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Innovations in Nepal's Microfinance Sector and Benefits for Asia –
A CASE STUDY OF FOUR SAVINGS AND CREDIT COOPERATIVE
SOCIETIES OPERATING IN THE HILLS OF NEPAL

Nav Raj Simkhada
Rural Finance Nepal (RUFIN)/GTZ

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Abbreviations

ADBN	Agriculture Development Bank of Nepal
BWMCL	Barahi Women's Multipurpose Cooperative Ltd.
BISCOL	Bindhabasini Savings Fund Cooperative Ltd.
BOD	Board of Directors
CMF	Centre for Micro Finance
GTZ	German Agency for Technical Cooperation
JSACCOS	Janasachetan Savings and Credit Cooperative Ltd.
MF	Micro Finance
MFI	Micro Finance Institution
PCRW	Production Credit for Rural Women
RUFIN	Rural Finance Nepal
SACCOS	Savings and Credit Cooperative Society
SFCL	Small Farmer Cooperative Ltd.
SFDP	Small Farmer Development Program
VDC	Village Development Committee

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1. Introduction and Background

This paper is based on the impact study of four Savings and Credit Cooperative Societies (SACCOSs) in Nepal's hill districts conducted by the Centre for Micro Finance (CMF)-Nepal. CMF undertook an impact assessment of four SACCOSs in Nepal's hill districts to assess the impact of its services (*prove*) and recommend to the stakeholders to *improve* its services.

Impact assessment not only helps to assess the impact of MF services to clients but also provide guidelines to improve the program, that helps Micro Finance Institutions (MFIs) to achieve the dual goal of reaching the poor and achieving financial sustainability. Impact assessment is considered as an integral part of MF program, which helps in improving its operation. The assessment will help to improve the program by identifying untapped opportunities and analyzing what strategy works well and what needs to be changed. Moreover, impact assessment helps to identify best practices and innovations of an institution in products and delivery methodologies, reaching to the poorest of the poor, which could be shared in the micro finance community locally and globally.

The paper attempts to highlight some of the innovative micro finance products offered by four SACCOSs to their members and targeting techniques they have used for reaching the poor. The four SACCOSs undertaken for the study are: Bindhabasini Savings Fund Cooperative Ltd. (BISCOL), Janasachetan Savings and Credit Cooperative Ltd. (JSACCOS), Small Farmer Cooperative Ltd., Jeetpur (SFCL), and Barahi Women's Multipurpose Cooperative Ltd. (BWMCL).

CMF selected hill based SACCOSs for the study because SACCOSs are operating successfully in the hills. Moreover, the hill region comprises 52% of the population (CBS 2001), with poor infrastructure, difficult terrain and extreme poverty. Although financial services are useful tools in poverty alleviation, there is an urgent need for increased access of these services in the hills to reach the poorest of the poor. The Grameen Bank models can address poverty issues efficiently, but there is still clear evidence lacking that this can be done in the hills. In an area of low population density, their scale of operation is severely limited. In contrast, SACCOSs have proven to be an effective model in providing financial services in the hills and sparsely populated districts, although their outreach and number are still limited. A large number of savings and credit schemes have emerged in the hills since the early 1990s. There are an estimated number of 25,000 informal Savings and Credit Organizations (SCOs)¹, and 3,000 registered SACCOSs existing in Nepal. The SACCOSs are community based; self-capitalized and self-controlled micro finance institutions.

¹ Information obtained from *CMF Directory on Micro Finance Institutions in Nepal*

2. The Profile of four SACCOSs

The following four SACCOSs were selected as partner organizations for the impact study, representing different geographical regions (eastern, western, and central hill district) and models (program promoted, self-promoted, women only and mixed sex membership). Thus the study attempted to represent the broadest range of SACCOS.

Two of the SACCOSs are promoted by large microfinance programmes. The SFCL Jeetpur is the outcome of the transformation process of Agricultural Development Bank of Nepal's transformation process of Sub Project Offices into Small Farmer Cooperatives (SFCLs). Under its institutional development program, ADBN has handed over its Small Farmer Development Program (SFDP) to the community members and has already established 143 SFCLs, serving 80,000 households in the rural areas.

