

## Microfinance in Nepal: An Overview

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### Abstract

This paper aims to explore the current challenges and opportunities of the microfinance sector in Nepal. The secondary data and descriptive research with a critical approach are adopted to explain the study. The data were mainly collected from Nepal Rastra Bank's (NRB) annual Reports, and other available literature. The result shows that the center numbers (numbers of microfinance user group) change ratio was reduced from 17.11% to 1.30%, the total group numbers were 13% to 2.88%, the borrower 7.51% to (-9.66%), staff progress 9.75% to (-3.48%), loan outstanding 41.18% to (-5.06), profit 150.53% to (-7238), active loan 40.26 to (-7.94), and saving 22.87 to 3.91 between 2020/2021 to 2022/2023. Similarly, the Overdue member change ratio increased upto 53.66%, the passive loan from 79.47% to 104.3%, and the NPL increased continuously from 2.56% to 5.52%. So, all microfinance institutions are in a critical situation in Nepal. However, microfinance is an important concept to reduce poverty and unemployment. Further, it enhances easy access to financial institutions in rural where large banking institutions are merely available. However, microfinance in Nepal is facing critical challenges as many fraud cases are emerging. The policy implication is crucial as policymakers should formulate both long-term and short-term policies and implement those policies immediately in microfinance to revive the critical current situation.

**Keywords:** Poverty, microfinance institutions (MFIs), challenges, opportunities

### Introduction

Nepal is a developing country with the least developed economy, so poverty has been a great challenge and concern for its development. Nepal's government has supported the poor but has not been seen as being enough for the marginalized. The central financial governing body (Nepal Rastra Bank, also called the central bank) has recognized it as the 'D' class

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of microfinance that can be an effective tool for poverty alleviation and increasing financial access to the rural and deprived sections of society. It has been developed steadily in Nepal since the early 1990s (Nepal Rastra Bank, 2018). In three decades, the Nepal government has expanded its financial institutions. Nepal seems to be on the way to achieving most of the indicators of sustainable development goals. Among them, some plans need more effort, and some are very hard to reach. Due to COVID-19, more pressure has been created on aspects such as poverty and unemployment in the last two years. A study report shows that 15% of Nepalese live on less than US\$1.9 per day. Gross National Disposable Income (GNDI) per capita is higher than expected. Currently, the Multidimensional Poverty Index has come down to 17.4 %, and the proportion of the population below the national poverty line is 18.6 %. The population covered under social security has increased (Government of Nepal, 2022)

The census report 2021 in Nepal shows that the population in urban municipalities has reached 66.17%, while the population in rural municipalities has reached 33.83% (Nepal Government, 2021). The Government of Nepal (2022) shows that financial access has improved recently. By mid-March 2022, commercial banks had expanded branches to 750 local levels (Government of Nepal, 2022). Among 753 local levels, three are excluded from the financial access. Also, poor people could not get financial services from commercial banks due to the lack of collateral property.

On the other hand, there is significant movement in the microfinance sphere. The indebtedness issue has also surfaced; in rural areas, many borrowers recourse to taking out several loans from microfinance to repay existing debts, which traps them into debt as most of them are unable to pay. Many top management individuals used the deposits and used its monopoly. Mostly, rural areas are dominated by poverty and it is largely characterized by an agricultural economy (Chaudhary, 2018). Due to such scenarios, indicators like loan portfolio, savings, profit ratio, participation per-center rate of members, and staff numbers are decreasing. Similarly, the non-performing loan ratio and overdue member ratio are found to be increasing. Thus, the study aims to explain the actual situation of

microfinance in Nepal through the findings of data gathered from different sources. Recently, in Nepal, there has been an agitating anti-movement against the microfinance industry. So, the whole microfinance industry has been badly affected by it and is waving the way to overcome this crisis. Therefore, the researcher hopes the study covers recent information related to MFI problems and their opportunities. The research helps scholars and policymakers to gain practical knowledge of microfinance, and the stakeholders start other research based on the information and cover the solutions of the microfinance industry.

