

## Impact Of Grameen Bikas Bank On Rural Poverty Alleviation In Nepal

Vishnu Prasad Sharma\*

### INTRODUCTION

Nepal is low income country with a percapita income of just US \$ 180 with an annual average real income growth of about 3.5 percent over the last decades, poverty is wide spread in the country. The survey report of Employment, Income and Consumption Patterns conducted by National Planning Commission in 1976/77 estimated poverty incidence of 32.9 percent in 1976/77 which was based on minimum percapita daily calorie requirement of 2256 calories. Basic Needs Programme in 1984/85 derived poverty line assuming minimum daily percapita requirements of 2140 calories for terai, 2340 calories, for hill/mountain and 2250 calories for all Nepal; 65 percent of family budget devoted to food; and all calories requirements met from cereals, pulses and potato only, and estimated poverty line at 1984/85 price was 73 percent of percapita income, indicating a situation of pervasive poverty. Similarly, the 1984/85 MPHBS of Nepal Rastra Bank estimated about 43.1 percent as rural poverty and 1.2 percent as urban poverty incidence, following the above definition, giving a national average of 41.4 percent. Eighth Five Year Plan 1992/97 estimated 49 percent poverty incidence in 1992. Based on micro and macro level studies and reports, the best guess estimate of present poverty incidence is 55 percent of total population of 11 million absolute poor in a total population of 20 million. It is estimated that 95 percent of poor live in rural areas where 90 percent of total population lives. Out of these rural poor, four-fifth are either self employed in agriculture or agriculture labourers with or without tenancy. The only important assets which the poor possess is unskilled labour, forced to sell at extremely low wage, opportunities for non-farm employment are few and the demand for agricultural labour is highly seasonal. The rate of rural employment is reported to be over 40 percent. In addition to chronic poverty, the rural poor are also grinded under the burden of inherited and increasing indebtedness at high rate of interest than the institutional rate, from 36 to over 100 percent. The recent Rural Credit Survey conducted jointly by Nepal Rastra Bank and Asian Development Bank shows 39 percent rural families under debt, 86 percent of whom borrowed from non-institutional source, only 20 percent

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\* Mr. Sharma is Associate Professor at Centrel Department of Economics T. U., Kirtipur.

from institutional and 6 percent from both. A majority of poor is actually hard core of ultra poor, who spends most, about three-fourth, of budget in food alone. Women constitute a relatively more deprived group because of intra-household as well social and legal discrimination between the sexes.

The burden of poverty is spread unevenly among the regions of the developing world, among localities within those countries. It is estimated that more than one billion people in the developing world live in absolute poverty. Nearly half of the world's poor live in South Asia, a region that accounts for roughly 30 percent of the world's population. In this context Nepal's rural sector needs modernization, diversification and commercialisation of production and distribution system. Even among the rural people, the poorest of the poor need more sustained assistance to enable them to stand on their own feet. Construction of rural physical infrastructure would provide some assistance temporarily, but that alone cannot provide sustained employment and income. They need assistance, exclusively targeted at them, for social development, asset creation, skill development, technology transfer and marketing to provide long term employment opportunities. A properly designed and effectively implemented financial system could thus help the rural poor to create productive assets as well as increase employment and income.

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

In this situation, need was felt for a programme which is targeted effectively towards the poorest of the poor. Such type of programme was being implemented and had good performance by Professor Mohammad Yunus at Chittagaon, Bangladesh. That programme was named as

"Grameen Bank" and it was based on Grameen Bank Financial System (GBFS). This programme was replicated in Nepal in 1991 in the form of an NGO, namely, NIRDHAN which started initial work in January 1993 in Rupandehi District, Western Nepal and first loan was distributed on March 14, 1993.

In the meantime, with the emergence of new democratic political system, His Majesty Government decided in July 1992 to create two rural developmental banks, namely, Sudur Pashchimanchal Grameen Bikas Bank and Purwanchal Grameen Bikas Bank and established.

## CONCEPT OF RURAL DEVELOPMENT

The term *rural* essentially means an area which is characterised by non-urban style of life, occupational structure, social organisation and settlement pattern. Rural is essentially agricultural; its settlement system consists of villages or homesteads; socially it connotes greater inter-dependence among people, more deeply rooted community life and a slow moving rhythm of life built around nature and natural phenomenon; and occupationally it is highly dependent on crop farming, animal enterprises, tree crops and related activities.

In order to understand the rural areas and their problems, they have to be seen from two perspectives; any change in the rural areas requires structural changes internally and the social, economic and other changes in its external relations. This implies two things; firstly, rural development can not be achieved in full unless the internal economy and policy undergoes a change; secondly, rural development forms a part of the total development process of the nation including that of urban areas, so that terms of trade between rural and urban areas are as equitable as possible. Rural development, therefore, consists of two major components - the internal and the external, each of which must mutually support the other for harmonious ends.

