MICROFINANCE FOR ACHIEVING MILLENNIUM DEVELOPMENT GOALS IN NEPAL

- Nara Hari Dhakal[1]



ABSTRACT

Financial services enable the poor to increase and diversify incomes and build assets, which in turn allow them to reduce and mitigate risks, make choices, and plan for the future. Providing sound financial services for the poor is a specialized activity requiring expertise and a long-term commitment. There exist evidences showing a direct link between microfinance and at least five of the Millennium Development Goals (MDGs). Effectively delivered microfinance products and services through sustainable Microfinance Institution (MFI) can be one of the effective tools on creating enabling environment for achieving remaining MDGs. With strong management and efficient operations, the massive outreach required to reach the million of people targeted by MDG Report (MDGR) of Nepal is feasible and possible through microfinance services. Nevertheless, financial services for the poor should not be viewed as a substitute for investment in education, health or infrastructure.

1. BACKGROUND

The Millennium Development Goals (MDGs) are an ambitious international initiative. Their attainment calls for focusing efforts and using available resources effectively. MDGs summarize development goals agreed on at international conferences and world summits during the 1990s. At the end of the decade, world leaders distilled the key goals and targets in the Millennium declaration (September 2000). This was a historical achievement, not just because of the scope of the development issues, but because it has committed the global community to a hard and specific agenda for human development. Based on the declaration, the United Nations Development Programme (UNDP) worked with other United Nations departments, funds and programmes, the World Bank, the International Monetary Fund and the Organization for Economic Co-operation and Development on a concise set of goals, numerical targets, and quantifiable indicators to assess progress[2].

The MDGs are framed as concrete outcomes in the areas of nutrition, education, health, gender equity, and environment. Works in these specific areas are geared at any development strategy driven by the MDGs. But decades of experience has shown that progress in these areas is powerfully affected by other factors such as a functioning government, physical security, economic growth, and basic infrastructure (for example, transportation).

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[2]The MDGs includes eight goals 18 targets and 48 indicators. The eight goals are to: (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria, and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development.

The poorest and poverty reduction have become the object of unprecedented attention at international summits. In most countries, microfinance has proven to be an effective and powerful tool for poverty reduction. As the microfinance, and the impact it produces, go beyond just business loans, income from the financial services can be used not only for business investment, but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter. Many donor agencies, therefore, want to know whether micro-financial services for the poor, is an effective tool for achieving MDGs.

This paper presents the evidence on impact of microfinance as it relates to the attainment of the MDGs outlined in MDGR of Nepal, especially in the areas of eradicating poverty, promoting children's education, improving health outcomes for women and children, and women's empowerment. The paper also addresses the feasibility of reaching significant numbers of absolute poor with financial services on a sustainable basis and on a massive scale. The information used in this paper is extracted from the work undertaken by the author in 2001 and 2002 (Dhakal 2001a and Dhakal 2002b)[3] and other relevant secondary sources.

This paper is organized into six sections. After this introductory section, section two provides an overview of Nepalese microfinance circumstances. Conceptual linkages between microfinance and poverty reduction is provided in section three while various features of MDGs in Nepal is discussed in section four. Section five analyses likely role of microfinance on attaining MDGs in Nepal and the paper winds up with conclusions in section six.

2. NEPALESE MICROFINANCE CIRCUMSTANCES

2.1 Overview of Microfinance Sector

Under Nepalese microfinance circumstances, government's attempt to promote microfinance services dates back 1975[4]. Government recognized microfinance as an official poverty alleviation programme only in Sixth Plan (1980/81-1984/85). Various programmes to ensure poor, particularly poor women and disadvantaged groups' access to financial services from organized sector are designed and implemented during that period and various institutions are involved in providing financial services then after.

The sector gained further momentum after the restoration of democracy in 1991 with the establishment and promotion of Grameen Bikas Bank (GBBs) and other form of MFIs. Despite floriferous growth in microfinance sector, performance of this sector is not encouraging. Estimates by ADB (2002) estimates the outreach of the formal sector to be less than 30 percent of people below poverty line and pin-pointed that there exist substantial unmet demand for credit and such unmet demand is more in the hills and the mountains compared to the Terai. Though there are large numbers of MFIs, there is virtual absence of

[3]Dhakal, N. H. 2000a."*A study on Microfinance, Micro-enterprise Development and the Contribution to Women's Economic Empowerment*" ILO, Geneva and Dhakal, N. H. 2002b. "*Project Completion Report of Micro Credit Project for Women*" AsDB, Nepal Resident Mission in Kathmandu.

[4]This coincides with commencement of design and implementation of Small Farmer's Development Programme (SFDP) under Agricultural Development Bank, Nepal (ADB/N).

equality, MFIs in the remote hills and the mountain are in disadvantaged situation[5] compared to the one in the accessible hills and the Terai.

