

Rural Finance Nepal (RUFIN)

Partner for Sustainable Financial Services in the Countryside

Working Paper No. 2

Financial Technology of Small Farmer Co-operatives Ltd. (SFCLs)

Products and Innovations

Kathmandu, January 2001

Stefan Staschen

Rural Finance Nepal is a joint Nepali-German project, implemented by the Agricultural Development Bank of Nepal (ADBN) and other partners with technical assistance from GTZ
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Preface

Rural Finance Nepal (RUFIN) is a joint Nepali-German project, implemented by the Agricultural Development Bank of Nepal (ADBN), with technical assistance from the German Agency for Technical Co-operation (GTZ). RUFIN aims at bringing sustainable financial services to the rural poor. The RUFIN Working Paper Series is reviewing and analysing selected experiences in Nepal, and is hoping to contribute to making existing microfinance efforts more visible.

The financial technology employed by any microfinance institution in order to deliver services to its clients is probably the most important factor influencing profitability. Without appropriate loan, savings and insurance products, and the capability to regularly produce innovations, outreach to the poor and ultimately sustainability of microfinance institutions cannot be achieved.

Working Paper No. 2 addresses these issues by looking into the financial technology employed by selected Small Farmer Co-operatives Ltd. (SFCLs). Special emphasis is placed upon the design of savings and loan products, and the savings mobilisation and credit delivery processes of these member-based grassroots organizations.

In its analysis, RUFIN's Working Paper No. 2 further builds upon Working Paper No. 1, which addressed the issue of financial viability by analysing 33 SFCLs: they managed to increase their financial self-sufficiency ratios from 39% in 1996/97 to 117% in 1999/2000. The insights revealed in Working Paper No. 2 will allow the reader to better understand how these co-operative microfinance institutions have finally achieved such astonishing performances.

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Abbreviations

ADBN	Agricultural Development Bank of Nepal
FY	Fiscal Year
GA	General Assembly
GTZ	German Technical Co-operation
IG	Inter-Group
MC	Main Committee
NR	Nepalese Rupee, 1 US\$ = 74 NR (December 2000)
NRB	Nepal Rastra Bank
SF	Small Farmer
SFCL	Small Farmer Co-operative Ltd.
SFDP	Small Farmer Development Project
SPO	Sub Project Office
VDC	Village Development Committee
RUFIN	Rural Finance Nepal

1. Introduction

Recent studies on the Small Farmer Co-operatives Limited (SFCLs) in Nepal have drawn a very positive picture of these small, member-based institutions, both in terms of impact and viability.¹ The Small Farmer Development Programme (SFDP) of the Agricultural Development Bank of Nepal (ADB) has been praised as exemplary for its successful reform of a mainly supply-led and credit-driven programme into sustainable, poverty-oriented rural financial institutions.² It has recently been placed on the same level as internationally renowned institutions such as the Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand and Bank Rakyat Indonesia (BRI).³

Nevertheless, not much is known about how SFCLs use financial technology to achieve such impressive results. A number of questions regarding the “how” of their success still need to be answered:

- How do SFCLs admit new members?
- How do they design their savings, loan and insurance products?
- How are savings collected and their safety secured?
- How are loans delivered and their repayment ensured?; and, most importantly,
- How do SFCLs innovate in all these areas?

There are presently 101 SFCLs operating in Nepal. Thus, this study on the financial technology of SFCLs does not claim to be comprehensive. Instead, a sample of six co-operatives that is comprised of some of the most developed SFCLs from the terai region (Nepalese plains, 4 SFCLs) as well as from the hills has been chosen.⁴ The study almost exclusively relies on semi-structured interviews conducted with the Institutional Managers and, in some cases, Chairpersons of different tiers of SFCLs (Main Committee, Inter-Group and Small Farmers Groups), and ordinary group members. Therefore, evidence stated should be considered only as indicative, not as representative or generally valid in all cases. Apart from the 6 SFCL-offices, one other group was visited at its regular meeting place and one farm was inspected.

Despite its limitations, the study is in my view extensive enough to give a general picture of the financial technology and innovative procedures SFCLs use and the products they offer. It illustrates the diversity of SFCLs, and how imaginative some of them are. Innovative procedures and products are inserted as boxes throughout the text.

Not included in this study is the documentation and accounting side of SFCLs' financial technology. This has been deliberately left out, as it would be difficult

¹ Cf. Small Farmer Development Project, ADBN/GTZ: Institutional Sustainability of and Impact on Small Farmers' Co-operatives Limited, Kathmandu, June 2000, and Ulrich Wehnert and Roshan Shakya: Are Small Farmer Co-operatives Ltd (SFCLs) Viable Microfinance Organisations? A Comprehensive Financial Analysis of 33 SFCLs, Rural Finance Nepal (RUFIN), Working Paper No. 1, Kathmandu, January 2001. Both can be obtained from rufin@gtz.org.np.

² For a general introduction into SFCLs see Bihari Krishna Shrestha, Small Farmer Development Programme to Small Farmers Co-operative Limited: A Major Innovation in Sustainable Poverty Reduction at the Grassroots, in: Agricultural Credit, Vol. 31, July 1999.

³ Cf. Hans Dieter Seibel, Agricultural Development Bank Reform, Paper presented at the APRACA-NACF Regional Conference in Bangkok, Thailand, 20-23 November 2000 (IFAD Doc. #138506)

⁴ Cf. Annex 2 for a list of visited SFCLs.

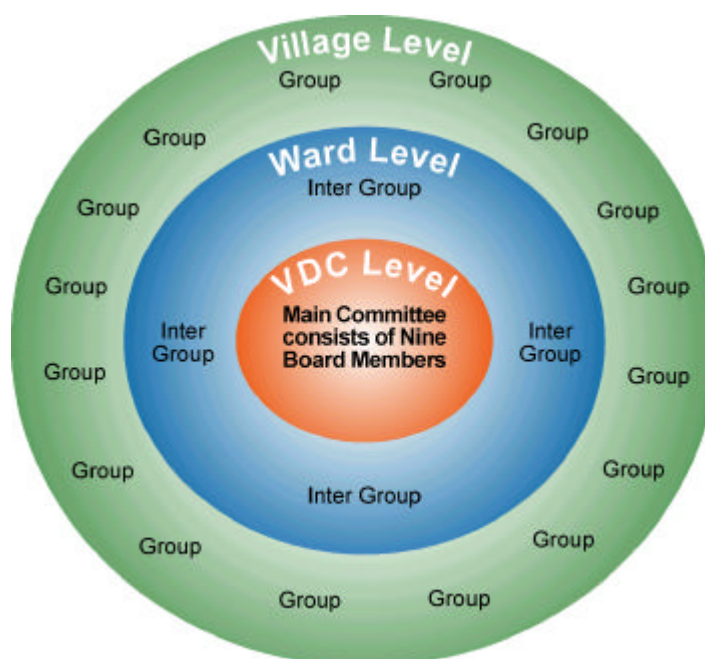
to evaluate such data without knowledge of Nepali, and the inclusion would threaten to overload the study. The starting point for this study is not guidelines and policies, but the daily practice of SFCL businesses.

First and foremost, I would like to thank Roshan Shakya, who was not only my translator in the field but also a source of profound knowledge regarding everything that has to do with SFDPs and SFCLs. I would also like to thank the whole Rural Finance Nepal (RUFIN) Team, and especially its Team Leader, Ulrich Wehnert, for making this study possible and supporting me with advice and hospitality.

2. Organisational Structure of SFCLs

SFCLs have the same general organisational structure as other financial institutions, i.e. a management body for daily business, a board of directors with a chairperson on the top as control organ, and representatives of the member-owners. The annual General Assembly (GA) ensures that the ultimate control of the co-operative lies within its membership. A unique feature, however, is its three-tiered structure: Representatives of several Small Farmer Groups (SFG) constitute an Inter-Group (IG). All IG-Chairpersons or other representatives from each IG form the Main Committee (MC).

Figure 1: Small Farmer Group Building on Different Levels:



In detail, the management of SFCLs consists of the Institutional Manager, who is at the same time secretary to the board of directors called the Main Committee (MC). He takes part in the MC-meetings, yet does not have voting rights. He is assisted and replaced during his absence by the Assistant Manager, who frequently is in charge of specific tasks like running the Banking Unit or forming new groups. Another professional is the Accounting Assistant. The above listed staff members must have at least attained an SLC (School Leaving Certificate), i.e. need to have successfully passed grade 10 in school. The Institutional Manager, in addition, should have some years of working experience in the Sub Project Office/SFCL and has to be from the respective Village Development Council (VDC, the local administrative unit) to ensure local knowledge and stricter social control.⁵

Other people on the payroll of SFCLs are general labourers (supporting staff in office cleaning, preparing food and beverages etc.) and guards.

⁵ Sub-Project Offices are the outlets of ADBN's Small Farmer Development Programme, which are used to lend out money to small farmers. 101 of them are by now transformed to SFCLs, which are the object of this study.

Box 1: Profit Centre Approach

In SFCL Prithvinagar, profit centres have been set up which pay their own staff. This is the case for the Livestock Insurance Scheme, which pays the Livestock Worker, or for the Sales Unit, which is responsible for selling different agricultural inputs like fertiliser, pesticides, veterinary articles (e.g. injections). The Scheme also pays the Sales Person out of its earnings. In SFCL Sundharpur, overhead costs are partly shared, e.g. the general labourer's salary is paid by both the SFCL-office and the Livestock Insurance Scheme, each 50%. This approach helps to separate financial and non-financial business in the accounts and prevent cross-subsidisation among different products.

2.1 General Assembly

The General Assembly (GA) meets once a year after the end of the fiscal year (FY). To conduct this meeting, a quorum of 25 percent of a co-operative's members must attend the meeting. To take decisions, at least 51 percent of members must be present; normally, actual attendance far exceeds this number.

The major tasks of the GA are to approve the budget plan for the next year, exonerate the Management from the previous years' financial report, appoint an external auditor, and present the auditors' report. In addition, the assembly discusses and decides upon new loan and savings policies, strategies for the expansion of SFCL's business, guidelines for the Main Committee and the distribution of profit. Furthermore, new board members and members of the Account and Supervision Committee are elected.

2.2 Main Committee

The Main Committee is, as the board of directors, the highest elected body in this member-based organisation. It is, as a steering committee, ultimately responsible for the SFCL's management. The Chairperson usually is a farmer with high prestige and a good reputation. A Vice-Chairperson acts as his or her deputy. Preferably they can read and write. The Main Committee appoints all SFCL-staff and provides them with terms of reference for the daily management of the SFCL. New members have to be approved, and resignations are accepted by this Committee. It ensures the implementation of policy guidelines. Apart from the above responsibilities, it is also in charge of asset management, monitoring the performance of members' loan portfolios, and enforcing repayments. In the case of natural disasters, it can also allow for rescheduling of loans. Furthermore, the MC has the authority to delegate work responsibilities to staff members or the Inter-Group and SF-Group representatives as it sees fit.

