

Role of Microfinance in Attaining Millennium Development Goals

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Abstract

Though the series of international conferences and summits held in the decade of 1990s set out many targets for poverty alleviation from less developed and the developing countries, the economic suffering and poverty could not be abated from these countries. It was also realized that extreme poverty in some countries and prosperity in others do not allow global peace, security, and development. Thinking over these bottom lines, the global conferences of the nineties drew up some major key global development targets known as Millennium Development goals (MDGs) under the millennium declaration September 2000. These goals have been endorsed in the Tenth Plan of Nepal (2002-2007) that has chosen poverty reduction as its sole objective. Evidences have proved that there is a direct link between microfinance and at least four out of eight goals recognized by the declaration. Access to financial services supports poor for getting them out of both economic and human poverty through increasing their incomes, food sufficiency level, and investment in children's education.

Background

Microfinance services for the poor are among many other interventions adopted to reduce poverty and improve livelihoods of the poor. Although this system was in practice for hundreds of years throughout the world, it developed particularly, in South Asian countries after the 1970s with certain methodologies, i.e. collateral free loan using solidarity group guarantees or peer group pressure method. This mechanism spread in other Asian, African, and in the Latin American countries capturing the attention of high-level policymakers worldwide with a realization that in many countries microfinance is really macrofinance as its market being expanded largely. Microfinance as we now know began in the early years of its development with some programs providing working capital loans to relatively insignificant numbers of poor clients by few non government organizations (NGOs) and aid giving agencies. But microfinance as an "industry" developed particularly since 1980s when such NGOs transformed themselves into mainstream financial system, or transformed into the development banks as part of their commercialization strategy reaching to significant number of clients. Grameen Bank in Bangladesh, the Unit Desa System of Bank Rakyat Indonesia (BRI), the Bolivian

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Banco Sol, and the Consultative Group to Assist the Poorest (CGAP)¹ are the pioneering institutions to be transformed from NGOs to mainstream financial institutions; Swabalamban Bikas Bank (SBB) and Nirdhan Utthan Bank Ltd. (NUBL) being the examples of such institutions in Nepal's case. Grameen Bank in Bangladesh and the Americans for Community Cooperation in Other Nations (ACCIONs) International have done pioneer works in the field of microfinance.

In thinking of the development processes, various strategies were developed in different periods. For example: (a) development of urban industrialization strategy between 1950-1960, (b) emergence of socio-economic development concept at the end of 1960s, and (c) emergence of rural development concept through people's participation during the mid 1970s. Since this period, particularly, the poverty alleviation approach was integrated into the country's mainstream financial system. The pro-poor MF programs like Small Farmer Development Program (SFDP) was the outcome of this change and this was the formal beginning of group lending microfinance (MF) modality in Nepal. The Nepalese MF sector currently has gained a substantial growth in the number of diverse microfinance institutions (MFIs) balancing between the cooperatives, the private and the government-owned Grameen replications, and the government supported MF programs with large numbers of clients and high volume of loan investment. Though these varieties of MFIs/program differ in their implementation, design, or in target population, their objective and vision are the same, i.e. access to affordable financial services to all including the "haveless" and poverty reduction.

The paper aims at highlighting the interrelationship between Millennium Development Goals (MDGs) and microfinance in achieving at least four out of eight goals recognized by the UN Millennium Declaration directly. In other words, MF has positive impact on poverty reduction, attainment of primary education for the children, promotion of gender equality and women's empowerment, and management of environmental resources as forests. The three other goals, i.e. reduction in child mortality rate and combating HIV/AIDS, malaria, and other diseases, which are related with human development and poverty reduction can also be achieved indirectly through effective delivery of MF products and services by the sustainable microfinance institutions. The information presented in the paper is based on an impact assessment study of microfinance undertaken in the three village development committees (VDCs) viz. Devadaha, Makarahar, and Kerbani of Rupandehi district. The study followed certain methodology as: A sample of 130 clients (100% women) and 70 non-clients from the NUBL, a Solidarity Grameen model microfinance institution were interviewed using a set of structured questionnaire. The non-clients were interviewed to compare the advantages of MF program using *with* and *without* program method. The non-clients in this study are defined as new clients (women) or the new members who just submitted the loan proposals to the institution. The study also compared the values of the indicators among the different ethnic groups using *before* and *after* program intervention method.

