

# Unit 12

## *Poverty and Inequality: Micro Finance on Gradual Poverty Reduction in Nepal*

- BAMADEV SIGDEL \*

### ABSTRACT

*Poverty and inequality bears structural characteristics for Nepal. Feudal system, under-developpness, bias planning in the past were the causes of poverty and inequality in Nepal. Besides, low profile of agricultural growth, low pace of industrial development and under utilization human and natural resources were also the causes of poverty and inequality in Nepal. Urban bias mode of development aggravated regional disparity, this also widened gap between haves and haves not. Land and resource's un-equal distribution, regressive public policy further feuled this situation.*

*Micro Finance (MF) could break existing culture of poverty especially on behalf of rural poor households, disadvantaged, destitute, women, etc. Efforts of Micro Finance Institutions (MFIs) for the expansion of MF outreach is not sufficient enough. Nepal had induced various models of micro-finance. But she lags her own indigenous model. How many MF players in this sector are still unknown. There lags single concrete MF policy to regulate, to supervise and to access such MFIs activities. Commitment for Millennium Development Goals (MDGs) by Nepal and opening of service sector to the foreigners by 2010 urge MF players to have consensus, commitment and engage in this sector on sustainable way.*

### DISCUSSION ON POVERTY AND INEQUALITY

The equality issue is central in the development problems of underdeveloped countries. Inequality relates to all socio-economic relationship. Inequality reflects individual's ability and effort, together with the returns on individual's human and physical capital. Many would agree that those should be rewarded. Additionally, relatively higher returns to certain activities send important signals in the economy to reallocate human and physical capital to them.

These signals are a necessary pre-requisite for growth and prosperity<sup>1</sup>. It is worthfull to quote Myrdal<sup>2</sup>: "The conclusion I have reached is that inequality and the trend toward rising inequality stand as a complex of inhibitions and obstacle to development and that, consequently, there is an urgent need for reversing the trend and creating greater equality as a condition for speeding up development".

\* Bamadev Sigdel, Ph. D., Dy. Director, Micro Finance Department, NRB and Visiting Associate Professor, People's Campus, Kathmandu, Nepal.

Poverty and inequality have found to be structural and hybrid with the calamities and imperialism in majority of developing countries / parts of the world. The pioneers of dependency school of thought on development opine<sup>3</sup>: “The cause of under-development lie in the capitalist system itself, and the only remedy against the causes, as well as symptoms of underdevelopment, is revolutionary distraction of bourgeois capitalism and its replacement by social development”. Marx had also predicted growing inequality in the capitalist development process. Corresponding to a reduction in the importance of land through further process of industrialization from David Ricardo’s time, Marx had analyzed, “how national income is divided between the two categories, ie; wage and profit, and predicted increases in the latter relative to the former, resulting in the concentration of income in the hands of capitalists and the popularization of labors”<sup>4</sup>.

Poverty may be coined by the economic status of some members in the society relative to others. ‘Relative Poverty’ is concerned with the questions as what percentage of total income the bottom 10-20 percent of households receives and how poor their standards of living are as compared with richer people. As such it is the problem of inequality in income distribution in the society. ‘Absolute Poverty’ may be spelled as the status if a person whose material well being is below a certain minimum level demand reasonable by the standards of a society to which he belongs. Poverty contributes to physical weakness through lack of food, small bodies, malnutrition leading to low immune responses to infections, and inability to reach or pay for health services; to isolation because of inability to pay for health services; to isolation because of the inability to pay the cost of schooling; to vulnerability through lack of assets to pay large expenses or to meet contingencies, and to powerlessness because lack of wealth goes with low status; the poor have no voice<sup>5</sup>. The failure of the old development paradigm, that of a top-down approach of development, has promoted to look far alternative and more promising pragmatic models for poverty alleviation through a participatory bottom-up process. Since the poor people at the grass root level must be the starting point, the center, and the end goal of all development interventions, they should clearly have a choice<sup>6</sup>.