MC-members do not get any remuneration for their work as long as the SFCL is not profitable. Later, allowances can be granted by the decision of the General Assembly on the basis of their commitment. Members are elected every two to three years. During monthly (or even more frequent) MC-meetings, they are asked whether they assume responsibility for loans given out in their respective Inter-Group.

2.3 Inter-Groups

Inter-Groups are composed of one representative of each SF-Group. The Official positions in the Inter-Group are Chairperson, Vice-Chairperson, Secretary and Treasurer. An Inter-Group member can be elected as representative in the Main Committee. These individuals play central roles as mediators between the Main Committee and SF-Groups. Positioned at a ward level, they co-ordinate community development and savings and loan activities. In cases of new members and formation of new groups, they check verification and make recommendations to the Main Committee.

Final decisions regarding provision of loans to members will in general practice be taken at the IG-level, even if the ultimate responsibility lies with the Main Committee. The Inter-Group also plays a very active role in the loan enforcement process.

2.4 Small Farmers Groups

Small farmers groups are often formed without external help or initiative: A group of people gathers to join the SFDP-Programme, since they have similar demands for its services; they jointly approach the SFCL and finally get approved by it. SF-Groups generally have the following structure: They are headed by the Chairperson, and, as his or her deputy, the Vice-Chairperson. These individuals are responsible for convening and chairing meetings, leading discussions and facilitating consensus building. The Secretary, mainly obligated to do the paperwork, and the Treasurer, who bears total responsibility for the group savings account, assist them.⁶ Elections are held when the need arises, i.e. someone does not want to or cannot carry out the job any longer. There are cases where a group has had one and the same Chairperson for 14 years. At the monthly meetings of these groups, a minimum number of members has to be present (e.g. 7 out of 9), but normally all members take part. The meetings not only serve the purpose of deciding financial issues, but also make it possible to mutually exchange experiences on such issues as farming, sanitation or environment. The SF-Groups also organise social activities.

Box 2: Landless Groups

An interesting case is SFCL Prithvinagar, where 5 out of 28 groups are exclusively composed of landless people. These groups apply somewhat different regulations and requirements. They are not eligible for specific kinds of loan products (Irrigation, Land Development and Tea Farming Loans) and their contributions to IG-Savings are voluntary. Savings in the group savings account are blocked, i.e. cannot be used for loans to group members. The SFCL sees these savings as collateral for their loan business, since members of landless groups cannot provide land certificates as collateral.

Other SFCLs have a lower maximum loan contribution amount for landless people, such as NRs. 10.000 only.

SFCL Sundharpur restricts financing of this lending business to internal sources. Thereby higher risks will not affect members' savings, but only the repayment performance of ADBN loans.

⁶ Withdrawals from the group savings account, however, can only be done with the approval of the Chairperson.

In one group in SFCL Prithvinagar, the group's representative in the IG-meetings rotates, so that all group members get acquainted with these meetings. Another group in SFCL Sundharpur had tried to change the representative, as well, but then decided to continue sending the Secretary to IG-meetings, since she was seen to be in the best position to raise her voice in favour of the group.

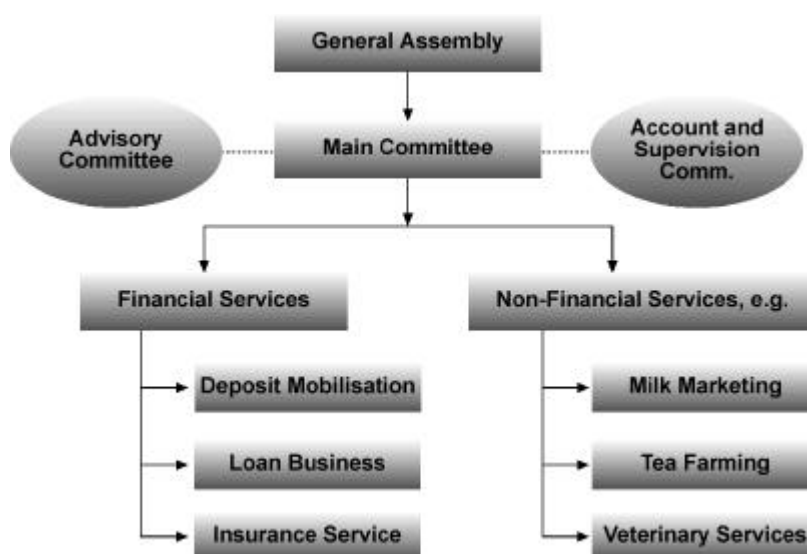
2.5 Committees

A very important sub-committee in the SFCL system is the Loan Sub-Committee, consisting of the Chairperson as co-ordinator, the Institutional Manager and the respective IG-Chairperson (in case this is at the same time the Chairperson of the SFCL, another member of the IG will be appointed). This Sub-Committee plays a very crucial role in the swift and flexible approval of loan demands, which is dealt with in chapter 0.

Another committee is the Account and Supervision Committee. Its members are elected by the General Assembly and are responsible for internal control. It checks the accounts on a quarterly basis, prepares the progress report for the Main Committee, and makes the preliminary selection of the external auditor to be approved by the GA. Membership of this Committee consists of a Co-ordinator and two Assistants. Any member of the SFCL can be elected, yet he or she should possess general knowledge of accounting. The Co-ordinator must be a board member.

In SFCLs offering a livestock insurance scheme, there is a Livestock Insurance Committee (cf. chapter 0).

Figure 2: Service Delivery Structure



Apart from these committees, which you can find in any SFCL, there seems to be much flexibility in regard to the creation of additional committees and sub-committees. Among these can be an Advisory Committee, composed of renowned people from the respective VDCs, like the Branch Manager of the ADBN and former Vice-Chairperson of the VDC, as in the case of SFCL Kumroj. This Advisory Committee is invited to MC-meetings. Figure 2 summarises the typical service delivery structure of SFCLs.

3. Membership Appraisal Process

Five steps have to be taken before someone can become a new SFCL-member:

1. The SFCL checks whether applicants belong to the target group of small farmers, i.e. have a maximum ownership of 0.5 hectares of irrigated land, or 1 hectare of unirrigated land, and an income not higher than 50 percent of the average per capita income in Nepal. Their land certificates can easily verify the former. For the verification of the latter, one has to evaluate the assets held by the respective person, and the products which contribute to his or her income. The ADBN has carried out household surveys in various VDCs and SFCLs, which could be referred to. SFCL's generally try to form homogenous groups so that the regular savings requirements suit all members. The general rule is that only one member is allowed per family.⁷
2. In the second step, the applicant will discuss with other members of the SF-Group and in Inter-Group meetings, the potential services the co-operative can offer. He or she has to be satisfied with the maximum loan amount of NRs. 30,000, and an initial loan size of NRs. 5,000 to 10,000 only. If this is not sufficient, he or she is referred to other financial institutions such as the branch office of the ADBN or commercial banks. In the case of the creation of a new group, the membership has to be verified by the Inter-Group. In the case of a new member joining an already existing SF-Group, its members have to agree. After the necessary approval by the SF-Group the new member needs further approval by all higher tiers (IG, MC), and finally, to come to the SFCL-office for a discussion with the Chairperson and SFCL-staff.
3. Many groups have already saved a considerable amount of money in the Inter-Group Savings, a savings account in the name of the IG. It would be unfair if new members or entire new groups profited from the activities financed by these savings without contributing their share. Hence, new individual members and members of new SF-Groups are required to pay what they would have paid provided they were members from the point where the SFCL started to build an inter-group savings account. The same holds true for the Group Savings held in the name of the SF-Group that an individual wants to join (unless a new group is formed). Since Group Savings are not used for financing development activities, and therefore accumulate over time, it could be difficult for some new members to pay their share in a lump sum. In this case, it is also possible to pay in instalments.⁸

⁷ There is pressure from family members to be accepted as SFCL members, as well. Thus it is feared that extra demands on regular savings could overburden the family. SFCL Prithvinagar has violated the one member one family-rule to allow for loans bigger than NRs. 60,000 (cf. Box 11).

⁸ SFCL Bhumisthan reported that an individual member's share in the Group Savings is as high as NRs. 9,000. However, this has not led to members preferring to build new SF-Groups as one could easily assume. As long as the existing group is very close to the potential member's home, and therefore much more convenient for him or her, this seems to be a sufficient incentive to join the group. In other SFCLs, members prefer to lend out most of the Group Savings so that only a minimum balance is actually held in the SFCL-account.

4. SFCLs are member-owned institutions where each member has to buy a share. The minimum amount to be invested is generally NRs. 100, so as not to be economically inhibiting for new members.⁹
5. To become eligible to get a loan after joining the group, a new member has to follow the rules and policies of the SFCL for at least 3 months, in some SFCLs up to 8 months. The duration of this probationary period can depend on the size of the credit demand as well as on the performance of the new member. The rules and policies include the regular attendance of group meetings and regular payments on Group and Inter-Group Savings. A member's performance will also be verified by consulting other group members.¹⁰

⁹ In former times it was as low as NRs. 10, but most SFCLs have increased the amount by now. SFCL Sundharpur made the observation that members' willingness to buy shares is low as long as they do not get any dividends. The pressure to pay dividends will increase if other co-operatives in the same region actually do pay them.

¹⁰ SFCL Bhumisthan reported a reduction of this period from 6 to 3 months after the transformation of the SPO into an SFCL. By creating a third tier (the Inter-Groups) in the SFCL-structure, the loan appraisal process tended to be longer than in former times. Pressure from members who would like to get their first loan as soon as possible led to the shortening of this period. Another argument in favour of a 3 month period was the familiarity of most potential members with SFCL requirements and policies even before they joined. It was decided that this familiarity justified a shorter "learning period".

4. Design of Savings, Loan and Insurance Products

The product designs in SFCLs appear to be more and more demand-driven. In the past, all SPOs used to offer a similar product range designed by the ADBN. The actual design process appears to have been more a question of constant learning than efficiency in cost analysis and projection. The transformation of SPOs into SFCLs and subsequent accumulation of internally generated funds provided these groups with more freedom in designing their own products.

The initiative for the design of a new product can lie with the Institutional Manager, the Chairperson, or even ordinary members. They will start by first discussing the demand in the Main Committee, and then with the target group the product is designed for. Occasionally, an introduction is carried out on a pilot phase basis.

The RUFIN Team and the Financial Intermediary Division of ADBN can play crucial roles in disseminating experiences from one SFCL to another. Frequent visits of Chairpersons to the project office in Kathmandu, and visits to SFCLs by team members are very beneficial in this regard. The ADBN was and still is, as the "father" of SFCLs, an important facilitator. In the end, much can be said for people in SFCLs. An Institutional Manager or Chairperson with a high commitment to promoting his co-operative is the single most important factor in the improvement of its financial products.

