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MICRO-FINANCE AND EMPOWERMENT OF WOMEN:
EVIDENCE FROM NEPAL

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ABSTRACT

During the last two decades micro-finance programs have proliferated around the world. The Nobel Peace Prize 2006 awarded to the Grameen Bank and its founder signifies the global recognition of micro-finance as an effective strategy for poverty alleviation and socio-economic development. Micro-finance programs are also acknowledged for having an empowering effect on women. Previous studies, however, have shown contradictory results on the empowering effect of micro-finance programs. Some studies have shown that micro-finance empowers women while other studies indicate that micro-finance not only increase gender conflict and subordination of women, but also result in the loss of women's control over their loans. This study examines the empowerment of low-income Nepalese women from squatter communities who participate in micro-finance programs. A significant difference in the level of self-esteem, self-efficacy and contribution to family income between participant group and non-participant group was found. In addition, a significant correlation between the level of self-esteem and self-efficacy and the amount of time the subjects participated in micro-finance programs meant that participation in micro-finance might have enhanced these factors. Regression analyses showed that participation in micro-finance programs had significant positive effects on self-esteem, self-efficacy and contribution to family income while controlling for socio-demographic variables like age, education level, family size and family income. This study concluded that micro-finance could help to empower female participants.

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CHAPTER I: INTRODUCTION

Background and Rationale

The purpose of this study is to determine if participation in micro-finance empowers low-income women in Nepal. Based on primary field data, this study uses both quantitative and qualitative research methods to investigate if participation in micro-finance has a positive effect on five selected indicators of empowerment: self-esteem, self-efficacy, contribution to family income, ownership of assets and mobility.

Gender equality and empowerment of women have been two of the stated development goals of the Government of Nepal (*Women in Nepal Country Gender Assessments, 1999*). These goals, along with women's well-being objectives, have been pursued by development programs like micro-finance (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction, 2004*). By their very design, micro-finance programs allow members to be actively involved in the programs rather than being passive recipients as in earlier development models (Sen, 2000). By testing the conceptual link between micro-finance and women's empowerment, this study of low-income women from landless families in Kathmandu, the capital city of Nepal, will make an important contribution to the micro-finance and women's development sectors.

Micro-credit and Micro-finance: Definitions and Strategies

Micro-credit refers to lending small amounts of money on a short-term basis to poor people for consumption and investment, generally without collateral. Micro-credit programs focus only on providing small loans to the clients and do not take deposits from them. Micro-finance programs, on the other hand, are broader in scope of activities and incorporate both lending as well as mobilizing saving deposits of the clients ("What is

Microcredit," 2004). Micro-finance programs carry out financial services such as micro-credit, micro-savings, transfer payment services and micro-insurance (Yunus & Jolis, 1998). Micro-finance programs are known to adopt mechanisms such as progressive lending, frequent repayment systems, and compulsory savings (Nissanke, 2002).

The Asian Development Bank (ADB) defines micro-finance as, "the provision of 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" ("Microfinance: Financial Services for the Poor," 2007, no p.). The ADB recognizes three potential sources of micro-finance: formal institutions like rural banks and cooperatives, semi-formal institutions like Non-Governmental Organizations (NGOs), and informal sources such as moneylenders and shopkeepers.

Since micro-finance programs are geared toward providing financial services to poor households and small enterprises, they almost always have a non-profit orientation. Concomitant with the non-profit objectives, micro-finance programs can also include development activities in areas such as adult literacy, entrepreneurship, health and family planning and administrative and leadership training.

A typical micro-finance loan can vary from fifty to several thousand dollars (Hardy, Holden, & Prokopenko, 2003). The loan is generally given out on a group-guarantee basis, without collateral. The group is responsible for the repayment of individual loans. If an individual member defaults, it is a common practice that other group members will be denied loans until the payment is made. The lender will make new loans to the group only if all the members of the group who have taken loans are current on their payment. Therefore, due to solidarity or peer pressure from within the

group, loans are almost always paid back. The Grameen Bank has a loan recovery rate of 98.61 percent (Yunus, 2007).

The structure and process of formal financial institutions in developing countries are not favorable to the poor people. Poor families, due to low income levels, have little capacity to save money for investment in small and micro-enterprises (Bockel, 2004). Because poor families often lack valuable material for collateral, they are generally denied loans by banks and other financial institutions. Their access to formal financial institutions like banks is further constrained by illiteracy (Bhatt, 2001). In addition, since commercial use of loans by the poor is linked with their personal finances, banks consider the poor high risk clients (Hardy et al., 2003). By not having much physical wealth to fall back on, loans can be vulnerable to factors such as a large medical bill, agricultural failure or other personal misfortune. The poor are, therefore, considered to be “unbankable” by banks and financial institutions (Nissanke, 2002 , p. 2). Lacking access to formal financial institutions, poor men and women are often at the mercy of local moneylenders who charge them high interest rates (Bernasek, 2003; *Impact Evaluation of Micro-Finance Programs on Poverty Reduction*, 2004). The Asian Development Bank underlines similar issues – the poor are denied loans because of perceived high risks, high costs involved in small transactions, and their inability to submit marketable collaterals for loans (“Microfinance: Financial Services for the Poor,” 2007).

During the last decade, micro-credit and micro-finance programs have acquired recognition and credibility as a viable strategy for poverty alleviation and for empowering women (Bagati, 2003; Hardy et al., 2003; Kabeer, 2001; Khandker, Samad, & Khan, 1998; Woller & Woodworth, 2001). Micro-finance can help to alleviate poverty

by diversifying incomes of participants and by building assets that reduce vulnerability. Similarly, such programs are considered to empower women by increasing their access to material and non-material resources, increasing participation in household decisions, reducing subordination of women, increasing women's social capital, increasing the use of family planning options, and enhancing self-worth (Amin, Li, & Ahmed, 1996; Kabeer, 2001; Mahmud, 2003; Yousaf, Hassan, & Kanwal, 2004).

A global micro-credit summit held in Washington, DC in February 1997 helped to launch an international campaign on micro-credit. More than 2,500 people from 137 countries gathered to start a nine-year campaign to reach 100 million of the world's poorest families. Providing the women of those families with credit for self-employment by the year 2005 was of special interest ("The Microcredit Summit Campaign," 2004).

The global summit on micro-credit of 1997 declaration states that their:

... purpose as an assembly is to launch a global campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005.

We commit to the development of sustainable institutions, which assist very poor women and their families to work their way out of poverty with dignity. (Daley-

Harris, 2005, p. 3)

According to the *State of the Micro-credit Summit Campaign Report 2006*, by the end of 2005, as many as 3,133 micro-credit institutions had reached 113,261,390 clients, 81,949,036 of whom were from the poorest sections of society from around the world (Daley-Harris, 2006). Out of the number of poorest clients, 83.5 percent were women.

The importance of micro-finance is highlighted by the declaration of the year 2005 as the international year of micro-credit by the United Nations' General Assembly ("International Year of Microcredit 2005," 2005). Furthermore, the awarding of the Nobel Peace Prize 2006 to the Grameen Bank of Bangladesh and its creator Muhammad Yunus has further endorsed micro-credit as a viable strategy for social and economic change (Moore, 2006). In addition to the promotion work by the micro-credit summit campaign, such endorsement by the United Nations and Nobel Prize committee encourages governments, donors, and development practitioners to increase the use of micro-finance in the fight against global poverty and as a vehicle for social change.

Following the success of the Grameen Bank of Bangladesh and the micro-credit summit, micro-finance programs have proliferated in many developing countries (Nissanke, 2002; Wahid & Hsu, 2000; Woller & Woodworth, 2001; Yunus & Jolis, 1998). Micro-finance schemes are expanding rapidly in countries especially where women are in a disadvantaged situation (Steele, Amin, & Naved, 2001). The Grameen Bank approach has been replicated in almost 100 countries ("Grameen Bank," 2006). Among 2,931 micro-finance institutions that reported to the Micro-finance Summit Campaign, 919 were from Africa, 1,603 from Asia, 261 from Latin America and the Caribbean, 48 from North America, 70 from Europe and Newly Independent States, and 30 from the Middle East ("The Microcredit Summit Campaign," 2004).

Changing Strategies

The micro-finance sector has undergone strategic changes during the past three decades. This change has been consistent with the move from top-down development policies to a more bottom-up, grassroots oriented policies in which non-governmental

organizations play an active role (Woller & Woodworth, 2001). During the 1970's and early 1980's, micro-finance programs were generally run by governments and government-owned entities. Now the private sector, including the NGOs has also been increasingly involved in implementing micro-finance programs (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction*, 2004).

It is well documented that micro-credit programs depend on financial and, in many occasions, technical support from donors (Mallick, 2002; Nissanke, 2002; Woller & Woodworth, 2001). Support is needed because the main source of income of the programs, which is made up of interest paid by the borrowers is not adequate to cover the administrative and overhead costs of the program (Fleisig, 1997). It is more costly to process many small loans than a few large ones. Costs of processing loans include administrative expenses and costs incurred in running offices and loan monitoring (Hardy et al., 2003). Due to the high costs, it is extremely challenging for micro-credit institutions to become financially self-sufficient. Therefore, many micro-credit programs require assistance from donors to sustain themselves.

Generally, government agencies, donor organizations and commercial banks are involved in the micro-finance sector as promoters. Once the donor support ends, many programs are not able to financially sustain themselves in the long term. The long-term sustainability of micro-credit programs is a valid concern raised by several studies (Mallick, 2002; Nissanke, 2002; *Project Completion Report on the Micro-credit Project for Women in Nepal*, 2003). Nonetheless, micro-finance is one of the new favorite concepts of the development aid community (Datta, 2004; Navajas, Schreiner, Meyer, Gonzalez-Vega, & Rodriguez-Meza, 2000).

The donor organizations are interested in micro-finance because of their shared goals of poverty alleviation and socio-economic improvement of poor communities. Micro-finance programs are seen as a means to directly reach the disadvantaged sections of the society in a relatively cost-effective manner (Hardy et al., 2003). These programs generally use local human and material resources, eliminating the costs of expensive equipment and infrastructure. Therefore, a partnership between the two has helped to fuel the micro-finance movement.

Donors now provide different kinds of support to prop up the programs that could not otherwise sustain themselves. Most of the support is provided in the form of a one-time start-up grant or a start-up loan with a long-term repayment period (Hardy et al., 2003). Donor support can also take the form of human resource development of micro-finance programs.

Micro-credit has increasingly been used as a strategy for poverty alleviation and women's empowerment (Bernasek, 2003; Bhatt, 2001; Khandker et al., 1998; Leach & Sitaram, 2002; *Project Completion Report on the Micro-credit Project for Women in Nepal, 2003*). While the expected increase in income from micro-enterprises is assumed to reduce poverty, increases in factors such as self-esteem and self-confidence are deemed responsible for empowerment of women (Yousaf et al., 2004).

Empowerment Theories

Empowerment is a flexible term with the definitions varying as per to the context in which it is used. Merriam-Webster's 11th Collegiate Dictionary (2003) defines the expression 'to empower' as "to promote the self-actualization or influence of." The promotion of self-actualization and influence of an individual or group is aimed at

enabling change and action. Empowerment is also defined as allowing “people to act on their own in order to reach their self-defined goals” (Zenz, 2004, p. 1). Both the definitions are general and incorporate dimensions of the self action toward realization of a certain goal resulting in empowerment.

Freire (1970), in *Pedagogy of the Oppressed*, defines empowerment as a process that begins with people’s own critical reflection on the nature of their situation and develops toward their liberation from oppression. Freire (1970) defines oppression as “any situation in which ‘A’ objectively exploits ‘B’ or hinders his or her pursuit of self-affirmation as a responsible person” (Freire, 1970, p. 37). According to Freire (1970), even the oppressors are not free from the process of oppression because by oppressing others they dehumanize themselves, and thus the oppressors need to be liberated as well. Freire (1970) posits that true liberation consists of a situation where both the oppressed and the oppressor are liberated. This can happen in two stages. In the first stage the oppressed people realize through self-reflection and praxis the extent of the oppression and commit themselves to transforming the situation. In the second stage, once the oppressed are liberated, the process of liberation continues until all people are liberated.

The empowerment of specific groups like employees, social work clients and women is commonly found in the literature. Empowerment of employees refers to “granting work-related decision-making authority to employees as a means of enhancing performance” (Menon, 2001, p.154). Structural factors such as variety of tasks, autonomy, workload, organizational support and position together with self-efficacy, a

motivational factor, define the empowerment of employees in the workplace (Yoon, 2001).

Empowerment is a concept that has become “very popular” in mental health services, particularly in the United States (Chamberlin, 2006, p. 1). Empowerment-based approaches are common in psychiatric rehabilitation. A study evaluating de-institutionalization of seriously mentally ill patients in the USA concludes that an empowerment approach to service delivery was related to overall quality of life (Rosenfield, 1992).

The Department for International Development (DFID), a British government department responsible for promoting development and reducing poverty, defines women’s empowerment as “individuals acquiring the power to think and act freely, exercise choice, and to fulfill their potential as full and equal members of society” (*Poverty Alleviation and Empowerment of Women*, 2000, p. 11). An empowered person possesses the capacity to make effective choices and to translate their choices into desired actions and outcomes (Alsop & Heinsohn, 2005). Empowerment is not a static phenomenon; it is a process. The expected outcome of empowerment is enhanced quality of life.

Mahmud (2003) argues that there are two dimensions of women’s empowerment. The first dimension is concerned with women’s well-being in terms of education, health, nutrition, labor force participation, contraceptive use, mobility and ownership of assets. The second dimension of women’s empowerment is concerned with her relative position to men in the household, particularly in areas like decision-making processes, control over household income and assets, control over loans, etc.

A voluminous amount of literature is available that explores various aspects of women's empowerment (Alsop & Heinsohn, 2005; Freire, 1970; Hunt & Kasyanathan, 2001; Kabeer, 2001; Khan, 1999; Leach & Sitaram, 2002; Mahmud, 2003; Malhotra, Schuler, & Boender, 2002; Mosedale, 2004; Parveen & Leonhauser, 2004; Pitt, Khandker, & Cartwright, 2003; Sabharwal, 2002; Troutner & Smith, 2004; *Women's Empowerment, Family Planning, and Civil Society, 2003*).

Empowerment leads to the ability of a woman to have a say and control over her life and her destiny. There is general agreement that an empowered woman is one who has the agency to make calculated choices and has control over the resources and decisions that effect her life (Alsop & Heinsohn, 2005; Malhotra et al., 2002; Narayan, 2002; Sen, 2000; Troutner & Smith, 2004). Sen (2000) focuses on the agency aspect of empowerment that distinguishes women as "agents" rather than "patients" in the well-being paradigm (p. 190).

Several issues are found to be commonly acknowledged in the literature concerning the empowerment of low-income women in developing countries. First, the empowerment process is two-dimensional, the internal dimension or women's agency, and the external dimension or the environment in which the women live and function. Agency, or the capacity to make meaningful choices, is at the core of empowerment (Malhotra et al., 2002). The contribution of external factors is limited to creating a better environment for empowerment and facilitating removal of constraints on agency.

Second, empowerment is a relative term. An individual or a group is more or less powerful than another individual or group. Hobcraft (2000) takes empowerment as a relative term where power of women and girls are compared with the power of men and

boys. In this context, to achieve gender equality, an increase in “relative share of power” over resources is required (Hobcraft, 2000, p. 161). Empowerment can also be measured on an individual level at different times. Empowerment is a process that engenders change over time and the individual empowered is also an active participant in the change process.

Third, while dimensions of empowerment such as *power over* recognize power as a zero-sum game – loss of one person/group means gain for another person/group – other dimensions of empowerment such as *power within*, *power to* and *power with* are not a zero-sum game (Mosedale, 2004).

Fourth, empowerment is increasingly recognized as a necessary condition for poverty alleviation (*Poverty Alleviation and Empowerment of Women*, 2000; *World Development Report*, 2001). Improvement in women’s well-being, particularly by increasing their capacity to make meaningful choices, is translated into the well-being of children and others in the family (Mahmud, 2003).

It was during the 1970s and 1980s that the early concepts of women’s empowerment and well-being were included in development projects (Arnfred, 2000). Such projects were first called Women-In-Development (WID) and later called Gender-and-Development (GAD). These initiatives were further consolidated by four conferences on women, 1975 in Mexico, 1980 in Copenhagen, 1985 in Nairobi and 1995 in Beijing.

Malhotra et al. (2002), based on a review of empirical studies, divided the most commonly used indicators of women’s empowerment into three main categories: domestic decision-making, access to or control over resources, and mobility and freedom of movement (see Table 1). Domestic decision-making consists of questions involving

finances, resource allocation, spending and expenditures. Similarly, access to control over resources incorporates indicators like access to and control of cash, household income, assets, unearned income, welfare receipts, household budget, and participation in paid employment. Mobility and freedom of movement, another indicator of empowerment, recognizes a woman who travels frequently and alone as more empowered than those with travel restrictions.

The concept of women's empowerment has been widely used in research related to socio-economic development (Parpart, Rai, & Staudt, 2002; *Poverty Alleviation and Empowerment of Women*, 2000; Troutner & Smith, 2004). It is increasingly being linked with overall national economic development. In fact, women's empowerment is considered as a "precondition" for alleviating poverty and maintaining human rights (*Poverty Alleviation and Empowerment of Women*, 2000, p. 8).

Women's empowerment is now in the international policy agenda. The United Nations Millennium Development Goals represent a roadmap for socio-economic development in developing countries. The goals were developed through consultations among various international development agencies including the World Bank, the International Monetary Fund and the United Nations. Unanimously adopted by the member states of the United Nations in September 2000, the goals highlight women's empowerment ("Millennium Development Goals," 2004). Among the eight main goals that focus on issues related to socio-economic development, the third goal specifically addresses the need for gender equality and women's empowerment:

Study Approach

This study was designed after conducting a review of literature on micro-finance and empowerment of women. Most of the studies investigating the empowering effects of micro-finance were located in countries other than Nepal, primarily Bangladesh. Since no independent scientific studies on the empowerment of women participating in micro-finance in Nepal were found, it was decided that this study would be a meaningful contribution to the Nepalese micro-finance and women's development sectors.

The study design takes a combined qualitative and quantitative approach. The quantitative analysis is complemented by qualitative information derived by observation, in-depth interviews and informal talks with the subjects and their family members.

This study compares 50 low-income Nepalese women who participate in a micro-finance with 50 women from the same community with similar socio-economic background who do not participate in such a program. The comparison is based on five key indicators that have been used previously by other studies: self-esteem, self-efficacy, contribution to family income, ownership of assets, and mobility. The study subjects were selected from three micro-finance cooperatives, Gyanjoyti Mahila Utthan Savings and Credit Cooperative, (henceforth called Gyanjoyti), Naudeep Mahila Utthan Savings and Credit Cooperative (henceforth called Naudeep) and Women Entrepreneur Association of Nepal (WEAN). The three organizations were working with low-income women from landless communities in Kathmandu. The organizations operate savings and credit programs that aim at improving the livelihoods of poor women and their families.

Research Question and Conceptual Model

Given the growing importance of women's empowerment and gender equality in developing countries, and the recent expansion of micro-finance, this study seeks to answer the question: does participation in micro-finance empower women?

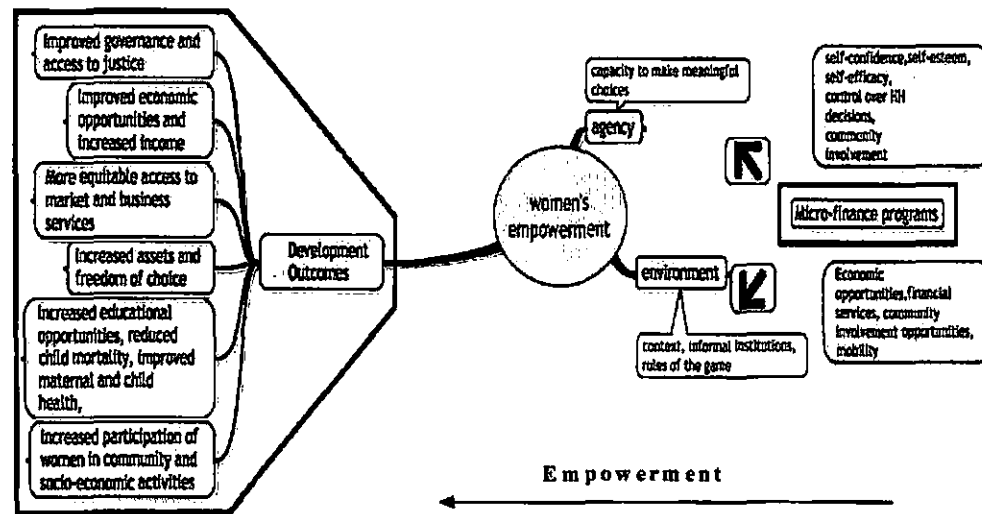


Figure 1 Development Outcomes of Micro-Finance: A Conceptual Model

Figure 1 shows women's empowerment, as a process, is based on women's agency and the environment. Micro-finance programs attempt to change the environment by making financial services accessible to women who previously did not have access to such services. In addition, by providing opportunities to start their own business and to become active participants in the process, micro-finance provides women with an outlet for and consequent development of women's agency. Both these functions of micro-finance result in women's empowerment, which in turn contributes to achieving desired development outcomes.

Table 1

Commonly Used Dimensions of Empowerments

Dimension	Household	Community	Broader Arenas
Economic	Women's control over income; relative contribution to family support, access to and control of family resources	Women's access to employment; ownership of assets and land; access to credit; involvement and /or representation in local trade associations; access to markets	Women's representation in high paying jobs; women CEOs; representation of women's economic interests in macro-economic policies, state and federal budgets
Socio-Cultural	Women's freedom of movement, lack of discrimination against daughters; commitment to education of daughters	Women's visibility in and access to social spaces; access to modern transportation; participation in extra-familial groups and social networks; shift in patriarchal norms (such as son preference); symbolic representation of female in myth and ritual	Women's literacy and access to a broad range of educational options; positive media images of women, their roles and contributions
Familial/Interpersonal	Participation in domestic decision-making; control over sexual relations; ability to make childbearing decisions, use contraception, access to abortion; control over spouse selection and marriage timing; freedom from domestic violence.	Shifts in marriage and kinship systems indicating greater value and autonomy for women (e.g. later marriage, self selection of spouses, reduction in practice of dowry; acceptability of divorce); local campaigns against domestic violence	Regional/national trends in timing of marriage, options for divorce; political, legal, religious support for (or lack of active opposition to) such shifts; systems providing easy access to contraception, safe abortion, reproductive health services
Legal	Knowledge of legal rights; domestic support for exercising rights	Community mobilization for rights; campaigns for rights awareness; effective local enforcement of legal rights	Laws supporting women's rights, access to resources and options; advocacy for rights and legislation; use of judicial system to redress rights violations
Political	Knowledge of political system and means of access to it; domestic support for political engagement; exercising the right to vote	Women's involvement or mobilization in the local political system/campaigns; support for specific candidates or legislation; representation in local bodies of government	Women's representation in regional and national bodies of government; strength as a voting bloc; representation of women's interests in effective lobbies and interest groups
Psychological	Self-esteem; self-efficacy; psychological well-being	Collective awareness of injustice, potential of mobilization	Women's sense of inclusion and entitlement; systemic acceptance of women's entitlement and inclusion

(Malhotra et al., 2002, p. 13)

Table 1 depicts women's empowerment from the perspective of six dimensions: economic, socio-cultural, familial/interpersonal, legal, political and psychological. Each of these dimensions is further divided into household, community and broader arenas. This comprehensive table can be used as a source of indicators for measuring empowerment. The five indicators selected for this study represent Psychological (self-esteem and self-efficacy), Economic (contribution to family income and ownership of assets), and Socio-Cultural (freedom of movement – mobility) dimensions. These indicators were selected because they could be reliably measured, were applicable in Nepalese cultural context and were previously used by other studies.

Contribution of the Study

As an independent investigation into one of the key development strategies of global importance, this study makes dual contribution: through its research findings and through the development of Nepalese versions of two psychological scales. The findings of this study represent an important contribution to planners and program managers of socio-economic development programs that incorporate micro-finance as a means of women's empowerment. By supporting the notion that participation in micro-finance empowers women, the findings of this study can be useful for policy development and programs.

