DOES ACCESS TO MICROFINANCE MATTER FOR RURAL WOMEN?

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Due to the unavailability of financial services, the lack of products, and the cost of credit, many low-income households struggle to manage their savings and invest in, and expand, small businesses. Women, as well as poor and deprived groups, are unable to manage inputs and technologies to make their farms more productive. To boost local entrepreneurship, the Improved Seeds for Farmers' Programme (KUBK-ISFP) set out to establish 30 financial institutions to increase women's financial inclusion. Membership of a microfinance cooperative has been found to improve women's empowerment and the livelihoods of poor farmers.

Cover Mrs Tulasha Upadhaya, one of the many SFACL members now running her own business

KUBK-ISFP is an initiative funded by the International Fund for Agricultural Development (IFAD), implemented by Nepal's Ministry of Agricultural Development (MoAD) since December 2012. The programme aims to support an inclusive, competitive and sustainable agricultural growth approach in six districts (Arghakhanchi, Gulmi, Pyuthan, Rolpa, Rukum and Salyan), working to increase the income of rural households through market-driven productivity improvements.

The programme tackles two key agricultural constraints: the gaps in the formal seed sector (cereals and vegetables); and the low productivity of smallholder livestock (goats and dairy). The core components of the initiative are (i) the expansion of the formal seed sector by encouraging production of Truthfully Labeled improved seed; (ii) the commercialisation of smallholder livestock; and (iii) local entrepreneurship and institutional development.

Setting up SFACLs

Microfinance is an effective tool for extending financial services to disadvantaged groups, but many people in Nepal are unable to access these services because financial institutions are often only located in urban areas. Loans required by smallholders are often very small, but the procedures to access these loans can be tedious, and many institutions view agricultural businesses as high risk.

KUBK-ISFP explored an existing cooperative model called Small Farmer Agriculture Cooperative Limited (SFACL) to expand the outreach of microfinance services. SFACLs are member-based institutions registered under the Cooperative Act of Nepal and authorised for limited financial services – savings and credit for cooperatives members. To date, 730 SFACLs in 68 districts, all of which provide financial services for over 700,000 people, are led by the Nepal Agricultural Cooperative Central Federation Ltd. (NACCFL).

In partnership with two private sector organisations – Small Farmers Development Bank (SFDB) and NAACFL – the KUBK-ISFP programme had established 30 SFACLs by March 2016. As a wholesale financing institution, SFDB provided loans to the SFACLs. KUBK-ISFP provided SFDB with a supplementary loan of US$5 million for this purpose. NACCFL established SFACLs and strengthened them through various training and mentoring activities to enable them to run their groups independently.

Following a mapping exercise, potential sites were selected in consultation with local bodies. A process of social mobilisation and mentoring then began, usually lasting for 12–18 months. Newly-established SFACL's, consisting of small groups of 7–12 women farmers, were strengthened through several training and mentoring events that focused on book-keeping and financial management, business planning, and saving and lending procedures so that the groups could function independently. The first annual general meeting then endorsed managers and a new board of directors. After the end of the social mobilisation and mentoring process, the management of the SFACL was handed over to the community. To 'graduate', each SFACL had to have at least 400 members and have accumulated NRs. 2 million (€16,440) of member savings.

A mid-term review by IFAD recognised that the 30 SFACLs managed and led by women had provided microfinance services for 10,446 rural households, and collected and mobilised NRs. 36.85 million (€319,350) of internal resources (member savings). With these positive results, IFAD recommended the establishment of 45 new SFACLs, with additional funding of US$3 million (€2.5 million).

Results

At the end of 2016, 30 SFACLs had provided financial outreach services for 14,359 households (96.5% women, 19.95% *dalit* [socially deprived group], 24.5% ethnic groups, 61.5% below the poverty line) in 2,403 groups, and 7,965 members had borrowed money (Figure 1). On average, each SFACL has accommodated about 480 members. Clearly, SFACLs are organising vulnerable groups of people as members of cooperatives and supporting them by providing saving and credit facilities to improve the income level of the rural population.