The BWMCM is promoted through the Production Credit for Rural Women (PCRW) under the Ministry of Women, Children and Social Welfare. PCRW is another major promoter of SACCOS in Nepal. The program has provided micro finance services to about 37,600 women through cooperative and self help groups. The general profile of all SACCOS are summarized in the below table:

All the studied cooperatives managed to achieve a financial self-sufficiency ratio of above 100%.

Table 1: Summary profile of four SACCOSs

Name of SACCOS	District	No. of Members (<i>as of July, 2003</i>)	Year founded	Brief description of the operating areas of SACCOS
Bindhasini Savings Fund Cooperative Ltd. (BISCOL)	Kavre	2600	1993	Most of the working area of BISCOL are near Banepa. It is about 20 Km from the capital. It has mixed membership and is a self-promoted SACCOS.
Janasachetan Savings and Credit Cooperative Ltd. (JSACCOS)	Dolakha	2421	1993	Most of the working area of JSACCOS are in remote area and far from district headquarters and not linked by road. The SACCOS is located 180 Km from Kathmandu. It has mixed membership and is a self-promoted SACCOS.
Small Farmer Cooperative Ltd. (SFCL), Jeetpur	Ilam	477	1998 (SFDP handed to farmers)	SFCL, Jeetpur is located six hours walking distance from district headquarters. It is located in Ilam district, which is about 550 Km from Kathmandu. It is a male-dominated cooperative. It is promoted by ADB/N.
Barahi Women's Multipurpose Cooperative Ltd. (BWMCL)	Tanahu	484	1996	BWMCL is located at western hill district, which is about 200 Km from Kathmandu. Only a few working clusters of BWMCL are near the highway. It is a women only SACCOS and promoted by PCRW.

3. Innovation in MF services

Before designing new products, it is necessary to conduct a detailed study on current and potential clients, which includes: their location and major sources of income, market opportunity and infrastructure development, and available loan sources. In determining product design, we should remain aware that clients have a range of options for financial services, each with advantages and disadvantages and serving a particular need. Based upon the collected information, convenient savings, credit and other micro finance products and delivery mechanisms should be designed for the clients. The objective is to maintain a choice of different services to better manage risk and to ensure timely access to financial services. Remote places especially need innovation of new financial products and a delivery mechanism in order to meet the particular needs of a remote and isolated population. Some examples of innovative products offered by SACCOSs are presented in the examining part of this chapter:

3.1 An example of a community managed insurance scheme

Almost all of the people in the rural areas of Nepal do not have access to formal insurance services. Even though they have increased access to credit, in the absence of insurance services they are vulnerable to life cycle risks, natural calamities and other risks. These risks may push poor families into a debt trap and their socio economic condition may further worsen. A simple insurance scheme introduced by BISCOL, with its funds and fees collected from members is mentioned below. The scheme could be replicated by other SACCOSs and MFIs in order to provide social security to their members.

The BISCOL's insurance scheme

BISCOL started its micro insurance program in November 2001 with institutional fund and fees collected from members. Each year, BISCOL deducts 5% from accumulated regular monthly savings or Rs 250 (US\$ 3.4), whichever is less, from each member's savings account as a fee for medical and life insurance. BISCOL provides an equal amount of matching fund to the insurance fund from its profit. BISCOL currently has about 2,600 members. The fund collected is used for lending to members. BISCOL pays 10% interest per year (p.a.) to this fund. The same interest is paid in regular savings also.

The BISCOL's insurance payment schedule

Life Insurance: In case of natural or accidental death of a member, his/her family member or nominee will be paid Rs 25,000 (US\$ 3,425) or two times the savings, whichever is less.

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. The maximum amount set is either Rs 10,000 (US\$ 137), or two times the savings, whichever is less. Hospitals in Banepa and Dhulikhel are identified for treatment. In case of serious illness, BISCOL also paid medical costs for referral to a hospital in Kathmandu.