The Nepalese microfinance sector can be broadly classified into two based on institutions involved such as government initiated model and semi-formal sector. While the former category relates to various works started under government's involvement and can be grouped into government mandated model and GBBs, the three key categories of actors Financial Intermediary NGOs, Saving and Credit Cooperatives (SCCs) and microfinance development banks (MDBs) are involved under semi-formal financial sector.

2.2 Scale of Microfinance Services

Over the last decade, Nepal's rural micro finance sector has expanded significantly in terms of service providers and clients served and their outreach has been estimated to exceed 630,000 members[6] (Table 1). Regional Rural Development Banks are the biggest players in terms of outreach. It is evident that Nepalese microfinance market is fairly well balanced between "cooperatives", "private and government-owned Grameen Bikas Banks / Replicators" and "government supported microfinance programmes". Even if the clients of stated owned development banks (ADBN) and two commercial banks (NBL and RBB) are added in Table 1, it turns out that only 1.1 million clients are served so far. This implies that the scale of microfinance services is less than one-third of estimated demand of 3.6 million households requiring micro-financial services. This indicates that the market for micro and rural financial services in Nepal is quite huge in order to deliver the services in a sustainable manner.

Table 1: Key Actors in Nepal's Rural Micro Finance Sector as of December 2002

Financial Institution	No. of members	Percentage
Regional Rural Development Banks	129,000	20.5
Grameen Bank Replicators	68,000	10.7
Registered Savings and Credit Cooperatives	90,000	14.3
Small Farmer's Cooperatives Ltd.	73,000	11.6
Various Government Supported microfinance programmes	95,000	15.1
ADBN (Small Farmer Development Programme)	97,000	15.4
Microfinance NGOs	78,000	12.4
Total	630,000	100

Source: HMGN and Asian Development Bank. 2002.

Note: The Regional Rural Development Banks include Central Grameen Bikas Bank, Western Grameen Bikas Bank, Mid Western Grameen Bikas Bank and Far Western Grameen Bikas Bank. Private-owned Grameen Bank Replicators include Nirdhan and the Centre for Self-help Development (CSD). The government supported microfinance programmes include the Micro Credit for Women (MCPW) and Production Credit for Rural Women (PCRW). There are large number of microfinance NGOs and private savings and credit organizations active in the sector.

[5]Small loan sizes, small savings base and higher delivery costs, lack business linkages with higher levels financial institutions and access to prudential regulation and supervision are the characteristics of Nepalese MFIs in hills and mountains.

[6]This figure does not include the rural clients of ADBN's Development Banking segment and the clients of Nepal Bank Ltd. and Rastra Baniya Bank since all three banks are considered to serve the better off clients in the rural areas.

2.3 Legal and Regulatory Framework

Under Nepalese legal and regulatory framework, there are two boarder legal options: c*ommunity based organization* - includes either SCCs emerged under cooperative act 2048 or NGOs established under society registration act 2034 and obtaining license to work as financial intermediary under Financial Intermediary Act 2055 and c*apita based organization* - includes development financial institutions established under development bank act 2052 and registered as a company to facilitate emergence of MFIs. Major acts and rules that influence structure, conduct and performance in Nepalese MFIs are: Financial Intermediary Act, 2055, Financial Intermediary Rules, 2056, Cooperative Act 2048, Cooperative Rules, 2049 and Development Bank Act 2052. Within available legal and regulatory framework, MFIs in Nepal are four Microfinance Development Banks (MDBs), five Grameen Bikas Banks (GBB), over 1800 Savings and Credit Cooperatives (SCCs), over 160 Small Farmers Cooperatives Ltd. (SFCLs) and over 44 Financial Intermediary NGOs (FI-NGOs). The microfinance services promoted by these MFIs are expected to protect rights and uplift the economic status of their clients[7].

2.4 Recent Development in Nepalese Microfinance Sector

There has been some recent development in Nepalese microfinance sector, of which two: transformation of NGO into MDBs and FIs, and establishment of second tier refinance institutions are worth noting.

Transformation of NGOs into Development Banks and Financial Intermediary
In the last couple of years, many NGO have transformed themselves into development banks and FI as part of their commercialization strategy. These NGOs are responding to the difficult task of doing both social mobilization work and financial services delivery. They have started to outsource their microfinance activities from NGOs into newly created financial institutions under Development Bank Act of 1996 and Financial Intermediary Act 1999.

Establishment of Second Tier Refinances Institutions
During late 1990s and early 2000's, three categories of second tier refinance institutions such as Rural Self-Reliance Fund, Rural Micro Finance Development Centre, and Sana Kisan Bikas Bank (Small Farmer Development Bank) have been established to provide wholesale loans to different categories of Nepalese MFIs. Establishment of these institutions has opened avenues and hopes to Nepalese MFIs to solve the capital crisis and expand their outreach.