In less than 2 years, the newly-established SFACLs collected NRs. 114 million (€936,400) of internal resources, including NRs. 27.37 million (€224,850) of share capital (mandatory deposits) and NRs. 84.64 million (€695,350) of personal savings (Figure 2). SFACLs therefore collected an average sum of NRs. 7,800 (€64) per household. In total, the mobilisation of internal resources increased by more than 94% compared to the 2015/16 financial year.

There was a 93% increase in annual borrowing from the SFDB to NRs. 76.8 million (€630,900) by July 2017 (Figure 2). The aggregate lending sum was NRs. 384.3 million (€3.15 million), of which 65% was for farming activities (61.84% livestock, 4.16% seed and vegetables) and 35% for non-farm activities which helped rural women to generate self-employment at a local level and increase their family income. Interestingly, the livestock sector constituted 95% of the total agriculture lending, with SFACL members focusing on milk collection and distribution, poultry, dairy and goat production.

Total assets collected during the 2015/16 financial year were NRs. 105.33 million (€865,400), which increased to NRs. 209.13 million (€1.7 million) in 2016/17 (Figure 3). This is an increase of 98%. In the 2016/17 financial year, the 30 SFACLs earned a sum of NRs. 17.83 million (€146,480) (total income) and spent NRs. 11.44 million (€94,000), resulting in a gross profit of NRs. 6.39 million (€52,500). The operational self-sufficiency (OSS) ratio was 1.55:1 in 2016/17, compared to 1.47:1 for 2015/16 – indicating that the SFACLs are performing well.

Different types of saving products are offered by the SFACLs. Some are planning to offer savings products

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Figure 1: *Number of members and borrowers*