## **Literature Review**

Microfinance delivers a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. These are provided by formal institutions like rural banks and cooperatives, semiformal institutions like non-government institutions, and informal sectors like money lenders and shopkeepers (Asian Development Bank, 2000, p. 2). Microfinance service is not a new concept in the financial industry; usually, it has a long history in different societies by different institutions, such as formal, informal, and community-level organizations that provide those services. The literature showed that it existed in the 18th century in the Iris community as a loan fund system and has contributed significantly to the impoverished Irish citizens. It was the first such society personally founded and operated by Jonathan Swift, Dean of St. Patrick's. Swift lent money to the 'industrious poor' weavers in his diocese. It was a shifted model and consequently replicated by the Charitable Musical Society (CMS), formed in 1756 (Carol et al., 2011). Pioneer of microfinance Prof. Muhammad Yunus, a winner of the Nobel Peace Prize for their efforts in 2006, was the founder of Grameen Bank, which reduced poverty in Bangladesh. By lending small loans to people experiencing poverty since 1976, he first lent \$27 to 42 stool makers and attracted attention to microfinance as a tool to eradicate poverty. And later on, its program was shaped by the new model of microfinance in the world (Sengupta & Aubuchon, 2015). The access and effective operation system of microcredit can easily support smooth poor consumption, enhance their

capability, and allow them to enjoy an improved quality of life. Moreover, with the help of microfinance programs, they can recover resource allocation, advance the market, and develop new technology; thus, microfinance helps to promote financial growth and development (Bakhtiari, 2006).

On the base source of the Nepal government, cooperatives and community organizations play a vital role in assembling the local funds and providing financial services. In ancient times, poor people depended on solving their financial crisis with informal financial institutions, such as moneylender merchants, goldsmiths, friends, or relatives, who were the informal lenders. They were filling the gap in the economic sectors. The interest rate was high, but the loan-taking process/loan utilization was straightforward. Conversely, Guthi, like Dhukuti, were traditional, male-dominated savings groups using funds for community activities such as festivals (Bhatta; 2001 as cited in Burnside et al., 2011). Microfinance program has existed in Nepal since 1956 (Chaitra 20, 2013 B.S.) with registration as 1st cooperative in the Rapti Doon area of Chitwan district – Bakhan Credit Cooperative Ltd.(Nepal Rastra Bank, 2009). In the evolution of microfinance institutions in Nepal, there were different types/models of financial institutions providing services in primitive societies. The microfinance program for low-income people was initiated in the 1950s through cooperatives and continued in various forms, such as SFDP, PCRW, and MCPW (Sharma, 2007). He explores that in 1992, the formal operation of microfinance in Nepal was the first formal footstep of microfinance, which started with the establishment of Grameen Bikash Bank.

The aggressive policies formulated by the Nepal government to expand microfinance institutions in Nepal started in 1991 so that poor people who lacked collateral property would quickly get financial access. Moreover, at the same time, some private sector and NGOs had also started following Bangladesh's microfinance model programs. Almost 32,000 Cooperative societies have registered, 5 million households have connected, and 200 billion have invested. Lamichhane et al. (2023) explored the emerging microfinance program designed to assist the poor and marginalized Nepalese women who cannot access government and institutional financial services by meeting a variety of loans with short-term no collateral and

monthly payments. However, Nepalese MFIs have faced many challenges at the root of social and economic change and viability.

Micro-finance is expanding rapidly and gives nearly 1.5 million households access to finance. They are equally crucial in connecting remittances and providing micro-insurance services. The expansion of these activities will significantly facilitate inclusive and sustainable development. The government of Nepal has developed strategies to provide financial access to 40% of farm households by the end of 2030 (Nepal National Planning Commission, 2015).

### **Research Methodology**

In this study researcher has applied a comprehensive approach and has collected secondary data from different published and unpublished reliable sources like the ministries of the Nepal Government, Nepal Rastra Bank (Central Bank of Nepal), as well as national and international research articles. The researcher used the Microsoft Excel program to analyze the data thoroughly. Descriptive statistics helps to give a clear picture and an overview of trends and patterns within the data. Focusing on this approach researcher can gain deep insights into trends of outstanding loans, overdue loans, and profit of loan ratio. So, this analysis can offer valuable insights into Nepal's microfinance financial landscape position in detail. By using descriptive statistics researcher gets evolving trends or patterns in loan performance indicators, and the researcher will be able to better understand how these problems have developed over time. Such, information can be instrumental in informing future research or policy decisions related to the financial system in Nepal.