The following table provides an overview about the financial status of BISCOL's insurance scheme.

Table 2: Status of BISCOL's insurance scheme

Year	Accumulated insurance fund	Health Insurance		Life Insurance	
		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 139,081 (US\$ 1,905)	2	Rs 31,895 (US\$ 437)
Total		26	Rs 158,915 (US\$ 2,177)	3	Rs 52,990 (US\$ 726)

As JSACCOS is operating in a more remote area than BISCOL, instead of offering insurance services to its members, it initiated purchasing an ambulance. For this grassroots organization it was more important to admit sick people into a hospital directly, than providing insurance services on a reimbursement basis. However, the cooperative also provides short-term emergency loans for medical treatments.

3.2 Diversification of savings products

The results of the four studies indicate that the poor have the capacity to save and repay loans if appropriate products are designed and made aware that their savings could be properly utilized by acquiring loans for investment or by depositing it in a safe place. The poor should have an understanding about the importance of thrift and loans. High interest rates, insurance tied to minimum savings balance, access to larger loans, linking a client's loan size to his or her savings balance and demonstrated trustworthiness helps to mobilize larger savings.

The study also found out that in the hill regions, members value savings services. Village in the more remote areas do not have large market opportunities and savings will be helpful for managing short-term emergencies and household's consumption needs. All of the SACCOSs first introduced compulsory monthly regular savings to develop thrift among their members. Voluntary and purposive savings products such as the demand deposit, and the educational savings product, were gradually introduced in SACCOSs to respond to the demands of the members. Table 3 provides a full overview on the savings products offered by the four SACCOSs.

Table 3: Savings products offered by four SACCOSs

SN	Products	Purpose and product definition	Interest rate range
1	Compulsory Savings. (All SACCOSs)	Old age provision, loan guarantee and regular source of investment fund for SACCOS. A minimum fixed amount must be deposited each month. These savings are only returned upon termination of membership.	8-12% pa
2	Demand Deposit (All SACCOSs)	For emergencies and lump-sum investments. Members can withdraw stated amount mentioned in policy.	7-10% pa
3	Fixed Deposit (BISCOL, BWMCL, JSACCOS)	For deposits of surplus income and higher returns from savings. Members can withdraw after termination of a pre-negotiated period and can borrow up to 90% of accumulated amount by paying 2-3% extra interest pa.	9-14% pa depending upon the period
4	Daily Savings (BISCOL)	Saving services for daily income earners. Must deposit a fixed amount per day. Withdrawal after specified period when the amount become lump sum.	6-10% pa
5	Educational Savings. (All SACCOSs)	To meet education expenses of children. Must deposit a fixed amount per month. Withdrawal when child reaches 16 years.	8-12% pa
6	Festival Savings. (BISCOL)	To meet festival expenses. Must deposit a fixed amount per month. Withdrawal for specified festival	8-10% pa
7	Group Savings (SFCL, BISCOL)	Designed for groups of poor women, men and occupational caste. Each group must save a minimum specified amount or more.	7-10% pa

3.3 Diversification of loan Products

The study suggested that designing and offering a variety of loan products to the members helps to ensure a high repayment rate and proper utilization of loans. Offering only productive loans to clients may compel them either to lie or to look for other sources of loans for emergency and social purposes.

The loans provided by the studied SACCOSs are divided mainly into three categories e.g. short-term (3-6 months), medium-term (up to 18 months) and long-term (more than 18 months). Short-term loans are generally given for seasonal farm activities and for emergency purposes and medium and long-term loans are given for livestock, horticulture and purchasing of fixed assets (house, land, machine, vehicle). Loans are re-paid in installments. The installment payment is designed according to the purpose of the loan, ranging from monthly to six monthly periods. The interest rate is charged between 15-20% on a diminishing balance method. Various loan products offered by the four SACCOSs are featured in table 4.

