Facilitating Sustainable Pro-Poor Financial Inclusion: The Experiences of Samriddhi in Bangladesh
Facilitating Sustainable Pro-Poor Financial Inclusion:
*The Experiences of Samriddhi in Bangladesh*

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>BMC</td>
<td>Business Management Committee</td>
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<tr>
<td>CBO</td>
<td>Community Based Organisation</td>
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<tr>
<td>DAE</td>
<td>Department of Agricultural Extension</td>
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<td>DLS</td>
<td>Department of Livestock Services</td>
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<tr>
<td>DoF</td>
<td>Department of Fisheries</td>
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<td>DRR</td>
<td>Disaster Risk Reduction</td>
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<td>LSP</td>
<td>Local Service Provider</td>
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<td>M4P</td>
<td>Making Markets Work for the Poor</td>
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<td>MFI</td>
<td>Micro Finance Institution</td>
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<td>MRA</td>
<td>Microcredit Regulatory Authority</td>
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<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>PKSF</td>
<td>Palli Karma-Sahayak Foundation</td>
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<tr>
<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
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<tr>
<td>SPA</td>
<td>Service Providers' Association</td>
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<tr>
<td>WEE</td>
<td>Women's Economic Empowerment</td>
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</table>
Foreword

Bangladesh is a pioneer country for financial inclusion of the poor and hosts some of the biggest microfinance institutions in the world: Grameen, ASA, BRAC, Buro and others. Together, these institutions serve over 16 million clients all over the country and cover around 70% of all clients of the more than 600 formal microfinance institutions. However, these institutions have stopped to grow in client numbers since 2008, due to market saturation; instead, they have increased the loan amounts per client.

These impressive figures on coverage of formal financial services contrast drastically with what the staff of HELVETAS Swiss Intercooperation have witnessed while implementing value chain projects since many years in remote rural areas of Bangladesh. The target groups of our projects, poor and extreme poor women and men in rural areas, have trouble in accessing financial products that are adapted to their needs and possibilities, in terms of loan amount, guarantees and repayment schedules.

The Samriddhi project, implemented by HELVETAS Swiss Intercooperation Bangladesh and funded by the Swiss Agency for Development and Cooperation (SDC), has been promoting 12 value chains in the North-West and North-East parts of Bangladesh. It has contributed to the development of an innovative approach to rural advisory services, the Local Service Providers (LSP) model, whereas poor and extreme poor women and men and input suppliers or traders pay for these services on a cost-covering base.

Faced with the mentioned difficulties for small producers to access financial services, the LSPs have developed advisory services on financial literacy and business planning in collaboration with the project staff, and created linkages with financial services providers. The present paper, which capitalises the experiences of Samriddhi in facilitating linkages between the poor and extreme poor, financial institutions, LSPs and input suppliers, shall inspire other projects, in Bangladesh and other countries, which struggle with similar constraints.

Dr. Isabelle Dauner Gardiol
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and Financial Sector Specialist
HELVETAS Swiss Intercooperation, Bern
Switzerland

This document presents the experiences of the Samriddhi project in Bangladesh on facilitating access of poor and extreme poor women and men to suitable or adapted financial products and services. The discussion looks into good practices and challenges in ensuring financial inclusion of the poor and extreme poor.

The experiences of Samriddhi show good progress in pro-poor financial inclusion for poverty reduction. The cases presented epitomise the day-to-day struggles of millions of poor and extreme poor women and men to have access to suitable financial products and services in a country widely acclaimed for being the “champion of microfinance” for the rural poor. The stories and experiences covered shed light on the complex nature of access to financial products and services to the poor and extreme poor.

The key message of the study is that, the poor and extreme poor are bankable if the right facilitation for maximising opportunities and addressing constraints are in place. The experiences of Samriddhi confirm achieving inclusive and sustainable access to financial products and services goes beyond simply enabling the poor and extreme poor to have access to credit, or open a bank account. Bangladesh has had good progress in making microcredit accessible to a number of poor and extreme poor women and men. The foremost challenge, however, has been to ensure these target groups have access to and good use (usage intensity) of suitable financial products and services that meet their production or agricultural cash flow cycles. This requires not only technical skills of increasing production and productivity, but also developing and strengthening the organisational capacity and financial literacy of the poor and extreme poor.