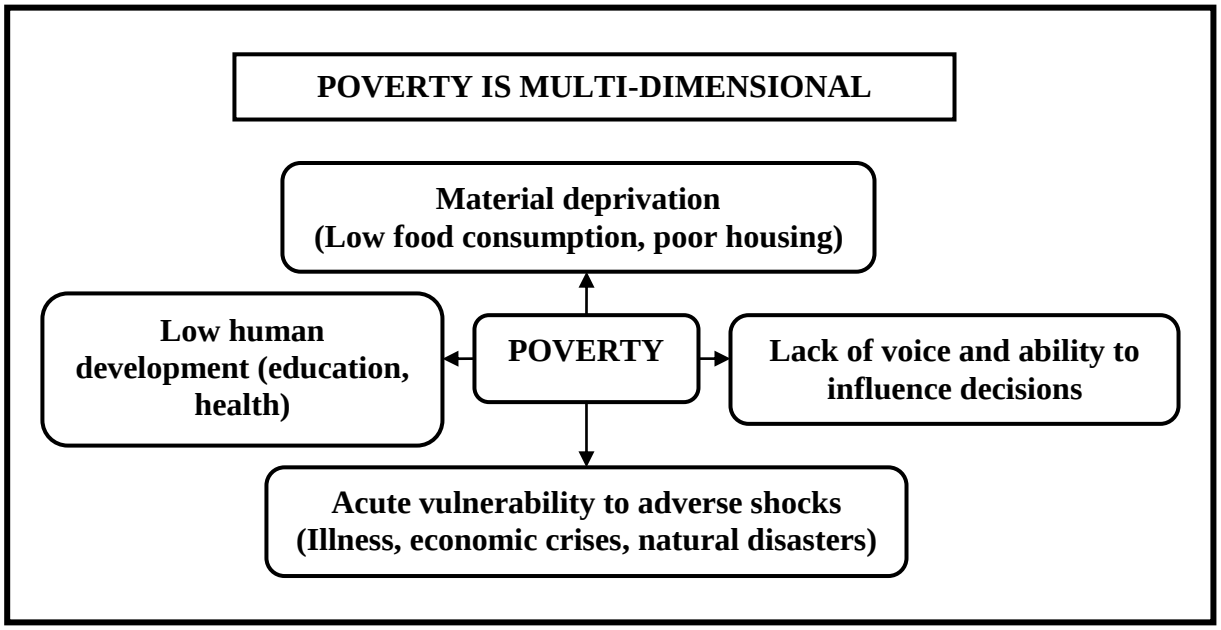
3. MICROFINANCE AND POVERTY REDUCTION

Microfinance services for the poor is one of the many interventions to reduce poverty and relate to a wide range of flexible, appropriate services tailored to the preference and needs of the poor provided successfully by a variety of institutions. Such services can contribute to ongoing social returns only when providers are sustainable. Beyond microcredit, poor requires a broad variety of financial services. These services are neither a magic bullet in the war against poverty nor a short-term or one-time exercise to solve multidimensional poverty

[7]See Gorkhapatra dated Poush 7, 2060.

problem. Further microfinance can not be a substitute for investment in education, health or infrastructure.

In general poor has limited access to formal financial services. Their informal alternatives, such as family loans, and moneylenders are usually limited by amount, rigidly administered, or available only at exorbitant interest rates. The challenge ahead is to ensure access to financial services for poor majority. Microfinance is the unique among development interventions and solution to most of the capital problems. Many well-managed MFIs provide financial services to the poor and destitute in a sustainable way. Microfinance offers potential for a self-propelling cycle of sustainability and massive growth, while providing a powerful impact on lives of poor, even extremely poor. Evidence shows that this impact intensifies longer the clients remains with the MFI thereby deepening power of this virtuous cycle.