### **Result and Discussion**

Nepal introduced first-generation reform in the late 1985s, which aimed to fill the gap in financial institutions' access to the Nepalese market through private investment and let the market decide the interest and portfolio allocation (Rastra Bank, 2016). However, it became very competitive, with customer-centric services, innovative use of technology, and spreading the banking institutions throughout the country in the initial stage. However, providing the same level of services as promised was challenging due to

insufficient funds and narrow inclusiveness characteristics. There seemed to be a low turnover volume, a high interest rate on lending, a broad interest spread gap, low management, and low resources to handle the big projects. The Nepali financial system could not attain meaningful financial inclusiveness and showed an unbalanced urban and rural disparity (Baniya & Adhikari, 2017). Nepal Rastra Bank decided to build a solid and sustainable financial sector to fill the unbalanced urban and rural disparity. To do this, Nepal Rastra Bank formulated the second-generation reforms called merger and acquisition policy in 2016.

Section 112 of monetary policy introduced for the second-generation reform is credited for legal reform, financial structure development, macro-prudential regulation, capital hike, and merger and acquisition. The major thrust of the second-generation reform was improving corporate governance and strengthening financial sector consolidation (Rastra Bank, 2016). Based on merger and acquisition policy, Nepalese financial institutions are still giving continuity, and during the fiscal year 2022/23, 12 commercial banks were involved in the merger/acquisition process to form 6 commercial banks. Likewise, 16 microfinance financial institutions were involved in the merger/acquisition process to create eight institutions during the year. The total number of BFIs licensed by NRB remained at 112 in mid-July 2023.

*Table 1 : Number of BFIs and Their Branches*

Bank and Financial Institutions	Number of BFIs			Branches of BFIs		
	mid-July 2021	mid-July 2022	mid-July 2023	mid-July 2021	mid-July 2022	mid-July 2023
Commercial Banks	27	26	20	4753	5009	5049
Development Banks	18	17	17	1023	1118	1128
Finance Companies	17	17	17	222	267	284
Microfinance Financial Infrastructure	70	65	57*	4685	5134	5128
Development Bank	1	1	1	-	-	-
<b>Total</b>	<b>133</b>	<b>126</b>	<b>112</b>	<b>10683</b>	<b>11528</b>	<b>11589</b>

*Sources: NRB, Statistics department, 2023 mid-July*

Banking and financial access play a vital role in uplifting the economic status of any country. As of mid-July 2023, The Nepal Rastra Bank report shows 20 commercial banks, 17 development banks, 17 finance companies, 57 microfinance financial institutions, and one infrastructure development bank in operation condition. They are providing their financial services through their branches. BFI branches reached 11,589 in mid-July 2023 from 11,528 in mid-July 2022 (Table 1). Population per branch remained at 2517 in mid-July 2023 compared to 2532 a year ago (Nepal Rastra Bank, 2023). Table 2 shows the number of microfinance institutions (MFIs) branches, which reached 5128 in mid-July 2023, and the population per branch remained at 5693 in mid-July 2023.

*Table 2 : Total Number of Branches and Population Weight Per-branch*

Provinces	National Census Population, 2021	No. of Branches	Population weight per branch
Koshi	4972021	871	5708
Madhesh	6126288	1061	5774
Bagmati	6084042	763	7974
Gandaki	2479745	576	4305
Lumbini	5124225	1162	4410
Karnali	1694889	236	7182
Sudur Pacchim	2711270	459	5907
Total Number	29192480	5128	5693

*Sources: NRB, Statistics department, 2023 mid-July*

Table 2 shows the highest number of MFIs in Lumbini province, 1162; the second one is in Madhesh province, 1061; the least existing position is in Karnali province, with only 236 branches. The three decades of Microfinance Finance Institutions (MFIs) journey in Nepal have made a

vital place in Nepalese financial sectors. They have become able to join the 60 lakh household hands with the Nepalese financial industries, which had no access to financial services through conventional banking systems in the past. Moreover, they have made their daily life easy through access to microfinance services.

