

# Millennium Development Goals and International Year of Microfinance 2005 in Nepal

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## ABSTRACT

*No single intervention can defeat poverty. Poor people need employment, schooling and health care. Some of the poorest require immediate income transfers or relief to survive. Access to financial service forms a fundamental basis on which many of other essential interventions depend. Moreover, improvement in health care, nutritional advice and education can be sustained only when households have increased earnings and greater control over resources. Financial services thus reduce poverty and its effect in multiple, concrete ways. And the beauty of microfinance is that, it emphasizes to women empowerment and self dependent financial approach. It emphasizes the financial sustainability also, which can contribute far beyond the limits of scarce donors. In this arena, International Year of Microfinance 2005 substantially contributes to achieve Millennium Development Goals (MDGs).*

THE INTERNATIONAL YEAR of Microfinance 2005 underscores the importance of microfinance as an integral part of collective effort to meet the MDGs. Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care and empowering people to make the choices that best serve their needs. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives (Secretary General Kofi Anan. 29 Dec.2003).

## 1. What are MDGs ?

The United Nations MDGs have galvanized the development community with an urgent challenge to improve the world's neediest people. Donor agencies are orienting their programs to the attainment of the MDGs and are mobilizing new resources to reduce hunger and poverty, eliminates HIV/AIDS and infectious diseases, empower women and improve their health, educate all children and lower child mortality. The MDGs are framed as concrete outcomes in the areas of nutrition, education, health, gender equity and environment (see Appendix 1)

## 2. What is microfinance ?

Microfinance encompasses the management of small amount of money through a range of products, and a system of intermediary functions that circulates money in an economy (Yunus 1980). Microfinance is small in value amounts targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial services. Providers of microfinance include non- government organizations (NGOs), self-help groups, cooperatives, credit union, commercial bank, insurance and credit card companies and other points of sales. Microfinance is unique among development interventions: it can deliver a number of social benefits on an ongoing, permanent basis and on a large scale. Many well

managed microfinance institutions throughout the world provide financial services in a sustainable way.

### **3. Objectives of Microfinance Year 2005 in the Context of MDGs**

The objectives of the Year of Microcredit 2005, as laid out in the Secretary General's report on the implementation of the First United Nations Decade for the Eradication of Poverty, are as follows.

**Contribute to MDGs** by assessing and promoting the contribution of micro credit and microfinance towards achieving the goals outlined in the Millennium Declaration and the goals of major conferences and summits. They will achieve this through :

↑ Establishing an ongoing and systematic to collect and report valid and reliable data on the people worldwide that have access to financial products at varying income levels.

↑ The preparation of three Reports: one will describe planned activities for the year; and the second and the third reports will synthesize recommendations on how financial sectors can include all people and achieve the MDGs.

**Increase the Public's awareness** and understanding of micro credit and microfinance, and help define the public's role in poverty eradication and achieving the MDGs. They will achieve this through :

↑ Having at least 1000 schools and universities identify academic focal points and engage in research on the constraints to microfinance and how to leverage financial systems to better contribute to the achievement of the MDGs.

↑ Having at least 100 non- governmental organizations worldwide develop action plans and engage in activities for the Year of Micro credit.

↑ Develop an official website for the Year, which we expect will receive more than 40,000 hits per month.

**Promote inclusive financial systems** by identifying critical action steps for governments to take to stimulate sustainable, inclusive financial sectors, and build collective strategies that position micro credit and microfinance as integral parts of a country's financial system. They will do this through:

↑ Having more than 20 member state governments establish strategies, programs, policies and regulations that catalyze sustainable and inclusive financial sector's in their countries as well as align their financial systems towards achieving the MDGs.

↑ Having more than 60 countries organize public events on microfinance and engage their policy- makers as they better understand critical microfinance issues.

↑ Launch six large- scale, high- level global conferences or summits that will include “ building inclusive financial sectors” as a priority theme.

**Support sustainable access** by increasing the capacity of micro credit and microfinance service providers, enabling them to be more effective and efficient at addressing the needs of poor people; and by strengthening the capacity of donors and governments to support those institutions by following sound micro credit and microfinance principles and practices. They will do this through:

↑ Having more than 100 institutions that provide microfinance devise and agree to adhere the transparency and sustainability- based performance measures

↑ Having more than 20 bilateral and multilateral donors devise and adhere to best practice principles

**Encourage innovation and partnerships** by promoting, supporting and brokering innovation and strategic partnerships between governments, United Nations system organizations, private and public sectors, civil society, non-governmental organizations and other micro credit and microfinance partners as a way to build and expand the outreach and success of micro credit and microfinance. They will do this through:

↑ Having more than 100 institutions that provide microfinance modify their operational policies and add new products and innovations to improve performance and reflect best-practices.

