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Fund My Trip: Is Outmigration Changing the Functioning of Microfinance in Rural Areas?

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Fund My Trip:

Is Outmigration Changing the Functioning of Microfinance in Rural Areas?

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Abstract

Remittances have been integral to Nepal's economy since the 19th century, and they have never been as crucial to the nation's income as today, accounting for about a quarter of GDP. Microfinance first appeared in Nepal in the 1950s under the form of agricultural cooperatives, and today both saving and credit cooperatives and formal microfinance banks play an important role in giving rural populations access to financial institutions. Increasingly, both these two flows have begun to interact, and this research aims to shed light on these microfinance foreign employment loans. Is microcredit making migration a more affordable and viable option for individuals in areas with very low potential for income generating activities? i.e., is exporting labor through microfinancing more profitable and beneficial locally than financing a business in an area with limited market potentiality? How are remittances used locally, and do foreign employment loans provide any benefits to the institutions that disburse them? I gathered the information for this study by interviewing managers of microfinance institutions in Pokhara, Hemja and Purunchaur, all located in Kaski district. Other interview subjects included clients of these institutions whom had taken foreign employment microloans and/or their families, as well as other individuals in Hemja and Purunchaur who had a family member working abroad. To compare foreign employment and local business loans, microloan borrowers that are not involved in foreign employment were also interviewed. Interviews were semi-structured and conducted in Nepali and English.

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Introduction

As far back as the 19th century, beginning with the so-called ‘Lahures’ of Ranjit Singh’s army, Nepal has a tradition of workers migrating abroad and subsequently sending part of their income home. Since then, remittances have increased dramatically to such levels that they now constitute around 22% of the nation’s GDP (Nepal Rastra Bank 2009). However, this fails to take into account informal remittances, which means the figure could be far higher, exceeding a quarter of national income. Remittances have been identified by many as being an important part in reducing poverty by enabling the receiving communities to increase their incomes, and thus invest in housing, education and consumption (Thieme & Wyss 2005; Bhadra 2007). The chance to have an additional direct income source makes migration an attractive opportunity, however this also implies finding ways to finance it. This has traditionally been done through means such as savings, borrowing money from family members, and informal moneylenders, with formal financial institutions have generally playing a very negligent role (Thieme & Wyss 2005).

The predecessor of microfinance in Nepal first appeared in the 1950s through rural agriculture based cooperatives. Formally, microfinance was initiated in 1974 when Nepal Rastra Bank (NRB) initiated a “Priority Sector Credit” process, by which banks were supposed to allocate 5% of their funds to lend to small farmers and industries, however the success of this was very limited. It was only in the 1990s through the private sector that formal development banks were established in Nepal with the Grameen Bank system of

microfinancing as their models, their principal aims being to alleviate poverty by targeting low income individuals and enabling them to take loans out to finance local business initiatives (NRB 2007:3). Between 1999 and 2008, the number of microfinance branches in Nepal increased from 195 to 590, along with the amount of borrowers, from about 135,000 to 655,000 (Shrestha 2009).

Formal microfinance institutions are registered with Nepal Rastra Bank and are obliged to abide by the policies and regulations it enacts. The NRB distinguishes four classes of banks, labeled A, B, C, and D, the latter being the classification used for microfinance banks. To be considered a D class bank, microfinance institutions must provide their loans without a fixed collateral requirement, instead operating on a group collateral basis, where in case of default, loans are secured by other individuals who also took loans from the institution.

However, the predecessor of D class banks still remains a prevalent provider of microfinance in Nepal, in the form of saving and credit cooperatives. A cooperative, as defined by the International Cooperative Alliance, is “an autonomous association of persons united voluntarily for the fulfillment of their common economic, social and cultural needs and aspiration through a jointly owned and democratically controlled enterprise” (Thakuri 2010, 4). Saving and credit cooperatives follow principles very close to those of formal microfinance institutions, promoting the creation of employment and income generation within communities, developing entrepreneurship, and being involved in microcredit and microfinance activities, “substituting [the] banking sector for microcredit to the members” (Thakuri 2010, 5). However, contrastingly from D class banks, cooperatives’ loans are collateral based.

Increasingly, the financial flows of the remittance economy and institutions providing microfinance services have begun to interact, with the latter being used as a lending base to help pay for the costs of migration (Rajbanshi 2012). Better assessing this relationship is the purpose of this study. The main question examined is whether microcredit is making migration a more affordable and viable option for individuals in areas with very low potential for income generating activities? i.e., is exporting labor through microfinancing more profitable and beneficial locally than financing a business in an area with limited market potentiality? Other issues investigated include how remittances from foreign employment are used locally, and whether foreign employment loans provide any benefits to the institutions that disburse them. This study seeks to answer these questions through an examination of financial institutions disbursing microfinance loans intended for foreign employment in Kaski district. This district has been identified as having a high rate of migration, as well as 126 saving and credit cooperatives in addition to many formal microfinance institutions. Specifically, this study focuses on institutions and their clients in Hemja and Purunchaur VDCs as well as in Pokhara.