Similarly, Table 3 provides detailed information on the whole microfinance institution situation with the help of the Nepal Rastra Bank report based on 2021 to 2020 and 2023 to 2022 in mid-July.

Table 3 : Access to Microfinance

Particulars	Mid- July 2020 (1)	Mid July 2021(2)	Mid July 2022(3)	Mid July 2023(4)	(Nepali Rs. In thousands (000))	
					Change Percent Ratio	
					(2- 1)/(1)*100	(4- 3)/(3)*100
Total MFIs	84	70	65	57*	-16.67	-12.31
Total Branches	3946	4621	5062	5128	17.11	1.30
Total coverage districts	77	77	77	77	0.00	0.00
Total center Numbers(000)	311	363	429	446	16.72	3.96
Total Group Numbers (000)	1040	1183	1352	1391	13.75	2.88
Total Passive Group Numbers	9398	3461	16159	19043	-63.17	17.85
Total Members(000)	4687	5191	5860	6016	10.75	2.66
Total Passive Members(000)	195	330	438	528	69.23	20.55
Total Borrowers (000)	2783	2992	3303	2984	7.51	-9.66
Total Overdue Borrowers (000)	1001	765	382	587	-23.58	53.66
Total Staff Number	19017	20872	23303	22493	9.75	-3.48

Sources: NRB, Statistics department, 2023 mid-July (57\* including four wholesale lending MFIs)

The number of MFIs is decreasing; therefore, MFIs lessen the growth in percentage ratios of microfinance. The total number of microfinance branches and increasing center numbers are also in reduced ratios. Comparing the data between 2021 and 2020, there was (63.17%), but it has risen by 17.85% at the end of the fiscal year 2022 to 2023. The total member progress change percentage was 10.75% in fiscal year 2020 to 2021 but dropped 2.66% at the end of 2022 to 2023, and decreasing order.

According to the data of Nepal Rastra Bank, the total number of borrower members is also decreasing compared to the data between the fiscal years 2022 and 2023. The passive member ratio was 69.23% at the end of 2020 to 2021, and at the end of the fiscal year 2022 to 2023, it dropped by 20.55%. Similarly, the compared data between the fiscal year 2020 and 2021 shows that the borrower members change percentage was 7.51 and decreased to (9.66%) at the end of the fiscal year 2022 to 2023. The overdue borrower member change ratio (23.58%) was a positive sign for the microfinance institutions in the fiscal year 2020 to 2021. However, in the fiscal year 2022 to 2023, its changed percentage has jumped to 53.66% overdue borrowers. Correspondingly, the staff of microfinance increasing ratio was 9.75% at the end of the fiscal year 2020 to 2021 but dropped to (3.48%) of the total staff ratio. The data presented shows the negative progress and challenges in the microfinance industry sector.

*Table 4 : Saving, Loan Outstanding, and Profit*

Particulars	Mid-July 2020 (1)	Mid July 2021(2)	Mid July 2022(3)	Mid July 2023(4)	Nepali Rs. (Crore 000)	
					Change Percent Ratio	
					(2-1)/1*100	(4-3)/3*100
Saving Amount	10615.02	13042.54	15902.28	16523.71	22.87	3.91
Loan Outstanding	22479.31	31736.18	39174.66	37192.95	41.18	-5.06
Net Profit Ratio	429.46	1075.92	1056.48	302.36	150.53	-71.38

*Source: NRB Survey Report, Mid-July 2023*

Table 4 shows the detailed savings, loans, and profit changing ratio between the fiscal years 2020 to 2021 and 2023 to 2022 in mid-July. The total saving change ratio was increased by 22.87 % to Rs13042.54 crore as of mid-July 2021 from 2020. Moreover, at the end of the fiscal year of 2023 to 2022, the saving increase change ratio was only 3.91 % to Rs 16523.71 crore as of mid-July from Rs 15902.28.