The questionnaire designed for and used in this study to measure the level of empowerment of low-income women included two scales: the Rosenberg Self-Esteem scale and The General Self-Efficacy scale. These Likert-like scales have been previously used in other cultures and languages with acceptable levels of reliability (Flynn, 2003; Schwarzer & Jerusalem, 1995). The scales were translated from English into the Nepalese language and 100 Nepalese women were interviewed. With Chronbach's alpha of .77 for the Rosenberg Self-Esteem Scale and .84 for the General Self-Efficacy Scale, the Nepalese versions of the scales have acceptable reliability and can be used for other studies in the Nepalese cultural context. This may be perhaps the first time psychological tests in the Nepalese language were used to measure the level of empowerment. The tests can be useful in evaluating development programs in health, education and social welfare.

Organization of the Dissertation

This dissertation is divided into five chapters. Chapter I as the introductory chapter consists of the background and rationale for the study, definition and discussion of micro-finance and women's empowerment, a brief history of Nepal and the state of poverty in Nepal, a description of the study site, the selected micro-finance cooperatives and the policy environment. Chapter II presents the review of relevant literature in micro-finance at both the international level and the national level. Following the introduction of the Grameen Bank, studies on empowerment of women and micro-finance are discussed. Chapter III describes the measurement tools and operationalization of indicators of empowerment. Chapter IV presents the findings of the study and discussion. Chapter V, as the concluding chapter, presents conclusions, recommendations, limitations of the study and implications for future research.

Country background

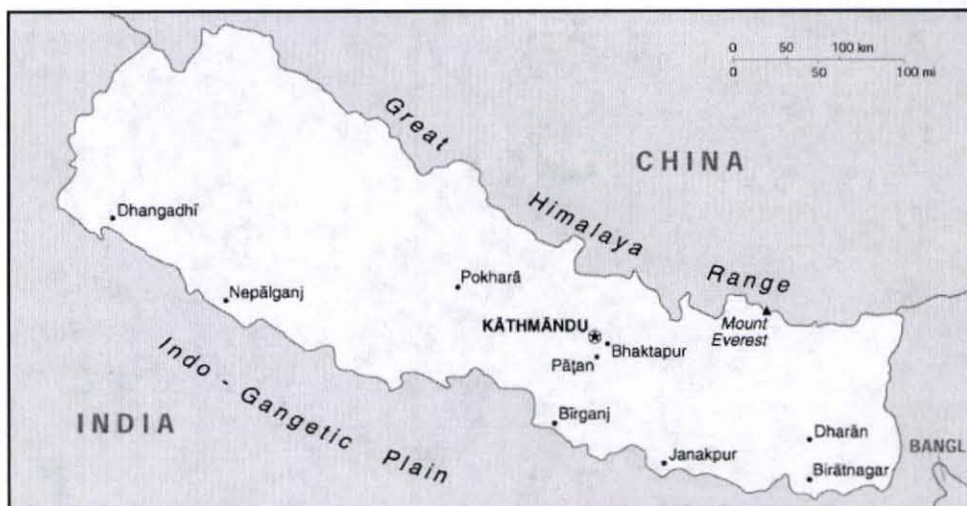


Figure 2 Map of Nepal

Nepal is a landlocked country located between India and China. The country was created by King Prithvi Narayan Shah, the first king of the Shah dynasty, who unified many small kingdoms and serfdoms into a single entity in 1769 ("The Shah Dynasty," 2007).

With a total area of 147,181 sq. km, Nepal is slightly larger than the State of Arkansas (*Nepal in Figures 2006, 2007*). The climate varies from cool summers and severe winters in the north to subtropical summers and mild winters in the south.

The estimated population of the country for 2007 was 25,886,736 (*Nepal in Figures 2006, 2007*). The population growth rate during the same period was 2.25 percent and infant mortality rate 64.4 deaths/1,000 live births (*Nepal in Figures 2006, 2007*).

The Nepalese economy is primarily dependent on agriculture, a sector that sustains over 81.2 percent of the population ("Fact Sheet Nepal Women in Agriculture, Environment and Rural Production," 2005). The country has only 98 hospitals with 1259

doctors and 11,637 nurses (*Nepal in Figures 2006, 2007*). The overall literacy rate is only 54.1 percent (*Nepal in Figures 2006, 2007*).

With 31% of its population living below the national poverty line, Nepal is among the least developed countries in the world ("Despite Conflict, Nepal Reduced Poverty between 1996 and 2004," 2007). Poverty is widespread in Nepal and a significant variation in poverty is found in terms of location and ethnic groups (Do & Iyer, 2007). About 44 percent of rural and 23 percent of urban population was found to be living in poverty (*The Tenth Plan Poverty Reduction Strategy Paper 2002-2007, 2003*).

It is estimated that out of the total population only 35.2 percent have access to micro-finance services (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction, 2004*). Out of those with access to micro-finance, only 24.1 percent are from the poorest of the poor group defined by the income of less than one dollar a day. Furthermore, the outreach of micro-finance is higher in the more accessible southern plains of the country than in the hill areas (Bhatt, 2001).

Political challenges

Politically, although the country was never colonized by external powers, Nepal has been mostly ruled by the Kings of the Shah dynasty and the Ranas. The Shah dynasty ruled Nepal following the unification of the country in 1768 by King Prithvi Narayan Shah until 1846, when a massacre of the country's powerful people ended the Shah dynasty and the Ranas took over ("Nepal," 2005). The Ranas ruled for 104 years, during which time the kings of the Shah dynasty were made powerless ("The Kingdom of Nepal," 2007). As the independence movement gained momentum in India, King Tribhuvan led a revolt that successfully ended the Rana regime.

Nepal's first multi-party election was held in 1959. However, soon after, King Mahendra, the father of the current king, dismissed the cabinet, dissolved parliament and banned political parties ("The Kingdom of Nepal," 2007). In 1962, a monarch-centric party-less system of government called Panchayat was formed. While resistance to the Panchayat rule was consistently carried on by the banned political parties, a political change was realized only in 1990 ("The Kingdom of Nepal," 2007).

King Birendra endorsed in 1991 a new constitution based on multi-party democracy and constitutional monarchy ("The Kingdom of Nepal," 2007). King Birendra, unfortunately was massacred along with his whole family, allegedly by his own infuriated son in the year 2001 ("Prince Blamed for Nepal Massacre,"). Following Birendra's death his younger brother Prince Gyanendra was enthroned.

The current constitution has been in effect from 1991, and is based on competitive multi-party democracy (Ellingson, 1991). On February 1, 2005, King Gyanendra fired the democratically elected government, assumed executive power and declared martial law in order to control the rapidly flaring Maoist insurgency ("World Leaders Condemn Nepal Crisis," 2005). The protests and the general strike that had been launched by the political parties on April 5, 2006 tipped into a full-fledged revolt in which hundreds of thousands of people demonstrated for reinstatement of a democratic system. The royal government on April 21 decided that its time was up and King Gyanendra that evening announced the restoration of the old parliament. (Bindra & Udas, 2006).

The reinstatement of the Parliament and the formation of a new government aimed to resolve the Maoist conflict through dialogue and to hold elections for a constitutional assembly that will write a new constitution. The first meeting of the constitutional

assembly will decide on the fate of the Nepalese monarchy. The constitutional assembly election has been scheduled for April 10, 2008.

Gender in Nepal

Gender equality has been one of the key socio-economic development agendas for Nepal. Traditional social and cultural factors continue to constrain women's access to household income and resources. Patriarchy has been the predominant culture in most communities, making a woman's life dependent on her father and husband (Acharya, 2004). Marriage is very important in a woman's life, as it determines almost all of her options. In male-headed households, it is the males of the family who inherit family wealth and maintain control over household income and assets. Women's legal rights to inherit parental property are still limited (*The Tenth Plan Poverty Reduction Strategy Paper 2002-2007*, 2003).

While gender disparity exists at the household level, women are without much influence in public representation as well. Women are under-represented in both the civil service and at the local and national elected governments. Women, comprising about 50 percent of the population, make up only 7 percent in the civil service, 6 percent in the lower house and 15 percent in the upper house in the last elections (*The Tenth Plan Poverty Reduction Strategy Paper 2002-2007*, 2003).

In the health sector, accessibility of general health services including immunization is poor for the rural population of the country. This impacts women when they are in need of special medical attention during childbirth and for postnatal care. While lack of physical accessibility due to difficult topographical conditions is one of the main obstacles, a general lack of awareness about health and sanitation, inappropriate

child-care and feeding practices, and poor environmental conditions including lack of clean water are some of the issues that compound health problems. Women still have limited control over fertility and access to reproductive health services and contraceptive devices (*Women in Nepal, 1999*).

Violence against women is widespread and can take the form of verbal eve teasing, physical/sexual abuse, rape and trafficking. Trafficking of women is also one of the issues intimately associated with lack of employment opportunities and poverty. It has been reported that 200,000 Nepalese women have been trafficked to India, and of them an estimated 40,000 are under the age of 16 (Boonpala & Kane, 2002). Many of these girls are deceived by others into prostitution in the pretense of marriage or promising a legitimate job in a foreign country (Coomaraswamy, 2005).

Women lag behind in education as well. The gender gap in literacy, enrollment and educational attainment is a result of low level of household income, high domestic workload and early marriage for girls (*Women in Nepal, 1999*). The literacy rate of women is only 42.8% while that of men is 65.5% (*Nepal in Figures 2006, 2007*). There is also a need to make educational materials and teaching procedures gender-sensitive (*Women in Nepal, 1999*). Female-headed households, which constitute 13.2 percent of all households, are poorer than male-headed households (*The Tenth Plan Poverty Reduction Strategy Paper 2002-2007, 2003*).

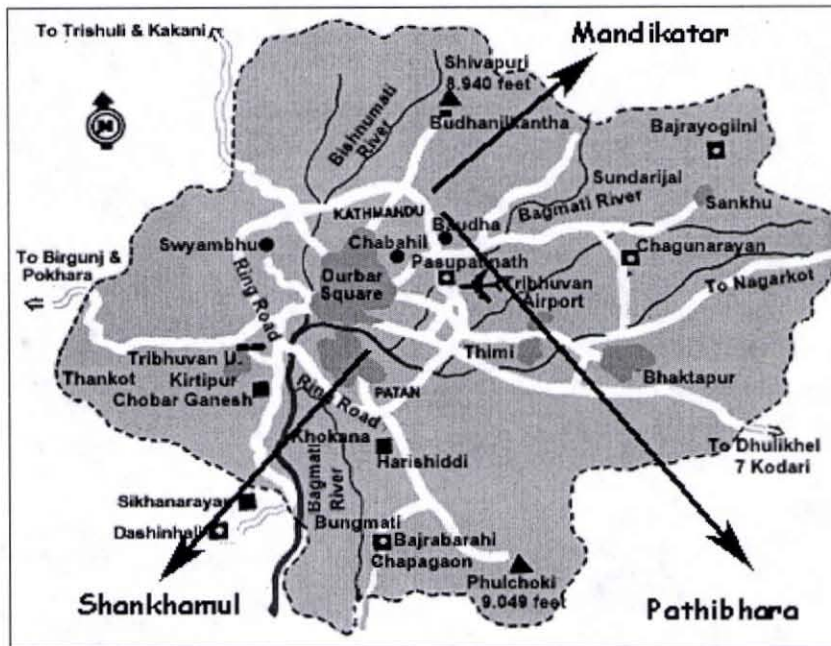
The government of Nepal acknowledges the need to remove social, legal and economic “constraints” to empower women (*The Tenth Plan Poverty Reduction Strategy Paper 2002-2007, 2003, p. 56*). A government strategy paper acknowledges “sociological factors” that constrain women’s access to household income and resources

(The Tenth Plan Poverty Reduction Strategy Paper 2002-2007, 2003, p. 27). It is generally men who inherit family wealth and make decisions on family income and resources. The government's strategy to reduce gender disparity is based on gender mainstreaming – a concept that requires a shift from the traditional welfare measures to ensuring that women have equal access to economic infrastructure, income and employment (*Tenth Plan 2002-2007, 2002*). To achieve that goal, micro-finance programs can play a crucial role as provider of financial capital to poor women for business start-up.

Study Site: Katmandu City

This study was conducted in Katmandu, the capital city of Nepal. Katmandu is located slightly Southeast of Nepal's center. The city occupies a part of Kathmandu Valley, which also harbors two other cities, Patan and Bhaktapur.

Figure 3 Map of Kathmandu Valley



Source: <http://www.hansada-yoga-ashram.org/>

For centuries, migrating into the Kathmandu valley has created a unique cultural and racial blend. More recently, the city has been growing rapidly because in addition to rural people migrating into the cities for education and employment opportunities, people are moving into Kathmandu to escape the Maoist insurgency which began in 1996 (Seddon, 2005). According to the Center bureau of statistics, the annual population growth rate of urban areas of Nepal was 5.2 percent while the overall growth rate of the country was only 2.4 percent (*National Census 2001/02, 2002*). The United Nations

Development Program (UNDP) projects that if the present trend of urbanization continues, by 2035, as much as half of the Nepalese population will be living in urban areas (*Rural Urban Partnership Program, 2001*).

Like many other cities, Kathmandu has a socio-economically and culturally diverse population. In most locations of the city, the wealthy live side-by-side with the poor. There are, however, pockets of settlements where the poor populations are concentrated. According to Mr. Hukum Lama, the president of a local NGO called Nepal Basobas Basti Samrakshan Samaj (SPOSH), 64 landless squatter communities that harbor migrants from other parts of the country are scattered throughout the city. The settlements are technically illegal, since the settlers have constructed dwellings on public land without ownership titles. While the residents live in fear of being evicted by the government, there is solidarity within and between such communities. Advocacy efforts are being made to legalize the settlements.

SPOSH was created in 1999 primarily to safeguard the interests of the landless poor and to facilitate development of organized settlements of landless people throughout the country. The organization focused on the development of the existing settlements by mobilizing local resources in areas such as health, education, sanitation and infrastructure. The organization also worked with donors to develop income-generating programs in such communities. One of the demands of the organization was to reform land policies that guaranteed a minimum area of land for each Nepalese citizen (SPOSH, 1999).

There were many other NGOs working for the betterment of the landless people. Mellefolkeligt Samvrikket – Danish Association of International Cooperation – called

MS Nepal has been helping the low-caste people called Dalit and the bonded laborers ("MS Nepal," 2007). Similarly, Rural Reconstruction Nepal (RRN) was a Nepalese NGO that helped the poor with projects funded by various donors. One of the RRN's projects focused on schooling for children of freed bonded laborers who were landless and unemployed ("Rural Reconstruction Nepal," 2007).

There are four reasons behind the decision to conduct this study in the city areas of Katmandu valley. First, a literature review on micro-finance programs in Nepal has revealed that there is a lack of independent critical investigation of the programs in urban areas. All the studies reviewed have either been conducted by the programs themselves or commissioned by them (Ashe & Parrott, 2002; Bhatt, 2001; Dhungana & Thapa, 1999; *Rural Urban Partnership Program, 2001*).

Second, there are fewer urban micro-credit programs compared to rural programs. Since most of the micro-finance programs are located in rural areas, disproportionately more research studies are found to encompass rural programs. This study, by focusing on an urban program, will add knowledge to a comparatively less researched, but as important an area in micro-finance.

Third, given the increasing number of poor people migrating to the cities, micro-finance represents one of the potential strategies to assist the urban poor. Additional knowledge could help to design better programs and policies.

Fourth, when the study was conceived and field work done, most of the rural areas of the country were in the control of the Maoist rebels. Access to the rural programs was difficult because researchers were allowed into Maoist-held territories only after the approval of the Maoists. The security of the research team was a concern.

The subjects for both the participant group and the non-participant group were selected from three settlements of landless squatter communities, Mandikatar, Pathibhara and Shankhamul. The participant group consisted of subjects who were members of at least one of the three micro-finance programs, Gyanjoyti, Naudeep and WEAN, and had taken loans for investment or consumption. The non-participant group consisted of women who were from landless families living in one of the three squatter communities. These three settlements were selected because many women from these communities were members of the micro-finance programs..

Gyanjoyti, Naudeep and WEAN Cooperatives

Gyanjoyti and Naudeep are sister organizations while WEAN is a larger cooperative that also runs a micro-finance program similar to Gyanjoyti and Naudeep. All three organizations are home-grown. Both Gyanjoyti and Naudeep cooperatives were conceived through successful experimentation with micro-finance by an NGO called Lumanti Support for Shelter that works for the welfare of the urban poor, particularly the landless poor. Since Lumanti considers shelter as a whole living environment rather than just a roof over one's head, its activities incorporate different programs ranging from micro-finance and women's empowerment activities to infrastructure development ("Lumanti Support Group for Shelter," 2005).

During 1996, Lumanti began experimenting with micro-finance among women in the Shankhamul, Mandikatar and Balaju squatter communities. The initial work of Lumanti in micro-finance began with the formation of eight women's savings and credit groups in the slums and informal settlements of Kathmandu. Each group consisted of

about 18 members and an executive committee. The groups were autonomous and could decide on all matters including rules and regulations, and interest rates.

At first, Lumanti began lending up to Rs. 1,000¹ (U.S. \$ 15) to each group member and also encouraged the members to save and deposit money on a monthly basis. According to some of the early participants, during those days many women were hesitant to make financial transactions, especially of depositing savings with Lumanti due to lack of trust. One of the officers of Naudeep said that some residents from the community had bitter experiences with phony finance companies that had cheated them. As potential members became convinced that Lumanti was a trustworthy organization, membership gradually increased.

In 2002, some of the groups decided to combine their resources to form an autonomous cooperative. As membership grew, it was determined by the leaders of the groups that a cooperative should be registered so that all the resources would be combined and they would have a legal status. However, because of government regulations requiring a cooperative to function within a limited area of the city, it was not possible for one cooperative to cover all the areas of the city in which the group members were living and working. Therefore, due to that policy, instead of one, the three cooperatives, Gyanjoyti, Naudeep and Pragati, had to be created. The three cooperatives function under similar rules and regulations, have monthly meetings and network extensively with each other. This study selected only Gyanjoyti and Naudeep and did not include Pragati because it was located in Balaju, and more importantly, the socio-economic composition of the settlement was not as similar to Shankhamul and Mandikatar as Pathibhara was.

¹ U.S. \$ 1.00 = Nepalese Rs. 66.666

Both Gyanjoyti and Naudeep Cooperatives were registered with the Nepalese government in accordance with the 2048 cooperative act. The organizations seek to assist low-income women from the informal settlements. The cooperative also aimed to develop networks and promote cooperation among such women. The cooperatives are fully owned and controlled by their female members. Only low-income women from landless communities are eligible for membership in the cooperatives. Once they are members, they can retain membership even after they acquire land. Gyanjoyti works in Anamnagar, Shantibinayak, Shankhamul, Gairigaun, Chandnitole, Pragatitole, Kalimatidol, Palpakot. Naudeep works in Ramhiti, Sibugaun, Majjubahal, Kumarigal, Kapan, Mandikatar, Mitrapark, Radhakirshnachok, Pathibhara and Mahankal. Gyanjoyti has 278 members while Naudeep has 253 members. Not all members take out loans, but all members must deposit mandatory savings of Rs. 100 (U.S. \$ 1.5) per month.

Both the organizations follow the same membership policies. The first condition for membership was that the potential member had to be living as a landless person within the working area of the cooperatives. Secondly, since the cooperatives did not accept individuals, interested women were to form a group of 15 to 20 members and join the cooperatives as a group. Initially, each new member had to purchase a share of Rs. 500 (U.S. \$ 75). A member had the option to buy more shares, which could be sold back when they were in need of cash. In case an individual did not have the money to purchase the initial share, either the group could loan her the money or she also had the option of paying in installments.

Besides managing the savings account for adult women, the two cooperatives have been innovative in starting a piggy bank for children. A locked metal piggy bank

was placed at the homes of members. Each month a staff member from the cooperative collected the money, which was deposited at the cooperative, earning 5% interest. All children up to the age of 16 could use the piggy bank, but only girls could continue to be members of the cooperative.

An application had to be submitted in order to apply for loans. Loans were available only after 6 months of membership and satisfactory participation in the compulsory savings scheme. The amount of loans without collateral gradually increased from the initial maximum Rs. 5,000 (U.S. \$ 75) to Rs. 30,000 (U.S. \$ 450) depending on repayment history. The loan was for a period of one year and had to be repaid in 12 monthly installments. Interest was charged at the rate of 24 percent per year. In addition, a service charge of 0.5 percent was also levied on every loan.

Cases of loan default were very rare. According to the officials, there have been just two instances of default in the Gyanjoyti cooperative, one instance in WEAN and none in Naudeep. The loan committees of Gyanjoyti and Naudeep oversaw cases of default, if there were any. After a review of each case, an extension of up to six months was given to members who could not pay according to the schedule. There was a four percent late payment fine which could be waived in special cases. The two cases of default by members of Gyanjoyti were being negotiated and the case of default with Wean had been written off.

According to the staff of Naudeep, there were two main reasons for timely repayment of loans. First, because of peer pressure, borrowers tended to pay promptly. Second, because other members of the group would receive loans only after a member had satisfactorily repaid her loans, there was compulsion to make payments on time.

The office of the Gyanjoyti cooperative was located in a rented room in Naya Baneshwor, Ward # 34, Kathmandu. The office did not have any modern equipment like computer and telephone, and services like fax or email. All loans and deposit transactions were recorded in log-books. The saving deposits of the members were used as the main source loans. By the end of 2005, the cooperative was projected to financially break-even. The cooperative would be self-sustaining when it began to cover overhead expenses and did not require support in cash and kind from Lumanti.

The office of Naudeep was located in Maijubahal. The office had a shared telephone, but was without other modern office equipment and services. The only hired staff of the office was one of the senior members of the cooperative who for some time had worked for Lumanti. Like Gyanjoyti, Naudeep was also looking forward to financially breaking even soon.

Lumanti has continued its assistance by providing administrative expenses and staff training in areas such as office management, accounting and exposure visits to Gyanjoyti and Naudeep.

The offices of Naudeep and Gyanjoyti are open three days a week – Tuesday, Wednesday and Friday.

WEAN

Women Entrepreneur Association of Nepal (WEAN) was established in 1987 as an autonomous women's organization with the key objective of developing women's entrepreneurship. The organization began its initiative by creating a network of female business owners in Kathmandu.

WEAN began its micro-finance program in 1993. Credit was made available for commercial activities like vegetable farming, poultry and livestock, small business catering to tourism industry and manufacturing industries. In addition to credit, the organization offered a complete package of training in areas such as leadership, management, basic bookkeeping and accounting, noodle making, floriculture and entrepreneurship development. The savings and credit program had about 800 members from low-income communities in Kathmandu, Bhaktapur and Rasuwa districts. Like Naudeep and Gyanjoyti, loans worth up to Rs. 30,000 (U.S. \$ 450) were given out without collateral. Only married women from low-income families were eligible to participate in the program by paying one time membership fee of Rs. 10 (U.S. \$ 0.15). Compulsory savings of Rs. 25 (U.S. \$ 0.38) per fortnight was required to maintain the membership and to qualify for loans. The interest rate ranged from 6 percent to 10 percent according to the nature of investment. During the first year of membership loans worth Rs. 10,000 (U.S. \$ 150) was available to new members that gradually increases to Rs. 30,000 (U.S. \$ 450). In WEAN micro-finance program, each group was made up of five members, unlike Gyanjoyti and Naudeep cooperatives, which operated with larger groups of 15 to 20 women. Donors and profits from other WEAN programs like training and sale of commodities produced by members subsidized the micro-finance component. The office of WEAN was open 6 days a week.

Representativeness of the Selected Organizations

Micro-finance programs differ in lending capacity, lending policies, interest rates, and administrative capacity. However, one of the common features of these organizations is that most of them are dependent on savings of the members (Gingrich, 2004).

It is difficult to estimate how many savings and credit cooperatives exist in Nepal because many of them are informal and are not members of or represented by umbrella organizations like the Nepal Federation of Savings and Credit Unions (NEFSCUN). There are 219 savings and credit cooperatives that are members of NEFSCUN and they operate in the three key areas of Nepal, the hills, the plains and Kathmandu valley (Gingrich, 2004). Such cooperatives range from informal groups known as *dhikuti* to organizations with strong institutional capacity. Generally, the savings and credit organizations can be divided into three categories: the large multipurpose organizations that operate a savings and credit program as one of their components, savings and credit cooperatives that are solely created to run micro-finance services, and the informal savings and credit programs that are not registered. All these organizations are locally owned and managed. While Gyanjoyti and Naudeep are organizations that only have savings and credit services, WEAN is comparatively a large organization that has web presence and with other activities like training and sale of food and handicraft products produced by its members. Therefore, the programs selected for this study represent the multi-purpose organizations and savings and credit cooperatives that run only micro-finance program, but do not represent informal savings and credit programs like *dhikuti*.

