

# **A CASE STUDY OF SFACL SALANG, DHADING**

**MAY, 2014**

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## Forewords

The Small Farmer Cooperatives Ltd (SFCLs) are members managed community based microfinance institutions with three-tiered organizational structure, which ensures the involvement of most of the members in the decision making process. The three-tiered includes (i) Small farmer groups form at the grass-roots level with 5-12 members (ii) Small farmer groups form inter-groups at the Ward level. (iii) All chairpersons of inter-groups form main committee -a Board of Directors- of SFCLs at the Village Development Committee (VDC) level.

The small farmer groups decide on collection of savings, loans and community development activities in the village. The inter-group supervises, coordinates and supports activities of small farmer groups. The Board of Directors (BoDs) of SFCLs; formulates plans, policies and appoints staff to carry out day-to-day activities. The BoD is accountable to the General Assembly. The membership size and volume of transaction of SFCL varies one to other. Generally, membership size ranges 300- 5000 members and volume of transaction ranges from about Rs 2 million to 400 million. As of July 2013, 324 SFCLs are providing financial and non-financial services to about 300,000 families in fifty districts of Nepal. Most of these SFCLs are generating profit and are operationally sustainable.

The member owned and managed community based cooperatives named as SFCL could be considered an effective approach for providing financial and non-financial services to the poorest community living in the hills, mountains and rural areas under the same umbrella. The financial services of SFCL include savings, credit, micro insurance, remittance and fund transfer and non-financial services include skills training for income generating activities and community development activities.

Empirical evidences from the field revealed that SFCLs services have helped in the employment generation, empowering women, increasing income, improving physical infrastructure, improving health and education of members and their families. The mature and capable SFCLs have expanded their services in neighbouring VDCs or replicated new SFCLs, largely focusing to women and disadvantaged people. High recovery rate, low amount of overdue loans, generation of internal resources in accelerate rate and increment in outreach and women members indicate the better performance of SFCLs. Hence, SFCL approach seems to be a suitable and cost-effective community based micro and rural finance program owned and managed by small framers to provide financial as well as non-financial services in the deprived communities.

SFCL Salang located at Salang VDC of Dhading district is one of the matured and capable



SFCLs amongst all. The purpose of preparing case study of SFCL Salang was to present the SFCLs approach of microfinance to wider audience including national and international professionals, practitioners and policymakers participated in the microfinance summit held during February 14-16, 2013 in Kathmandu Nepal. The dissemination of the case study of the SFCL will help to the microfinance professionals to design and implement the similar approach in Nepal and elsewhere.

I sincerely thank to Dr Champak Prasad Pokharel and Mr. Nav Raj Simkhada for their untiring work and contribution for preparing this case study.

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# A Case Study of SFCL Salang, Dhading

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## ABSTRACT

Small Farmer Co-operative Limited (SFCL)<sup>1</sup> Salang is a farmers' owned, managed and controlled cooperative transferred from SFDP (small farmers' development program) owned by ADBL (Agriculture Development Bank Limited) in 2055. SFCL is believed to be a sustainable framework for enhancing access to microcredit and related services in rural area., SFCL model is an exit from the then SFDP that was implemented for more than two and half decades which was heavily reliant on government subsidy (direct or indirect). SFCL Salang has progressed in multipronged areas including in enterprise development activities. It has used lending and collection form group formation approach and has reached to form 186 groups covering about 1187 families as its member by 2012, representing about 95% of the families of the VDC (Households in the VDC as per 2011 population census was 1140). Mobilization of the female groups is also high as 62%. The family coverage expanded almost 3.5 folds and women's group formation composition doubled compared to handed over stage. SFDB has been main centre for credit feeder and promoter of related services for SFCL Salang. The co-operative has included several credit portfolios like vegetable, food grains, livestock, fisheries, sericulture, home stay, hire purchase and marketing management. Presently, it has been promoting also organic farming. It has hired also agriculture and livestock specialists to facilitate farmers in vegetables, livestock and fisheries. Two years ago, it initiated marketing of vegetables by adopting floor price approach (announcing purchase price every morning) with a resale arrangement under MOU with a merchant of Wholesale Vegetable Market, Kalimati Kathmandu. MOU is flexible enough to allow sales in other market in any day, if price offered is higher compared to that in Kalimati. The marketing arrangement covers also the collection of dairy products and dry beans. Operation is already in profit. Recently, SFCL Salang has replicated similar cooperative in neighboring VDC (Nalang) and transferred that to the community under a facilitation contract of one year, initiated by SFDB.

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1. *Recently most of the Small Farmer Co-operative Limited has changed their name as Small Farmer Agricultural Co-operative Limited because most of their members engage in agricultural activities*

SFCL Salang has got 100% repayment rate, with consistent dividend of around 15% and additional other facilities/services distributed to the shareholders. It conducts also multiple social programs in co-ordination with various organizations. Poor farmers receive smaller loans without collateral under group guarantee. At the district level, it has been working closely with SFDB (Ilaka office), NACCF (Nepal agriculture Central Co-operative Federation), National NGO, District Irrigation and District Agriculture Offices. Entrepreneurship development among women and ordinary villagers through persuasion, training, lending and follow-up is an additional praiseworthy aspect. The co-operative has strong committees by lending purpose and for monitoring. Regionalization of lending, collection and monitoring of credit has also been initiated. Enterprises it promoted were found to be mostly successful. Learning is that the enterprises are successful if backed up by technical knowhow, connection to the market, strong follow-up and facilitation. SFCL Salang has been consistently receiving high performance evaluation awards from the district, regional and central level organizations in the country, including also from some international organizations. It is moving toward regional co-operative reference point, gradually and interest of the organization is towards rapid expansion. However, too fast movement has also increased risk exposure of different type that the management has to be careful of. Over capitalization (deposit to /capital ratio of 3.7), with overreliance on external financing, internally over pressurized move to facilitate creating sister co-operatives with the aim of completing the task within a year and had over, increasingly higher involvement in social works that has to be done by public sector, need to focus on distinct prioritization are some of the issues that it has to give attention to and facilitators to focus on.



## Introduction

1. The Small Farmer Co-operative Ltd (SFCL) Salang is situated in the Dhading district in the Central Hill region of Nepal. It is located nearly 80 kilometres southwest of Kathmandu, the capital city of the country and 120 Km east of Pokhara, another larger city in the hill region. It has also got all weather access (about 80Km) to Terai region of Nepal. The work area of the SFCL Salang is Salang VDC. The population of the VDCs per CBS Census of 2011 is 5,650 with 1140 households. Salang VDC borders with Budi Gandaki River in west, Madi VDC in north, Trisuli River in South, Kampur and Kampur VDCs in east. The VDC has three High schools, 1 Lower secondary school, 10 primary school, 1 health post, and one post office. About seventy percent of the Salang people are literate. The major ethnic groups are Magars, Brahmins, Gurungs and Newars. Most of the people in Salang are small farmers and small traders. Salang has its own building and it is presently constructing another building worth Rs five million, to operate co-operative shop for collection and selling vegetables and other agricultural production.
2. With technical and financial support from German Technical Cooperation, the Agricultural Development Bank Ltd (ADBL) of Nepal had introduced the Small Farmer Development Program (SFDP) in Salang VDC in 1994 to provide financial and non-financial services to the small farmers and small traders. Prior to this program, the small farmers in Salang did not have any access to institutional financial services. They had to depend on the moneylender to get access to loans at very high interest rates. The small farmers of Salang were persuaded by ADBL to take over the responsibilities of managing the SFDP by the farmers themselves, as a model for creating a sustainable rural financial institution. Thereby, the ADBL-run Sub Project Office (SPO) was handed over to them in mid-July of 1998 by registering the institution under the Co-operative Act – 1992 as SFCL, Salang.
3. Being a south facing hilly structure, Salang VDC has reasonably moist soil structure for most of the months and has good potential for vegetable, fruits, sericulture, and animal farming from the perspective of both milk and meat. While goat farming is popular in the VDC, currently vegetable farming has picked-up faster. The poverty index of the Ilaka that includes Salang is 0.455, while the district poverty index is 0.433 compared to national average of 0.335. VDC Salang belongs to 3009th position (SAE, CBS) in the poverty ordering of 4025 VDCs in the country.



