

Innovations in Micro Finance Services

**Case Study of four Savings and
Credit Cooperative Societies
(SACCOSs) Operating in the
hills of Nepal**



Background

- This paper is based on the impact study of four SACCOSs in Nepal's hill districts conducted by (CMF)-Nepal.
- The purpose of the study was both to prove and improve SACCOS's services.
- to identify best practices and innovations of SACCOS in products and delivery mechanism
- SACCOS was selected for the study because it is an effective model in providing financial services in the hills.



The four SACCOS are:

- Bindhabasini Savings Fund Cooperative Ltd. (BISCOL), Kavre
- Janasachetan Savings and Credit Cooperative Ltd. (JSACCOS), Dolakha
- Small Farmer Cooperative Ltd. (SFCL) ,Jeetpur, Ilam and,
- Barahi Women's Multipurpose Cooperative Ltd. (BWMCL), Tanahu



Insurance scheme of BISCOL

BISCOL started 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 as a fee for medical and life insurance. BISCOL provides an equal amount of matching fund in the insurance fund.




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 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.



Status of Insurance claim

- Accumulated insurance fund (July, 2003)
Rs 4,080,062 (US\$ 55,891)
- Health Insurance
 - No of Claims: 26
 - Amount paid: Rs **158,915** (US\$ 2,177)
- Life Insurance
 - No of Claims: 3
 - Amount paid: Rs **52,990** (US\$ 726)

Diversification of savings products

Savings products offered by SACCOS are:

- Compulsory savings
- Demand deposit
- Fixed deposit
- Daily savings
- Educational savings
- Festival savings
- Group savings



Diversification of loan Products

The loans provided by SACCOS 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).

Loan products offered by SACCOS are:

- Agricultural loan
- Micro enterprise loan
- Housing, toilet, bio-gas and land purchase loan
- Social loan
- Emergency loan
- Group loan for women's and occupational caste



Lessons learned in introducing new products:

The study of four SACCOs strongly indicates that:

- Only appropriate products are not enough for the poor. 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.



- 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.
- 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 look to other sources of loan for emergency and social purposes.



Are SACCOS reaching to 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 SACCOS.
- Membership size by well-being status differ for each SACCOS and depends on the the nature whether they are self-promoted or program promoted.
- Program 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).



Innovations in targeting the poor

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 group. BISCOL has also designed simple procedures to provide services to this particular group. Under its group-based program, staff of BISCOL visit groups to collect savings and provide credit.
- After BISCOL designed this program many women and men from disadvantaged families organised 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

JSACCOS conducted a focus group discussion with poor and disadvantage non-members to find out why they were not member 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.

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 2500 income per year and less then one Bigha of land. Thus before forming the group of small farmers, a household survey is conducted to find out their socio-economic status.



Lessons learned on poverty targeting

- The disaggregation of target population in the operating area of SACCOS should be done in terms of poverty sex, and ethnicity. SACCOS BOD and management should conduct a review each year on who its members are and on those who are left out and how to encompass the left out households.
- SACCOSs should be provided an incentive by the government for targeting the poor.
- A sense of accountability should be borne by SACCOS to ensure that all potential target households are covered and that services also favour disadvantaged groups.
- Present membership criteria are not favourable to the poor. 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.
- The poor require special credit packages, insurance services for risk mitigation and marketing information.
- 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. 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.



Conclusions

The four case study suggest that:

- SACCOSs are financially sustainable and are in a position to provide a range of micro finance services, meeting the needs of people living in the hills.
- SACCOS's services had a positive impact on the lives of its members and their families
- The needs of collaborative efforts of all stakeholders of SACCOS to ameliorate its existing weaknesses and help them to provide the micro finance services to the poor
- To determine a new product, one must know precisely what type of savings, credit and other micro finance products and delivery mechanisms will be convenient for the clients
- SACCOS's BOD and management should conduct a review each year on poverty targeting.