4.1 Savings Products

1. Meeting the Savings Demands of Members

When asked about the importance of savings products as opposed to loan products, there was the feeling among the management that they (the management) were trying to emphasise the importance of savings mobilisation, whereas members in the beginning were more interested in access to loans. In a conversation with group members, they (the members) answered the question "What do you like most about SFCLs?" by saying that they had learned about the benefits of saving. The requirement to earn a regular surplus is in their view a strong incentive to generate higher income.

The interdependence of savings and loan products is clearly illustrated, so that savings are also appreciated as a source of future loans. This concept can have far reaching implications, as seen in the case of SFCL Anandavan, where loans financed by internally generated resources are three percentage points more expensive than loans from ADBN-funds, but still in high demand by members. Members are interested in paying higher loan rates in order to make it possible to get higher interest rates on their savings.¹¹

2. Product Design

The main motivation for offering new, innovative savings products stems from the desire of SFCLs to increase their self-financing capacity, and thereby reduce their dependency on its sole refinance institution, the ADBN. In addition, almost all visited SFCLs mentioned the high demand of members

¹¹ Asked in the General Assembly whether they would like to have lower lending rates, whereby accepting at the same time lower rates for their savings, members decided to stick to high rates for both lending and savings business.

and even non-members for secure, accessible and reliable savings facilities. All SFCLs offer some traditional savings products, which were introduced with the advice and help of the ADBN and GTZ. The most important are Group Savings, Inter-Group Savings, the Consumer Security Fund and Staff Provident Fund.

Box 3: Child Box Savings

The Nepal Rastra Bank granted SFCL Kumroj a limited banking license only this year. The Child Box Savings Programme is one of their innovative savings products currently offered. It is especially targeted to children and tries to instil a savings habit among them. The programme has become quite popular among children within a short time period, and has even created competition among the children who have saved the most.

To participate in the Child Box Savings Programme, children between the ages of 5 and 16 or their parents, have to fill in an application form; once it is approved, a deposit of NRs. 50 is required as a pledge for a savings box. A staff member will open this box in the presence of the child once a month in the SFCL-office. The collected money will be deposited and recorded in the child's passbook, and he will get a deposit slip in exchange. Thereby children can regularly save small amounts of money close to home.

SFCL Kumroj provides 8% annual interest on the account. Taking into account that it is the first step for children in learning how to save regularly, the product is comparatively liquid. Apart from a minimum balance of NRs. 500, withdrawals are allowed at any time. However, it has been observed that these children prefer to accumulate the money so that they can use it for educational expenses later on.

One important difference between Group Savings and Inter-Group Savings is the use of mobilised funds. Group Savings are accumulated over time, as they are lent out and paid back with interest, whereas Inter-Group Savings are used for joint activities at the ward level, so that the money is spent and not repaid. However, there are exceptional cases, such as a flood in Chitwan in 1993, where the SFCL allowed massive withdrawals from the Inter-Group Savings Fund for reconstruction work. Therefore this fund can also be used as an emergency fund provided the SFCL reacts in a flexible manner.

Box 4: Elder Age Group Savings

The Elder Age Group Savings is another savings product introduced by SFCL Kumroj only recently. The target group is elder people of the village between 50 and 65 years of age. The product was designed to meet elder members' demand for typical unanticipated expenses that they cannot finance from daily incomes. Examples are pilgrimage tours or special Hindu celebrations. Apart from these needs, their main interest is to save the family from approaching moneylenders to finance expenses in old age.

To participate in this programme, savers have to form a group of around 50 people and save regularly every month a specified amount such as NRs. 100. The savings fund can be used for the above-mentioned expenditures or in emergency cases. The group members decide amongst themselves the terms and conditions of lending. The SFCL provides 8% interest on the amount held in the account. The Minimum balance for this account is NRs. 500.

Some products such as the User Groups Savings and Forest Users Savings, indicate that there is a high demand for access to secure savings facilities for different purposes. They follow the general rules of Group Savings, i.e. are

deposited in an account in the name of the group, which in turn can decide upon the spending of mobilised funds. The composition of these groups does not correspond with that of SF-Groups; they sometimes include non-members. The only service SFCLs offer in regard to these products is to store part of the savings in a safe place and lend the remaining balance out in a reasonable manner, so that they are still able to pay interest on the products. In addition, some SFCLs arrange training programmes for these groups to facilitate learning more about organisational and financial management.

Some SFCLs have introduced new products catering especially to the needs of the younger elder, or exclusively for women or landless people (Rickshaw Savings).

Box 5: Pewa Savings

SFCL Anandavan is one of the most developed and sophisticated SFCLs in Nepal, even though they were transformed into an SFCL only three years ago. They offer two unique products, the Pewa Savings and the Individual Regular Savings (s. Box 6)

The first one evolved from the demand of SFCL women members to put aside some money for old age. The SFCL and the respective VDC introduced it in a joint effort¹². The savings groups do not only include women members of the SFCL, but also other, very poor women from their families that do not necessarily fulfil the eligibility criteria of SFCLs. This programme started only four months ago, so that many questions such as when and by whom money can be withdrawn are still open for discussion. It is planned to let the funds accumulate for at least 5 years before withdrawals are allowed.

A major difference between various SFCLs is that so far only some of them hold a limited banking license. This carries important implications for the range of products that they can offer. Since one of the main motivations for getting a license is the possibility of mobilising savings, not only from members, but also from non-members, SFCLs with licenses have introduced some individual savings products, which are offered to non-members as well.¹³ They have shifted part of the deposit-taking business to a separate entity called the Banking Unit, which is directly supervised by the central bank, the Nepal Rastra Bank (NRB). The main part of their mobilised funds is lent to the SFCL's Non-Banking Unit.¹⁴ Typical Banking Unit products are Term Deposits and Personal Savings.

But even without banking licenses, there are examples of mass mobilisation of funds by members. By far the highest savings amount of the visited SFCLs has been mobilised by SFCL Anandavan's Individual Regular Savings (Box 6), which is for members only.

¹² One has to mention in this regard that the Chairman of SFCL Anandavan is at the same time Vice Chairman of the VDC.

¹³ This actually is a controversial assumption still debated in Nepal, even if the SFCLs themselves believe that the granting of a license includes the authorisation to mobilise deposits from non-members.

¹⁴ In SFCL Kumroj the Banking Unit charges 12% for this internal loan.

Box 6: Individual Regular Savings

Another new savings product in SFCL Anandavan is the Individual Regular Savings. This scheme was started in 1998, and is still in its pilot phase. It targets not only members, but also their family members. For the sake of simpler accounting and easier planning of funds, management groups of at least 100 people were formed. The first group of 105 people started saving 28 months ago. Members have to contribute NRs. 200 per month for 5 years. The second group (135 people) started 5 months later, the third (112 people) another 10 months later, i.e. 13 months ago. This group saves NRs. 500 monthly. Two more groups are planned, but are still in the process of membership collection. They will save NRs. 200 and NRs. 500 per member per month, respectively, and run for 6 years. Individuals are allowed to join more than one group.

An astonishing 15% interest is paid on the savings balance (capitalised every 6 months). This will only be possible if the mobilised savings are lent out at a very high rate, as well. Members seem to be ready to pay 20% interest on these loans, since they know that they will at the same time gain high earnings on their savings account.

There is a strict regime for late-payers: Defaulters being one month late have to pay a 3% higher sum. After 3 months without payments, the concerned membership will be suspended, and the interest rate reduced to 6%. Furthermore, savers dropping out will only get their money back after the completion of the savings circle, i.e. after 5 or 6 years.

This savings scheme mobilises a historically unprecedented amount of money from members and their families. It will work well as long as the demand for loans with an interest rate as high as 20% is high enough and good repayment performance can be sustained. If not, it will be impossible to pay 15% interest on the savings. It seems at least questionable whether there are highly profitable investment opportunities (with a return of more than 20%) for small farmers in the range of more than NRs. 10 Million. This will be the mobilised amount of savings if more than one group saves at a time. Another crucial point will be the end of a savings cycle. In the case of a group of 100 people and a monthly individual contribution of NRs. 500, the total balance after 6 years will be as high as NRs. 5.7 Million. The co-operative has to be prepared to pay out this huge amount, or it has to convince its members to transfer funds to a new savings product.

SFCLs with limited banking licenses are not allowed to offer current accounts. To meet the demand for liquid savings products, SFCL Prithvinagar has designed a Negotiable Personal Savings product that allows for higher and more frequent withdrawals in exchange for lower interest rates (Box 7: Negotiable Personal Savings).

Box 7: Negotiable Personal Savings

This Banking Unit product of SFCL Prithvinagar is what is, in its own words, the closest it can get to being a current account. For easier access and higher liquidity, savers have to renounce most of their interest earnings. Instead of the usual 8% on the standard Personal Savings account, they earn only 1 to 3% interest, subject to negotiations with the Main Committee. Frequent withdrawals will lead to lower interest. In exchange for this they can withdraw NRs. 40.000 instead of only NRs. 10.000 per week. Additional demands must be announced at least one week in advance. If these demands are approved, members will be required to pay a 2% fee on the withdrawn amount.

A reduction in the interest rate has to be discussed with the member(s) concerned. An increase must be approved by the MC.

Surprisingly, SFCL Kumroj allows for withdrawals of NRs. 20.000 **per day**, and still pays a comfortable interest rate of 8%.

Another motive for mobilising deposits is lower costs of funds: SFCLs normally pay around 8 or 10% interest on savings accounts, whereas the ADBN charges 12% on their refinance facilities to SFCLs.¹⁵ Even when the administrative costs of mobilising savings are taken into account, members' deposits still seem to be a cheap source of funds. At the same time they help to reduce dependency on the ADBN, and therefore on possibly more politically than economically motivated policy changes. For internal source loans, in addition, SFCLs can independently define their own rules and regulations.

SFCLs without banking licenses cannot offer personal savings accounts to non-members. In all SFCLs, the Consumer Security Fund substitutes for personal savings accounts as long as withdrawals are allowed. SFCL Sundharpur, for example, allows withdrawals when the balance does not fall below 10 percent of the outstanding loan amount, or NRs. 500, whichever is higher.

In general, interest earnings are calculated monthly based on the lowest balance during this month. After 6 months, the accumulated earnings are capitalised, i.e. added to the savings balance. The first rule tends to underemphasize the interest earned, the second to overemphasize it.