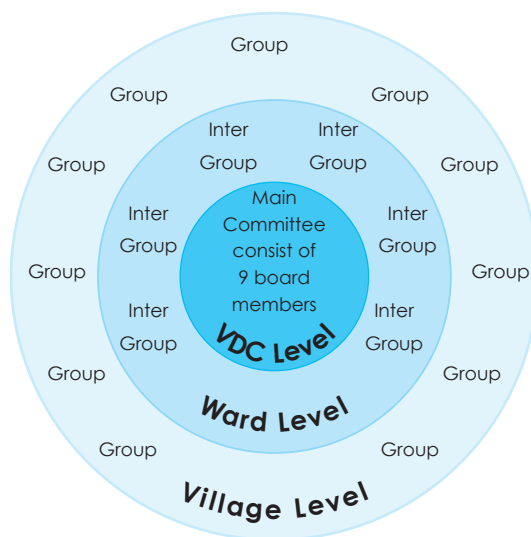
## Working Modality of SFCL Salang

4. SFCL model is an innovative framework of providing financial and non-financial services to the communities in the rural and remote villages. It follows a total credit approach by intervening in multiple potentials of the small farmers. In this model, there is group formation approach. The group make pre estimate of total credit prior to providing credit. Same family is eligible for receiving multiple credits with multiple repayment schedules depending on the character of loans received. It provides the loan also for household expenditure, if the SFCL is convinced that the borrower is in such need due to his involvement in the funded project. SFCL also provides collateral free loan to the poor farmers up to Rs 35.000 Which type of loan to be received and how much depends on framer's demand, group's recommendation and official analysis by the SFCL.
5. Various microfinance methodologies allow the borrowers to reschedule their loans without making them feel that they have done anything wrong. In SFCL salang is - in between. Like in other group based methodologies, in SFCL Salang credit there seems to be enough evidence of loan repayment rescheduling by going through multiple portfolio approach. The total portfolio remains active for receiving loan and maintaining repayment schedule. In general the loan ceiling remains within 200 thousand per family, at present. In case of relatively better off farmers, it is higher (said to be roughly about 10%).
6. From the perspective of low risk exposure capacity of small farmers, micro credit often starts with the intervention of promoting existing portfolio or the one with adequate exposure of the borrowers in the native environment than creating an entirely new portfolio. Also there is high potential of diversion of earning to consumption, in the poor group. Given these, the installment repayment for the borrower farmer is often set for short intervals. In some microfinance methodologies it is monthly as they emphasize portfolio which generate cash every week. In SFCL salang it is set for monthly interest payment and monthly to three monthly principal repayments, based on the character of the portfolio. The co-op also follows a system for the betterment of housing, sanitation, access to clean drinking water, disasters coping, help during emergency etc. The co-op also promotes different types of savings. In case of death of a borrower, member welfare scheme like life insurance, relief fund and interest rebate for a year is provided.
7. By design, SFCL Salang is a multipurpose co-operative with three-tier organisational structure: Small Farmer Groups, Inter-Groups and Main Committee. The formation and functions of each tier is as described below.
  - (i) Small Farmer Groups (SFGs): Representatives of Small Farmer members (5-12 members) form a SFG at grass-root level. The SFGs are responsible to decide on SFGs matters such as savings collection, decision on loan and community development activities in

the village. The staffs of SFCL conduct household survey/ well being ranking to identify the target groups and potential members. If number of target households is sufficient to form SFGs, the staffs facilitate to form the groups. Only one member is allowed per family to be a member of SFG. Once the SFG is formed, it must be endorsed by the Inter-Group and MC (Main Committee). Each new comer has to buy a minimum share of NRs. 100 to become a member of SFCL Salang. To become eligible to get a loan, a new member has to deposit monthly regular savings, at least for 3 months and comply with the by-laws and policies of the SFCL.

- (ii) Inter-Groups (IGs): Two or more SFG form an IG in ward level. A VDC has nine wards and thus constitutes nine IG chairpersons. The main role of IG is to supervise and coordinate SFG activities under it. It endorses the loan application and other requests of SFGs.
- (iii) Main Committee (MC): All IG Chairpersons from each IG form the MC (Board of Director -BOARD) of cooperative at VDC level. Board is the main governing body of SFCL. It formulates plan and policies and hires staffs to implement plan and activities. The board is accountable to the General Assembly (GA). The organisational structure of SFCL is as shown in the figure below:

**Figure 1: The three-tiered organizational structure of SFCL Salang**



The services of the SFCL include both financial and non-financial services. It provides range of financial services comprising varieties of savings products, microfinance and microenterprises loans, livestock insurance, life insurance and remittance. Non-financial services include community development programs, milk collection, vegetable collection and marketing, agricultural inputs, community forestry, promotion of tourism (home-stay), skill training (goat raising, house wiring, maintenance of TV and mobile, organic farming and others) and literacy programs (further detail later) .

## Methodology

8. Transfer SFCL from SFDP is believed to be a sustainable framework innovated for enhancing microcredit and related services in rural area. ADB, GIZ and other donors are also involved in supporting to promote this framework. SFCL Salang has emerged as one of the showcase of the reformed model; under the farmers own ownership and management. This case study explores status, modality of operation, experience, causes of success and failure of the enterprises, constraint to growth and learning for the future development of the organization. This case study has been prepared based on the secondary information, selected primary files available at SFCL, discussion with the SFCL chairman, manger, SFDB Sub centre in-charge, Six farmers: successful, in between and unsuccessful two in each category (purposely chosen), audit reports, report presented by SFCL in last three consecutive General Assembly, and various periodic reporting by the SFCL.

## Compliance to Fundamental Principals of Co-operative by SFCL Salang

9. The fundamental seven principal of co-operatives listed below has all been majorly followed by SFCL, Salang, with some limitations. While, overall general trend are satisfactory, over involvement in social activity related programs without prioritization and client are witnessed recently leading towards increasing growth of financial burden, recently (it has reached to the demand of more than Rs 1 million a year), thereby increasing less productive involvement and stresses from the point of view of the organization by compromising the economic activities, though they may be desirable to help the objective of the government and other social organizations. Likewise, there is also some emerging constraints in practical independence due to fast increase in the dependence of external funding, almost 100% of the internal resource, leading to low internal leverage, i.e control. At the same time, economic participation also seems to be over stretched due to participation up to more than 5 portfolios in some cases (more later).