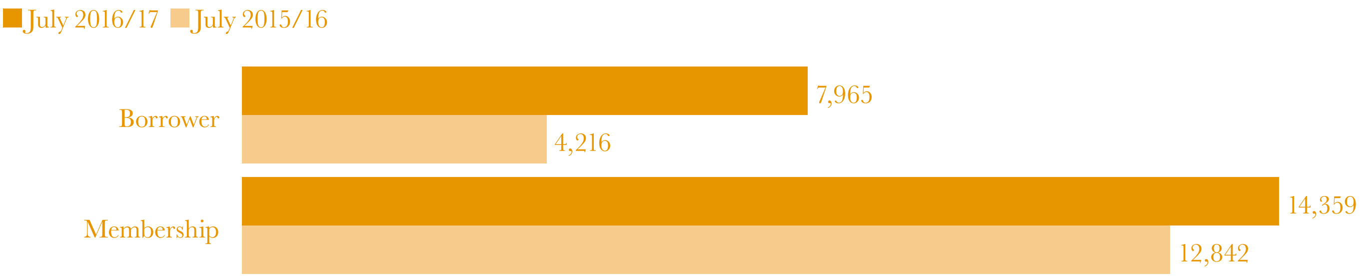


Figure 2: *Status of resources mobilisation by SFACLs (NRs. million)*

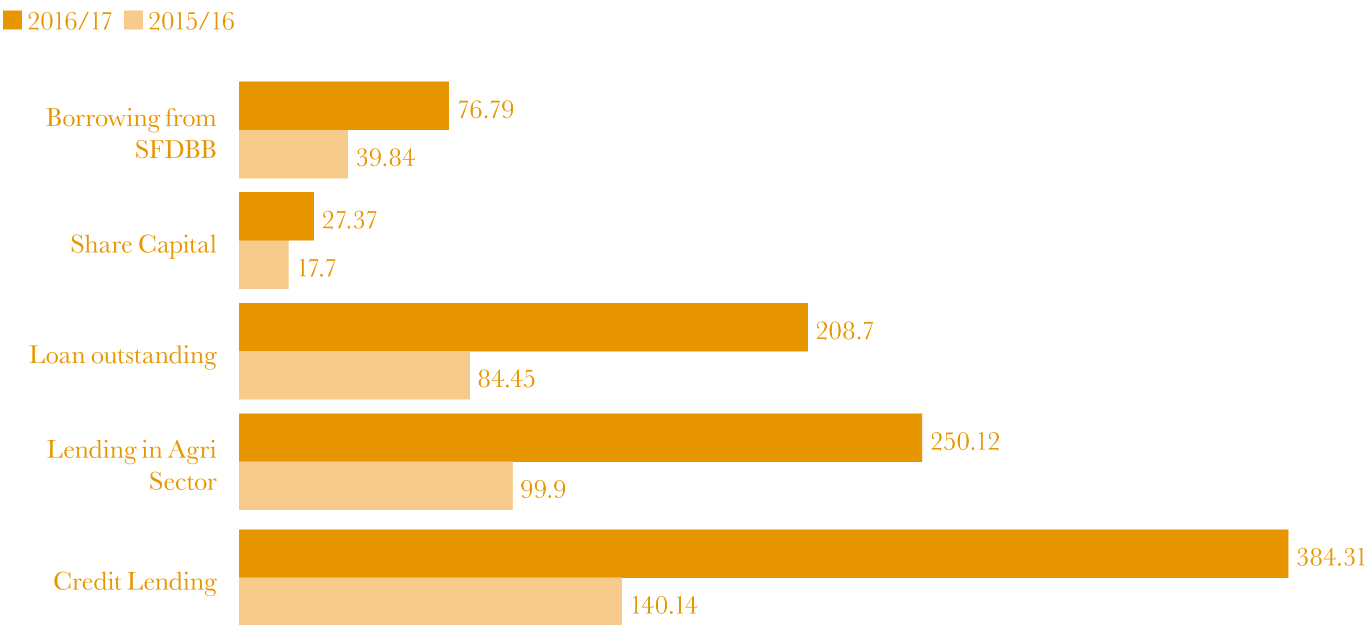
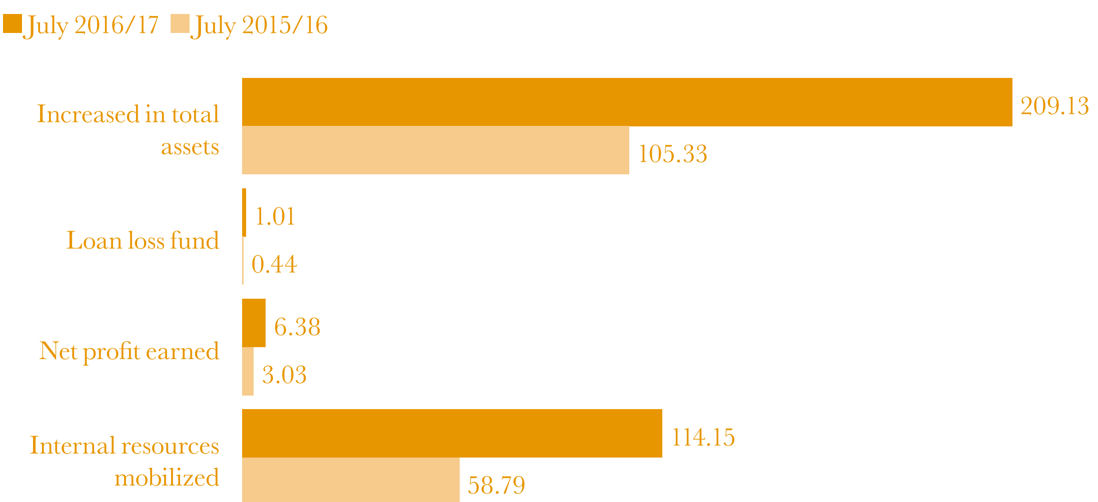


Figure 3: *Financial indicators (NRs. million)*



for children and pensions, and in addition to this, other products are customised for different localities. The SFACLs collected NRs. 39.8 million (€37,000) during the 2015/16 financial year, compared to NRs. 84.64 million (€695,400) in 2016/17; an increase of more than two times. The average monthly mandatory group saving among seven sampled cooperatives was NRs. 170 (€1.4) per month, while the monthly average for other types of savings (children savings, personal savings, fixed deposits) was NRs. 911 (€7.5) per member.

A high recovery rate is a crucial indicator for measuring financial performance. In this regard, SFACLs have a 100% recovery rate. All interest and loan instalments were collected on time, and members stated that they felt the repayment periods were reasonable. Despite this success, most SFACLs are creating a loan loss fund. By the end of the 2016/17 financial year, the total collected loan loss fund across the 30 SFACLs was NRs. 1.01 million (€8,300).