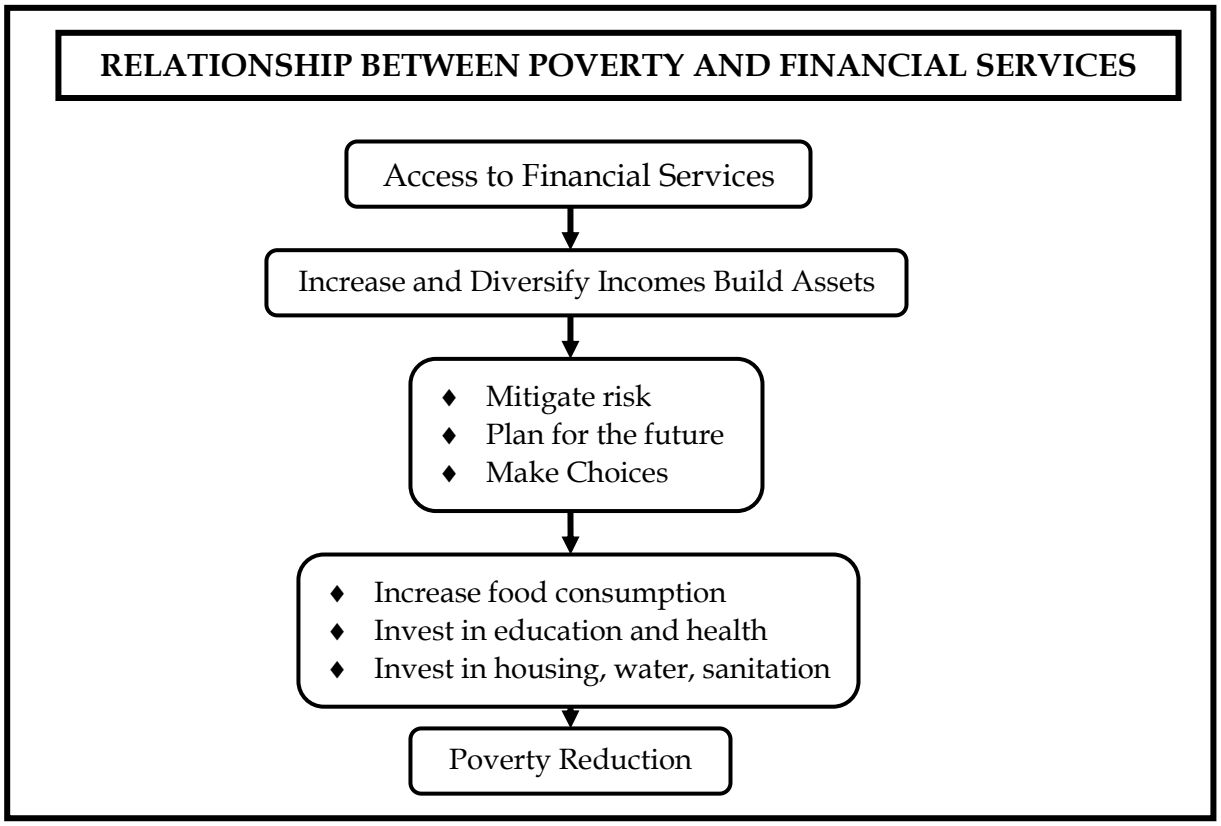


Microfinance has largely developed outside the realm of the formal financial sector. Governments and donors addressing financial sector issues talk about banking reform, averting or coping with financial crises, and capital markets - not microfinance. For its part, the microfinance community has insisted that it is highly specialized with separate standards, techniques, and/or legal frameworks. These arguments have contributed to the marginalization of microfinance as a sector isolated from broader financial systems. Large-scale sustainable microfinance can be achieved only if financial services for the poor are integrated into the overall financial systems of the country. This integration allows more access to capital, better protection of poor people's savings, and increased legitimacy and professionalization of the sector. The result is opening markets to increasingly poor and geographically remote clients. The challenge is to achieve this integration without compromising the social mission of microfinance.

There is extensive evidence that microfinance has a positive impact on reducing extreme poverty. There is no doubt that strong demand exists for microfinance services, among the poor. Until recently, the term "microfinance" was easily understood as a credit

methodology that employs effective collateral substitutes to deliver and recover short-term, working capital loans to micro-entrepreneurs (or potential micro entrepreneurs).

In general, impact of microfinance goes beyond business loans. Poor use financial services to invest in micro-enterprises, health, education, and household emergencies in addition to meet wide variety of other cash needs that they encounter. The financial services - savings and credit - provided by MFIs enables clients to increase their household incomes, build assets, and reduce their vulnerability to crises, in addition to translates these services into better nutrition and improved health outcomes including higher immunization rates.



Income earned from mobilizing financial services has allowed poor people to plan for their future and send their children to school for longer and enabled women clients to be more confident, assertive and better able to confront gender inequities. Microfinance clients manage their cash flows and allocate them into household priority and their own welfare. Access to flexible, convenient, and affordable financial services empowers and equips them to make their own choices and build their way out of poverty in a sustained and self-determined way.

4. MILLENNIUM DEVELOPMENT GOALS IN NEPAL

His Majesty's Government of Nepal (HMG/N) at the Millennium Assembly in September 2000 endorsed the Millennium Declaration. In order to review the progress made on achieving MDGs, country prepared the first MDGs Report (MDGR) in 2002[8]. Through the

[8]HMG/N and United Nations Country Team (2002), "*Progress Report 2002: Millennium Development Goals, Nepal*", Kathmandu, Nepal.

setting of baselines and numerical targets, the report provides a unique opportunity to reflect on Nepal's achievements over the last decade.

The MDGR has identified the status of 1990s and 2000 in addition to estimating the quantifiable and measurable target for 2015 for 21 indicators, 10 targets and seven MDGs (Table 1, Appendix). Over the past ten years, Nepal has made satisfactory progress in the areas of social and human development. More people have access to basic infrastructure and service these days than a decade ago. Nevertheless, poverty remains still a major challenge in the country. Significant gains have been made, within the last decade, in access to education, health, drinking water and few other sectors. There has been a significant rise in several dimensions of human capability. Nevertheless, the scale of achievement in relation to access remains much less than officially aimed for. Furthermore, the quality of education and health related facilities and services continue to remain low. Human Development Index for Nepal is low at 0.466 (NHDR 2001) and its distribution is highly uneven. The distribution of educational, health-related and other opportunities and attainments remains highly unequal along regional, urban rural, gender and socio-economic dimensions. Other measures such as the Gender-related and Development Index, Gender Empowerment Measure and Human Poverty Index, etc. also show a low level of capability as well as an unequal distribution. All established poverty measures show that various forms of poverty are persistent and widespread in nature.

