

Does Microfinance affect the Living Standard of the Household? Evidence from Nepal

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Abstract

The paper explores the effect of a microfinance program on the living standard of clients taking reference from Nepalese MFIs. To measure the impact of microfinance, 480 respondents including 240 MF clients, who have at least five years involvement in microfinance institutions operated in the rural area of Kaski district, and rest 240 controlled respondents having a similar background were randomly selected. Data were collected through primary sources by using a semi-structured questionnaire, observations, and focused group discussions. The data for the study are both quantitative and qualitative. The method used for the study is the Randomized control trial method. Parametric tests, non-parametric tests, CFA, and SEM are the statistical tools used to identify the effectiveness of microfinance intervention on the living standard of the rural household. Study reveals microfinance has a very prominent and crucial role in changing the standards of household in rural areas through self-help group approach and also by assisting employment opportunities.

I. Introduction

MICROFINANCE IS AN important strategy to enhance financial services to the people who are vulnerable and have no access to banks or financial institutions. It provides a collateral-free loan to the poor and marginalized people on the recommendation of the groups. MFIs target the people who do not have access to financial services and mostly depending on informal financial sources such as money lenders. It provides diverse ranges of financial services and products such as micro-credit to members of self-help groups who are out of mainstream banking, savings account for self-help group members, and insurance for micro-lending given to members (Naïla, 2005). The aims to design micro-credits are to support people from weaker sections of society with a view of socio-economic transformation.

Microfinance institutions deliver a variety of financial services such as micro-credit, micro-savings, micro-remittance, and micro-insurance. It also provides non-financial services for empowering their members, such as group

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Submitted January 2020; Accepted June 2020

Article accepted under MoU signed with GLA University (India) in 2019-2020

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