In the same sequence of thinking, rural development, would essentially mean desired positive change in the rural areas-both in a quantitative as well as in a qualitative sense. Thus rural development is an real concept. It is a complete term which integrates a variety of elements of human life and activities. We may broadly classify the numerous elements into the following broad dimensions:

- Social
- Economic
- Technological
- Natural

Rural development means desired changes in all these components. In this sense it means development of the rural areas in such a way that each component of rural life change in a desired direction in

sympathy with the other components.

Furthermore, rural development means structural change in the socio-economic situation in the rural areas in order that human welfare, which is the prime goal of all development, is secured at the earliest and that the society is able to absorb changes necessary in the field of technology, man and environment relationship, population growth etc.

## THE NEED FOR RURAL BANKING

Commercial banks occupy a unique position among financial institutions. This uniqueness of commercial banks arises on account of the fact that among the various financial institutions banks alone have the ability to create money in the form of credit and thereby provide the economy with additional purchasing power and liquid investable resources. Traditionally, however, a commercial bank has been considered basically as a business institution that aims at maximising its own profit while undertaking its activities, its service to society being incidental to the basic objective of maximising its own profit. This orthodox view on the nature of a bank has undergone a change in recent years and the banking system of a country is now being considered as constituting essentially and fundamentally the financial infrastructure of economy rather than as a mere agglomeration of profit seeking business institutions. A well developed commercial banking system is, therefore, one of the basic requirements of the rapid economic development of an underdeveloped country. Consequently, the functioning of commercial banks in a presently developing economy like Nepal should be motivated by *social productivity* and social objectives rather than maximising private profit. A case for a rapid expansion of rural banking in the country can be made out on the following grounds:

### To Correct Imbalances

Characteristic feature of the Nepalese commercial banking system is the existence of marked regional, local and sectorial imbalances in the availability of banking facilities in the country and in the distribution of bank credit with all their adverse effects on the rapid and balanced development of the country's economy.

### To Provide Institutional Credit to Rural Areas

Secondly, expansion of rural banking in the country arises on account of the need of the rural areas for an adequate elastic and cheap institutional source of credit.

### To Mobilise Rural Saving

Rural banking is also necessary in order to generate and mobilize



the saving of the agricultural and other rural sectors of the economy for productive investment in the non-agricultural sectors of the economy.

### **To Induce Rapid Economic Development**

It should also be noted that the urban industrial sector and the rural agricultural sector of an economy are not clear-cut competing sectors. On the contrary they are complementary to each other. The development of one sector encourages as well as sustains the development of the other sector through supplying each other's input requirements and by providing market for each other's products. It is possible to bring about a rapid development of an economy only when a strong link is developed between two sectors of the economy.

### **The Concept of Rural Banking**

Two distinct approaches to the concept of rural banking can be adopted: first, the geographical approach; and second, the functional approach.

#### ***The Geographical Approach***

The geographical approach to the concept of *rural banking* is to define a rural bank as a bank or branch of a bank situated in a rural area and rural banking transactions undertaken by such a bank and confined to a rural area.

#### ***The Functional Approach***

The second approach to the concept of *rural banking* is the functional approach according to which rural banking can be defined as financing and provision of other banking services to agriculture and other rural activities like cottage and small scale industries, rural artisans retail trade and other self-employment programmes in the rural areas. It may be noted, in this connection, that the regional banks functioning, in the country at the present are developed on this functional basis in order to provide financial assistance to certain well defined target group in the rural area. Establishment of GBB in Nepal has incorporated both the approaches.

### **Objectives of the Grameen Bikas Bank**

First Regional Grameen Bikas Bank was set up in 1992 along the lines of Grameen Bank of Bangladesh with the realisation that traditional banking system has not often resulted in improving the economic condition of the rural poor ; because the banking system often lacks in targeting the rural poor and credit delivery mechanism. The Grameen Bikas Banks have adopted Grameen Bank Financial System of Bangladesh which has been very effective in Bangladesh, because both Nepal and Bangladesh have similar socio-economic condition. The

Purwanchal Grameen Bikas Bank, Biratnagar, and Sudur Pashchimanchal Grameen Bikas Bank, Dhangadhi, have been established with the following objectives:

- To Provide banking facilities and services to the poorest of the poor in the society.
- To create income employment generating opportunity through credit and alleviate poverty prevailing among the poor people.
- To enhance awareness level of the poorest of the poor through training and literary classes.
- To uplift the socio-economic status of the poor people through community based programmes.
- To develop institutional mechanism from the grassroots level to link savings with credit and initiate self reliant economic activities for strengthening rural economy.
- To conduct action research on mobilising resources to support the poor.

#### **Policies of the Grameen Bikas Bank.**

- To provide services to poor and marginal people having less than 1 bigha (0.6 hectare) of land in terai and 10 ropani (0.5 hectare) of land in hill areas.
- To provide credit and banking services to poor women on priority basis.
- To organise the member into groups and provide credit on group liabilities without any collateral securities.
- To develop *financial system* through participatory approach for poverty alleviation and provide facilities for infrastructure development for the development of *financial system*.
- To disburse credit with primary focus on using traditional skill and physical assets and assist to increase income within a short period of time.
- To initiate banking activities preferably into the deprived areas based on the norms and value of bank.
- To involve women with first priority for the participation in banking programme.
- To develop coordination with line agency to transfer technology in rural areas.
- To have bottom-up planning under perfect decentralisation framework is the primary focus on the planning process which allows the beneficiaries to participate in local level planning, implementation, supervision and monitoring of the programme implemented/to be implemented.
- To have credit mobilisation through group comprising of 5 women or 5 men in each group.
- To provide banking services at their doorsteps, through the

formation of groups and establishment of the centres.