In the microfinance industry, the overall gross loan portfolio (GLP) increased by 41.18% to Rs 31736.18 crore as of mid-July 2021 from Rs 22479.31 crore as of mid-July 2020. However, between the fiscal year of 2023 and 2022, the gross loan portfolio has increased by (5.06%) to Rs 37192.95 from 39174.66 as per the Report of Nepal Rastra Bank (NRB). The profit-increasing ratio was 150.53% compared to the data between 2021 and 2020, and it decreased by (71.38%) at the end of the fiscal year 2023 to 2022 in mid-July. The loan outstanding increasing ratio rate was 41.18% at the end of the fiscal year 2021 to 2020, and it has also decreased by (5.06%) from the end of the fiscal year 2023 to mid-July 2022.

Profit is the backbone of any institution/organization and is vital in sustaining the related long-lasting. As per the compare data published by the Nepal Rastra Bank, in the mid-July fiscal year 2021-2020, the profit ratio rate was 150.53 %, and at the end of the fiscal year 2022-2023, the profit change ratio decreased by (71.38) % in whole microfinance industries.

### **Share of Active Loan /Passive Loan and Non-Performing Loan**

Table 5 shows the published data on microfinance by the Nepal Rastra Bank (NRB), showing that the Nepalese microfinance good loan outstanding is decreasing, and passive loan ratios are rapidly increasing. Comparing the four years of loan data, the fiscal year 2021 to 2020 at mid-July, the active loan outstanding ratio grew. The loan ratio was 40.26%, and in comparing the data for the fiscal year 2022-2023 mid-July, the active loan outstanding change percentage plunged to (7.94%). Loan quality remains the strength and good situation of any financial institution.

Therefore, the share of passive loans indicator was 79.47%, which jumped to 104.33%. These are the wrong indicators for microfinance institutions.

*Table 5: Active Loan /Passive Loan and Non-Performing Loan*

Particulars	Mid-July 2020 (1)	Mid July 2021(2)	Mid July 2022(3)	Mid July 2023(4)	Nepali Rs. (Crore)	
					Change Percent Ratio	
					(2-1)/1*100	(4-3)/3*100
Active loan	21953.89	30793.23	38170.46	35141.10	40.26	-7.94
Passive loan	525.42	942.95	1004.20	2051.85	79.47	104.33
Total Loan & Advance	22479.31	31736.18	39174.66	37192.95	41.18	-5.06
NPL%	2.34	2.97	2.56	5.52		

*Source: NRB Report, Mid-July 2023*

Similarly, the non-performance loan ratio has also changed in high progressive ratio degrees. A non-performing loan is a significant risk in the credit sector. It is raised from the failure effect of the borrower business, and they could not pay their installment as their commitment (Afolabi, 2020). They concluded in their study that non-performing loans are the leading credit risk facing microfinance banks due to the weakness of their principal role in lending actions. To mitigate the loan-loss effect, institutions should pay expensive costs.

The Nepal Rastra Bank Report Mid-July 2023 showed that the overall loan portfolio of the Nepalese microfinance industry is decreasing by (5.06) %. At the end of 2022, mid-July, there was a Rs 39174.66 crore portfolio, but at the end of mid-July 2023, there was a Rs 37192.95 crore portfolio standing. Similarly, the profit ratio of Nepalese microfinance is in decreasing order (NRB).

## **Some challenges microfinance in Nepal:**

### ***Loan default***

Microfinancing is not a simple job in the financial sector. However, microfinance institutions made the lending process easier for them. They cached only the forced lending financing system and applied hard payback theory to get more benefit from the investment in a short period from poor people. Recently, substantial loan portfolios have defaulted in the Nepalese microfinance sector. This defaulted situation indicates the borrowers have failed to repay the loan of MFIs. Overfinancing by different microfinance institutions for duplication members has made/created overload loans by multi-loan amounts by multiple financial institutions. Making an easy collateral loan process for unskilled poor people proved an evil in the arena of poor people. Microcredit service providers and microfinance institutions invested substantial loan amounts, and the lack of financial literacy was the root cause of loan default. The loan default problem has occurred in the microcredit field and microfinance sectors.