**Table 1: Seven Principles of Cooperatives and their Adoption Status by SFCL SALANG**

Principles	Brief Status
i. Voluntary and Open membership	Allowed (95 % of the family are the co-op members)
ii. Member democratic Control	Free election of the board members, chairman, intergroup members takes place. Group members, inter groups and Main committee (board) all get involved in portfolio choice, lending, monitoring and collection process.
iii. Member economic participation	Mobilizing family potential in earning is the key intervention priority. A single family is involved also in multiple loan portfolios. Moreover, about half of the total loan portfolio of Rs 80 million is generated internally as members' share or savings.
iv. Autonomy and Independence	Central level influence is low, though the external funding is increasing very fast. Politicization influence is taken care through wider and open participation approach and rule based operation and the group and inter group involvement also in recommending for the decision making.
v. Education, training and information	It has participated in training, observation tours of members and regular publications (audit reports, annual reports to be submitted to AGM, other occasional presentations) and regular monitoring reports fill-ups also take place. SFDB and Division Co-operative Office (DCO) Dhading have helped in education, training policy information areas.
vi. Co-operation among co-operatives	SFCL SALANG has purchased share of district and central cooperative federation- an umbrella organization. It is also involved in promoting the establishment of the co-operatives in Nalang and Benighat VDCs under SFDB support. It also actively takes part in co-op training in sharing it experiences.
vii. Concerns for community	It has implemented several programs for the benefit of the community in promoting health, education, transportation, environment etc. Over involvement in social activities has also increased the risk of time compromise for economic activities, particularly due to overburdened staff

Source: SFCL Salang

# Progress Track of SFCL Salang

## 5.1 Progress Compared to the Stage of Hand Over

10. SFCL Salang has progressed in multipronged areas including in enterprise development activities. It has used group approach to provide financial services and has formed 186 groups covering about 1189 families as its member by January, 2013, representing about 95 % of the families of the VDC. Mobilization of the female groups is also high as 62 % (representing 59% of the female population). The family coverage expanded almost 3.5 folds and women's group formation composition almost doubled compared to the handed over stage. Though the male groups are accepted, the co-op has applied special campaign to involve women in the group. Discussion revealed that this has been encouraged by the emerging market of the women's income friendly agriculture like vegetable farming, dairy, goat farming etc in the recent decade. The social work programs like literacy and persuasion by the officials had been helpful in forming women groups. Moreover, SFDB provides 5% weight in its annual grading of SFCL Salang had been partly helpful to increase women members. The group members told that you have to have some place to get together and discuss to initiate group formation process. In the same manner, over the period, the outstanding loan expanded 39 times (annual growth 28.6%) and internal resource expanded 188 times (annual growth rate 45.4%). Growth of share and other internal sources were both very high. However, the over due loan and interest collapsed to zero from more than 5% prior to the hand over (Table 2.)

**Table 2: Progress and Current Status of the Co-operative Since the Hand-Over**

Key Indicators	1998 July 15 (Prior to Handover)	2012 Jul 15	Progress (multiplier)	Annual growth %
Number of Groups	44 (7.7 member/group)	186 (6.4 member/group)	4.2	10.8
Female (Group Number)	15 (34.1%)	116 (62.3%)	7.7	15.7
Male (Group Number)	29	70	2.4	6.5
Total Members (Number)	342	1189	3.5	9.3
Female (Number)		705 (59.3%)		
Male (Number)		484		
Outstanding Loan (Rs thousand)	2368	80102	33.8	28.6
Overdue Loan (Rs thousand)	127 (5.3%)	0		
Interest due on loan (Rs thousand)	164 (6.9%)	0		
Internal source (Rs thousand)	214	40247	188.1	45.4
Share Amount (Rs thousand)	9	8233	914.8	62.8
Deposit and other internal funds created (Rs thousand)	205	32014	153.8	43.4

Source: Progress Report, SFCL Slang

## 5.2 Current Fundamentals

### 5.2.1 Snapshot of Overall Indicators

11. Overall fundamentals of the co-ops at present is impressive (Tables 2 and 3), except in a few cases (discussed separately). Loan repayment rate is 100% with overdue loan and interest receivable at 0%. The gap between interest income and expenditure stands at healthy 7%. Liquidity stands at 31 %. Though it is considered generally high, it may not be too high in case of rural areas. Membership growth is high, principal and Interest overdue is nil, operating expenditure is very low as 2%, and non earning asset is only 5%. Earnings per share is 32%. Specific important fundamentals are discussed next.

**Table 3: Current Status of the Co-operative (Additional Key Indicators)**

Key Indicators	2012 Jul 15	Key Indicators	2012 Jul 15
Members	1189	Loan Repayment Rate %	100
Borrowers	776	Loan overdue %	0
Borrower Member (livestock)	243 (31.3%)	Interest overdue %	0
Self employment borrower	10 (1.3%)	Average interest expenditure/saving %	8.0
Borrower % in total members	65%	Average interest expenditure/loan %	11.7
Loan Number	1314	Average interest income/loan %	18.8
Outstanding Loan (Rs 000)	80102	External Loan/outstanding Lending %	62.4
Total Internal source (Rs 000) excluding profit to be distributed <sup>a</sup>	40247	Operating expenditure %	2.0
Livestock Loan Amount (Rs 000)	14199 (17.7% of outstanding loan)	Profit per share (%)	31.7
Self Employment † Fund loan (Rs 000)	1840 (2.3% of outstanding loan)	Credit/Asset Ratio %	84
Average Loan/Borrower	103.2	Non Earning Asset %	5.0
Monthly interest paying borrowers	756 (97%)	Share/outstanding loan %	10.0
Total income	12906.7	Saving /Total liability%	31
Total expenditure	10295.7	Liquidity %	31
Profit	2611.0	Outstanding loan to Internal Source %	199
Various Committees	9	Deposit as % of internal source	73.4
Members in various committees	71	Outstanding Loan as % of Deposit	271%
Inter groups Among Members	13		
Staff Number	5		
Total Asset (Rs 000)	95641		
Total Deposit	29544.5		

Source: Annual report and Audit Report of SFCL, Salang, 2012

Note: a internal resources include share, deposits, reserves and undistributed profit

### 5.2.2 Group Formation and Participation

12. Group formation and active participation is impressive (Table 4) . 95 % of the families are already the members of the SFCL Salang and are affiliated in of the groups. It is reported that most of the remaining 5 % households are non-small farmers and are migrated from village. Therefore all small farmers and disadvantaged people are members with SFCL Salang and inclusiveness is high due to overwhelming participation and all the groups are reported to be active.
13. Female membership drive has been helpful to increase the membership and inclusiveness. Increase in membership was high as 16% a year over the last four years. It has already reached to near saturation, and current growth is about 4% a year. Philosophy of involving every family in the co-op is an inherent mission of SFCL Salang for poverty alleviation through active economic participation and social mobilization. This has helped in the membership drive as a continued effort. The organizers feel that small farmer co-operative is the right model for poverty alleviation in rural Dhading. The management team indicated that the objective of the co-op is to improve economic, social and educational status towards a self reliant family through the available total asset and induced creativeness in the community. Approach to inclusiveness than the denial is the track caught by SFCL Salang. Driven as the co-op is by this philosophy, It was reported that even those who were not enthusiastic to co-operative before have now joined to be the member for rational reasons. As all most all families in the VDC are already members, the possibility of lending outside co-op is difficult and since the interest rate in depositing money in the co-op is more attractive than in banks, getting co-op membership has been attractive. This has been possible due to faster improvement in the health of Co-op, Salang.

**Table 4: Group Formation and Active Members**

Year	Total Group	Active Groups	Active Group %	Female Group	Female Group %	Total Members	Female Members	Female Member %
2065/66	119	115	96.6	68	57.1	770	421	54.7
2066/67	147	147	100	92	62.6	983	566	57.6
2067/68	177	177	100	111	62.7	1139	675	59.3
2068/69	186	186	100	116	62.4	1189	705	59.3
Growth rate last 4 Yrs	16.1	17.4		19.5		15.6	18.8	

Source: Progress Report, SFCL Salang

### 5.2.3 Internal Resources and Group Saving

14. Internal resource is rising at very fast rate of 87% a year over last four years. Likewise, the group saving is growing the rate of 46% a year. Group saving contributes 16.4% to internal resource (Table5). Internal resource consists of various products/instruments as shown in Table 6.