A fairly comprehensive overview of the remittance economy in Nepal is written by Seddon, Adhikari, and Gurung (2002), citing that the proportion of migrants going to a destination other than India has “almost doubled over the last fifteen to twenty years” (23), with the Western region accounting for 32 percent of these migrants. They find that the nation’s rural population relies heavily on different types of migration, due to a lack of economic opportunities and demand for labor locally; rural households are thus the ones that often undertake long term migration, and this is increasingly contributing to household income in these

areas. Seddon et al. also believe that this holds true for “those generally “‘middle’-level households that can make available the necessary ‘free’ labor” (20), excluding the poorest from the benefits of remittances from such migration.

Their study often cites the Nepali Living Standards Survey (NLSS), especially interesting is the fact that remittances from countries other than India account for only 3% of the total number nationally, however this translates into 22% of the total value of remittances to Nepal. Seddon et al. also find changing patterns in the migration process, e.g. the Gulf countries attracting an increasing number of migrants, notably from poorer backgrounds and a variety of castes/ethnic groups including dalits. They provide an overview of how this increasing flow abroad is occurring by pointing to private sector manpower agencies registered with the government. In 1998, these agencies in Kathmandu numbered 103, “a couple of years later, they had almost doubled in number” (31). However, Seddon et al. are vague in referring to access to employment abroad as being “determined by a variety of factors – at home and abroad – that effectively ‘filter’ and ‘constrain’ the opportunities available” (28); but believe that the fees demanded by brokers to organize migration to the ‘West’ are too high for most to even consider that option.

Lokshin et al. argue that work migration and remittances have been integral causing the decline of poverty Nepal has experienced since 1996 and state that “more than a million prime-age (mostly male) adults are currently working outside Nepal” causing remittances as a share of Nepali GDP to overtake tourism, foreign aid, and exports combined (2007, 2).

Rapoport and Docquier, in *The Economics of Migrants’ Remittances*, argue that in families where an individual is employed abroad, the amount of

remittances sent back helps determine how family members will participate in the labor market, as well as how the household invests in human and physical capital

Bhadra finds that in most cases remittances are not used for 'productive' purposes, in the economic sense of the word, but rather help families fulfill their basic needs such as food, water, education, and health, and thus represent an investment in human capital. By increasing the quality of life of the families whom receive them, he believes that remittances contribute to the reduction of poverty and have "a multiplier effect in the community" (2007, 11). Although his study focuses only on women, he finds that those from poor families are migrating at higher rate than ever before, with poverty as the root cause; more importantly, that "current migrants are using institutional financial services to a much greater extent than relying on informal services that are costly and risky" (so-called 'moneylenders') (Bhadra 2007, 2). This shift is demonstrated by his comparison of returnee migrants vs. current migrants; of the former group 1% borrowed from financial institutions and 21% from moneylenders, in the latter group 5% borrowed from institutions and only 9% from moneylenders. He states that this signifies that given the access and choice, migrants (in his case, women) would rather borrow from legitimate institutions rather than the informal sector. For 18% of returnees, remittances had been used for loan repayments, compared with 29% for current migrants.

Bhadra also finds a correlation between the amount of money invested in migration and the amount of monthly income of a migrant abroad, suggesting that within the scope of my research, larger loans from microfinance institutions would increase the amount of remittances received. After an examination on how remittances are spent as well as returnee migrants, Bhadra concludes that "More

and more women from poorer families are migrating for work, as their remittances are the only financial option for their family's survival. Borrowing money is the only option for these women in financing their migration." (55), and that they would rather use legitimate financial institutions to do so.

Shrestha's *The State of Microfinance in Nepal* (2009), a government publication, provides detailed insight into how most microfinance operations work, as well as their historical performance based on a myriad of statistics concerning everything from operating budgets to defaulters. More importantly, it also discusses the challenges and problems to microfinance in Nepal, including how many microfinance institutions do not focus on catering to the poorest, instead serving less poor and less vulnerable groups. Shrestha also discusses the lack of MFI's interest to set up in remote hill and mountain areas, partly due to fears that higher costs will be incurred, but also because of the "lack of market for products and very limited economic activities...Lack of alternatives to subsistence farming is also hindering microfinance in these areas" (2009, 88). This is particularly interesting as migration financing may be one of few viable opportunities for institutions providing microloans to pursue in these areas.

Methodology

The information for this study was gathered through semi-structured interviews with individuals in Kaski district, chosen based on their connections to either microfinance institutions and/or work related migration. Intending to provide a more comprehensive view of foreign employment loans through the perspectives of the different parties involved, I chose to conduct interviews with both the

disbursing parties and receiving parties. Although the strategy for data collection remained throughout my research, the institutions it focused on shifted early on.

The initial step in conducting this research was identifying microfinance institutions that disbursed loans intended for foreign employment in rural or peri-rural areas, the intention being to conduct a study of these specific loans, the institutions providing them, as well as their use and effect on the populations of one or two villages within the district.

An interview guide was used (see Appendix) during interviews with participants, however questions were never limited to these.

At first, I focused on formal microfinance institutions operating in Kaski district affiliated with the Rural Microfinance Development Center (RMDC), initially interviewing individuals directly involved in managing their head offices in Pokhara. These interactions concerned the institutions' policy towards disbursing loans intended for foreign employment, and to what extent the institution was involved in this sector (see Appendix A). However, after interviews with management of the Shreejana Development Centre, Nirdhan Utthan Bank, Muktinath Development Bank, and telephone inquiries with four other formal MFIs with offices in Pokhara, it became apparent that virtually every formal MFI in Kaski does not disburse loans intended for foreign employment (Pant 2012).

