Small Farmer Cooperative Limited (SFCL) Model:

Appropriate Community-Based Microfinance Institution in Nepal

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Introduction

This paper is based on the case studies of microfinance models from my doctoral dissertation titled "Institutional Governance of Microfinance Institutions in Nepal". I have analyzed four models of microfinance institutions as the leading actors in microfinance sector in Nepal. Among those models, NGO, Development Bank and Cooperative models are included. Small Farmer Cooperative Limited (SFCL) is one of the examples. This paper is created on the basis of case study in SFCL in Kumpur, Dhading district on October 2008 and Microfinance Summit Nepal, 2008. Microfinance has become one of the efficient tools for poverty reduction in these days, especially after the establishment of regional rural development banks following the Grameen Model from Bangladesh. Even though the microfinance sector in Nepal has become famous since the mid 1990's, Nepal has been experiencing community-based financial activities, which is similar to microfinance, in rural areas of Nepal. Small Farmer Cooperative Limited (SFCL) is group of small farmers[1)] chosen as an institutional framework of the Small Farmer Development Program (SFDP) for making self-help cooperatives for the small farmers. SFDP is a pilot program of Agricultural Development Bank of Nepal (ADBN)[2)] and it is the first group based poverty alleviation program of the country. SFCL has significant contribution to motivate the poor farmers, women and disadvantaged people in community development and socio-economic activities through the group level financial activities. Although it has faced several challenges such as low recovery rate, lack of fund, ineffective rules, SFCL has proved itself as sufficient and appropriate microfinance model in rural area of Nepal.

Keywords: Small Farmer Cooperative Limited (SFCL), Small Farmer Development Program (SFDP), Microfinance, Agricultural Development Bank of Nepal (ADBN), sub-project office (SPO), Sana Kisan Bikas Bank Limited (SKBBL)

The Small Farmer Development Program (SFDP)

The Small Farmer Development Program (SFDP) was formed through its sub project offices (SPOs) joint liability groups of small farmers. The program began as a pilot test in the Dhanusha and Nuwakot districts of the country in 1975.

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1) Small farmer, who holds 0.5 hectare land in hilly area and 1.3 hectare land in flat area of the country. In addition, the condition of the small farmer is, not sufficient to live through the annual production of the possessed land and annual income is less than 2,500 Nepalese Rupees (1 US$ = 77 NRs.)

2) According to Banks and Financial Institutions Ordinance (BAFIO) 2006, Agricultural Development Bank (ADBN) is ranked as *Type A* which is commercial banks, and the new name of ADBN has become Agricultural Development Bank Limited (ADBL). However, I am explaining in this paper with old name as ADBN.

The success of the pilot test in Terai and the hills support of FAO/UNDP encouraged the policy makers and Agricultural Development Bank of Nepal (ADBN) to gradually expand the program. The number of sub-project offices (SPOs) of SFDP reached a maximum of 459 in 1993, benefiting about 200,000 small farmers households, an equivalent of more than 1.2 million population below poverty line, scattered over 649 Village Development Committees (VDCs)[3] of 75 districts.

The main objective of the SFDP is to improve the socio-economic condition of small farmers living in the rural areas of hills and Terai by providing financial and non-financial services. The SFDP is very popular in the rural areas of hills and Terai with a huge demand to establish SPOs in the villages. However, the program encountered several constraints such as high overhead cost, low repayment rate and lack of competent staff in the field level in the mid of '80s primarily attributing to rapid expansion.

Small Farmer Cooperative Limited (SFCL)

In 1987, the ADBN introduced an action research Institutional Development Program (IDP) with the support of German Technical Cooperation (GTZ). The objective of the IDP was to transform the ADBN-run SPOs into fully self-administered and managed co-operatives of small farmers.

In 1993, as a result of the IDP, the first four SPOs were transformed into SFCLs. Since then, 154 SFCLs have been established in 36 districts of the country. Currently, the SFCLs comprise a total of 83,000 rural households with outstanding loans of NRs. 1.80 billion (US$ 24.35 million) and internally generated resources of NRs.[4] 275 million (US$ 3.72 million). Female membership stands at 40% and is gradually increasing.