**Table 5: Growth In Group and Internal Resource Mobilization**

Year	Total internal Source	Group Saving (Members' saving)	Group saving as% of total Internal source
2065/66	6241	2129	34.1
2066/67	19210	3161	16.5
2067/68	29412	4640	15.8
2068/69	40908	6619	16.4
<b>Annual Growth</b>	<b>87.1</b>	<b>46.0</b>	

Source: Progress Report, SFCL Salang

**Table 6: Composition of Internal resource (2012 July) Rs 000**

Sources of Internal Resources	Internal Source type	Character	% distribution
Share Amount	8233	Shareholders' Equity	20.5
Core saving	27008		67.1
Group Saving	6619	Saving by members	16.4
Inter group saving	260	Contribution by members for inter group welfare	0.6
Client Security Fund Saving	10278	Can be claimed back by client on debt clearance	25.5
Commercial saving	5540	Competitive interest saving and flexible for withdrawal	13.8
Children saving	1757	Saving for children from members	4.4
Social Saving	1058	Saving different social working groups such as forest user group, mother group etc	2.6
Festive Saving	756	Occasional saving during festival	1.9
Staff Provided fund	740	Statutory saving	1.8
Other Saving	5006	Kind of saving but may create additional liability also	12.4
Livestock Insurance Fund	830	Livestock insurance premium	2.1
Member security Saving	1705	Rs 2200 Paid while becoming a member, returned back Rs 40 thousand to family after death; yearly saving of Rs 100 and will get back relief fund of Rs 15000 in emergency.	4.2
Reserve for Bad debt	2471	Debt Relief fund	6.1
Total	40247		100.0

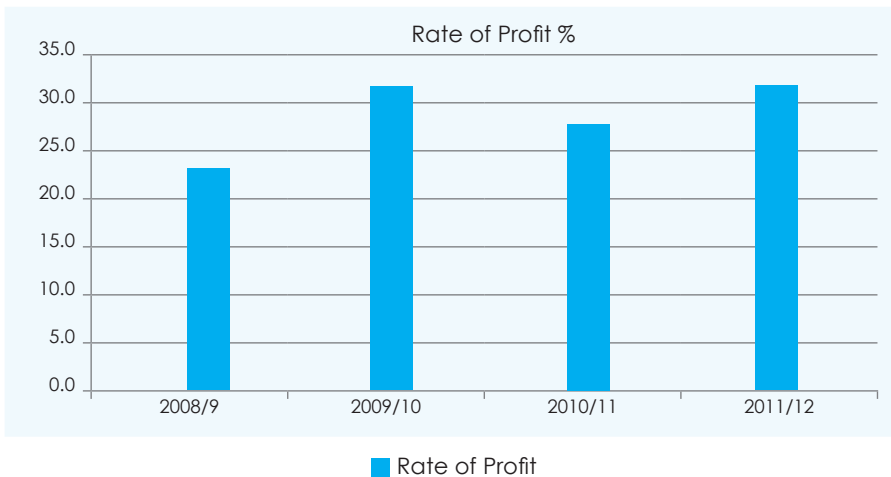
Source: Balance sheet of the SFCL 2068/69



### 5.2.4 Rate of Profit

15. The profit rate lies within 28 % to 32 % over the last four years (Fig 2). The co-op has been providing a healthy dividend 12-15% per annum. With adequate surplus, it has been able to allocate adequate fund in statutory reserve, loan loss provisioning and other fund. Though the co-op could distribute dividend of 15%, it seems to have given emphasis in other support activities and fund creations, which ultimately strengthens the portfolio earning of the co-op.

**Figure 2: Profit Growth Trend**



### 5.2.5 Growth in Loan Portfolio, membership and institutional Capital

16. Total 776 members (65.2%) out of 1189 members have borrowed from SFCL Salang and have been doing agriculture and non-agriculture business. Those who are not taking loan are attracted by convenient and high yielding saving products offered by SFCL Salang. The growth in loan disbursement and outstanding loan has been around 50 % a year. The average loan portfolio per member has doubled within three years worth the growth of 32 % a year (Table-5). It is more than four times the rate of inflation, inciting a fast growth in portfolio creation. Growth in institutional capital has also been rapid at the rate of 54 % a year. These are healthy signs. Entrepreneurship development among women and ordinary villagers through persuasion, training, lending and follow-up are additional praiseworthy aspects.

17. The faster disbursement progress, however, has been achieved from external capital which has increased at the same speed. Though the loan to internal resource ration should have been around 70- 80% and external capital dependency below 5% (PEARL Standard), outstanding loan to internal resource ratio has been very high around 200%,

with almost 100 % funding in the total outstanding loan from the external source. However, lesson learned here is that the institution building and provision of financial services would have been very slow if there were no external financing and supports.

18. On the disbursement, external loan accounts to more than 60% (Table 7). This is the major weakness of the institution from sustainable growth point of view, as the capacity created cannot be abruptly without a cost for a reduced lower size business, should the external fund get discontinued.
19. The source of external capital is from SFDB. Since the rate of return is very high, loan overdue is nil, and SFDB is a parenting organization promoting SFCL, the risk seem to be in lower side in the current portfolio structure. This strategy of low internal leverage of assets creation, however, demands strong internal monitoring of the credit by the institution and Government's policy consistency of the fund availability to microcredit institutions. Learning is that performance of Salang has increased fast after SFDB injection of fund. Though, it has not been subsidized compared to deposit collection rate (as discussed under financial services later), it has been helpful to make the institutional capital grow at faster rate. This implies the need for parenting organization for micro finance to promote vibrant and sustainable rural financial institutions and expand microfinance services in faster pace.

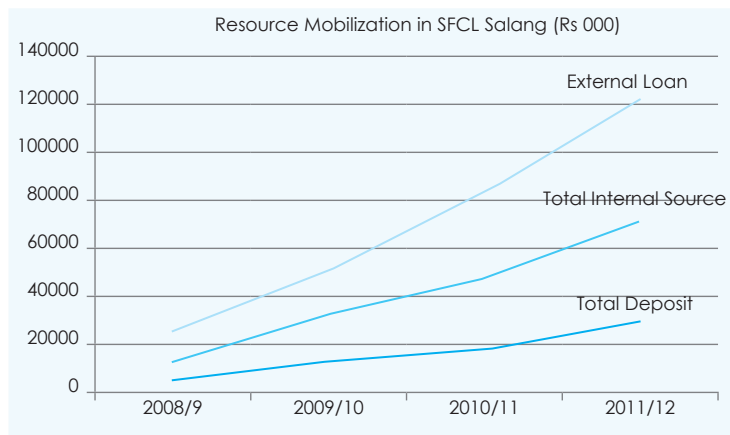
**Table 7: Loan Disbursement by SFCL Salang and Outstanding Loan**

Year	Loan Disbursement by Source (Rs 000)				Outstanding Loan Rs000	Total Borrowers	Average	
	Bank Source	Institutional Own	Total	External %			Outstanding Loan/ borrower Rs 000	Disbursement / borrower Rs000
2008/9	12478	10409	22887	54.5	24606	544	45.2	42.1
2009/10	13671	17783	31454	43.5	35508	606	58.6	51.9
2010/11	34440	27386	61826	55.7	57496	687	83.7	90.0
2011/12	49867	28088	77955	64.0	80102	776	103.2	100.5
Annual Growth %	58.7	39.2	50.5		48.2	31.5	31.6	33.6

Source: Audit reports and Annual reports of SFCL Salang 2010-12

20. Deposit is one of the major sources of internal resource mobilization. Currently it accounts to about three fourth of the total internal source (Figure 3). The deposit has grown almost five times in the last four years. The growth in deposit is 68%, annually (Table 3). Total internal source is increasing at the rate of 55 % a year. Rapid mobilization deposit and contribution by external loan in increasing the profit has contributed in increasing internal sources at faster rate.