*Table 2**Comparison of the Three Selected Micro-Finance Cooperatives*

	Gyanjoyti	Naudeep	WEAN
Established	2002	2002	1987 micro-finance in 1993
Members	278	253	800
Activities	Savings and credit	Savings and credit	Savings and credit, training, marketing food and handicraft products
Annual Interest	24 percent	24 percent	Between 6 to 10
Eligibility	Landless low- income women	Landless low-income women	Low-income married women
Mandatory savings	Rs. 100/month (U.S. \$ 1.50)	Rs. 100/month (U.S. \$ 1.50)	Rs 25/fortnight (U.S. \$ 0.38)
Group size	About 18	About 18	5

Micro-Finance Policy Environment

Economic development and poverty alleviation in developing countries remain a big challenge despite concerted efforts by both internal and external development actors. One of the reasons for disappointing outcomes of development initiatives has been “macropolicy failures” that include economic and social policy (Woller & Woodworth, 2001, p. 36).

Since WWII, development programs that were implemented using top-down approaches are now being supplanted by bottom-up approaches. Top-down development policies generally refer to policies conceived and implemented by bureaucrats and

politicians without the participation of stakeholders, particularly members of the population affected by the policy (Evans & Theobald, 2003). Top-down policies endorse few large scale investments, creating a few dynamic areas from where development spreads to other areas (Macleod, 1996). In contrast to top-down approaches, bottom-up approaches require involvement of key stakeholders in decision-making, planning and execution of development programs. Micro-credit is one of the bottom-up development strategies (Woller & Woodworth, 2001). Policies and institutional structures and processes of the country are foundations on which financial institutions are built. The policy environment governing the micro-finance sector is shaped by Nepal's political context and socio-economic policies.

From 1961 until 1991, Nepal was ruled under a party-less Panchayat system. Defined as a "guided democracy," the political system maintained an absolute monarchy that constrained freedom of speech and controlled organization of the people ("War in the Mountains," 1962). Consequently, strict control was placed on NGOs and cooperatives. Only a few NGOs and cooperatives, ones that were approved and endorsed by the royal government, were allowed to operate. As a result, efficient and innovative organizations were rare and micro-finance could not enter the small NGO sector.

Micro-finance as a potential program for poverty alleviation was recognized by the Nepalese government in the mid-1970's. In 1974, the government directed two state-owned commercial banks, Nepal Bank Ltd. and Rastrya Banijya Bank, to invest a part of their loans into "small" and "priority" sectors that included agriculture, cottage industry and services. The first large micro-finance initiative of the Nepalese government began in

1975 with the implementation of the Small Farmer's Development Program (SFDP). SFDP used a collateral-free group-lending approach to extend loans to the poor.

Nepal Rastra Bank, the central bank of Nepal, is the supervisory authority that develops and implements policies for financial intermediaries. The central bank is responsible for supervision, regulation and monitoring of all commercial banks, development banks, finance companies, and licensed NGOs and cooperatives operating micro-finance programs. Nepal Rastrya Bank defines micro-credit as loans of up to Rs. 30,000 (U.S. \$ 450) per group or individual (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction, 2004*).

Income derived by rural cooperatives working in the agriculture sector was defined as tax exempt by the New Income Tax Act, 2058 ("Income Tax," 2007). However, other cooperatives are being levied 15 percent income tax (Upreti, 2007).

NGOs and cooperatives that have been registered with the District Administration Office or the Department of Cooperatives must also obtain a license from the Central Bank for limited banking activities including micro-finance. For a cooperative to function as a micro-finance institute, a minimum paid-up capital between Rs. 1 million (U.S. \$ 15,000) and 10 million (U.S. \$ 150,000) is required, depending on where the cooperative is located. An organization must obtain government permission to receive grant from foreign sources.

The following conditions of the Nepal Rastrya Bank must be fulfilled in order for an NGO to obtain license for micro-finance activities:

- i. Minimum capital requirement of Rs. 100,000 (U.S. \$ 1500).

- ii. Minimum number of members 500 in Kathmandu Valley and Terai area [densely populated areas] and 300 for rest of the country. Of the total group members, 50 must be women.
- iii. Experience of the operations of programs like PCRW, MCPW, RSRF and willing to operate programs in dalit [untouchable caste], disadvantaged and suppressed communities, operate in hills and remote areas (absence of bank and financial companies) (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction, 2004*)

Although the Central Bank has the full authority to regulate the financial sector of Nepal, the supervisory role of the organization is “weak” (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction, 2004, p. 21*).

Financial Institutions of Nepal

The financial sector of Nepal consists of the banking sector comprising of the central bank and the commercial banks. The non-banking sector consists of development banks, micro-finance companies, cooperative financial institutions and non-governmental organizations undertaking financial and banking activities, insurance companies, employee’s provident fund, citizen investment trust, postal saving offices and Nepal stock exchange (*Banking and Financial Statistics, 2006*). Only 27.8 percent of the Nepalese population has access to the services of commercial banks (*Nepal Living Standard Survey 2003/2004, 2004*).

By January 2006, there were 17 commercial banks, 29 development banks, 63 finance companies, 11 micro-credit development banks, 19 saving and credit cooperatives and 47 NGOs (*Banking and Financial Statistics, 2006*). The number of

savings and credit organizations varies greatly according to source as Gingrich (2004) has reported that as many as 219 such organizations existed.

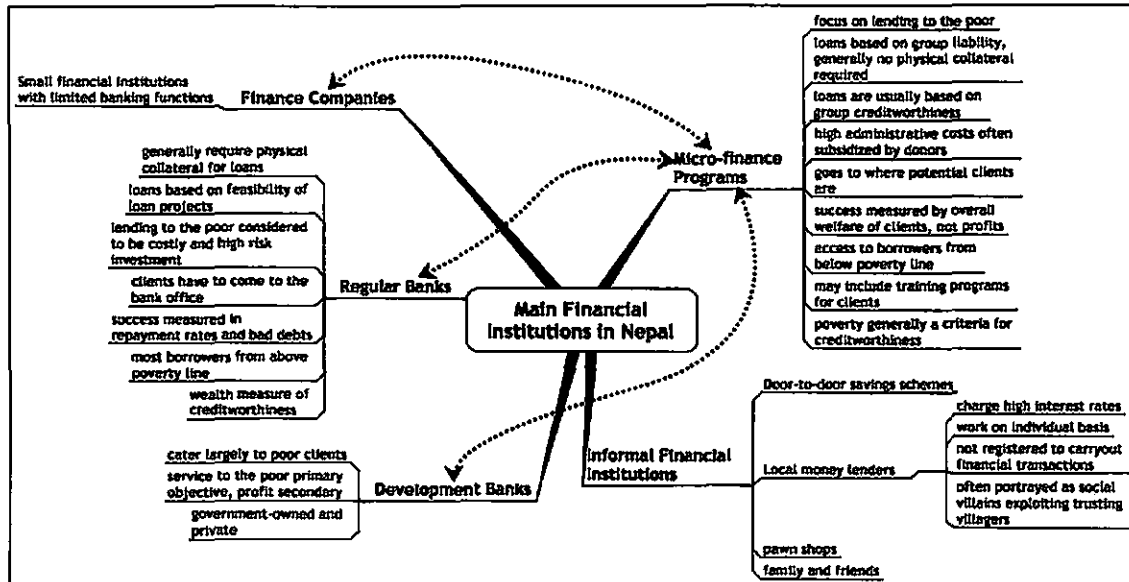


Figure 4 Main Financial Institutions in Nepal

Figure 4 shows some of the features of formal and informal financial systems of Nepal. While regular banks, development banks, finance companies and micro-finance programs are formal institutions, informal institutions such as local moneylenders also play a role in providing financial services.

To conclude, micro-finance as a bottom-up approach has mixed outcomes. Where women's empowerment is concerned, many studies have demonstrated micro-finance imparting beneficial effects on female participants, while some studies have shown micro-finance to be detrimental to women's well-being. In Nepal, micro-finance as a strategy for poverty alleviation has gained recognition from donors and the Nepalese government. However, studies show that micro-finance programs are not reaching the poorest of the poor and the programs are located in densely populated, relatively more

developed areas of the country where facilities in communication and transportation are relatively more developed. Micro-finance programs have to comply with the many rules and regulations of Nepal Rastrya Bank, the central bank of Nepal, which develops policies and regulates micro-finance institutions.

CHAPTER II: REVIEW OF LITERATURE

Introduction

This section of the dissertation presents a discussion on issues embodied in previous studies on micro-finance and women's empowerment. A significant amount of research has been undertaken in different countries, but Bangladesh has been the main testing ground micro-finance (Ahmad, 2003; Goetz & Gupta, 1996; Khandker et al., 1998; Mallick, 2002; Parveen & Leonhauser, 2004; Atiur Rahman, 1996; Schreiner, 2003; Schuler, Hashemi, & Badal, 1998; Wahid & Hsu, 2000; Yunus & Jolis, 1998). In the case of Nepal, few studies exist. Most of the studies found were either routine program evaluations and impact assessments carried out by the implementing organizations or commissioned by donors (Ashe & Parrott, 2002; Bhatt, 2001; Dhakal & Kanel, 2004; Dhungana & Thapa, 1999; Gingrich, 2004; "An Overview of Microfinance Sector in Nepal," 2004).

The Grameen Bank

The Grameen Bank of Bangladesh is considered to be one of the pioneers in the micro-credit movement. The banking strategy of the Grameen was conceived in 1976 by Professor Muhammad Yunus of Chittagong University of Bangladesh. Yunus and his colleagues experimented with local villagers to test the hypothesis that "the rural poor could generate productive self-employment for themselves if they were provided with appropriate amounts of credit along with proper counseling" (Wahid & Hsu, 2000, p. 160).

With support from a local bank, Yunus initially extended small amounts in loans to some landless poor in the village of Jobra on a group-guarantee basis. Yunus found

that the poor were using the money productively and turned out to be reliable clients (Lappe & Lappe, 2002). Encouraged by the initial success, Yunus expanded the operation gradually to create the Grameen Bank, which is one of the largest and widely acclaimed micro-finance institutions in the world.

Grameen loans are provided without any physical collateral. While group-liability is a common feature of micro-finance programs, the Grameen Bank groups are not responsible for individual members. The function of the group is solely for peer support. The members are not required to sign any legal contracts as Grameen does not have a policy to prosecute defaulters. As much as 94 percent of the bank equity is owned by its members and the rest by the government. As of May 2007, the Grameen Bank had 2,431 branches serving 78,659 villages which represent 94 percent of the total villages in Bangladesh (Yunus, 2007). There were 7.21 million borrows and the bank had disbursed a total of \$6,312 million since it was launched (Yunus, 2007).

Yunus (1998) argues that the poor do not need training or supervision for productive use of loan money. Based on the Grameen Bank experience, Yunus (1998) states that the poor are trustworthy and they possess the ability to productively utilize the loan money on their own. This is in contrast to the commonly held assumption that the poor need more than just money for them to become successful entrepreneurs (Yunus & Jolis, 1998).

The Grameen Bank works with small groups of five borrowers. The borrowers choose to form groups of their own liking after a weeklong training. The loan size ranges from U.S. \$100 to \$ 300.

The Grameen Bank uses compulsory savings to reduce risk of default. The borrowers are required to save one Taka² each week and 5 percent from the total loan amount.

A cost-effectiveness analysis of the Grameen Bank, with an average subsidy per member per year of \$20, concludes that they were “probably a worthwhile social investment” (Schreiner, 2003, p. 357).

The idea of loaning small amounts of funds to the poor on a group liability basis, however, was not new when Yunus initiated his experiment. In fact, micro-credit was made available by the Ministry of Credit, Cooperation and Rural Indebtedness under the colonial Bangal government in the 1930’s (Mallick, 2002). As in other developing countries, in Bangladesh also credit had been made available to the poor on a group-guarantee basis through cooperatives by the Social Welfare Department before 1971 when Bangladesh was a part of Pakistan. The initial government-run micro-finance programs were not successful due to lack of dedicated workers and corruption (Wahid & Hsu, 2000).

Similarly, the Small Farmers’ Development Program (SFDP) of Nepal, introduced in 1975 by the government-owned Agricultural Development Bank, was based on micro-finance principles as well. The SFDP provides loans for income generating activities in the agriculture sector based on group liability. Some of the issues and problems that affected these early initiatives in micro-finance were subsidized interest rates that fostered a “grant mentality” among participants, high overhead costs and corruption (Woller & Woodworth, 2001, p. 5). Current programs are different from

² 1 U.S dollar = 62 Bangladesh Taka

the past in that many operate on a small-scale, charge higher rates of interest, have low overhead costs and apply a simple transaction process that is friendly to villagers.

Other Approaches

While the Grameen Bank model has been widely replicated around the world, programs that take different approaches are also found to be successfully implemented.

The Women Empowerment Program (WEP) developed by PACT Nepal and funded by a grant of nearly \$5.2 million from USAID Nepal office, utilized a micro-finance model slightly different from the Grameen model (Ashe & Parrott, 2002). While at the core of the Grameen model, institutional credit has the primary source of funding and savings of the clients a complementary source, the PACT program focused on building equity of the members only from their savings. Furthermore, PACT's expertise was in literacy and its literacy program was expanded to accommodate a savings-and-credit program. PACT worked extensively with local partners who were responsible for recruiting, supporting and training new and existing groups. In a period of five years, the project worked with 240 NGOs and micro-finance partners to reach 130,000 women who were organized into 65,000 groups. The project evaluation report states that decision-making power of the members in areas such as family planning, children's marriage, buying and selling property and sending daughters to school increased by at least 62 percent for poor members and 72 percent for rich members (Ashe & Parrott, 2001).

In Lome, Togo, a micro-credit program called the Organization and the Promotion of Small Entrepreneurs (ECHOPPE), provided micro-credit to both male and female clients who were very poor and did not have the social capital to form groups (Ott & Hauville, 2004). Initially, sums of \$40 were loaned out, which all the clients repaid in

full. However, it was found that male borrowers used the money on items like radios, motorcycle repair, or other conspicuous consumption while female borrowers used their loans to invest in small businesses. Some of the women had used their first loan as a start-up investment for roadside food stalls. The business helped them spend more on food and allowed them to pay children's school fees. The program benefited the children of participants who received better schooling and an improved home environment. This program did not use a group-liability approach but gave loans directly to eligible individuals.

Trickle Up's micro-credit program, instead of extending collateral-free loans, provides training and conditional grants to poor families or groups of three or more members. The program is designed to reach the world's poorest people, particularly those who don't qualify for or are overlooked by micro-credit programs ("Trickleup," 2006). Unlike the Grameen approach, Trickle Up program calls for the grant-seeking family to prepare a business plan which, upon approval, will receive the first installment. Once the family has invested the initial installment according to the business plan and submitted the progress report, the final installment is paid. Usually the program gives a grant of \$100 to international members and up to \$ 700 to members in the USA. Trickle Up works through as many as 250 coordination agencies, generally NGOs and community-based organizations.

Kiva – Loans That Change Lives is an internet-based online initiative that aims to connect individuals who want to loan funds to poor entrepreneurs seeking micro-credit in developing countries ("Kiva - Loans That Change Lives," 2007). Kiva works with selected partner organizations in developing countries to loan funds to micro-projects of

individual entrepreneurs. Profiles of such individuals are available on Kiva website and anybody around the world can loan any amount exceeding \$25 to these individuals. The person loaning the funds will receive periodic journals on the business. Although the field partner charges interest on the loans for administrative expenses, the individual who gives loans will not receive any interest.

Table 3

Comparison of Other Approaches

	PACT Nepal	ECHOPPE	Trickle Up	KIVA
Location	Nepal	Lome, Togo	Multinational	Multinational
Funded by	USAID	Individual donors		Individual donors
Primary objective	Using existing institutions for micro-finance	Loan for business	Grant for business start-up	Loans to poor entrepreneurs
Activities	Literacy, training, micro-finance	Micro-finance	Small grants	Micro-credit
Eligibility of membership	Women	Men and women	Family	Men and women entrepreneurs
Unique feature	Use existing literacy program institutions for micro-finance	Both gender eligible for loans	Small grant	Online service

Women as Borrowers

The majority of participants of micro-finance are women (Mahmud, 2003; Nissanke, 2002; Rankin, 2002; Wahid & Hsu, 2000; Yunus & Jolis, 1998). Since, in most cases, micro-finance programs have evolved into women's programs, many studies focus on the program's impact on gender relations and women's well-being (Bagati, 2003; Baruah, 2002; Bernasek, 2003; Hunt & Kasyanathan, 2001; Joekes, 1999; Mahmud, 2003; Mallick, 2002; Ott & Hauville, 2004; Schuler et al., 1998; Todd, 1996; Vonderlack & Schreiner, 2002). Most of the micro-credit programs in Nepal also cater to women (Dhungana & Thapa, 1999).

The Grameen Bank initially served both male and female clients. However, gradually the bank took the policy of focusing on women, so that 97 percent of the clients were female. In the beginning, the bank had difficulty recruiting female members, especially in the cultural context of contemporary Bangladesh. The following conversation from the auto-biography of Yunus (1998) depicts the cultural barrier the Grameen Bank faced in recruiting female borrowers when he went to villages to ask women to become members of the bank:

There were about twenty-five women peeking in at me through cracks in the partition. I could smell *atap* rice being cooked. The pressure on the partition was so great that suddenly part of it collapsed, and they were soon sitting in the room listening and talking directly to me. Some hid their faces behind a veil, others giggled and were too shy to look at me directly. But we had no more need of anyone repeating our words. That was the first time I spoke with a group of Jobra women inside their house.

“Your words frighten us, sir,” one woman said hiding her face with the end of her sari.

“Money is something that only my husband handles,” said another turning her back to me so that I could not see her face.

“Give the loan to my husband, he handles the money, I have never touched any. And I don’t want to,” said a third.

“I don’t know what to do with the money” said a woman who sat closest to me but averted her eyes. (Yunus & Jolis, 1998, p. 96)

Kabeer (2001) argues that loaning to women is more likely to result in benefiting other family members. Theoretically, by challenging domestic gender inequalities, loans to women who are suppressed give such women voice and access to material and non-material resources. Propositions like this have been tested many times by studies (Ashe & Parrott, 2002; Bagati, 2003; Baruah, 2002; Goetz & Gupta, 1996; Johnson, 2000; Mahmud, 2003; Mallick, 2002; Pitt et al., 2003; Animur Rahman, 1999; Vonderlack & Schreiner, 2002).

Studies on the Impact of Micro-credit on Women’s Empowerment

While the mechanism of how micro-finance empowers women is not fully understood, studies are based on the assumption that empowerment occurs via indicators such as increased agency, self-esteem and self-confidence, control over resources, participation in decision-making, contribution to family income (Bagati, 2003; Baruah, 2002; Goetz & Gupta, 1996; Kabeer, 2001; Mahmud, 2003; Mallick, 2002; Parveen & Leonhauser, 2004). It is assumed that when women who have been restricted to domestic chores are given the opportunities to mobilize themselves to become borrowers,

managers of business and contributors to family income, their level of agency, economic independence and self-reliance, experience of outside world and bargaining power within the household increases thereby empowering them (Bagati, 2003; Mahmud, 2003).

Micro-finance programs are expected to provide exposure and economic opportunities to economically and socially subjugated women, stimulating their individuality and boosting their confidence.

Studies on the impact of women's participation in micro-finance, however, show diverse and conflicting results (Kabeer, 2001; Mahmud, 2003; Mallick, 2002; Wahid & Hsu, 2000). Some studies have found evidence that participation in micro-credit programs are generally beneficial to women (Baruah, 2002; Bernasek, 2003; Hashemi, Shuler, & Riley, 1996; Kabeer, 2001; Mahmud, 2003; Todd, 1996). Other studies have shown that such programs may increase domestic violence against women, loss of control over loans and other negative consequences (Goetz & Gupta, 1996; Animur Rahman, 1999; Schuler et al., 1998).

Based on the Grameen Bank experience, Bernasek (2003) argues that providing micro-credit to the poor has potential for improving women's socio-economic condition, empowering them and lifting their families out of poverty. Bernasek (2003) states that in aggregate, participation in the Grameen Bank scheme has increased women's income and their contribution to overall family income. It is presumed that women's contribution to family income increases their involvement in family decision-making.

While Mahmud (2003) acknowledges that impact of micro-credit program on women's empowerment have produced "contrary results", her study found that micro-finance improved the overall well-being of low-income women, particularly through the

positive effect on women's agency (p. 579). Mahmud (2003) investigated the effect of micro-credit programs on two main areas: women's access to choice-enhancing resources and women's ability to exercise agency in intra-household processes. The study used data from the first round household survey held in 1998 under a longitudinal study on the evaluation and monitoring of micro-credit programs in rural Bangladesh. The survey covered 2,000 households in 91 villages out of which 80 were participating in the micro-finance and 11 were not in the program. The non-program villages were selected from neighboring areas to maintain comparability with subjects from the program villages.

Mahmud's (2003) study examined the empowerment of women as an outcome of participation in micro-credit programs by comparing observed differences in three areas defined by the condition for empowerment, the route to empowerment and the achievements of empowerment at the household level. The condition for empowerment was operationalized by reviewing women's access to material resources such as education and employment, and non-material resources like their activities in the public domain and a favorable household attitude. The route to empowerment was operationalized by assessing active participation in household processes, decision-making, and access to household income. Similarly, achievements of empowerment were operationalized by increased welfare represented by current use of contraceptives and welfare outcomes measured by time spent in household work, childcare and income earning, received any treatment or modern treatment when ill and immunization status of children under seven. The study concluded that improvement in women's access to material resources as a result of participation in micro-credit programs was small, but the effect on women's agency was large, thereby improving the overall well being of women.

Another study that acknowledged the positive impacts of micro-credit programs in terms of income, employment and production was based on econometric analysis of three large micro-credit programs in Bangladesh: the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and RD-12, a micro-credit project run by the Bangladesh Rural Development Board, a government entity (Khandker et al., 1998). The study used data from a household survey carried out jointly by the World Bank and Bangladesh Institute of Development Studies. The survey was based on a detailed household questionnaire for variables like income, employment, consumption, education, health, borrowing, assets, savings, contraceptive use and fertility behavior for randomly selected individuals from 1,789 households. In addition, a village survey was also administered in each of the 87 villages. The village survey gathered information on, among other variables, prices of commodities, daily wages in farm and non-farm sectors, interest rates in informal credit markets, schools, health centers and infrastructures. The study found that micro-credit programs have a positive impact on income, employment and production, particularly in rural non-farm sector. The total per household increase in production compared to non-participating household was 57 percent in BRAC villages, 56 percent in Grameen Bank villages and 48 percent in RD-12 villages.

Similarly, a study using data from a household survey conducted in 1998/99 by the Bangladesh Institution for Development Studies (BIDS) in collaboration with the World Bank, examined the effect of men's and women's participation in micro-credit using indicators such as autonomy in making purchases, women's access and control over economic resources, woman's power to oversee and conduct major household economic transactions, mobility, networking, and having independent savings.(Pitt et al.,

2003). Overall, the study supports the notion that participation in micro-finance has an empowering effect on women. Credit to male participants, on the other hand, showed a negative effect on areas of women's empowerment such as physical mobility, access to saving and economic resources and power to manage some household transactions.

In another attempt to find a link between woman's empowerment and micro-finance, Hashemi et al. (1996) undertook an ethnographic research at two Grameen Bank villages and two BRAC villages and two villages without any micro-credit. Main indicators used by the study team were mobility, economic security, ability to make small and large purchases, involvement in major household decisions, relative freedom from domination within the family, political and legal awareness and involvement in political campaigning and protests. The study concluded that women were empowered by being involved in credit programs. The authors state that "participation in Grameen Bank and BRAC increases women's mobility, their ability to make purchases and major household decisions, their ownership of assets, their legal and political awareness and participation in public campaigns and protests" (Hashemi et al., 1996 , p. 650).