↑ Having more than 100 member state governments establish National Committees (as per Article 5 of GA Resolution A/58/488) comprising a wide range of actors in advance of the Year to promote and plan activities that address key themes and objectives.

↑ Form more than 25 global, multi-stakeholder, high-impact strategic alliances, demonstrating that the international community can work together to fulfill the objectives of the year and produce concrete commitments as recommended in the 58th session of the General Assembly.

#### 4. Key Messages of the Year of Microfinance 2005

- (a) Sustainable micro credit and microfinance ensure greater outreach to the economically disenfranchised and a lasting impact the reduction of poverty and the social and human development process.
- (b) Microfinance is an integral part of a well- functioning financial sector.
- (c) Nearly half the people in the world do not have access to basic financial services- not because they can't afford them but because they are not available to them.
- (d) Microfinance and micro credit positively affect individuals and households and strengthens economies by investing in the productive capacity of local communities.
- (e) Microfinance and micro credit facilitate the inclusion of poor people in economic flows, supporting the growth of local markets and extending economic opportunities through new jobs, investments and infrastructure.
- (f) Microfinance and micro credit help empower the economically disenfranchised by increasing their options and building their self- confidence through the greater economic participation.

#### 5. Microfinance Program in Nepal

Microfinance programs have grown rapidly in Nepal during the last decade. Though the program of micro-finance for the poor was first initiated in 1950s through cooperatives and continued in various forms such as SFDP, PCRW, MCPW, etc. but the operation of micro-finance its true sense was started with the establishment of Grameen Bikas Bank in 1992. Prior to adoption of liberal financial policies starting from 1991 and intensified in later years, micro finance program was exclusively under the government control. However, with the initiation of liberal policies after 1991, private sector and NGOs have also been involved in micro-finance programs following Bangladesh Grameen Bank model.

Microfinance programs are implemented by government, semi-government and non-government financial institutions such as commercial banks, Grameen banks, microfinance development banks, NGOs and savings and credit cooperatives. There are 5 regional Grameen Bikas Banks one each in five development regions in the government sector, 4 micro credit development banks in the private /NGO sector, 143 Small Farmers' Cooperatives Limited , 44 FINGOs and 34 savings and credit cooperatives (NRB 2005).

Microfinance programs that have evolved in Nepal over the years can be categorized into 6 groups: Co-operative Programs, Priority Sector Lending Program, Intensive Banking Program, Specific Target Group Programs, Grameen Bank Replication Programs, Microfinance Development Banking (refer to Appendix 2 for the existing outreach of major microfinance programs). The outreach of microfinance is gradually increasing. Besides the microfinance institutions stated by Nepal Rastra Bank, a number of community base organizations, saving credit cooperatives, small farmer cooperatives are delivering their services in the rural area. However, the poorest of the poor is still out of the program. The main reasons are : 1)self sufficiency approach of MFIs. 2) geographical location of the country 3) lack of education and awareness 4) recovery rate based rating of the MFI from Apex institution and others .

### **6. MDGs Target in Nepal and Its Challenges**

HMG/Nepal and external development partners has been repeatedly stated and emphasized poverty alleviation as the primary agenda of development. This is well reflected in the documents brought out by the government as well as the external development partners from time to time. Poverty reduction has remained at the core of development plans in Nepal from Sixth Plan (1980-85). In this Plan the government introduced "Fulfillment of Basic Needs Program" as a measure towards improving the living standard of poor people. This was also emphasized in the Seventh Plan (1986-91) In the Eighth Plan (1992-2007), poverty alleviation was specified as one of the three principal objectives along with sustainable economic growth and reduction of the regional imbalances. The plan set the target of reducing the population below poverty line to 42 percent. The Ninth Plan (1997-2002) set poverty alleviation as its sole objective and targeted to reduce the population below poverty line from 42 percent to 32 percent. The Tenth Plan (2002-2007), which is in the second year of its implementation, has set achievement of a remarkable and sustainable reduction in poverty level as its sole objective. The Tenth Plan which is also the poverty reduction strategy of the country, has the target of reducing poverty level from 38 percent at the beginning of plan period to 30 percent by the end of plan period. The government has tried to reduce poverty through four simultaneous strategies: high, sustainable and broad based economic growth, social sector development, a set of targeted programs and good government. The government has reiterated the four-pronged poverty reduction strategy in its 'Poverty Reduction Strategy Paper' (PRSP), which has become the cornerstone for all policies and programs.