### **Strategies of the Grameen Bikas Bank**

- Training is considered as an entry point and integral part of the programme to change the knowledge status of the beneficiaries. Training on banking programme and procedures, literacy class, creating awareness, skill development, child immunisation, health and sanitation are organised on regular basis to enhance the existing knowledge.
- Members are psychologically prepared to initiate economic activities to combat poverty. For this, they are trained to follow disciplinary functions of bank.
- Without collateral securities, credit is disbursed on group liabilities. In addition, regular saving is mobilised.
- Group members involve in operating and managing the programme through participatory approach, thereby their institutional capability is enhanced. Operating cost is minimised through smooth operation.
- Beneficiaries are organised into groups. Each group comprises of five members of either sex from different households. So far beneficiaries are exclusively women members.
- Loan is disbursed on staggered basis i. e. all five members will not receive loan at one time. Initially, only two members (poorest of the poor among them) will be eligible to receive credit. Credit ceiling has been fixed at Rupees five thousand. These borrowers should pay the amount loaned on weekly instalment, attend meeting on regular basis and follow the group's norms for at least eight weeks to enable additional two members of the group for borrowing. All four members should behave well and follow the rules and regulation strictly till 16 weeks to provide borrowing opportunity to chairperson of the group.
- Group member must deposit Re. 1.00 per day for 9 days during the training period.
- Borrowers are obliged to deposit 5 percent of the credit amount in the group fund. Member can use group fund for emergency needs whenever they encounter trouble and problems.
- Besides compulsory savings each member must deposit Re. 1.00 every week as their individual savings. The saving should be deposited in group meeting to be held every week.
- Repayment of the loan is made on weekly basis. The principle and interest have to be repaid within 55 weeks.

## CONCEPTUAL FRAMEWORK: POVERTY

Now-a-days poverty is commonly pronounced but the concept of poverty is not so clear as we use it frequently. There are two distinct problems in theorising the concept. Firstly, the definition of poverty itself, and secondly, the specification of poverty line or minimum subsistence level of income/expenditure constituting the consumable goods and services, accepted by the society as a minimum subsistence level of living.

Most of the economists have defined poverty and poverty line with different views according to the different stages of development in different countries. Mr. Ruffin and Mr. Gregory (1983) are of the opinion that it can be either absolute or relative. An absolute poverty might be a situation in which per capita income is less than that required to purchase the basic essentials of food, clothing, shelter and education. However, national poverty exists just as strongly in a relative sense. If the citizens of the country know that their standard of living is only a small fraction of that of other countries, they are poor even if they can afford the basic necessities of life. According to this relative definition of poverty alleviation strategy can be said full proof only if it can narrow the gap between less affluent and the more affluent countries.

Regarding the concept of the term Mr. Thompson (1985) describes basically two approaches to a study of poverty. The absolute approach, which considers a family or an individual to be poor if its income is insufficient to allow it to attain some minimum standard of living. The relative approach which considers a family to be poor if its income is significantly below the average level which is concerned with inequality.

But, concerning the nature of the poverty problem, the opinion provided by Mr. Altimir (1982) is very much applicable to underdeveloped countries. Because he is of the opinion that poverty is a situational syndrome in which the followings are combined: under-consumption, malnutrition, precarious housing conditions, low education levels, bad sanitary conditions, either unstable participation in the production system or redistribution to its more primitive strata, attitudes of discouragement and anomie, little participation in the mechanism of social integration and possible adherence to a particular scale of values different to some extent from that held by the rest of society.

On the otherhand Mr. Macmara (1980) clearly and fairly spreads out the term poverty which is a condition of life so limited by malnutrition, illiteracy, disease, high infant mortality and low life expectancy as to be beneath any rationalistic state of human decency.

The above mentioned opinions on the term poverty are different in language and expression. However, they convey the same meaning and indicate two types of poverty approaches, absolute approach and relative approach. The people and households, which are not able to fulfill their essential basic requirements, like: food, cloth, shelter, health, education, etc. due to their low per capita income can be categorised as



those who fall below the poverty line in term of absolute and those people or households which have low income in comparison to the estimated average income can be categorised as those who fall below the poverty line in term of relative poverty. Similarly, if people are dying of hunger on account of their low per capita purchasing power, this is the absolute approach to poverty and if no one is hungry in society but some as compared with others are deprived of the bare essentials, this is the relative approach to poverty.