Of the total SFCLs, 43 SFCLs are providing services to the rural poor in the 16 hill districts. The total membership in the hills stands at 22,947 families. The outstanding loan portfolio is around NRs. 289.93 million (US$ 3.92 million) with internally generated resources equal to NRs. 61.3 million (US$ 0.82 million). This achievement reveals that SFCLs have been successfully providing services in hills and sparsely populated areas.

A Small Farmer Co-operative Ltd. is a multi-service co-operative designed to deliver primarily financial, but also non-financial services to its members in rural areas. SFCLs are civil society organizations that pool their joint resources to meet basic needs and defend interest of their members. Besides, SFCL has an open door membership policy towards poor farmers.

A systemic approach of SFCLs

Figure 1 summarizes the financial systems development approach of SFCLs comprising three pillars:

a) the local financial institutions at the grassroots level,

b) the Sana Kisan Bikas Bank Limited (SKBBL) at national level for refinancing, and,

c) Federations/networks of SFCLs to provide non-financial (technical support) services to SFCLs.

On the micro level, SFCLs are enabled to provide financial and non-financial services. On the meso level, the SKBBL and SFCL Federations provide re-financing and non-financial services for SFCLs. At the macro level, interventions are geared towards improving the regulatory and supervisory framework for the rural finance.

Dimensions of SFCL systems approach

An interesting feature that distinguishes SFCLs from other micro-finance institutions (MFIs) in Nepal and beyond is their unique three-tiered structure with small farmers groups, inter-groups and the main committee as the three pillars

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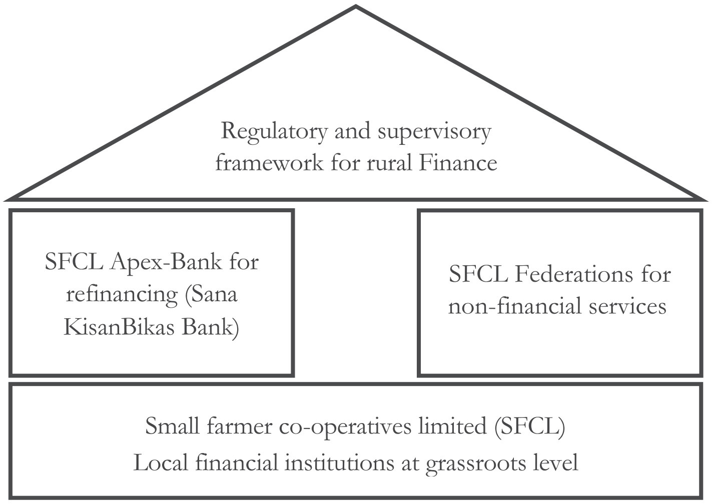
3) VDC = Village Development Committee, the smallest administrative unit.

4) NRs. is Nepalese Currency, Nepalese Rupee. 1 US$ is equivalent to NRs. 81.65 (Rate of 30 March, 2012).



Source: Small Farmer and Microfinance Division, ADBN (Homepage of ADBL)

Figure 1 The SFCL System Approach

as illustrated in Figure 2 depicts.
–Farmer groups at village level
–Inter-groups at ward level
–Main committee (the board) at VDC level

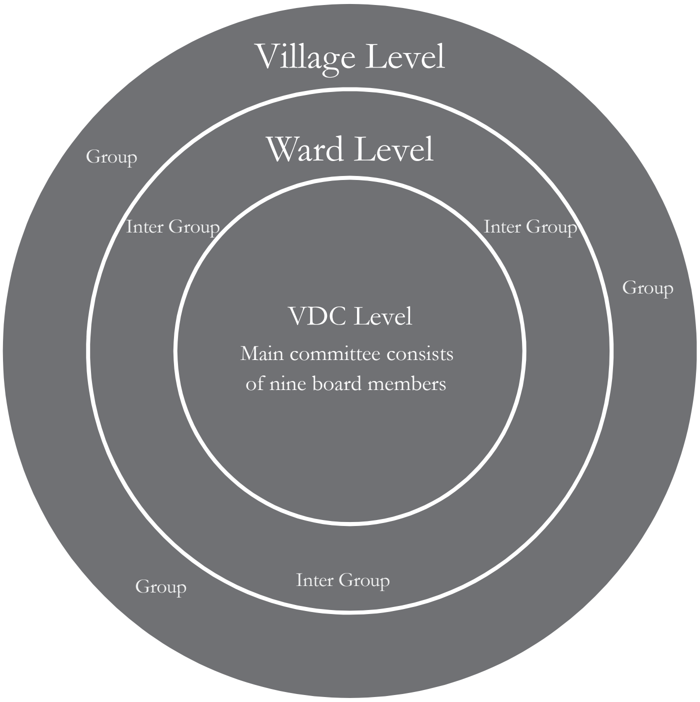
Small farmer groups are set-up as joint liability groups at the village level, usually consisting of 5 to 10 members. These bodies allow members to start and operate financial and non-financial services required by the group or group members. From each small farmer group within a defined area, one representative member joins the so-called inter-group. The inter-group further validates special specific group requests and provides recommendations to the main committee. It also functions as an intermediary between the groups and the main committee.