Nepal Living Standards Survey 1995/1996 (NLSS 1996) had reported a poverty incidence ( head count estimate) of 42 percent. It was highest – as high as 72 percent –in the far eastern Hill and Mountain regions. The tenth plan /PRSP goals were set based at the end 2001/02 estimate of poverty, which about 38 percent. The NLSS 2003/04 reported a decline

in poverty incidence by 11 percentage points from 42 to 31 percent. It also showed higher poverty levels in the rural areas. However, rural-urban disparities are still alarming. NLSS 2003/04 reported rural poverty at 35 percent as compared to 10 percent in urban areas ( only 3 percent in urban areas of Kathmandu Valley).

### 7. Existing Progress of Nepal for MDG

1. In the assessment of 2005, NPC and other development agencies claimed that the poverty of Nepal reduce to 31% . It shows the positive signal to achieve the first objectives.
2. In the assessment, regarding second objectives the primary school enrollment of 84% found in comparison to 64% in 1990. It also shows positive signal but there is high dropout rate of the student in primary level. So extra effort is needed to achieve these objectives.
3. Regarding third objectives, the assessment shows gradual improvement in social status of women. It is doubt that whether women will be in equal ratio or not. Qualitative aspects of the objectives needed extra effort.
4. Existing assessment shows child mortality 82 per thousands in comparison to 91 per thousand in 1990. The desired rate is 54 per thousands.
5. The assessment of 2005 shows maternal mortality rate of 450 per lakh in comparison to 850 per lakh in 1990. This shows positive signal for achieving the objectives.
6. The assessment shows greater challenges to achieve this objective. The number of HIV infected people is increasing day by day. Other diseases are also not in fully control.
7. Regarding this objective, currently 81 percent people are getting safe drinking water according to current evaluations. One- third of diseases are started from dirty drinking water. So this objective also shows positive signal for Nepal. But the qualitative aspect is questionable
8. Finally partnership for the development, is essential. Existing evaluation shows some challenges in this matter.

Most of the objectives stated above can be addressed through microfinance directly or indirectly. To achieve these objectives the main thing is how to establish peace and security in the country. If the existing conflict and political instability continue, then situation would be unfavorable. Institution development, good governance and fair administration are the other challenges in the country.

### 8. Challenges and Recommendations

1. Poverty as a vicious circle, is traditionally deep rooted in Nepal and therefore, requires deserving efforts to alleviate it . Since it is complex and chronic, routine attempt will be insufficient to get rid of it. As economy is based on agriculture and the agriculture sector is based on erratic monsoon, the production and productivity is very low and uncertain. As a result, income of those people whose mainstay is agriculture has not increased. Though the NLSS 2003/04 reported reduction in poverty incidence but the gap between poor and rich seems very wider. So to minimize head count poverty it is necessary to formulate special strategy in the field of microfinance by addressing to

- poorest of the poor.
2. The country’s rural and urban poverty gap is widening. Most of microfinance institutions prefer to urban rather than rural and core poor. In the urban area duplication problem is facing by all MFIs, which is very danger for their survival in the long run. HMG/Nepal should integrate a number of activities in coming plan also. Skill oriented program for the poor should be initiated through coordination in the local levels including financing from MFIs.
  3. Existing outreach of MFIs is very limited, which can not be expanded immediately without establish permanent peace and security in the country. The concept of commercialization of MFIs is emphasized so it is very difficult to deliver the services of MFIs to poorest of the poor. Special program should launch by the government through existing network of the MFIs.
  4. About the economic sectors, non agriculture sector like trade, transport, communication, finance and real estate etc, are very much urban-centric and that with too low trickle down effect. It also poses a challenge to spread the effects of tertiary sector to the rural areas and poorest of the poor. By using microfinance a number of people gradually changing their occupation but it is not sufficient. Only credit/money is not sufficient to reduce the poverty. Poverty itself is a very complex aspect.
  5. Quantitative target achievement will not represent the actual reality for achieving MDGs, but qualitative aspects are equally important. If we forget this, sustainable development is impossible.
  6. The developed country commitment of providing needed fund for underdeveloped country seems very weak. Except few countries none of the developed countries are fulfilling their commitment including USA and UK. It shows low level motivation for the developed countries.

