

Microfinance Performance in Urban Kathmandu: A Case Study of Lumanti Support Group for Shelter

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Abstract: *This study investigates microfinance performance of cooperatives established in slum and squatter areas of the urban Kathmandu supported by Lumanti: Support Group for Shelter. It specifically looks into the performance evaluation of the three cooperatives, analysis of the savings and credit and mobilization of groups and their members among the slum and squatter communities in the urban area of the Nepalese capital. The study methodology has combined the percentage analysis, trend and growth analysis and simple average statistical tools. The study has found the mobilization of saving and credit by the cooperatives of the slums and squatters as efficient.*

I. INTRODUCTION

The Economic Survey 2009-10 published by the Nepal Government reports large numbers of population still living under the poverty line in Nepal. According to the survey, 24.1 percent of Nepalese are still below the poverty line. However this figure is smaller than records in the past but still shows that this is a very large numbers of citizens are living under the poverty line. This also affects the income gap in the present Nepalese context and this has widened the gap between the rich and the poor. Due to this inherent incapability, people have very limited resources to uplift their financial status while they are not getting any access to take the financial resources through any institution and bank. The existing legal provision has limited access to get the loan from bank to these micro borrowers. These people do not have the capacity to give collateral for getting loan and advances from the banks and financial institutions. Therefore, microfinance is the only the solution to give the access to the poor to get the money for their economic activities. The microfinance only became a very popular paradigm when Muhammad Yunus has developed this new miracle financial system in the Bangladesh in 1976 to alleviate poverty. This paradigm says that microfinance can be defined as the delivery of

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financial services to poor households, so that they can manage their financial resources more effectively and overcome the poverty.

The economic survey 2009-10 also indicates that remittance has changed the scenario that percentage of poor people has decreased in the remote area and increased in urban area of the country. So, scenarios of poverty problems are changing in the country faster than in the past. More focuses are required in the urban area to alleviate the poverty in the country. Similarly, the migration and conflict in the country from the last decade has increased the slums and landless as well as poor people in the cities of the country. And the slums and squatters are most visible poverty in case of the urban area like Kathmandu and they are mostly elaborated to be a poor people of the city in Nepal. To increase the economic standard and provide financial access to the slum and poor people of the city has become a critical challenge to the government and the financial institutions, NGOs and INGOs involved in alleviating poverty throughout the country.

II. OBJECTIVE OF THE STUDY

The main objective of this study is to evaluate the performance of the microfinance and mobilization of the saving and credit to access the financial services to the slum and poor people in urban area of Nepal. To fulfil the objective, this study specifically examines the microfinance performance of cooperatives of the urban Kathmandu's slum and squatter communities supported by Lumanti: Support Group for Shelter, a non-governmental organisation operating from 1993.

III. REVIEW OF LITERATURE

The World Bank (2007) stated in the paper by Karlan and Goldberg suggested that the impact evaluation of microfinance need to be focused on prospective evaluation and that can help MFIs (microfinance institutions) and policymakers design better institutions. This paper stated that microfinance implies very small loans to low-income clients for self-employment, often with the simultaneous collection of small amount of savings. This paper also stated clear key characteristics of microfinance and stated about three basic models of liability structure of microfinance loans. These liabilities are the solidarity group, village banking and individual lending. This paper has suggested using the methodology of experimental credit scoring as a part of randomized controlled trials for programme evaluation. In this approach, if sample sizes permit, it does not necessarily require randomization. A regression discontinuity designs may also be possible if enough individuals are or near the threshold.

Similarly the Quasi-experimental methodologies for programme evaluation are also suggested to evaluate the programme impact. Groups and comparison groups are selected in advance of it. The paper stated that good evaluation not only can deliver to donors an assessment of the benefits that accrued from their investment but also can provide financial institutions with prescriptions for how best to run their businesses and how best

to maximize their social impacts. The paper also stated that to incorporate nine hallmarks of microfinance structure for many of the open questions in microfinance product design. The paper also elaborated that about the reasons to evaluate microfinance performance. The main reasons are: 1) Impact evaluation is a kin to good market and client research, 2) Financially self-sufficient financial institutions often receive indirect subsidies in the form of soft loans or free technical assistance from donor agencies, 3) Impact evaluations are not simply about measuring whether a given programme is having a positive effect on participants and 4) Many microfinance programmes aim to be for profit entities, not all are.