One representative of each inter-group joins the main committee at the VDC level. The members of the main committee approves the program of the SFCL and decides on the implementation of any other projects such as office building construction, livestock insurance schemes, consumer stores, etc. A manager, an assistant manager and a helper are employed by the SFCL to effectively manage daily operations of the organization. SFCL is also putting effort on women empowerment because there is provision that either manager or an assistant manager should be female.

SFCL delivers various financial and non-financial services to its members. Financial services include various types of voluntary and compulsory savings products, a variety of loan products as well as a livestock insurance scheme. Non-financial services incorporate construction of irrigation channels, establishment of milk collection centers, nursery programs, women empowerment programs and other social mobilization activities. New products and services are continuously added as per requirements.

Loan activities of SFCL

Table 1 shows the loan activities from Fiscal year (FY) 2001/02 to FY 2006/07. As compared to FY 2001/02, there



Source: Small Farmer and Microfinance Division, ADBN

Figure 2 The Organizational Set-up of SFCL

Table 1 Loan Activities of SFCL

(NRs. in Million)

Description	Fiscal Year						Increment%	
	01/02	02/03	03/04	04/05	05/06	06/07	1 to6	5 to 6
	1	2	3	4	5	6	7	8
Disbursement	414.24	503.71	608.65	872.15	1020.74	1316.53	217.82	28.98
Collection	437.45	537.54	674.95	905.26	1159.86	1385.96	216.83	19.49
Outstanding	899.59	1105.92	1340.68	1600.29	1856.09	2202.64	144.85	18.67

Source: Documents of ADBN/Mathema, Vijaya Ram (2008) Microfinance in Nepal.

was an increment of 217.82% in loan disbursement, 216.83% in repayment and 144.85% in outstanding in FY 2006/07. In comparison to FY 2005/06 with FY 2006/07 of disbursement, repayment and outstanding, there is an increment from NRs. 1020.74 million to NRs. 1316.53 million (with an increment of NRs. 295.79 i.e. 28.98%), from NRs. 1159.74 million to NRs. 1385.96 million (with an increment of NRs. 226.10 i.e. 19.49%), from NRs. 1856.09 million to NRs. 2202.64 million (with an increment of NRs. 346.55 i.e. 18.67%) respectively.

Box 1 Case of Small Farmer Cooperative Limited (SFCL), Kumpur

Small Farmer Cooperative Limited, Kumpur–3 (SFCLK) is one of the SFCLs in Dhading district, which is 66 km west from the capital city Kathmandu. The Kumpur Village Development Committee (KVDC) is one of the VDCs among 50 VDCs in Dhading district. This VDC is at the south from the district headquarter. Only 10 km paved road touches this VDC from headquarter, and the rest of the 6 km is graveled road. The nearest market from this VDC is Gajuri, which is around 3 to 4 km far and need to walk through a mountainous path. The reason of selecting this VDC is because, out of the total 1800 families, 1699 families are small scale farmers who rely on agriculture. SFCLK was registered in November, 1997 and started the operation from December, 1997. Till 2006, 730 families of the small scale farmers were included in the SFCL program while the rest, 969 were yet to be. Most of the small farmers in this village are interested in vegetable and fruit cultivation because of the sufficient profit and income. Some of the members claimed that if there is sufficient transportation infrastructure, they could have comparatively more income than now. In addition, the villagers have improved their life style after the establishment of SFCLK. They said that SFCLK has not only helped them financially, but also they know various lessons from the member training and meetings held by the co-operative. It is one of the successful SFCLs because its repayment rate is 98.11%, while it was 81% in 1998, the initial year of SFCLK. By 2005, among 106 groups, 57 are men and 49 are women. The managing committee said that SFCLK need to involve more women and disadvantaged group inside the SFCL system.

