

National Microfinance Policy of Nepal: Perspectives on Women Empowerment

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Abstract

This paper attempts to analyze the National Microfinance Policy of Nepal from women empowerment perspectives. It is the fact that there are no policies prepared exclusively focusing on women empowerment. However, this paper analyzes the National Microfinance Policy 2008 A.D. by exploring its implications and effects. The Policy is discussed as a part of microfinance development in favor of women entrepreneurship. Moreover, the problems and the issues have been generalized as the present issues are delaying the development of the microfinance sector to develop the nation. Furthermore, the need of microfinance policy is elaborated in the existing situation of policy preparation and updating them from government and other stakeholders' sectors. Finally, vision and long-term goal have intended the level of people in microfinance after this policy was applied.

Keywords: microfinance, women, empowerment, development, poverty

Introduction

Nepali women are born into a patriarchal society. In all cases women's rights are subordinate to those of men. Women are a voiceless section of society who depend on men for their welfare and bearing the continued weight of cultural and social discrimination and violence against them. If a woman does not feel safe within a society, then she cannot be empowered within it. The threat of violence towards women is a pervasive and unmanaged threat in the Nepalese society.

Empowerment is reflected in a person's capacity set. The capacity of a person depends on a variety of factors, including personal characteristics and social arrangements. Empowerment is defined and measured in various dimensions, impact on decision-making on self-confidence. Empowerment is related to the process of internal change and to the capacity and right to make decisions. It consists of change, choice and power.

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The focus on women's empowerment in the context of microfinance brings to light the significance of gender relations in policy development circles more prominently than ever before. The social problems of women are due to gender stereotypes and roles that put women under enormous pressure. These gender roles have their roots in Nepal. As women can hardly participate in politics, their needs are often ignored. Another view of women's empowerment argues that it needs to occur in multiple dimensions: economic, socio-cultural, interpersonal, legal, political and psychological. These dimensions cover a broad range of factors, and thus women may be empowered within one of these sub-domains. For instance, the socio-cultural dimension covers a range of empowerment sub-domains, such as marriage system norms regarding women's physical mobility, non-familial social support systems and networks available to women.

Microfinance for the poor and women has received extensive recognition as a strategy for poverty reduction, and for women's economic empowerment. Gender equality turns out to be good for everybody. Microfinance is emerging as a powerful instrument for poverty alleviation in the economy. Therefore, it is an important tool for economic development in developing countries, and it is especially impactful for women empowerment. Microfinance is a kind of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized and to help them become self-sufficient. Microfinance plays an important role in fighting the multi-dimensional aspects of poverty. It is an innovation for developing countries. Microfinance provides self-employment opportunities for poor people who are unemployed, entrepreneurs and farmers who are not bankable because of the lack of collateral, very low level of income. It has successfully empowered the poor people to start their own business generating income and often beginning to build up wealth. It has the capacity to enhance the socio-economic development of the vulnerable and marginalized people, especially women in the community.

Microfinance is a simple but an effective credit tool that enables the poorest to pull themselves out of poverty. It involves advancing small loans to the working poor. These loans are usually less than \$200 and made by local organizations called

microfinance institutions (MFIs). Microfinance helps the working poor to establish or expand small businesses that generate additional income for the family consumption. This extra income allows a poor family to buy food, access to healthcare, educate their children, put aside savings and lay the foundation for a better future. It is one of the best alternatives to generate self-employment. It provides services to the communities who have no collateral to offer against the loans they take but have indigenous skills and strong desire to undertake economic activities for self-employment and income generation (Shrestha, 2009).

Microfinance is a development tool that grants or provides financial services and products such as very small loans, savings, micro leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. Its activities help to mobilize rural savings and have simple and straightforward procedures that originate from local cultures and population easily understand (Germinis, 1991).

The lack of financial power is a contributing factor to the most of the societal problems. These problems derive from poverty and it is clear that with poverty one is bound to suffer so many significances ranging from lack of good health care system, education and nutrition. They target the poor who are in risk but the repayment rate turns to be positive as related with the regular commercial banks (Sharma, 1998).