Thereafter, the focus of this study shifted to center on saving and credit cooperatives, also providers of microfinance services (Thakuri 2010). Mr. Niraj Thapa, regional director for the Western region of AHRCDF-NEPAL Migrants' Center, also involved in managing a saving and credit cooperative, informed me that such institutions are substantial sources for foreign employment loans

(2012). However, determining specific cooperatives that disbursed foreign employment loans in Kaski district proved to be very challenging and time consuming. The District Cooperative Training and Division Office did not possess statistics detailing the purposes of loans that cooperatives had disbursed, which meaning there was no way of identifying which cooperatives provide foreign employment loans, let alone the quantity in which they do. Attempting to identify geographic areas of the district with high rates of foreign employment also proved to not be feasible, as the Branch Statistics Office for Kaski only possessed statistics from the 2001 Census (as the 2011 Census has not yet been published) concerning the number of individuals living in foreign countries, these numbers being restricted to a district wide level, and not specifying the purpose for living abroad (Wagle 2012). Without statistical evidence to help determine the specific communities in which to conduct field research, I visited various saving and credit cooperative offices in Pokhara to better ascertain the role these institutions play district wide in financing work related migration. I eventually met with Kaski District Saving and Credit Cooperative Association Chairman Mr. Bhim Gurung, who specified two VDCs that he believed would be suited for my study, Hemja and Purunchaur, both relatively close to Pokhara. Mr Gurung indicated that both Gauri Shankar Saving & Credit Cooperative in Hemja and Janasewa Saving & Credit Cooperative in Purunchaur provided foreign employment loans and were examples of successful cooperatives operating in Kaski (2012). This can be considered a biased manner of selecting research sites, however without any concrete statistical evidence to rely on, this seemed the most efficient way to determine institutions for this study.

The core methodology used in determining participants for this study was therefore based on first identifying microfinance institutions that disburse loans intended for foreign employment, followed by an interview with an individual involved in its management, to help identify the institution's position on such loans. Ensuing this, a request was made to the institution to disclose the names of certain individuals that had taken foreign employment loans, in the hope that an interview could be arranged with the migrant's family still residing the area, or the migrant himself if they had returned. These interviews with borrowers focused on why the decision to go seek employment abroad was made, how this was financed, and the specifics of remittances sent back and how these were used.

Other interviews also included members of the communities that had a family member involved in foreign employment but had not used a loan from cooperatives to finance migration. In the case of Purunchaur, interviews were also conducted with members of Janasewa cooperative whom had taken loans out for local business initiatives, centering around income and participants' opinion on foreign employment.

All participants in this study gave verbal consent for the information they provided to be used in this research. All participants were also given the option of remaining anonymous, and although none exercised this option, two participants requested to be only identified by their first name. In total, 55 interviews with 52 individuals were held during the course of this research.

Research Findings

The presupposition of this research, that remittance income from foreign employment is extremely important to the economic functioning of Kaski district, was confirmed by every employee of financial institutions interviewed during the course of field research. Remittance is the most important income source for Kaski (Thapa 2012) and causes individuals' economic condition to be improved (Pokharel 2012).

Initial interviews with management of formal microfinance institutions (See Appendix) yielded evidence that the vast majority of these do not provide loans intended for foreign employment. Although this may be true in theory, according to the manager of a formal microfinance institution's branch in Hemja, it is the case that formal MFIs do play a significant role in financing foreign employment, simply "not on paper, so there can be no statistics to show this" (Pokharel 2012). Mr. Pokharel estimates that about 10 to 20% of microloans disbursed by his institution are in fact used to finance foreign employment, while on the surface being loans taken out for purposes that these institutions do support, e.g. an agricultural or small business loan, and noted the institution's employees themselves sometimes aid in this process that Dr. Gurung referred to as "camouflaging loans" (2012). "I think most microfinance banks in Kaski have this problem" (Pokharel 2012), a situation which is making the decision making branch of his institution consider formally making available foreign employment loans.

“The fact that these loans are not available from us [Muktinath microfinance] is a problem, because it is an important issue, but after one or two years it will probably be [made available]” (Pandey 2012).

It was also evident that remittances are often used to repay microfinance loans from formal MFIs, as income from local businesses that these loans financed often “came slow, so the loan was repayed through other income sources like remittance” (Pandey, 2012).

Thus, although as of now there is no traceable link between formal microfinance institutions and foreign employment, there does appear to be a connection between the two. However, because researching such an elusive connection would prove to be extremely difficult, after this discovery, the focus of this study became microloans for foreign employment provided by saving and credit cooperatives. The two VDCs where this study was focused were Hemja and Purunchaur, populations 8,702 and 3,709 respectively (District & VDC Profile of Nepal). Gauri Shankar Saving & Credit Cooperative in Hemja has a membership a little over one thousand, while Janasewa Saving & Credit Cooperative in Purunchaur has a membership of about 1,400.