The Borrower number keeps a significant meaning in any financing sector, and the same is true in microfinance. For recent borrowers, numbers are in decreasing order. Because there has been much multi-financing in the last few days, Nepal Rastra Bank introduced a directive to reduce the multi-financing problem, raising several anti-movements, especially against Nepal's (MFIs) banking system. For the solution, Nepal Rastra Bank formulated a directive for the microfinance sector to reduce multi-financing. It forcefully directed the MFIs to stop investing in duplicate MFI members, and borrowers could only take loans from microfinance institutions. Thus, the banned rule of multi-financing directed by the NRB has created an uneasy situation, and the borrowers are decreasing in order.

### ***Decreasing loan outstanding ratio***

The National Microfinance aggregate report published by the NRB showed that the microfinance industry's loan outstanding ratio is in decreasing order. It deserves a deep meaning in the financing system's sustainability; it is a central asset of microfinance and depends on all its earnings. It seems that stopping the multi-financing rule by the government in the name of

reforms of the microfinance sector has created this situation in the microfinance industry at the national level.

### ***Lack of loan appraisal system***

Investment appraisal arrangements keep great value in the smooth operation of the financing sector. Microfinance institutions are operating in developed and recently developing areas in Nepal. On the one hand, gaining accurate information from the borrower's side is difficult. On the other hand, microfinance institutions also ignore collecting precise information because they apply prioritization of investment and force payback theory to receive more benefits quickly, especially new microfinance institutions that have received late operating authorizations from Nepal Rastra Bank.

### ***Lack of financial literacy among MFI members/Staff***

Financial literacy-related skills provide the ability for MFI borrowers to know the ability and use of funds appropriately, and the same is true for the financial-related field staff of microfinance. Not only that, but it also plays a vital role in the repayment of loan microfinance institutions. In the Nepalese microfinance industry, there seems to be a low level of financial literacy among microfinance field staff and its clients. Low levels of literacy create challenges in the microfinance sector. In a study conducted in Uganda about financial literacy, 286 clients participated in that research from an eastern Ugandan microfinance institution. There were low literacy levels among MFI clients, and MFIs were also running into problems with their outreach programs. The study reveals the relationship between the financial literacy of clients and the outreach of microfinance institutions in Uganda (Robert et al., 2013).

### ***Political unawareness/Anti-campaigning***

Recently, some politicians have disturbed the Nepalese microfinance industry. They continuously target the microfinance industry to raise their position in Nepalese politics. Moreover, using MFIs gives clients freedom from the loan burden of MFIs. Some wrong members take more loans from different MFIs. They are also participating in the anti-microfinance

movement to be free from the burden of MFI loans. Thus, Nepalese microfinance is living in a crucial position.

### ***Lack of loan fund***

Most microfinance institutions do not have sufficient funds to lend to the borrowers. They have taken loans from commercial banks at high interest rates for short periods. Those microfinance institutions that are expending more interest charged by commercial banks could not provide sufficient services to the microfinance borrowers.

### **Profit-theory**

The philosophy of microcredit originally started as a humanitarian and philanthropic concept. Still, as it matures as a business, it raises social, political, and economic questions about its purpose (Valadez & Buskirk, 2011). In a short period, Nepal's national microfinance policy has changed rapidly. Moreover, it provides microfinancing operation authority to several institutions, Ignoring the multiplication and duplication of MFI members. Not only that but through the monetary policy, the 2016/017 loan size has also increased the limit of microfinance institutions to the deprived or low-income individuals against group guarantee for operating micro-businesses from Rs 1 hundred thousand to Rs 3 hundred thousand. Such a limit has increased from Rs 3 hundred thousand to Rs 5 hundred thousand for group members classified as good borrowers for the last two years. It has been mentioned in Monetary Policy 2016/017 within section 133 and its sub-sections "a" and "c" about the credit limit against collateral to deprived and low-income people for operating micro business from Rs 3 hundred thousand to Rs 5 hundred thousand. Such a limit has increased from Rs 5 hundred thousand to Rs 7 hundred thousand for group members classified under the excellent category for the last two years (Rastra Bank, 2016). Whether it was the vast multiplication or duplication, it caused disorder and much worry for the whole microfinance industry in Nepal. Thus, the policy of microfinance was to gain high profit from their investment quickly, ignoring the corporate responsibility to the poor segment. Microfinance institutions followed the profit theory based on national microfinance policy rules.