South Asian economies performed well than most developing countries in 1980s and 1990s decades. Per capital incomes have grown despite population growth. Industrialization has progressed in capital accumulation, in capital formation, in education, in health; etc, these countries have made progress compared to the other developing countries in the world<sup>7</sup>. Real Gross Domestic Product (GDP) grew by 6.7 percent in South Asia followed by 6.2 percent in East Asia and 3.3 percent in Pacific Islands<sup>8</sup>. The economists as J. Stiglitz and N. Stern opine that such a promising economic growth of developing countries along with South Asia witnessed in the late 1990’s decade was due to their attachment with globalization and rapid liberalization of their economies. Stern writes<sup>9</sup>; “South Asia has done relatively well on this measure, but poverty reduction in Sub-Sahara Africa, the Middle East and North America, and Latin America has been the modest at best. It shows that the developing world as a whole has been significant income growth, with per capita incomes growing 118 percent over the past 40 years. Equally important, low and middle income countries have reduced child mortality rates, have steadily increased life expectancy, and have made great inroads against illiteracy”.

Globalization is generating great wealth in the world. The part of this could be used to massively reduce poverty and inequality globally. The world’s richest 225 people have a combined wealth equal to the annual income of the poorest 47 percent of the world’s people. Almost one in four of the world’s population lives in abject poverty without access to adequate food, clean water, sanitation, essential health care or basic services. That is 1.3 billion people whose lives are blighted poverty, robbed their

dignity, deprived of opportunities to meet their basic potential<sup>10</sup>. Besides, the huge scale of absolute poverty in a world of vast wealth and inequality, nearly all of the suffering involved is underserved. It is borne by people – half of their children – who have had no chance of anything better.

## POVERTY AND INEQUALITY IN NEPAL

Planned development practices did not bring expected fruitful outcome on the drive of sustained economic growth with lesser poverty and inequality. Some sectors as education, health fairly improved during planning era. Poverty reduction through inclusive growth is a goal of Nepal's development. It is now widely acknowledged that poverty encompasses not only the material well being, but also inferior outcome in access to services and exclusion. Poverty alleviation programs in Nepal must embody the most important casual factor: population growth, income inequality, low means of subsistence and unemployment. As the bulk of poor is concentrated in rural and agrarian setting, the centrality of agrarian reform for sustained long-term development cannot be underestimated. Agrarian reform as implemented in the past has not substantially changed the traditional hierarchy of interest where rural landlords are still dominating the political economy of village life.

The irony of the plans, programs and projects in Nepal is that they generate only a trickle down effect on the rural poor and the needy. Rather it is benefiting the urban elite and rural elite. With urban connection, while the overwhelming majority of the poor of the nation have remained in the periphery of the development circle. Thus, for Nepal, several decades of the second half of the last century was a loss while assessing development performance. Neither economic nor social reforms were effectively enacted, nor public or private investments in creating necessary socio-economic infrastructures were forthcoming. Development outcomes were lopsided and mostly digested by feudal elements leaving a large segment of Nepal's rural population by passed from the minimum basic public services and development benefits.

By the end of Tenth Plan, Nepal's government revealed that the head count poverty rate declined dramatically between 1995-96 and 2003-04, from 42 percent to 31 percent, a decline of 3.7 percent a year<sup>11</sup>. Thus, the incidence of poverty in Nepal declined by about 11 percentage points (or 26 percent) over the course of eight years. The incidence of poverty in urban areas more than halved (it declined from 22 to 10 percent) while poverty in rural areas also declined at one percentage point per year, its incidence remained higher than urban areas. International poverty lines such as the \$ 1 a day poverty like in 1995-96 and 24 percent in 2003-04. However, the elasticity of poverty reduction compatible to growth in Nepal is quite low (-0.6 percent) by international standard.