Advantages of SFCL[5)]

As SFCL is the outcome of the transformation of ADBN rural branches (SPOs) into co-operatives, it has constituted one of the most promising poverty alleviation and general development effort for the rural Nepal. SFCL mainly focuses on four principle functions such as saving, credit, income generation and community development. Here are some positive achievements of the SFCL's small farmer development performance.

Savings mobilization. Mobilizing rural savings is one of the main attributes of the SFCL. The members are required to make voluntary savings in their respective groups most of which (about 60%) is deposited with the managing committee that pays a regular interest on it. When these monthly individual redeemable contribution to group savings constitutes a basic qualification for small farmer group membership, the rate of saving is decided by individual groups themselves and generally ranges between 5 to 20 rupees a month, or even higher. These savings are utilized for extending credit for their income generating activities based on their own group's decision and implicit supervision. By November 2007, the total group savings of the 219 SFCLs affiliated to the Small Farmer Development Bank Ltd. (wholesale lender to SFCL) amounted to NRs. 227 million, which comes to around NRs. 1,700 per member.

Besides, there are several saving portfolios to maximize SFCL's resource base. The SFCL's shares that each

5) Advantages of SFCLs are referenced from the field study October, 2008 and Microfinance Summit Nepal, 2008.

member must buy are generally priced at NRs. 100 per unit, although there are some ambitious SFCLs which raise per unit share price to NRs. 500 for quick generation of more capital.

Another means of saving is Loan Security Fund, which requires the borrowers to deposit a minimum of redeemable 2% of the loan amount extended to them by the co-operative. The fund is intended to augment individual saving as well as a liquid fund for the client to make timely interest payment on the loans and make him eligible for a rebate.

Furthermore, Self-managed Livestock Scheme is also a major source of saving for the SFCL. The scheme evolved from the ADBN's credit program over the years to protect the small farmer borrowers of livestock loans who often face severe losses due to the death of animals. Under this scheme, the co-operative charges the user a non-refundable annual premium of 5% of the market value of the insured livestock in which the government too contributes an equal sum for the insurance. In case of the death of the animal during the period of insurance, the applicant is paid a compensation of 80% of the insured value. A separate livestock insurance committee under the SFCL looks after this scheme. In addition, there is also an insurance program for supporting veterinary service to reduce the losses within the members.

The SFCLs also run limited banking services under which they allow their members to open saving and fixed deposit accounts. An interest rate of 8% is paid on these accounts, a rate higher than generally paid by the commercial banks. Moreover, such co-operative-related incomes are exempt from income tax which makes saving with the SFCLs more attractive. This too makes it an important source of local saving mobilization. too.

Women's Participation. The most distinctive feature of SFCL model is the increased space it provides for women to engage in their own socio-economic development as well as that of the community. The existing rules require at least 10% of members to be women but, the actual proportion of women members has been much higher. According to the figure of Small Farmer Development Bank, of the total 133,195 members, 219 SFCLs affiliated with the Small Farmer Development Bank, 51% are women.

It was recognized by the SFCL women members that women are no more a disadvantage of the society; rather they proved themselves as disciplined borrowers and responsible homemakers. In specific terms, it was emphasized that unlike men, women are available in the village all the time, attend group meetings regularly, hardly ever engage in politics and are true to their words. Furthermore, they are also more interested in social activities and devote fully to their income generating activities.

Exclusive emphasis on income generating activities. SFCL model is a potential instrument of poverty alleviation because the small farmer loans are directly linked with the borrowers' income generating activities. The members can borrow only for the stated income generating activities, which are endorsed by their own small farmer groups and are implemented under the watchful eyes of fellow members.