Interest rates in the savings business are indirectly dependent on ADBN lending rates: A reduction of savings rates will in general only be accepted if the lending rates go down as well. In addition, these rates heavily depend on the rates of the ADBN as the only refinance institution. A particular regulation of the ADBN requires a 4% interest margin between its lending rates and those of SFCLs. One example of this dilemma was illustrated by SFCL Bhumisthan, where interest rates of 11 to 13% for Term Deposits are definitely too high in comparison to market rates, yet cannot be lowered as long as the ADBN does not decrease its lending rate.

4.2 Loan Products

1. Product Design

The design of loan products seems to be a matter of high sophistication, especially as far as interest rate structure is concerned. In addition to the consideration given to interest rates, product designs also rely on many years of experience in credit business in rural areas. Similar to savings products, the most important distinctions between various loan products are the differences between ADBN-designed and financed products and new products, which were introduced after the build-up of internal sources.

Traditionally, products of SPOs were defined according to their purpose. Up to now, this premise holds true for all loans financed out of ADBN-funds, be it the ADBN handover loan, or subsequent loans from the ADBN. The headings used by the ADBN for their loans to SFCLs are the same headings they use in their loan business. Most SFCLs still clearly distinguish their loan portfolios by way of source of funds. This can lead to offering the same product with varying interest rates, depending on the source of financing.

¹⁵ This is still much higher than the 5% normally paid by commercial banks on deposits.

The rationale for prescribing the specific use of a loan, which seems to contradict conventional wisdom regarding the fungibility of money, is to have proper control over the investment of the money after disbursement, thereby ensuring its productive use. Small farmers can determine and announce their loan demands in advance (see chapter 6.1), but are expected to stick to their plans when implementing their loans.

The ADBN changed its system of loan headings effective FY 2000/2001. Now they have only three headings; short-, medium- and long-term loans. Therefore, if the demand for one particular type of short-term loan turns out to be higher than anticipated, and for another, lower, it will be possible to shift funds within the short-term headings. However, it is easily understandable that such shifting is not possible between medium-term and short-term headings, unless the SFCL can finance the mismatch out of internal sources. It will probably take some time before SFCLs also restrict their loan categories for ADBN-financed loans to these three headings.

The growing reliance of SFCLs on internally generated funds, i.e. self-finance and savings mobilisation, gives them the opportunity to manipulate their own funds without outside stipulations being enforced. Some SFCLs have already introduced a separate loan product, which is totally financed by internal funds, and can be used at the borrower's discretion (e.g. the Internal Source Loan by SFCL Anandavan). Emergency needs and special life cycle needs such as marriage, health care and educational expenses can best be covered by these internal source loans. They are approved either by the respective group (e.g. Group Savings, User Group Savings, Elder Age Group Savings etc.), or by the SFCL-Main Committee (e.g. Emergency Loan of SFCL Prithvinagar). In the former example, members can receive a loan from accumulated group savings, under conditions specified by the group.¹⁶

Box 8: Pewa Savings Fund Loan

The Pewa Savings Fund of SFCL Anandavan (Box 5) will be used for a special loan scheme in the near future. This programme will operate on three levels, i.e. groups, IGs and MC, similar to SFCLs. The Pewa Main Committee will have the same status as other sub-committees, and will be made up of women only. Thereby, it is hoped that women will be empowered to take over management responsibilities in the future. This programme will work in close co-operation with and strong support from the VDC. They will supply a matching annual grant of 25%, based on the balance of the groups' savings accounts. Provided that the loans are paid out to landless women, they will have a maximum amount of NRs. 10.000, and a 12 percent interest subsidy will be paid by the VDC so that instead of 17%, only 5% will be charged. In addition, these poor borrowers will be required to take part in an SFCL training programme financed by the VDC. For regular SFCL-members there will also be a regular, non-subsidised loan product with 17% interest.

This programme can be seen as an attempt to empower poor women so that they can join the regular SFCL-structure later. However, the introduction of a highly subsidised, collateral-free loan product, which obviously tends to distort the market, is considered to be questionable by some experts. The future will show how it works out.

¹⁶ An important distinction of these group savings fund loans is that they are handled under the full responsibility of the groups themselves, and only the group will profit from the interest margin, but not the SFCL. This can be seen as a built-in element of competition within the SFCL structure. One extreme case is a group in SFCL Sundharpur, which reported to have already mobilised NRs 80.000, yet only deposited the minimum prescribed amount of NRs. 2.000 with the SFCL, and lent out the remaining balance to its group members.

It can be observed that savings and loans are frequently seen as unified. In many financial institutions, emphasis lies on sound terms and risk structures of assets in relation to liabilities; apart from this, they are generally not very interested in specific allocation and application of funds. SFCLs, however, usually characterise their loans according to their funding source (e.g. purpose-wise for ADBN funds, Internal Source Loan, Savings Programme Loan etc.). This reinforces the borrowers' feeling that they deal with their own "hot" money: Only specific participants in particular programmes are eligible for loans from these mobilised funds, and the money can only be used for predetermined credit activities.

Box 9: Rickshaw Loan

SFCL Anandavan has twice won an award of NRs 25,000 from the ADBN for being the best performing SFCL in Nepal. This money is being used to introduce a savings and loan programme for landless poor. Participants are not real members, since they do not hold shares or contribute to Group Savings or IG-Savings. So far, they have established two groups, with 7 members each, that regularly save small amounts of money (NRs. 50 per month) with the SFCL. Participants are eligible for cheap, collateral-free loans with 12 month terms, weekly instalments and a flat annual interest rate of 7% for buying a rickshaw. The procurement of the rickshaws is handled by the SFCL, i.e. the loans are not paid out in cash. They are financed out of the award money. If participants pay back their loan within 6 months, they are charged interest only for this term, i.e. a 3.5% flat rate.

These groups use a guarantee scheme for repayment: If one group member defaults, the others have to assume repayment responsibility. The group leader is responsible for ensuring on-time payments of all members.

Interestingly, some of the group members are now taking part in the Individual Regular Savings scheme. After successful participation in this scheme they have the option of becoming SFCL-members.

Examples of this strong link between savings and loan products are the Pewa Savings Fund Loan, especially catering to landless women (Box 8), and the Individual Regular Savings Fund Loan (Box 6).

Box 10: Inter-Group Guarantee Loan

Two of the six SFCLs visited offer this product. Its introduction arises from the experience that some cooperative activities are in the common interest of an Inter-Group, yet are generally too expensive to be financed by a single member. Examples of this are transportation services for marketing of farming products, or the establishment of a large scale tea nursery. For such activities, loans from internal sources are provided that are much bigger than the general maximum loan size of NRs. 30,000. Since the degree of responsibility for repayment of loans of such magnitude is too great for a single SF-Group, the loan is guaranteed by all IG-members. In case of default, all IG-members are responsible for loan collection. Otherwise, the IG will be temporarily suspended. For cooperation and provision of guarantorship, SFCL Goganpani rewards IG-members with one percentage point of the interest charged on this loan.

Some loans require personal monetary contributions of the borrower in order to finance a particular good or activity: For example, the Tea Farming Loan amount is only NRs. 60,000, while the actual cost of this enterprise is NRs. 80,000. Another illustration of this approach is the livestock farming

loan, in which the financing ceiling set is lower than the market price of the livestock.

Box 11: Tea Farming Loan

SFCL Prithvinagar is situated in an area next to the Indian border, where tea farming is one of the main agricultural activities. The small farmers of this area recognized the potential of this business, and at the same were aware of its high capital demand. The regular loan products of SFCLs would not have been adequate to finance a large scale tea farming enterprise, since their loan sizes are too small, and terms and repayment schedules too short. Consequently, they decided to introduce a specific Tea Farming Loan with a maximum loan size of NRs. 60.000. The capital required for starting a tea farm on 0.6 hectares of land is about NRs. 80.000, so that the borrower is responsible for providing the additional NRs. 20.000 himself. Because it takes some time to generate profits, the loan has an overall term of 8 years, in which the first 3 years are a grace period without payments of interest or instalments required. In the third to fifth years, only interest payments are required. This means that in years 4 and 5, 50% of interest payments of years 1 to 3, and the interest of years 4 and 5, respectively, have to be paid. Only in years 6 to 8, do principal instalments become due every 6 months, and interest has to be paid regularly, i.e. every 3 months.

An Inter-Group guarantee such as the case of the IG Guarantee Loan (see Box10) is used as security for this loan.

After introducing this product and preliminarily financing it with internal source funds, the ADBN decided to offer refinancing for tea farming, as well. Since the maximum loan amount financed by the ADBN would be NRs. 60.000, members with bigger farms than 0.6 ha would need more than one loan. In such cases, the co-operative deviates from its general rule of accepting only one member per family, and provides different family members with tea farming loans.

The loan demand for specific activities such as transportation services for vegetable marketing or tea nurseries, goes beyond the capacity of Small Farmers Groups. These are generally activities of joint interest to Inter-Groups. In these cases, innovative guarantee mechanisms have been developed in order to minimize potential individual or group risks. (Example of this strong link between savings and loan products are the Pewa Savings Fund Loan. especially catering to landless women (Box 8).and the Individual Regular Savings Fund Loan (Box 6).

Box 10: Inter-Group Guarantee Loan (Box 10). Other activities require high capital input and long grace periods, and, therefore also require special loan products. One such example is tea farming (Box 11: Tea Farming Loan).

2. Interest Rate Structure and Repayment Schedules

The interest rate structure of almost all SFCL loan products works like the parable of the stick and the carrot: Early repayment will be rewarded with lower rates and late payments penalised with higher rates. Crucial is the differentiation between interest payments and instalments, for each uses separate incentive systems. The following table shows the general rule for the payment of interest in the case of SFCL Bhumisthan. The calculation is based on the assumption of interest due at the end of each month. This SFCL allows their members a two month "grace period", i.e. interest for January has only

to be paid by the end of March, for February, by the end of April, and so on.¹⁷ In addition, another delay of 7 days is tolerated.¹⁸ If interest is paid at the end of the same month, or within 7 days of that date, an "incentive rate" is charged, which is 10% lower, i.e. 15.3% instead of 17%. For late payments, an additional 2 percentage points are levied. The interest is calculated on a declining scale, i.e. related to the respective remaining outstanding balance (s. Table 1).

For principal instalments, the regulations are more straightforward: There is no grace period, i.e. an additional fee will be levied from the first day the instalment is overdue. A fee of 2% of the respective instalment is charged, and is calculated on the basis of the regular period of the instalment and the amount of time it is overdue.

Table 1: Interest Rates for Standard SFCL Loan Products

Payments	Normal Interest Rate (annual)	Rebate (neg.) / Surcharge	Actual Interest Rate (annual)
Interest from last month	17%	- 1.7%	15.3%
Interest within 3 months (standard)	17%	./.	17%
Interest after more than 3 months	17%	2%	19%

The SFCLs Bhumisthan and Prithvinagar reported to have dropped the interest rate split between loans from internal sources and ADBN sources some time ago, since this practise led to confusion and complaints from its customers: They could not understand why they should pay different rates for one and the same product. Some SFCLs like Goganpani still use this differentiation: In these cases, external source loans cost 17%, and internal source loans 19%. Goganpani charges, instead of 2%, an additional fee of 4% on overdue instalments. Interestingly, it does not employ incentive techniques for its internal source loans, i.e. no additional fees for late interest payments, nor rebates for early payments.