## OVERCOMING POVERTY THROUGH CREDIT

### The Grameen Bank Approach

The Grameen Bank Approach (GBA) of credit delivery for the poor is now being replicated in various parts of the world, with replications in developing countries such as Malaysia, the Philippines, Indonesia, Sri Lanka, India, Vietnam, Bhutan, Guinea, Kenya, Malawi, Zambia, Mali, Burkina Faso, Chile, Bolivia, Peru, Nepal and Pakistan. It has also been adopted in Canada, France and the United States, where it is being used to help people on welfare to become income -generators. Located in Bangladesh, Grameen Bank began as a small pilot project in the village of Chittagaon in 1976. Since then, it has evolved into one of the world's largest banking institutions for the poor, having disbursed a total of US\$ 489 millions as loans to over one million borrowers, 93 percent of whom are women, as at the end of October, 1992. (Getubig 1993).

Grameen Bank's impressive performance in terms of repayment and impact on the poor are the main attractions for potential replicators. The Bank's repayment rate of over 98 percent has been consistently maintained through its operation, despite charging market interest rates. In fact, high repayment rates have been achieved by all Grameen Bank replication programmes (92-100 percent). This largely reflects the fact that borrowers' loan investments are sufficiently profitable to cover their costs of borrowing and their weekly repayments. Estimates of returns on investments for representative projects consistently showed high yields. Grameen Bank, for example, has managed to increase its borrowers' income by over 30 percent in the Philippines, increases in the borrowers' monthly household incomes of 33 percent in the case of Ahonsa Hirap, Inc., and to 400 percent in the case of Project Dungganon have been recorded. There are indeed very high relative increases in net income achieved by the borrowers of Grameen Bank -type programmes which provide vital extra purchasing power for their basic needs.

## REVIEW OF POVERTY ALLEVIATION EFFORTS IN NEPAL

Nepal has been trying different approaches in its efforts to alleviate poverty in the country. In 1950's Government initiated Tribhuvan Gram Bikas (Tribhuvan Rural Development) programme for rural development along the line of community development programme of the government of India. The programme was discontinued after introduction of Panchayat system in 1961.

In the decade of seventies the overall rural development programme like Sajha Campaign, the Area Development Programme including a number of rural development programmes such as District Development Programme and the Integrated Development Programmes were initiated. But all these past efforts have been turned out to be ineffective to uplift the living standard of the poorest people, because the concerned small and marginal farmers are inefficient, tradition-bound, illiterate, unresponsive to economic opportunities, and unwilling to adopt new ideas or information. Under such circumstances the benefits of development had largely been derived by the relatively well-to-do sector. Thus the gap between large and small farmers had continued to widen and the poor became poorer and the number of poverty ridden people continued to increase.

By then it was well realised that the rural small farmers should be the main target group and development programmes should aim at uplifting the living standard of these poor people, for that targeted programmes have become an important element of poverty alleviation strategy in Nepal. After 1975 various new programmes based on target group approach were designed and incepted one after another. They include Small Farmer Development Programme (SFDP), Production Credit For Rural Women (PCRW), Intensive Banking Programme (IBP) and others such as Banking With The Poor (BWP), The Food For Work (FFW), Nutrition Supplement Programme and other programme carried out by NGOS.

Among the various targeted programmes the PCRW, IBP and SFDP are the main national level targeted programmes with larger coverage, which combine the elements of community development, income generating activities and credit in their approach. A brief critical assessment of these three major programmes has been made as follows.

### Production Credit for Rural Women (PCRW)

The PCRW being executed by the Women Development Section of The Ministry of Local Development, it was initiated in 1982. This programme aims at:

- Increasing the income of rural women.
- Enhancing the status of rural women in the society

This programme involves both credit and non-credit activities to achieve the above aims. As of July 1995, a total loan of more than NRs. 152 million was disbursed by more than 84 branch belonging to the three participating commercial banks namely, Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB) and Agriculture, Development Bank (ADBN). The numbers of borrowers stand at over 41 thousands rural women belonging to nearly 64 districts.

Two evaluation studies, the first one in 1985 and the second in 1989, done so far do not tell much on its contribution on quantifiable terms. However, available informations give an impression that participating women have been able to enhance their household income activities especially on agricultural and livestock rearing.

Credit under PCRW is advanced without collateral, yet the total amount of credit disbursed remained quite small keeping in view of the coverage PCRW had made so far. The main problem associated with PCRW is that it has remained one of the costliest poverty alleviation programmes as yet. Viewed from the number of total staff involved vis-a-vis the total number of beneficiaries served, an employee under PCRW caters to the needs of less than 32 beneficiaries as against more than 140 in Small Farmer Development Programme (Khadka 1992).

### **Intensive Banking Programme (IBP)**

To give commercial banks a rural oriented look, Nepal Rastra Bank, the central bank of Nepal, directed them in 1974 to invest at least 5 percent of their total deposit liabilities to the small sector consisting of agriculture, cottage industries and services, the small sector was redesigned as Priority Sector in 1976 and the level of lending was elevated 7 percent of their deposit. The Priority Sector was, however, once again renamed as Intensive Banking Programme (IBP). Under IBP commercial banks are required to lend at least 12 percent of their total credit advances to priority sectors, agriculture and cottage industries, of which 60 percent is to be directed to the families below povetry line. The commercial banks are also expected to provide some of the social services. The programme is being executed in 75 districts covering about 213168 borrower families.