¹ Consultative Groups to Assist the Poorest (CGAP), a multi-donor organization initiated by World Bank, is a consortium of 29 bilateral and multilateral donor agencies.

Poverty Incidences

Poverty has many dimensions that includes (a) material deprivation -- low food consumption, poor housing), (b) low human development -- education, health, (c) acute vulnerability to adverse shocks--illness, economic crisis, natural disasters, and (d) Lack of voice and ability to influence decisions. In other words, "poverty is associated with deprivation of health, education, food, knowledge, and influence over one's environment (social mobility) that are forcing them for mere surviving" (CGAP). Regarding poverty, Sen views that "In a poor community... the perception of poverty is primarily concerned with the commodity requirements of fulfilling nutritional needs and perhaps some needs of being clothed, sheltered, and free from disease" (Sen, 1982). The poverty indicators indicated by the definitions above can be found still among more than one billion people in the world. The number of poverty living on "extreme poverty," i.e. living on less than US\$ one a day is 1.1 billion. And 700 million, of whom are in Asia/Pacific region. The Tsunami is estimated (estimation made by ADB) to have added another two million poor to the totals in Asia. Similarly, 110 million children in Asia/Pacific are being excluded from universal primary education.

Nepal is one of the least developed countries and has over 31 percent of its population living below the poverty line. However, the country is ranked on medium human development in 2002 as it has ranked 140th out of 177 countries with a Human Development Index (HDI) value of 0.504. The poverty in Nepal is directly related to income, and therefore the national poverty estimation is calculated on the basis of basic needs of the people like income, consumption, and access to facilities. Besides, poverty is the result of "landlessness" or the "marginal landholders" as 69 percent people hold below one hectare of land (NSAC, 1998). The average size of landholdings for the nation is 0.789 hectare (CBS, 2004). Underemployment rather than unemployment is more challenging problem in Nepal. With a given 2.24 percent population growth rate, country faces a challenge of absorbing 300,000 persons entering into labor force each year along with the large numbers of underemployed people (HMG/N, 1998).

Decade of International Promises

Many international conferences and summits were held in the decade of 1990. The Jomtein conference (1990), held in Thailand, agreed to the world declaration on education for all by 2000 emphasizing particularly on primary schooling for children of appropriate age. The conference also emphasized on "quality" education services and "equity" with regard to removing disparities between boys and girls in access to getting opportunities. The Rio Summit (1992) held in Rio the Janeiro, Brazil, was concerned with poverty and environmental degradation reflecting in two major documents: (a) the Rio Declaration on Environment and (b) Agenda 21 and this agenda (21) endorsed the goal of poverty alleviation through emphasizing the equal rights of women and the basic education for children. The Cairo Conference-1994 (Population and Development), held in Cairo, Egypt, had set out 20-year goals in three related aspects: expanding education particularly for girls; reducing mortality rates of infants and children; and increasing access to quality reproductive health services. The World Summit-

1995 (Social development), held in Copenhagen, Denmark, adopted an action program, which reiterated many of the agreements reached in the Cairo Conference regarding access to education, life expectancy, and infant, under-five and maternal mortality. The Beijing Conference-1995, held in Beijing, China, made commitments regarding women's rights and concerns about their health and educational status. The conference also focused on women's access to financial resources considering it as a human right instrument and also considering credit as an important mechanism for reducing women's poverty. The Istanbul Meeting-1996, held in Turkey, endorsed the universal goals of ensuring adequate shelter for all and making human settlements safer, healthier, and more livable.

Why MDGs came into being?

Thus, the series of international conferences and summits held in the decade of 1990 had set out many targets for poverty alleviation from less developed and the developing countries. The decade of 1985-1995 was also associated with the implementation of the Structural Adjustment Program SAP (1986) and Enhanced Structural Adjustment Program ESAP (1987) in the form of stand-by loan arrangements under the assistance of Breton-Woods Institutions. But the international community realized mainly in World Bank/IMF conference of 1999 that the economic suffering and poverty of the people showed no signs of abatement in these countries even with the implementation of these new arrangements. It was also realized in the last half of the nineties that poverty in some countries and prosperity in others do not allow global peace, security, and development. In September 2000, therefore, United Nations adopted a Millennium Declaration as: "We will spare no effort to free our fellow men, women, and children from the abject and dehumanizing conditions of extreme poverty, to which more of a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want (HMG/N/UNDP, 2005.)"