Before addressing the connections observed between cooperatives’ microloans and foreign employment migration, I find it necessary to elucidate why so many individuals seek to work abroad rather than start a local business. Populations in rural areas are more prone to withdraw foreign employment loans than ones in urban areas because:

“Village people are faced with harder to run businesses because of so much migration from villages. Because of this, if you want to do local business you often come to the city... In villages, foreign employment

borrowers have higher incomes than those who borrow for local business, but in the city it is different, local businessmen have a higher income because you have access to people and markets. So for places with no markets, foreign employment loans are very good” (Gurung B. 2012)

In the vast majority of cases, the participants were of the opinion that the easiest option for income was to go abroad rather than work locally or start a business. “For most people, the best option is not starting a business but something that provides immediate income that is needed, like working abroad” (Gautam M. 2012). All participants who responded that foreign employment is the easiest option for income generation followed by referencing the lack of employment opportunities locally. When participants were asked if a migrant left because there were no job opportunities in Nepal, the most frequent response was “there is work, but the money is little”, followed by an explanation that the income from work locally was not enough to subsist on.

“There are no jobs but farmer available in this area” (Dhungana S. 2012), “work is available in farming, but wages are lower than abroad, for young generations there is no work, there are no factories...in Nepal it is unsure you will get paid even if you work” (Bauder 2012). These types of responses became commonplace during my interviews in Hemja and Purunchaur, emphasizing the lack of economic prospects locally: “of course it is better to work here, but there are no opportunities so everyone leaves” (Shrestha S. 2012). Foreign employment has thus effectively become one of the main income sources for families in rural areas; Mr. Vishnu Paudel estimated that at least half of the households in his community of Purunchaur are dependent on remittance income for the fulfillment

of their basic needs, for Hemja Mr. Basmet estimated that about 20% of households are dependent in a similar manner. “Foreign employment is better than local business for the village income” (Basmet 2012). In an area such as Purunchaur, where 60 to 70% of individuals are involved in subsistence farming, there is no real market for businesses (Paudel D. 2012). The effect of foreign employment incomes become rapidly evident in such situations, as a board member of Janasewa cooperative explained to me: “in the beginning [of the cooperative 19 years ago], only one, two or three people wanted a foreign employment loan. But each next year this increased, as effects of such income were felt in the community...Earning money here is risky and dependent on natural conditions, as local business is limited to agriculture” (Adhikari L. 2012). “Migration is good, there are limitations on local business... Nowadays, small business is not successful, because of the cost of setting them up. A small investment in a business will mean a small income” (Shrestha J. 2012).

“Because there are so many cooperatives, it is easier for people to go abroad” (Gauchan, 2012). This statement exemplifies one of the main findings of this research, that saving and credit cooperatives have made it easier for individuals to go work abroad. “Most migrants take loans from cooperatives, because banks are difficult, you need to show documentation and income source” (Shrestha J. 2012). “It is easier to get a foreign employment loan at cooperatives than at any other financial institution” (Gurung B. 2012).

Over the course of this research, every individual in a management position interviewed at cooperatives that I visited stated that cooperatives have made it easier to go abroad. This finding was also supported by the 23 interviews with migrants or family members of migrants, regardless of if they had used a

loan from a cooperative to finance the foreign employment migration, all these participants agreed that cooperatives had made it easier for individuals to seek employment abroad. As Soba of Purunchaur VDC stated, “the cooperative [Janasewa] makes it easier to go abroad, they make the loans cheaper that used to be very expensive from moneylenders” (2012). “Here [Gauri Shankar] was the easiest place to get a loan from, even more than from our relatives, the interest was so low”, claimed another family member of a migrant in Hemja VDC (Bauder 2012). Indeed, for the five cooperatives visited that provided foreign employment loans, interest rates for these ranged from 13 to 19%, which is significantly lower than any moneylenders interest rates in these areas (Paudel V. 2012).

However, the presence of this phenomenon, although observed and confirmed by all 23 participants, does not necessarily mean that all individuals that would like to have access to its benefits are able to do so. The drawback to microloans from saving and credit cooperatives is that they are all collateral based, meaning that even members of local cooperatives may not be able to withdraw foreign employment loans due to a lack of fixed assets. Take the case of Ganga Pariyar of Purunchaur, whose husband attempted to take a foreign employment loan of 1 lakh (100,000) to go work in Qatar. Although she is a member of Janasewa, because the Pariyars possess neither land nor home, they did not have the collateral necessary to be able to withdraw the sum needed for foreign employment. Thus, they had to turn to a moneylender whom charged them 50% interest on the 1 lakh loan, and “paying back the loan is very hard” (Pariyar 2012). Even with her husband sending almost the entirety of his 10,000 rupee a month income back, Ganga did not have enough finances to cover her

basic needs, and was forced to find an alternative income source. She did so by taking a 20,000 rupee loan from the cooperative and starting a sewing business, but stated she still struggles to make ends meet (2012).

Nevertheless, I discovered that individuals in situations such as Ganga's can still benefit from the ease of cooperatives' foreign employment loans. Mr. Basmet, manager of Gauri Shankar Saving and Credit Cooperative: "taking a loan for someone poorer who does not have enough collateral or isn't a member of the cooperative happens more in foreign employment loans than any others, and happens often" (2012). Individuals such as Saligram Bantola demonstrated that the reach of microfinance can extend beyond the membership restrictions of cooperatives:

"I took a [foreign employment] loan for my friend's son, my friend had died and they were very poor and I wanted to help them.... He [the son] has 3 sisters, a wife, and a mother....He has no education, he has no land, he could not feed his family....But now he works in Dubai and sends back 15,000 rupees a month, 5,000 to pay for the loan and 10,000 for his family. With foreign income it is easy for them to eat now....If I hadn't helped him [get a loan], he would not have been able to go abroad (2012).