Table 4: List of loan products offered by SACCOSs

Loan products	Purpose	Interest Rate
Agricultural <ul style="list-style-type: none"> ▪ Farm activities ▪ Horticulture, tea plantation and broomstick plantation ▪ Livestock and fisheries 	Agricultural loans are provided to buy seeds, seedlings, fertilizer, equipment and purchase of livestock. These loans are of three categories e.g. short-term (6 months), medium term (up to 18 months) and long-term (more than 18 months). Short-term loan are given for seasonal farm activities and medium and long-term loan are given for livestock and horticulture.	Interest rate ranges from 15 to 20% pa on diminishing balance method. Interest rates are mainly higher for housing and social loan and lower for agricultural, enterprise and emergency purpose loan. Fines are applied in the case of late repayment.
Micro enterprise and trade <ul style="list-style-type: none"> ▪ Petty trade ▪ Trading in agricultural products ▪ Processing of agro products and cottage industry 	Loan for petty trade and trading in agricultural products are given for short-term purpose. Long-term loan are provided for cottage industry.	
Housing, toilet and bio-gas	This loan is given for building a new house, improving the old house, constructing toilet and installing for biogas. This is a long-term loan.	
Land purchase	This loan is available only in few SACCOS. The loan is given to buy land for building a house and using land for productive purposes. This is a long-term loan.	
Social loan	This loan is given for social purposes, consumption purposes and for celebrating rituals and festivals	
Emergency loan	This loan is given for emergency purpose e.g. during illness of family members, accident, natural disaster etc. This loan is provided only for short period (3-6 months)	
Loan against collected savings	This loan is given against fixed deposit, compulsory savings and purposive savings of members.	
Group loan for women's and occupational caste	This loan is mainly given in group guarantee for various purposes as mentioned earlier.	

Lessons leaned in introducing new products:

The study of four SACCOSs strongly indicates that only appropriate products are not enough for the poor. The poor must understand the importance of thrift and loans. The poor have the capacity to save and repay loans if an appropriate promotion mechanism is devised. The poor save if financial organizations take good care by visiting their homes and offering good personalized services. Even though JSACCOS, SFCL and BWMCL introduced demand deposits and other savings and loan products, it is not as popular as in BISCOL. But even in BISCOL many of the poor members are participating only in the regular savings program. They are not yet very clear on the meaning of different savings and loan products. The reasons provided by the BOD and staff of three SACCOS are:

- Members of the three SACCOSs have comparatively fewer economic opportunities than BISCOL members due to the remoteness of their operating areas.
- The lack of a member-education program: many members are not yet familiar with voluntary and purposive savings products.
- The operating areas of SACCOSs are scattered, the cooperatives do not employ saving collectors, therefore, members have difficulty to come to the office to deposit savings.

4 Innovations in targeting the poor

The well-being ranking exercise conducted during the study indicates that both the poor and the well-off people are members of the SACCOSs. However, membership size by well-being status differs for each SACCOS and depends on the nature whether they are self-promoted or programme promoted. Programme promoted co-operatives (SFCL and BWMCL) have been able to encompass more poor (71% of their members are poor) as compared to self-promoted (52 % of their members are poor). The reason is that programme-promoted SACCOSs have poverty-targeting objectives, while self-promoted ones do not have.

Although SACCOSs have been able to provide services to the poor, many poor are still left out in their operating areas. This is because membership provided by the SACCOSs is entirely voluntary, therefore, only the aware and literate join SACCOSs. The self-promoted cooperatives do not have any special program for emphasizing on the poor as potential members. Secondly, existing products and services appear not to be affordable for the poor. It is usually the case that often the relatively better-off or progressive households are chosen for membership because it is easy to motivate them than the poorer households. As a result, many poor of the villages remain bypassed. Without proper targeting only a few of the disadvantaged groups join the program voluntarily while the majority is left out. Examples of targeting techniques applied by BISCOL, SFCL and JSACCOS are given below:

Targeting techniques of BISCOL

BISCOL has introduced a special group-based program to target the poor. Under this program it motivates the poor and disadvantaged to join the existing self-help group. The group size is flexible (10-40) as per the availability of potential households in the cluster. BISCOL has designed simple procedures to provide micro finance services to this particular group. Under its group-based program, staff of BISCOL visits groups to collect savings and provide credit.