A qualitative study on the outcome of Indcare Charitable Trust (INDCARE), a micro-credit program serving the poor in New Delhi, India suggests that women who took loans were benefited by feelings of economic independence. The study was based on interviews of 33 respondents taken twice in a period of one year. The three main area of inquiry were "gender relations", "gender roles" and "bargaining power" of women (Bagati, 2003, p. 23). One third of the loans taken by members of the organization, however, were "proxy loans" – loans supporting other family member's economic activity (Bagati, 2003, p. 29). The study concluded that although the majority of loan

recipients were not using the money to start an economic activity, the micro-credit program was successful in empowering those women who took loans.

Kabeer's (2001) study seeks to answer why studies on micro-credit and empowerment of women have conflicting results and presents an evaluation of the Small Enterprise Development Project (SEDP) in Bangladesh. Kabeer (2001) argues that contradictory results were caused by the studies being undertaken at different times and differences in conceptualization of women's empowerment. Although Kabeer's (2001) evaluation of SEDP did not find any change in gendered division of labor, the study did find many female participants with increased self-worth as a result of not having to plead with others for money or as contributors to household budget. In addition, testimonies of women who participated in credit programs showed that participation did increase the wife's role in household decision-making. Women's access to credit had allowed many of them to accumulate assets of their own.

In some cases, the violence was reduced after the wife joined a micro-finance. A female BRAC member, said:

My husband no longer beats me like he used to. Now a days the money stays in my hands. I can visit the doctor, can take the children there if I need to. If I need groceries, I can go to the market and buy them myself....We are no longer in such dire need and, so, he no longer beats me. (Schuler et al., 1998, p. 153)

To establish a link between micro-finance and reduction in domestic violence, Kabeer (2001) quotes a woman who participated in Small Enterprise Development Project (SEDP):

My husband did not have clean clothes before, now he has, and they know it is because of me. My husband acknowledges this. He does not raise his hand to me any more. Before he used to hit me. What could one do if one's husband hits one...? In a house of scarcity, there is more kalankini. If he brought home four annas, and I could not buy enough rice, he abused me. The house where there is no scarcity, there is no abuse. Because of this scarcity, this poverty, the lives of the poor are so troubled. (Kabeer, 2001, p. 72)

The testimonies above show that credit programs can help to reduce violence against women when they become contributors to the household income.

A study conducted in three rural villages of Bangladesh based on a random stratified sample of 156 rural women concluded that education, training and exposure to information media have the potential to increase women's empowerment (Parveen & Leonhauser, 2004). The study used contribution to household income, access to resources, ownership of assets, participation in household decision-making, perception of gender awareness, and capacity to cope with household shocks as indicators of empowerment. The study hypothesized that inputs like education and skill training will encourage women's participation in the development programs. Subsequently, this process leads to gender equality through enhanced self-confidence, resources, coping abilities, freedom of choice, and power relations. It was assumed that gender equality contributed substantially to the well being of women and reduced women's vulnerability and poverty. The regression analysis showed positive effects of formal and non-formal education, information media exposure and spatial mobility on the selected indicators of

empowerment. The study drew the conclusion that factors such as education, training and exposure to information media have the potential to increase women's empowerment.

A Micro-finance program called "Micro-Credit Project for Women", funded by the Asian Development Bank, that began in 1993 benefited a large number of women in Nepal (*Project Completion Report on the Microcredit Project for Women in Nepal*, 2003). The project aimed to disburse \$3.6 million in credit to Nepalese women, provide agriculture production credit to about 10,500 women, micro-enterprise credit to about 300 women, and small business promotion credit to about 300 women. The project completion report states that "Women beneficiaries have benefited from the social and economic empowerment brought about by the Project..." (*Project Completion Report On Microcredit Project for Women in Nepal*, 2003, p. 15). The group formation and training activities were effective in achieving the expected project outputs. The micro-credit provided was quite effective; it enabled female participants to start income generating activities and micro-enterprises such as livestock, agriculture, teashops and grocery shops. Over 95 percent of income-generating activities and micro-enterprises established under the credit services were financially viable and provided income and employment opportunities to the participants.

An evaluation study of PACT's Nepal Women Empowerment Project implemented in rural Nepal implemented from 1999 to 2003 claimed that women's role in household decision-making such as family planning, children's marriage, buying and selling property and sending female children to school was expanded considerably as a result of project participation (Ashe & Parrott, 2002). The project operated through 65,000 groups with 45,000 members originally created for PACT's literacy program. The

study was based on 200 group interviews and 500 individual interviews of program participants. The main objective of the project was not to create permanent financial institutions but to develop groups capable of running their own savings-and-credit programs with an integrated literacy program.

Critiques of Micro-Finance

Despite the success and proliferation of micro-finance, major criticisms include increased violence and subordination of women, loss of control over loans and entrapment of women in the informal sector.

Violence and Increased Subordination of Women

Mallick (2002), focusing on the Grameen Bank, underlines studies that show that micro-credit can result in social disruption and increased gender conflict. Mallick (2002) contends that Grameen chose to use women as clients because Bangladeshi women are more compliant than men in repayment of loans. Mallick (2002) states, “There is no doubt that the Grameen Bank has tacitly allowed violence to be used as a means of coercing repayment....” (p. 156). The violence and intimidation that Grameen Bank staff occasionally encountered from male clients was avoided when the bank staff worked with women.

The Grameen Bank, therefore, is deriving dual benefits by working with women: higher repayment rate and avoidance of violence against staff from male borrowers. Mallick (2002) further asserts that the loans were, in fact, largely used by men while women became mere conduits between the bank and their own husbands. The Bank, however, maintains that it moved towards loaning to women because of many social benefits including empowerment (Yunus & Jolis, 1998). Other studies do indicate that

men often resort to violence against their wives for repayment so that there is continued access to bigger loans (Animur Rahman, 1999; Schuler et al., 1998). Joeke (1999) argues that the micro-finance revolution is not over because loans were creating new conflicts and tensions in the family.

Similar findings are echoed by another study of female Grameen Bank members. An ethnographic study of Grameen Bank borrowers found that among 120 female borrowers, 69 reported increased verbal aggression and 16 reported an increase in both verbal aggression and physical assault; only 21 claimed a decrease in verbal aggression and physical assault as a result of joining the Grameen Bank (Animur Rahman, 1999).

Another study that also used ethnographic data from Bangladesh to explore the relationships among micro-credit and men's violence against women and women's social dependence upon men, found that micro-credit programs have a varied effect on men's violence against women (Schuler et al., 1998). In Bangladesh, since wife-beating is a common problem where husbands are found to beat their wives over even small matters in which the wives may not have any control, a woman's membership in a micro-finance program and its ramifications have implications on domestic violence within the family. A female member of BRAC said that:

Even before I joined BRAC my husband used to beat me, but now he beats me more often. He wasted the money I got from BRAC, and my cow died...If I ask him to bring anything from the market he beats me. (Schuler et al., 1998, P. 153)

Another woman, a Grameen Bank member stated that:

After joining Grameen Bank we learned to speak out. I argue with my husband....Then my husband gets angry and he wants to beat me up. (Schuler et al., 1998, p. 153)

Control over loans

The control over loans has been a major issue repeatedly confronted by micro-finance programs (Goetz & Gupta, 1996; Mayoux, 1997). A study undertaken in Bangladesh that focused on investigating controls over loans received by female participants of a micro-finance program found that only 17.8 percent of the participants reported full control over their loans, 19.4 percent had significant control, 24.1 percent had partial control, 17 percent had very limited control and 21.7 percent had no control (Goetz & Gupta, 1996). The study defined full control as control over productive process and marketing, significant control as control over productive process only, partial control as no control over managerial aspects but only labor input, very limited control as only little labor contribution, and no involvement as no managerial involvement and no labor input (Goetz & Gupta, 1996). The finding was based on a study using qualitative data from 275 loans across four organizations, BRAC, Grameen Bank, TMSS and RD-12 in rural Bangladesh. The study highlights a significant loss of control over loans taken out by women if they are married. In the absence of an adult male in the household as in the case of single, widowed, separated or divorced women, women were likely to retain full control. Another important finding of the study was that woman's capacity to control loan use varied according to her life-cycle – a first wife in a polygamous household or an older married woman had more control than a single woman or a new bride. Loan control was also dependent on the nature of the investment – women had more control over poultry,

sericulture, fish culture, livestock and cow rearing than over male-oriented investment activities such as rice stocking, rural trade and rural transport. The loan size was also related to loan control. Initially, as loan size increased, the woman's control over it also increased to a certain level. As the amount of cash became large, it was likely that other members of the family used the loans.

Kabeer (2001), conducting a participatory evaluation study of a credit program, Small Enterprise Development Project (SEDP) in two locations, Faridpur district and Mymensingh of Bangladesh, found that women's access to credit had resulted in increased economic activities, but did not produce a change in the nature of the activities. Women were confined to livestock rearing, paddy husking, cane and bamboo goods, poultry, home-based tailoring and hawking, while men still occupied activities such as shops, technical works, seed nurseries, managing power tillers and rice mills. Therefore, credit did not seem to produce any change in the existing gendered division of labor.

Entrapment of women in the Informal Sector

One of the criticisms of the Grameen bank is that it keeps its members in the informal sector, which mainly consists of small and unregistered production units whose legal status is unclear. Without the legal protections of the formal sector, the female entrepreneurs of the informal sector continue to be marginalized (Bernasek, 2003). Barnasek (2003) argues that there are limits to growth and development of businesses within the informal sector. Joeke (1999) underlines one of the main shortcomings of micro-credit programs as the loans being too small to "lift women permanently out of poverty" (p. 55).

To conclude, some studies have found participation in micro-finance to empower women while other studies have highlighted instances of increased violence and loss of control over loans. Kabeer (2001) argues that factors such as differences in understanding and usage of the term empowerment, using different methodologies and studies being carried out at different points of time have played a role in producing contradictory outcomes. Based on review of several studies with negative results, Kabeer (2001) concludes that the studies with negative results have focused on “process of loan use” while studies with positive results have used “outcomes” related to access to loans (Kabeer, 2001, p. 66).

Nepal’s Experience in Micro-credit

Although Nepal has been one of the countries to embrace the micro-credit movement of the 1980’s, attempts to provide credit to the poor began earlier.

In 1974, state-owned commercial banks were required to invest at least 12 percent of their loans to the rural poor. Unfortunately, such loans subsidized by the government and donors to help the poor often did not reach the intended population. Influential and well-connected people were mainly able to access the cheap loans. In 1975, the Small Farmers Development Program, based on collateral-free group-based lending strategy, was implemented. The program, however, was also not successful because of high delinquency levels on the one hand and political pressure for fast expansion on the other (“Nepal Country Profile,” 2005). Prior to 1991, most formal financial services were under government control. Only after the Nepalese government adopted economic liberalization policies in 1991 were the private sector and NGOs permitted to operate micro-finance programs (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction*, 2004).

Since the 1990's a large number of organizations have been using the Grameen Bank model to operate micro-finance. The majority of micro-finance programs have been concentrated in the Southern plains of the country, with a relatively less number working in the more challenging topography of the mountains (Bhatt, 2001). The Plains are characterized by dense population, more developed transportation infrastructure and easy accessibility, developed communication facilities, and better market infrastructure than the hills and mountain areas of the country (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction*, 2004). In the hills and mountains, the population is sparsely distributed. Hence there is a lack of large markets and difficulty in transportation and communication. Consequently, micro-finance programs have not been successful in the hills. Extreme poverty, difficult topography and lack of adequate markets for goods produced by micro-enterprises in the poorest regions of the country challenge micro-credit programs in reaching the poorest of the poor (Bhatt, 2001). Currently there are 9 micro-finance development banks, 34 savings and credit cooperatives, and 44 NGOs operating micro-finance programs (*Impact Evaluation of Micro-Finance Programs on Poverty Reduction*, 2004). There are at least two private initiatives, Nirdhan and the Center for Self-help, that use the Grameen model of micro-credit.

In Nepal, while micro-finance loans are being commonly used for enterprises ranging from tea shops to livestock and poultry, new and innovative use of such loans can also be found. For instance, the Solar Village Electrification Demonstration Project, funded by the Global Environment Facility/Small Grants Program of the UNDP, addresses the financial barrier to solar energy by using micro-credit. The program implemented in the district of Baglung where 106 solar panels were installed, uses a

flexible credit scheme that enables the poorest in Nepalese villages to use solar photovoltaic panels and derive the benefits of electrification. The project also has a component to create a source of income by building the skills and capacity of villagers to produce handicraft goods. Each woman is committed to knit and submit one traditional handbag per month for 2 years. At the end of the second year, the loan is paid off and income from the sale of the handbags is returned to the family. It takes about 70 hours to make each handbag. Due to electrification, the villagers save about 20 percent in fuel expenses as they do not have to purchase kerosene or batteries for lighting. The electrification has resulted in other benefits in education and in reducing drudgery. ("A New Micro-Credit System for Solar Panels in Remote Villages Nepal," 2004).

Gingrich's (2004) study on the Nepalese savings and credit cooperatives used data from 219 cooperatives that were members of The Nepal Federation of Savings and Credit Unions (NEFSCUN). The study reports that an average cooperative had 178 members, was 5 years old and 77.2 percent of its total assets were derived from savings of members. Overall, the credit unions were found to be profitable, with the ones in the hills earning higher profits than those in Kathmandu or the plains which is counter-intuitive. One of the possible explanations given by the author was that the communities of the hills could have been "more committed" to their local cooperative (Bhatt, 2001, p. 27). The author concludes that government and donors, instead of providing subsidized funding, should focus on building institutions and strengthening existing savings and credit cooperatives.

A study evaluating the impact of micro-finance on poverty reduction that was based on 479 micro-finance clients from 6 districts of Nepal concluded that micro-

finance has positive effects on the life and livelihoods of the participants. The study estimates that 35.2 percent of the poor population of the country had access to micro-credit facilities. The study found that females constituted 83.1 percent of the participants, and a large majority of them, 98.8 percent, were literate. The high rate of literacy was the result of a non-formal education program operated by the micro-finance programs. As much as 77.9 percent of the subjects had invested their loans in business activities such as livestock, retail shop and petty trade, rickshaw purchase, and repair workshops for radios, watches, televisions, bicycles etc. One of the encouraging findings of the study was that 84.1 percent of the subjects reported making a profit from the first loan. The study highlighted many beneficial consequences of micro-finance such as improvement in food sufficiency and nutrition, improvement in literacy, better houses, and possession of radios, TV, bicycles and hand-pumps. There was a change noted in gender relations as well with an increase in joint decision-making in decisions like schooling of children, medical treatment of family members and sale of livestock. Similarly, some changes in the division of labor was noted as household chores which were before considered to be women's responsibilities such as child care, cooking, cleaning house and fetching water became more shared work. There was also an increase in female control over family income.

To conclude, Nepal is one of the developing countries where micro-credit programs failed to achieve desired goals when they were operated by the government. However, after economic liberalization micro-finance became one of the means for banks, cooperatives and NGOs to make a difference in the poor people's lives. Available project completion reports generally state that social and economic outcomes of the

programs are positive. However, due to low population density and difficult geography micro-finance has not been successful in the hills of Nepal as it has in the plain areas.

CHAPTER III: METHODOLOGY

Introduction

This section of the dissertation presents the study purpose, research questions, study hypotheses, objectives of the study, the selected indicators of empowerment and how they were operationalized, data collection methods used by the study and the human resources used in field work.

Research Question and Hypotheses

The main objective of the study was to investigate the hypothesized empowerment of women who participate in micro-finance. The main research question was: does participation in micro-finance empower women?

The selected indicators of empowerment for: level of self-esteem, level of self-efficacy, ownership of assets, contribution to household income and mobility.

The hypotheses of the study were:

- H1: Women who participate in a micro-finance will have higher self-esteem than non-participating women from the same community.
- H2: Women who participate in a micro-finance will have higher self-efficacy than non-participating women from the same community.
- H3 : Women who participate in a micro-finance will own more assets than non-participating women from the same community.
- H4 : Women who participate in a micro-finance will make larger contributions to their family income than non-participating women from the same community.

H5 : Women who participate in a micro-finance will have higher level of mobility than non-participating women from the same community.

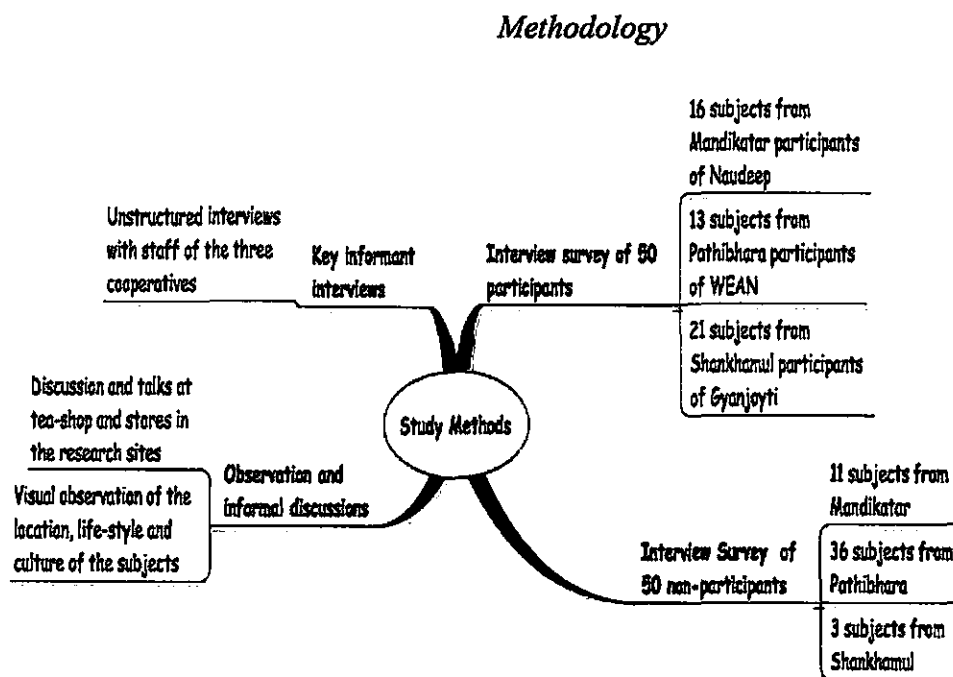


Figure 5 Research Methods

Figure 5 graphically shows the four key research methods employed by the study. Besides the interview survey of 100 subjects, key informant interviews, observation and informal discussions were also used to get additional information.

Assessing the impact of micro-finance programs on women's empowerment without longitudinal or baseline data is a challenging task. However, studies have been conducted in which comparison groups were used to assess the impact of micro-finance programs (Khandker et al., 1998; Mahmud, 2003; Pitt et al., 2003). This study compares the indicators of empowerment between randomly selected members of three micro-finance programs and non-participants from the same community.

The study was based on qualitative and quantitative methods of data collection.

The main sources of data were:

- **Interview survey of micro-finance participants:** fifty participants from three saving-and-credit cooperatives, Gyanjoyti, Naudeep and WEAN, were randomly selected for the interview survey.
- **Interview survey of comparison group:** a comparison group of 50 women who did not participate in any micro-finance program, but were residents of the same landless squatter communities were randomly selected.
- **Interviews with key respondents:** Questionnaires with open-ended questions were used to interview program staff and family members of participants to derive additional information on the effects of micro-finance at the family level.
- **Observation and informal talks:** information was derived from observation of the setting, behavior of the subjects, and informal talks with residents from the community.

Sampling Procedure

Originally it was planned that subjects for the participant group would be selected only from one micro-finance cooperative – Gyanjoyti, which had about 250 members. However, it was determined in the field that many of the members of the cooperative did not take out loans but only deposited savings. Since cooperative members who did not take out loans could not be included among the study subjects, more potential subjects were required. After talking to the President of SPOSH, two more settlements, Mandikatar and Pathibhara, were identified that had landless squatters living in similar socio-economic conditions to those of Shankhamul, where a majority of

participants were members of Gyanjoyti. Naudeep savings and credit cooperative was operating in Mandikatar and Women Entrepreneur Association of Nepal (WEAN) was operating in Pathibhara. After visiting the Mandikatar and Pathibhara communities and talking to their community leaders, it was felt that all three communities were similar in socio-economic status. Therefore, subjects from three settlements were selected for the study.

In selecting 50 micro-finance program participants and 50 non-participants, a sampling procedure was applied to make the selection random while including a wide range in the amount of time the participants were in micro-finance programs. The sampling procedure began by the principal investigator first visiting the micro-finance office and attempting to find out the total number of active participants who had taken out loans. Since the micro-finance program administration was not computerized and was based on log-books, it was not possible to get all the name of members who have took out loans. The records were available on a month-by-month basis and the same names were repeated intermittently. The next best alternative was to check the list of monthly installments and select the names from the list.

The research team collected the names of members who were on monthly installment list for the past six months. The lists were not in an alphabetical order, but were in the random order as the clients came in. Altogether, only 62 names of individual members could be collected from Gyanjoyti. It was realized that valid members from one micro-finance program would not be enough. Therefore it was decided that samples from two other programs, Naudeep and WEAN which were operating similar programs for women from landless communities, Mandikatar and Pathibhara, would be included in the

sample. Consequently, 35 members from Mandikatar and 42 members from Pathibhara were selected.

With the name list at hand, the research team began interviewing one member after the other according to the list. When a member was not available, the next in the list was selected. After the interview survey of 50 participants was completed, the principal investigator carefully went through the sample to ascertain that the sample contained variation in the duration of membership of the participants. For non-participants, the enumerators went from house-to-house at random to find 50 women who did not participate in any micro-finance programs.

Measurement Tools and Operationalization of the Indicators of Empowerment

1) Self-Esteem: The National Association of Self-Esteem defines self-esteem as “the experience of being capable of meeting life’s challenges and being worthy of happiness” (Reasoner, 2004, p. 1). Self-esteem or esteeming oneself generally refers to an individual’s sense of his or her own value. There is a difference, however, between contingent self-esteem and true self-esteem (Deci & Ryan, 1995). Contingent self-esteem is not stable because it depends on external factors that boost the self-regard of an individual such as good performance in sports, business or studies. To maintain a high level of contingent self-esteem, an individual will have to continue to perform well to match some standard of excellence or expectations. In contrast, true self-esteem is stable. The level of true self-esteem will not deviate due to poor performance in areas where the individual does not put the activity in high esteem. Since this study is based on a cross-section data on self-esteem, it does not differentiate between contingent or true self-esteem.

The Rosenberg Global Self-Esteem Scale, one of the most widely-used self-esteem measures in social science research, was used by this study (Rosenberg, 1989). The Rosenberg Scale has been used both in the USA and abroad. It is a 10-item test answered in a four-point scale. Five of the items are reverse statements. Since the scoring was assigned as 1- 4, with options ranging from 4 for strongly agreeing with the statement and 1 for strongly disagreeing, the total score for each test could range between 10 and 40. The Mental Health Statistics Improvement Program describes Rosenberg self-esteem scale as having reliability in a 2-week test-retest coefficient of .85 ("The Rosenberg Self-Esteem Scale," 2005).

Studies suggest a strong link between self-esteem and women's empowerment. An evaluation report of the Pacific Institute for Women's Health states that self-esteem is considered to provide an "essential foundation for women's empowerment" (*Women's Empowerment, Family Planning, and Civil Society*, 2003, p. 3). Self-esteem is also listed as one of the dimensions of developing individual assessment tools for evaluating the outcomes of empowerment practice in social work (Parsons, Gutierrez, & Cox, 1998). A previous study has established that micro-finance programs "strengthen women's self-esteem and self-worth, instill greater sense of awareness of social and political issues, leading to increased mobility and reduced traditional seclusion of women" (Sabharwal, 2002, p. 3).

The Rosenberg Scale was translated into Nepalese language. As part of the survey questionnaire, the Rosenberg Self-Esteem Scale was pre-tested in the study population before application. Cronbach's alpha as a coefficient of reliability was used to test the

reliability of the scale in the Nepalese context. The Cronbach's alpha for the Nepalese version was .77, which represents an acceptable level of reliability.

2) Self-Efficacy: Although the concept of self-efficacy sounds similar to the concept of self-esteem, they are distinct. Bandura (1997) states that "perceived self-efficacy is concerned with judgments of personal capability, whereas self-esteem is concerned with judgments of self-worth" (p.11). According to Bandura (1997), an individual who considered himself or herself to be inefficacious in a certain activity like ballroom dancing would not suffer a negative effect on his or her self-esteem because the individual did not evaluate his or her self-worth from that activity. Self-efficacy has also been recognized as one of the indicators of empowerment (Yoon, 2001; Zenz, 2004).