**Figure 1**

### Growth Trend of Financial Institutions in Nepal

Type of Institutions	1980 Mid Jul	1985 Mid Jul	1990 Mid Jul	1995 Mid Jul	2000 Mid Jul	2005 Mid Jul	2006 Mid Jul	2007 Mid Jan
Commercial Banks	2	3	5	10	13	17	18	19
Development Banks	2	2	2	3	7	26	28	35
Finance Companies	-	-	-	21	45	60	70	72
Micro Credit Dev.Banks	-	-	-	4	7	11	11	11
SCCOs	-	-	-	6	19	20	19	19
FINGOs	-	-	-	-	7	47	47	47
<b>Total</b>	<b>4</b>	<b>5</b>	<b>7</b>	<b>44</b>	<b>98</b>	<b>181</b>	<b>193</b>	<b>203</b>

**Source:** BFIRD/NRB, *Banking and Financial Statistics – Mid January 2007, Banks and Financial Institutions Regulation Department, Nepal Rastra Bank, Kathmandu, July 2007.*

The incidence of poverty in 2003-04 varied considerably across different part of the country, ranging from a low of 3.3 percent in Kathmandu to 42.9 percent in rural Eastern Hill and 38.1 percent in rural Western Terai. Between 1995-96 and 2003-04, poverty declined in both urban areas under considerations: in Kathmandu by 23 percent, and in “other urban” areas by 59 percent. In rural areas, the fastest decline in poverty occurred in rural Eastern Terai (33 percent) and rural Western Hill (32 percent). The incidence of poverty declined in rural Western Terai by 17 percent. By contrast, poverty in rural Eastern Hills increased from 36 percent to 43 percent. Poverty at disaggregated level, however, remained highly disproportionate<sup>12</sup>. Some social and religious groups, the geographic regions have intensity of poverty – say Dalits (45 percent) poverty, Janajati (44 percent) poverty and Muslim people (41 percent) poverty. Infrastructural bottlenecks, remoteness, suppression, absence of basic requirements, etc., intensified the level of poverty in rural areas of Nepal. Among the poor, 95 percent live in rural areas, 67 percent self-employed in subsistence agriculture sector, 71 percent illiterate and 51 percent hold less than one hector of land.

**Figure 2**

Charge in Poverty in Nepal, 1995 – 96 and 2003 – 04 (Percent)

	Poverty hard count rate			Poverty gap (X 100)		
	1995 – 96	2003 – 04	Change	1995 – 96	2003 – 04	Change
<b>Nepal</b>	41.76	30.85	-26	11.75	7.54	-56
<b>Urban</b>	21.55	9.55	-56	6.55	2.17	-67
<b>Rural</b>	43.27	34.62	-20	12.14	8.49	-30

*Source: NRB / RD, Poverty gap is measured of the depth and sensitivity of poverty NLSS – I and II, CBS, Kathmandu, 2007.*

Pesant families in rural Nepal have failed to match the population growth with production. The causes are many. The most important ones are; inequality in land ownership and distribution, resulting in landlessness, low fertility, limited employment opportunities, poor investment in infrastructure, lack of capital and credit for small land holders, low level of literary, inadequate marketing, provision of basic technology, etc. Poverty in rural areas could be reduced either through increase in production from agriculture and allied sector or through manageable distribution and injection of credit to poor, ultra poor and disadvantaged people. Local government’s public work could equally break infrastructural bottleneck and paved the way for access of education, health, sanitation, market, etc. Nepal Rastra Bank recently revealed that Nepal’s economic growth grew at 2.5 percent per annum on an average during Tenth Plan period. Proposed Three Year Plan (2007-09) has aimed to increase Nepal’s economic growth by 5.5 percent per annum. Likewise, it has targeted to reduce the poverty level from 31 percent to 24 percent by the end of Eleventh Plan<sup>13</sup>. With reference to poverty and growth of Nepal, once Stern wrote<sup>14</sup>: “Poverty reduction will require an acceleration of growth and policies to ensure all Nepali, from rural to urban areas and from all socio-ethnic groups, can participate in the growth process. At the center of the efforts to improve investment climate, and increase the inclusiveness of the development process through improvements in the delivery of basic services including education and health for all groups and regions, through closing gender gaps, and through major improvements in governance”.