After BISCOL designed this program many women from disadvantaged families i.e. Kami, Sarki, Tamang, Pahari and Gharti organized into groups and started receiving micro finance services. BISCOL has been successful in forming about 135 such groups as of July 2003.

Targeting techniques of JSACCOS

The well-being ranking exercise helped this cooperative to identify the socio-economic classes of their members and non-members. It also helped them to know that there were still many poor households in the working areas, which were deprived of the cooperative's services. This made it easier for the cooperative to develop strategies to reach to the poorer households. JSACCOS identified clusters where many poor and disadvantaged were not members. They first conducted a detailed socio economic survey of non-members in these clusters. They conducted a focus group discussion with poor and disadvantaged non-members to find out why they were not members of SACCOS and how they could become members. After this they made a pro poor membership policy under which they provided 90% discount on membership fees (the fees is Rs 350). In addition, the regular monthly savings rate is Rs 100 for other members while it is only Rs 20 for the poor. The savings are collected in the cluster, either by SACCOS staff or by a group representative. JSACCOS has introduced this

policy only recently, and it is too early to evaluate its effectiveness as a targeting technique for reaching the poor

Targeting techniques of SFCL

SFCL has a mandate to serve only the small farmers. A small farmer is defined as a farmer with less than Rs 2,500 income per year and less than one Bigha (0.65 hectare) of land. Thus, before forming the group of small farmers, a household survey is conducted to find out their socio-economic status. The well being ranking conducted by CMF showed that most of the members of SFCL are either from the poor or middle class. BWMCL applies similar targeting techniques applied by the SFCL.

Lessons learned on poverty targeting

- The disaggregation of the target population in the operating areas of SACCOSs should be done in terms of poverty categories (poorest of the poor, poor, medium and rich), sex, and ethnicity (upper caste, middle caste, Janajatis and Dalit). SACCOSs BOD and management should conduct a review each year on who its members are and on those who are left out and on how to encompass them into the organization.
- SACCOSs could be provided with an incentive by government for targeting the poor.
- A sense of accountability should be borne by SACCOSs to ensure that all potential target households are covered and that services also favor disadvantaged groups.
- Present membership criteria are not favorable to the poor. The high share and high regular monthly savings prevent the poor from joining SACCOS. Products should be tailored as per the need and capacity of the poor.
- Service delivery mechanism must be pro poor. The poor who depend on daily wages cannot sacrifice time for meetings and may not be able to visit SACCOS office for its services. Services should be provided at the doorstep of the poor.
- Often, existing lending procedures are not conducive for the very poor since they require special credit packages, insurance services for risk mitigation, marketing information system and access to natural resources.
- Targeting and cross subsidization approach for promoting sustainable micro finance in the hills: while focusing on poorer customers, a cooperative will still attract the better off customers for cross-subsidization. Also, poor clients who become wealthier over time should remain with the cooperative. In order to maximize their revenues, SACCOSs should try to retain members who become wealthier. Cross subsidies should be used carefully because poorer members could eventually be excluded from financial services if they are not as profitable. In the case of SACCOSs, if they cover 90-95% of households in the settlement, then both reaching to the poor and cross subsidization could be met.

5. Conclusions

The four case studies suggest that SACCOSs are financially sustainable and are in a position to provide a range of innovative micro finance services, meeting the needs of people living in the hills. In addition, services of SACCOSs had a positive impact on the lives of its members and their families (please refer to the summary findings in annex-1). The study successfully addressed the needs of collaborative efforts of all stakeholders of SACCOSs to ameliorate its existing weaknesses and help them to provide the micro finance services to the poor who currently do not have access to financial services.