Singh (2009) stated that microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes in India. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers without improving bearably high cost of monitoring to the end-use lenders in the Indian context. The study explained different models of microfinance practices in India. The study analyzed the growth rate of groups and credit provided to borrowers in different parts of India.

Rajendran and Raya (2010) analysed the impact of microfinance on the empowerment in psychological, economic and social aspects and managerial skills of leaders of SHGs and their attitude in Vellore district of India. The study stated that age and education is not having any influence on empowerment as well as on managerial skill development among rural women. Using qualitative approach, the study found that the impact of microfinance is appreciable in bringing confidence, courage, skill development and empowerment but there is no positive impact in sustainable rural development especially in reduction of poverty, creation of employment opportunities and creation of assets in rural areas.

Jordanian Ministry of Planning and International Cooperation & Planet Finance (2007) stated that microfinance in Jordan has a positive impact on business development. The results indicated that microfinance provided the only external source of finance for the economically active poor in Jordan. The results indicated that clients who have been in a microfinance programme for three years or more gained on average 15.4 percent more in monthly profits than clients who have just recently joined the programme. Contribution to the household budget increases by 20 percent between clients who have just entered a microfinance programme to those who have participated for at least three years. This study has been accomplished using the Impact-Knowledge-Market (IKM) methodology, a training and action-research programme which used qualitative and quantitative methods as part of a participative and multidisciplinary approach used to identify client characteristics, research market demand, and assess impact.

SAPNEPAL (2005) attempted to assess the impact of microfinance services on poverty reduction using both the extensive and intensive approaches to impact assessment through before and after comparisons as well as with and without microfinance services comparisons. These approaches have enabled the study of changes over time and

matched pairs of observations between borrowers and members of a control group. The study found that Nepalese micro finance institutions offers savings and credit services but they were not very diversified.

The study further stated that microcredit has been used both for production (66 percent) and consumption (36 percent) purposes. Microfinance contributes to a reduction in poverty in clients' households and about 56 percent of the clients have reported an increase in their incomes after participation in microfinance programmes. The study also stated that access to financial services has significant impact on clients in a wide range of economic and social indicators, including increased income, improved lifestyle and nutrition. This study was both quantitative and qualitative in nature. The study methodology used the triangulation of methods for poverty assessment, formulation of an involvement index and financial landscaping and household portfolio analysis.

Mathema (2008) described microfinance as a source to fill the financial resource gap of the micro enterprises. The basic concept behind microfinance services is to meet the financial requirement of the rural people for their income generation activities at the local level. These microfinance services operate within stipulated acts and regulations of the society. The target group of microfinance services is the population below poverty-line and almost all these people are from rural based. These are the population having very little or no land of their own, no collateral to pledge for institutional credits, lack of education, deprivation of employment opportunities, victim of ill-health. The study identified as the microfinance challenges the continuity and sustainability of the microfinance programmes and projects, lack of trained human resource, slow pace of growth due to topographical problems, decline of the priority sectors of Government. The study also suggested about the roadmap to be followed in microfinance implementation in the country.

These roadmaps advised are to diversify the blanket approach of microfinance policy and programme, improve in mission and vision of the microfinance sector to include both rural and urban poor, and revise acts and regulations. Similarly, the coverage of credit guarantee system should be broadened with appropriate policies and programmes to increase involvement of banks and financial institution in the microfinance sector.

These reviews are basically focused on the overall performance of the microfinance provided to the poorest people of different countries. However, it revealed that no significance study has been conducted on microfinance impact on urban poor of Kathmandu.