Despite such occurrences, it was clearly pointed out by all managers of cooperatives interviewed in this study that the poorest individuals in communities are generally not able to access loans at their institutions because they do not possess the collateral necessary to do so.

In the case of Nilgiri Saving and Credit Cooperative, loans for foreign employment are promoted over other loans, with the former having an interest

rate of 16 or 17% while other loans are usually around 18 to 20%. Mr. Manoj Gautam, the manager, explained that this was the case because the institution wanted to help alleviate the unemployment situation in the country, and believed that foreign employment “uplifts society and country, by giving higher incomes to individuals. These people have better lifestyles, spend more, and save more. It helps the local economy” (2012).

This serves to expose another interesting finding of the field research undertaken for this study. The purpose of cooperatives is supposed to be the stimulation of local production, however “they do not always follow that” (Gurung B. 2012). This is partly due to the fact that cooperatives are institutions under the control of shareholders, obligated to provide the loans that members want (Thakuri 2012). However, I also discovered that there are a number of benefits to cooperatives in disbursing loans for foreign employment as opposed to ones intended for local businesses. Firstly, it appears that for these financial institutions, loans intended for work migration are considered more secure, as leaving Nepal for a job in another country is almost guaranteed income (Thapa 2012). Thanks to a steady income source, it is expected that these types of borrowers will be able to pay back their loan without any complications, unexposed to the risks of local business, which is not certain to make a profit (Basnet 2012). Additionally, of four of the five cooperatives in this study that provide direct foreign employment loans reported higher rates of savings from members that had taken a foreign employment loan. For these institutions, this phenomenon is very good (Dhungana N. 2012) as it increases the resources they can give out. “[Foreign employment borrowers] are very important to the economic development of this institution because they pay back faster, they save

more and they deposit more than other members” expressed Damar Basmet, who followed by stating that Gauri Shankar cooperative desired to increase the share of foreign employment loans as a percentage of overall loans from the current 5% to 15% within the next year as a result of the positive effects it had for the cooperative. This would entail decreasing the share of business and trade loans from its current level of 10% of all loans to 8% (for similar percentages concerning other cooperatives interviewed, see Appendix). He added that foreign employment borrowers also often take an additional loan for land or building a home once the initial migration loan has been paid in full (2012). Other observed benefits to certain cooperatives as a result of providing loans for foreign employment include swifter repayments on such loans compared to local business loans (Dhungana N. 2012).

Although higher savings may increase the cooperative’s resources, the fact is that remittance incomes are usually used in an unproductive manner (Thakuri 2012). This was observed during my research as well, as only in 3 of 23 interviews with migrants or their family members receiving remittances was the income from abroad currently used to run a business. Interviewees in this group all responded that the income was used to pay for basic needs, while the second most popular response was that it went towards their children’s education, followed by investing in housing, and thereafter expenses such as health care and weddings in the family.

However, to assert that foreign employment does not contribute to the local economies would be false, as Mr. Basmet reported that the most successful businesses in Hemja are run by returnee migrants (2012). “Foreign employment isn't bad if they [migrants] come back, but they have to come back after gaining

skills so they can use them here” (Thapa 2012). In fact, in 7 out of the 23 interviews with migrants or their families, individuals stated that once the migrant would return to Nepal permanently (i.e. without the intention of going abroad again) he intended to start a business. Two others stated that the migrant would do so if the money accumulated was sufficient to allow for this, and one participant said the migrant intended to buy more farmland with the saved earnings. A recent returnee from Qatar, Krishna Prashad Adhikari, serves as an example of the possible benefits local economies stand to gain from foreign employment:

“If I hadn’t gone abroad my income would still be from farming and very small, but now because of going abroad and making money, I can start a business. I will have to borrow a little from the cooperative, but now I have the shares and collateral to do so” (2012).

Other members of Purunchaur shared this sentiment that foreign employment is useful for starting businesses “If you are poor and have no money to start a business, the easiest is to go abroad and make the money to start that business and come back” (Bahadur 2012). Even members of the community who do not have a family member working abroad speak of the benefits of remittances: “families who get remittance are useful because they save more in the cooperative, and then it [the cooperative] can give more loans for business, agriculture, and livestock” (Paudel H. 2012).

In both cases of Gauri Shankar and Janasewa cooperatives, it was noted that foreign employment loans generally are smaller than local business loans, which are usually more expensive and thus necessitate more collateral. Both institutions’ managers confirmed that individuals with lower collateral are more

usually much more likely to take a foreign employment usually in the 1 to 2 lakh range (for the most popular destination, Gulf countries) rather than a local business loan which can be anywhere from 1 to 5 or 6 lakhs at Janasewa, and 1 to 10 lakhs at Gauri Shankar (Basmet, Dhungana N. 2012).

However, for the poorest families of communities like Purunchaur, whom are unable to withdraw foreign employment loans from cooperatives and have to use moneylenders, the prospect of having enough income left over from remittances to finance a business is rare. Take for example Juna Bujel, whose husband had to borrow from a moneylender to finance his trip to Saudi Arabia, “We will not have enough for a business, his salary pays for our family expenses. If there is anything left he will buy land and be able to farm” (2012).