In the present context, Muhammad Yunus is the founder of Grameen Bank microfinance. Yunus was awarded the Nobel Peace Prize for his efforts to reduce poverty in Bangladesh. Sengupta & Aubuchon (2008) stated that by allowing small loans to the extremely poor, the Grameen Bank offers these recipients, the chance to become businesspersons or owners and earn sufficiently high income to break themselves free from the cycle of poverty. Sengupta and Aubuchon further write on microfinance revolution as Yunus's pioneering efforts have brought renewed attention to the field of microfinance as a tool to eliminate poverty; and, since 1976 when he first lent \$27 to 42 stool makers; the Grameen Bank has grown to include more than 5.5 million members with greater than \$5.2 billion in dispersed loans. As microfinance institutions continue to grow and expand, in both the developing and developed world, social activists and financial investors identical have begun to take notice. In this article, we seek to explain

the rise in microfinance since its inception in the early 1980s and the various mechanisms that make microfinance an effective tool in reducing poverty. We also address the current problems facing microfinance and areas for future growth.

Pitt, Khandker and Cartwright (2003) discovered that women's involvement in microfinance led to a greater role in household decision-making; gaining more access to financial and pecuniary resources; having improved social networks; having more freedom of movement; and increasing their bargaining power in the household. For instance, in a study of the Grameen Bank in Bangladesh, Khandker (2003) estimated that microfinance underwrites household ingestion at the rate of 18% for lending to females and 11% in the case of male borrowing. Women have been observed to spend more of their revenue on their ménages: women were more likely than men to spend their proceeds on household and family needs.

In the Philippines, Ashraf, Karlan and Yin (2009) used randomized controlled trials in a study that examined whether access to individually held commitment savings empowered women. The study found that access to goal setting and savings resulted in a significant increase in empowerment for women. It is noteworthy that employing microfinance for ensuring gender equity has not been largely successful mainly because microfinance rarely challenges the socially embedded and seemingly inflexible structures that maintain gender inequity.

In Nepal, microfinance practices have been used in different terms. Nowadays, the term microfinance is broadly used and generally relates to financing the poorest sectors. Microfinance programs are established and promoted in Nepal with diversified methods and modalities. Some of the successful operated models as follows: Grameen banking model, deprived sector lending model, rural self-reliance fund (rsrf) model, small farmer cooperative model, financial non-government organization (FINGOs) model, saving and credit cooperative (SACCOs) model, project-based microcredit model, wholesale lending model (NRB, 2013).

However, it does not mean that the national policy does not help to advance women's empowerment. There are provisions that are relevant for women's empowerment and they need to be recognized and discussed. Like other developing countries, Nepal has "The National Microfinance Policy" to promote and mobilize

microfinance but this policy does not directly address the critical issues of women's empowerment through microfinance. This paper analyzes the National Microfinance Policy in order to assess its potential for women's empowerment. It does this to show directions for more explicit and substantively providing guidelines by future updates of the policy.

Method

The study is based on the textual analysis. Being non-technical, this study is basically descriptive and analytical in nature and provisions formulated in microfinance policy perspectives on women empowerment. Various articles, books and microfinance policy related other information have also been accessed for developing this article. Secondary data is used, drawn primarily from Nepal Rastra Bank (NRB), microfinance promotion and supervision department. Thus, the library method is used in this study.

Finding and Discussions

Poverty constitutes the main challenge and problem of Nepal's economic development. According to *Nepal Living Standard Survey* (2003/04), the percentage of absolute poverty ratio is 30.8 percent. Therefore, poverty is a major problem of the country and its ratio should be reduced. Long-term policy is needed for the reduction of destitute. As a huge section of the country's population is in a state of destitution, the need has been clearly felt for helping through microfinance the efforts to achieve the national objective of gradually reducing the country's destitution by promoting capital formation and generating self-confidence among the people belonging to destitution class.

For the economic development, it has been deemed essential to make arrangements at the national level for coordination, facilitation, promotion, standard determination, regulation and monitoring operations in order to bring about a harmony between the growing demand for financial resources at the local level and the supply of micro-financial services through various institutional arrangements and to institutionally extend the microfinance sector and raise the access of the destitute class to it.

