

A Note on Evolution of Grameen Bank Financial System in Nepal

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INTRODUCTION

Nepal is a low income country with a percapita income of just over US\$ 200. With annual average real income growth of about 3.5 percent in last 3 decades, poverty is wide spread in the country. Hard core poverty is estimated at around 50 percent of the total population, e.g. 19 million. Agriculture is the mainstay of the economy which accounts for 42 percent of the GDP and more than 80 percent of the population depends on it for livelihood. But the agricultural sector has remained more or less stagnant for a long time. The government is faced with a dilemma of low economic growth and wide magnitude of poverty in the country. This is why the government has been directing its efforts towards, both accelerating economic growth and alleviation of poverty.

Over the last few years, the emergence of a democratically elected government and an economic policy shift towards liberalization have created a conducive environment for sustained economic growth. The government has removed money controls on industrial licensing, foreign trade and payment. The exchange rate is market determined and the interest rate structure deregulated. The Government has tried to remove many sectoral bottlenecks in different sectors of the economy. Because of a market friendly approach encouraging more private sectors initiatives, non-agriculture sector of the economy has shown some indication of accelerated growth. However, these policy measures have yet to show visible impact on the rural economy due to poor social and physical infrastructure and institutional development. Rural sector needs modernization, diversification and commercialization of production and distribution system. Even among the rural people, the poorest of the poor would need more sustained assistance to enable them to stand on their own feet. Construction of rural physical infrastructure would provide some assistance temporarily, but that can not provide sustained employment and income. They need assistance, exclusively targeted at them, for social development, asset creation, skill development, technology transfer, marketing and long term employment. A properly designed and effectively implemented financial system could help the rural poor to some extent, though provision of credit creates productive assets as well as increase employment and income.

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With the realisation that credit can play very important role to increase production, income and employment to low income people, the Nepal Rastra Bank the, central bank of Nepal, directed commercial banks, in 1975, to provide five percent of their deposit liabilities to low income families under the priority sector programme. But later it was found that most of the credit was not properly utilized, neither did it flow towards the low income group. As a result, repayment rate was very low. Because of this realisation, Nepal Rastra Bank redesigned the priority sector programme into the Intensive Banking Programme (IBP) and directed commercial banks to invest at least 12 percent of their loans and advances under this programme. Because of commercial and urban orientation and emphasis on collateral by the commercial banks, the programme failed to achieve the desired objectives, although initially it made some positive impact on the access of poorer households to credit. The Small Farmer Development Programme (SFDP) of the Agriculture Development Bank also deviated from its basic mandate of providing credit to small farmers with more emphasis on collateral. The landless and poorer section of small farmers were thus largely neglected by the SFDP which was in fact designed to cater their needs.

EVOLUTION OF GRAMEEN BANK

In the light of these facts, urgent need of a programme which is targeted effectively towards the poorest of the poor is felt. Highly impressed with performance of Grameen Bank of Bangladesh and its operational, management and organisational system, some sort of government sponsored formal banking institution to introduce Grameen Bank Financial System (GBFS) concept in Nepal was tried but failed to achieve the above mentioned objective during 1980s. In 1991, with encouragement from Professor Mohammed Yunus and in cooperation with some friends, from within the Nepalese banking system, an NGO namely, *Nirdhan*, was registered to replicate the Grameen Bank Financial System (GBFS). This was the first effort to replicate the GBFS in Nepal. The *Nirdhan* started initial work in January 1993 in Rupandehi district, Western Nepal, and the first loan was distributed on March 14, 1993. By mid-August 1994, *Nirdhan* has disbursed, cumulatively, loans amounting to US \$ 49,267 among 490 borrowers. Repayment of the loans so far has been 100 percent. *Nirdhan* borrowers have made savings' of US \$ 4,674. It has 31 centers, 540 members and 3 branch officers. Its members are 100 percent female. Out of the loan disbursed, 56.30 percent has gone to trading, 34.40 percent to livestock, 6.50 percent to purchase fertilizer, 1.7 percent to install tube wells and 1.1 percent for purchasing rickshaws. *Nirdhan* has received US \$ 35,000 from Grameen Trust and US \$25,000 from APDC as loan. Recently it received credit facilities of NRs. 2 million from Himalayan Bank, a private sector bank, and NRs. 1 million from Nepal Bank Ltd., a semi-government bank.