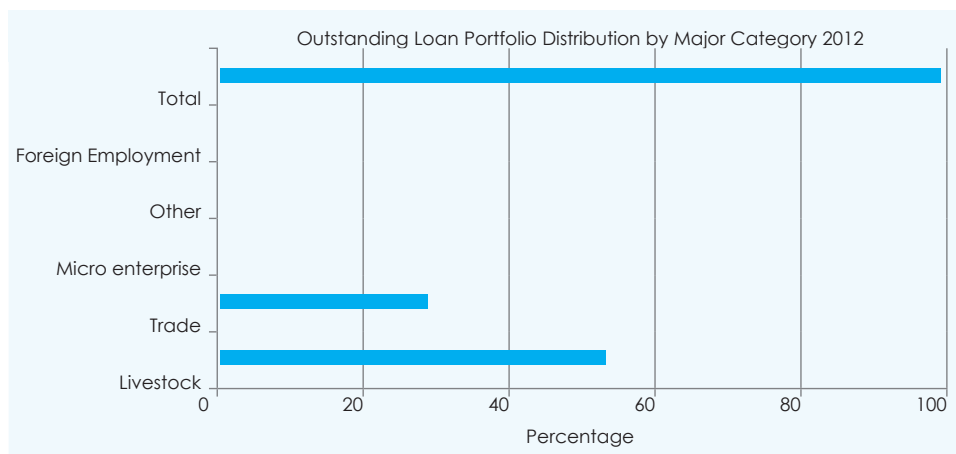
**Figure 3: Trend of Resource Mobilization**



### 5.3 Portfolio Structure

21. The co-operative has included various credit portfolios like vegetable, food grains, livestock, fisheries, sericulture, home stay, hire purchase and marketing operations. Presently, it has been promoting also organic farming. It has hired also agriculture and livestock specialists to facilitate farmers in vegetables, livestock and fisheries. Hiring specialists to help farmers is a rare case in other co-operatives in Nepal. The portfolio distribution by major category is shown in Figure 4. Major lending (53.4%) is in livestock sector funded mainly by SFDB Meat Production Program, agriculture trade (28.7%), micro enterprise development 11.7% and others 5.6%. The interest charge is the same 16% in each portfolio except Meat Production (9% per year) and youth employment (4.8% per year).

**Figure 4: Portfolio Structure**



## 5.4 Trend of Collection and Disbursement

22. In addition to resource injection, revolving of the credit with good repayment are essential for sustainable financial progress in microfinance. Thus, contribution of principal collection in disbursement and growth of outstanding loan together are prime indicators of revolving of the credit and generation of the new resources in micro finance lending, as most of the loans have payment schedule of monthly interest payment and monthly to quarterly payment of principal. In Salang SFCL, More than two third of the disbursement is covered by the principal collection (Table 8), which is a good sign of the faster revolving of the loan portfolio created.

**Table 8: Trend of Loan Disbursement and collection**

Year	Principal Collection Rs '000			Total Disbursement	Outstanding Loan	Ratio of Disbursement to Principal Collection %
	Bank Source	Institution Source	Total			
2065/66	11529	7390	18919	22887	24606	82.7
2066/67	10267	10285	20552	31454	35508	65.3
2067/68	18673	21165	39838	61826	57496	64.4
2068/69	31062	24287	55349	77955	80102	71.0

Source of basic Data: SFCL Salang database, annual reports and audit reports

## 5.5 Financial Services of SFCL Salang

### 5.5.1 SFCL Salang offers various saving services to meet members needs

23. The co-op has designed various saving schemes and member welfare mechanism. It has on one hand created avenue for member welfare, and on the other has created indirectly a saving avenue. Though a good thought and creativeness, the longer-term impact and financial liability of the such saving/welfare schemes (various rahat provisions and self managed insurance for livestock, members etc) on the organization, however, are unclear and not objectively analyzed and may need to be reformed based on experience and further analysis, in future. The saving service provided by SFCL Salang include:

- **Group Savings:** Group Savings are compulsory savings which accumulates over time. Every member of a SFG must save a fixed amount (NPR 50-500) per meeting/month. The group savings provides emergency and other types of loans to members through group decision.
- **Inter-Group Savings:** Each member saves a fixed amount at IG meeting. Savings are used for joint activities: community development, repair and maintenance of roads and other infrastructure at the ward level. This savings is used for social and development purposes.
- **Main Committee Savings:** Each Board member saves a fixed amount at Board meeting. BOARD savings are used for joint activities: community development, repair and maintenance of roads and other infrastructure at the VDC level.
- **Client Security Fund:** Five percent of a loan is deducted at each loan disbursement as Client Security Fund, and used as collateral, in case of non-repayment.
- **Personal/ voluntary savings:** SFCL open account as individual voluntary savings and issues a savings pass book to members. Withdrawals are allowed when loan is fully paid and to meet emergencies.
- **Child Box Savings:** This product is targeted to children of members' to develop a habit of savings. To participate, children between the ages of 5 and 16 or their parents, fill an application form; once approved, a deposit of NRs. 50 is required as security deposit for a Saving-Box. SFCL staff member opens the Saving-Box in the presence of the child once a month.
- **Old Age Savings:** The target group of this savings product is elder members of the SFCL between the ages of 50 and 65. The product meets elder's demand for incidental expenses that they cannot finance from daily income. The motivation for this product is to save for old age. To participate, savings of a minimum of NRs. 100 per month must be deposited. The savings can be withdrawn in an emergency.



### 5.5.2 Range of loan products to meet members needs

24. Loan products of SFCL Salang vary according to purpose and time. Different purpose loans (cash crop, food grain production, livestock, business, marriage, health care, foreign employment, bio-gas, educational) are further classified according to duration: short, medium and long term.
- Short-term loan: Between 6 to 18 months.
  - Medium-term: Between 19 months to 3 years.
  - Long-term loan: Between 3 years to 8 years (Currently SFCL Salang have discontinued this)
25. Above three categories loans are further classified on the basis of purpose such as agriculture, livestock, business, micro enterprise and other loans. Conditions for interest payments are uniform for all products i.e. monthly interest payment. The terms and repayment fit with the production cycle of the activity financed by the loan. Interest rate varies from 4.8-16 percent per annum. Interest is collected monthly and principal is collected on an installment basis

### 5.5.3 Insurance services

- **Livestock Insurance:** SFCL Salang offers insurance for livestock purchased with loans from SFCL's. Livestock to be insured includes: cows, buffalos, oxen, lambs and goats. SFCL collects as premium 10 percent of the value of the livestock, while 50% percent is subsidized by the government. The maximum refund, in cases of livestock death is 80% of the insured amount. In cases, where death of livestock, is due to negligence or carelessness, no compensation is paid. Age and health condition of livestock is considered in a yearly valuation.
- **Members' welfare Scheme:** SFCL Salang have designed and offered welfare schemes to members during family adversity and death. These schemes include: sharing funeral and maternity cost.