**Figure 3**

Indicators of Financial Deepening in Nepal (In Percent)

Indicators	1995	2000	2005	2006
M2 / GDP	36.9	49.0	56.3	59.6
Currency to Total Deposits	36.8	27.2	27.4	26.6
Currency to M2	27.8	22.6	22.9	22.4
Currency to GDP	10.3	11.1	12.9	13.3
Pvt. Credit to M2	51.0	57.7	64.3	60.8
Credit to GDP	17.7	25.4	30.7	34.1
Money Multiplier	2.5	3.1	3.1	3.1

**Source:** NRB / RD, *A Policy Research Report on Optimal Number Determination or Regularity Reform, Financial Institutions Division / FY, NRB, July 2007, Annex 47.*

Nepal adopted the Millennium Declaration in 2000 committing to work towards attaining MDGs by 2015. The MDGs came with the quantitative targets for poverty reduction, improvement in health, education, gender equality, environment, and general human development. Accordingly, Nepal has committed to reduce existing poverty and hunger by halves by 2015<sup>15</sup>. It is confessed that this could be achieved mainly through broad based growth, social sector development, targeted programs and improved governance situation. The planners and policy makers opine that except the goals set for universal primary education and combating HIV/AIDS, Nepal may be able to attain all other MDGs. Thus, by 2015 the level of poverty could be reduced, girls enrollment in the school could be increased, infant mortality could be reduced, there would be an improvement in maternal mortality and more Nepalese would have the access of safe drinking water (73 percent) and sanitation (53 percent) by 2015 are; prevalence of peace in the country, good governance, inflow of foreign assistance, strength of national economy with reference to capital accumulation and resource mobilization, gradual access of infrastructure, access of credit and market to rural poor, growth on recurrent expenditure, etc. In fact, poverty reduction is daunting task. Poverty and hunger are interconnected disciplines. The pace of economic growth should be stable and also be robust to fetch such goals, i.e.; all sectors of the economy as agriculture, industry, tourism, services; etc should grow parallelly and rapidly. Additionally, plans and programs related to these goals should come from grass root level compatible with the aspiration of the poor, ultra poor people. Efforts should be desirable from both people and government utmost use of available resources in the country. At this juncture, Nepal has to review intensively growth of China and India and could use selective models of development in the process of development.

## **MICRO FINANCE FOR DEVELOPING COUNTRIES IN REDUCTION OF POVERTY**

Micro-credit has become a major tool of development, and is developing as an international industry, with its own trade associations, dedicated finance, training and other support organizations, research and journals. By delivering financial services at a scale, and by mechanisms appropriate to them, micro credit can reach poor people. By providing poor people with credit for micro-enterprises, it can help them work their own way out of poverty and by providing loans rather than grants, the micro-credit provider can become sustainable by recycling resources over and over again<sup>16</sup>. Recent development in design of MF activities and schemes has generated an understandably high degree of excitement. This is because innovative features in design have reduced the costs and risks of making loans to poor and isolated people, make financial services available to people who were previously excluded<sup>17</sup>. MF creates access to productive capital, which together with two other forms of capital, i, e; human capital and social capital, enable people to move out of poverty. MF is the supply of loans, savings, and other financial services to the poor and low-income people<sup>18</sup>.

International debate has been dominated by two schools of thought, which we call the finance school and poverty school. Sometimes these schools have been in conflict with each other. The former celebrates the main-streaming of micro-credit as a financial service (Banco Sol, a MF bank in Bolivia, has sold

certificates of deposits on Wall Street), the latter emphasizes (Grameen Bank, Bangladesh) emphasizes the need to reach poor people and may be suspicious of financial sustainability, believing it is likely lead a micro-finance provider away from its focus on poorer clients. In reality, poor people need access to so many more financial services than just micro-credit, including a range of micro-savings and insurance products. Indeed, the first step for poor people on the path out of poverty cycle is social and economic security. Appropriate savings and insurance, as well as loans for emergency expenditures or basic assets such as housing and education, can contribute significant, to such security, not least among poorer and more vulnerable households. The credit plus approach in micro-finance thus have been practiced by most of developing countries of Asia with reference to MF viewing this phenomenon.