**Appendix 1 Millennium Development Goals**

S.N.	Goals	Targets of MDG-World	Target in Nepal(2015)
1.	Alleviation of poverty and starvation	who is surviving below \$1 earning in 1990-2015)	Reduce poverty up to 17%
2.	To provide basic primary education	Make ensure that all children will get basic primary education	100% children will have same status
3.	Promoting Gender Equality and Women empowerment	Equal participation of women in the school enrollment	Equal participation of women in the school enrollment
4.	Reduce child mortality rate	Reduce by two- third mortality ratio of below 5 children	Reduce by two- third mortality ratio of below 5 children i.e. 54 out of 1000
5.	Improvement in maternal mortality rate	Reduce third -fourth of existing maternal mortality rate (1990-2015)	Reduce third -fourth maternal mortality rate 213 per lakh
6.	Prevention of HIV/AIDS and other diseases	Ensure the prevention from these types of diseases.	Ensure the prevention from these types of diseases.
7.	Ensure sustainable environment	Reduce by half, those facing the problem of safe drinking water	Reduce by half , those facing the problem of safe drinking water
8.	Worldwide cooperation for the development	Special treatment for the poor and underdeveloped country	Special treatment for the poor and underdeveloped country

**Appendix 2: Outreach of Microfinance in Nepal as on Mid-April 2005)**

	Pur.		Mad.		Pas		Mad.Pas.		S.Pas.		Total of		SB		Nirdan		Chhimek		Deprosc		Total		Grand		
	GBB	GBB	GBB	GBB	GBB	GBB	GBB	GBB	GBB	GBB	GBB	GBB	Bank	Bank							Bank	Bank	Total	Total	
No. of center	1376	1292	1147	551	614	4980	1426	2085	834	607	4952	9932													
No. of Group	11418	8018	8102	3742	3502	34782	7796	11643	3279	3290	26008	60790													
No. of member	467755	37226	39837	18710	19219	161747	37415	61137	16698	14508	129758	291505													
No. of borrowers	44919	36541	39086	13628	12349	146523	48755	45569	12683	11758	118765	265288													
General loan disbursed	430871	1883707	2798216	779005	795641	10597440	1807694	1884576	315898	371036	4379204	14976644													
General loan repaid	3912572	1629958	2469357	688063	678608	9378558	1635435	1541104	215839	269344	3661722	13040280													
General loan outstanding	428299	253749	328859	90942	117033	1218882	172259	343472	100059	101692	717482	1936364													
Other loan disbursed	715563	185185	79632	261008	75840	1317228	333795	189649	27028	30377	580849	1898077													
Other loan repaid	615879	163163	42690	211801	71980	1105513	296486	159477	17742	21713	495418	1600931													
Other loan outstanding	99684	22022	36942	49207	3860	211715	37309	30172	9286	8664	85431	297146													
Total loan disbursed	5056434	2068892	2877848	1040013	871481	11914668	2141489	2074225	342926	401413	4960053	16874721													
Total loan repaid	4528451	1793121	2512047	899864	750588	10484071	1931921	1700581	233581	291057	4157140	14641211													
Total loan outstanding	527983	275771	365801	140149	120893	1430597	209568	373644	109345	110356	802913	2233510													
Personal saving balance	32404	8988	5318	4064	2115	52889	7002	12164	7572	3606	30344	83233													
Group fund balance	135712	84623	83989	47428	40407	392159	37283	89201	25261	11370	163115	555274													
Group fund loan balance dis	128657	42321	29290	34606	74983	309857	111440	57478	0	0	168918	478775													
Group fund loan repaid	125157	38327	27530	30945	69611	291570	106413	50520	0	0	156933	448503													
Group fund loan outstanding	3500	3994	1760	3661	5372	18287	5027	6958	0	0	11985	30272													
Staffs	311	246	227	133	112	1029	142	243	60	51	496	1525													
No. of Branch	36	28	35	22	21	142	38	38	11	13	100	242													
VDC covered	262	287	272	107	79	1007	297	349	112	190	948	1955													
Districts covered	9	14	13	4	5	43	9	10	9	9	37	43													

Source Micro Finance Department, Nepal Rastra Bank.

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