IV. METHODOLOGY

The study has considered the sample of three cooperative (micro-credit groups) among 13 cooperatives of micro finance supported by Lumanti: Support Group for Shelter; it is basically the purposive sampling method adopted in the study. The samples are the leading and dominant cooperatives in terms of business and members (refer to annex 1) having completed more than five years of operations. They cover a large number of members and saving and credit in Kathmandu under the Lumanti umbrella. All these

three saving and credit groups are the registered entities as cooperatives according to government rule and formed from the participation of the slum and squatters communities from the Kathmandu Valley.

The study has used percentage analysis, trend and growth analysis and average statistical tools followed by a comparative analysis of credit and savings of the sample institutions.

V. ANALYSIS OF DATA

The study found that these three cooperatives (micro-credit groups) of the Lumanti have the average members, average groups and average member per groups are found from given data of time series. Where the Pragati cooperative has average members, average groups and average members per groups are 408.13, 29.25 and 16.26 respectively. The average members, average groups and average member per groups of the Navadeep Jyoti cooperative is 281.38, 20.25 and 13.76 and the average members, average groups and average member per groups of the Gyan Jyoti cooperative is 339.13, 20.88 and 16.26 respectively.

Table 1 : Average Member Per Group

in '000

Years	Pragati			Navadeep			Gyanjyoti		
	Members	Group	Member per group	Members	Group	Member per group	Members	Group	Member per group
2004/05	294	21	14	143	13	11	153	10	15
2005/06	391	27	14	229	18	13	207	13	16
2006/07	377	28	13	255	19	13	239	15	16
2007/08	420	30	14	287	19	15	289	17	17
2006/07	414	30	14	297	19	16	320	18	18
2007/08	434	30	14	330	23	14	425	26	16
2008/09	455	33	14	345	25	14	510	32	16
2009/10	480	35	14	365	26	14	570	36	16
Average	408	29	14	281	20	14	339	21	16

Source : Self Calculation from Annual Reports

Credit performances of the three cooperatives have significantly increased as they have gained more experience in the years of operation. The average loan disbursement of Pragati, Navajyoti and Gyanjyoti are 25,716.04, 16059.92 and 6615.15 thousands respectively. Loan disbursements per members are 58.05, 48.88 and 16.04 thousands respectively.

Table 2 : Average Credit Per Member

Rs. in '000

Years	Pragati			Navadeep			Gyanjyoti		
	Credit	Members	Loan per member	Credit	Members	Loan per member	Credit	Members	Loan per member
2004/05	3,066.00	294	10.43	723.02	143	5.06	589.40	153	3.85
2005/06	5,858.00	391	14.98	1956.402	229	8.54	1,157.00	207	5.59
2006/07	10,188.50	377	27.03	4574.902	255	17.94	2,005.40	239	8.39
2007/08	18,803.80	420	44.77	9324.902	287	32.49	4,178.28	289	14.46
2006/07	20,459.57	414	49.42	14695.402	297	49.48	6,717.28	320	20.99
2007/08	45,975.80	434	105.94	22043.103	330	66.80	8,904.96	425	20.95
2008/09	48,274.59	455	105.94	30064.654	345	87.14	12,500.79	510	24.51
2009/10	53,102.05	480	105.94	45096.981	365	123.55	16,876.07	570	29.61
Average	25,716.04	408	58.05	16,059.92	281	48.88	6,616.15	339	16.04

Source : Self Calculation from Annual Reports

Similarly, as regards the saving collection performance, Pragati, Navajyoti and Gyanjyoti have the average savings are Rs. 4886.63, 3319.36 and 5965.22 thousands respectively. The saving per person in these cooperatives are 11.36, 10.33 and 14.06 thousands respectively in the give time period of the study.