Credits are extended for three terms: short-term that is up to period of one and half year; medium-term that is for up to seven years; and long-term for more than seven years. This makes it convenient for borrowers to choose the terms through their income generating activities. Generally, the lending for the seasonal agricultural crops is short-term, horticultural activities is medium-term, and projects such as irrigation schemes is long-term. The SFCL also provides credit for "group projects" which are normally activities that require large investment for which the small farmer members pool their resources together including credit.

Role of small farmer groups in motivating poor farmers. The small farmer groups at the grassroots play a vital role in promoting income generating activities and help to alleviate poverty among members. Overtime, the member small farmers learn to wean themselves away from the sense of being helpless due to their poverty and slowly establish themselves as active entrepreneurs like other active members in the group.

Easy communication and service delivery. As SFCL is the approach for the small farmers, the managing committee is selected from the small farmers. This enhances the communication between the borrowers and the board members.

This ease of communication improves service delivery.

Addressing the problem of asset-less farmers. Generally, ADBN and the co-operatives provide the services through collateral, which is often land. So, the landless farmers, who need such financial support the most in the village communities, are excluded from the co-operative. However, some members feel morally obliged to do something about their less fortunate neighbors. Therefore, some SFCLs have adopted a policy to supervise credit without collateral. This is by lending the cooperative's own money, around few thousands at a time, to a few landless households for income generating activities. It is believed that after about three years of such supervised lending, the landless borrowers are normally able to buy some land of their own which enables them to become full-fledged asset holding members in their SFCL.

Group level activities. Inside the co-operative, borrowers are grouped. Even if they have to get the loan personally, the board members check their purpose of loan thoroughly. This involves finding the reality for the need of the borrowing. Besides, after getting a loan, the members inside the group alsoshare on ways of utilizing the loan. They emphasize, as a priority, using the loan mostly on needy members of the group.

Bulk borrowing from the ADBN. The innovative aspect of SFCL program is the bulk borrowing facility it enjoyed from the ADBN. This is now channeled through the SFDBL, which remains a major source or resource for income generating activities of SFCL members. ADBN used to lend to farmers through its SPOs. But, the urge to support a small farmer in an organized manner led to the establishment of SFDBL in July, 2001. On the other hand, SFCL itself also felt the need to support its development and to build capacity to extend its activities in a better way. Thus, from July 2001, ADBN started to transfer its authority to SFDBL as a wholesale lender to SFCL. By October 2008, SFDBL has been providing 220[6)] of the total 228 SFCLs.

Income improvements of SF members. Through the SFCL, SF members have succeeded to improve their income as well as their confident too, no matter if they are men or women.

Community development. The SFCLs also significantly contribute to general development of their communities such as drinking water, sanitation, child care centers, construction of tracks and trails, forest conservation, and so on. Most of the small farmer members are now able to send their children to school, their living standards improved and can now afford better food, clothing and shoes.

Governance improvement. SFCLs are made by small farmer groups at the base, their decision-making is highly decentralized and participatory. All the members are continuously involved in decision-making at various levels regarding the allocation of credit, use of credit, recovery of loans, result of the purpose and other community development activities. Such widespread participation of members in the decision-making of the organization ensures the continuing transparency of management and accountability of board staffs to the members. SFCL has maintained good governance inside the co-operative by ensuring the effectiveness and sustainability of its approach. Furthermore, the members feel that loan disbursements are quick and no bribes need to be paid to the officials.

Challenges of SFCL[7)]

SFCL is facing several problems in spite of many successes it has gained from its scheme, and some of the problems are getting quite severe.

Less priority. SFCL approach significantly focuses on poverty alleviation of small farmer in rural area, but it has

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6) According to the hearing from Small Farmer Development Bank Limited (SFDBL), among the 220, the actual number of SFCL is 219 and 1 is Savings and Credit Cooperative.

7) Challenges of SFCLs are referenced from the field study October, 2008 and Microfinance Summit Nepal, 2008.

not yet been able to receive the priority that it deserves in the country's national development plans.

Low recovery rate. Another severe problem of SFCL is low recovery rate. Among 219 SFCLs have problems with member farmers in collecting repayment. Furthermore, 16% of the total managing committee members themselves have willful defaults, thus, resulting in a situation in which they are morally unable to ask others to repay (Microfinance Summit Nepal, 2008). There is also paradoxical dimension on this problem. While the repayment rate of loans from their own sources is almost always more than 90%, it is only ADBN loan which is defaulted. In the case of own source lending, there is a greater sense of accountability on the part of the borrowers accompanied by continuing peer pressure for timely repayment.