## **EXPERIENCES OF MICRO FINANCE ACTIVITIES IN NEPAL**

MF is coined as the financial service rendered to the deprived group of the people and small entrepreneurs to help them in developing self-employment opportunities and engage in various income generating activities. Small scale of loan, compulsory savings, small scale entrepreneurs, diversified utilization and simple and flexible terms and conditions are the determining characteristics of its definition. Usually, MF as a program that serves large number of clients with reference to women /deprived people and works at grass root level with financial sustainability. In fact, meaningful economic transformation and social inclusion of the poor and deprived rural population lies on the shift in the economic activities and its backward linkages largely determine the saving capacity of rural population of Nepal. Majority of rural households are earning less, saving less and investing less on their part. To minimize the saving – investment gap in rural economy, an unanimous access of rural finance thus would be desirable.

Prior to 1951, institutional credit in rural areas of Nepal was not available and the rural population had to rely mainly on informal sources. During the seventies, a moving shift in emphasis on the improvement in the living conditions of the rural poor was noticed<sup>19</sup>. The Agriculture Development Bank and the Commercial Banks were the pioneers in expanding rural credit targeting rural poor households from the beginning of 1970s. Since then several rural credit program have been launched in the country prominent among them are: Small Farmer's Development Programs (SFDP), Intensive Banking Program (IBP), Production Credit for Rural Women's Development (PCRWD), Banking With the Poor (BWP), etc. The success of these program accorded further impetus for policy makers to expand additional formal rural based micro-finance programs. The SFDP was transferred to SFCL (Small Farmer's Cooperative Limited), which is usually managed by the farmers themselves. Other micro-finance development programs, such as Priority Sector Lending Program (PSLP) and Rural Self-Reliant Fund (RSRF) were started in 1980s and 1990s respectively.

With the collective efforts of Nepalese government and Nepal Rastra Bank (NRB), in 1990s decade five Grameen Bikas Banks were established as a replication of the Bangladesh's Grameen Bank model on MF delivery. Reforms undertaken in the beginning of 2002 enabled NRB to bring regulations in the line with international standards with the support of WB and IMF's technical assistance. Deregulation of the formal financial sector was brought about on several fronts covering licensing of local private sector banks, admission of foreign investors in banking industry, collaborating with the local investors, removal of interest rate control, rolling back NRB's refinance program. Nepal's government also created situation to encourage participation in MF by the private sector. Subsequently, Nirdhan, Centre for Self-reliance Development (CSD), Chimek and other organizations came into existence. Rural Microfinance Development Centre (RMDC) was also established to support MFIs by giving wholesale credit initiation of trainings and other necessary support to MFIs. Some Nepalese government's directed programs as Third Livestock Development Project (TLDP), Poverty Alleviation Program in Western Terai (PAPWT), Community Ground Irrigation System Project (CGISP), etc. had been also implemented in Nepal

coordinating with NRB. In the year 2002, another wholesale MF institution Sana Kishan Bikas Bank (SKBB) was established so as to provide wholesale credit to small farmers through SFCL in Nepal.

In the semi-formal sector, there exists joint government – donor supported project and autonomous member – based organizations such as NGOs and cooperatives. Many cooperatives came together under the Nepal Federation of Savings and Credit Cooperative Union Limited (NEFSCUN). Established in 1988, NEFSCUN is the central apex body of community-based SACCOS in Nepal. Its mission is to promote, strengthen, and provide a forum for SACCOS to become viable community based financial institution. It is controlled and owned by its members and guided by the international credit union's principles and values. Currently, 500 SACCOS with more than 70,000 from 51 districts are affiliated with NEFSCUN. In addition, there is large number of NGOs, which have been also involved in MF activities in Nepal. The non-government pioneers in the field of micro-finance include Center for Agricultural Policy Research (CEAPRED), CSD center, Development Projects Services Center (DEPROSE), Rural Self-reliance Development Center (RSDC), etc.