Though over one third of the elapsed time, the progress in each indicators/targets related to MDGs is quite low and it seems to be quite difficult to attain these goals and targets by 2015. Assessing the extent to which development goals will be reached, MDGR express that seven targets are unlikely to attain, one has potentiality to attain, one will probably be attained while lack of data make it difficult to assess whether target will be attainable (Table 2, Appendix), especially the one related to environmental balance. Regarding the status of supportive environment, the report identifies weak environment for four targets, weak but being improving for three targets, fair for two targets and strong for one target (Table 2, Appendix).

5. MICROFINANCE AND MILLENNIUM DEVELOPMENT GOALS

5.1 Role of Financial Services

Microfinance services can help break cycle of poverty when it is invested in an economic activity that generates increased earnings. Similarly, saving money in a safe place provides the poor a cushion against sudden shocks, such as illness or a bad harvest, which could easily push them into destitution. Financial services enable the poor to increase and diversify incomes, build human, social and economic assets, and improve their lives in ways that reflect the multidimensional aspects of poverty. Poor people choose to invest in a wide range of assets including better nutrition, improved health, access to schooling, a better roof on homes, and business expansion. Clients of the MFI manage small income generating activities and enterprises (agro-based, cottage industries and trade/services) using the financial services (Table 2).

Table 2: Profitability Status of the Enterprise

Enterprise type	Annual Operating			Rate of return (%)
	Gross income	Total cost	Profit	
Agro-based	13,793	5811	7982	37
Cottage industry	14,294	9972	4322	28
Trade/services	23,400	7867	15533	97
All enterprises	14,394	7352	7043	36

Source: Dhakal N. H. 2001a.

Almost all these enterprises are profitable with high rate of return on investment ranging between 28 and 97 % with an average of 36%. Majority of the clients (90%) of four MFIs (MDB, SCC, SFCL and FI-NGO: Dhakal 2001b) experienced improved status after receiving microfinance services through asset creation, increase in income, duration of works, food security, availability of better food, social capital formation, increased weekly cash flow, improvement in general well-being, child care and health, and sending children to school.

5.2 Eradication of Extreme Poverty and Hunger

Microfinance allows poor people to protect, diversify, and increase their sources of income, an essential path out of poverty and hunger. Microfinance services has been instrumental to increase income and employment (self and wage) reflected in the form of change in weekly sale and profit that could be used to pay for school fees, or to bridge a cash-flow gap that has been instrumental at times to break poverty cycle. Clients' use of safe and convenient savings account enabled to accumulate enough cash to buy assets for general well-being (Table 3).

Table 3: Microfinance and Eradication of Extreme Poverty and Hunger

Particulars	Unit	Value
Increase in income	%	78
Increase in employment		
▪ Self-employment	%	79
▪ Self and wage employment	%	13
Change in weekly sale and cash flow	%	79
Change in weekly profit	%	58
Increase in duration of works	%	91
Increase in food security	Months	5
Improve in food security	%	85
Improvement on food intake	%	60
Sample size	No.	135

Source: Dhakal N. H. 2001a.

Microfinance also helps safeguard poor households against extreme vulnerability as the loans and savings help smooth out income fluctuations and maintain consumption levels even during lean periods. These services act as a buffer for sudden emergencies, business risks, seasonal slumps, or events like a flood or a death in family that can push a poor family into destitution. Of the clients surveyed, about 28% have been graduated out of the poverty, weekly income of 58% clients have increased while 85% clients have been able to increase food security by an average of five months, while 60% have avail better food.

5.3 Promoting Education Improvement

One of the first things poor people do with new income from micro enterprise is invest in their children's education. Greater access to financial services and increased incomes allows poor people to invest in their children's education. Children of microfinance clients are more likely to go to school and stay in school longer. Student dropout rates are much lower in these households. To support this priority, some SCCs and FI-NGOs have introduced new credit and savings products specifically tailored to school expenses while GBB and Nirdhan make reading and writing by clients mandatory.

About 70% MCPW clients are sending their children to school while over 59% have used increased income in children's education. Children's schooling rate has been increased by 19% in 2002 compared to 1996 while literacy rate of the family members have been increased by 15% during this period. Thus, greater access to financial services and increased incomes has allowed clients to invest in their children's future. Nearly all girls in client households have received schooling.

Table 4: Microfinance and Education Improvement

Particulars	Unit	Value
Sending children to school	%	70
Increase investment in children's future	%	59
Increase in children's schooling rate	%	19
Increase in literacy rate of family members	%	15
Sample size	No.	1067

Source: Dhakal, N. H. 2002b.