Ineffective rules. SFCL has a rule to clamp an additional 2% annual interest once the loan defaults. However, this has not been sufficient to discourage those would-be defaulters. Since the market rate of interest is higher, it is profitable for the borrowers to delay repayment on the loans as long as possible.

Furthermore, ADBN's own longstanding practice of writing off parts of interest and principal on bad loans has apparently encouraged the borrowers in defaulting. Actually, this was done to encourage repayment of whatever can be salvaged out of such bad loans, but many borrowers willfully default on repayment in the hope that such rebates and reductions would come along. According to ADBN policy, such benefits are available only to ADBN's direct clients and are denied to SFCLs which are autonomous bodies. However, most of the SFCL members having been the Small Farmer Development Program (SFDP) clients and therefore, ADBN's direct clients in the past. So they continue to harbor the lingering hope that sooner or later the bank will definitely write off, and this made the SFCL borrowers default at will.

Maoist insurgency. The Maoist intervention has also aggravated the problem of non-repayment interest and principal of SFCL. In several districts, the Maoist rebels threaten the SFCL members not to repay the co-operative's loan, which severely affect the recovery rate.

Second generation problem. SFCL is also suffers from second generation problem. Inside SFCLs, there is an elitist tendency where an increasingly large number of successful borrowers no longer want to go through the small farmer groups or inter groups when they apply for larger loans. Instead, they would prefer to transact directly with the managing committee or even ADBN. Since all the members need to go through the SF groups and inter groups for their loan requests, the successful farmers feel suffocated because the entities generally do not endorse their large loan requests.

Inside the SFCL, an inverse relationship seems to exist, the more prosperous the members, the less the sense of belonging to their groups even as the groups remain useful for their less fortunate members.

Feeling credit insufficient. As successful members feel the credit of SFCL is insufficient, there are now calls for the SFCL credit ceiling to be raised from the present 60,000 NRs. to 200,000 to access large loans. Furthermore, some opt to divide SFCL into various categories on the basis of its performance to make high performing ones eligible for larger loans. Some SFCL members directly transacted with the ADBN for larger loans, although SFCL membership policy did not allow. Besides, some members chose a less conspicuous way to expand credit. They persuade their fellow members in their small farmer group to let them use their share of the SFDBL credit. So it seems that the SFCLs' success in raising income and enterprise level of its members generates an internal combustion of its own kind.

Lack of business expansion in neighbor VDCs. There is the lack of business relationship among the SFCLs. Since 2007, few mature and capable SFCLs started to expand their business to neighbor VDCs. Because of the lack of social and physical infrastructure such as education, electricity, transportation, or communication, they do not have a business friendly environment at the local level. This causes difficulty to deliver SFCL services to the remote areas of rural Nepal.

Lack of regulatory framework. SFCLs are registered under the Co-operative Act and basically need to be regulated by the co-operative department, but it seems not interested in directing and supervising the activities of SFCLs.

These SFCLs, being outside the scope of any regulatory framework, may result to poor governance, poor financial performance and anarchism in the microfinance industry.

Less involvement of disadvantaged people. In SFCLs, there is a high possibility of less participation of extremely poor, socially disadvantaged and low caste people. Although SFCL has a policy to serve the poor farmers, those people lack self-confidence to live secure life within the society. Hence, some of them don't want to borrow the credit from SFCL and follow the informal way of borrowing such as from relatives, landlord, etc.

Recommendations[8)] and conclusion

After observing the advantages and challenges of SFCL, there are some issues which need to be addressed in order to have an effective performance of SFCL. There are a number of conditions that need to be fulfilled for the more satisfactory implementation of SFCL program throughout the country, some of which are as follows:

Improving recovery rate. The improvement of the recovery rate of SFCL particularly financed from ADBN, is really necessary. In addition, continuous bulk of financing from SFDBL and other financial institutions to the SFCL members is also inevitable to improve the recovery rate of SFCL. As SFCLs are small farmer owned institutions, they must improve the recovery rate in the interest of the small farmers themselves.