### 5.6 Co-Operative Shop for Organized Marketing and Competitive Price

26. Two years ago, SFCL Salang initiated marketing of vegetables by adopting floor price approach (announcing purchase price every morning) with a resale arrangement MOU with a merchant of Wholesale Vegetable Market, Kalimati Kathmandu. MOU is flexible enough to allow sales in other market in any day, if price offered is higher compared to that in Kalimati. The marketing arrangement covers also the collection of dairy products and dry beans. Investment in Co-operative shop is Rs 670 thousand in 2068/69 and Rs 511 thousand in 2067/68 and operation is in breakeven, considering the opportunity cost of capital of SFCL Salang at deposit receiving rate (Table 9.) However, this is considered to be very beneficial as it helps in creating portfolio of the co-operative indirectly. No analysis has been done from this perspective.

**Table 9. Income Expenditure Co-operative Shop (Rs 000)**

Income and Expenditure	2067/68	2068/69
<b>Expenditure</b>	<b>13827.9</b>	<b>4159.8</b>
Purchase of good	13001	3453.8
Interest Expenses	0 (co-op fund)	0 (co-op fund)
Staff Expenses	173.8	162
Rental	76	60
Others	577.1	484
<b>Income</b>	<b>13916</b>	<b>4239</b>
Goods sale	13238.5	3568.1
commission	171.9	168.9
Interest Income	14	17
Vehicle entry charge	10	10
Crate Rental	5.7	5.6
Others	475.9	469.4
<b>Operating Surplus</b>	<b>88.1</b>	<b>79.2</b>
Investment in co-operative	670	511.6

Source: Progress Report, SFCL Salang

## 5.7 Promotion of Sister Cooperative

27. For last two years, SFCL salng has entered also into replication of SFCL model in neighboring VDC, Nalang and transfer of management co-operatives to the community once they are capable for handling cooperative. SFDB has provided Rs 200 thousand to meet the facilitation costs and provide technical support to replicated SFCL. SFCL Nalang replicated by SFCL Salang is already handed over to the Nalang community. Currently, it has been working in developing co-operative in neighboring Benighat VDCs. The contract amount can be taken as incentive by the facilitators deployed by Salang SFCL. The approach is to create, facilitate and hand over the co-operative to the respective VDC within a year. The co-op seems to be over pressurized in completing the task within a year, on practical ground.

## 5.8 Next Year Program

28. SFCL Salang has projected the next year program (Table 10) with further extension for an accelerated growth in profit rate, social work programs and trainings. It has projected the share increase by 35%, membership increase by 11%, group saving and other saving by about a third, borrowing from SFDB by about 20%, investment in co-operative shops by about 75% and overall profit by 58% (table: 10). In social program it has projected 19 different types of activities and in training 18 different types with expected partnership sharing of about 20% with supporting organization

**Table 10: Target of Next Year Program**

Next Year Program	Target
<b>Group formation</b>	<b>15% increase</b>
Membership	11.4% increase
Share	35% increase
Group Saving	33.3% increase
Overall Saving	35.4% increase
Loan disbursement	19.0% increase
<b>Profit</b>	<b>58.2% increase</b>
Investment in co-op shop	74.6% increase
Borrowing from SFDB	19.5a% increase
Social work programs in partnership with support organizations	25 different types with sharing of about 30% cost by SFCL Salang
Training program in affiliation with partner organization	19 different types with sharing of about 20% cost by SFCL Salang

Source: Progress Report, SFCL Salang

## 5.9 Data Base

29. Data base of SFCL Salang is reasonably good. It has computerized data base system with a separate computer room. The persons seem to be well trained in computer data keeping and processing. SFDB and federation have supported SFCL in capacity building.

## 5.10 Credit Plus (Non-financial services)

30. In addition to credit, considerable social and community work are also carried out by SFCL, Salang. Following are the major social and community works carried out.

31. SFCL Salang has good relation with various organizations through share participation in the district and central level federations and work associations with district development agencies of the government, basically District Agriculture Offices, District Veterinary Office, District Development Committee, District Irrigation Office and various NGOs. It has been working closely with SFDB (Ilaka office), NACCF (Nepal agriculture Central Co-operative Federation), National NGO, District Irrigation and District Agriculture Offices. It has been able to conduct multiple social programs (Table 11) in co-ordination with various organizations. Observation tours by members and personnel visits are also done periodically to enhance knowledge and exchange of experiences.



**Table 11: Various Kind of Social and Community Works Carried Out by SFCL Salang**

1	Nine sessions of Adult literacy conducted
2	18 KM trail constructed
3	1.5 Km agriculture road constructed
4	4 community building/hall constructed
5	13 large /small drinking water projects implemented
6	drinking water service operated in all 9 wards
7	194 toilets constructed
8	154 Bio-gas plants constructed
9	7 solar panel fitted
11	Group sprinkler irrigation arranged
12	11 stature distributed for carrying patients
13	200 mini saving box distributed
14	22 times animal health mobile camp organized.
15	Repair and maintenance done in Six schools
16	13 Breed Goat distributed
17	26 goat exchange program launched
18	Improved seed distributed every year
19	Distributed regularly chemical fertilizer, organic fertilizer, agri-tools, spare pumps
20	Plantation carried in 0.8 ha (16 Ropani) land
21	Member relief fund operated (Rs 15 thousand and relief fund to family in case of the death of a member)
22	Natural calamity relief fund (Rs 500 to members if asset destructed)
23	Handicapped relief fund (interest rebate for one year up to the loan of Rs 50 thousand) if a person becomes handicapped and immovability impaired.
24	Constructing of six fish ponds
25	1 co-op shop operated (Vegetable/dairy collection)
26	Five Inter organization Farmers' exchange program conducted
27	Operation grant for one sauce factory
28	Livestock and insurance and veterinary service operated in the co-op (clinic/ mobile)
29	Technical agricultural services through agriculture technician at co-op
30	Home stay tourism arranged 10 families and training provided.

Source: SFCL, Salang



### 5.11 Inclusiveness of Poor farmers

32. Poor farmers receive smaller loans without collateral under group guarantee. Collateral free loan is provided under written bond signed by the group. It is the group which decides who should get the collateral free loan and who should offer collateral. Since most of the members in the VDC are the share holders, they are serious towards loan recovery, and also eager to help in case of difficulty to members in repaying the loan. However, only small part (less than 10 %) of the total has flown under group guarantee. The vulnerability of the government policy towards smaller loan repayment waiver has constrained in increasing the collateral free smaller loans.

### 5.12 Provision for Inter Group Progress and Recognitions

33. There is a separate monitoring table consisting of various parameters like membership, share amount, group saving, intergroup saving, various other saving, loan disbursement, principal collection, interest collection, outstanding loan, loan overdue, interest overdue, repayment rate, share and saving against loan, external loan as against saving and share. This monitoring table is applied to evaluate promote specific group activities and lending portfolio, recognition and incentives

### 5.13 Award and Honour to co-op and members

34. SFCL Salang has been consistently receiving high performance evaluation awards from the district, regional and central level organizations in the country, including also from some international organizations. It has gained a status regionally referred co-operative reference point, gradually and interest of the organization is towards rapid expansion.

## Roles of SFDB to Promote SFCL SALANG

35. SFDB has been main centre for credit feeder and promoter of related services for SFCL Salang. Being the descendant of the ADBL, the operational convenience seems to have been established between the two institutions. SFCL has not borrowed from other institutions except SFDB, to date. So long as funding need is met and facilitations imparted, the management thinks that dealing with one institution helps in smoothening operational modality of borrowing, repayment and lending. However, it has been taking co-operation from the district and local level organizations in the field of agriculture, social and community works. The SFDB has arranged for the required funding based on the performance quality of SFCL Salang Portfolio. Management wise, SFCL has maintained its own independence in decision makings. SFDB provides following financial and non-financial services to SFCL Salang.