5.4 Improving Health Outcomes for Women and Children

Loss of earnings due to illness and health care-related expenses can quickly erode incomes and savings, often forcing poor to sell off assets and go into debt. Access to financial services allows clients to seek health care services when needed, rather than wait until an illness has reached crisis proportions. MCPW clients appear to change nutrition pattern, health practices, and health outcomes between 1996 and 2002.

Table 5: Role of Microfinance on Health Aspects

Particulars	Unit	Value
Improvement on child care	%	41
Improvement on general health care	%	28
Toilet	%	12
Information on vaccine		
▪ Timely use of TT	%	8
▪ Timely use of DPT/BCG/Polio	%	8
▪ Use of Jevan Jal during diarrhea	%	9
Sample size	No	1067

Source: Dhakal, N. H. 2002b.

Larger and more stable incomes from income generating activities lead to better nutrition, living conditions, and preventive health care. Increased earnings and financial management options allowed clients to treat health problems promptly rather than waiting for conditions

to deteriorate. About 41% clients reported the improvement on child care while about 28% mentioned improvement in health care. Proportion of HHs with toilet has increased by 12% point in 1996/97 (65%) compared to 2002 (77%). Survey provided evidence to increased proportion of women clients with information on timely use of TT (8.2%), DPT/BCG/Polio (8.1%) and use of Jevan Jal during diarrhea (9.4%). Fewer clients suffered from malnutrition while they responded better with re-hydration therapy for children with diarrhea and had higher rate of DPT immunization among their children (Table 5). This indicates greater role of microfinance services and exposure it provides during the process (basic and skill training) for increased impact on health and sanitation status of the clients in 2002 compared to 1996.

5.5 Microfinance and Public Infrastructure

Increased earnings lead the poor to invest in improved housing, water, and sanitation. Mostly Grameen Replicators provide specific loans for tube-wells and toilets; while some NGOs like Lumanti have linked microfinance to slum improvement projects. Such projects facilitate community infrastructure, paid for by loans from MFIs. About 32% MCPW clients has created asset (land purchase, house construction/improvement, increasing livestock heard and other productive asset) while some 15% has buy / construct new house / land out of the accumulated retained earning from the enterprises.

Table 6: Microfinance, Asset and Public Infrastructure Creation

Particulars	**Unit**	**Value**
Asset creation	%	32.0
Buy/construct new houses/land	%	15.0
Source of Drinking Water		
▪ Community Pipe water	%	17.1
▪ Well/dug well	%	-6.3
▪ Stream/river	%	-1.9
▪ Private stream	%	-8.9
Sample size	No	1067

Source: Dhakal, N. H. 2002b.

Community pipe water, well/dug well, community stream/river and private stream are source of drinking water to women clients served by MCPW. Proportion of HHs using community pipe water scheme has increased by 17.1% between 1996/97 (59%) and 2002 (76.3%), while proportion of HHs relying on well/dug well, stream/river and private stream has decreased greatly (Table 6). Women beneficiary HHs access water from reasonable distances that range between 0 and 30 minutes for most cases. There has been increased impact on drinking water status of the MCPW clients in 2002 compared to 1996.

5.6 Microfinance and Women's Empowerment

Mostly Nepalese MFIs target women as their clients. Women often prove to be more financially responsible with better repayment performance than men and more likely to invest increased income in the household and well being of the family than men. Access to financial services can empower women to become more confident, more assertive, more likely to participate in family and community decisions, and better able to confront systemic

gender inequities (Table 7). But such empowerment is by no means automatic for most gender-related issues are complex. Appropriately designed loan and savings products can have a strong, positive effect on women's empowerment, resulting in women owning more assets, having a more active role in family decisions, and increasing investment in family welfare. Further, increased ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities.

Women's empowerment through micro-financial services takes different forms such as making joint decisions with their husbands on loan application, borrowing in stated purposes, purchase from loan finance, allocation of household money (financial decision), children's education, use of contraceptives and family size as well as seeking assistance from husband, children and other family members on business management and business handling. MFI clients had made decisions on their own on aspects related to buying and selling of property, sending daughters to school, marrying children, and family planning. There are instance that they have also lobbied for higher wages, the rights of women in the informal sector, and resolving neighborhood issues. Clients of some MFIs have run for local government office and won. They are handling both household and business works as well as shared family responsibility with husband and male relatives (CECI 2000).

