

Innovations

In a recent BWTP workshop in Nepal, a microfinance practitioner said innovations are “activities that differ significantly from current or recent practice”. The need for innovation stems also from a desire for growth and differentiation, and, given the current economic and political context, innovations have to play a more important role within Nepal’s microfinance sector. They should become a top priority for organisations if they wish to: expand, develop outreach in difficult regions and satisfy the needs of their clients.

In that respect, there are interesting lessons learned from the **Small Farmer Cooperatives Ltd. (SFCL)** system, as reported by Ulrich Wehnert of Rural Finance Nepal (RUFIN). This program, supported by GTZ, received the CGAP/IFAD pro-poor innovation challenge award in 2002. SFCLs are cooperatives based on small groups of farmers and the outcome of the transformation of the Agriculture Development Bank of Nepal’s rural branches. The program has been implemented through innovative practices, such as the use of a **three-tiered structure** for SFCLs, with farmer groups at village level, inter-groups at ward level and main committees at Village Development Committee level. This has improved cohesion and communication within the cooperatives. Moreover, the SFCL program has been particularly efficient in using the **matured SFCL leaders to transfer their knowledge** and success to new cooperatives through training and assistance in replications. This has resulted in substantial savings for the program and a more practical and autonomous scale-up methodology. Finally the program has also been innovative in the financing of SFCLs through the establishment of the Sana Kisan Bikas Bank, **an apex bank** providing wholesale funds to SFCLs.

Some of the most innovative Savings and Credit Cooperative Societies (SCCS) have also been very innovative in providing microfinance services. For example, they have included more poor clients in their membership base by: **offering large discounts on membership fees**; working with groups and offering a wide range of credit and savings products at the door step of their new members.

Nirdhan assesses the financial service needs of its existing or potential clients by **conducting workshops, public information meetings and using other market research tools** such as focus group discussions. Based on findings from the assessment, Nirdhan refines its existing products and when necessary, designs new ones. **Nirdhan** has also introduced **micro-insurance services** that address the need of its clients in mitigating high risks. Illness, death, disability and loss of assets have disastrous consequences on the life of the poor, which are highly vulnerable to the economic shocks caused by such events. Nirdhan proposes two micro-insurance products to its clients. An emergency loan scheme covers sudden death of a borrower by providing benefit to its relatives. In addition, a pilot project has been conducted in collaboration with an insurance company, offering life insurance policies to Nirdhan clients.

Swabalamban Bikas Bank Ltd (SB Bank) also increases the transparency and value of its services to its clients by organizing **‘public audits’** where clients ask questions in public meetings to SB Bank staff and managers. SB Bank also implements a **‘Green Card Scheme’** for ‘special’ clients. Clients who complete a five-year loan cycle and have maintained strict financial discipline are recognised as special clients. These clients are awarded with a certificate of appreciation and a special one-year revolving loan facility of up to Rs. 5,000. SB Bank also proposes a **livestock protection scheme**, which covers the risk of animal mortality in livestock purchased through a SB Bank loan. The annual premium represents 4 to 6% of the value of the animal. The client is entitled to receive 80% of the amount insured, and receive a rebate of 20% on its fees in case no claim is made.

Innovation: Microinsurance Product

In rural areas, few people have access to insurance services, despite facing higher risks related to health, natural disasters, and livestock survival. If these risks materialize, they can result in substantial losses and higher vulnerability for people already subject to difficult living conditions. The cooperative, BISCOL, has entered into a partnership with the National Life and General Insurance Company (NLGIC) on the provision of a microinsurance product, on which the Center for Microfinance (CMF) acts as facilitator. The pilot project, started two years ago, includes life insurance. Other Savings and Credit Cooperatives Societies could easily replicate BISCOL's insurance scheme to provide additional risk mitigation to their clients.

Mechanism

BISCOL initiated its microinsurance program in November 2001 with institutional fund provided by the organisation and fees collected from members. Clients interested in the health or life insurance coverage pay, either, an annual premium corresponding to 5% of their monthly savings accumulated, or Rs. 250 (US\$ 3.4), (whichever option is less). BISCOL provides an equal amount as matching fund to the insurance fund. The funds collected, remunerated at 10% by BISCOL, are also used for on lending to members.

Insurance payment

- *Life Insurance:* In case of natural death of a member, his/her family member or nominee receives between Rs. 10,000, Rs. 20,000 and Rs. 40,000 as per the premium paid (Rs.70, Rs.140 and Rs.280). In case of accidental death, his/her family member or nominee receives double benefit, i.e. Rs. 20,000, Rs.40,000 and Rs.80,000. The benefit paid can cover the outstanding loan debt, funeral costs and provide additional cash to the beneficiary.
- *Health Insurance:* In case of hospitalization and treatment of a member, his/her family member will be reimbursed on the basis of the actual hospital and medical costs. As part of the compulsory insurance policy, the maximum benefit paid is either Rs.10,000 (US\$ 137), or two times the savings, whichever is less. Benefits cover medical expenses, and in case of serious illness that cannot be treated in local hospitals, BISCOL pay the medical costs related to the referral to a hospital in Kathmandu.
- *Livestock insurance:* benefits equal 80% of the livestock value.

Financial results

Year	Accumulated insurance fund	Health Insurance		Life Insurance	
	Amount paid	No of Claims	Amount paid	No of Claims	Amount paid
July, 2001	Rs. 1,290,336 (US\$ 17,676)	-	-	-	-
July, 2002	Rs. 3,145,290 (US\$ 43,086)	3	Rs. 19,834 US\$ 272),	1	Rs 21,095 (US\$ 289)
July, 2003	Rs. 4,080,062 (US\$ 55,891)	23	Rs. 39,081 (US\$ 1,905)	2	Rs 31,895 (US\$ 437)
Total		26	Rs. 158,915 (US\$ 2,177)	3	Rs 52,990 (US\$ 726)

Sources

- "A case study of four Savings and Credit Cooperatives Societies (SACCOs) operating in the hill of Nepal". Nav Raj Simkhada, RUFIN/GTZ. Presented at BWTP-CMF workshop in February 2004. Kathmandu