What are the MDGs?

The above Declaration recognized the eight Millennium Development Goals (MDGs) ultimately directing towards poverty alleviation in all less developed as well as in the developing countries. These goals are to: (a) eradicate extreme poverty and hunger by half between 1990 and 2015, (b) achieve universal primary education, (c) promote gender equality and empower women by eliminating gender disparity in education, (d) reduce the child mortality rate by two-thirds, (e) reduce maternal mortality rate (MMR) by three-quarters between this period, (f) combat HIV/AIDS, malaria, and other major diseases, (g) ensure environmental sustainability through sustainable development of policies and program regarding environmental resources as forests, and (h) develop global partnership for development. Thus, the Millennium Development Goals (MDGs) are the key goals filtered from the development goals agreed on at international conferences and world summits during the 1990s. The MDGs, in the real sense, have assimilated all the indicators that can be used to measure the level of poverty, such as health, education, food, knowledge, and social mobility.

Poverty reduction has been an explicit goal of development planning in Nepal since the mid 1980s. The Tenth Plan/PRSP (2002-2007) has also chosen poverty reduction as its sole objective. Actually, PRSP is the reorientation of policies and program towards achieving Millennium Development Goals (MDGs) as it has incorporated most of the contents of MDGs such as, literacy, birth/death rates, and access to the basic social and economic infrastructures with particular focus on the disadvantaged groups of the society. In order to review the progress made in achieving the MDGs, the country has prepared the first MDGs Progress Report (MDGR) in 2002 and second in 2005. The Report analyses the progress achieved in the period 1990, 1995, 2000, 2005 and target for 2015. The numerical figures regarding the achievements over the last decade are provided in the following table.

Table 1. Nepal's Status in Terms of MDGs

S. N.	Indicators	1990 Status	1995 Status	2000 Status	2005 Status	2015 Target
1.	Percentage of population below 1\$ a day	33.5	NA	37.7*	24.1	17
2.	Percentage of population below national poverty line	42	NA	38	31	21
3.	Percentage of population below minimum level of dietary energy consumption	49	NA	47	NA	25
4.	Net enrolment rate in primary education (%)	64	69	81	84	100
5.	Literacy rate of 15-24 year old	49.6	56.2	70.1	73.0	100
6.	Ratio of girls to boys at primary level	0.56	0.66	0.79	0.86	1.0
7.	Ratio of girls to boys at secondary level	0.43	0.56	0.70	0.82	1.0
8.	Ratio of women to men at tertiary level	0.32	NA	0.28	NA	1.0
9.	Under 5 mortality rate	162	118	91	82	54
10.	Proportion of one-year-olds immunized against measles	42	57	71	85	>90
11.	Maternal mortality ratio (MMR)	515	539	415	NA	134
12.	Area protected to maintain biological diversity (sq. km.)	10948	20077	20077	28585.7	NA
13.	Proportion of people using wood as their main fuel (%)	75	67.74	67.74	69.1	NA
14.	Proportion of population with sustainable access to an improved water source	46	70	73	81	73
15.	Proportion of population with sustainable access to improved sanitation	6	22	30	39	53

Source: MDG Progress Report 2002 & 2005, MDG Project/NPC, Singh Durbar

* Nepal Human Development Report/UNDP 2001, p. 18.