Table 7: Microfinance and Women Empowerment

Particulars	Unit	Value
Decision to borrow in stated purpose		
▪ Self	%	71
▪ Husband	%	22
▪ Family members	%	7
Assistance received for loan application		
▪ Husband	%	49
▪ Other family members	%	16
▪ Outsiders	%	23
Purchase from loan finance		
▪ Self	%	74
▪ Husband	%	16
▪ Other family members	%	10
Financial decisions		
▪ Self	%	79
▪ Husband	%	14
▪ Other family members	%	7
Ownership of enterprise		
▪ Self	%	93
▪ Husband	%	4
▪ Other family members	%	2
Assistance from children and involvement		
▪ Regular	%	13
▪ Occasional	%	30
Handling of both household and business works		
▪ Sharing with husband	%	7
▪ Using surplus time only in the business	%	87
▪ Hiring labor in business management	%	1
▪ Hiring labor in household activities	%	4
Assistance from husband/male relatives		

Particulars	Unit	Value
▪ Business management	%	32
▪ Business handling	%	29
Sharing family responsibility with husband/male relatives	%	78
Complain by husband/male relative on involvement in MFI services	%	19
Social capital formation	%	80
Improvement in general well-being	%	93

Source: Dhakal N. H. 2001a.

An empowered woman uses her choices to further her own sense of well-being and that of her family's. There are many ways or sources of well-being for women and they are not devoid of a sense of personal power. Most women clients strongly express a desire for more opportunities in order for them to fulfill empowerment described earlier. The changes which women desire vary from those which can be initiated by the family, such as training in literacy, to those which require changes to laws and social norms.

Most women clients feel empowerment as having choices to decide how to develop family and individual well-being. Micro-financial services, especially through SCCs and SFCLs, present a number of opportunities for women to pursue their family oriented goals and enhance their own role in the household. By implementing changes to their practices, these MFIs can create avenues for access and participation, which will enable them to pursue the other goal of empowerment.

5.7 Reaching Microfinance Services to Extreme Poor

Halving the number of people living in absolute poverty - people subsisting on less than one dollar a day - is one of the most fundamental MDGs. Does microfinance cater these categories of people in a massive scale? The first question is whether it is financially feasible to reach those in absolute poverty. In most MFIs, poorer clients tend to take out smaller loans, and as average loan size gets smaller, costs of service delivery seem to be harder to cover. Mostly member-based MFIs such as SCCs and SFCLs and few MDBs has been able to counteract this cost pressure, reached extremely poor and covered their costs through simplified, cost-effective banking approaches. Most of the clients served under MCPW through women SCCs and FI-NGOs live on less than one dollar per day and own no agricultural land and their return on assets is quite encouraging. Likewise, over 95% of the Nirdhan's clients live on less than one dollar a day and its adjusted return on assets for 2001–02 was 0.4 percent.

Everyone involved in microfinance shares a basic goal of providing credit and savings services to thousands or millions of poor people in a sustainable way. Hence, a growing number of MFIs targets to people living on less than one dollar a day as their clients but their financial sustainability is questionable due to varied reasons. Even in relatively unfavorable settings these institutions had developed service delivery methods so tailored to their clientele and so efficient that clients could afford to pay the full cost of the services, making the institutions financially viable.

The trend in microfinance industry is towards commercialization to ensure long-term sustainability. Unfortunately, this trend is coupled with movement away from serving the very poor. This is because in the search of financial viability, institutions are going up markets. They have either increased average loan sizes by growing with their customers,

and/or developed new, large-loan products for new markets. Average loan size is the proxy for depth of outreach. Few MFI consider going down market (serving poorer clients) as a good business opportunity. Instead, they broaden services to reach a better-off clientele, or they say financial viability must be compromised to reach the poorest, or they reason that microfinance cannot help the very poor who need different types of social services. Even those who argue that breadth and depth of outreach are compatible (with few notable exceptions) have yet to demonstrate that large number of truly poor can be reached viably.

6. CONCLUSIONS

This paper demonstrates a clear and proven link between the access to microfinance services to the poorest of the poor and poverty reduction. Financial services enable the poor to increase and diversity incomes and build assets, which assist to reduce and mitigate risks, make choices and plan for future. Access to financial services have significant impact to clients across wide range of economic and social indicators, including increased income, improved nutrition, better food intake, better consumption on clothing, better housing, lower child mortality, lower birth rate, higher adoption of family planning practices, better health care, better access to education for children, empowerment of women, participation in social and political activities, etc. Nevertheless, financial services for the poor are not substitute for investment in education, health or infrastructure.

There is a direct link between microfinance and at least five of the MDGs. Effectively designed microfinance products and services can be one of the effective tools towards creating enabling environment for achieving remaining MDGs. Extensive evidence demonstrates that microfinance helps reduce poverty through increases in income, allowing the poor to build assets and reduce their vulnerability. Households that have access to microfinance spend more on education than non-client households. Improvements in school attendance and the provision of educational material are widely reported in clients households. Access to financial services from MFIs' has enabled many families to send children to school, and has reduced dropout rates in higher primary grades. Clients of Nepalese MFIs are overwhelmingly female and they have widely credited for empowering women by increasing their contribution to household income, the value of their assets, and control over decisions that affect their lives. Microfinance contributes to improved nutrition, maternal and child health and housing, especially among children and women. With strong management and efficient operations, the massive scale required to reach the million of people targeted by the Nepalese MDGR is possible.