Fulfillment of demand for financial services in the rural areas, the financial services remain inadequate in the present difficult situation, the extension of the micro-financial services constitutes the only reliable and universally accessible means to arrange for

institutional credit in the rural areas and raise the access of the destitute class to that credit and the existing organizational structures and legal provisions do not appear to be adequate. Therefore, the government of Nepal has formulated the national microfinance policy in 2008.

Need for and Justification of the National Microfinance Policy

In Nepal, institutional financial services have not yet been able to reach the local level and the destitute families on an extensive scale and in a coordinated manner. According to the latest rural credit survey report, 1992, only 20 percent of the total credit demand is being met from the institutional sector. According to the study conducted by the Asian Development Bank, the annual shortfall in meeting the demand for the supply of rural credit in Nepal amounts to Rs 13 billion. This has shown that compared to the demand, the supply system in the rural areas has not yet been good. The total removal of the priority sector program from commercial banks has begun to have a direct impact on the system of supplying credit to the rural areas. As a result of the state of internal conflict prevailing in the country, the services to be provided by credit suppliers, especially the commercial banks, are being diverted from the rural areas and getting confined to the (district) headquarters. As a result, the gulf between the demand and the supply of financial services in those areas is further widening. However, as it has been proved that various credit programs operated by targeting at the marginal and destitute class, such as the priority sector and destitute class credit programs and the financial services of some governmental and private sector micro-financial institutions that have adopted the rural banking system, can help raise the socio-economic standards of the destitute class, it is beyond doubt that the various micro-financial institutions and other stakeholder-institutions working for the alleviation of poverty in Nepal can be operated more effectively if such programs are operated in the future in a more integrated and coordinated manner.

In the context of the declaration made by the United Nations Organization to observe the year 2005 as "Institutional Microfinance Year", the formulation of a national microfinance policy in Nepal appears to be a timely step. Microfinance has appeared to be an important and effective means to fulfill the objective of alleviating poverty, which constitutes the main agenda of the country's economic development. Accordingly, it is

also the need of the hour to create an atmosphere favorable for the development of microfinance as an auxiliary means to alleviate poverty, rather than as a form of commercial banking.

The very idea of providing capital and financial security in an easy manner to the socially and economically backward and destitute families of the remote geographic areas and such enlightened entrepreneurs and skilled persons who are eager to do something even with a small capital, and giving continuity to this process, has in itself become important. The situation at present is such that we are not being able to properly mobilize the savings of the community organizations spontaneously formed at the local level and to give an institutional form to the process of formation of economic capital. Besides, we have not been able to implement the microfinance program in a flexible manner by taking into account the national diversities and geographical and social conditions. In view of this, this policy has been formulated in such a manner as to prove helpful in creating opportunities for properly developing the entrepreneurial capacity of the destitute families and thus making them part of the mainstream of national development, and bringing the micro-finance services within the purview of a single law by making things easy for and coordinating and systematizing the work of both the suppliers and the receivers of the services.

The National Microfinance Policy 2008 A.D has emphasized the importance in sustainable economic development of Nepalese society through the microfinance model which is reviewed as follows:

Definition of Microfinance

The term "microfinance" means the financial business of providing institutional financial services to the destitute and low-income families desirous of operating self-employment enterprises. The financial business of this type covers micro-credit, micro-insurance and small remittance payment systems. The term includes financial services of supplying small credits, providing unsecured financial services in a quick and efficient manner against collective guarantees and repaying installments in a simple manner aiming at increasing access to financial services by extensively covering the destitute class and areas which currently remain deprived of micro-financial services.

Scope of Operations

The national policy relating to microfinance will help to provide flexibility to activities relating to micro-savings, micro-credit, micro-insurance and money transfers according to the circumstances, locations and times and in such a manner as to cover the geographical and socio-economic diversities of the Kingdom of Nepal. This policy will also help to provide a legal basis to both the suppliers and the receivers of services to work together on the basis of mutual understanding and coordination.

Vision

The strengthened, simple and accessible microfinance system for sustainable and poverty reduction of the nation is the vision of the policy.

Objectives

The National Microfinance Policy 2008, has fixed the following goals with the main objective of helping on a sustainable basis in the task of alleviating poverty through micro-financial services.