### 6.1 Financial Services

36. SFDB provides whole sale lending to SFCL Salang at 11.75% a year (now reduced in the current month to 10.75%). It is not subsidized in the sense that the cost of deposit is raising at competitive rate is around this, even for SFCL, Salang. This lending practice of SFDB is a sustainable market based framework. In some specific portfolio related to meat production, government has initiated a subsidized credit with the aim of substitution of import of meat and meat animals. SFDB has worked as facilitator to it and co-ops have been getting credit through SFDB at a relatively lower rate of interest. Government provides SFDB at 1% annual interest rate and SFDB provides credit to SFCL Salang at 5% per annum. The SFCL in turn lends the farmer at the rate of 9% per annum. The additional 4% is to cover the handling cost and some profit margin to SFCL. If SFDB does not pay the loan on time to the government, the rate applied becomes 5% by the government to SFDB. Following are the major loans and related services imparted by SFDB

#### 6.1.1. Microfinance whole sale loan

37. SFDB provides microfinance whole sale loan to SFCL Salang to meet the credit need of member of SFCL to invest in income generating activities such as agricultural activities, vegetables production, trading of agricultural products, microenterprises and other. As of mid January, 2013 the outstanding loan amount that SFCL Salang has borrowed under this heading is Rs 29025 thousand.



### 6.1.2. Credit for increasing meat production

38. With credit from the Government of Nepal (GoN), the bank has started an animal husbandry program to increase meat production. For this program, the GoN provided Rs 1.4 billion to extend credit for animal husbandry at a comparatively cheaper interest rate through SFCL Salang and other partner cooperatives, with the aim to promote export of surplus meat. The animal husbandry for meat production includes goat-rearing, pigs-rearing, calves-rearing and buffaloes-rearing. As of mid January, 2013 the outstanding loan amount that SFCL Salang has borrowed under this heading is Rs 19050 thousand.

### 6.1.3. Self-employment credit program

39. Coordinating with the GoN, the Ministry of Finance and Youth and Small Entrepreneurs Self-employment Fund, SFDB has started a self-employment credit program for the unemployed, Dalits, women, Indigenous, marginalized, poor and small farmers. Its intention is to encourage these communities towards agriculture, in traditional skill based enterprises, improve skills, abilities and capacities to initiate small enterprises and services, to help in investments and to create opportunities for jobs within the country. There is an agreement between the fund and bank to extend a sum of Rs 1 billion as credit to promote self-employment, of which, Rs 90 million received in the First Year 2067/2068, disbursed as credit to 627 entrepreneurs at a low interest rate through associated cooperatives for: agriculture, floriculture, animal husbandry, poultry farming, micro enterprises, self-employment and income generating enterprises, small groceries, small pharmacies, vet shops, fertilizers, seed centres and service enterprises. As of mid January, 2013 the outstanding loan amount that SFCL Salang has borrowed under this heading is Rs 920 thousand.

### 6.1.4. Expansion of farmer to farmer replication program

40. The SFCL Salang was given responsibility to replicate SFCL Salang in neighbouring villages. This approach at initiating self-governing institutions, the efficiency and expansion of cooperatives have increased. The replication program was initiated in 1999 and bank has implemented replication program aggressively since last year and provided financial and technical support to replicate SFCL Salang.

41. SFCL Salang has provided technical support to replicate SFCL model in a neighbouring VDC. SFCL Nalang, replicated by Salang is handed over to the community and working successfully.

### 6.1.5. Livestock insurance program

42. One-third of credits disbursed by SFCL Salang to members are invested in livestock, especially cattle and buffaloes. Animal husbandry is risky but also profitable business; therefore to protect small farmers from financial stress with accidental loss of animals, a livestock insurance program has been started with the initiative of SFCL Salang. Community livestock insurance program, with the management of small farmers' cooperative, for

insuring animals has been launched. An animal evaluation committee administers the livestock insurance program. Five percent of the evaluated price of livestock is deposited as premium in a livestock insurance fund, 5 percent is provided by the GoN as grant, is deposited in the fund. The fund pays for rural livestock health workers, livestock health office and compensation.

43. Bank has provided training to execute community-based livestock insurance and provided village animal health worker training to the selected member of SFCL Salang. Bank also facilitates to release grant fund from government to SFCL.

**Table 12: Transaction by Portfolio between SFDB and Salang (2068/69) Rs '000**

Disbursement	Amount
Disbursement (Micro Finance Credit Programme)	27802
Disbursement (Animal Husbandry Credit Programme)	12500
Disbursement (Self Employment Credit Programme)	1840
Disbursement (Total)	42142
Recovery Rates (Total)	

Source: SFCL Salang Data Base

**Table 13: Transaction Between SFDB and Salang (2067-69) Rs '000**

Year	Disbursement	Principal Collection	Interest Collection	Outstanding Loan	Over Due Loan	Receivable Interest	Rebate	Recovery Rates
2009/10	12400	7752	1565	17943	0	0		100%
2010/11	36000	18577	2876	35366	0	0		100%
2011/12	42142	27607	5016	49902	0	0	588	100%

Source: SFCL Salang Data Base

## 6.2 Non-financial Services

Major Non-financial Services provided by SFDB to SFCL Salang includes the following.

### 6.2.1. Capacity development program through training and seminars

44. The bank has been continuously organizing training and seminars for capacity development of SFCL Salang. Bank has provided training on financial management, business planning, business expansion, institutional assessment, bookkeeping, replication program, roles of Account Supervisory Committee for internal control. Bank has been providing necessary guidance and technical support during annual A

### 6.2.2. Computer support

45. With technical and financial support from then GTZ, bank has piloted business expansion approach and included Salang as one of the partner. Salang SFCL implemented business



expansion approach successfully and has been able to obtain computer awarded.

### 6.2.3. Community development activities

46. SFDB has provided financial support to construct training hall and to expand agricultural road. With the small support from the bank, SFCL has been able to mobilize people participation to complete the planned activities.

### 6.2.4. High level visits

47. The SFDB has organised observation visits of high level official to SFCL Salang. The important visitors include: Advisor of Ministry of Finance, Vice President of National Planning Commission, Secretary of Ministry of Finance, Secretary of Ministry of Agriculture, Ambassador of Israel and others. These visits have build confidence and encouraged to board members and staff of SFCL to be dedicated for achieving its mission.

### 6.2.5. Equipment support

48. After successful completion of village animal health worker training, SFDB has provided supports to purchase require equipment to provide veterinary services to members.

## 6.3 Monitoring and Reporting

49. Monitoring of SFCL Salang is done by both the Division Cooperative Office and SFDB. SFCL Salang basically reports to Division Cooperative Office and has to follow national norms specified for co-ops. It also reports to SFDB with the same format that it uses for reporting ton Division Co-operative. The reporting includes the current financial progress, membership and portfolio growth, portfolio quality and management related aspects and other reforms measure taken based on the supervision by Area Office of SFDB and Division Co-operative office at district level<sup>2</sup>. The co-operative has strong committees by lending purpose and for monitoring. Lending at inter group level (Ward of the VDC), collection and monitoring of credit has also been initiated. Enterprises and loan portfolios it promoted were found to be mostly successful. Learning is that the enterprises are successful if backed up by technical knowhow, connection to the market, strong follow-up and facilitation. Monitoring of the portfolio by groups has been utilized not only as performance checking but also as means to help the members in difficulties. In Salang framework, groups seem to have yielded (based on group discussion feedback, discussed later) to assist the borrower in difficulty to help him/her regain the strength and overcome her difficulties. Mistakes are realized and then corrected in future through additional credits under strong surveillance. The intergroup committee monitoring system takes care of it. It is a good practice.

