

# **Need for Microfinance in rural Nepal to stimulate sustainable increases in rural community living standards**

## **Abstract**

This paper explores the need for expanded micro finance facilities in Nepal. In particular the issue explored in this paper are two aspects of migratory workers engaged in cross border short-term employment in areas of northern India, viz. Punjab, Guwahati, Bihar and Assam. The need for cash income is continually increasing among the rural poor and the poorest of the poor have no land, no livestock and live a very subsistence lifestyle on a day-to-day basis. There has long been a movement of some men to areas outside the village to earn some cash which might provide for non-barter transactions and allow for acquisition of poultry or medicines. The migratory labour movement is growing and in the absence of an alternative mechanism to finance basic inputs, which might move peasant families to a slightly better diet by owning poultry or roof vegetable gardens, the process of social disintegration will continue.

A greater penetration of Nepali rural communities by micro finance institutions (MFIs) that are clearly focused on outreach is needed to promote sustainable changes among these poorest of the poor.

Mission of microfinance is about lifting the poorest of poor's economy by providing financial services. However, helping poor is always a difficult task and ongoing cumbersome process.

The efficiency of the MFIs measured on the basis of the institution that reach to the number of clients at the minimum operational cost for their services on operating expense ratio, costs per borrower and costs per saver and MFIs productivity measured on the human resources as staff member and the number of the clients: savers and borrowers to serve.

It is the fact that the majority of the rural households have lesser chance of getting financial institutions benefits as well as the study village. There are some of many factors that put study village away from getting the financial services benefits (i) the lack of physical collateral; (ii) lengthy process of banking services which discourage uneducated to reach to the banks; and (iii) Banks are more focused on urban area than rural areas in credit allocation. This compels them to get trapped in the informal financial service and money lender where they get exploited with the under valuation of the collateral, higher interest rate, and lender reserve the

monopolistic power. These impulses that less chance of having access to low cost credit has an impact on short term migration for their survival.

The higher interest rates and indistinctive the cost related on loan with the local money lenders and the thin margin of the interest on the loan given by Institutions and money lender does not attract them to enjoy the microfinance services at the local places. The rules and regulation that borrowers have to follow up after taking the loan from these institutions is another factor of being away from MFIs' service benefits. As these institutions loan is quite rigorous and the programs do not give them grace period of earnings to repay the loan instalments, the bad impression of the programs that they are running in the local places as an examples to them to not go to the MFIs services. MFIs governance that measures the field staff performance on percentage of repayment of the loan and default impulse the field staff to get biased on the loan distribution to the people that they believe could repay the loan and could have no default risk after loan given. Thus, excludes the ultra-poor and the unskilled rural people from getting the benefits of the MFIs services. MFIs policies allow the rural people themselves to form group and members are responsible for the loan repayments which create the chance of excluding ultra-poor. Poverty level of the group members defines the confidence on repayments. Thus, in combined situation of group member and field staff confidence of one's loan repayment on time, poorest people in poverty line always gets excluded.

MFIs provide financial services in Nepal and in other developing countries to small scale entrepreneurs, and landless farmers. There is a large portion of people who are under the poverty and are potential credit clients left over from the commercial bank services.

The MFIs are differing in their approach and the characteristics of services they provide to the clients. They are with the goal to support the local socioeconomic situation by creating income generating activities and self-employment activities. Thus, facilitation that increase the access to the credit in rural area will increase the outreaching of the MFIs would lead in reduction of the out migration from the rural area.

The group migrants are migrating to the rural area whereas the individual and family member migrants are migrating to urban areas. The urban migrants are staying longer, more than six month and less than a year and less frequent visitor of origin of place than rural migrant. Urban migrants are having more options of jobs search and to choose than rural migrants who are limited to the agriculture and related activities. The wage difference between rural and urban attracts more migrant and the urban migrants earned more money than rural migrants.

The migrants' communicating language and their illiteracy does not play as a migrating barrier to India. The age factor plays the role of choosing the area whether to migrate in rural or urban area for job search. The marital status and the number of children with daughter have a greater impact of choosing the area as rural or urban for work search. The ownership and area of land has not played the significant role in migration. Migrating cost is at lower that attractive them to migrate in India. Repeat migration has another factor to consider the destination, the participants that they have worked with and had good feeling about the work and owner are more likely to go there as per their experienced and perceived value.

The current study based on 100 personal interviews across 20 groups in rural villages. This qualitative engaged semi-structured discussions aimed at encouraging respondents to explore issues of importance to themselves and their colleagues. The research indicated significant differences between workers choosing the destination in rural and urban areas. Different factors emerged as having importance for their income, their periods of stay and choice of destination.

The context is important as rural Nepali are deeply conservative. There are ethnic and religious differences and gaining trust to engage in community based research is essential. Accordingly, this work was restricted to an area in which the researcher could appear to be and is genuine and comes from a known family connection.

The need for cash arises from a range of activities including religious festivals, wedding of a daughter, sickness and the desire to build some sustainable improvements in living standards. Where leasing some land, growing some food, and supporting a child's education offer future possibilities each predominantly requires cash. In the absence of MFIs as a source of credit for sustainable development which will produce cash and better living standards migratory laboring is the only alternative.

The survival, poverty level, disparity of economy of India and Nepal, debt and the daughter's marriage, increased urbanization at destination, cheap traveling cost to destination, higher wages at the destination, employment opportunities are some of the migrating 'push and pull' factors of study village to migrate.

There is little or no change to be seen in migrants' households as they spend most of their earning on the consumption purposes, paying back debt, medical expenses and few can invest their saving for income generating or purchase substitution activities such as cash crops,

livestock, and small scale of instant cash businesses. Migration has become an increasingly prevalent and is unlikely to abate until poverty levels are reduced, job opportunities increase and there are sustainable increments in local economies.

It was found that most migrants would prefer not to go to India if sufficient remunerative and regular work were available in the village and surrounding areas. The effect of seasonal migration is not only felt by the men. When agriculture is subsistence based, women's workloads are high, and this is exacerbated by the men's migration, which leaves the women to try to cope with greatly increased workloads and daily consumption arrangement for the rest of the family members. This cycle will continue unless the disparity of poverty, job opportunities, wages, earning, and economy will lay down in these two cross boarder places. The similarity of culture and of language, 'Hindi' and 'Maithili' plays an important role as a 'pull factor' of migrant to travel to India frequently.

The research through building a more comprehensive understanding of the migrant labour phenomenon provides the base for promoting outreach programmes of MFIs with sufficient appeal to overcome the skepticism and conservative nature of these rural poor.