The General Self-Efficacy Scale, originally developed in the German language, is one of the most widely used scales to measure self-efficacy. The scale has been translated and used in 29 different languages (Schwarzer & Jerusalem, 1995). It is a psychometric scale designed to assess the belief that successful outcomes result from one's actions and self-beliefs to cope with a variety of difficult demands in life. It is a 10-item scale in which responses are made on a 4-point scale: exactly true, moderately true, hardly true and not true at all. Summing up the responses to all 10 items yields the final composite score with a range from 10 to 40 for each respondent. There are no reverse statements.

The English version of the General Self-Efficacy Scale was translated into Nepalese language. The Scale was included in the interview questionnaire and applied to both the participant group and the non-participant group. The reliability analysis of the Nepalese version of the General Self-Efficacy Scale resulted in Cronbach's alpha of .84, which is better than acceptable level.

3) Ownership of assets: Previous studies have used ownership of assets among female micro-credit participants as one of the indicators of empowerment (Hashemi et al., 1996; Mahmud, 2003; Malhotra et al., 2002; Parveen & Leonhauser, 2004). To measure the ownership of assets, a question on the value of different kinds of assets owned by the participants was included in the questionnaire. The total monetary value of assets such as a house, land, machines, utensils, cash and jewelry was used to estimate the total value of assets owned by the respondent. Only assets that were either exclusively used by the respondents such as machinery, livestock and poultry, wholesale or retail goods, cash, or ones that had ownership certificate such as a house, land, and automobiles were recognized as owned by the respondent.

4) Contribution to family income: Contribution to family income has been used previously as an indicator of empowerment (Parveen & Leonhauser, 2004). Women's independent income is a more visible contribution to the family than traditional domestic chores, thereby giving women more voice {Sen, 2000 #388, p. 192}. Cash contribution to family income was measured by the total amount of monetary contribution made by the respondent to annual family budget. Contribution in kind was not included because of the difficulty in measuring and validating a woman's daily household chores as her in-kind contribution to the family. In traditional low-income Nepalese families, the husband is considered to be the bread-winner who earns the cash and decides how it should be spent. Therefore, when a wife earns and makes cash contributions to the family, it is assumed that her voice and role in household decision-making is increased thereby resulting in her empowerment.

Contribution to family income was measured through a question inquiring the estimated amount of money the respondent, out of her own income, contributes to the family. This indicator was recorded in Nepalese Rupees, and thus could be compared between the two groups.

5) Mobility: Increased mobility has been associated with an increase in empowerment of women (Hashemi et al., 1996; Parveen & Leonhauser, 2004; Pitt et al., 2003). Hashemi et al (1996) used mobility as one of the indicators for empowerment in female participants of micro-credit programs in Bangladesh.

To measure mobility, the respondents were asked how many times they went out of the house each day. The higher the number of times she traveled outside her home, the more mobile she was considered to be.

Table 4

Operationalization of Indicators

Indicator	Operationalization
Self-Esteem	Rosenberg Self-esteem Scale
Self-Efficacy	The General Self-Efficacy Scale
Contribution to Family Income	Question # 17 on the Questionnaire
Ownership of Assets	Question # 19 on the Questionnaire
Mobility	Question # 21 on the Questionnaire

Research Design

The research design consisted of comparing the two groups – a group of women who participated in micro-finance and a group of women who did not participate but were living in the same community of landless poor people – on the level of self-esteem,

level of self-efficacy, ownership of assets, contribution to family income and mobility. Considering the time and resource constraints, a cross-sectional study design was deemed more appropriate than a longitudinal study.

The Questionnaire

The questionnaire was divided into three parts (Appendix A). Part I and Part II represented the survey questionnaire and consisted of 80 questions while and Part III had 14 open-ended questions for the staff of the cooperatives. Since most of the subjects were illiterate, the enumerators read out the questions and recorded the appropriate response. Each survey questionnaire took between 45 minutes and one hour to apply.

Part I of the questionnaire, consisting of the first 55 questions, furnished background information and addressed all five indicators of empowerment including Rosenberg Self-Esteem Scale and the General Self-Efficacy Scale. Part I was administered to both participant and non-participant groups. Part II of the questionnaire consisted of questions associated with participation in the micro-finance. Because these questions were irrelevant to non-participants, they were applied only to the participants of the micro-finance programs.

Part II consisted of questions from 54 to 80. Part III of the questionnaire consisted of open-ended questions to interview staff of the micro-finance programs. At least one staff of all three programs was interviewed by using the questionnaire. The principal investigator visited the offices of Gyanjoyti and Naudeep cooperatives to interview the staff, and conducted a 45-minute interview of a staff of WEAN who worked in Partibhara community.

Translation of the Questionnaire

The questionnaire was first written in the English language, which was then translated into the Nepalese language. A team of three qualified individuals, individual A, individual B and the principal investigator, was formed to work on the translation. Individual A was a native of Nepal with a Ph.D. degree in Entomology from the University of Hawai'i (UH). He was working as a Junior Specialist at the UH. Individual B was also a native from Nepal and has earned a Ph.D. degree from the UH. He was teaching Biology at a UH Community College on Oahu. The translation process consisted of the following steps:

Step 1: The principal investigator translated the English version of the questionnaire into Nepalese language.

Step 2: Individual A translated the Nepalese questionnaire back into English language

Step 3: Individual B independently evaluated the consistency of the original English questionnaire and the English translation of the Nepalese questionnaire prepared by individual A.

Step 4: The whole team met and discussed the discrepancies and rectified them. The team evaluated the face validity of the questions for Nepalese population. The team also evaluated the appropriateness of each question in light of the Nepalese cultural context.

Field Study Team

A study team was formed in Kathmandu that comprised of three enumerators and the investigator. The enumerators, two male and one female, were students in Tribhuvan

University and had previously worked as enumerators. A half-day orientation was held at the office of the Center for Policy Studies and Rural Development in which the principal investigator explained to the enumerators the purpose of the research and discussed all the questions of the questionnaire. Based on their experience, the enumerators suggested some changes. For example, it was suggested by one of the enumerators that in question 9, that asked the respondent how many children go to school, the gender of the child be differentiated. Similarly, during the orientation, many small changes were made on the questionnaire to make it more understandable to the subjects.

Socialization and Questionnaire Pre-testing

Prior to conducting the survey, the data collection team visited Shankhamul community and met with the President of the SPOSH, Mr. Hukum Lama and his wife, Bambai Lama, who was the President of Gyanjoyti cooperative. The majority of the participants from Shankhamul community were members of Gyanjoyti cooperative. The data collection team formally received permission to conduct the survey after Mr. Lama read each question carefully and was affirmed that the study did not pose any threat to the interests of the community of landless people he represented. The questionnaires were pre-tested by the survey team with five respondents randomly selected from Shankhamul community. After discussing the outcomes of the pre-test interviews, some minor changes in wording were made before the questionnaire was finalized and reproduced.

Informed Consent Statement

The informed consent statement, as required by the University of Hawai'i, was attached to every questionnaire. Like the questionnaire, the statement was also translated into Nepalese language. Before each interview, the enumerator would read out the

consent statement to the subject and made sure that she understood that she could refuse to answer any question or end the interview at anytime. It was also make clear to the subjects that research was being conducted as part of a doctoral degree and that the information would be confidential and the questionnaires would be destroyed upon completion of the study.

Cultural Sensitivity

The principal investigator and the enumerators were sensitive about the cultural practices of the respondents and wanted to fully respect the culture of each ethnic group in the multi-cultural community. Initially, the study team asked leaders of each community about their cultural practices and if there were any specific cultural issues the team had to be aware of. The principal investigator asked the leaders if all the questions on the questionnaire were culturally sensitive so that the cultural identity and practices of each respondent was fully respected. After careful study of the questionnaire, the leaders had replied that the questionnaire did not have any culturally insensitive questions. Cultural appropriateness of the questions was also evaluated during the pre-testing of the questionnaires.

Initially, the leaders and the residents of the squatter communities viewed the principal investigator, who represented an educated and foreign-returned stranger, with suspicion. Clearly, they did not want the issue of using unauthorized government land to be brought up. Once it was clear that the interest of the study team was on micro-finance and had nothing to do with land ownership issues, the leaders became fully cooperative. In addition, since the study team members could relate to the subjects in the common Nepalese language, the study team quickly became trusted visitors. The study team would

address elder subjects as “mother” or “elder sister” and to younger subjects “younger sister.”

In many cases, during the survey interviews the study team members were offered food and drinks by the respondent or other members of the family. Since it would be considered rude to reject such offers, the study team members accepted a cup of tea while undertaking the interviews.

Data Analysis

The information from the questionnaires was entered in the computer using SPSS software. Frequency tests were run to clean the data and correct wrong entries and to derive demographic information about the subjects. Once the data was cleaned, cross-tabulations were run for each question to separate the number of respondents from participant and non-participant groups. T-tests were used to determine if the two groups were socio-economically similar. T-test were also used to determine if there was any significant difference between participant and non-participant groups in terms of the level of self-esteem, self-efficacy, contribution to family income, ownership of assets and mobility. Regression analyses were conducted to find evidence to support relationships between the outcome variables and socio-demographic variables.

Squatter-Communities Wary of Research

Each resident of the three communities was aware that the land did not belong to them and the government, could evict them anytime. This was one of the reasons why the community leaders were wary of researchers conducting studies on the settlements. The principal investigator had to first take the leaders into his confidence and convince them that this study had nothing to do with any political issues associated with the settlements.

When the principal investigator tried to take photographs of Shankhamul settlement, a couple of residents came running to him to ask him why he was taking photos. Once the leaders were convinced that the study would not harm their interests, the leaders introduced the study team members to each household in the community. This helped to gain trust and cooperation of the respondents.

CHAPTER IV: FINDINGS

Demographic Information of the Subjects

The subjects of the study were randomly selected from three micro-finance cooperatives, Gyanjoyti, Naudeep and WEAN. Out of 100 subjects selected for the study, 27 (16 participant and 11 non-participant) were selected from Mandikatar, 49 (13 participants and 36 non-participants) from Pathibhara and 24 (21 participants and 3 non-participants) from Shankhamul.

Out of the 100 respondents, 50 were participating in at least one of the three micro-finance programs. The distribution of participants according to micro-finance programs was as follows: 21 were participating in Gyanjoyti, 16 were participating in Naudeep and 13 were participating in WEAN micro-finance program.

Socio-Economic Characteristics of the Subjects

Income.

The annual family income of 88 households out of 100 was less than Rs. 100,000 (U.S. \$ 1,500)). The average annual income of the families was Rs. 67,060 (U.S. \$ 1,006) (SD 38,772) and the median income was Rs. 60,000 (U.S. \$ 900). The annual income ranged from the minimum of Rs. 5,000 (U.S. \$ 75) to maximum of Rs. 300,000 (U.S. \$ 4,500). The per capita annual income of the subjects was Rs. 15,002 (U.S. \$ 225), which was less than the annual national per capita income of the country Rs. 17,162 (U.S. \$ 257). This showed that the families living in squatter communities earn below national average and far less than the per capita income of Kathmandu Valley Rs. 45,816 (U.S. \$ 687).

*Table 5**Annual Family Income According to Settlements*

Annual Family Income (Rs.)	Mandikatar	Pathibhara	Shankhamul	Total
0-50000 (U.S. \$ 0 - 750)	13	21	9	43
50001-100000 (U.S. \$ 750 – 1500)	11	24	10	45
100001-150000 (U.S. \$ 1500 – 2250)	3	4	3	10
150001-200000 (U.S. \$ 2250 – 3000)			1	1
250001-300000 (U.S. \$ 3000 - 4500)			1	1
Total	27	49	24	100

Table 5 depicts annual family income range in the three settlements. Only two families were found to have annual income of Rs. 150,000 (U.S. \$ 2,250) or higher and both were from Shankhamul community. Shakhhamul is the oldest of the three settlements.

Table 6

Annual Income According to Participants and Non-Participants

Annual Family Income (Rs.)	Non-participant	Participant	Total
0-50000 (U.S. \$ 0 - 750)	21	22	43
50,001-100000 (U.S. \$ 750 – 1500)	25	20	45
100,001-150,000 (U.S. \$ 1500 – 2250)	4	6	10
150,001-200,000 (U.S. \$ 2250 – 3000)		1	1
250001-300000 (U.S. \$ 3000 - 4500)		1	1
Total	50	50	100

Table 6 shows the annual family income according to participant and non-participant group. The two subjects with the highest annual family income were from the participant group.

Literacy and Education.

Regarding literacy and education, out of 100 subjects, only 48 (26 participants and 22 non-participants) were literate. Table 7 shows that as many as 52 subjects (24 participants and 28 non-participants) never went to school, 20 (11 participants, 9 non-participants) attended elementary school, 9 (4 participants and 5 non-participants) had a high school education and 19 (11 participants and 8 non-participants) had participated in adult education.

*Table 7**Level of Education Among Student Subjects*

Level of Education	Non-participant	Participant	Total
No Schooling	28	24	52
Elementary School	9	11	20
High School	5	4	9
Adult Education	8	11	19
Total	50	50	100

Marital Status.

Regarding marital status, the majority of the subjects were found to be married. Out of the 99 subjects, 82 (43 participants and 39 non-participants) were married. As shown in Table 6, only 8 subjects (2 participants and 6 non-participants) were never married, 8 subjects (3 participants and 5 non-participants) were widows and one participant was separated.

*Table 8**Marital Status*

	Non-participant	Participant	Total
Never married	6	2	8
Married	39	43	82
Separated		1	1
Widowed	5	3	8
Total	50	49	99

Age.

The mean age of the participants was 37.32 with the youngest subject being 16 and the oldest one being 75 years old. The median age was 35. Table 9 shows that the majority of subjects fall between the age of 16 and 37.

*Table 9**Age Distribution of the Study Subjects*

Age Group	Non-participant	Participant	Total
16-26	15	10	25
27-37	15	13	28
38-48	9	17	26
49-59	6	8	14
60-70	4	2	6
>70	1		1
Total	50	50	100

Ethnicity.

In terms of ethnicity, the population distribution among 98 subjects who agreed to reveal their ethnic group showed that the highest percentage of the subjects were Tamangs. As shown by Table 10, Twenty-five subjects (14 participants and 11 non-participants) were from Tamang group, 21 (10 participants, 11 non-participants) were from the Brahmin/Chetri group, 13 (5 participants and 8 non-participants) were from Rai group, 8 (3 participants, 5 non-participants) were from Magar group, 6 (4 participants, 2 non-participants) were from Gurung group, and 5 (3 participants and 2 non-participants)

were from the Newar group and the remaining 20 were from other ethnic groups like Lama, Kami, Sunar, Damai, Sherpa etc.

Table 10

Ethnic Distribution of Subjects

Ethnic group	Non-participant	Participant	Total
Brahmin/Chetri	11	10	21
Gurung	2	4	6
Newar	2	3	5
Rai	8	5	13
Magar	5	3	8
Tamang	11	14	25
Others	10	10	20
Total	49	49	98

Religion.

Three main religions, Hindu, Buddhist and Christianity were found to be prevalent among the study subjects. The majority of the subjects 69 (32 participants and 37 non-participants) followed Hindu religion while 20 (14 participants and 6 non-participants) were Buddhist. There were 8 (2 participants, 6 non-participants) Christian subjects while one was Kirat and 2 did not disclose their religion.

*Table 11**Religion of the Study Subjects*

	Non-participant	Participant	Total
Hindu	37	32	69
Buddhist	6	14	20
Christian	6	2	8
Others		1	1
	49	49	98

Study Findings

The survey questionnaire consisted of Rosenberg Self-Esteem Scale, the General Self-Efficacy Scale, questions on contribution to family income, ownership of assets and mobility, questions related to demographic variables, questions on general perceptions about the subject's socio-economic situation and gender equality, and questions on micro-finance participation. The findings are presented below.

Socio-economic Conditions

Two questions asked at the beginning of the questionnaire were related to how the respondents perceived their current situation? These questions were asked to assess their thoughts about their current socio-economic conditions. The answers would also highlight optimistic or pessimistic outlook on the respondent's future if the respondents believed that things were getting better or worse in their generation.

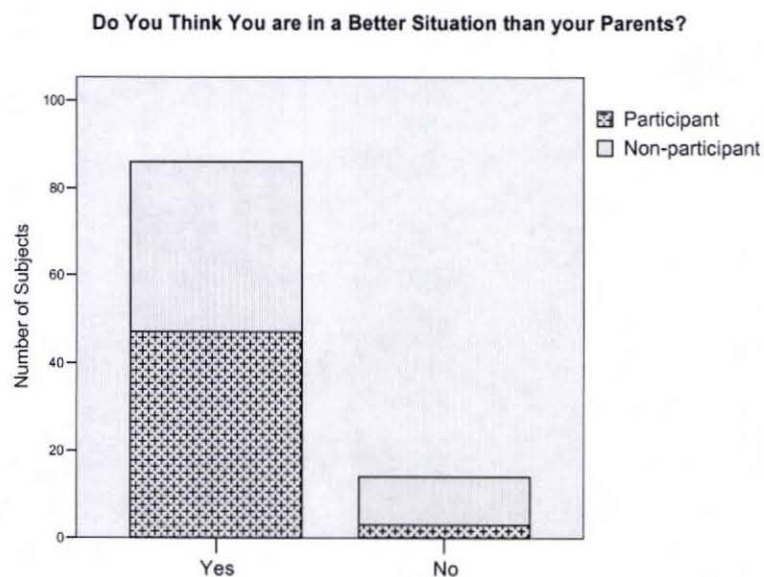


Figure 6 Socio-Economic Conditions

The first question asked the respondent whether she thought that she was in a better situation than when her parents were at her age. As shown by Figure 6, out of 100 subjects, 86 (47 participants and 39 non-participants) thought that they were in a better situation than their parents. Eleven non-participants and only 3 participants said that the current situation was no better than the situation their parents were in. There were more subjects from the participant group who said that they were in a better position than their parents than from the non-participant group.

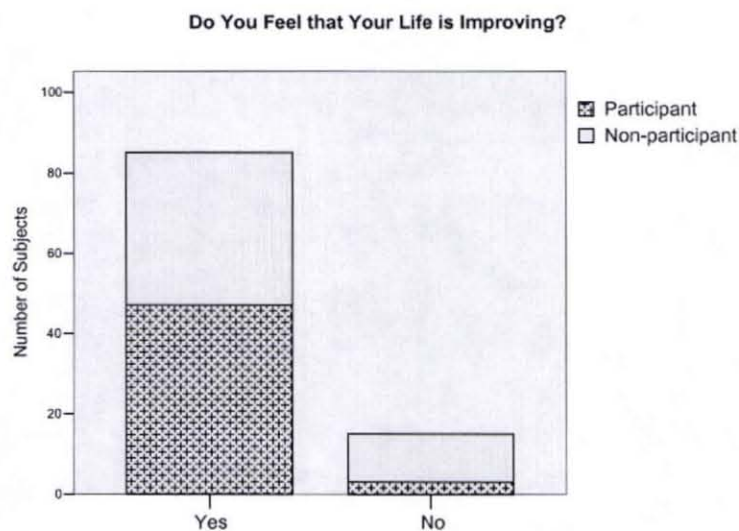


Figure 7 Improvements of Socio-Economic Conditions

The second question asked the respondents if they felt that their life was improving (Figure 7). In this case 85 (47 participants and 38 non-participants) agreed that their life was improving while the remaining 15 (3 participants and 12 non-participants) answered negatively. The distribution shows that more participants were optimistic than non-participants. Some of the reasons given by those who answered positively were that more educational opportunities for their children were available now than before, better

transportation and communication, access to television, radio etc. Some respondents said that now there was more political freedom allowing the landless people to get organized and work together for their community. Other respondents said that people from previous generations had limited foreign employment opportunities.

Employment



Figure 8 Employment Outside Home

As shown by figure 8, the employment situation (self-employment not included) of the respondents showed that there was only a marginal difference in past employment between participants and non-participants. As many as 58 respondents (30 participants and 28 non-participants) said that they were never employed while 39 respondents (19 participants and 20 non-participants) said that they worked as daily wage laborer and 3 (one participant and two non-participants) said that they had worked in an office.

Involvement in Social Organizations

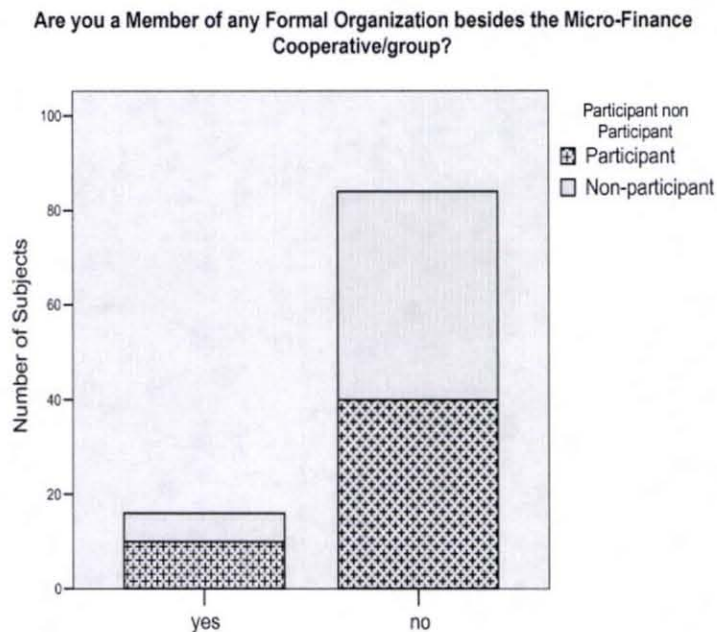


Figure 9 Membership Of Social and Cultural Organizations

The respondents were asked if they were members of other formal organizations such as NGOs, cooperatives, local schools and political parties, besides the micro-finance program. As depicted by Figure 9, only 16 subjects (10 participants and 6 non-participants) said that they were members of other organizations while 84 subjects (40 participants and 44 non-participants) said they were not involved in any other organizations except the micro-finance cooperatives.

Household Decision-making

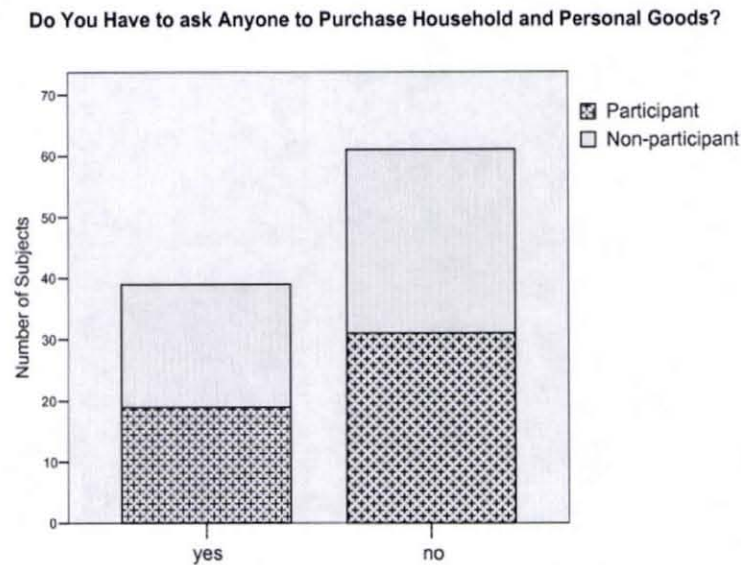


Figure 10 Decision to Purchase Goods

As shown by Figure 10, when asked if the respondents had to seek anyone's permission to purchase household and personal goods, 39 respondents (19 participants and 20 non-participants) said they had to ask somebody in the household to make any purchase while 61 respondents (31 participants and 30 non-participants) said that they did not have to ask anyone for the same.