The IBP would have shadowed all other programmes in terms of poverty alleviation if it had achieved its objectives particularly in advancing credit to the tune of mandatory arrangements. But the loan disbursement under IBP never crossed more than 2 percent of the total loan portfolio of commercial banks. The main reasons behind such a poor performance of IBP include:

- Relatively a higher overhead costs against the total loan disbursed, 18.4 percent in rural areas and 5.2 percent in urban areas (Khatri 1995).

- Reluctance on the part of commercial banks to bear the loan risks, which remain relatively higher because of collateral-free loans.
- Lack of motivation among the commercial banks, leading to non-departure from the existing go-easy culture with limited and secured lending which hardly pose any risk.

#### **Small Farmer Development Programme (SFDP)**

Nepal launched SFDP in 1975 as a field cum-research project, with an initial support from FAO/UNDP. Since then it is being continually implemented by the Agricultural Development Bank of Nepal (ADBN). The basic objective of the programme is to enable the target group, rural poor, to increase their income and welfare in self-reliant manner through expansion and diversification of their economic activities. The fundamental principle of the SFDP in Nepal is to organise the very poor small and marginal farmers, landless labourers of the rural Nepalese village into strong and effective group for planned development. The idea is that, individually poor are economically and socially weak, the group approach provides them the strength and they will be in a better position to receive and make use of the benefits of rural development.

Although institutional credit is the fundamental elements of the SFDP, yet the programme encompasses a large number of other services including, technical and financial support for social and community development activities such as adult literacy, child care, agro-forestry, irrigation development, women's development programme etc.

Upto the end of the Fiscal Year 1994/95 the SFDP has spreaded over more than 652 Village Development Committees (VDCS) and the number of its Sub-Project Offices (SPOs) has reached almost to more than 422 covering 75 districts of Nepal and are serving almost one million small farmers in the country. The total amount of loan disbursed by the end of FY 1994/95 under the SFDP has been reported to be more than 292 million Nepalese Rupees.

The operational progress and achievements of the three major credit oriented targeted programmes discussed above has been summarised in Table A.

Although Table A shows that, the IBP has the larger coverage in terms of number of borrowers and amount of loan disbursed but the proportion of the credit made available under IBP to the poorer households remain small. The APROSC evaluation study found that 13.6 percent of the projects in the sample area, 5 percent of borrowers and 2.6 percent of the total disbursement were based on group guarantees. Even within this proportion, significant portion of lending belonged to PCRW programme. Thus the impact of IBP on poverty alleviation remained almost negligible (Khadka 1992).

**Table A**  
**Progress of Three Major Poverty Alleviation Interventions in Nepal**

Programmes	Number of Districts Covered	Number of VDCs Covered	Number of Members Involved	Total Amount of Loan Disbursed
SFDP	75	652	182507	292 Million NRs
PCRW	64	322	41642	152 Million NRs
IBP	75	-	213168	299.6 Million NRs

Source : Respective Institutions

### **RATIONAL OF GRAMEEN BIKAS BANK FOR POVERTY ALLEVIATION**

After the restoration of multi-party democracy, Eighth Five Year Plan was formulated in which poverty alleviation is stated as the national goal, and the present government has stated that poverty alleviation and uplifting the living standard of disadvantaged and backward rural poor are its main objectives for which the envisaged strategies are :

- Employment generation through the extension of productive sector and launching the "Build Your Village Yourself Programme."
- Redistributive measures including land reform, restructuring public expenditures and various relief packages.

In the past the First Year Plan 1956-61 had the goal to raise standards of living and general well-being throughout the country. By the time the sixth and seventh plans the poverty alleviation programme almost fully taken shape inside the cover of basic needs programmes, which, however, did not get translated into action.

There were very few targeted programmes for poor in the past. Even Small Farmers Development and Production Credit for Rural Women have covered so far a negligible fraction of total poor in the country, nearly about 20 thousands poor families out of 2 million absolute poor families. Therefore, rural people, the poorest of poor, need assistance, exclusively targeted at them, for social development, asset creation, skill development, technology transfer, marketing and long term employment. A properly designed and effectively implemented financial system could help the rural poor and in this respect provision of credit creates productive assets as well increase employment and income. With the realisation that credit can play very important role to increase production, income, employment to low income people, the Nepal Rastra



Bank directed commercial banks in 1975, to provide five percent of their deposit liabilities to low income families under the priority sector programme. Later, it was found that most of the credit was not properly utilised, neither did it flow towards the low income group. As a result, Nepal Rastra Bank redesigned the priority sector programme into the Intensive Banking Programme and directed commercial banks to invest at least 12 percent of their loan and advances under this programme. But, because of commercial urban orientation of banking set-up and emphasis on collateral by the commercial banks, the programme failed to achieve the desired objectives. SFDP also deviated from its basic mandate of providing credit to small farmers with more emphasis on collateral. The landless and poor section of small farmers were thus, largely neglected by the SFDP which was in fact designed to cater their needs.