The best way to explain these regulations is to compare different repayment schedules based on a hypothetical example. In our example a one-year loan of NRs. 10,000 has to be paid back in two instalments; after 6 and after 12 months. The terms and conditions of this loan take effect in January. Let us assume an interest rate of 17%. In the standard case (A) the borrower makes the first interest payment at the end of March (NRs. 142 as interest for January) and thereafter makes monthly interest payments. The amount is only half (NRs. 71) from September onwards, since the outstanding principal balance will have decreased to NRs. 5,000 in July. In December, the borrower has to pay interest for 3 months (NRs. 213) plus the remaining principal balance (NRs 5,000). . Now let us compare case A with a case of monthly payments of interest in combination with semi-annual principal payments (B), and an example where payment is only made at the end of the 12 month period (case C). In case B, we have lower interest payments due to

¹⁷ All SFCLs use this "incentive interest rate" for monthly payments for loans financed by ADBN sources. It corresponds to the incentive interest rate the ADBN allows for early repayments. The grace period for loans from the ADBN to SFCLs is three months. For internal source loans it is used only by some of them. One reason seems to be that lower interest rates are first and foremost seen as a loss of money for the SFCL.

¹⁸ SFCL Bhumisthan is the only SFCL visited that uses this additional grace period.

the rebate on the interest rate of 10% (NRs. 128 January to June, NRs. 64 July to December). Case C is more complicated: The late payment of interest leads to a higher interest rate for the months January to September (payments 3 months overdue), the normal rate for October and November, and the "incentive rate" for the last month.¹⁹ Due to the late payment of the first instalment, an additional 2% is charged on this NRs. 5,000 for 12 months. The following table summarises the payments.

Table 2: Interest and Principal Payments for Loan Examples

Month	1	2	3	4	5	6	7	8	9	10	11	12
Case A	0	0	142	142	142	5142	142	142	71	71	71	5213
Case B	128	128	128	128	128	5128	64	64	64	64	64	5064
Case C	0	0	0	0	0	0	0	0	0	0	0	11936

It is interesting to compare the effective annual interest rates for the different repayment schedules (s. Table 3).²⁰ Regularly scheduled repayments, as in case A, lead to a slightly higher effective interest rate of 17.9% in comparison to the nominal rate of 17%. This is due to more frequent than annual payment of interest. The table further illustrates that early repayment is rewarded by a lower effective interest rate (16.5% as in case B), and late payments on both principal and interest (Case C) increase the effective rate up to 19.4%. Table 2 and 3, which illustrate cases A, B and C on both a monthly (Table 2) and annual basis (Table 3), clearly exemplify that these albeit complex repayment regulations do nevertheless set the right incentives. Late payments on either principal or interest are penalised by higher effective interest rates, and if both are paid late, penalties increase accordingly.

In reality, the percentage of clients paying monthly interest lies between 25%, and, in one case (SFCL Anandavan), 100%. SFCL Sundharpur made the interesting observation that 25-30% of its clients pay monthly, but, in terms of loan volume, 50-60% of the loans are paid back monthly. This suggests that a higher percentage of the smaller borrowers either do not see the clear advantage of more frequent payments, or cannot manage to pay monthly (e.g. due to cash shortage problems, or high transaction costs of monthly payments).

¹⁹ The payment in December is calculated as follows:

$$10,000 \cdot 0.19 \cdot \frac{9}{12} + 10,000 \cdot 0.17 \cdot \frac{2}{12} + 10,000 \cdot 0.153 \cdot \frac{1}{12} + 5,000 \cdot (2 + 0.02 \cdot \frac{12}{12}) = 11,936$$

²⁰ This calculation does not take into account the costs of the Consumer Security Fund, i.e. the withholding of 1% to 5% of the loan amount as security.

Table 3: Effective Annual Interest Rates for Different Repayment Schedules²¹

Repayment Schedule	Effective Annual Interest Rate
Case A: Interest and principal payments regular	17.9%
Case B: Interest monthly, regular principal payments	16.5%
Case C: One payment at end of loan period	19.4%
Interest monthly, principal payment at end of loan period	17.6%
Interest regular, principal payment at end of loan period	18.3%
Interest at end of period, principal payments regular	18.3%

The conditions for interest payments are, apart from a few exceptions, uniform for all products. Regarding the payments of principal instalments and the overall term of the loan, a wide range of variations can be observed. Loans with a term of 6 months up to one and a half years are called short-term. Medium-term loans run up to 4 years. In each case the term and principal payment schedule are supposed to fit in with the production cycle of the respective activity financed by the loan. For example, SFCL Bhumisthan offers a Livestock Farming Loan for the purchase of a buffalo. This loan has a term of 3 years. Principal instalments have to be paid every 3 months in the first 9 months. The fourth payment is required only after 2 years; afterwards the same 3 month payment stipulation applies. In total, there will be 8 instalment payments. The rationale behind this repayment schedule is to allow for a period of 1 year and 3 months during which no principal payments are required, so that the buffalo can have young ones. During this period of reproduction, the borrower will not earn any money from the buffalo, which means payments scheduled at this time could not be honoured.

Even though all SFCLs use some kind of reward and penalty system for early and late payments, respectively, the details vary quite substantially. This factor seems to be a result of the internal discussion process of each General Assembly, which decides on loan conditions. Sometimes the simplification of interest calculations is the main motive for using a different formula. The above-described regulations in SFCL Bhumisthan are the most complex of the SFCLs visited. Some examples of further variations are as follows:

- The higher interest rate for late instalment payments is charged on the total outstanding loan amount, not only on the respective principal instalment;
- Late interest payments (more than three months overdue) will lead to higher rates for all previous months and not only for those more than 3 months back;
- Absence of payments for more than 12 months will be further penalised by adding an additional 2% interest.
- The lower interest rate for monthly payments will actually not lead to lower interest payments, but the difference will be credited to the member's Consumer Security Fund.²²

²¹ Commercial banks charge, in comparison, up to 16% annual interest rates. For Grameen Bank Replicators, there is no data readily available, but a typical 12% flat rate with weekly payments over 52 weeks comes to a 22.7% average annual interest rate.

²² This holds true in SFCL Prithvinagar, where the percentage of members paying monthly interest is unsurprisingly low at 25%. Participants only benefit from their rebate upon leaving the SFCL.

If loan terms were supposed to follow particular production cycles, one would expect similar conditions in different SFCLs. Surprisingly, this is not always the case, as you can see from the table of loan products in Annex 1.

The term for a Land Development Loan, for example, varies between 12 and 48 months. The same is true for the principal instalment payment schedule. This can be as sophisticated as described in the case of the Buffalo Loan in Bhumisthan. However, it can also be as simple as in SFCL Kumroj, where for any Livestock Farming Loan, biannual instalments have to be paid. This suggests that not only do production cycles determine product design, but also other considerations such as convenience of payments, negotiating powers of different players in the General Assembly, and of course, experience with the financial needs of different farming activities come into play.

4.3 Insurance Products

So far there is only one insurance product for SFCLs; Livestock Insurance. Its introduction is supported by a government subsidy paid on premiums.

The Livestock Insurance Committee is composed of one member from each ward who is elected by the participants in the scheme. The committee is in charge of managing this scheme. It is responsible for the inspection of livestock and setting of prices, the control over the utilisation of funds, and evaluation of compensation claims. The maximum amount refunded in cases of death of livestock is 80% of the livestock's stipulated value. If death of livestock is due to negligence or carelessness, no compensation is paid.

The yearly evaluation of livestock takes into consideration the age, health condition and number of previous deliveries of the particular livestock in question. Premiums are based on this value. Possible livestock to be insured includes cows, buffalo, oxen, lambs and goats.

In the first year, the premium is 5% from members and 5% from government via the ADBN. SFCL Prithvinagar only charges premiums of 1.5% in the second and third years, whereas all other interviewed SFCLs charge 5% or even 10%, since the government subsidy is only paid in the first year. Each individual livestock can be insured for a maximum of 3 years. SFCL Prithvinagar made the observation that the average death rate of insured livestock is only 0.99%. In their view, an annual contribution of 1.5% the value of the livestock is sufficient to cover insurance payments as well as administrative costs for the insurance scheme. Members dropping out of the insurance scheme (latest at the end of year three) are eligible for a refund of 3.5% of the insured livestock value, i.e. only 1.5% per year is withheld to cover costs.

Some of the other SFCLs have accumulated funds of up to more than NRs. 1 Million. SFCL Kumroj has introduced a very cheap Livestock Insurance Fund Loan with an interest rate of 10%. It is the responsibility of the participants in the scheme to decide on the terms and conditions of these loans.

In the beginning, members had to be convinced of the benefits of the scheme, since it only seemed to incur additional costs without any visible benefits. By now it is well accepted by most SFCL-members. Additional support in the form of veterinary services from technicians has been helpful in this regard.

Apart from this insurance product, only one SFCL has experience with other insurance products at a group level (s. Box 12).

Box 12: Funeral Insurance

Four years ago, one group in SFCL Prithvinagar introduced a kind of insurance against funeral expenses. For the insurance fund they use their group savings account, which is around NRs. 100.000. When a group member dies, NRs. 5.000 is paid out to the family as a grant to cover the costs of the funeral ceremony. So far, none of the other groups has copied this insurance scheme, as they have not yet mobilised the minimum required amount of NRs. 50.000 in their group savings.

5. Savings Mobilisation Process

After having described the main features of savings products, we will now turn to the process of savings mobilisation. One of the main questions is how SFCLs can ensure the safety of deposits.

There is a huge demand for savings services among small farmer households. In the VDC of SFCL Prithvinagar, NRs. 6 Million was deposited at the closest commercial bank branch. This presented a strong argument for the co-operative to apply for a limited banking license, and capture at least a part of these savings. To be successful in this effort, a positive image, which is associated with an SFCL having a banking license, plays a crucial role. The license further increases the trust in the institution that has to be built over time. Having a new and proper building can be seen as another very important impetus for trustworthiness.

SFCL-offices generally cannot guarantee the security of money and documents on their premises. They usually have a guard, but still seem to be an easy target for Maoist attacks. Nowadays, many SFCLs keep just the absolutely necessary documents and a minimum amount of cash on their premises, store excess cash at the nearest bank branch, and distribute their ledgers among board members, or bring them to the closest ADBN branch. In one case, SFCL Kumroj, insurance for cash up to NRs. 200.000 was taken out, which was very conducive in increasing members' trust in the safety of their deposits.