Despite all these above mentioned efforts, informal sector is still playing key role in rendering credit and mobilizing savings in rural areas of Nepal. This comprises 40,000 SNGs, Rotating Saving and Credit Associations (ROSCAS) - known as Dhukuti - and a large number of co-operatives. In addition, moneylenders, traders, and friends also provide an informal source of finance. It is estimated that the coverage of institutional lending in Nepal has reached to 30-40 percent while remaining percent is from the informal sources mentioned. Nepal living standard Survey - II reveals that off all loans, the percentage borrowed from banks has decreased from 16 to 15, and that from moneylenders has decreased from 40 to 26 percent, and from relatives increased from 41 to 55 percent.

The total rural credit requirement in Nepal is estimated at Rs. 23.3 billion, while the total supply from the formal and semi-formal sectors is Rs. 9.6 billion. Of the average supply of rural credit, nearly three quarters is from informal sources. WB in 2006 estimated that 47.3 percent bottom quintile of the population exclusively relies on informal loans, while the percentage goes down to 24 percent in the case of the top quintile. Asian Development Bank / Nepal (ADBL/N) and rural branches of commercial banks concentrated on upper and middle segments; while Grameen Bikas Banks (GBBs), Grameen Bikas Bank Replicates (GBBRs), Rural Self-reliant Fund (RSRF), SFCL and RMDC are concentrated on the lower end of the population.

## **MODALITIES OF MICRO FINANCE, OUTREACH AND CONSTRAINTS**

MF programs are set up and accelerated in Nepal with diversified methodologies and modalities. They are private sector modality, community based modality, gender based modality, project based modality, derived sector based modality, wholesale lending based modality, etc. The micro-credit programs such PCRW, MCPW, GBBs, GBBRs, etc fall under gender based modality while the programs as RMP, PAPWT, TLDP, CGISP, etc; comes under project based micro-credit modality. Under wholesale micro-credit modalities, there come the programs of RSRF, RMDC, SFCL and SKBB/L. Similarly, the micro-credit activities of SACCOS and Financial Intermediary - Non Government Organizations (FI-NGOs) come under the modality of community / deprived sector based. The MFIs operating under different models are also functioning as a legal entity and have received approval for functioning from NRB, cooperative board / departments, etc. Besides, the number of NGOs involved in financial intermediation in informal sector as village bank, self-help groups, etc are also rendering micro-financial intermediation in informal sector as village bank, self-help groups, etc. are also rendering MF services especially to rural people. Some of these institutions are found to be promoted and develop by cooperatives, INGOs,

Local Development Ministry / Nepal Government, multilateral donor as United Nation Development Programme (UNDP).

Despite three decades involvement of Nepal in MF sector, nearly 11 lacks population (8-10 percent population) have found to be benefited from MF services rendered through MFIs, Microfinance Department (MFD)/NRB, donor, government's line ministries. This means 21 lacks poor are still untouched by such activities. Assessments of outreach and total credit flow by 2006 with respect to the activities of SFDP, Rural Development Banks (RDBs), GBBRs and SFCLs reveal that substantial amount of savings could be generated from rural savings and credit schemes. The size of the savings mobilization is estimated to reach Rs. 15 to 20 billion that is about 10 percent of commercial banks total deposit. RSRF's outreach has remained at 12 thousand households in mid July 2007. Similarly, the number of borrowers from GBB and GBBRs have been stood nearly at 3 lacks 18 thousands and their cumulative loan disbursed has reached to Rs. 20906740 thousand. The districts covered by RSRF have reach to 48 while in the case of GBBs and GBBR's have reached at 47 in this respect. It is estimated that nearly 5 hundred thousand women have been benefited from MF activities. Similarly, cooperatives and NGOs are also involved with MF activities and they have render such services to nearly 3 hundred thousand people of Nepal. At this juncture, the institutions as Grameen Network Nepal, Centre for Micro-finance, Micro-finance Network Nepal, etc. are also involved directly or indirectly for the promotion of MF sector through outreach, networking, monitoring, research, advocacy, etc.