Based on feedback received from a sample survey, social cohesiveness, feelings of ownership in cooperatives and trust among the diversified social groups increased considerably. On average, SFACLs organised board meetings 16 times per year. Internal and external audits were also completed on time. Of the members surveyed (138), all felt that the selection of the SFACL board members was democratic, and that the board was working well. A total of 137 respondents felt that records are well kept and that the board is controlled by members. More than 86% of members stated that they are highly satisfied, or satisfied with the services delivered by SFACL – including loan approval processes and interest rates.

Success stories

Tulasha Upadhaya became a SFACL member in 2015 and started to save regularly. She applied for a loan and received NRs. 50,000 (€410) from SFACL to purchase milking buffalo so that she could earn enough to meet her household needs. She bought one milking buffalo and started selling 7 litres of milk per day in the local market, earning NRs. 126,000 (€1,034) in one lactation period (10 months). This income enables her to pay her children's school fees, save money and pay back the loan.

Deba Subedi is a SFACL board member. After the establishment of the SFACL, she borrowed NRs. 10,000 (€820) to purchase one goat with a female kid. She has also used SFACL loans to purchase a milking buffalo. With the profits, she has been able to expand her business and enable her husband, who has been working abroad, to return home and help her to diversify her business further. Deba is currently earning about NRs. 22,000 (€180) per month from her business, which also includes poultry farming and vegetable farming, and she hopes to purchase a mini tractor to further expand her business.

Does access to microfinance really matter for women farmers?

The project found that the SFACL model is better than other microfinance institutions at increasing financial access for women because:

i. the programme emphasised women participation from its inception;

ii. each household in selected areas was given the opportunity of joining a group;

iii. women from poor and deprived groups were given priority and provided with women social mobilisers;

iv. women leadership was encouraged by motivating them to lead groups and be on the board of directors;

v. credits of under NRs. 100,000 (€820) did not require collateral, the poorest members did not have time constraints to pay the loan back, and loan procedures were easy to follow;

vi. SFACLs are linked with SFDB which provides wholesale credit and further strengthening of the groups;

vii. SFACLs offer various saving products and the cost of the credit is relatively lower than other microfinance and banking institutions; and

viii. there is high social cohesion, irrespective of caste and gender, and women leaders are deemed to be trustworthy.

Among the loan borrowers sampled (138 people), 97 claimed that the SFACL loan had helped to improve their livelihood. Women who received loans were also seen as being more responsible than men, repaying their interest and loan instalments on time.

Concerning empowerment, the project found that 94% of women members were involved in household level decision-making processes, including property sales. A similarly high percentage of women (95%) felt that they did not face any difficulty in going to the SFACL activities, study visits or other training/ workshop events. Women claimed that their role in the family had increased since they began to manage money and be more autonomous and economically independent. Clearly, this indicates that power dynamics are changing gradually in favour of women.

Our work has shown that even if SFACLs provide a small amount of credit, this is decisive in improving the livelihood of a family.

Lessons learned

The figures described above show very positive results. In addition, the work of the Improved Seeds for Farmers Programme, and the establishment of many SFACLs in particular, has shown a few key lessons. The first one is that the initial mapping of financial institutions and the selection of a site is a fundamental activity. If household numbers in a particular area are limited, or financial services are already available, SFACLs will struggle to increase their membership.

Equally clear is that a woman-focused approach is vital. Poor women were given priority in joining SFACLs and the board of directors were women. Women were also selected as facilitators and managers to support the daily business activities of SFACLs. Continuous training, mentoring and facilitation activities helped to provide women with management skills.

Our work has shown that even if SFACLs provide a small amount of credit, this is decisive in improving the livelihood of a family. The provision of technological packages for members is also very important to improve productivity and production of an agribusiness. And next to it, the establishment of linkages with a wholesale lending institution is crucial for SFACLs to meet the demand for credit.

A last point to mention is that risk management is crucial. SFACLs have therefore introduced loan loss provision so they can mitigate losses. But we have also found that women leaders are trustworthy and motivate other members to save. SFACLs have stated that lending to women farmers is less risky than lending to men because women farmers do not misuse the credit and are more likely to pay the interest and loan instalment on time.

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