Many of the traditional SFCL savings products leave the responsibility for the mobilised funds with the respective group that mobilised them in the first place. Thereby savers see themselves as potential beneficiaries by way of lending from their own funds. At the same time, they know that weak repayment discipline will have negative consequences for their group savings accounts. This certainly is the single most important incentive for paying on time and exerting peer pressure on other group members to do the same.

SFCLs ensure the safety of their members' deposits by restricting the credit risk in their loan portfolio and keeping a certain amount of money as cash on hand, or in a commercial bank account nearby where it is considered relatively safe.²³ This latter requirement, as well as restrictions on withdrawals, helps them in containing their liquidity risk. Furthermore, general rules apply for cash holdings in SFCL-offices. For the ADBN funded loans, SFCLs simply use the same or a stricter (i.e. with earlier dates) repayment schedule than the ADBN for its loans to SFCLs. This demonstrates that the role of SFCLs in this regard is still mainly that of an institution channelling funds between the ADBN and SF-groups.

The situation is different for internal source loans, especially if these internal sources mainly consist of members' or even non-members' savings. This is more and more the case in SFCLs with a limited banking license. In case of unexpected high withdrawals in the Banking Unit, the Non-banking Unit can

²³ This can be either stipulated as a percentage of their loan portfolio (e.g. 10% in SFCLs Kumroj and Prithvinagar), or as an absolute amount like NRs. 50.000 – 60.000 (SFCL Sundharpur).

generally help out with cash dispersal, even on short notice. Another possibility is to access the cash holdings of non-financial business.²⁴ However, the most important precaution against liquidity shortages is to prohibit withdrawals above a certain amount or frequency. This technique is employed for quite a number of savings products, as can be seen in Annex 1.

SFCLs with limited banking licenses can best meet the demand for liquid savings. Only they can offer personal savings accounts for members and non-members. Nevertheless, these savings products are subject to certain precautions, such as the restriction of withdrawals to between NRs. 10.000 and NRs. 20.000 per day, or even only NRs. 10.000 per week (cf. footnote 41). A service fee on the withdrawn amount can curb additional demand. These regulations help to limit liquidity demands on the banking unit. At the same time, these savings are mostly invested in short-term loans so that transformation of terms between assets and liabilities is low.

²⁴ In SFCL Prithvinagar the daily turnover of the non-financial business is around NRs. 50.000. In case a sudden demand for cash arises, the SFCL financial business sector can access this money.

6. Credit Delivery Process

The granting of credit by SFCLs is still heavily dependent on its sole refinance institution, the ADBN. This creates certain implications for the credit delivery process. Their fund management is mainly determined by ADBN rules on credit delivery. As described above, the ADBN's influence reaches as far as indirectly stipulating term and interest structure and product variety in the lending business.

6.1 Planning of Credit Demand of Members

1. Present members

The planning period of an SFCL coincides with the Nepalese fiscal year (starting mid-July). The ADBN, as the single external source of funds of SFCLs, needs to know the credit demands of its members in advance in order to carry out its own budget planning. A further increase in the use of internal sources in the lending business will shift partial responsibility for fund management from the ADBN to the SFCLs.

Members have three months time to announce their annual credit demands. These demands have to be broken down according to the different loan sub-categories (e.g. vegetable loan, sugar cane loan, paddy loan etc.). In SF-Group meetings, the annual demands are discussed, and, either approved or adjusted. Each member has to explain in public his or her credit demands, how they think they will use the money, which preparations are under way to invest the money accordingly, where they are planning to buy the concerned goods or materials, and at what price. After approval by the group, the same will be repeated at the Inter-Group level. The borrower has to be present at the IG-meeting. At the same time, their demands will be verified by their accounts and past performance record. Finally, all credit demands of members will be presented before the Main Committee to get final approval. Therefore, by the beginning of the new fiscal year, the ADBN should be aware of the accumulated credit demands of all SFCLs in the country.²⁵

Box 13: Budget Planning instead of Credit Demand Planning

SFCL Prithvinagar uses a more elaborate system of annual planning. Each member has not only to announce his loan demands, but also their envisaged system or schedule of repayment of loans and contributions to the group savings account. Thereby the SFCL will be provided with a budget plan for each group and can plan the overall budget accordingly. The General Assembly then approves the fiscal plan in February for the coming fiscal year. This leads to the requirement of planning the individual payments (loans **and** savings) one and a half years in advance. It paints a more accurate picture, since it also takes other cash flow into account. With a higher share of internal sources, the actual credit demand of SFCLs becomes more and more dependent on members' savings.

Another innovation is that SFCL Prithvinagar already includes the additional loan demands of new members in its annual plan by projecting their numbers and estimating their demands according to experience. Therefore they do not have to provide the SFCL with a plan for the remaining period of the fiscal year.

²⁵ SFCL Sundharpur was the only visited SFCL which did not ask members for their annual plan. However, this led to some substantial deviations from the budget plan handed over to the ADBN, that have to be compensated for in next year's budget planning.

2. New Members and Additional Demands of Present Members

The process is different for new member additions during the course of the fiscal year, because the above-described planning process of annual credit demands has already been finished. In general, these prospective members are required to announce their credit demands for the remaining fiscal year. These will ultimately not be approved by the Main Committee, but by the so-called Loan Sub-Committee (cf. chapter 0).²⁶

If, throughout the year, additional credit demands of existing members arise, the Loan Sub-Committee is likewise used as a faster and more convenient vehicle for approving loans.

6.2 Appraisal of Individual Loans in SF-Groups, IGs and MCs

Appraisals of individual loans in the course of the year follow the same structure as appraisals of annual credit demands, i.e. they start at the SF-Group level, proceed to the IG-level, and get final approval at the MC level. The borrowers are required to fill in demand forms to be signed by all group members. Approval is based on judgement regarding the performance of preceding loans.

At the MC-level the individual loan demand is checked against the annual credit demand the borrower has applied for. It has been reported that it can occasionally be easier to decrease the amount of individual loans at this level, since the borrower is not present.

All SFCLs stipulate a maximum amount of NRs. 5.000, in a few cases, NRs. 10.000, for the first loan to a new member. The second loan, then, will only be higher if the instalments of the first loan have been paid on time.

6.3 Loan Disbursement and Control of Loan Use

As mentioned above, many SFCL products are defined purposewise, i.e. are supposed to be used for a specific purpose e.g. producing cash crops, developing land owned by small farmers, or improving irrigation systems. The co-operatives have to ensure the respective uses of the funds. In former times, and in some cases even today, SFCLs have tried to guard against misuse of funds by not paying out cash, but giving out inputs like fertiliser. This practise, of course, is very much prone to fraud.²⁷

Sometimes members of an IG will visit a prospective borrower at home before their loan is disbursed. Thereby they can check the accuracy of the borrower's statements. The group members do not generally require such a visit, since all members possess profound knowledge regarding their neighbours anyway.

Nowadays loans are mainly paid out in cash in the presence of the Loan Sub-Committee. This committee also has the authority to disburse the loan as a lump sum if the borrower seems trustworthy enough, or to pay it in

²⁶ An exception in this regard is SFCL Prithvinagar (s. Box 13)

²⁷ The Manager of SFCL Bhumisthan reported a case where fertiliser was given out instead of cash. The problem was that the supposed number of parts in one packet of fertiliser turned out in the end to be much smaller than expected.

instalments to have more control over its use. To circumvent the problem that money is fungible, i.e. is a perfect good and therefore can be used for whatever purpose one wants, SFCLs have introduced a number of precautions to guard against misuse of funds:

- One way is to pay out the money in instalments and deposit it in a personal savings account. When demand arises, members can withdraw the amount they need. SFCL-staff will have an overview of what is going on with the funds, and therefore some degree of control over withdrawals.
- Some loans are not paid out, but the SFCL-office provides borrowers with coupons to buy the necessary inputs (e.g. tea nurseries and sprinklers in the case of Tea Farming Loans).
- A group consists of 5 to 12 members only; the average is 7 members. Therefore members know each other very well. As long as there is no collusion at a group level, nobody will be able to buy other than what was announced in his annual credit demand to finance the loan.²⁸
- All members are farmers and hence familiar with farming activities to be financed by SFCL-loans. They can judge the correctness of the announced use of the funds by observing the behaviour of the borrower: Does he prepare the stable in the case of a livestock-farming loan? Does she own a piece of land that has to be improved in the case of a land development loan? Only after having started with the necessary preparations for using the loan conveniently, will the amount be disbursed.
- As mentioned above, some SFCLs have changed their interest rate policies, and now charge a uniform rate for all loan products. This is due to the experience that differing rates encourage members to apply for the loan categories with the lowest rates, regardless of the actual purpose of the loan
- Provided that all these precautionary measures do not prevent the borrower from misusing his funds, and this knowledge becomes public, he has to pay a higher interest rate and pay back his loan early.²⁹ In SFCL Prithvinagar, in addition to the higher interest rate, no new loans are issued for one to two months to penalise the IG.

It has been reported that most members are aware of the principal payments which are due, yet not about their interest payments. Consequently, they get a letter explaining the process just before their instalments become due. Interest payments are calculated in their presence, and either paid in IG-meetings where one SFCL staff member is present, or at the SFCL office.

6.4 Enforcement of Loan Contracts

Group pressure and social prestige play an extremely important role in the lending technology of SFCLs. The proximity and familiarity of group members among one another, as well as the stipulation that SFCL-management has to come from the same VDC the SFCL is situated in, does not allow for attempts of disguise or fraud.

²⁸ Of course it will be the borrower's decision whether to use the money from the loan or other money to finance activities, but this should be of known interest to the SFCL.

²⁹ In the case of the SFCL Bhumisthan the interest rate is 26% instead of 17%, and the full loan amount has to be paid back in a month's time.

Loans above a certain size (SFCL Bhumisthan: NRs. 5,000), or in some cases, all loans, have to be secured by a land certificate. In this regard, the Land Revenue Office is informed about the use of the land certificate as security, so that the sale of the land is no longer possible. However, not least due to threats of Maoists, the auctioning of the certificates of defaulters has not been exercised. Maoists would see such an auction as exploitation of poor farmers, and have already proven their readiness to attack SFCLs. Instead, an internal settlement takes place: One of the other group members agrees to buy the defaulters' land.

SFCL Sundharpur takes the citizenship cards of landless people as collateral, since they cannot secure their loans with a land certificate. If they need their cards, they will get them back for 10 to 15 days, provided they have paid interest and instalments regularly.

As soon as a loan becomes overdue, i.e. an instalment has not been paid on time, members will receive a letter requesting payment. Other members will not be eligible for fresh loans as long as their group members have loans in arrears. In some SFCLs, loan collection teams, composed of one representative from the respective IG and SFCL staff member, have been formed for each Inter-Group. The teams visit defaulters at home at least twice a year. In addition, overdue payments are publicly announced at IG-meetings, yet in most cases the respective member does not show up.

