



NOTE FROM THE FIELD

Integrating Services for the Very Poor

With support from the USAID Implementation Grant Program, Save the Children has provided financial services and business and life skills to former *Kamaiyas*, or bonded laborers—among Nepal’s poorest



Photo by John Berry

Members of a self-help group in western Nepal participate in a meeting.

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Kamaiya is traditionally an agriculturally based, exploitative form of bonded labor that results from over-indebtedness. The *Kamaiya* system primarily affects the indigenous Tharu people in the poorest communities of western Nepal, where a *Kamaiya* binds himself and his family to cultivate land in exchange for annual payment. The *Kamaiya* frequently becomes dependent on and indebted to the landowner—initiating a cycle of debt that is extremely difficult to escape. This legacy is often passed to the next generation and can condemn entire families to a lifetime of poverty.

According to a government survey from 2000, more than 18,000 households were bound to the *Kamaiya* system—of which 70 percent were landless. A 2002 survey of poverty levels among *Kamaiya* households found that 56 percent worked for less than the minimum wage of \$0.85 a day, more than 74 percent of adults were illiterate, and only 55 percent of children between 6 and 17 years old attended school.

Even when *Kamaiyas* can free themselves from bonded labor, they still face a number of challenges: ex-*Kamaiyas* typically have very few physical or social assets. Knowledge and experience in business management, vocational or entrepreneurial skills are rare. Yet, in a society still strongly influenced by the caste system, perhaps the greatest challenge they face is social exclusion. Caste and gender discrimination increases *Kamaiyas*’ risk of falling into exploitative labor practices—further perpetuating their social marginalization. Former *Kamaiyas* are among the poorest of Nepal’s poor.

In 1997, [Save the Children USA’s](#) Office of Economic Opportunities initiated a partnership with one of the country’s largest microfinance institutions, Nirdhan Utthan Bank, to provide access to financial services for the “poorest.” The *Microfinance Services for Ex-Kamaiyas and*

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Other Poor Households in Western Nepal initiative targeted marginalized populations, poor people at risk of falling into bonded labor and ex-bonded laborers seeking to avoid falling back into servitude.

The progress of the project, challenges encountered, and lessons learned in 2005—the final year of Save the Children USA’s [Implementation Grant Program](#) grant from USAID’s Microenterprise Development office—are reviewed below.

PROGRAM COMPONENTS

Program components include: 1) savings, credit and insurance services; 2) business and group management training; 3) entrepreneurship development; 4) marketing and market-linkage skills; and 5) allocation of in-kind microgrants.

The program incorporated the following critical elements for success.

Integration of Services. Recognizing the special needs of ex-bonded laborers, the Nirdhan Utthan Bank’s project design included an integrated package of both financial and non-financial services. While the Nirdhan Utthan Bank provides microfinance services such as loans, deposits, microinsurance and remittance services to the rural poor of Nepal, a separate organization, Nirdhan NGO, delivers business and marketing skills development, training and social empowerment. The integration of these two specialized institutions ensured a holistic approach to serving the very poor in western Nepal.

Specialized Skills Training. All clients received training on the Nirdhan Utthan Bank’s principles and operations, loan terms and procedures, and the roles, responsibilities and management of village banks before becoming eligible to receive financial services. In addition, they were offered skills training in such areas as business management, entrepreneurship, marketing, basic literacy, numeracy and budgeting to help enhance their capacity to support themselves and their families. A total of 378 ex-bonded laborers also received training in vegetable farming and raising livestock, as well as in marketing and market linkages.

Building Personal Assets. Clients were provided with in-kind microgrants by Nirdhan NGO to help build their personal assets. These microgrants included provisions of pigs or goats, which were complemented with technical assistance and social outreach to help clients initiate and sustain business ventures.

Self-Help Group Lending. One of the critical elements of this project was the group banking system. Through the self-help group model developed by Nirdhan and Save the Children, clients are encouraged to work collaboratively and to support one another. Members receive group management training and are required to make a deposit into the group savings account every week. After eight weeks of saving, clients become eligible for a loan. When a group successfully repays the amount of their loan, members also become eligible for standard life

and livestock insurance products made available to other Nirdhan Utthan Bank clients. Within the pilot phase of one year, Nirdhan Utthan Bank served 420 ex-bonded laborer clients with \$2,200 in total savings, and \$44,014 in loan disbursement. In addition, more than 300 clients have received life insurance through Nirdhan Utthan Bank.

LESSONS LEARNED

Holistic Approach to Serving Very Poor Populations

Experience shows that assisting very poor people requires much more than loans. For extremely marginalized and vulnerable populations, such as ex-bonded laborers, integrating non-financial services with credit is the most effective means for developing their asset base—as well as for building their self-confidence.

Introducing a credit-only approach would be inappropriate for very poor groups, who first need financial literacy skills to help them successfully pay back their loans. The holistic nature of this project not only provided clients with financial assistance to escape out of and/or remain free from bonded labor, but also offered them the appropriate knowledge and skills to sustain their potential for escaping extreme poverty.

Developing Linkages

While Nirdhan Utthan Bank recognized the value of integrating services for reaching vulnerable populations, this did not mean that they abandoned institutional microfinance best practices. The linkage

established with Nirdhan NGO allowed Nirdhan Utthan Bank to continue providing quality financial services while consigning the provisions of non-financial services to an industry expert—Nirdhan NGO. This collaboration allowed each organization to remain specialized, and enabled both to develop their own branding and separate identity with clients.

Modifying Activities to the Specific Needs of the Target Population

On an internal level, Nirdhan Utthan Bank had to tailor its management systems, training programs, and incentive schemes to incorporate new ex-bonded laborer clients. In the past, bank loan officers received incentive payments for increasing the size of their portfolio, which essentially meant seeking out wealthier clients who could borrow greater amounts of money. By focusing specifically on reaching the very poor, Nirdhan's management needed to commit to ensuring that systems and resources were aligned to increase the scale and sustainability, as well as the depth, of outreach.

CHALLENGES

Although Nirdhan Utthan Bank was aware of the difficulties associated with working with a marginalized client group, they found that reaching very poor populations can also be extremely time-consuming and costly. Financial support from the International Labor Organization and technical support from Save the Children were vital to Nirdhan Utthan Bank at the start-up phase

for reaching out to ex-bonded laborers.

However, while donors offered valuable short-term support for the project's development, the ongoing costs associated with serving this new client group also required that Nirdhan Utthan Bank and Nirdhan NGO commit long-term human and financial resources. In addition to subsidizing the costs of non-financial services, this entailed ongoing investments in client targeting, selection, and monitoring to ensure services effectively reach the poor and to build systems to capture client feedback, as well as to scale-up products and services as needed.

While the eventual goal is to mainstream ex-bonded laborers into Nirdhan Utthan Bank's existing client base, taking on new poor clients over time will require continued subsidy and investment.

FUTURE OPPORTUNITIES

Utilizing the lessons learned from the pilot phase, the program has been expanded to other locations. By November 2006, Nirdhan opened four new branches in Banke district and three new branches in Dang district. Through these branches Nirdhan has reached over 1,000 active clients with savings and loan services, 372

clients with microinsurance, and 378 beneficiaries with skills trainings. With the delivery structure in place, the outreach is expected to increase significantly in the near future.

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