In the light of these facts, urgent need of a programme which is targeted effectively towards the poorest of the poor is felt. Highly impressed with performance of Grameen Bank of Bangladesh and its operational systems, some sort of government sponsored formal banking institution to introduce Grameen Bank Financial System concept in Nepal was tried and, in July 1992, with the emergence of multi-party democratic system, His Majesty Government of Nepal created two rural development banks with the share capital of NRs 30 millions each, which started their loan operations in July 1993. These two Grameen Banks have played an instrumental role in introducing the concept of Grameen Bank Financial System in Nepal laying conceptual foundation of the Bangladesh Grameen Bank type rural bank in Nepal to make the effective instrument to eliminate rural poverty. Progress reports of these two banks alongwith NIRADHAN and Self-help Banking Programme (SBP) show that upto mid-August 1994, total loan disbursed was to the tune of 53.07 millions Nepalese Rupees covering 14,157 members. This indicates that GBFS has made rapid stride in Nepal in a very short span of time, astonishingly covering one percent of 1.5 million poor families. This justifies that GBFS can be replicated successfully and expanded to alleviate poverty.

## **SUBSTANTIATION FROM CASE STUDY**

It is in this context the rational of assessing the positive impact created by GBFS for poverty alleviation lies which can be substantiated with following case studies conducted by the author.

### **Population and Sample**

Main study comprises one VDC, Fulwari Village Development Committee of far-western development region and four VDCs of eastern development region namely Dhulabari, Duwagadi, Dhaigam and Jyamirgadi covering all rural poor women who have borrowed loan from GBBS. So the 175 women in far-western and 125 women in eastern

villages are the population of this research. A sample of 84 in far-western and 60 in eastern region's borrowers were randomly drawn as the representative of this population. This size of the sample is large enough to be representative of the population considering the homogeneous character of the borrower of the study area.

### Sample Technique

The list of the rural poor women borrowers of the VDCCS was provided by the Fulwari unit and Dhulabari unit office of the GBBS. From that list a sample of eighty four and sixty borrowers were randomly drawn by lottery system of simple random sampling without replacement method from PGBB and SPGBB respectively.

### PERFORMANCE OF GBB

Performance analysis of Grameen Financial Organisations, Nirdhan, SBP, PGBB, SPGBB show that GBFS has made a rapid stride in Nepal in a very short span of time, which can be substantiated from the Table 1.

**Table 1**  
**Progress of Grameen Financial Organisations in Nepal**  
(In Million Nepalese Rupees)

Particulars	NGOs		Government Sponsored Banks		Total
	Nirdhan	SBP	PGBB	SPGBB	
Loan Disbursed	2.414	0.995	33.810	15.891	53.07
Loan Repaid	1.053	0.183	14.773	8.459	24.468
Loan Outstanding	1.360	0.772	19.067	7.432	28.631
Overdue Percentage	-	-	-	-	-
Members' Savings	0.229	0.070	3.421	1.615	5.335
Number of Centres	31	29	364	173	597
Number of Groups	108	139	1826	760	2833
Number of Members	540	694	9122	3801	14,157
Number of Female Members	540	694	9122	3801	14,157
Number of Borrowers	490	552	7698	3488	12,228
Number of Branches	3	7	15	19	44
Number of Staff	16	12	127	113	168

Source: Progress Report of Nirdhan, SBP, PGBB, and SPGBB, 1995.

All these institutions (Nirdhan, Self-Help Banking Programme, Sudur Paschimanchal and Purwanchal Grameen Bikas Bank) replicating GBFS in Nepal, have already covered 1 percent of 1.5 million poor families. The Table 1 shows that, given resources and proper operational

and organisational framework GBFS can be replicated successfully and expanded in a poor country like Nepal.

### LOAN DISBURSEMENT PATTERN

Loan disbursement pattern (Table 2) of Sudur Paschimanchal Grameen Bank's in Fulwari VDC, Kailali, and Purwanchal Grameen Bank's in Dhulabari, Jyamirgadi, Dhaigan and Duwagadi has also intensified the above conclusion. The operational size of loan of these institutions has ranged between NRs 500 to NRs 5000, but the remarkable achievement lies in the sense that the poor are also capable of generating savings (Table 7), which is corroborated by Rural Credit Survey, recently conducted jointly by Nepal Rastra Bank and Asian Development Bank, which estimated rate of gross saving by rural households at around 8 percent.

**Table 2**  
**Loan Disbursement Pattern**

(In NRs)

First Phase PGBB			First Phase SPGBB		
Amount	Sample No. of Borrowers 60 out of 125	Percentage of Total Borrowers	Amount	No. of Borrowers of 84 out of 175	Percentage of total Borrower
2000	11	18.3	1000	1	1.2
4000	12	20.0	1500	1	1.2
5000	37	61.0	2000	4	4.8
			3000	1	1.2
			5000	71	91.7
Second Phase PGBB			Second Phase SPGBB		
5000	23	38.33	2000	16	19.05
6000	4	6.66	4000	5	5.95
7000	2	3.33	6000	6	7.14
8000	5	8.33	8000	6	7.14
10000	26	43.33	10000	51	60.71
Third Phase PGBB			Third Phase SPGBB		
2000	2	3.33	-	-	-
5000	28	46.66	-	-	-
8000	8	13.33	-	-	-
10000	4	6.66	-	-	-
12000	18	30.00	-	-	-

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

## CHANGE IN OCCUPATIONAL PRACTICES

A changes can also be observed in the occupation through the loan syphoned in different occupations by the both the Purwanchal and Sudur Paschimanchal Grameen Bank's members (Table 3).