In the meantime, with the emergence of new democratic political system, the government decided in July 1992 to create two rural development banks Purwanchal Grameen Bikas Bank (PGBB) and Sudur Paschimanchal Grameen Bikas Bank (SPGBB), with share capital of NRs. 30 million each, and recently increased to NRs. 60 million. Of the total share holdings of the banks, the government holds 16.5 percent, Nepal Rastra Bank 58.5 percent, and five commercial banks 5 percent each. These two Grameen banks started their loan operations in July 1993, which played instrumental role in introducing the concept of Grameen Bank Financial System in Nepal and laying conceptual, operational, organizational and management foundation of the Bangladesh Grameen Bank type rural bank in Nepal to make the effective instrument to eliminate rural poverty. Recently, the government has also announced its decision to open two more GBFS type of rural banks in other two of the five geographical regions of Nepal.

Besides the above institutions, a retired DGM of Agricultural Development Bank has started replicating GBFS, since January 1994, in Eastern Nepal with the name of Self-Help Banking Programme (SBP). By mid-August 1994, SBP has disbursed US \$ 19,498 as loan among 552 borrowers. It has 694 members, 29 centers, 139 groups, 7 branches and 12 staff members. It has a group savings of US\$ 1,430.

As of today, Nepal has two government sponsored banks and two NGOs replicating GBFS in Nepal. Progress reports of these four institutions as of mid-August 1994 are given in table 1.

Table 1
Progress of Grameen Financial Organisations in Nepal

Nepalese rupees in million

Particulars	NGOs		Government Sponsored Banks		Total
	Nirdhan	SBP	PGBB	SPGBB	
Loan disbursed	2.414	0.995	33.810	15.891	53.07
Loan repaid	1.053	0.183	14.773	8.459	24.468
Loan outstanding	1.360	0.772	19.067	7.432	28.631
Over due percentages	—	—	—	—	—
Member savings	0.229	0.070	3.421	1.615	5.335
Number of centers	31	29	364	173	597
Number of groups	108	139	1826	760	2833
Number of members	540	694	9122	3801	14,157
Number of female members	540	694	9122	3801	14,157
Number of borrowers	490	552	7698	3488	12,228
Number of branches	3	7	15	19	44
Number of staff	16	12	127	113	268

Source : Balance Sheet of Niradhan, SBP, PGBB, and SPGBB, 1994.

The above statistics indicate that GBFS has made rapid stride in Nepal in a very short span of time. GBFS already covers 1 percent of 1.5 million poor families. The statistics also show that, given resources and proper operational and organizational framework, GBFS can be replicated successfully and expanded in a poor country like Nepal. Because of resources provided by the government, central bank and commercial banks (Rs. 60 million each), two government sponsored bank's expanded fastly. *Nirdhan* and SBP experiences suggest that NGOs can expand its operation with better speed and quality because of flexibility and efficiency, if resources could be made available sufficiently.

All these institutions replicating GBFS in Nepal, both government sponsored banks as well as NGOs, have been following, strictly, Grameen essentials. They cater to rural poor women, without any collateral, on group guarantee basis. The definition of the rural poor presently followed is a family of five persons with land holding of not more than 0.6 hectares. The operational size of loan of these institutions has ranged between NRs. 500 (\$10) to NRs.5000 (\$100). It is also experienced that the poor are also capable of generating savings. This is further corroborated by recent Rural Credit Survey conducted jointly by Nepal Rastra Bank and Asian Development Bank, which estimated rate of gross saving by rural households at around eight percent.

Interest rate charged by these institutions replicating GBFS is fixed at 20 percent which is about 6 percent higher than the commercial bank rates on such lendings. Interest on funds borrowed by these institutions from commercial banks is fixed at 6 percent. This is because the commercial banks will have, under Nepal Rastra Bank directions, to lend up to 3 percent of their loans and advance to deprived sector, otherwise they will have to pay penalty to the Nepal Rastra Bank of the shortfall in lending and that loans provided to Grameen Bank and NGOS is recognized as deprived sector loan.

CONCLUSION

The GBFS has performed, on the whole, well in Nepal. Some of the positive impact created by GBFS through two government sponsored banks and two NGOs, *Nirdhan* and SBP can be summarized as follows:

- Positive family income;
- Mobilisation of savings;
- Positive social impact;
- Development of leadership quality among poor women;
- Inculcation of discipline among group members;

- Development of confidence among women through compulsory requirement to sign, at least, their names to be eligible for access to credit from the GBFS;
- Social awareness created because of strict adherence to 16 decisions (social agenda);
- Environmental awareness because of programme to plant trees and keep clean environment; and
- Commercialization of crops through distribution of hand pumps, seeds, and technical assistance provided for vegetable production.