Providing sound financial services for the poor is a specialized activity requiring expertise and a long-term commitment. Microfinance services should be extended in areas where poor lives. Achieving large-scale sustainable microfinance requires engaging more MFIs with different objectives, services, and needs for subsidy. Strong MFIs must be strengthened and their successes be replicated wherever possible. Poor need a wide array of flexible financial services and a demand-driven approach that encourages portfolio diversity by offering poor savings, insurance, and cash transfer services in addition to various loan products is likely to meet this expectation. The role of the government is critical in the entire process. Rather than acting as direct providers of financial services, government should create an environment that encourages large number of MFIs to serve the poor, safeguard poor people's money, promote competition and develop technical expertise of supervisory and regulatory authorities.

Donor's role is critical for the promoting microfinance services. They should develop a clear and coherent strategy for support in microfinance sector. Donor should establish consensus on when and how subsidies should be used to support MFI and which other instruments would be more appropriate in addition to taking risks of working with less well-known but promising institutions of all kinds, leaving commercially viable MFIs to graduate to private investors. Grants or limited subsidies to institutions developing new products or technologies are required with special efforts directed towards encouraging institutions that develop savings-based products.

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APPENDIX

Table 1: Nepal's Target towards the MDGs

Goal	Target	Indicators	1990	2000	2015
Eradicate extreme poverty and hunger	Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day	Population below $! Per day PPP values (%)	37.7 (95)	N/A	17
		Population below national poverty line	42 (96)	38 (01)	21
	Half between 1990 and 2015, the proportion of people who suffer from hunger	Population below minimum level of dietary energy consumption (%)	49 (92)	47 (97)	24.5
		Underweight under 5 children (%)	57	48	28
Achieve Universal Primary Education	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	Net enrolment rate in Primary education (%)	64 (90)	72	100
		Pupils starting grade 1 who reach grade 5 (%)	38 (94)	45 (99)	100
Promote Gender Equality and Empower Women	Eliminate gender disparity primary and secondary education preferably by 2005 and to all levels of education no later than 2015.	Girls to boys in primary education-gross enrolment (%)	56	79 (99)	100
		Girls to boys in lower education-gross enrolment (%)	41	71 (99)	100
		Girls to boys in higher secondary education-gross enrolment (%)	-	65 (99)	100
Reduce Child Mortality	Reduce by two-thirds, between 1990 and 2015, under-5 mortality rate	Under-5 mortality rate per thousand live birth	162	91	54
Improve maternal health	Reduce by two-thirds, between 1990 and 2015, maternal mortality rate	Maternal mortality ratio (per 100,000 live births)	515 (91)	539 (96)	129
		Deliveries attended by health care providers (doctors, nurses and midwives)	7.4 (91)	10.8 (01)	100
		Contractive prevalence rate	24.1 (91)	39.9 (01)	100
Combat HIV/AID, malaria and	Have halted by 2015 and begun to reverse the spread of	HIV prevalence rate among adults - 15-49 years of age (%)	0	0.29 (99)	2

Goal	Target	Indicators	1990	2000	2015
other diseases	HIV/AIDS	Contractive prevalence rate	24.1 (91)	39.9 (01)	100
	Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	Malaria cases per 100,000 people (No)	115 (92)	29 (97)	-
		Tuberculosis cases per 100,000 people	92 (95)	160 (98)	-
Ensure environmental sustainability	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Land area protected to maintain biological diversity	11	18	-
		Change in Km^2 of forest area	37 (86)	29 (95)	-
		GDP (1000 Nr) per unit of energy use (TOE)	20	48	-
	Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Population without access to drink water supply	54 (91)	20	21

Source: HMGN and United Nations Country Team. 2002. MDGR, Nepal
Note**:** Figure in 1990 and 2000 is the actual information while 2015 relates to targets.

Table 2: Nepal's Progress Toward the MDGs (Status at a Glance)

Goals	Will the development goals reached	Status of supportive environment
Extreme Poverty: Halve the proportion of people living below the national poverty line by 2015	Unlikely	Weak
Hunger: Halve the proportion of people who suffer from hunger between 1990 and 2015	Unlikely	Weak
Universal primary education: Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Unlikely	Fair
Gender equality: Achieve equal access for boys and girls to primary and secondary schooling by 2005	Unlikely	Weak but being improving
Child mortality: Reduce under-five mortality by two-thirds by 2015	Potentially	Fair
Maternal health: Reduce maternal mortality ratio by three-quarters by 2015	Unlikely	Weak but being improving
HIV/AIDS: Halt and reverse the spread of HIV/AIDS by 2015	Unlikely	Weak but being improving
Malaria and other major diseases: Halt and reverse the incidence of malaria and other diseases by 2015	Unlikely	Weak
Environmental balance: Reverse loss of environmental resources	Lack of data	Weak
Access to safe drinking water: Halve the proportion of people without access to safe drinking water	Probably	Strong

Source: HMGN and United Nations Country Team. 2002. MDGR Nepal