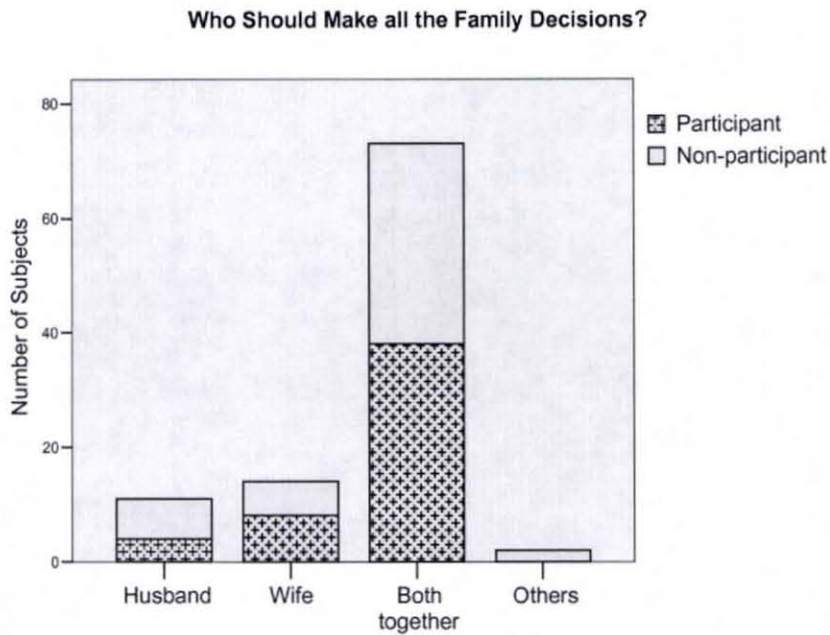


Figure 11 General Family Decision-making

When asked who should make family decisions, as shown by Figure 11, 73 subjects (38 participants and 35 non-participants) answered that family decisions should be made jointly by the husband and wife, 14 subjects (eight participants and six non-participants) said that the wife should make all decisions while 11 subjects (four participants and seven non-participants) said that the husband should make all the decisions. Two respondents said others in the family such as grandparents should make all decisions.

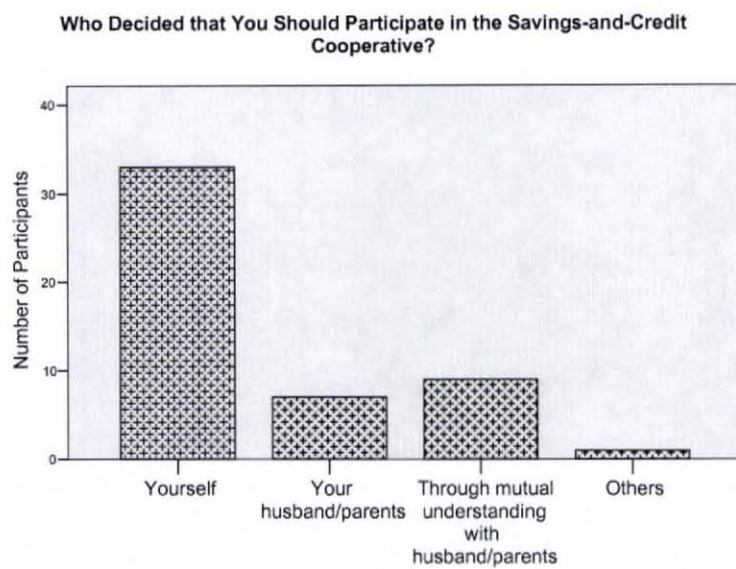


Figure 12 Decision about Joining Micro-finance Program

When asked who decided that the respondent should participate in micro-finance, as shown by Figure 12, 33 respondents out of 50 who were program participants said that they decided on their own, while 9 said that the decision was made mutually with husband/parents and 7 said that their husband or parents made the decision. One respondent said someone else beside her husband and parents made the decision.

Entertainment

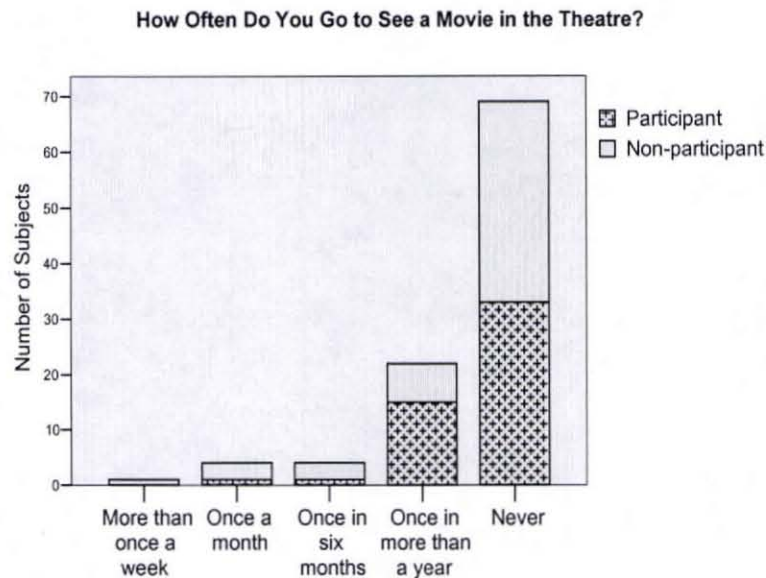


Figure 13 Watching Movies in Theatre

Regarding entertainment, Figure 13 shows that the majority of the respondents did not go to the theatre to watch movies. As many as 69 respondents (33 participants and 36 non-participants) said that they never went to theatre to watch a movie, 22 respondents (15 participants and 7 non-participants) said they went to see movie once in more than a year, 4 respondents (one participant and three non-participants) said they went to see a movie in theater once in six months, 4 respondents (one participant and three non-participants) said they went to movie theaters to watch movies once a month and only one non-participant said she went to watch movie in theatre more than once a week.

Exposure to Mass Media

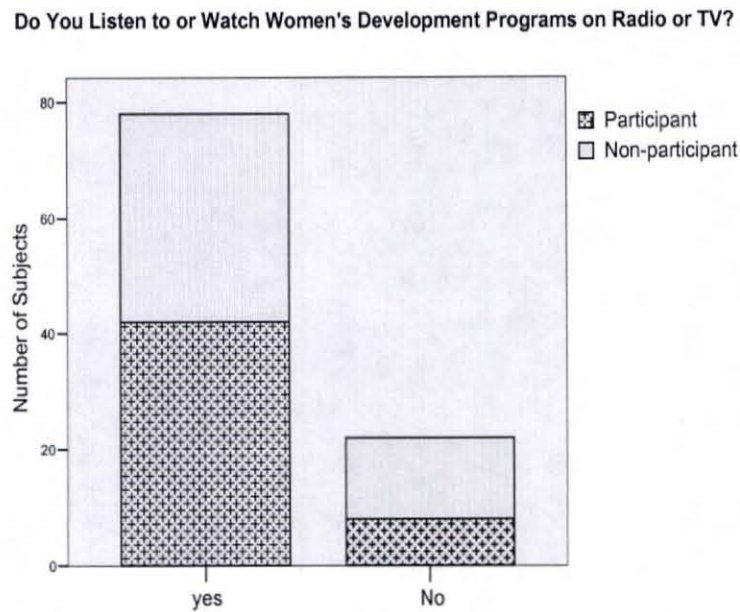


Figure 14 Media Exposure

Figure 14 shows that a substantial number of respondents were exposed to women's empowerment and development programs on television. A total of 78 respondents (42 participants 36 non-participants) said they watched development programs regularly on TV while 22 (8 participants 14 non-participants) respondents said they did not do so. The most frequently cited reason for not watching such programs on TV was because they did not have a TV set at home. However, it was found that many of those who did not have TV would go to a relative's or a neighbor's home to watch their favorite programs.

Gender Issues

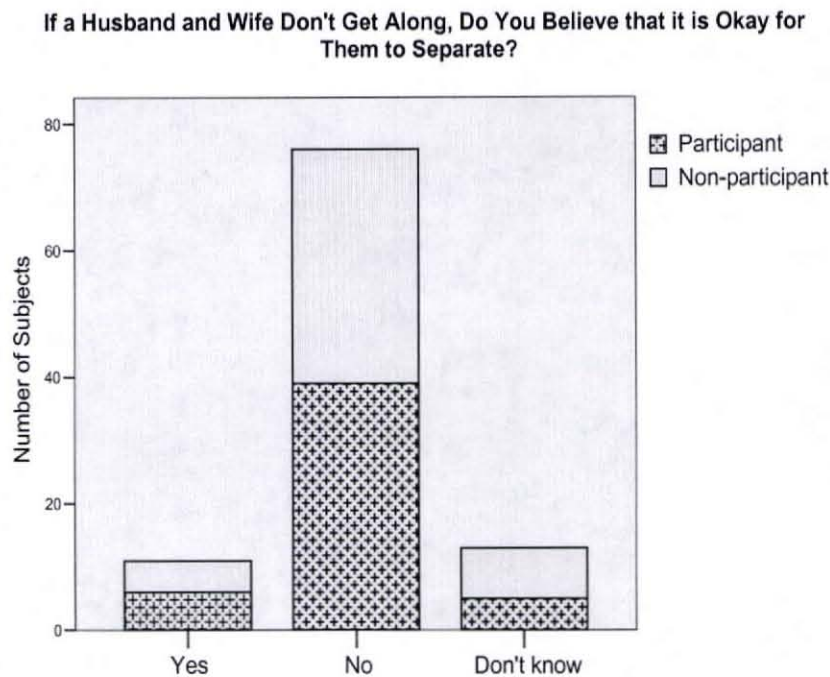


Figure 15 Modern Values

There were some questions related to the relationship between the husband and wife that tested the existence of modern values and thinking among the women. These questions were on some of the customs and practices prevalent in the Nepalese culture. The first question was related to the relationship between husband and wife. When the respondents were asked if it was okay for a husband and wife to separate if they did not get along, as Figure 15 shows, the majority comprising of 76 respondents (39 participants and 37 non-participants) said that a couple that do not get along should not separate while only 11 (6 participants and 5 non-participants) said that it was okay to separate. As many as 13 respondents (5 participants and 8 non-participants) said they did not know the answer.

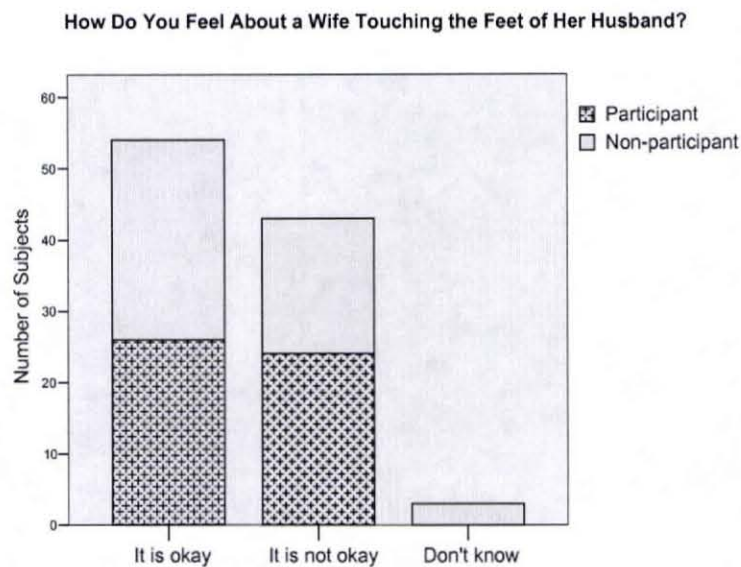


Figure 16 Cultural Suppression of Women

A common custom, especially among the Nepalese, calls for the wife to touch the feet of her husband during festivals and special occasions. It is not only a sign of respect to the man, but also signifies acceptance of subordination. When asked how they feel about the custom, as Figure 16 shows, 54 respondents (26 participants and 28 non-participants) said that they supported the practice while 43 respondents (24 participants and 19 non-participants) said that it is not okay and should be changed. Three non-participants answered that they did not know if the custom was okay or not. Among those who said they did not know the answer, two were married and one was a widow.

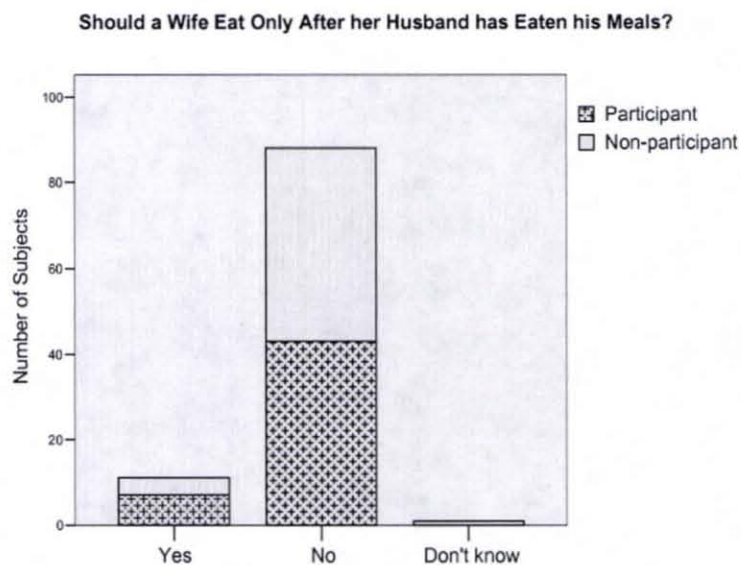


Figure 17 Equality of Women and Men

A cultural practice prevalent in Nepal calls for women to eat their meals only after all other household members had eaten. When asked if they support the custom of eating last, as depicted by Figure 17, 88 respondents (43 participants and 45 non participants) said that it is not a good practice while 11 respondents (seven participants and four non-participants) replied that it is a good practice and one respondent said she did not know.

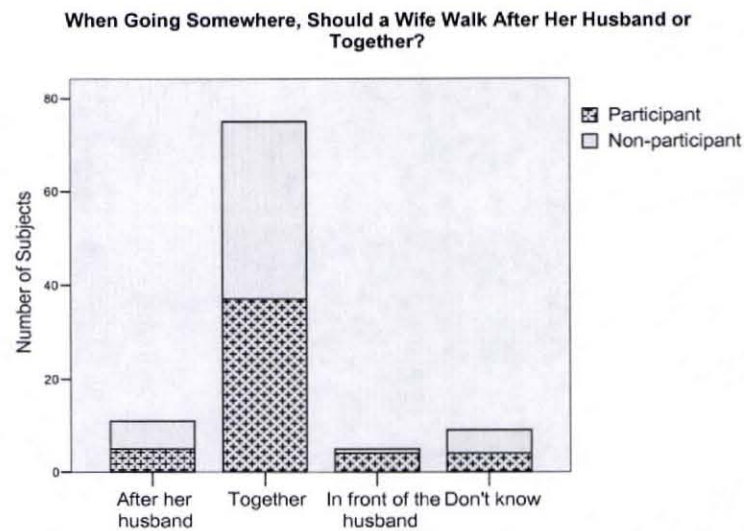


Figure 18 Equality of Women and Men

Another Nepalese cultural practice that endorses sexual discrimination against women is the husband walking ahead of his wife and children when the family goes out. When asked about this practice, as shown by Figure 18, 75 respondents (37 participants and 38 non-participants) said that the husband, wife and children should walk together while five respondents (four participants and one non-participant) said that the wife should walk in front of the husband and 11 respondents (5 participants and 6 non-participants) agreed that it is fine if the husband walks in ahead of the family when they go out.

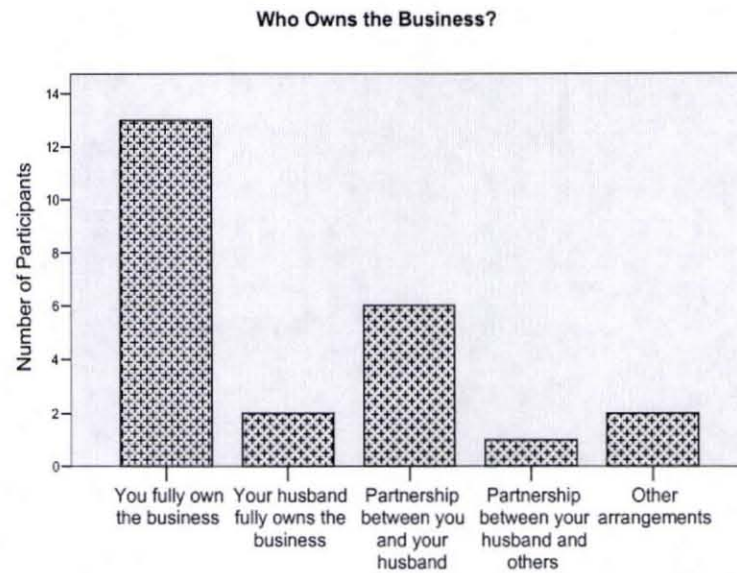
Ownership of Business

Figure 19 Business Ownership

Figure 19 shows that when asked who owned the business, 13 respondents said that the business was fully owned by each of them, 6 said the business was in partnership with their husbands, 2 said their husbands fully owned the business, and one had the business running in a partnership between her husband and others.

Use of Micro-finance Loans

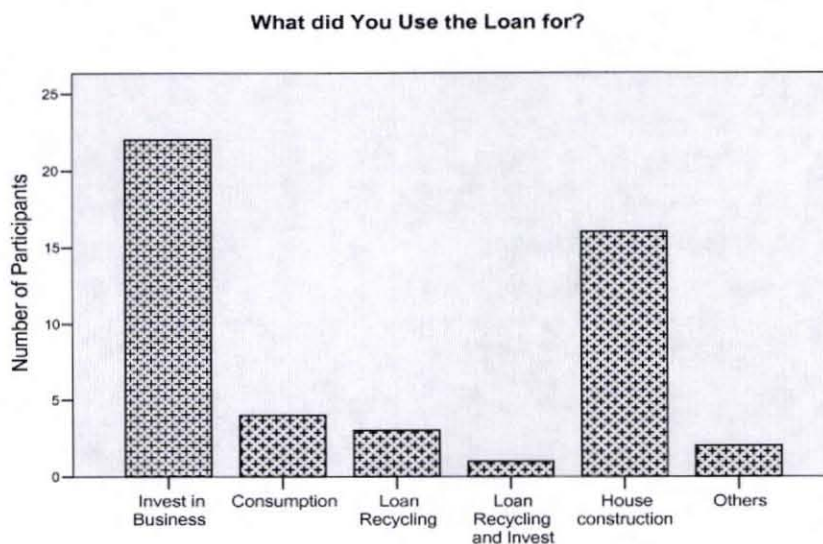


Figure 20 Loan Use

Not every participant in the micro-finance programs used her loans for business. As shown by Figure 20, only 22 respondents had invested in business, 16 had used it for home construction of repair, four had used it for consumption, three used it for loan recycling and one respondent used it for both investment and loan recycling. Two subjects chose not to disclose the use of their loans. Out of the 48 respondents only 3 had to put up collateral for the loans, 45 respondents had received their loans on a group guarantee basis.

Household Loans

There is an increasing trend of Nepalese households borrowing money. The Nepal Living Standards Survey conducted by the Central bureau of Statistics in 2004 found that households taking loans increased from 61 percent in 1996 to 69 percent in 2004. There was also a variation during the period in sources of loans. While loans from moneylenders had decreased from 40 percent to 26 percent and from banks decreased from 16 to 15 percent, loans from relatives increased from 41 percent to 55 percent. Although the survey did not report loans from micro-finance, the rise in the number of households borrowing shows increasing potential for micro-finance programs to deliver their services. The average amount of loans for each household was Rs. 55,427 (U.S. \$ 831) while that of the study was 33,850 (U.S. \$ 508).

Table 12

Use of Loans - Study versus National Average

Use of Loan	Study Results (Percent)	National Average (Percent)
Invest in Business	45.8	24
Consumption	8.3	47
Loan Recycling	6.3	
Loan Recycling and Invest	2.1	
House Construction	33.3	
Other Personal Use		29
Others	4.2	
Total	100	100

Source of National Average: The Nepal Living Standards Survey, 2004

Table 12 shows that the micro-finance participants were investing in business at a much higher rate than the national average. As much as 33.3 percent of the participants used the loan funds to recycle their existing loans and for investment as well. The remaining used theirs for consumption and other uses.

Hypothesis Testing

This study was designed to test five hypotheses that women who participate in a micro-finance will have a higher level of self-esteem, have higher level of self-efficacy, own more assets, make larger contributions to family income and have a higher level of mobility than women from similar communities who did not participate in a micro-finance.

T-tests were used to first examine group differences in the main socio-economic variables, age, family size, annual family income and years of schooling. T-tests were also used to test the hypotheses of the research by examining group differences in Rosenberg Self-Esteem scores, the General Self-efficacy scores, contribution to family income, ownership of assets and mobility.

As Table 13 shows, group differences between participants and non-participants were not significant at .05 level for three socio-economic variables, age, family size, annual family income and years of schooling. Independent-samples t-test between participant group ($M=37.76$, $SD= 11.092$) and non-participant group ($M=26.88$, $SD 14.56$) for age was not significant ($t=.340$, $N=100$, $p=.735$). Similarly regarding family size, independent-sample t-test between participant group ($M= 4.84$, $SD=1.683$) and non-participant group ($M=4.10$, $SD=1.233$) was also not significant ($t=2.508$, $N=100$, $p=.076$). For annual family income, independent sample t-test between participant group

(M=72440, SD=46914.669) and non-participant group (M=61680, SD 27879.800) was also not significant ($t=1.394$, $N=100$, $p=.090$). T-test showed that the years of schooling between participant group (M= 3.000, SD= 3.194) and non-participant groups (M=2.70, SD= 3.382) was also not statistically significant ($t=.456$, $N= 100$, $p=.649$). These findings show that the two groups were comparable in terms of age, family size and annual income and education level. Given such an outcome, it can also be stated that group differences in the observed outcomes are not due to differences in these socio-economic conditions.

Table 13

T-test Statistics for Socio-Economic Characteristics

Socio-economic variable	M (SD) Participant	M (SD) Non-Participant	df	T	Std. Error Difference	Sig. (2-tailed)
Age	37.76 (11.092)	36.88 (14.560)	98	.340	2.589	.735
Family Size	4.84 (1.683)	4.10 (1.233)	98	2.508	.295	.076
Annual Family Income	72440 (46914.669)	61680 (27879.800)	98	1.394	7717.862	.090
Years of Schooling	3.00 (3.194)	2.70 (3.382)	98	.456	.658	.649

* $p<.05$

Independent sample t-tests were again used to observe the mean difference between participant and non-participant groups on the five key indicators of the study.

Table 14

T-Test Statistics for Empowerment Variables

Variable	M (SD) Participant	M (SD) Non-Participant	Df	t	Std. Error Difference	Sig. (2-tailed)
Self-Esteem	27.580 (3.188)	24.880 (4.197)	98	3.622	.74545	.000*
Self-Efficacy	27.600 (3.979)	23.820 (4.741)	98	4.318	.87537	.000*
Ownership of assets	51067 (78397)	27847 (75769)	98	1.506	15418.882	.135
Contribution to family income	15636 (24642)	6380 (11056)	98	2.423	3819.648	.017*
Mobility	1.900 (2.22)	1.329 (1.097)	98	1.629	.35053	.107

* $p < .05$

Self-Esteem

The independent-samples t-test to compare the Rosenberg self-esteem scores for participants and non-participants showed a significant difference in scores for participants ($M=27.580$, $SD= 3.188$) and non-participants ($M=24.880$, $SD= 4.197$; ($t= 3.622$, $N=100$, $p= .000$). The magnitude of the difference in the means was 2.7 in favor of the participant group. Therefore, it can be stated that participation in micro-finance seems to have a role to play in raising the self-esteem of some of the participants. This conclusion is also supported by a significant level of correlation between Rosenberg self-esteem score and the time each subject participated in the micro-finance programs ($r= .496$, $n=100$, $p < .01$). The longer a participant was in the program, the higher her level of self-

esteem. The first hypothesis, women who participate in micro-finance program will have higher level of self-esteem than other women from the same community who did not participate, has been confirmed.

Self-Efficacy

An independent-samples t-test was conducted to compare self-efficacy scores for participant and non-participant groups. A significant difference in scores for participant group ($M= 27.600$, $SD= 3.979$) and non-participant group ($M= 23.820$, $SD= 4.741$; $t = 4.318$, $N=100$, $p=.000$) was found. Since the mean score was 3.78 points higher for participants than non-participants, the second hypothesis, women who participate in micro-finance program will have higher level of self-efficacy than women who did not participate, is also confirmed. This conclusion is further supported by a significant correlation coefficient between the amount of time subjects were involved in micro-finance program and the level of self-efficacy ($r=.500$, $n=100$, $p<0.01$). Similar to the case of self-esteem, the longer a participant was involved in the micro-finance program, the higher her level of self-efficacy.