## **National policy**

Microfinance aims to fill the financial institutional gap in the backward segment society, created by formal banking and structured by the neoliberal reforms for rural India in the post-1990s. The Broader objective of MFIs was to empower the people and eradicate poverty. The researcher concluded in his study disagreement and said that microfinance institutions have "drifted mission" approved by their commercialization forms (Almwd Hafi, 1995). Similarly, after 1990, the Nepal government applied a new economic liberalization policy. That policy aimed to provide financial services to remote areas without access to conventional banking systems. To fill the gap in financial access in Nepal, the government should formulate an easy, strong, and sustainable microfinance institutions policy for financial access for the rural areas of Nepal.

## **Opportunity of Microfinance**

### ***Poverty Reduction***

Microfinance has become an indispensable service in the arena of poor segment people. More research has determined that microfinance has been one of the few practical tools for poverty reduction over the past few years. The economic survey conducted by The Nepal Government shows that 15 % of the population lives on less than US\$1.9 per day. Per capita Gross National Disposable Income (GNDI) is higher than expected. Currently, the Multidimensional Poverty Index has come down to 17.4 %, and the proportion of the population below the national poverty line is 18.6 % (Government of Nepal, 2022). To grow the economic condition of these sectors indicates the need for microfinance institution opportunities in developing countries like Nepal.

### ***Low financial access***

The financial institution is an essential tool for circulating the national economy. In the context of Nepal, it is still not accessible in each region. A study conducted by Nepal Rastra Bank 2023 on the challenges of microfinance and its solution reveals that there are 77 districts among 753 local levels, and 100 local levels still have no access to microfinance

institutions. Microfinance has increased their program mostly in plain land like Tarai and mountain areas, especially in urban-linked places, not in remote areas of Nepal. Nepalese people who have no access to commercial banks anticipate microcredit services through microfinance financial activities to date in remote regions of Nepal (Bank Nepal Rastra, 2023).

### ***Unemployment***

Nepal is a developing country. More people are living in poverty, and unemployment is seen as the cause of poverty. In a study conducted in Rupandehi district, a case study of Paschimanchal Grameen Bikash Bank branch, the researcher found that out of 1360 total members, 115 were chosen for the respondents, 93 % of respondents have created different types of start-up businesses, 80.86 and 19.14 were not used in any industry. They mainly invested in small-scale businesses, livestock, and other agro-based enterprises. Thus, the study concluded that the microfinance program has helped create enterprises and generate employment (Gyawali, 2010).

### **Conclusion**

Microfinance institutions have spread their services throughout the country, covering 77 districts and 6 million households in Nepal. The microfinance industry has recently suffered from obstacles like increasing non-performing loan sizes and decreasing outstanding loans. There are decreasing loan and savings ratios, profit ratios, and decreased staff ratios. Similarly, other wrong Centre numbers and overdue members are also increasing. On the other hand, anti-microfinance movement sentiments are serially flagging throughout the country/even in the federal capital city of Kathmandu, by politically invested groups of people. They are saying that they could be free from over-debted/problematic members and the burden of loans from the multiple loans from the different MFIs. They have created significant challenges in the microfinance industry.

In addition, there is no alternative way to replace microfinancing with the nation. It has covered a vast area of financing in remote, rural, and urban areas. It creates job opportunities among the poor people whom conventional banks side due to the proper lack of collateral property types.

The study concluded that the multi-financing situation is a significant threat created by an unscientific licensing system from the authorities, and to control the situation, national policymakers/authorities should formulate a hard policy to repay the loan from the defaulter borrowers and a soft policy should be formulated to revive the honest miserable microfinance borrowers.

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