Nevertheless, foreign employment has without a doubt provided increased income to many families in need. Consider the example of Baburam Nepali, who before leaving for foreign employment in Saudi Arabia struggled to make 10,000 rupees a month while employed as a carpenter in Purunchaur, but now is able to send back double that monthly (Nepali B. 2012). All 23 interviewees associated with foreign employment have been able to increase a monthly household income typically ranging between 5,000 to 10,000 rupees (Prashad V. 2012) to levels usually ranging at the very least between 15,000 to 30,000 a month, improving the standard of living of their dependents in Nepal.

The foreign employment pattern observed throughout this research was that migrants that were subjects in this research remain abroad for two to four years, then return to Nepal for a short period of about a few months, only to go abroad again for two to four years. How many times this cycle was repeated was dependent on the financial needs of the migrant’s family, though usually it was

assumed that the migrant would keep doing this until they “became old” (Nepali. B 2012), which was usually understood as being somewhere around forty years of age. 22 of the 23 interviewees expected that the migrant (or themselves in cases where the migrant was interviewed) would return to live in Nepal permanently after foreign employment.

Discussion/Analysis

Through microloans, cooperatives have been increasing accessibility to foreign employment in areas where there are extremely few viable economic alternatives to agriculture or livestock related employment. Beyond accessibility, cooperatives have served to decrease the cost of foreign employment by providing individuals the opportunity to use formal financial services as opposed to informal ones that have long been identified as costly (Thieme & Wyss 2005). Additionally, this research has identified cooperatives as the easiest source for foreign employment loans, as the process is far less lengthy and complicated than the process undertaken at formal banks, although these charge a lower interest rate (Gauchan 2012). However, the fact that one must be a member of a cooperative and possess a minimum of share capital in order to take a loan (Thakuri 2010) can only be considered as a very significant limitation. Therefore, although the microloans disbursed by cooperatives are helping increase individuals’ incomes, their reach within the overall community is still questionable. Collateral based loans entail that those families whom already have the least resources within the community are excluded from a process that would benefit their constituency the most, a situation observed during field research

with several households in Purunchaur. While it is technically possible for these individuals to withdraw loans for foreign employment by a cooperative member offering to put up the collateral for them, the very nature of this option signifies that those most in need of an alternative income source cannot independently access what seems to be the easiest and most affordable opportunity to increase income. The most vulnerable families in areas where subsistence farming is the main source of income are those without land, as they have no means of growing produce for consumption. Regardless of the ease they may have in joining cooperatives, their landlessness remains an issue severely limiting their financial options, as they are only able to take out extremely small loans that are not sufficient to go abroad let alone start a business.

Considering that arable land is a finite resource in mountainous areas, this also translates into an immediate limitation on how many individuals can be employed in an agricultural sector that is volatile, and yields a primary good with generally low profits. Although it the purpose of cooperatives' existence is to promote local business, the market of rural areas offers little market share compared to that of cities (Gurung B. 2012), and investment in local businesses are far from guaranteed to make a profit. More importantly, individuals often do not possess the collateral to take out larger local business loans, but do possess the collateral to take a smaller foreign employment loan. In such cases, as exemplified by Krishna Prashad Adhikari, working abroad for a period of time is the only feasible way to earn the amount necessary to start a business locally, or at least earn enough that one's collateral increases to the point that one can take out a larger business loan. In effect, foreign employment loans are often an important factor in enabling local individuals to start their own businesses, acting

as a sort of stepping stone for larger business loans later on. In fact, for loans not related to foreign employment, Gauri Shankar cooperative gives priority to individuals whom have taken and repaid a foreign employment loan over individuals who have not (Basmet 2012), demonstrating the frequency of migrant workers taking a second loan upon their return home.

In effect, foreign employment loans provide a virtually risk free decision to both lender and borrower. Contrastingly from local businesses, foreign employment provides the lender with near certain assurance that an income will materialize to the borrower in the near future, making the institution's loan more secure. Accordingly, the borrower is also at low risk of losing the little financial security he possesses under the form of collateral, as his income becomes basically guaranteed.

Additionally, for cooperatives, foreign employment loans generally provide benefits to the institution as borrowers and/or their families save income within its existing financial structure. Higher savings rates like those observed at cooperatives in Purunchaur and Hemja mean increased liquidity for cooperatives, resulting in a higher ability to disburse loans. In theory, this aligns very well with the concept of promoting local business, as individuals within the community are more easily able to withdraw loans intended for local economic projects. However, as seen in the case of Gauri Shankar Saving and Credit Cooperative, there is a risk that the institution may instead want to increase the amount of foreign employment loans, causing local business loans to have to be decreased to account for this, thereby diminishing the amount of loans available for local business initiatives.

It is difficult to ascertain the effects foreign employment loans have on the local business landscape. As more individuals go for foreign employment, skilled and unskilled workers temporarily or permanently remove themselves from local production and business. Workers abroad send back remittances that are spent by their families, increasing spending in their home areas, serving to promote local businesses. Returnees with newfound capital from abroad income are able to open new businesses, meaning that the foreign employment loan, by a step removed, can serve to promote local businesses. However, returnees' new companies will need access to sizeable markets to be successful, perhaps leading to domestic migration as these businesses seek larger exposure in cities.

