

# A Review of the Lessons learned from the Small Farmer Cooperatives Ltd. System

**Paper presented to the Workshop on  
“Sharing Microfinance Resources and  
Knowledge in South Asia”**

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# Outline

- Introduction and definition of “innovation”
- Brief introduction to Small Farmer Cooperatives Ltd. (SFCLs)
- Five innovations that have emerged from the Small Farmer Cooperative Ltd. system
- Lessons learned for Asia?

# Defining “innovation”

Innovations are:

“Activities that differ significantly from current or recent practice”.

Greve, H. R., & Taylor, A. (2000). *Innovations as catalysts for organizational change: Shifts in organizational cognition and search*. *Administrative Science Quarterly*, 45(1), 54-83.

# Brief Introduction to SFCLs

- SFCLs are the outcome of the transformation of ADBN rural branches into cooperatives
- Local ownership, member-based, and pro poor
- Provision of a full range of services
- Potential to achieve full financial self-sufficiency
- Status: 143 SFCLs in 36 districts; 80,000 member households; loan portfolio of USD 11.5 million
- Received the CGAP/IFAD pro poor innovation challenge award in early 2002

# Innovation I: A systemic approach

(rather a guiding principle than an innovation)

- MFIs are part of the financial system
- Linkages between actors need to be strengthened
- Working with the system, not parallel structures

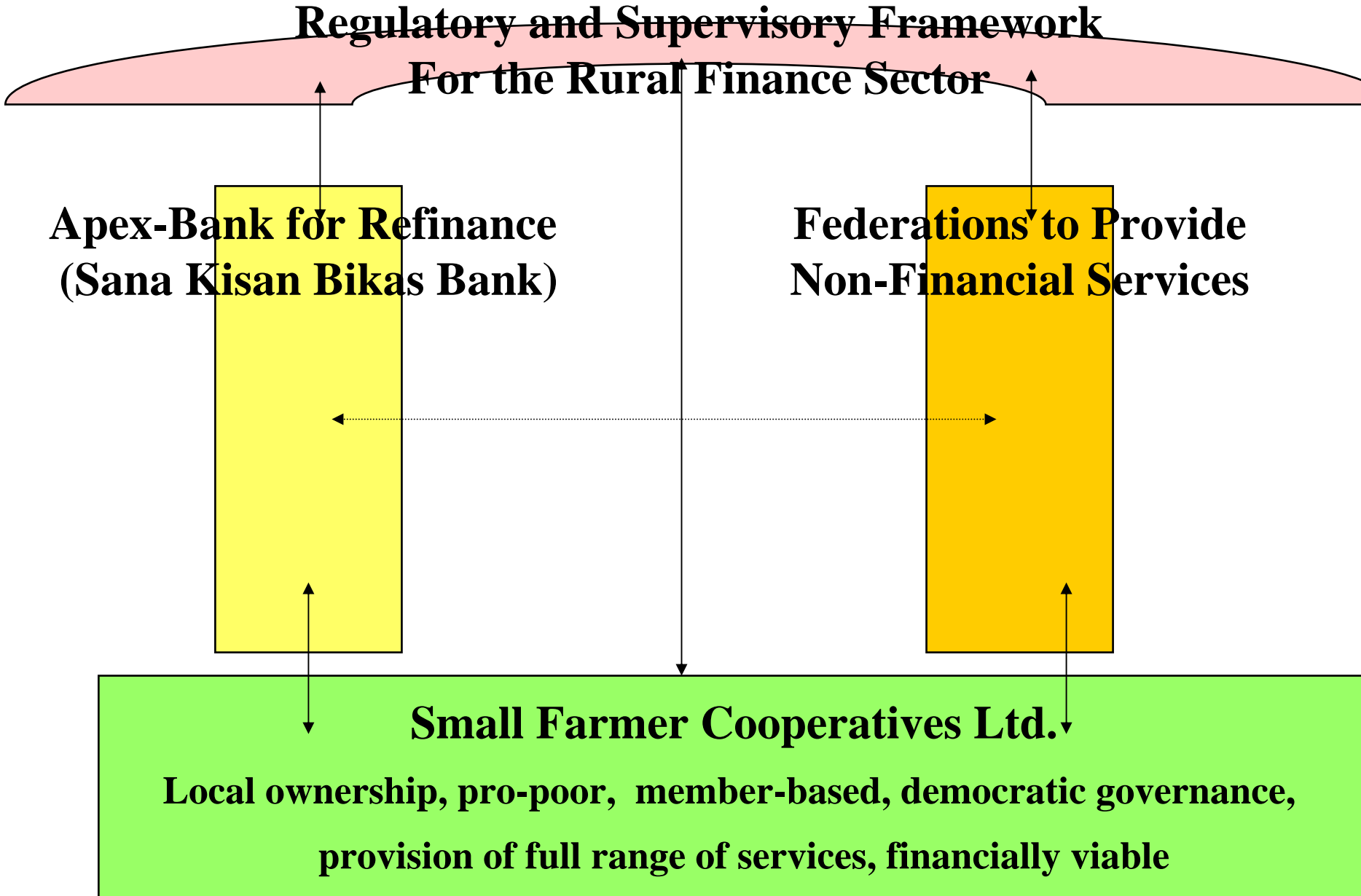
**Regulatory and Supervisory Framework  
For the Rural Finance Sector**

**Apex-Bank for Refinance  
(Sana Kisan Bikas Bank)**

**Federations to Provide  
Non-Financial Services**

**Small Farmer Cooperatives Ltd.**

**Local ownership, pro-poor, member-based, democratic governance,  
provision of full range of services, financially viable**



# Innovation II: The SFCL three tiered structure

- Farmer groups at village level
  - Inter groups at ward level
  - Main committee (the board) at VDC level
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- ⇒ Easy communication and service delivery
  - ⇒ Majority of activities are done on group level

## Innovation III: Replication – Creating new institutions at a discount

- Experienced SFCLs provide technical support to establish another SFCL in an adjoining VDC
- It is a cost effective way to promote grass roots organizations in rural areas.
- New SFCLs can be established within 3-4 years
- There are 10 ongoing replication initiatives

# Innovation IV: Sana Kisan Bikas Bank - A bank for and by the poor

- ✓ Registered in July 2001, total paid up capital USD 1.4 M
  - ✓ SKBB takes over the loan portfolio from ADBN
  - ✓ The promoters of the banks are ADBN, HMG, SFCLs and two commercial Banks.
  - ✓ Until now, the bank has 7 Area Offices
- ⇒ SFCLs will become in 5-10 years the majority owners of the bank.

# Innovation V: Federations – the future pillar for non-financial support services

- ✓ Federations will serve complementary to SKBB (non-technical services only)
- ✓ Services: e.g., stationary management, training, audit brokering, consultancies
- ✓ Fee based and self-sustaining
- ✓ Status: ad hoc committees have been established, problems with registration

# “Activities that differ significantly from current or recent practice”

- (1) A systemic approach
- (2) Three tiered SFCL structure
- (3) Farmer-to-farmer replication
- (4) Sana Kisan Bikas Bank
- (5) Non-financial Services by Federations

Are there any lessons to be learned for Asia?

# Suggested lessons from Nepal for Asia?!

Understanding guiding principles for innovation and sound MF operations:

- ✓ Vision
- ✓ People's participation

# Suggested lessons from Nepal for Asia?!

Breaking with some traditional MF thinking:

- ✓ *Multipurpose can work – many services, many customers*
- ✓ *Big is beautiful – one village, one cooperative*
- ✓ *Cold money or hot money - the magic of the AND*
- ✓ *NGOs only? - Government can be effective, too*