However, in operation certain problems have been faced of which a few are described below:

- Lack of required 6 months training for the staff at the initial stage of programme produced the following shortcomings:
 - a. admission of some, but very few, members even from outside target group,
 - b. inclusion of more than one member of the same family, though in different group, and
 - c. wrong messages communicated by programme staff to group members during the training period.
- The following issues have created repayment problems:
 - a. death, divorce and remarriage.
 - b. project failure due to death of livestock, natural disaster and other causes.

That Grameen Bank of Bangladesh also might have faced, initially, the above problems but with proper training of the staff and vigorous discipline, the problems might be solved in due course of time.

Finally, experience of both NGO and government sponsored bank indicates that one has to be very cautious in selecting the type of organization to replicate GBFS. In the case of government sponsored banks, lack of flexibility in its operations and frequent political/administrative intervention, including appointment, promotion and transfer of executives and staff as well as location of offices, could make GBFS ineffective as such interventions can not provide continuity of leadership for long time which is very essential for successful implementation of programme at least during initial years. Given sufficient resources and good leadership, non-government banks or organizations appear to be more effective to achieve the desired objective of poverty alleviation and the social dynamics should be properly understood to make the programme self-sustaining as well as making it more responsive to the actual needs of the poor.

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Book Review

Shrestha, Shyam Krishna (1994) *Export Market Management in Nepal: A Critical Study*, Padma Educational Traders, PP. 247 including bibliography and appendix, price Rs. 225.00.

Though export of limited Nepalese products especially arts and crafts is found from the ancient period, but its export trade is far behind mainly due to landlockedness of the country. Nepal remained virtually in a state of isolation from the outside world prior to the establishment of democratic government in 1951. Only since 1956 planned development was started in the country but no attempt was made to gear the country's foreign trade. The country started diversifying its foreign trade only after the establishment of the Trade Promotion Center in 1971, yet export trade of Nepal did not raise satisfactorily. This is mainly due to lack of exportable products and poor export management of the country.

The book under review is an outcome of author's Ph. D. thesis which aims to provide up-to date and comprehensive analysis of various concepts, thoughts, issues, policies and practices in Nepalese export marketing. The book is organized into twelve chapters from general background of export marketing to export strategy, 11 statistical tables, 16 pages of appendices and 8 pages of references.

The first chapter highlights the concept of export marketing; its growth and development from mercantilism to twentieth century; increased interest in international marketing by most of the firms of almost all the countries in the world; international marketing environment and its legal aspects; objectives, methods and principles of export barriers, different kinds of risk in export management; pricing methods of exportable products; techniques of international marketing and state of export marketing and export management in detail.

Second Chapter covers the major trade theories such as: Ricardian Theory, Factor Proportion Theory-which is also known by Heckscher-Ohlin Theory, the Leontief Paradox and Linders Representative Demand Hypothesis. This chapter also deals with the criticisms of these theories and their implications. He maintained that Nepal has not yet adopted and applied the concept of comparative advantages in international trade, because of low productivity, small size of domestic market, lack of appropriate technology, lack of entrepreneurship, least attempt on exploring new exportable products and lack of managerial skill for export management.

The third chapter is concentrated with the foreign trade scenario of Nepal with India, Tibet and overseas countries separately. This study clearly indicates that trade balance of Nepal is always negative and increasing every year with India, as well as with other countries in the world. The export as percentage of import is fluctuating and more or less

same with India, and third countries. Due to landlockedness of Nepal, India has been playing a monopolistic role over Nepal's transit, i.e. Nepal has to accept Calcutta port as the only exit point for Nepali cargo, where physical facilities and services are very poor. As a result Nepal has to bear a huge loss each year due to damage of goods, delay in dispatching goods and so on. His analysis shows that our foreign trade is not moving towards a right direction due to missing its right track. In this context the author has mentioned various problems associated with Nepal's foreign trade and has presented eleven suggestions to gear the country's foreign trade into right direction.