The study also clearly suggests that to determine a new product, one must know precisely what type of savings, credit and other micro finance products will be convenient and opportune for the clients and which delivery mechanisms are feasible. The types of products depend also on characteristics such as: geography; market opportunity, development and stability of the financial market and inflation. Clients may not participate in new products, if it is launched without a detailed study of their needs and available opportunities in areas where SACCOSs operate. Client education/ marketing of the product is another important aspect of promotion of new products. Even if a new product is suitable, clients will not participate unless they know and understand detailed features of the products.

The well-being ranking exercise conducted during the study suggests that both poor and well-off are members of the SACCOSs. However, programme promoted co-operatives have been able to encompass more poor than self-promoted cooperatives. The exercise indicates that many poor are still left out in the operating areas of self-promoted SACCOSs. This is because memberships to these SACCOSs are entirely voluntary, therefore, only the aware and literate join SACCOSs. They do not have any special program that puts an emphasis to motivate the poor and bring them into the program. Secondly, existing product and services are not affordable to the poor and disadvantaged. The well-being exercises helped to educate the BOD and management on who are members and who are not, and why. The tool was helpful to realize the need for poverty targeting and reaching the poor. During the study, the study team and SACCOS's BOD and management realized that it is necessary to disaggregate the target population by their well being status in the operating area of SACCOSs. The SACCOS's BOD and Management conduct a review meeting each year to discuss who are members and who are left out and how to encompass the left out households.

Annex-1

Major Findings of the Impact Assessment of four hill based SACCOSs:

(Please refer to the Impact Assessment final draft report, prepared by CMF for detailed information)

Beneficiaries of SACCOS

SACCOS are providing services both to the poor and not-so-poor but, it was seen that the programme-promoted SACCOS have reached more poor (71%) compared to the self-promoted SACCOS (52 %) as the program-promoted SACCOS have poverty-targeting objectives, while self-promoted ones do not.

Loan use

Loans were mostly taken for productive activities (67%), social activities (13%), asset purchasing and repairing (11%), and for paying-off previous loans (3%). In particular, it was seen that women borrowers often take loans for social activities and to pay off previous loans. In most cases, loans were utilized for the stated purpose.

Profitability and Profit use

It was learnt that members who have taken their last loan for a number of different purposes, usually have made a profit. Fifty three percent (53%) members reported that they made profit. The most important use of profit is reinvestment in enterprises and income generation activities (52%). Other uses of profits include purchasing food and other household necessities (15%), which was the best thing they could do with their profits.

Increase in Income

It was seen that there has been an increase in income of co-operative members since they joined the co-operatives as compared to non-members. Sixty-two percent (62 %) members reported that their income has increased after joining cooperative, whereas only 20 % non-members have mentioned that their income has increased after the establishment of Cooperative. This is supported by evidence of an increase in assets of members' households being higher than that of non-members' households.

Expenditure pattern

It was seen that the per capita expenditure on household food consumption in the case of members is higher than that of non-members (members Rs. 9961 (US\$136) and non-members is Rs. 8762 (US\$120). Members' expenditure on purchasing main assets like land, gold jewellery, house, vehicles and motorcycles and expenditure on children's education is higher than that of non-members. This also indicates that there is a greater increase in income among members than non-members.

Empowerment

Involvement of women members in decision-making in various issues like family planning (members 71% non members 61%), buying/selling assets (members 85% non members

70%), community development (members 84% non members 43%), participation in community meetings (members 29% non members 15%), voting (members 94% non members 87%), *taking loans (members 85% non members 49%), use of loan and profit (members 84% non members 49%),* is higher than that of women non-members.

Wider impact

The micro-finance and other services provided by the SACCOS have not only impacted the livelihood of members at individual and household level, but have also had a wider impact in the community. These impacts are in terms of a decrease in interest rates (from 60 to 24 %), principally those charged by moneylenders, within the community, the availability of better financial services for the people in the hills, the establishment and expansion of markets in the community, and the build-up of social capital.

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