



# CAPITAL DEPLOYMENT INITIATIVE

## BACKGROUND

Heifer International works with rural farm families to help them move out of poverty and earn a sustainable living income. Sustainable living income allows families to educate their children, feed themselves adequately every day, and to have proper housing, water, hygiene, and other essential resources. It fosters dignity, self-reliance, and resilience. The most reliable and sustainable way to end hunger and poverty is to develop and strengthen inclusive local economies through supporting smallholder farmers to start or expand agri-businesses, cooperatives, and social enterprises so they can profitably participate in pro-poor, wealth-creating value chains.

## THE CONTEXT

Access to affordable credits for smallholder farmers is crucial in developing and sustaining inclusive rural economies. Concessional credit unlocks the opportunities for them to establish enterprises, create jobs, and generate new waves of economic opportunities in their communities. However, access to concessional credits from Banks and Financial Institutions-BFIs in rural area is a substantial challenge especially for women farmers in Nepal, as majority of the credits are limited to urban large enterprises only. In rural areas, practice of borrowing money from informal sector still prevails. The microfinance institutions which better penetration in rural areas have relatively higher interest rate. This impacts the profitability of rural agrienterprises and further delays from escaping the vicious cycle of poverty (NRB, 2020).

## THE INITIATIVE

Heifer stepped into the Capital Deployment Initiative by partnering with BFIs to enhance access to affordable finance for smallholder farmers, women entrepreneurs and MSMEs engaged in agriculture value chains. It started after successful implementation of a pilot project with Machhapuchchhre Bank in 2018. In this model, a corporate guarantee was provided by cooperatives to the banks, whereas UKaid funded access to finance programme i.e., Sakchyam and Heifer were the first and second guarantors, respectively.

It evolved as a process of making farmer-owned agribusinesses (FOAB) and other MSMEs financially sound, capable, and independent. For this, Social Entrepreneur Women Cooperatives (SEWCs) served as an intermediary service provider with access to rural entrepreneurs. Heifer further upscaled partnering with three categories of BFIs (i) Commercial banks, (ii) Wholesale microfinance, and (iii) Other financial institutions. The concessional credits are being deployed through three channels a) Wholesale lending by BFIs to SEWC thereby to farmers, b) Directly lending to SEWC members in recommendation of SEWC or local government, and c) SEWCs lending to its members from their internal funds.

## KEY ACTIVITIES

- Support farmers through bundled services; financial literacy, entrepreneurship and skill trainings and market linkages.
- Discussions with selected BFIs, execute MoU and organize kick off meetings.
- Facilitate farmers to use concessional credits from BFIs.
- Develop, implement, and monitor joint action plan (Heifer, BFI, Coop, and local government)
- Co-finance for transport vehicles, market infrastructures, technologies for value addition etc.
- Facilitate insurance companies, cooperatives and farmers for crops and livestock insurance.
- Develop and facilitate local service provider for credit facilitation.
- Ongoing social capital development, technical capacity building and market development.

## KEY ACHIEVEMENTS

- Reached 29 districts in 6 provinces
- 175 SEWCs are engaged in this initiative
- 21 BFIs have committed over \$68 Million USD concessional credit to over 20,000 farmers and MSMEs.
- \$13.5 Million USD concessional credit disbursed to 9,895 farmers (from 2018 to 2022).
- Increased management capacity of cooperatives resulted increased in shareholders; share capital (1.33 times), savings (NPR 146-230 m), loan portfolio (1.6 times) and profits (1.6 times) in two years, mainly due to availability of additional finance.
- Good loan utilization
- Signed MoUs with 4 banks in the first half of 2022 and assured added \$20 Million despite huge liquidity crisis in the banking industry of Nepal.

## OPERATIONAL MECHANISM

This initiative has put together an innovative mechanism that facilitated banks and rural farmers to work together.