Contribution to Family Income

The mean contribution to family income by participant group was Rs. 15,636 (U.S. \$ 235) (SD Rs. 24642, U.S. \$ 370) while that of non-participant group was Rs. 6,380 (U.S. \$ 96) (SD Rs. 11056, U.S. \$ 166)). The mean contribution made by participants to their family was more than double than that for non-participant group.

An independent-sample t-test was performed to examine the statistical significance of the difference in means between the two groups. T-test results showed the

group mean difference for contribution to family income to be significant ($t= 2.423$, $n=100$, $p=.017$) at .05 level.

Ownership of Assets

Ownership of assets of each respondent was derived by adding together the monetary value of assets in the subject's possession that included cash, house, land, gold and jewelry, machines, livestock and business. The mean amount of assets in monetary terms owned by participant group was worth Rs. 51,066 (U.S. \$ 766) while that of non-participant group was worth only Rs. 27,847 (U.S. \$ 418). The difference in mean between the two groups was Rs. 23,219 (U.S. \$ 348), which represents a large difference.

An independent-sample t-test was conducted to examine the statistical significance of group difference in ownership of assets. The difference in means between the participant group ($M= 51,066$, $SD=78197$) and the non-participant group ($M=27,847$, $SD= 75769$) was not significant ($t=1.506$, $N=100$, $p =.135$) at .05 level. The third hypothesis, women who participate in micro-finance will own more assets than other women, was not supported by the t-test result. The group mean difference in ownership of assets was not statistically significant despite a big mean difference of Rs. 23,219 (U.S. \$ 348) in favor of the participants due to high Std. Error Difference of 3,820.

Mobility

Mobility was measured by the number of times, on an average, the respondent went out of the house each day. It was found that respondents from participant group, on an average, left their homes 1.9 times each day while those from non-participant group left their homes only 1.3 times. The difference between the means was 0.57. T-test was used to examine the statistical significance of the difference in mobility between the two

groups to test the fifth hypothesis: women who participate in micro-finance will have higher level of mobility than other women from the same community who did not participate in any micro-finance program. The T-test results showed that the mean difference in mobility between the participants (M= 1.900, SD=2.22) and non-participants (M=1.329, SD=1.097) was not significant (t=1.629, N=100, p=.107) at .05 level.

Regression Analysis

Multiple regression analysis was conducted to find evidence to support relationships between the outcome variables (self-esteem, self-efficacy, contribution to family income, ownership of assets and mobility) and socio-demographic variables. The following results were obtained when the outcome variables were entered as dependent variable and participation, age, education level, family size and annual family income as independent variable.

Self-Esteem.

Table 15

Regression Output for Self-Esteem

Independent Variable	B Coefficient	Std. Error	Significance Level
(Constant)	24.298*	1.723	.000
Participation	2.812*	.747	.000
Age	-.324	.311	.300
Education Level	.141	.202	.488
Family Size	-.364	.654	.579
Family Income	1.131*	.472	.019

* p<.05; R² = .208

Table 15 shows that the effect of participation on self-esteem is statistically significant when controlling for age, education level, family size and family income. *Self-Efficacy*.

Table 16

Regression Output for Self-Efficacy

Independent Variable	B Coefficient	Std. Error	Significance Level
(Constant)	23.066	2.146	.000
Participation	4.324*	.931	.000
Age	-.528	.387	.176
Education Level	.080	.251	.752
Family Size	-.165	.814	.840
Family Income	1.180	.588	0.48

* $p \leq .05$; $R^2 = .249$

Table 16 shows a statistically significant effect of participation on self-efficacy scores while controlling for age, education level, family size and family income.

*Contribution to Family Income.**Table 17**Regression Output for Contribution to Family Income*

Independent Variable	B Coefficient	Std. Error	Significance Level
(Constant)	5970.571	8995.434	.508
Participation	8577.274*	3902.847	.030
Age	-2105.182	1623.385	.198
Education Level	1046.881	1053.604	.323
Family Size	1626.730	3414.294	.635
Family Income	1921.227	2464.121	.438

* $p \leq .05$; $R^2 = .106$

Table 17 shows that participation has a statistically significant effect on contribution to family income while controlling for the effects of age, education level, family size and family income.

*Ownership of Assets.**Table 18**Regression Output for Ownership of Assets*

Independent Variable	B Coefficient	Std. Error	Significance Level
(Constant)	-2322.097	32387.659	.947
Participation	24832.609	14052.026	.080
Age	8450.310	5844.924	.152
Education Level	17360.888*	3793.455	.000
Family Size	-38631.2	12293.014	.002
Family Income	9047.865	8871.957	.310

* $p \leq .05$; $R^2 = .263$

Table 18 shows that the effect of participation on ownership of assets is not statistically significant while controlling for the variables participation, age, education level, family size and family income.

*Mobility.**Table 19**Regression Outcomes for Mobility*

Independent Variable	B Coefficient	Std. Error	Significance Level
(Constant)	1.976	.842	.021
Participation	.666	.365	.071
Age	-.045	.152	.765
Education Level	-.027	.099	.785
Family Size	-.349	.320	.278
Family Income	.021	.231	.926

* $p \leq .05$; $R^2 = .041$

As depicted by table 19, the effect of participation on mobility while controlling for the effects of age, education level, family size and family income was not statistically significant.

Discussion and Conclusion

Even though the subjects were selected from three settlements, the two groups – participants and non-participants - were comparable in terms of socio-economic variables such as age, family size, annual family income and years of schooling. This has been proven by the t-tests on age, family size, annual family and years of schooling income not being statistically significant between the two study groups. At (5%) level, these variables did not have main effect on the five indicators of empowerment: self-esteem, self-efficacy, ownership of assets, contribution to family income, and mobility.

The outcome of the quantitative analysis of the survey data on the five indicators of empowerment was as expected. The higher level of self-esteem and self-efficacy found

among participants show that there is likelihood that the micro-finance played a role in raising the level of self-esteem and self-efficacy. Since the survey did not have baseline data on the level of self-esteem and self-efficacy of the participants, there are chances that those individuals with higher levels of self-esteem and self-efficacy tended to join micro-finance programs. However, since there was a significant level of correlation between self-esteem and self-efficacy scores and the length of time the participants were in the program, it can be argued that micro-finance had increased the level of self-esteem and self-efficacy. Multiple regression analysis also showed statistically significant relationships between participation and self-esteem, self-efficacy and contribution to family income, while controlling for age, education, family size and annual family income. Furthermore, when asked to non-participants why they did not participate in the micro-finance programs, some of the answers were that they were employed, they did not need extra money or that they did not get along with program staff due to personal reasons. There was no evidence that lack of information or low self-confidence kept them from participating.

Regarding ownership of assets, the study failed to reject the null hypothesis, despite substantial difference between group means, because the t-test was not significant. The multiple regression models also did not show statistically significant relationship between participation and ownership of assets, while controlling for age, education level, family size and annual family income.

There was a statistically significant difference between the two groups in terms of contribution to family income. Women who participated in a micro-finance and were

running a profit-making business had more income than others, hence were able to make higher contribution.

The group difference for mobility was statistically not significant. The output of multiple regression analysis also did not show significant relationship between participation and mobility. Mobility may not have been a statistically significant variable because the settlements were located in urban areas where it is essential to be mobile for household and professional functions. Generally, under the Nepalese culture, barring some communities in the Southern plains of the country, women do not have mobility restrictions.

Since three of the five indicators were statistically significant, it can be concluded that this study supports the theory that participation in micro-finance contributes to empowerment of low-income women.

Qualitative Inquiry

The main sources of information for the qualitative research were in-depth interviews, informal talks with residents of the three communities, and observation by three enumerators and the principal investigator of micro-finance group meetings. After each day of data collection, the study team sat down to discuss and sort out information derived from teashop talks and observation. All new information was noted, listed and combined to form key issues facing both the participants as well as the micro-finance cooperatives.

Outcomes of Participation in Micro-finance Cooperatives

The members of the participant group were asked open ended questions related to women's empowerment. One of the questions asked to all the respondents from the participant group was how their membership made a difference in their life. The answers were different, but mostly positive indicating that being a member in the cooperative was a beneficial experience. A few of the women said that by working with the loan money, they earned "more respect from their husbands." By more respect, they meant that the husbands had started to treat them on more equal terms. Some of the respondents said that after being a member of the cooperatives, they were able to deal with and negotiate with people who were not family members. Such change may be an indication of increased self-esteem and self-efficacy. A couple of women said that they still have problems speaking out in group meetings.

Some respondents said that their relationship with their husbands was improved as a result of the loans. In one case, a woman confessed that before the loans, her husband

spent a lot of time out with his friends, often drinking, which was the main source of arguments and fights between them. After she became a member in one of the cooperatives and started a small business, her husband began spending his free time working in the business. Their relationship had improved significantly.

Two respondents confessed that they were hesitant in the beginning to take loans because they were not confident that they could run a business profitably. However, once they became members, with support from friends and their husbands, they were able to invest and repay the loans. Both the respondents said that they would take loans again if they needed more money.

Three respondents, however, were not positive about their experience in being a member and taking loans. One of the respondents had lost money because her poultry business had failed. Another member who had taken loans from Gyanjoyti to pay for her medical operation said that the interest rate was too high. Therefore, her husband had to plead to his employers for loans. Her husband was successful in getting interest-free advance on his salary, which the family used to pay back the loans they had taken from Gyanjoyti. A third respondent said that she used the loan money for a family medical emergency, and is having a very difficult time paying it back.

Selection of New Members

It was evident that the cooperatives did not want to accept women who came from “problem families.” Such families included those without a stable source of income, those with domestic problems like frequent fighting between the spouses, a drunkard husband or bad police record. On one hand, the cooperatives avoided such women to prevent unnecessary hassles and to minimize the potential of default; the groups, on the

other hand, avoided them because the group members would be responsible for any default or delay in payment by its members. It seemed like discriminatory practices helped the cooperatives to maintain high repayment rates.

One of the employees of Naudeep said that she and the staff of the other cooperatives often talk to the husbands before the wife's membership and loans were approved. They wanted to ascertain that the wife had her husband's support before she was given loans. Since the community was closely-knit, the cooperative employees knew most of the residents well, enabling them to be selective. By avoiding "problem families", the micro-finance programs seemed to fail in providing services to those most in need.

Naudeep cooperative, however, two years ago made an exception by accepting as its member a woman whose husband was well known in the community as a drunkard. As expected, when the wife took loans to start a roadside fast-food stall, the husband initially wanted to spend the money for himself. The couple had arguments and the wife complained to the cooperative about the problem. The cooperative officials intervened by providing counseling to the couple. Eventually, as a result of the intervention, the husband quit drinking and became sober. Once the husband was able to take the cooperative officials into confidence, the wife took additional loans and now the husband has a similar business of his own. Both operate mobile snack stalls, selling snacks in the city. This case shows that the cooperatives can play a bigger role in the community than just providing financial services.

Inclusion of other social development programs

The social network created by the micro-finance cooperatives has the potential for the delivery of other social development programs. Some non-governmental organizations were using cooperatives such as the ones included in this study to promote health and nutrition information program. During the time of the survey, the cooperatives did not have other programs besides providing financial services. Considering the existing network, the staff of Gyanjoyti and Naudeep agreed that the creation and functioning of groups has increased the social capital of the community. According to some members of the cooperatives, there is demand for adult education and vocational training opportunities. The cooperatives, however, were not in a position to implement additional programs on their own. Lack of funds and human resources were the key constraints to run other programs. When asked if they had approached donors and other international organizations for assistance, the staff of Naudeep said that they had not yet considered approaching donors for financial assistance.

The cooperative group meetings were also used to discuss general problems of the settlements such as health, education, water and sewage. The micro-finance group meetings had also become opportunities for members to discuss new business ideas and to share personal problems.

Use of Loans

Loans were taken for business, house construction and improvements, medical expenses, sending family members abroad for employment and loan recycling. Business enterprises were located within the member's own house, outside in rented space or were mobile. The nature of the businesses were diverse – pig raising, poultry, tailoring, thanka

painting, tea shops, small grocery shops, electric repair shop, readymade garment roadside store, and vegetable hawking. The cooperatives encouraged their members to purchase land so that they can move out of the landless community. If a member owned land after joining the program, she could continue to be a member of the cooperative.

A second observation of concern was that despite the risk of being evicted, many residents of the settlements were investing the borrowed money in building or improving homes on the government land. If they were evicted, they would lose their homes while being in debt to the cooperative. The cooperatives, despite being aware of the risk, were continuing to extend loans for home construction and improvement.

Contribution to Family Income a Positive Experience

When asked how members felt after they began making cash contribution to their family income, many women replied that they felt happy in doing so. Two women said that contributing to family income raised their “gaurav”, a Nepalese word for pride in a positive sense. Three women replied that it gave them “atma-santusti” which means self-satisfaction. In one case, the money earned by the woman was used to educate her child – something that the family could not afford without her contribution.

Profiles of Three Participants

The three participants whose profiles are presented here were selected for in-depth interviews. The following criteria were used to select the subjects for the interviews: a) the selected participants had to take loans, b) each subject would be using the loans for different purpose, c) the outcomes of loan-use would be different.

Case I: Dahal

Dahal and his wife Gauri were one of the first families to settle in Pathibhara. During the time of this research, Dahal was the treasurer of the Pathibhara Development Committee, an organization representing the residents of the settlement. Dahal was a house painter and Gauri was a member of WEAN. Gauri took loans from WEAN to start a retail shop in the city. Before she established her store, she used to work in a government office. Dahal said that his wife got her job because of recommendation from a minister. However, a few months after the minister resigned, Gauri lost her job. The bitter experience of working in a government-owned institution made them seek an alternative means of livelihood. They decided to try opening a retail shop, selling mostly cheap clothes and shawls imported from Khasa, Tibet.

They have two daughters who go to an “English boarding school.” Such schools are private and relatively expensive. Although the family lives in a very poor condition, the investment they were making in educating their daughters was noteworthy.

Gauri was a very confident woman who seemed to be doing very well in her business. She bought goods like clothes, shoes and toys from wholesalers and sold them in her retail stall. The income from her store fluctuated because she confessed that the price she charged for the goods was opportunistic. The income, although fluctuating in amount, was regular and helped to defray household expenses as her husband’s income from his work was not stable. When asked if she had difficulty in paying 24 percent interest on her loan, she said that she did not have any problem in doing so. In fact she was willing to take more loans if she could. Unfortunately, micro-finance cooperatives could not lend more than Rs. 30,000 (U.S. \$ 450) to one individual.

In this case, there is clear evidence that micro-finance has been successful in helping its member start and run a micro-enterprise. Gauri also confessed that before she started her own business, she was not good at negotiating with strangers. After setting up her shop, dealing with strangers and negotiating with them has been her daily chore. This, she admits, has made her more confident about herself.

Case II: Sita

Sita was an energetic 37-year old woman who had been a housewife all her married life. She had four daughters and one son. Her husband was a driver and the family owns a mini-truck. As a member of Gyanjoyti, she took out loans to help her husband cover the cost of purchasing a new truck. The income from renting the truck was adequate to support the family and to pay the interest on the loan. The family had been living in Shankhamul for more than 20 years.

Her house was relatively better equipped than that of others in the Shankhamul community. The family had a gas stove in the kitchen and a TV. All five children went to school that required them to wear school uniform, a sign that the school was relatively expensive. When asked what difference being a member in the micro-finance program had made to her and her family, she said that the loan had helped to start her husband's business. For her, being a member of the group was of greater value than access to financial services. She looked forward to the group meetings where she could discuss and share her problems with others. She claimed to be a social person who needed constant interaction with others. The group had provided her with friends and contacts that support her in day-to-day life.

Case III: Lama

Lama was a 41-year old single mother of two sons. She was a resident of the Pathibhara community and a member of WEAN micro-finance program. She ran a small tea-shop from her home. Since her house faced the main street, the shop was visible from the busy road. People come to her shop for tea, bread and other snacks. She also brewed and sold alcohol. Even though she was busy working in her store one morning, she agreed to sit for an in-depth interview with the principal investigator. The interview was interrupted several times when customers came into her shop to buy instant noodles and biscuits. She was fully cooperative and happy to talk about her experiences, particularly related to WEAN membership and its consequences.

Lama was born into a poor family in a remote village located among the mid-hills of Nepal. Coming from a rural poor family, she recalled growing up with scarcity of basic needs. She was the second oldest of 9 children. Since she was 7 years old, she spent her days looking after her siblings and working in the house, doing odd chores. When she became 20, she came to Kathmandu, hoping for a better life.

The first job she found in Kathmandu was that of a carpet weaver in a carpet factory. The carpet factory work was tedious and difficult. Having to sit in a dingy, cold room for 10 hours continuously weaving carpets was neither financially rewarding nor healthy. What she earned was enough just to survive. After working in the carpet factory for 5 years, she got married, at the age of 25. She kept working there while she had two sons. Eventually, after 7 years of marriage, her husband abandoned her. It became impossible to work in the carpet factory with two small children. Using all her savings, she purchased a small house in Pathibhara community with Rs. 60,000 (U.S. \$ 900). She

was aware that the price she paid did not include the land. Since the house overlooked the main street, she opened a teashop selling snacks, cigarettes and sweets. Both her sons went to school and the income from the store alone was not enough to meet all the expenses. She became a member of WEAN and invested the loan in poultry.

Unfortunately, most of the chickens died due to a disease. Wean did not offer any help in mitigating the financial burden of the event. She was paying back the loans using income earned from her tea-shop and, whenever she had time, she went to the nearby river and dug out sand for additional income.

When asked if her membership in the micro-finance program had made a difference in her life, she said that the loans and compulsory savings of Rs. 25 (U.S. \$ 0.38) every two weeks created an additional financial burden on her. Since she had her own group of friends, she was using the micro-finance group only for business. She confessed that her priority was to repay her loans and terminate the membership. That is in contrast to many other members who admitted that their groups were a source of support on other matters besides micro-finance.

To conclude, Lama was a low-income, single mother struggling each day to survive and raise her two sons. The micro-finance program, in this case, did not help its member financially or in expanding her network due to an unforeseen adversity.

Cultural Issues

The three landless squatter settlements were composed of ethnically diverse population resulting in families from different cultural and religious backgrounds living in close proximity. Ethnic groups such as Tamang, Rai and Gurung originated from the hills and mountain regions of the country, while Brahmin and Chetri are found in both the

Southern plains and the hills. The Newar as an ethnic group is considered to be the original inhabitants of Kathmandu Valley. The settlements had a high concentration of Tamang, one of the poorest and marginalized ethnic groups of Nepal.

Tamangs, Rais and Gurungs have their own dialects and cultural practices while the Newars speak their own language - Newari. For Brahmins and Chetris, the priests and the warriors by caste, Nepalese is their language and Hinduism their religion. Not all the subjects selected for the study spoke Nepalese language fluently. The study team found elderly members of three families who could not speak Nepalese. Other family members functioned as interpreters when they had to converse in Nepalese language.

Residents of the settlements and some study subjects were asked if they had any restrictions or problems in pursuing their cultural and religious practices. All who were asked the question said that each family was free to practice its own cultural deeds and follow its religion. There were no unique and elaborate cultural or religious practices of those living in the landless squatter communities. Most of the families celebrated Dasain and Tihar, the two major festivals celebrated in Nepal. Dasain is the most important festival that falls in September/October.

While the people living in the three communities were bound by poverty and landlessness, there was hope for a better future. Despite the diverse cultural background, one common trait found among the subjects was the high value they placed in English education. The respondents believed that education, particularly in English language, was the key to upward social and economic mobility. Thus, all the children from the settlements were sent to school by their parents. This is not surprising because only 5.4

percent of the population in Kathmandu valley and 21.2 percent of the overall population have never attended school (Nepal Living Standard Survey 2003/2004, 2004).

The three main religions followed by the subjects were Hinduism, Buddhism and Christianity. With about 80 percent of the national population practicing Hindu religion, the mainstream religion of the country is Hinduism. At the time of this research the national holidays and festivals were primarily Hindu. However, since the restoration of democracy in 1991, there was full religious freedom in the country for people to practice their own religions.

The city of Kathmandu grew rapidly as a result of migration from other parts of the country. Consequently, the city itself is multi-ethnic and multi-cultural. Therefore, various ethnic groups living in the squatter settlements have ethnic and faith-based organizations and communities they can interact with. None of the subjects felt that they were isolated or dominated by another ethnic group. Furthermore, they did not show any concern about the on-going political issues of other ethnic groups besides Brahmin and Chetris being over-represented in the government.

CHAPTER V: CONCLUSIONS

Empowering Effect of Micro-Finance

In line with previous studies that found participation in micro-finance program to be beneficial to low-income women (Baruah, 2002; Bernasek, 2003; Hashemi et al., 1996; Kabeer, 2001; Mahmud, 2003), this study also concludes that micro-finance can enhance a woman's level of empowerment in terms of self-esteem, self-efficacy and increased contribution to family income. This study showed that Nepalese women from landless, poor families who participated in micro-finance cooperatives had significantly higher levels of self-esteem and self-efficacy than women from the same community who did not participate in such programs. The contribution of participants to family income was also significantly higher than women who did not participate in micro-finance programs. The fact that contribution to family income was higher among participants who had higher levels of self-esteem and self-efficacy also draws a link between economic achievement and empowerment. In-depth interviews of three selected participants revealed that the outcomes of micro-finance can be diverse and underlines the risks associated with micro-loans.

In Nepal, since poverty alleviation has mostly been designated as the primary objective of micro-finance programs, such programs are evaluated primarily in terms of their economic performance. Other social benefits of the programs such as increase in social capital and empowerment of women should be considered as important an achievement as economic success of the programs. Since many studies have shown that participating in a micro-finance has an empowering effect upon low-income women,

micro-finance should be recognized as a tool to empower low-income women in developing countries.

Interest Rates

Many members of Gyanjoyti and Naudeep cooperatives said that the annual interest rate of 24 percent was too high. Some of the participants said that they are current on loan repayment only because of income from other sources. One woman who undertook an in-depth interview said that she has been paying interest on the loans with income from harvesting sand from the nearby river. She had used the loan money to raise poultry, most of which died due to some disease. While the interest was considered to be high by the members, their alternative source of credit, to borrow from friends or local moneylenders would have been more expensive as the annual interest rate of such loans was 36 percent. The estimated rate of inflation was only 2.90 for 2005 ("Nepal," 2007). The government did not regulate the rate of interest charged by commercial entities including micro-finance programs. The only way to reduce interest rates would be to reduce the administrative costs.

Reaching the Poorest of the Poor

The three micro-finance cooperatives examined by this study were providing services to the landless urban poor of Kathmandu. The clients, however, did not represent the poorest of the poor and most vulnerable population of the city. Although the women served by the cooperatives were poor, they were relatively less vulnerable than other landless groups who were mobile and lived in plastic makeshift tents. In the course of this fieldwork, the principal investigator met about ten extremely poor landless families

near Pathibhara community. They were living on an idle piece of private land for one month without the land owner's knowledge. They did not know where they would go next once the land owner found out about them and moved them out. Originally from the Southern plains, they had been living in this condition for the last 10 years. Big families of 6 to 10 people were sharing plastic tents to sleep in. They were cooking outside in mud and stone stoves with twigs collected from the riverside as fuel. There were no toilet facilities and they had to use the riverside as their toilet. When asked if they knew anything about micro-finance, they said that they did not have any idea or information on what micro-finance was. One of the women, however, said that a representative from an NGO had visited them and gave some clothes. Such very poor landless people are not rare in Kathmandu, and arguably, they are much more vulnerable than the communities served by Lumanti and the cooperatives. The encounter of the principal investigator with the group of mobile landless people showed that micro-finance programs working in Kathmandu city had failed to reach the most vulnerable.

One of the reasons the cooperatives were avoiding the very poor was to minimize the risk of default. By filtering out the very poor who might not have assets or alternate sources of income to pay back the loans, the cooperatives maintain almost perfect repayment rates. There were indications that the staff of the three savings and credit cooperatives were selective in accepting new members to minimize default on loan repayment. The staff of both Gyanjoyti and Naudeep cooperatives admitted that they wanted to avoid "problem families" and women who were likely to default. During the interview with the WEAN cooperative, a staff said that there was only one instance of default in which the woman happened to be a prostitute. She said that her organization

learnt a lesson from it and avoids working with single women with “loose character”. WEAN, by accepting only married women, automatically discriminates against single women who may need their support. According to the staff of Naudeep, married women, with support from husbands who are earning money, make better clients. Reaching the poorest of the poor has been a challenge for other micro-finance programs as well. In fact, the question of financial sustainability is compelling micro-finance programs to “move away from” the very poor (Dhakal, 2004 , p. 12).