Conclusion

Overall, this study has shown that microfinance loans from saving & credit cooperatives are playing a very significant role in funding work related outmigration. In fact, these institutions have served to facilitate foreign employment and make it a more affordable option by providing loans at lower interest rates than traditional moneylenders.

For areas with few economic opportunities apart from subsistence farming, remittances from foreign employment are extremely valuable in providing income often necessary for many households to fulfill their basic needs.

Yet due to the nature of cooperatives, where one must be a shareholding member to take out loans and all loans are collateral based, the increased access to this income source is generally limited to those individuals who can satisfy both these requirements. Therefore, those at the bottom of the economic ladder

are often still forced to rely on the informal sector to finance foreign employment.

Foreign employment loans, depending on the destination, are often smaller than local business loans and thus necessitate lower collateral, making them an attractive option for individuals who wish to increase their income but do not have the means to start a business. Due to remittance flows as well as the fact that returnees often intend to use their abroad earnings to open businesses back home, it would be false to assume that foreign employment does not stimulate the local economy. Although it cannot be considered a substitute for local business income, I argue that cooperatives' loans intended for foreign employment should not be considered as deviating from microfinance's principles of stimulating the local economy, as it is evident that such loans do serve this purpose. While cooperatives as institutions experience benefits as a result of disbursing such loans, the profits of foreign employment loans are felt the most by the families that are able to increase their income because of remittances. Based on the interviews conducted during this study, the consensus is that foreign employment is an easier source for income than working locally or starting a business in rural areas such as Hemja and Purunchaur.

Suggestions for further research include a study of the marginalization of landless peoples and their level of inclusion in cooperative activities, as well as an in depth study of formal microfinance's role in providing financing for foreign employment. An investigation of returnees' businesses and their contributions to local economies also merits to be conducted.

Appendix/Appendices

Interview Guide

Fund My Trip:

Is Outmigration Changing the Functioning of Microfinance in Rural Areas?

For interviews with employees of microfinance institutions (MFIs):

- a) How many loans has this MFI given specifically towards purposes of migration abroad? What is the total number of loans given by this MFI over this period?
- b) Monetarily, what percentage of your loan budget goes towards financing loans for migration?
- c) How swift is the repayment rate for loans given for migration? Does this differ from loan repayment rate for loans not given for migration?
- d) Does this MFI charge a different interest rate on loans given for migration vs. other loans?
- e) Does this MFI have any specific policies regarding loans for migration, e.g. specific amounts of collateral necessary that differ from that of loans given for other purposes?
- f) What is the benefit, if any, to this MFI in giving out loans for migration?
- g) What is the typical amount of a loan taken out for migration purposes? What about other loans?
- h) Are there any differences in the types of clients that take out loans out for migration vs. those that do for other purposes?
- i) In what ways do you see the loans you give for migration purposes contribute to the local economy? How does this differ from loans given for other purposes?

For interviews with migrants (prospective/current) and/or their family members:

- a) Why did you/the migrant choose to migrate abroad for work? Where any other alternatives to migration considered before this decision was made? If so, what were these alternatives?
- b) How did you finance migration? Was a loan necessary?
- c) If a loan was taken out, what sources did you consider turning to, and what party finally disbursed this loan? If microfinance was used to finance migration, why was this chosen? How did this differ from other loan alternatives?
- d) What was the amount of the loan? How much interest was charged, and what was the repayment plan like?
- e) How much income if any does the migrant contribute to this household? What is this income generally spent on? What else has it been spent on in the past?
- f) Do you feel that migration was the best choice for generating income? If you/the migrant had not chosen this path, what would you/they be currently doing?
- g) Do you feel that microfinance made it easier for you/the migrant to go abroad? What about other people in the community?

Interviews with borrowers from cooperatives for purposes not related to foreign employment:

- Adhikari, Shyam. 2012. Interview with author. Purunchaur. April 29, 2012.
Dhungana, Amsika. 2012. Interview with author. Purunchaur, April 27, 2012.
Dhungana, Shiva. 2012. Interview with author. Purunchaur, April 27, 2012.
Paudel, Vishnu. 2012. Interview with author. Purunchaur, April 27, 2012.
Ragmi, Mitdal. 2012. Interview with author. Purunchaur, April 27, 2012.

Interviews with individuals or their family members, that used a foreign employment loan from a cooperative:

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Bahadur, Dumber. 2012. Interview with author. Purunchaur, April 27, 2012.
Bahadur, Jit. 2012. Interview with author. Purunchaur, April 30, 2012.
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Bauder, Bhaubaneshwor. 2012. Interview with author. Hemja, April 26, 2012.
Gautam, Radhika. 2012. Interview with author. Purunchaur, April 30, 2012.
Giri, Pratima. 2012. Interview with author. Purunchaur, April 30, 2012.
Giri, Purna. 2012. Interview with author. Purunchaur, April 29, 2012.
Nepali, Baburam. 2012. Interview with author. Purunchaur, April 29, 2012.
Paudel, Hari Prashand. 2012. Interview with author. Purunchaur, April 27, 2012.
Regmi, Joti. 2012. Interview with author. Purunchaur, April 27, 2012.
Shrestha, Samila. 2012. Interview with author. Hemja, April 26, 2012.