Several SF-Groups have described very strict loan enforcement procedures at the group level. One of the main reasons for non-repayment is moving to another place in search of a new job. This is called the "hit and run"-effect. Even in such cases, group members are often still able to collect the loan. One time they visited the defaulter at her new home even though it was in a neighbouring district. Another time they approached the individual concerned after he had returned to his old village, and claimed the repayment of his loan.

Some of the overdue payments in SFCLs loan portfolio are a legacy from SPO times.³⁰ However, so far no write-offs seem to have been undertaken, and SFCLs still try to collect these bad loans.

Another enforcement mechanism is to publish a notice in the local newspaper containing the name of the defaulter, his father and grandfather, the purpose of the loan, the individual's address and group number. SFCL Bhumisthan has been doing this with some success when loans have become 4 years overdue. SFCL Sundharpur has also used the same technique under similar circumstances. However, following publication, Maoists visited the defaulters at home and told them not to pay back the money, and at the same time assured them of their support. The SFCL decided to drop this method and rely more on collection teams.

SFCL Bhumisthan mentioned the usefulness of offering non-financial services in collecting loans. It is responsible for distributing subsidised kerosene which

³⁰ To give one example: SFCL Sundharpur still has NRs. 0.9 Million in its books of the originally NRs. 6.4 Mio. handover loan. Most loans financed out of these funds are by now overdue.

farmers can obtain against vouchers. Therefore defaulters visit the SFCL-office and can be approached by SFCL-staff.

As usual in the agricultural credit business, there is the risk of events beyond the control of borrowers, which can endanger their repayment capacity. Many areas in Nepal are subject to natural disasters such as flooding and - especially in hilly areas - landslides. Some loans provide for ex-post mitigation of these sometimes-heavy burdens for farmers. There is, for example, a so-called Land Development Loan for farmers who want to buy land and/or prepare it for cultivation after it has been impaired through such natural disasters.³¹ In the case of someone having taken a loan ex-ante, i.e. before a disaster occurs, they can renegotiate the loan with the SFCL and either reschedule it or get additional funds. A general waiver, however, is unknown in such cases, and interest has to be paid from the point of renegotiation or rescheduling on a regular basis.

³¹ Under Nepal's land ownership laws farmers generally already own half of the land they work on so that they only have to buy the second half.

7. Success Factors and Prospects for Future Development

Even though only 6 SFCLs were visited, therefore rendering generalizations inadvisable, some common practices and, more importantly, innovations have been illustrated. The overall positive picture of SFCLs can partly be attributed to certain very successful elements in their financial technology. The most important are:

- SFCLs actually do live the idea of local ownership. All members as well as staff members come from the same VDC and have time to grow into the financial services business. People with only 10 years formal school education are successful in offering complex financial products and even inventing new ones.
- Various incentives for member borrowers ensure a timely repayment of loans. Early repayment will be rewarded with lower rates and late repayments penalised with higher rates. The introduction of a monthly interest collection system enforced loan discipline and improved loan collection.
- The clustered structure of SFCLs through joint liability groups of small farmers at village level, Inter-Groups at ward level and a Main Committee at the VDC level, contributes to the effective management of the organisation and the good communication among members.
- SFCLs use the advantages of being multi-service co-operatives without getting caught in the associated traps. The different business lines are strictly separated and in some cases even organised as profit centres. Yet they are able to stimulate each other by being complementary and increasing the feeling of local ownership and demand orientation of SFCLs.
- Although targeted lending with stipulations regarding specific loan uses contradicts conventional wisdom in microfinance, SFCLs are able to employ this concept only in so far as it helps small farmers to invest their money in a profitable way. Sufficient flexibility to change plans when the need arises, and access to internal source loans in emergency cases reduce the negative concomitants of purposewise lending.
- A strong support system by the ADBN and GTZ provides the necessary training and facilitates mutual exchange among SFCLs.

Of course there is much scope for improvement. Some remarks concerning possible future developments and associated opportunities and risks will conclude this study.

- A continuation of the emancipation process by increasing the internal source base is strongly recommended. This will decrease the dependence on the ADBN as the sole refinance institution and thereby lead to more independence in the design of new products and hence more creativity and demand-orientation.
- The biggest SFCL by now has around 1.500 members (Prithvinagar). It is doing surprisingly well, taking into account that it does not use any computer facilities. Future growth and increasing savings mobilisation will

make manual accounting even more challenging. By the same token, it will become more difficult to make decisions in the General Assembly.

- SFCLs will have to continue introducing new products. Definitely, there is a demand for insurance products against personal risks such as death, illness, natural disasters etc. Current products insufficiently meet long-term needs such as old age and educational expenses. In addition, members are now demanding more liquid savings products. This will have far-reaching consequences for risk management in SFCLs, especially as far as liquidity risk and credit risk is concerned.
- Some of the rules and regulations guiding loan products seem to be unnecessarily complex (cf. chapter 4.2). Further research into whether they are really understood and followed by SFCLs is recommended. Simplifications are possible, as some of the SFCLs have shown already.
- The introduction of new products has to be done carefully and with regard to the future. Some of the products appear to have been introduced without due consideration of future effects (cf. e.g. Box 6). Their introduction on a pilot basis is always preferable.

ANNEX 1

LIST OF SAVINGS AND LOAN PRODUCTS

Annex 1: List of Savings and Loan Products

Savings Products

Name of product	Design of Product; Introduction	Interest Rate Range in %	Description	Savings Schedule per month in NRs.	Restrictions on Withdrawals (in NRs.)	Minimum Savings Balance in NRs.	Mobilised savings amount in NRs.	SFCLs Offering Product
Group Savings ³²	ADBN	6-10	Savings account in name of group, responsibility for giving out loans to group members lies with group, which decides on loan terms and then sends demands to SFCL	5-140 (at group's discretion) per member, one case of 500 during harvest season ³³	Max. 60% (at group's discretion), minimum 300 per person, 2.000 per group or no restriction; dropouts get money back ³⁴	No	300.000 – 775.000; 8.000 - 40.000 per group as maximum	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Inter-Group Savings ³⁵	1993	6-10	Used for joint activities at the IG-level, e.g. improvement of schools or foot trails, and sometimes also for individual loans; group leaders collect during meetings a specific amount and bring it to IG-meetings. Money is paid into an IG-account. IG-Sub Committee decides on use.	0 to 5 per member (at IG's discretion) ³⁶	None or max. 60% or minimum balance 2.000; big withdrawals have to be announced in advance; dropouts get no repayment	No	16.000 – 130.000, max. 20.000 per IG	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur

³² Some examples of loans paid out of these funds: In SFCL Goganpani a typical loan has a term of 3 to 12 months and a maximum balance of NRs. 20.000. Interest of 20-25% is charged. The groups are reported to use similar repayment incentives as the SFCL, e.g. higher rates charged for late-payers. In SFCL Anandavan, generally a flat rate of 2% per month is charged for 6 month loans of a maximum amount of NRs. 17.000 so that the loan is relatively expensive and only used for emergency cases. SFCL Sundharpur reports very similar loan conditions. A group in SFCL Prithvinagar charges 1% per month and 1.5% for overdue loans. The term is one year, and 4 instalments have to be paid.

³³ In SFCL Prithvinagar some groups also save in kind with the SFCL during harvest time so that they can sell their goods later when prices have recovered.

³⁴ SFCL Sundharpur requires new groups to save NRs. 200 (landless) or NRs. 300 per member per month for the first three months to reach the minimum required balance as soon as possible.

³⁵ In SFCL Kumroj the interest rate on loans out of the IG Savings Fund is 18%, for overdue loans 36%.

³⁶ In SFCL Kumroj the savings amount was so high that no additional payments were deemed necessary. The fund only grows by capitalisation of interest payments. SFCL Prithvinagar does not make regular contributions to this account, but uses it to deposit diverse payments from fees, rents, donations etc.

Name of product	Design of Product; Introduction	Interest Rate Range in %	Description	Savings Schedule per month in NRs.	Restrictions on Withdrawals (in NRs.)	Minimum Savings Balance in NRs.	Mobilised savings amount in NRs.	SFCLs Offering Product
MC-Savings			Entrance Fees, income from lodging, from nurseries; decision about use lies with MC	No, in one case initial payment of MC-members of 5 NRs.	No	No	2.000 - 4.000	Goganpani; Anandavan; Prithvinagar
User Group Savings	ADBN; 1996	8	Used for maintenance of irrigation or water supply systems, women empowerment, village banking etc.; regular savings of User Groups consisting of members of different SF-groups and even non-members; elected chairperson responsible for savings collection	1 or 2 per member, in practice collection yearly	No		20.000 – 184.000	Bhumisthan; Goganpani; Prithvinagar
Consumer Security Fund (also called Creditors Fund)	ADBN/ SFDP; 1995	7-10	Withholding of 1-5% of loan amount; paid in savings account in individual names; no withdrawals or withdrawal only if balance higher than prescribed percentage of outstanding loan amount; repayment only when leaving SFCL; used for covering loan losses ³⁷	Once at disbursal	No withdrawals or minimum balance 10% of outstanding loan or 500 (whichever is higher)		306.000 – 823.000	Bhumisthan; Goganpani; Kumroj; Anandavan; Sundharpur; Prithvinagar

³⁷ SFCL Sundharpur consequently requires only 2% instead of 5% of the loan amount to be paid to the consumer security fund when money is used for buying livestock that falls under the livestock insurance scheme.

Name of product	Design of Product; Introduction	Interest Rate Range in %	Description	Savings Schedule per month in NRs.	Restrictions on Withdrawals (in NRs.)	Minimum Savings Balance in NRs.	Mobilised savings amount in NRs.	SFCLs Offering Product
Staff Provident Fund ³⁸		7-14	Only for SFCL-employees	10-15% of salary, additional 10% from SFCL	Only after 5 years; or maximum 80% as loan with 2% higher interest		40.000 - 122.000	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Forest Users Savings Fund	2000 on demand of members	8	Fund for carrying out forest conservation measures; groups of 18 and 65 members respectively formed by project working in conservation, consist of members of different SF-groups and non-members; savings are collected during IG-meetings	5 per group member				Goganpani
SFCL Construction Building Fund	SFCL Sundharpur, 1998	0	Savings fund for the construction of an SFCL office building	5 for loans up to 5.000, or else 10, other income from fees (also from non-members)	No withdrawals		24.000	Sundharpur
Double Your Money ³⁹ Regular Monthly Scheme for Fixed Period ³⁹		14.9 9.7 ⁴⁰	Term deposit for 5 years; initial amount will double 42 monthly instalments will lead to a balance of 50 instalments					

³⁸ SFCL Kumroj gives out loans from these funds after 5 years of payments. The maximum amount is 80% of the balance, the interest on these 2 year loans is 2 percentage points higher than the standard rate, and they have to be paid back in 20 equal instalments over 2 years, which are deducted from the salary.