Table 3 : Average Saving Per Member

Rs. in '000

Years	Pragati			Navadeep			Gyanjyoti		
	Saving	Members	Saving per member	Saving	Members	Saving per member	Saving	Members	Saving per member
2004/05	1,201.93	294	4.09	43.04	143	0.30	574.45	153	3.75
2005/06	1,845.52	391	4.72	885.17	229	3.87	1,048.96	207	5.07
2006/07	2,555.21	377	6.78	1,463.56	255	5.74	1,799.99	239	7.53
2007/08	3,855.15	420	9.18	2,442.44	287	8.51	2,994.88	289	10.36
2006/07	5,693.58	414	13.75	3,453.24	297	11.63	4,812.77	320	15.04
2007/08	7,206.99	434	16.61	5,525.18	330	16.74	7,219.16	425	16.99
2008/09	7,783.55	455	17.11	6,165.37	345	17.87	11,708.62	510	22.96
2009/10	8,951.08	480	18.65	6,576.85	365	18.02	17,562.92	570	30.81
Average	4,886.63	408	11.36	3,319.36	281	10.33	5,965.22	339	14.06

Source : Self Calculation from Annual Reports

Table 4 shows that in terms of credit-saving performance of three cooperatives, Pragati, Navajyoti and Gyanjyoti have average credit-saving ratios are 4.59, 5.74 and 1.16 respectively, in time series data.

Table 4 : Credit Saving Ratio

Rs. in '000

Years	Pragati			Navadeep			Gyanjyoti		
	Credit	Saving	Loan Saving Ratio	Credit	Saving	Loan Saving Ratio	Credit	Saving	Loan Saving Ratio
2004/05	3,066.00	1,201.93	2.55	723.02	43.04	16.80	589.40	574.45	1.03
2005/06	5,858.00	1,845.52	3.17	1956.402	885.17	2.21	1,157.00	1,048.96	1.10
2006/07	10,188.50	2,555.21	3.99	4574.902	1,463.56	3.13	2,005.40	1,799.99	1.11
2007/08	18,803.80	3,855.15	4.88	9324.902	2,442.44	3.82	4,178.28	2,994.88	1.40
2006/07	20,459.57	5,693.58	3.59	14695.402	3,453.24	4.26	6,717.28	4,812.77	1.40
2007/08	45,975.80	7,206.99	6.38	22043.103	5,525.18	3.99	8,904.96	7,219.16	1.23
2008/09	48,274.59	7,783.55	6.20	30064.654	6,165.37	4.88	12,500.79	11,708.62	1.07
2009/10	53,102.05	8,951.08	5.93	45096.981	6,576.85	6.86	16,876.07	17,562.92	0.96
Average	25,716.04	4,886.63	4.59	16,059.92	3,319.36	5.74	6,616.15	5,965.22	1.16

Source : Self Calculation from Annual Reports

The recovery of loan and bad debts of three cooperatives shows that Pragati has Rs. 16114.78 (million) as bad debt and rate of recovery is 68.51 percent and average Bad debt is Rs 28.38 thousands which is 0.15 percent of total loan in average. The recovery amount of Navajyoti is Rs.16114.78 and rate of recovery is 68.51 and rate of bad debt is Rs. 28.38 Thousands. Here, the proportion of bad debt is 0.15 percent which indicates existence of extremely little non-performing asset in the cooperative hinting at the effective credit management.

Table 5 : Percentage of Recovery and Bad Debt of Cooperatives

Years	Pragati		Navadeep		Gyanjyoti	
	Recovery	Bad debt	Recovery	Bad debt	Recovery	Bad debt
2004/05	55.64	0.11	50.29	-	101.16	4.30
2005/06	72.71	0.19	56.76	-	97.65	4.03
2006/07	74.43	0.09	67.48	0.11	96.01	3.77
2007/08	70.19	0.30	64.98	0.00	78.10	1.79
2006/07	115.54	0.39	66.08	0.06	94.90	0.97
2007/08	51.42	0.05	70.00	3.94	85.17	1.06
2008/09	52.89	0.04	74.42	2.62	68.60	1.00
2009/10	55.29	0.04	81.10	2.15	86.73	2.16
Average	68.51	0.15	66.39	1.11	88.54	2.39

Source : Self Calculation from Annual Reports

Major findings of the study

The study found some major findings regarding the micro-credit group mobilization, saving collection, loan disbursement, credit to saving ratios, loan recovery and bad debt conditions of the micro-credit (cooperative) groups.