**Table 3**  
**Occupational Change After GB Banks' Interventions**

Occupation Before Banks' Interventions				Occupations	Occupation After Banks' Interventions			
Purwanchal		Paschimanchal			Purwanchal		Paschimanchal	
Members	Percent age	Members	Percent age		Members	Percent age	Members	Percent age
37	61.66	49	58.33	Agriculture	x	x	x	x
x	x	x	x	Animal Husbandry	25	41.66	39	46.43
10	16.66	17	20.23	Retail Business	4	6.66	24	28.57
x	x	x	x	Cattle Trading	3	5.00	4	4.76
6	10.00	6	7.14	Wage Earners	x	x	x	x
x	x	x	x	Cottage Industries	13	21.66	x	x
2	3.33	5	5.95	Hotel	7	11.6	6	7.14
x	x	3	3.57	Tailoring	3	5.00	3	3.57
1	1.66	2	2.38	Others	5	8.33	8	9.52
4	6.66	2	2.38	No. Occupation	x	x	x	x

Source: Compiled from the data obtained by the Author from the Field Survey 1995.

It is obvious from the Table 3 that after the interventions of the banks out of 37 banks' members in the study area of Purwanchal who were engaged purely in traditional agriculture occupation, 25 members have entered into animal husbandry occupation and in Paschimanchal out of 49 members, 39 entered in animal husbandry, and this occupational shift can be distinctly observed in other areas also either in the form of extension of retail shop, opening up with new business like poultryfarming. This indirectly is incubating enterpreneurship talent and leadership in poverty ridden people which has been possible only with GBBS' credit extension.

## INCOME INCREMENT

Similarly findings show remarkable change in income of the poverty ridden people both in kinds and money (Table 4).

**Table 4**

### Income of Member Before and After GBBS' Interventions

Income Group In Both Purwanchal and Paschimanchal (Per Month In NRs).	Before Borrowing		After Borrowing	
	No. of the Member	Percentage of the total Member	No. of the Member	Percentage of the total Member
0-499	58	40.2	14	9.7
500-999	33	22.9	33	22.9
1000-1499	36	25.0	40	27.7
1500-1999	7	4.8	33	22.9
2000-2499	5	3.4	9	6.2
2500-2999	5	3.4	3	2.0
3000-3499	0	0	9	6.2
3500-3999	0	0	0	0
4000-5000	0	0	3	2.0

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

Income effect after the GBBS' intervention has been positive on the members of the bank both in Purwanchal and Paschimanchal area when GBBS has extended its credit expansion programme. Before GBBS' intervention members below the income of NRs 500 per month constituted 40.2 percent in 144 members groups which drastically reduced to 9.7 percent after GBBS' credit facility, while members having income between 1500-1999 NRs. constituted 22.9 percent which was merely 4.8 percent before GBBS' interventions. This has resulted an increase in the average income of the members by hundred percent per month (Table 5).

**Table 5**

### Average Monthly Income of The Members

(In NRS)

Average Monthly Income Before GBBS' Intervention	Average Monthly Income After GBBS' Intervention	Percentage increase of Income Per Month
1390.4	2784.21	100.2

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.



## SAVINGS GENERATION

A positive correlation between income and saving has also been observed in generation of savings after GBBS' intervention which justifies that poor are also capable of saving if they are provided with production credit (Table 6).

**Table 6**  
**Saving Trend After GBBS' Interventions**

Saving Group In Both Purwanchal and Paschimanchal (Per Month in NRs)	Number of Members	Percentage of the Total Members
100-299	88	61.1
300-599	31	21.5
600-899	19	13.1
900-above	6	3.5
Total	144	100

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

Table 6 illustrates that 61 percent members of GBBS is capable to save NRS 100 to 300 while 69 percent members of GBBS is capable to save more than NRS 300 per month. This signifies that monthly gross saving of these rural members household is 16 percent which is very much encouraging (Table 7).

**Table 7**  
**Average Monthly Saving of the Members**

(In NRS)

Average Monthly Income Affer GBBS' Intervention	Average Monthly Saving Affer GBBS' Intervention	Average Saving as the percentage of the average Income per Month Affer GBBS' Intervention
2784.21	225.76	16

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

## PROPERTY OWNERSHIP

A correlation can also be established in property holding before and after GBBS' intervention (Table 8).