- (i) To help in the formulation of necessary laws and rules relating to microfinance.
- (ii) To extensively operate small-scale income and employment generation programs with a view to increasing the access of destitute and economically weak families and women to such micro-financial services as savings, credit, insurance and money transfers.
- (iii) To make the micro-credit supply system easily accessible through micro-financial institutions.
- (iv) To bring within the folds of appropriate laws and regulations such organizations as have been spontaneously formed at the local level, as well as cooperatives and non-governmental organizations, and help them to develop the capacity needed to be established in a sustainable and self-efficient manner.
- (v) To help in the development of capacity of such spontaneously formed organizations in order to ensure that they provide micro-financial services in a coordinated and sustainable manner.
- (vi) To develop an appropriate institutional machinery for the management of microfinance, and also establish second tier institutions.

Institutional Structure

A separate agency shall be formulated to regulate and supervise in a timely manner for the institutional development of microfinance provider organizations.

Economic Part

Shall encourage the establishment and program of microfinance service provider institutions in the private sector.

Legal Provision

Necessary act rules will be formulated for the implementation on the basis of the National Microfinance Policy 2008.

Monitoring and Evaluation

Nepal Rastra Bank will be monitored and evaluated the National Microfinance Policy 2008 implementation.

The National Microfinance Policy

The history of microfinance in Nepal is over three decades old. However, there was not any stated policy of the government on microfinance prior to the declaration of the microfinance policy. The demand for microfinance services by the poor and the destitute is ever increasing in the country. In light of the great achievements made by the countries such as Bangladesh, India, the Philippines, Indonesia, Pakistan and other developing countries in the reduction of poverty through massive flow of financial services down to the poorest segment of the rural and the semi urban communities, the government of Nepal, on the advice of the Nepal Rastra Bank promulgated “The National Microfinance Policy 2008” in order to do away with the problems related to organizational and legal issues with a view to smoothly providing microfinance services in the rural areas. The Microfinance Policy 2008 was introduced as a new mechanism to boost up the microfinance industry. It aims to improve the smooth flow of funds to the poorest segment of the rural populace by creating a national fund for microfinance. It also has envisaged establishing a regulatory and supervisory body for regulating and

supervising the Microfinance Institutions (MFIs) in the country as such that they discharge their services effectively and efficiently.

To increase the access of community institutions and institutions involved in microfinance transaction and expand micro finance service, following types of policy shall be implemented by creating healthy and competitive environment and encouraging private sectors as well in this endeavor:

- (i) Simplifying the flow of microfinance service targeting poor communities according to the economic and social diversity of geographical and rural and urban sectors.
- (ii) Developing clear standards for identification of beneficiary poor people of microfinance services and strengthening the mechanism of providing microfinance service with or without collateral (collective guarantee).
- (iii) Providing necessary help for the social mobilization and empowerment, institutional development and restructuring and encouraging financial institutions that provide wholesale credit established or established from the private and public sector in this work.
- (iv) Affiliating various poverty alleviation related programs and projects with this policy and operating it in a coordinated approach.
- (v) Helping to develop the targeted group's professionalism by coordinating with reputed agencies to develop professionalism.
- (vi) Formulating provision of establishing relationships with microfinance service provider institutions with the provision of getting accreditation to local level existing community institutions, saving and credit group institutions involved in microfinance transactions easily.
- (vii) Increasing the access of microfinance to poor communities and motivate such communities on saving mobilization.

- (viii) Formulating a separate agency in the direct supervision of Nepal Rastra Bank to timely regulate, supervise, monitor and evaluate by making service providers self-disciplined managing necessary institutional and legal provision to provide microfinance service in a sustainable and simplified manner.
- (ix) Establishing the National Microfinance Development Fund to make resources available for easy supply of microfinance service in long-term manner. Also mobilize resources and tools through this National Microfinance Development Fund that obtain from various national and international agencies.
- (x) Carrying out the survey with regards to information concerning existing cooperative and microfinance institutions number, service delivery and access.
- (xi) Managing the provision of training regarding microfinance for the capacity increment of the people working in the microfinance sector.
- (xii) Shall be carrying out loose policy in deposit collection on the basis of service provided by microfinance institutions and their share capital.
- (xiii) Shall be taken to be a flexible policy with regards to corporate tax that has been applied to the institutional income tax of microfinance institutions and interest obtained from deposit kept in such institutions by poor communities.