Replication and simplified methodology. The SFCL program is still able to reach a small portion of small farmer population in Nepal. So, it needs to have an effective replication in new areas, especially in remote areas of the country. Moreover, the present method of replication takes around three years to set up a new SFCL. Therefore, a less time consuming method is needed to fasten the pace of SFCL replication. Furthermore, a demand driven method could be adopted to make the replication more cost effective.

Making easy to participate disadvantaged groups. As low caste and socially disadvantaged people hesitate to become members in the SFCLs, the SFCLs need to have an effective training and people participatory advertisement to convince those people on the SFCL's financial services.

Definition of small farmer. Even though SFCL stands for the financial help to the poor and small farmer; it needs to re-define the selection criteria of small farmer. The definition states that a farmer, who holds 0.5 hectare land in a hilly area and 1.3 hectare land in a flat area of the country, is defined as a small farmer. Besides, the farmers who have no land are also small farmers. So the definition of the small farmer should be clear. Comparatively poor small farmers should be given high priority in SFCL.

Addressing second generation problems. SFCL has many successful stories that there are large numbers of farmers out of the poverty than the numbers who are continuing to struggle in the margins of poverty. As for the second generation problems, there are inadequate studies about accessing additional resources. Since poverty reduction has been the central theme of national plans, the National Planning Commission (NPC) should mobilize necessary resources and mount a nationwide study of poverty reduction achievements, not only SFCLs, but also all microfinance initiatives throughout the country.

Donor consortium. The SFCL program benefited from the support of GTZ at its initiation in 1988. However, at the moment, there are a number of challenges due to inadequate resources. Since the microfinance community has the attention and priority of many donors, it is necessary that all donors join hands to form a microfinance consortium in Nepal. Not only SFCL, all MFIs need such a move to steadily contribute to the promotion of better co-ordination among the various microfinance initiatives inside the country.

Financing of microcredit. In view of the realized need of microcredit to improve the quality of life of the rural

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8) Recommendations for SFCLs are referenced from the field study of October, 2008 and Microfinance Summit Nepal, 2008.

poor, grass root's level sustainable microfinance institutions (MFIs) have to emerge, grow and flourish especially in the remote and rural areas. Furthermore, a microcredit fund to meet the credit needs of rural MFIs needs to be created. Therefore, in order to create a conducive environment for microfinance industry, the government through the Central Bank of Nepal has to play an initiative and leading role.

Legal and regulatory framework. A separate regulatory body needs to be created for microfinance which can develop in to a dynamic financial sector with an appropriate policy support. The Central bank of Nepal should play an important role on it.

Exemption of corporate income tax. The government's policy to charge corporate tax to the microfinance development banks at par with the commercial banks cannot be considered equitable to MFIs serving the rural poor. Therefore, the government has to think of exempting MFIs from corporate tax and directing them to utilize such saved amount for further expansion of microfinance services.

The Small Farmer Co-operative Limited (SFCL) has long history of providing financial services to small farmers throughout Nepal. Its primitive form, Small Farmer Development Program (SFDP), dates back in 1975. Since it is one of the leading MFIs in Nepal, it should better consider the recommendations explained above to provide effective services to the poor and small farmers. In addition, it is better to remind always about the real meaning of microfinance while dealing with the problems such as second generation problems, excluding the extremely poor and the disadvantaged people.

Besides, SFCL should coordinate other professional microfinance development banks in order to get good references such as professional trainings and lessons to implement effective services delivery. Moreover, each VDC also needs to help the related SFCL with full effort to have an effective implementation and lessen the operational cost. Furthermore, in order to improve the governance mechanism inside the SFCL, small farmers (both members and managing committee) must work as a team and make SFCL as pure and devoted MFI for the real poor small farmers. For this reason, they should not lack necessary trainings and sharing successful stories inside the groups and SFCL itself.

On the other hand, the cooperative department should also take care of SFCL in some fraction, or if not so, the necessary regulatory framework should be made to supervise the activities of SFCL and support improving its governance mechanism. Nevertheless, SFCL can be distinguished one of the appropriate MFIs in Nepal in it should broaden its financial services in uncovered area of microfinance to develop the socio-economic status of the poor small farmers.

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