Insecurity due to High-risk Investment

Risks of varying degrees are always associated with investment in business. Members of the cooperatives who have invested in high-risk businesses such as livestock and poultry were insecure. Since some members had suffered losses in poultry business, others were wary to invest in it. The cooperatives did not have any provision for insurance for such businesses.

Insurance

Lack of insurance on investments, especially high-risk ones like those associated with livestock has created additional burden for some micro-finance members. Similarly, members were taking loans to construct houses in the settlements. Since the land belonged to the government, it was a high-risk investment. The government could evict the residents anytime it wanted unless the land has registered to the residents individually or collectively. Therefore, construction of homes using loans funds should be discouraged or insured. Unfortunately, the cooperatives were more interested in lending to members who would repay on time rather than being concerned about viability of the investment.

National Policy

The national policy on micro-finance during the time of the research was too restrictive on paper while the monitoring and regulation in practice was practically non-existent. One of the policies of Nepal Rastrya Bank limiting micro-finance loans to Rs. 30,000 per person was considered by the cooperatives as too restrictive.

Likewise, limitations on geographical coverage of cooperatives also kept small cooperatives from growing and expanding. The same restriction compelled Lumanti-supported groups to form three different cooperatives, instead of one in which case the operation would have been more cost effective. Cost-effectiveness is crucial for lowering the interest rate and for sustainability of the programs.

Another issue raised by the staff of Gyanjoyti cooperative was that their organization had to deal with many agencies to comply with existing rules and regulations. A one-window system to regulate micro-finance programs would save time and resources of these small organizations.

Financial Sustainability

Micro-finance programs require donor funds because their income is not adequate to cover all their costs. A micro-finance program has to earn all its expenses through its interest and other incomes to be financially sustainable. Gyanjoyti and Naudeep cooperatives were charging 24 percent interest on loans while paying 8 percent on deposits. The 16 percent difference represents its main source of income, besides fees and fines.

Recommendations

- The empowering effect of micro-finance, particularly increase in self-esteem and self-efficacy of low-income women, should be recognized as one of the important outcomes of micro-finance at both programs and policy levels.
- Since independent micro-finance programs were not reaching the poorest of the poor, special programs targeting the group with higher subsidies must be designed and implemented so that the most vulnerable populations of the society will also have access to financial services.
- A system of insurance that covers high-risk investments is recommended so that loans from micro-finance will not be a long-term liability for low-income families.
- Special programs should be incorporated within micro-finance to address issues related to “problem families.” For example, special training or counseling services that are geared towards helping such families resolve their problems should be incorporated within the programs.
- Policy reforms are needed for micro-finance programs and cooperatives to grow. The ceiling of Rs. 30,000 (U.S. \$ 450) on individual micro-finance loans is constraining programs that want to loan out higher amounts without collateral to their deserving members. In addition, the government policy of confining cooperatives to function in limited geographic areas in urban Nepal is also constraining the growth of such organizations. It is recommended that these two policies that affect the growth of micro-finance cooperatives be relaxed.

Limitations of the Study

Definitional Limitations

Empowerment being a complex and multidimensional concept and definitions of empowerment abound. The five indicators selected for the study, self-esteem, self-efficacy, contribution to family income, ownership of assets and mobility, may not fully capture the full meaning of empowerment.

Statistical Limitations

The sample size of 100 subjects comprising of 50 participants and 50 non-participants from Kathmandu city may not be representative of micro-finance participants of the whole country. Most of the subjects were migrants from rural and remote areas of the country and their specific socio-economic conditions and situations could be different from micro-finance participants who are small subsistence farmers from rural and remote areas where facilities in transportation, communication, employment opportunities and education are not the same. In addition, since a wide variation of micro-finance programs exist, the cooperatives used by this study do not represent all micro-finance programs operating in Nepal.

Sampling Bias

Although the study team tried to make selection of subjects random, absent subjects and subjects who refused to be interviewed could have increased selection bias into the sample. Such biases were minimized by pre-testing, by including qualitative data and by using a comparison group in the research design. Since there were no significant socio-economic differences between the two groups, it can be asserted that there was minimal selection bias between the two groups.

Non-response bias

Three subjects selected for interview had refused to participate in the study. This happened despite the research team having full support of the local leaders of the settlements. Furthermore, in some cases, when the member was absent in the selected household, the enumerator proceeded to the next household.

Interviewer bias

Interviewer bias could have occurred due to interviewers forming their own answers from vague responses of the subjects. As there were four different individuals taking survey interviews, each could interpret answers, particularly regarding the measurement scales, differently. For example, in many cases, the respondents were not sure whether they wanted to choose “strongly agree” or “agree” to a particular statement. The enumerator had to further explain to her before she would choose her answer. The process of explaining the statement to the subject could result in the interviewer influencing the subject in selecting certain answers.

Duration of field work

The field work was completed in one month. Since four individuals, including the principal investigator, were occupied in conducting interviews and discussions with the staff of micro-finance cooperatives and the subjects, time constraints did not affect the number or quality of responses. However, longer duration of field work would have allowed the principal investigator to observe consecutive monthly meetings of the groups. Additional time would have allowed the principal investigator to meet with policy-makers.

Baseline Data of Assets

This study was unable to record the amount of assets participants owned before joining the program. That information would have made it possible for the study to identify the net gain in assets during the time the women participated in the programs. Instead, this study used the total amount of assets owned by the women during the time of the study. The figures could be confounded by the pre-existing assets of women before they joined the program. Women who had more assets may have been inclined to join the micro-finance cooperatives. Future studies using ownership of assets as one of the indicators of empowerment should use the increase in assets of women who participate in micro-finance programs as the measure.

Implications for Future Research

Psychological effects of Participating in Development Programs

This study is probably the first one in Nepal to apply psychological tests to examine outcomes of development programs. Economic and social outcomes have been more or less the standard measure of success of economic development projects. Psychological outcomes of development projects have been subordinated by more tangible and easy to measure indicators. This study breaks ground in developing Nepalese versions of Rosenberg Self-Esteem Scale and The General Self-Efficacy Scale with acceptable levels of reliability. The scales can be used in evaluating other kinds of socio-economic development projects in areas such as health, education, income generation, etc.

Indicators used by previous studies such as access to and control over material resources, participation in decision-making, access to household income, current use of contraceptives, time spent in household work, access to modern medical services, having independent savings, legal and political awareness, participation in public campaigns and protests can be used for future studies (Bagati, 2003; Goetz & Gupta, 1996; Hashemi et al., 1996; Mahmud, 2003; Malhotra et al., 2002; Parveen & Leonhauser, 2004; Pitt et al., 2003).

Replication of the Study for Generalization

This study used a group of women from urban low-income landless families as its subjects. The methods used by this study could be replicated to investigate the empowering effect of micro-finance in other populations and geographic areas of the

country. A larger replication of the study could take samples from three different ecological belts, the plains, the middle mountains and the higher mountains, of the country so that the result can be generalized on the whole population. In addition, a comparative rural-urban study would highlight the empowerment effects of micro-finance according to locations.

Policy Research

This study has identified areas in which policy reforms were demanded by staff of micro-finance cooperatives. Additional research, specifically addressing the policies that have been problematic for growth of micro-finance cooperatives have to be undertaken for policy directions.

APPENDIX A. QUESTIONNAIRE

Micro-finance and Women's Empowerment: A Case of Nepal**Survey Questionnaire****Questionnaire Number:****Date of Interview:****Time Began:** () AM () PM**Time Ended:** () AM () PM**Interview Site:****Name of the Interviewer:** _____**Name of the Interviewee:** _____

Informed Consent Statement

Micro-finance and Women

Alok Rajouria
Primary Investigator
(808)942-1653

This research project is being conducted as a part of a doctoral degree. The research work will try to find out about your participation in the micro-finance program.

I will be asking you questions regarding your background information, your thoughts about yourself and the micro-finance program. Interview questions will focus on what motivated you to participate in the program and how the program has made difference in your life. The interview will last no longer than 45 minutes.

I believe there is no risk to participating in this research project. It is believed the results from this project will help programs and policy makers to develop more effective micro-finance programs and policies.

Research data will be confidential. All research records will be stored in a locked file in the primary investigators office for the duration of the research project. All other research records will be destroyed upon completion of the project.

Participation in this research project is voluntary. You are free to withdraw from participation at any time during the duration of the project.

If you have any questions regarding this research project, please contact the principal investigator, Alok Rajouria, at (808) 942-1653.

If you have any questions regarding your rights as a research participant, you may contact the UH Committee on Human Studies at (808)956-5007.

Part 1

The first section of the questionnaire consists of questions related to background information about you. Please answer the questions as best to your knowledge.

- _____ 1. For how long have you been living in this location? (in years)
- _____ 2. Do you think you are currently in a better situation than your
parents?
- Yes (1)
No (2)
- _____ 3. Do you feel that your life is improving?
- Yes (1)
No (2)
- _____ 4. What is your age? (in years)
- _____ 5. What is your marital status?
- Never married (1)
Married (2)
Divorced (3)
Separated (4)
Widow (5)
Other _____ (6)
- _____ 6. What is your ethnic group?
- Bahun/Chetri (1)
Gurung (2)
Newar (3)
Rai (4)
Magar (5)
Tamang (6)
Other _____ (7)
- _____ 7. What is your religion?
- Hindu (1)
Buddhist (2)
Christian (3)
Muslim (4)
Others _____ (5)

8. Description of Family Members

No	Name	Relation to head of HH	Married /unmarried	Male/Female	Age	Education	Occupation

Married/Unmarried: Married (1), Unmarried (2)

Male/Female : Male (1), Female (2)

Education: Illiterate (1); Primary Education (2); High School (3); Bachelors (4); M.A. or Ph. D. (5); Adult Education (6)

Occupation: Agriculture (1); Business (2); Service (3); daily wage laborer (4); Student (5); Housewife (6)

Male

Female

9. How many children go to school?

10. Can you read and write?

Yes (1)

No (2)

11. What is your education level?

No schooling (1)

Elementary School (2)

High School (3)

Bachelor's Degree (4)

Masters/Doctoral Degree (5)

Adult Education (6)

12. Have you taken any formal vocational training?

Yes (1)

No (2)

If yes, when did you take the training and how are you using it?

_____ 13. Have you ever been employed by others?

- No (1)
 Daily Wage Laborer (2)
 Office employment (3)

_____ 14. Are you employed by others now?

- Yes (1)
 No (2)

_____ 15. Are you a member of any formal organization besides the micro-finance cooperative/group (like NGO, political party, cooperative, school, etc.) ?

- Yes (1)
 No (2)

If yes, description of the organization:

No.	Name of Organization	Year joined	Your position in the organization	Organization still active or inactive	Your activities in the organization

_____ 16. What is your estimated annual income of family? (Write 0 if none)

_____ none) 17. What is your annual contribution to family income? (Write 0 if none)

_____ 18. Do you have to ask anyone to purchase household and personal goods?

- Yes (1)
No (2)

_____ 19. What is the total value of assets owned by you?

	Asset	Number	Value in Rs.
[]	House		
[]	Land		
[]	Machinery		
[]	Livestock/poultry		
[]	Cash		
[]	Jewelry		
[]	Others		
	Total		

_____ 20. Do you have your own bank account?

_____ 21. On average, how many times do you go out of the house?

_____ 22. Do you have to ask anyone before you leave the house?

- Yes (1)
No (2)

_____ 23. Do you go out alone?

- Always alone (1)
Mostly alone (2)
Sometimes alone (3)
Never alone (4)

_____ 24. Have you been out of Kathmandu?

- Yes (1)
No (2)

If yes, where have you been?

Did you go alone or with someone?

_____ 25. How often do you go to see a movie in the theatre?

- More than once a week (1)
- Once a month (2)
- Once in six months (3)
- Once in more than a year (4)
- Never (5)

Below is a list of statements dealing with your general feelings about yourself.
Please respond according to the following:

	#	Statement	Strongly agree	Agree	Disagree	Strongly disagree
	26	On the whole I am satisfied with myself.				
	27	At times, I think I am no good at all				
	28	I feel that I have a number of good qualities.				
	29	I am able to do things as well as most other people.				
	30	I feel I do not have much to be proud of.				
	31	I certainly feel useless at times.				
	32	I wish I could have more respect for myself.				
	33	I feel that I am a person of worth, at least on an equal plane with others.				
	34	All in all, I am inclined to feel that I am a failure.				
	35	I take positive attitude toward myself.				

_____ 36. Do you listen to or watch women's development programs on radio or TV?

Yes (1)
No (2)

If no, why not?

_____ 37. How many hours do you watch TV each day?

_____ 38. How many hours do you listen to radio each day?

_____ 39. If a husband and wife don't get along, do you believe that it is okay for them to separate?

Yes (1)
No (2)
Don't know (3)

_____ 40. How do you feel about a wife touching the feet of her husband?

It is okay (1)
It is not okay (2)
Don't know (3)

_____ 41. Who should make all the family decisions?

Husband (1)
Wife (2)
Both together (3)

_____ 42. Should a wife eat only after her husband has eaten his meals?

Yes (1)
No (2)
Don't know (3)

_____ 43. When going somewhere, should a wife walk after her husband or together?

After her husband (1)
Together (2)
In front of the husband (3)
Don't know (4)

Below is a list of statements dealing with your general feelings about yourself.
Please respond according to the following:

	#	Statement	Not true at all	Barely true	Moderately true	Exactly true
	44	I can always manage to solve difficult problems if I try hard enough.				
	45	If someone opposes me, I can find the means and ways to get what I want.				
	46	It is easy for me to stick to my aims and accomplish my goals.				
	47	I am confident that I could deal efficiently with unexpected events.				
	48	Thanks to my resourcefulness, I know how to handle unforeseen situations.				
	49	I can solve the problems if I invest the necessary effort.				
	50	I can remain calm when facing difficulties because I can rely on my coping abilities.				
	51	When I am confronted with a problem, I can usually find several solutions.				
	52	If I am in trouble, I can usually think of a solution.				
	53	I can usually handle whatever comes my way.				

Part II

_____ 54. How did you first learn about the micro-finance program?

- Husband (1)
 Other family members (2)
 Friends (3)
 Group of micro-finance program (4)
 Newspaper (5)
 Other _____ (6)

_____ 55. Why did you decide to participate in the program?

- To use your free time constructively (1)
 To earn extra income (2)
 Because friends asked you to (3)
 To pay off previous loans (4)
 To please your husband (5)
 Others _____ (6)

_____ 56. Who decided that you should participate in the saving-and-credit cooperative?

- Yourself (1)
 Your husband/parents (2)
 Through mutual understanding with husband/parents (3)
 Others _____ (4)

_____ 57. How long have you been participating in the program?

_____ 58. Can you please list total amount of loan taken by you?

Year	Amount (Rs.)
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
Total	

_____ 59. Can you please list the total loan amount savings you have deposited into the cooperative?

Year	Amount (Rs.)
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
Total	

_____ 60. What did you use the loan for?

- Invest in business (1)
- Consumption (to buy food, medicine, etc) (2)
- Loan Recycling (paying off previous loans) (3)
- Invest and consume (4)
- Loan recycling and invest (5)
- Consume and loan recycling (6)
- Other _____ (7)

_____ 61. What percentage of the loan amount is invested?

_____ 62. If you have invested, are you making profit or loss?

- Profit (1)
- Loss (2)
- Break-even (3)
- Not sure (4)

_____ 63 What is the annual interest rate you pay on your current loan?

_____ 64. Did you submit any collateral for the loan?

- Yes (1)
- No (2)

_____ 65. Are you up to date with repayment?

Yes (1)
No (2)

If not, why? _____

_____ 66. What type of business you have started with the loan?

Agricultural (1)
Non-agricultural (2)
Others _____ (3)

_____ 67. How important do you think reinvesting in business is?

Very important (1)
Important (2)
Not important (3)

_____ 68. How do you sell the products?

Retail by yourself (1)
Sell to wholesaler (2)
Both (3)
Sell to clients from home (4)
Others (5)

_____ 69. Who are your main clients?

Friends and family (1)
Neighbors (2)
People from outside your neighborhood (3)
People from local market (4)
All of the above (5)
Others _____ (6)

_____ 70. Who owns the business?

You fully own the business (1)
Your husband fully owns the business (2)
Partnership between you and husband (3)
Partnership between you and others (4)
Partnership between your husband and others (5)
Other arrangements _____ (6)

_____ 71. Who deals with business clients?

- Only you (1)
- Only your husband (2)
- Brothers (3)
- Parents (4)
- Both you and your husband (5)
- Children (6)
- Other arrangements _____ (7)

_____ 72. Would you take more loans if you were allowed to?

- Yes (1)
- No (2)
- Not sure (3)

_____ 73. How does your husband or guardian view your becoming a member of the cooperative group?

- Positive (1)
- Negative (2)
- Indifferent (3)
- Don't know (4)

_____ 74. What is your position in the group?

- Officer in the Executive Committee (1)
- General Member (2)

_____ 75. Do you think you could be as successful if you had worked alone and not been a part of the group?

- Yes (1)
- No (2)
- Not sure (3)

_____ 76. In what ways do group members provide you with support?

- Managing my loans (1)
- Resolving family problems/conflicts (2)
- Help to my children (3)
- Assistance to my other friends/relatives (4)
- Others (5)

_____ 77. Have you noticed more people coming to you for advice and help since you joined the cooperative?

Yes	(1)
No	(2)
Not sure	(3)

_____ 78. Has your social circle (group of friends/relatives you meet regularly) changed since you joined the program?

More than doubled	(1)
Increased moderately	(2)
Remained the same	(3)
Decreased moderately	(4)
Decreased significantly	(5)

_____ 79. Would you recommend others like you to join the cooperative?

Yes	(1)
No	(2)
Don't Know	(3)

_____ 80. If there is a need for more information, can we contact you again?

Yes	(1)
No	(2)
Not sure	(3)

Part III**1. Institution Name:****Type of institution:****Contact person:****Address:****Telephone:****Fax:****Email:**

2. What lending methodology do you use? (village banking, individual loans with collateral, group loans without collateral, etc.)

3. The amount of loans (principal) outstanding at the year end?

4. How do you recruit new members?

5. Number of individual loans outstanding?

6. Percentage of loans made to women borrowers at year end?

7. Amount of savings at year end?

8. Number of active savers?

9. Number of active women savers?

10. Is savings mandatory to participate in the credit programs?

11. Maximum loan size?

12. Minimum loan size?

13. Portfolio at risk?

14. Sustainability:

a. **Operational sustainability:** For the past fiscal year, what is the value of (Income + fees/operating costs)?

b. **Financial self-sustainability:** For the past fiscal year, what is the value of (Income + fees/operating costs + financial losses)

APPENDIX B. KEY STUDIES RELATED TO MICRO-FINANCE AND EMPOWERMENT OF WOMEN

Title	Year	Author(s)	Subjects/Data Source	Method	Results	Comments
Empowerment of Rural Women in Bangladesh: A Household Level Analysis	2004	Shahnaj Parveen, Ingrid-Ute Leonhause	Random stratified sample of 156 women from three rural villages of Bangladesh	Regression analysis	Factors such as education, training and exposure to information media have the potential to increase women's empowerment.	
Microcredit in Rural Bangladesh: Is it reaching the Poorest?	2004	Dipankar Datta	1) Data from 1999 World Bank study called Voices of the Poor 2) Data collected by Concern Bangladesh in 1999/2000 for expansion of their development program	Participatory Rural Appraisal (PRA),	Supply side factors, demand side factors, factors related to NGO norms and social issues, factors related to dropouts and factors related to sustainable financial services are responsible for micro-credit failing to reach the poorest	
Actually How Empowering is Micro-credit?	2003	Simeen Mahmud	Analysis of data from 1998 household survey under a longitudinal study on the evaluation and monitoring of micro-credit program in rural Bangladesh	Comparison of participants and non-participant groups	Small improvement in women's access to material resources but large effect on women's agency.	The study concludes that participation in micro-credit programs improve the overall well-being of women
Does Micro-Credit Empower Women? Evidence from Bangladesh	2003	Mark M. Pitt, Shahidur R. Khandker, Jennifer Cartwright	Data from a household survey on micro-credit participants carried out by World Bank and Bangladesh Rural Development board	Factor analysis	Analysis of female credit to women supports the view that women's participation in micro-credit programs helps to increase women's empowerment	Credit to male had a negative effect on factors affecting women's empowerment like mobility, access to savings and economic resources, power to manage household transactions
Microcredit and	2003	Deepali	18 participants and 15	Semi-structured	The micro-program of	

Empowerment of Women		Bagati	family members of participants of Indcare Charitable Trust (INDCARE's) and urban micro-credit program in New Delhi, India	questionnaire interviews; data analyzed by NUD.IST 4.0 software for qualitative research	INDCARE was successful in empowering its members	
Project Completion Report on Micro-Credit Project for Women in Nepal	2003	Asian Development Bank (PCR: NEP 25088)	Participants of the Project	The report does not reveal the methodology used in the evaluation.	The study concluded that the micro-credit project had empowered its female participants	
Pact's Women's Empowerment Program in Nepal A Saving-and-Literacy Led Alternative to Financial Building	2002	J Ashe and L Parrott	Individual interviews of 500 members and group interviews of 159 groups	Interviews using structured questionnaires	The study finds that women's role in household decision making like family planning, children's marriage, buying and selling property and sending daughters to school was expanded.	
Implementing and Evaluating Microcredit in Bangladesh	2002	Ross Mallick	Published reports and articles	Review of literature on micro-credit institutions in Bangladesh	Underlies possibilities of micro-credit resulting in social disruption and increased gender conflict.	
Conflicts Over Credit: Re-Evaluating the Empowerment Potential of Loans to women in Rural Bangladesh	2001	Naila Kabeer	Participants of The Small Enterprise Development Project, Bangladesh	Comparison and evaluation of studies	The study did not find any change in gendered division of labor, but found increased self-worth of women and participation increased in household decision-making and to accumulate their own assets.	The study also explores the reasons why there are contradictory outcomes about empowerment of women in different studies.
Income and Employment Effects of Micro-Credit Programs: Village-level Evidence from Bangladesh	1998	Shahidur R. Khandker, Hussain A. Samad, Zaheed H. Khan	Data from a household survey on micro-credit participants carried out by World Bank and Bangladesh Rural Development board	Descriptive and Econometric analysis	Desirable impacts of micro-credit in terms of income, employment and production especially in non-farm sector.	

Men's Violence Against Women in Rural Bangladesh: Undermined or Exacerbated by Micro-credit Programms?	1998	Sydney Ruth Schuler, Syed M. Hashemi, Shamsul Huda Badal	The study used data from an ethnographic study	Analysis of selected interviews from larger ethnographic study in sex villages between 1990 and 1996.	Micro-credit has a varied effect on men's violence against women by reducing vulnerability or provoking violence in husbands.	
Rural Credit Programs and Women's Empowerment in Bangladesh	1996	S.M. Hashemi S.R. Shuler A.P. Riley	Data from comparative Ethnographic research in two Grameen villages, two BRAC villages and two villages without micro-credit program.	Key indicators: mobility, economic security, ability to make purchases, involvement in major household decisions, freedom from domination within the family, political and legal awareness,	The study concludes that participation in micro-credit program increases women's mobility, ability to make purchases and major household decisions, ownership of productive assets, legal and political awareness and participation in public campaigns and protests.	
Who Takes the Credit? Gender, Power, and Control Over Loan Use in Rural Credit Programs in Bangladesh	1996	Anne Marie Goetz & Rina Sen Gupta	Qualitative data from 275 loans across four organizations, BRAC, Grameen Bank, TMSS and RD-12	Qualitative data analysis focusing on managerial control of women over loan use	The study found significant loss of control over loans of married women vis-à-vis single, widowed, separated or divorced women; women's control over loans varied according to the nature of investment	
Empowerment of Rural Women in Bangladesh: A Household Level Analysis	2004	Shahnaj Parveen & Ingrid-Ute Leonhäuser	Quantitative and qualitative data from three villages in Bangladesh	Six indicators of empowerment were used: contribution to household income, access to resources, ownership of assets, participation in household decision-making,	Multiple regression technique showed that positive and highly significant effects of formal and on-formal education, sex of children, spousal relationship, exposure to media and spatial mobility on cumulative empowerment index.	

				<p>perception on gender awareness and coping capacity to household shocks. Cumulative empowerment index was used to analyze data</p>		
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