- Formal agreements executed at different levels-among Heifer, BFIs, cooperatives, and local government.
- Corporate guarantee provided by cooperatives where needed.
- Facilitation of collateral free credits (assurance letter from Heifer and local government)

- Heifer’s assistance coupled with social capital reducing the cost of credit significantly to BFIs and smallholder farmers.
- Cooperatives serve as a business hub, providing business development (BDS) services ensuring access to farm inputs, agriculture & veterinary services and marketing services resulting profitable farm enterprises.
- Adapted the process to cater the need of missing middle, the credit ticket size is between NPR 200K-1,000K.

## IMPACTS

- Improved women’s access to concessional credits and bundled service; financial literacy, entrepreneurship, skills development, market linkages and other BDS services.
- Boosted women leadership and enhanced women engagement in agriculture value chains.
- Formalization of agribusinesses at local level by registration of business.
- Increased access to agriculture insurance in rural areas.
- Increased number and scale of farm enterprises.
- Increased job creation and income.

## CONTRIBUTION TO NATIONAL PRIORITY

Facilitating credit in agriculture sector and women entrepreneurs is a national priority. The national data shows that the credit flow has been primarily in large agrienterprises. Heifer’s initiative has been critical to reach small women entrepreneurs in agriculture. This initiative alone has contributed to 52.8% of total number of credits disbursed under ‘without collateral’ category and 11% of ‘women entrepreneur’ category. The innovative mechanism deployed under this initiative can be scaled to reach a larger number of unbanked rural population in Nepal.

Particular	National*	Heifer
No of credits	151,252	9,895 (6.5%)
No of credits in agriculture without collateral	5,965	3,153 (52.8%)
No credit under women entrepreneurship	83,669	9,895 (11.8%)

\* Source: Central Bank of Nepal, 2022

## CHALLENGES

- Lending has decreased due to liquidity crisis; hence, it may limit the agriculture lending and cause distress to the smallholder farmers.
- Government of Nepal and BFIs are struggling to fulfill the demand of concessional credits.
- Stakeholders raising questions over the government’s priority for not reaching the benefits to the smallholder farmers and rural women, which may halt continuation of interest subsidized concessional credit.

## LEARNINGS

- Formalization of agri-business sector started with registration of their businesses.
- Cooperative corporate guarantee mechanism is evolving as an alternative high performance lending option friendly to the smallholders and risk reducing to BFIs.
- Credit utilization rate is good under the interest subsidized concessional credit.
- Concessional credit enhances the competitiveness of businesses, improves profitability, and contributes on business growth.

## KEY ELEMENTS FOR SUSTAINABILITY

- Local government's role offers stronger assurance to BFIs for investment in agri-enterprises, this practice should be further strengthened.
- Trust among smallholder farmers, cooperative and BFIs is essential to continue the initiative.
- Utilization of credit by the smallholder farmers in the set purpose can ensure repayment of installment.
- Capacity of the cooperatives is key to success. Continuous capacity building of cooperatives ensuring strong governance, management and institutional linkages is important.

## PARTNERSHIP

SN	NAME OF BANK/ FINANCIAL INSTITUTION	BORROWERS	MoU SIGNING
1	Machhapuchchhre Bank Limited	1,511	29-Sep-18
2	National Cooperative Bank Limited	1,949	26-Sep-28
3	Laxmi Bank Limited	642	2-Jul-19
4	Rastriya Banijya Bank Limited	-	21-Aug-19
5	Agriculture Development Bank Limited	595	25-Oct-19
6	Himalayan Bank Limited	112	18-Feb-20
7	Everest Bank Limited	207	14-Feb-20
8	RMDC	969	10-Nov-21
9	Global IME Bank Limited	35	7-Jan-21
10	Siddhartha Bank Limited	-	5-Apr-22
11	Nabil Bank Limited	51	11-Apr-22
12	Prabhu Bank Limited	-	21-Jul-22
13	Nepal SBI Bank Limited	-	22-Jul-22
14	Other BFIs* (wholesale lending)	6,742	NA
	<b>Total</b>	<b>9,895</b>	

Note: \*Others collaborating BFIs; YSEF, SKMFL, RSRF, RSDCMF, BBZ, SNSCCSN, NMBBL, NBL and MBNL