The above table finds that Gyan Jyoti has accommodated highest number of average groups than other Micro-credit groups, even it has fewer members than Pragati. In other hand the Pragati has highest members in average and this group has formatted highest groups than other cooperatives but size of members in group is smaller than Gyan Jyoti.

Pragati has the highest collection of average loan and highest volume of loan disbursement per member, whereas the Gyanjyoti has the lowest collection of the loan collection and disbursement per member. The study found that Pragati is able to mobilize its maximum savings as loan and able to provide the maximum micro-credit to the members of the slum communities.

Regarding the saving collection, a key finding is that savings of Gyanjyoti shows the highest record of Rs. 5.96522 million, although it has the lowest average members in groups. On the other hand, with per person average savings of only Rs. 10.33 thousands, Navajyoti has smaller amounts of deposits of Rs. 3319.36 thousands.

With the average credit-saving ratio of 5.74, Navajyoti's performance may be rated highest in mobilizing credit. Relatively, Gyanjyoti has shown mediocre performance in mobilising saving and credit.

Gyanjyoti has the largest amount of bad debts (2.39 percent) and Pragati has the smallest (0.15 percent). This indicates that Pragati is most efficient in loan recovery.

VI. SUMMARY AND CONCLUSIONS

Loans and financial resources are the major source of economic activities that result in increasing the income level of poor community. Typically, poor people have little or no access to the loans and advances because they do not have any assets to pledge as collateral in the financial institutions. Micro-credit is the only appropriate tool to provide such access to them so that they can get involved in their income generation activities. Many government agencies and non-government units are providing microcredit to the poor people. Squatters living in slums are visibly the poor in the city. Lumanti is working to mobilize the people in the slums for generating income in the Kathmandu Valley, among others. Three sample cooperatives: Pragati, Navajyoti and Gyanjyoti, set up under the Lumanti's initiative are the oldest and cover a significantly large population of the poor living in slums thereby playing a significant role in poverty alleviation in capital city.

The evidence is the performance of the three cooperatives in the micro-credit activities targeted at the poor living in the slums in urban Kathmandu. Interestingly, the sample cooperatives have been able to keep the smaller proportion of bad debts,

indicating stronger group trust and effective mobilisation of funds. Basically, the sample cooperatives are successful in accommodating a significant size of members and groups as well as in collecting savings and mobilising resources that include mobilisation of credit and human resources for improving their quality of living.

Further studies in this area could also investigate the impact of microfinance on income of the urban poor by using Descriptive Statistics, Independent T-test, stochastic frontier analysis (SFA), Cobb -Douglas Production Functions Model and Gross margin analysis.

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Annex 1 : Cooperatives fromed by Lumanti

S. No	Cooperative	No. of Gruoup	Group members	Reserves up to FY 2066/2067	Cumulative loan up to FY 2066/67	Cumulative Saving up to FY 2066/67
1	Pragati	35	480	10,338.05	53,102.05	8,951.08
2	Gyan Jyoti	36	570	9,145.45	16,876.07	17,562.92
3	Navadeep Jyoti	26	365	8,066.08	45,096.98	6,576.85
4	NavaAstha	14	251	4,101.11	2,543.60	3,453.26
5	Prerana	16	328	2,573.32	1,947.43	3,245.75
6	Thankot	19	310	5,998.06	1,117.00	3,456.23
7	Khokana	7	218	673.78	441.00	287.55
8	Panga	18	290	3,009.87	1,429.20	5,876.47
9	Machche Gaoun	12	263	968.63	536.50	325.49
10	Kalikot	2	93	1,000.20	575.00	457.59
11	Ichchhumati	4	161	3,821.24	1,130.00	435.24
12	Nau Dhara	5	102	192.78	202.53	93.66
13	Thecho	10	267	248.93	172.00	75.65

Source : Annual Reports, Lumanti