Strengths of the National Microfinance Policy

The Policy has clearly mentioned the necessary uplifting action points to make the marginalized and deprived people from the community able to manage their financial status being involved in the microfinance sector. It has described the different policies and strategies to make the policy effective in each local community as a result each community member is incorporated in this microfinance sector. However, the strengths of the policy have been analyzed as follows:

- (i) It has identified the need of policy in this sector.

- (ii) The vision of the Policy is to mobilize the marginalized community through microfinance management and financial upliftment which is Nepal Government's development policy. So, it has been adjoined with the national development policy.
- (iii) The objectives of the Policy are clear and they have elaborated the overall microfinance sector.
- (iv) The policies have been dragged from the health, education, agriculture, animal raising, industry development, inclusion of all marginalized community people as well.
- (v) The Policy has been prepared from a wider sector and they are appropriate to incorporate the entire target group recognized by Nepal Government.

Areas to be Improved for the National Microfinance Policy

The Policy has been clearly formed to make the marginalized people friendly. However, there are some areas that the Policy should incorporate in the course of policy review and update. The points are as follows:

- (i) The National Microfinance Policy 2008 has not given any due respect to address woman regarding their empowerment in financial activities. So, the Policy should focus on woman empowerment since they play a very crucial role in economic development of their family and the nation.
- (ii) For empowering women in the Nepalese context, a separate policy related to the microfinance should be formulated so it directly addresses financial issues connected to women for overall economic development.
- (iii) Since the Policy has not incorporated any provisions of woman empowerment, the Policy tends to be incomplete in it as the Nepalese women play a very important role in microfinance activities in the society.
- (iv) the national microfinance policy 2008 has been prepared as an overall policy. it would be better if the policies are prepared according to the different sector models like policies for Grameen banking model, small farmers cooperatives model, saving and credit cooperatives (SACCOs) model, wholesale lending model, separately.

- (v) The Policy would be better if the Policy is updated and revised incorporating all Strengths, weaknesses, opportunities and threats (SWOT) factors of the microfinance sector.
- (vi) Although policies have been formulated to make the marginalized people benefited, it would be very much fruitful if these policies and strategies are tested at the community level and finalized according to the community level people's needs.
- (vii) If the review of public needs were incorporated, the Policy could be community people centered.
- (viii) The necessary amendments should have been planned in the Policy.

Conclusion

Microfinance leads to social and economic changes to the deprived community and their improved livelihoods with the increase in income. Microfinance can play an effective role in poverty reduction and women empowerment. In lack of policies and guidelines in the microfinance sector, "The National Microfinance Policy 2008" has become the milestone to systematize this sector for sustainable management and it has been working as the fundamental authoritative document in this sector. The Policy should be amended to meet changing needs and desires of people in society which guides and shows the ways to the microfinance runners and community people to be benefitted from this sector. However, there are certain things that should be updated and revised in the forthcoming versions by which the Policy will be the backbone of microfinance management.

The Policy itself is the only one document prepared to manage the microfinance sector in Nepal. The policy reviewers, people involved in the revision and updates should think of the different other supporting policies for other branch sectors as well. Either the separate policy should be prepared to manage women-led microfinance or there should be different sub-clauses within the Policy about the management of all these sectors as well.

There are some areas of the National Microfinance Policy 2008 that should be incorporated in the course of policy review and update for the women empowerment perspective. This policy has been prepared as an overall policy of microfinance. It would

be better if the policies are prepared according to the different sectors like policies for saving and credit cooperatives model, small farmers cooperatives model, deprived sector lending model, project-based microcredit model and self-help group model separately. Although policies have been formulated to make the marginalized people benefited, it would be very much fruitful if these policies are tested at the community level and finalized according to the community level people's need.

Lacking this Policy is how we can focus on increasing women participation in economic activities through the microfinance. This Policy has not space on women empowerment. Therefore, microfinance policy should be focused on women's economic empowerment. Nepal Government authorities and policy makers should highlight women's involvement in microfinance activities. The necessary amendments should have been planned in the Policy.

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