities to make these more effective.

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