**Table 8**  
**Property Ownership Pattern After GBBS 'Interventions**

Property Ownership class (In NRS)	Before GBBS'		After GBBS' Intervention	
	Number of GBBS' Member	Percentage of Total GBBS' Member	Number of GBBS' Member	Percentage of Total GBBS' Member
1000-19000	14	9.7	5	3.4
20000-	47	32.6	23	19.9
39000	39	27.0	40	27.7
4000-59000	23	15.9	37	25.6
60000-	8	5.5	17	11.8
79000	13	9.0	22	15.2
80000-99000				
100000 and above				

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

The table 8 illustrates the fact that after intervention of the GBBS women's ownership in the property has increased to higher bracket income while lower bracket has declined. Before GBBS' interventions women's class holding property worth 60 to 79 thousand NRs was only 15.9 percent which sharply rose to 25.6 percent after bank's intervention. Same trend can be observed in property ownership of worth NRs 80000 to 0.1 million and above.

This reveals a very high rate of percentage increase in average property of poor people (Table 9).

**Table 9**  
**Increment in Average Property of the Members After GBBS' Interventions**

Average Property Holding Before GBBS' Intervention (In NRS)	Average Property Holding After GBBS' Intervention (In NRS)	Increase in Average Property Holding After GBBS' Intervention (In NRS)	Percentage Increase in Average Property Holding
124555.23	139004.04	14448.81	11.6

**Source:** Compiled from the data obtained by the Author from the Field Survey 1995.

Table 9 illustrates that in an average poors are accumulating property in 11.6 percent rate annually which guarantees them reliefs from misery and low standard of living which can be assessed as the successful role of GBB in poverty alleviation programmes.

## INSTALMENT REPAYMENT

### Incentive/Penalty System

Upto 9 December 1995, instalment repayment percentage was 100 percent in both SPGBB, PBB. The most powerful incentive/penalty feature adopted by Grameen Bikash Banks is the assurance of a bigger subsequent loan upon complete repayment of the previous loan, and the denial of this to any defaulting member and others in her group. Because the borrowers value high this access to a reliable and sustained source of reasonably priced credit, they go out of their way to make sure that they make their loan repayment on time. This is specifically true of the poor women borrowers who have no alternative credit access at all, often not even from the money lenders. Two added incentives are that the borrower need not fear any legal repercussions if she fails to settle the loan, and that the obligation to repay the loan does not fall on the family members in the event the borrower dies.

## CONCLUSION AND RECOMMENDATION

Loan amount, occupation, business, income, saving, consumption pattern, and property which have been taken as variables, and analysis and presentation of data on these show that there is significant impact of the borrowing on the income level, employment, poverty alleviation, entrepreneurship talent in poverty ridden people, saving, living standard of the rural poor women and their property etc.

### Conclusion

- More than 91 percent of the total borrowers has borrowed loan amount of Rs. 5,000.00 in the first phase investment and similarly, more than 60 percent has borrowed loan amount of Rs. 10,000.00 in the second phase investment. This statement reflects the fact that there is high demand for loan amount in the rural area but there is not yet enough supply of the loan amount.
- Before GBBS' intervention more than 58 percent of the total members was engaged in agricultural and less than 32 percent was in non-agricultural sector. After GBBS intervention more than 46 percent has started animal husbandry and about 53 percent are involved in non-agricultural sector. This fact shows that the loan amount borrowed from PGBB and SPGBB has significantly diverted the rural women from traditional sector to non-traditional sector.

- There has been satisfactorily increase in employment, development and in the entrepreneurship talent of the rural poverty ridden people because every borrower has started new business i. e. off-farm business.
- Before GBBS' intervention more than 40 percent of the total members had income amount of less than Rs. 500.00 per month whereas after GBBS intervention only 9.7 percent has remained in that class and other's income level is also increased.
- Before borrowing there was only 25 percent who had income amount of Rs. 1000.00 or more whereas after GBBS' intervention the percentage has been increased to 27.7 percent. This fact proves that there has been significant increase in the income level of the borrowers. Consequently poverty has been alleviated to some extent as member's income per month is increased by 100 percent after GBBS' intervention.
- Consumption pattern, sheltering and clothing is significantly improved which implies the living standard of the rural poor is uplifted.
- Saving is also created. Average saving has been 16 percent as the percentage of the average income per month after GBBS' intervention. This has further generated more wealth and property owned by the members has also increased.

### Recommendation

- There is high demand for loan amount in the rural area however there is not sufficient supply. Therefore, the bank should increase its lending capacity with low interest rate. If bank increases its lending capacity and provides loan to more rural poor people, they will be able to be self-employed by starting new business and consequently, their poverty will be gradually alleviated and their life-standard will improve.
- Every borrower has started new business but lacks modern business skill, and various infrastructure and prerequisite facilities like market, access to transport. Therefore, the government must take steps to built infrastructure such as transportation, markets, and arrange training to develop skill.
- The government should arrange the facilities of veterinary to the borrowers who have started animal husbandry through co-operation with veterinary office.
- Training should be provided for the staff so that following shortcomings can be overcome:
  - (a) Admission of some members even from outside target group.
  - (b) Inclusion of more than one member of the same family, though in different group.

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