Contribution of MF in Achieving the MDGs

Microfinance has positive relationship with poverty reduction (Goal-1) through asset accumulation like land, house, livestock, household utensils, and tools/machines; attainment of primary education for the children (Goal-2) through change in expenditure pattern on food, clothing, health care, and children's education; promotion of gender equality and women's empowerment (Goal-3) through gender equity promotion, benefit sharing among male and female members of the households and also among different ethnic groups; the health target (goal number iv, v, and vi) has also been affected indirectly as client group seem more conscious about their health, better nutrition and health post visit at the time they fell sick; and management of environmental resources as forests (Goal-7) through change in household energy types and future plan by the clients. The impacts are presented in the following table:

Table 2. Impact of Microfinance Recognized

Goal	Impact	Findings
Poverty (Goal 1)	Increase income & assets	Land owning households increased from 48.50% to 0.336 hectare. Size of landholding increased from 0.107 hectare to 0.336 hectare. Household assets increased e.g., house (13.80%), livestock (6.20%), HH utensils 12.30%. Food sufficiency HHs increased from 48.50% to 93.80%.
Education (Goal 2)	Clients used their income on children's education	Out of total respondents 66.92% reported their increased expenditure on education. Expenditure on education increased by 136.60%. 86.90% clients schooled their children irrespective of sex of the children. <i>(But discrimination is inversely related with the caste ethnicity.</i> Client's children more likely to go to school and stay longer than of non-client's children.
Gender equality (Goal 3)	Clients used their income on children's education	Self-confidence increased with influencing status in their family. Social capital increased through joining some type of CBO/NGO (52.30%) most common institution being the CFUG. Family cooperation increased (84.40% of the client's husbands were found positive).
Health Goal 4, 5, 6)	Better nutrition, health practice	High caste groups were found more health conscious. Clients increased their expenditure annually on health and sanitation (Increased by 172.30%). Increased level of awareness encouraged them to visit health post when they fell sick.
Natural Resource Management (Goal 7)	Reduced the dependency on forests for HH energy	Out of total respondents (clients) 23.80% households started using other sources of energy. Example: (bio-gas 7.70%, improved stove 10%, kerosene 32.30%). This is the change. But there was no practice of cultivating non-timber forest products like herbs in the study area, which is considered as one of the ways of natural resource management.

Field based findings 2003.

Other three goals, i.e. reduction in child mortality rate, reduction in maternal mortality rate, and combating HIV/AIDS, malaria, and other diseases, which are related with human development and poverty reduction, also can be achieved indirectly through effective delivery of MF products and services by the sustainable MFIs. The goal regarding women's empowerment can be achieved through providing access, opportunity, and right to control over resources, which is related to "*gender equity concept*." Similarly, the goal regarding the forest resource management can be achieved through involving poor people in self-employment activities using forest as the main source of raw materials for production. Moreover, with the earnings of supplementary family income, they could ultimately divert themselves towards off-forest and other activities for their livelihood. Because it is the accepted fact that poverty is one of the reasons for environmental degradation. Thus, MF has link with poverty and natural resource management (NRM) mainly forest, where the use, management, and conservation of forests in sustainable and coordinated manner are the major concerns of NRM affecting the environmental conservation.

Conclusion

Thus the change in the value of economic and social indicators demonstrates that microfinance has positive relationship with the first two MDGs, i.e. (i) to reduce poverty and hunger and (ii) to achieve universal primary education for the children of school going ages. Similarly, the change in women's empowerment (goal iii) also was found positive as the micro financial services provided access, opportunity, and right to control over resources, which is related to gender equity concept. These are the benefits that have been equitably shared among the female and male members in the client's family. Finally, it is the accepted fact that poverty is the major cause of environmental degradation. But the poor people involved in the credit program are found able to manage and conserve forest resources through many ways, e.g. using alternative sources of energy by majority of the credit accessed HHs or planning for future for using alternative sources of energy. The housewives in the credit accessed family were found using relatively healthier sources of HH energy like smokeless stove, gas stove, and kerosene that ultimately reduce the dependency on forests for HH energy. Moreover, with the earnings of supplementary family income, they could divert themselves towards off-forests and other activities for their livelihood. It makes clear that there is the interrelationship between poverty and natural resource management (mainly forests) and environmental conservation. Because the use, management, and conservation of forests in sustainable and coordinated manner are the major concerns of natural resource management in the real sense.

Though microfinance is one of the contributors for attaining MDGs, it has not been recognized due to the lack of mass awareness. Coherence and coordination efforts among the various government agencies working in credit plus activities such as health, education, and other programs like training, marketing and technical skill development services for the stakeholders is the most important thing to meet the MDGs as targeted in the millennium declaration. Familiarizing MDGs to the grassroots level is the other most important agenda for the less developed countries like Nepal to achieve the prioritized goals.

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