MF sector is still less developed sector in Nepal. Viewing at the number of clients who rely primarily on informal sector services, and examining poverty statistics, it could be concluded that there is a mass latent demand for MF services especially in rural remote part of the country. The outreach is not enough as there is ever growing demand of micro-credit. Not only this, outreach is itself is not that such cost effective for MFIs. The cost of outreach is found to be high especially in rural hills and remote mountain regions in comparison to Terai belt found to be mid hills and valleys. Some GBBs run by the joint effort of Nepal's government / NRB are inefficient, lethargic and faced by the huge overhead costs. Some are divested while other are on the verge of divestment process due to this reason. There are heterogeneous kinds of MFIs inexistence with their own objective, working philosophy and are registered in various offices as cooperative divisional offices, NRB, district offices, social welfare council, etc. There is still lagging unique act / regulation of one window character under which they should function at grass root level without duplicating each other's activities in MF. The monitoring and supervision part of MFIs functioning in the country by concerned authorities/institutions have thus become very daunting task at this juncture.

In addition, poor and ultra-poor (some 20 to 30 percent) are still bypassed by MF activities. The access of seed money through MF to this segment of poor households is unanimously desirable to lessen the level of poverty in Nepal. As Nepal has already committed the MDGs goal of poverty reduction by halves by 2015. For this, all stakeholders of micro-finance should work a lot for easy access of credit to poor and ultra-poor segment of population with more fund and along with other socio-economic activities. The liabilities on NRB has further imposed that it must influence rural finance sector with its sound microfinance policy, monetary policies, regulations and effective monitoring tool, etc. The MF policy and Act is to be announced this year. It is hope that this would cover up and address all facts of the issues relating to MF sector. Additionally, MFIs should also aim at reaching a wider clientele by improving the efficiency, reducing transaction costs and thereby improving the quality of services to the clients.

## **SUM UP**



The level of financial deepening and monetization is not that much satisfactory in rural areas of Nepal. The meaningful access of MF in such areas is desirable for at least two or three decades or more. Inclusive type of MF with innovative approach will be desirable for Nepal to lessen the existing level of poverty and inequality. MFIs should endeavor much through their dynamic MF activities in rural, remote hills and mountain via various programs in coming decades. To provide micro-finance services of various kind to nearly 70-75 lacks Nepalese population by 2015 is not easy task. Ever growing demand of credit would urge all MFIs work on MF sector collectively via pragmatic modalities. Opening of service sector by 2010 would be both challenge and opportunities for MFIs functioning in Nepal. They should be well equipped with proper devices to cope with it. MF could become one of the lucrative sectors in finance by 2010. Thus, international player could also come in Nepal and involve with this sector. Probably, as the new comers would prefer less to work on poverty sector, naïve MF players should be motivated and encouraged to work on it through prudential policies and with innovative packages.

The players as INGOs, multilateral donors, etc. are lobbying that the donor's fund should be complement private capital, not compete to each other. The MF experts opine that there should be the liberalized regime on the fixation of interest rate for credit that is supposed to go rural areas via MF activities. They further argue that the sustainability of MF lies on this fact. When we reveal the existing outreach of MFIs in rural / remote hills and mountains, it has been found costly. In this perspective, some pundits of MF argue for the provision of subsidies to cover up operational cost of MFIs who are working in hills and mountain for equitable distribution of MF services. Political parties, policy makers of such parties still have negative thought on MF. To erase it and bring them to the consensus is very tough task. For this, separate kind of advocacy is desirable. MF sector should be developed sustainable and indigenous way in Nepal. People at grass root level are preferring inclusive type of MF activities from MFIs. For this, MF players should exercise a lot collectively particularly during the course of formulation plans, program, policies concerning MF. Nepal's planners have already committed for MDGs, to halves poverty by 2015. This has urged all MF players to think more, to work collectively and thereby mingled in the MF sector with harmonious policies lessening existing duplications. Time has come to revisit particularly existing policies relating to MF.

#### **ENDNOTE:**

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