If export trade could be systematically maintained and expanded at international level, it will be a engine of growth. Realizing this fact the author has explained, in detail, the trade policy of Nepal especially objectives and features of export trade, import substitution policy as well as export promotion policy. He also has explained some measures adopted by the HMG/N to evolve a dynamic and permanent export promotion programmes by stimulating development of exportable goods within the country, such as: The Nine Point Programme and 22 Point Economic Programme. Here he concludes that Nepal is rich in policies but poor in execution. Thus it can march forward on the path of the export promotion only after the proper execution of the existing export policies rather than formulating new policies.

The fifth chapter is devoted to analyse the relation of export and tariff. After a long debate and discussions between developed and developing countries, the Generalized System of Preference (GSP) was introduced in 1970 to promote and develop export trade of developing countries, which provides duty free or preferential duty facility to the products imported by developed countries from developing countries. Nepal is one of the beneficiary countries of the system since 1971 for the selected commodities and had a positive impact on the export of Nepal.

There are different institutions, general and commodity specific, established with the aim to promote export trade in Nepal. But still now Nepali exporter are seriously handicapped because these institutions are not providing specialized services to the exporters. To protect the country from deteriorating condition of export trade all the concerned parties should coordinate their activities and create a healthy atmosphere and proper institutional infrastructure in the country.

It is obvious that without providing adequate credit facility through financial institutions at a reasonable rates of interest Nepali exporters can't compete in foreign markets and it would be difficult to expand export trade. In Nepal financial institutions are hesitating to provide loan to the exporter because of high risk involved in it. The Credit Guarantee Corporation provides guarantee to the bank only in the priority sector of agriculture and cottage industries, but does not cover the export sector. If the government really wants to promote export trade, proper attention

must be paid to the problem of export financing and advances to the export sector should be given high priority.

Though the government of Nepal is imposing some legal regulations in export trade such as: control or export of some specified products, export licensing policy and procedures for selected commodities, customs regulations and procedures, foreign exchange control regulations, etc., but in practice these rules and regulations have been misused and are not being properly administered. For example, licences are sold and purchased in an unauthorized manner, generally custom authorities harass to the exporter for their undue advantage from them. Thus the author is right when he says that unless the rules and regulations are properly administered, there is no possibility of promoting export trade of the country.

The efficiency of export management largely depends upon export planning. To prepare an export plan specialized knowledge, skill and large amount of money is needed which are often scarce in developing countries like ours. Nepal is in an infant stage in that field of export planning, but hope that it will gain the necessities in this regard in future. Export plans and programmes were prepared by the Product Development Unit of Trade Promotion Center first in 1983/84. But Nepal's export planning may not be regarded as real export planning because they are not properly implemented and evaluated. In order to prepare effective export planning, detail study must be made regarding the techniques of preparation, implementation and evaluation of export plan both in theory and practice.

One of the major constraints of export is the lack of exportable products. Since Nepal is one of the least developed and predominantly an agricultural country, surplus agricultural commodities have constituted a major component of export in the past and present and it will probably continue in the future also. Only after the establishment of Export Product Development and Export Promotion Council some efforts have been made to develop exportable products instead of primary agricultural products. But still no fruitful result has been occurred from it.

The eleventh chapter of the book is devoted to analyse various export procedures and documents necessary for export. An export order has to pass through various stages from time of obtaining an export order to realization of export incentives. In each stage various documents have to be prepared and submitted to the concerned authorities. At the same time he/she has to visit various offices, departments and has to spend large amount of money to pay formal fee. Thus export procedures and documentation are among the major genuine problems of Nepalese exports. The government can not achieve the target of export promotion without simplifying the procedures and reducing documents needed for export procedure.

The last chapter deals on export promotion strategy of Nepal. The His Majesty Government of Nepal has launched trade policy, economic programme and export promotion programme. However, the situation did not improve mainly due to weak organisational infrastructure. In this context the author has suggested four measures for the promotion of the export and economic growth of the country. They are: Launching Products Development programme, Massive Industrialization, Export Institutional Arrangements, and Export Transit Arrangements.

Lastly the book attempts to suggest ways of boosting production and export of those products in which Nepal enjoys a comparative advantage in terms of raw materials, labour units, employment and technological base. It also aims to strengthen the country's export institutions, which can enhance the promotion of the country's export. Since export is an engine of growth, economic development of the country will not be possible unless proper attention is paid to develop it. This book will be helpful to the planners, policy makers, professionals, academicians and also to the graduate and post-graduate students of management and economics.

Though the author has given a separate page for errata, but still there are some typing errors which should be removed in the next revised edition.

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