³⁹ These products are not offered by any of the SFCLs visited, yet are interesting for comparison of interest rates (the calculated rates are effective rates).

⁴⁰ The monthly interest i is: $\frac{x \cdot 42}{2} \cdot ((1+i)^{42} - 1) = 8x \Rightarrow i = 0.77\%$ with x as monthly instalment and $\frac{x \cdot 42}{2}$ as average amount saved. This leads to an annual rate of 9.7%.

Name of product	Design of Product; Introduction	Interest Rate Range in %	Description	Savings Schedule per month in NRs.	Restrictions on Withdrawals (in NRs.)	Minimum Savings Balance in NRs.	Mobilised savings amount in NRs.	SFCLs Offering Product
Elder Age Group Savings	SFCL Kumroj	8	Money used for special occasions (religious events, funerals, etc.); account in name of groups of 50 elder people (50-65 yrs.); it decides on loan conditions financed by these savings; in case of death, relative steps in	100 per member per month	No	500	6.500	Kumroj
Pewa Savings	SFCL Anandavan together with VDC; 2000	10	Women-only groups consisting of 5-10 members and their family members, i.e. also including very poor, landless women.	25-100	Not yet decided upon	No	197.000 in 66 groups	Anandavan
Individual Regular Savings	SFCL Anandavan; 1998	15	Groups of at least 100 members; group-building only to facilitate accounting; contractual savings; funds are used for loans with 20% interest	200-500	No withdrawal before end of term	No	1.940.000 in 3 groups, ca. 1.500.000 given out as loans	Anandavan
Term Deposit (1-5 years)	ADB/ SFDP; 1996/7	1 yr. 8-11, 2 yrs. 10-12, 3 yrs. 9-13; 4 yrs. 12; 5 yrs. 11-13	Banking Unit product: For members and non-members, certificate can be used as collateral for loan (interest 2% higher)	1 payment		1.000 to 100.000, can be graduated according to term	28.000 – 700.000	Bhumisthan; Kumroj; Prithvinagar
Personal Savings ⁴¹	1996/7	8	Banking Unit product to members and non-members	Not fixed	10.000 or 20.000 per day or 10.000 per week or prior announcement without guarantee	500-800, for chequebook 1.000	183.000 - 265.000	Bhumisthan; Kumroj; Prithvinagar

⁴¹ SFCL Kumroj uses some more detailed regulations: An additional fee of 10% of the respective amount has to be paid for more than one withdrawal per day. Closing of the account costs NRs. 100. Withdrawals of NRs. 20.000-50.000 have to be announced 3 days in advance, higher withdrawals 7 days in advance.

Name of product	Design of Product; Introduction	Interest Rate Range in %	Description	Savings Schedule per month in NRs.	Restrictions on Withdrawals (in NRs.)	Minimum Savings Balance in NRs.	Mobilised savings amount in NRs.	SFCLs Offering Product
Negotiable Personal Savings	SFCL Prithvinagar; 2000	1-3	Banking Unit product; higher withdrawals against lower interest rate	Not fixed	40.000 per week, with one week prior announcement; possibly more for 2% fee	1.500	85.000	
Institutional Savings		8	Banking Unit product: Account in name of institutions like schools, user groups	Not fixed	Max. 20.000 or announcement 1 week in advance or pay 100	500		Kumroj
Child Box Savings	First introduced by SFCL Kumroj	8	Banking Unit Product: Introduced to instil savings habits in children aged 5-16 years; SFCL provides a deposit box for a deposit of NRs. 50; this will be emptied once per month and paid into a personal account	Not fixed, emptying of box once a month	Minimum balance for withdrawals: 500	No	10.500 for 24 accounts	Kumroj
Rickshaw Group Savings	SFCL Anandavan	10	Offer for poor, landless non-members	50	Discretion of group			Anandavan

Loan Products

Name of product	Design of Product; Introduction	Interest Rate Range in%	Description	Term (in months) ⁴²	Principal Instalments Schedule (months after disbursement)	SFCLs Offering Product
Production Loan	ADBN	16-19	Cash Crop Loan: Vegetable, Sugarcane, Ginger; Cereal Crop Loan: Paddy, Wheat, Millet	6-18	Potato: 3 months; others: end of term or every 6 and 12 months	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Land Development Loan	ADBN	16-19		12, 36, 48	12/36 months: every 6 months 48 months: after 12, 24, 36, 48 months	Bhumisthan; Goganpani; Kumroj; Anandavan
Livestock Farming Loan	ADBN	16-19	Different livestock (Buffalos, chickens, goats, etc.) and related farming activities (e.g. milk production)	11-48	Buffalo/Cow: 3, 6, 9, 24, 27, 30, 33, 36 or 5, 7, 9, 11, 23, 24, 27, 36 Chicken: 12, or 5, 7, 9, 11 Pig/Calf/Goat: 12, 24, 36, or 12, 18, 24, 30, 36 Milk: every 3 also every 3 months, with a 6 month grace period and then every 6 months	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Small Cottage Industry Loan	ADBN	16-19		11/12 (working capital) - 36	bi-annually; working capital as often as twice per month or 5, 7, 9, 11	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Marketing Loan	ADBN	16-19		11-18; Buying and Selling Activities 6	6, 12 or 8, 12 (each 50%), or 4, 8, 12, 18, or 5, 7, 9, 11 Buying and Selling Act. 6	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur

⁴² SFCL Sundharpur allows for many different products a maximum term of 11 months and thereby can easily cope with 1 month overdue payments in ADBN-financed loans without having to pay higher interest on their ADBN loans.

Name of product	Design of Product; Introduction	Interest Rate Range in%	Description	Term (in months) ⁴²	Principal Instalments Schedule (months after disbursal)	SFCLs Offering Product
Agriculture Input Loan	ADBN	16-19		11-12	6, 12 or 8, 12 (each 50%), or 5, 7, 9, 11	Bhumisthan; Goganpani; Kumroj; Anandavan; Sundharpur
Irrigation Loan	ADBN	16-19		36 - 48	Yearly or every 6 months	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur
Biogas Loan	ADBN	17-19				Bhumisthan; Goganpani
Revolving Fund Loan	SFCL Sundharpur	20; if instalments overdue 24	Originally interest free revolving fund from GTZ of NRs. 500.000, now after repayment internal sources	12	After 12 months; interest due only at end of term	Sundharpur
Banana Loan		17		36	Every 6 months	Anandavan
Tea Farming Loan	SFCL Prithvinagar	14	Generally NRs. 60.000 for 0.6 ha, additional cost of NRs. 20.000 has to be borne by borrower; for more than 0.6 ha, several loans to same family (cf. FN 7); So far NRs. 5.2 Mio from ADBN and NRs. 600.000 from internal sources	8 years	3 year grace period (also no interest); interest for years 1-5 paid in years 3-5; during years 5-8, principal instalments made every 6 months and interest every 3 months	Prithvinagar

Name of product	Design of Product; Introduction	Interest Rate Range in%	Description	Term (in months) ⁴²	Principal Instalments Schedule (months after disbursal)	SFCLs Offering Product
Inter-Group Guarantee Loan	Replication from other SFCLs	16-19	Loans > NRs. 30.000; guaranteed by all IG-members, who get 1 percentage point of interest for this service (Goganpani); max. 100.000 (Prithvinagar); activity financed should be of benefit for IG (e.g. tea nursery); financed by internal sources only	48	Every 6 months	Goganpani; Prithvinagar
Internal Source Loan	SFCL Anandavan	20	No purpose-wise lending out of internal sources	12	12	Anandavan
Livestock Insurance Fund Loan		10	Loans out of Livestock Insurance Fund		Discretion of Livestock Insurance Committee	Kumroj
Fund Loan	SFCL Anandavan / VDC, planning stage	5 (17 charged by SFCL, 12 subsidy from VDC)	Collateral free loan for very poor, landless women with interest rate subsidy and 25% matching grant on savings account from VDC		Still to be discussed, discretion of Pewa Main Committee; women only	Anandavan

Name of product	Design of Product; Introduction	Interest Rate Range in%	Description	Term (in months) ⁴²	Principal Instalments Schedule (months after disbursement)	SFCLs Offering Product
Individual Regular Savings Fund Loan	SFCL Anandavan	20	For participants in savings programme; max. loan amount total savings per month of resp. group (can be as high as NRs. 56.000; only in programme mobilised funds	24	After 6, 12, 18, 24 months	Anandavan
Rickshaw Loan	SFCL Anandavan	7 (flat rate)	For participants in rickshaw savings scheme; capital stock is award money	12 (52 weeks)	Weekly; Amount 7.000 - 10.000	Anandavan
Emergency Loan	SFCL Prithvinagar	16	For emergency needs; max. NRs. 20.000; from internal sources only	Max. 12		Prithvinagar

Insurance Products

Name of product	Specific Purpose	Design of Product; Introduction	Premium (yearly)	Interest on Fund in%	Description	Mobilised amount in NRs.	SFCLs Offering Product
Livestock Insurance 43	Payment in case of death of livestock (cow, buffalo, ox); account in name of Livestock Insurance Committee	1994	5% of value of livestock from participants in scheme, 5% from government via ADBN for 1 st year; 2 nd and 3 rd year 1.5 – 10% from participants	7 – 8	General Assembly elects Livestock Insurance Committee of 5-7 members for period of 3 years; Committee decides on price of livestock with 2/3 rd majority; 70 - 80% reimbursement as long as necessary health care has been provided; reevaluation every year; SFCL Prithvinagar refunds 3.5% in case of dropout, i.e. charges 1.5% service fee per year	291.000 - 1.545.000	Bhumisthan; Goganpani; Kumroj; Anandavan; Prithvinagar; Sundharpur

⁴³ SFCLs treat this product generally as a savings product. It has, however, all typical attributes of an insurance product.

ANNEX 2

LIST OF VISITED SFCLS

Annex 2: List of Visited SFCLs Main Data of Visited SFCLs

SFCL	Year of Foundation as SPO	Hill / Terai	Year of Transformation into SFCL	Banking License	Number of SF-groups	Number of female only groups	Number of IGs	Number of members	Number of female members
Anandavan	1977	Terai	1997	No	126	106	9	754	654
Bhumisthan	1984	Hill	1993	1998	132	33	14	857	234
Goganpani	1984	Hill	1996	No	77	23	10	451	125
Kumroj	1984	Terai	1995	1999	138	40	15	1134	408
Prithvinagar	1988	Terai	1995	1999	202	71	12	1498	519
Suncharpur	1977	Terai	1997	No	125	44	13	869	326

Most data are from mid-July, 2000.