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2. There are 38 Division Co-operative Office in the country and one division may be assigned for one or more district depending on the intensity (number) of co-operative in a district.

## Clues behind the Success and Failures: Discussion with the Successful and Unsuccessful Farmers

Discussion was carried out with successful, unsuccessful and in between farmers: two each, purposively selected. The type of loan portfolios that they were operating is shown below (Table 14). Main feedbacks were as follows.

1. There were up to 13 loan numbers administered over 4 years with a borrower. The maximum maturity was of two years, in general. In some crop like vegetable, it was only for a very short period (3 to six months). It was three years for meat production. At any time, the number active loan portfolio typically ranged between four to six.
2. Coming to Co-op was through official persuasion. Working in group was good for overall management of the difficulties and for building confidence. Overall social status of the farmer was improved after involvement in micro credit.
3. All the farmers, irrespective of the successful or failure, expressed that even if some portfolio failed, the micro credit loan had been helpful in increasing overall earning at the household level in medium term.
4. Market forces and microcredit facilitation were both the causes of the involvement in micro finance. Micro credit had expanded mostly in women's earning friendly portfolio like livestock and vegetable.
5. Family support and group surveillance were both important in the right use and success of the micro finance. Detail monitoring of micro finance from office is difficult in practice and the group themselves should be activated in it, as is done in Salang.
6. The involvement in micro finance had helped all the families in improving schooling, health and overall household status (their income varied between 100 to 300 thousand per year). Some had earned even more than 2 million over seven years.
7. The participants expressed that the microfinance is more successful if managed by



family labor. Because of rising wage, hiring labor and sustaining in micro finance was not practical for large scale farming without mechanizing and depending only on hired labor.

8. Microfinance portfolio which failed were majorly for two reasons - getting loan for some work and using part or whole of it for different purpose. A farmer had taken the loan for vegetable farming and animal husbandry, but the part of the loan (Rs 240 thousand) was used for sending family member to Malaysia, on family pressure. The farmer blamed also the group weakness for being too soft in her case and mentioned that group discipline and borrowers discipline is both essential for a success. The farmer expressed that it is difficult for the office bearer to follow every credit, in reality.
9. A farmer who had taken a loan on hire purchase unsuccessful was facing difficulty because the family wanted to jump to hire purchase without knowledge. They bought old truck and the scheme flopped. Later they recovered by getting involved in vegetable and poultry scheme
10. Some farmer had started home stay for tourist on persuasion of central federation, but touristy flow was very low compared to expected number. For example, there were only 2 persons as visitor in last month. Over persuasion by external organization and believing without own confidence and know how creating difficulty in the borrower in repaying interest and the loan was. The farmer believes that marketing promotion was not as serious as the original persuasion for initiating the scheme.
11. The farmers felt that the small entrepreneur should either enter into previously familiar portfolio or should get better training about the scheme with right facilitations before starting the portfolio.
12. Clue of the success of the farmers in general was the prior knowledge, personal enthusiasm, devotion, family helps, official encouragement, prior orientation, marketing arrangement and regular facilitation follow-ups through related offices groups and intergroup. They also expressed that Weakness of group follow-ups gets mitigated through intergroup follow-ups.
13. The farmers felt that information of income expenditure management and various facilities available should be distributed to the entrepreneurs by making brochure of schemes than disseminating those only during training, as the catching capacity of ordinary farmer is low. Such schemes are there only in one or two cases. Such activity should get priority in providing training
14. There are also problems of too frequent repayment schedule. Some complained that they had to go for household loan and additional loan for repaying another loan. As per them, not every portfolio provided monthly income and enforcing common approach should be revisited.





**Table 14: Types of Loan Portfolio by Farmers (Loan portfolio approved since 1965/66 - four years) <sup>a</sup>**

Farmers in discussion group	Number of loans Approved						Others	Remark
	Crop	Livestock	Trade	House Hold Expenditure (Consumption Smoothing)	Household expenditure -multiple	Households expenditure - multiple		
Farmer 1	None	Buff meat-1 Goat -1	trade -4 times	Household expenditure -multiple			Goats had Disease Problem); Buffalo Died. Only one Milk buffalo now.	
Farmer 2	Vegetable -3 (short)	Goat -2	trade -4 times	Households expenditure - multiple			Industrial loan failed	
Farmer 3	Vegetable -8 (short)		trade -4 times	Households expenditure -1			Bought old Vehicle	
Farmer 3	Vegetable -3 (short)		trade -2 times	Households expenditure - multiple		Biogas-1 Sericulture-7	( Not successful)	
Farmer 4	Vegetable -6 (short)	Buff Meat -3	trade -1 times	Households expenditure - multiple			Difficult due to high wage. Are doing only 3 Ropani from Household labor	
Farmer 5		Goat-5 Pigs-4	trade -1 times	Households expenditure - multiple				
Farmer 6		Goat-3	trade -4 times					

Source: Interview with selected farmers

<sup>a</sup> The table does not repayment the average status but the loan portfolio of the purposively selected farmers.



## Learning from the Case Study

- Emphasis on women in group formation The information dissemination needed has been identified recently as one of the prime aspect at present as the institution has grown fast, multiple portfolio are bung created and membership has been wider.
- Serving to households in the VDC helps to promote inclusiveness, diversify portfolio, generate internal resources and minimize risks
- Re-financing facilities is required to enhance access to finance in faster pace.
- Offering of varieties of savings and insurance products has helped to minimize risks, smooth consumption and maintain high quality of portfolio
- Networking with district and national federation is needed to facilitate linkages and improve technical capacity of the cooperative
- Social programs coordinated with production program have been helpful in increasing overall portfolio productivity, directly and indirectly.
- Good working relation with various organizations has been helpful in conducting social work programs
- persuasion, training, lending and follow-up required for entrepreneurship creation
- It is necessary to focus on processing and marketing provision to promote commercial agriculture.
- Formation of strong committees for lending and for monitoring managed by villagers themselves has been helpful to nullify defaults.
- Consumption loan is also necessary in case of multiple portfolios, to maintain monthly repayment and avoiding repayment installment delays.
- Regionalization of lending, collection and monitoring of credit by creating inter group regional committee and leadership has been helpful in strengthening monitoring, implementing multiple programs and attaining timely recovery of repayments.
- Enterprises are successful if backed up by technical knowhow, connection to the market, strong follow-up and facilitation.
- SFCL Salng is moving toward regional co-operative reference point, gradually and interest of the organization is towards rapid expansion. However, too fast movement has also increased risk exposure of different type that the management has to be careful of.

- Over capitalization with overreliance on external financing should be backed up faster by internal resource creation
- Internally over pressurized move to facilitate the creation of sister co-operatives with the aim of completing the task within a short period of a year and had over has been a stressful to SFCL Salang ,
- Increasingly higher involvement in social works that has to be done by public sector, need to focus on distinct prioritization are some of the issues that it has to give attention to and facilitators to focus on.
- Inadequate staff member and lack of vehicle facility should be matter of prime concern at co-op. There is no vehicle at present and the agriculture technicians hired are involved also in loan repayment monitoring due to staff pressure. There should be a norm of staff to credit ratio to be followed.
- Demand for transparency has been ever increasing and accordingly the institution has move towards more publications regarding fundamental indicators on a quarterly basis.



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