Interviews with individuals or their family members involved in foreign employment, but that did not take a loan from a cooperative for such purposes

Adhikari, Krishna Prashad. Interview with author. Purunchaur, April 29, 2012.
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Kumari, Lal. 2012. Interview with author. Hemja, April 22, 2012.
Nepali, Dev Bahadur. 2012. Interview with author. Purunchaur, April 29, 2012.
Pariyar, Ganga. 2012. Interview with author. Purunchaur, April 27, 2012.
Ramamagar, Kul Bahadur. 2012. Interview with author. Purunchaur, April 29, 2012.
Soba. 2012. Interview with author. Purunchaur, April 30, 2012.

List of financial institutions visited:

Formal Microfinance Institutions

Garima Bikas Bank Ltd., Head Microfinance Office. Officer: Tiwari, Bhola Psd. 2012. Interview with author. Pokhara, April 16, 2012
Muktinath Bikas Bank Ltd., Microfinance Branch Head Office. Officer: Pandey, Rajendra. Interview with author. Pokhara, April 16, 2012.
Muktinath Bikas Bank Ltd., Microfinance Branch, Hemja. Branch Manager: Pokharel, Dilip Kumar. 2012. Interview with author. Hemja, April 22, 2012.
Muktinath Bikas Bank Ltd., Microfinance Branch, Prithvi Chowk. Assistant Manager: Gautam, Laxman. Interview with author. Pokhara, April 16, 2012.
Nirdhan Utthan Bank Ltd. Branch Manager: Pant, Jp. Interview with author. Pokhara, April 15, 2012.
Shreejana Development Centre. Chief Executive: Adhikari, Bir Bahadur. Interview with author. Pokhara, April 12, 2012.

Inquiry with Formal Microfinance Institutions done by telephone:

Chhimak Bikas Bank Ltd., Microfinance Branch, Pokhara.
Diprox Development Bank Ltd., Microfinance Branch, Pokhara.
Garima Bikas Bank Ltd., Microfinance Branch, Pokhara.
Nesdo Bikas Bank Ltd., Microfinance Branch, Pokhara.

Cooperatives visited

Gauri Shankar Saving & Credit Cooperative Ltd. Manager: Basmet, Damar. 2012. Interview with author. Hemja, April 20, 2012.
Janasewa Saving & Credit Cooperative Ltd. Manager: Dhungana, Nabin. 2012. Interview with author. Purunchaur, April 27, 2012.
Namuna Saving & Credit Cooperative Ltd. Managing Director: Neupane, Kedar Nath. 2012. Interview with author. Pokhara, April 17, 2012.
Nilgiri Saving & Credit Cooperative Ltd. Manager and Chief Coordinator: Gautam, Manoj. 2012. Interview with author. Pokhara, April 17, 2012.
Pokhara Royal Co-operative Society Ltd. Senior Officer: Dhakal Meelan. Chairman: Gurung, Major Tulsi Parshad. Managing Director: Gurung, Bhim.
Sanchaya Multipurpose Co-operative Ltd. Managing Director: Shrestha, Jagan. 2012. Interview with author. Pokhara, April 17, 2012.

Other offices visited

Cooperative Training and Division Office. Principal/Under-Secretary: Thakuri, Chandra B.

Shangri-La Development Bank Ltd, Zero Km.-5 Branch Office. Officer: Gauchan, Surendra. 2012. Interview with author. Pokhara, April 15, 2012.

Foreign employment loans as a percentage of overall loans of cooperatives:

Namuna Saving & Credit Cooperative Ltd.: 20%

Pokhara Royal Co-operative Society Ltd.: 20-25%

Gauri Shankar Saving & Credit Cooperative Ltd.: 5%

Janasewa Saving & Credit Cooperative Ltd.: 10%

Nilgiri Saving & Credit Cooperative Ltd.: 10-15%

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- Adhikari, Liladhar. 2012. Interview with author. Purunchaur, April 29, 2012.
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- Adhikari, Shyam. 2012. Interview with author. Purunchaur, April 29, 2012.
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- Bahadur, Dumbar. 2012. Interview with author. Purunchaur, April 27, 2012.
- Bahadur, Jit. 2012. Interview with author. Purunchaur, April 30, 2012.
- Bantola, Salikgram. 2012. Interview with author. Hemja, April 21, 2012.
- Basmet, Damar. 2012. Interview with author. Hemja, April 20, 2012.
- Basmet, Damar. 2012. Interview with author. Hemja, April 26, 2012.
- Bauder, Bhaubaneshwor. 2012. Interview with author. Hemja, April 26, 2012.
- Bujel, Indra Bahadur. 2012. Interview with author. Purunchaur, April 30, 2012.
- Bujel, Juna. 2012. Interview with author. Purunchaur, April 30, 2012.
- Dhakai, Meelan. 2012. Interview with author. Pokhara, April 18, 2012.
- Dhungana, Amsika. 2012. Interview with author. Purunchaur, April 27, 2012.
- Dhungana, Nabin. 2012. Interview with author. Purunchaur, April 27, 2012.
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- Dhungana, Shiva. 2012. Interview with author. Purunchaur, April 27, 2012.
- Gauchan, Surendra. 2012. Interview with author. Pokhara, April 15, 2012.
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Tiwari, Bhola Psd. 2012. Interview with author. Pokhara, April 16, 2012.
Wagle, Ram Prasad. 2012. Interview with author. Pokhara, April 18, 2012.

*Interviews on April 22nd and 26th partially translated by Damar Basmet.

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