Using practical cases, this document shows how financial inclusion, as a process of increasing skills and knowledge, enables the poor and extreme poor to identify and prioritise products and services and negotiate with potential providers. Acquiring business entrepreneurship skills helps poor and extreme poor women and men make better-informed financial decisions and contribute to their well-being. Its lack, on the other hand, makes financial behaviours reactive, responding to immediate problems and needs with little time to consider options, trade-offs and longer-term consequences of over-indebtedness and erosion of assets. Financial literacy constitutes awareness/improved attitudes, knowledge and skills to make decisions about savings, intelligent investments, borrowing and expenditure in an informed manner.

Samriddhi undertook in 2010 value chain assessments in livestock (bull fattening, goat, poultry and dairy), crops (vegetables, fruits and medicinal plants), fisheries, and crafts (cotton, jute and plant crafts). The research in these value chains revealed some specific market system constraints that inhibit the poor and extreme poor from meaningful participation in the market systems, and thus losing benefits from additional employment and income. One of these constraints has been access to adapted financial products and services. As discussed in the sections that follow, the project has designed interventions to address this constraint.

The Mid-Term Review of Samriddhi conducted in May 2012 found out that the project has been successful in its result delivery, strategic focus, as well as project set-up and organisational competency. The review also pointed
out that most targets of the project would likely be achieved during the remaining period (until mid-2014) despite achieving some targets would require more concerted efforts. Among the few targets that are challenging to address inclusively and sustainably is access to adapted financial products and services. This study does not stop simply at discussing the achievements and underlying challenges of addressing the constraint to financial inclusion. It also puts forward some important recommendations for donors, implementers of other projects addressing financial inclusion, or any future initiative as a follow up to the Samriddhi project to strengthen and introduce for achieving better results. Some of these include:

- Enhancing the financial skills and knowledge of the Local Service Providers (LSPs) so that they can offer holistic package of services;
- Improving the facilitation for strengthening the “business case” for women to have equal opportunities in financial inclusion;
- In addition to consolidating the achievements, the need to enhance the conditions for more innovation and continuous knowledge creation by focusing, for example, on mobile financial services and warehouse receipt system;
- Increasing facilitation to engage local traders and other private sector companies to mitigate risks, including learning visits and exchange of ideas on insurance with current pilots in Bangladesh; and
- As part of pro-poor financial inclusion, encouraging financial product and service providers to be signatories of the Smart Campaign for demand-driven, safe and responsible treatment of borrowers.

Financial inclusion or inclusive financing seeks to deliver financial products and services to a large number of "unbanked" and/or "under-banked" poor and extreme poor women and men. Thriving small-scale businesses initiated and managed by the poor and extreme poor in rural Bangladesh are the foundation for strong local economy; they are one of the most powerful means of reducing poverty.

Rural markets in Bangladesh are quite dynamic both in agricultural and non-agricultural products. For poor and extreme poor women and men, there is potential to sell their products at good prices at local, regional and national market levels. However, these opportunities are rarely tapped into. Accessing potential and higher markets and accordingly better price remains an obstacle. This has been due to key market system constraints that include lack of or limited access to suitable financial products and services.

This document presents some concrete examples – good practices and challenges – and discusses the experiences of Samriddhi in facilitating financial inclusion of poor and extreme poor women and men. The specific objectives are to:

- Draw the knowledge and experiences, document best practices and challenges, and consolidate lessons learnt from facilitating inclusive and sustainable access to financial products and services by Samriddhi;
- Make recommendations so as to enhance the impact of access to inclusive financial products and services; and
- Based on the above, to strategically position the experiences and knowledge for creating organisational retrievable knowledge in HELVETAS Swiss Intercooperation (Bangladesh) by making the key findings and learning process in inclusive financial products and services to a wide range of stakeholders.
Rural areas are difficult to reach and this incurs additional costs for product and service providers. Most agricultural products are seasonal, and therefore income is generated over the long term for loan repayment. Risk and uncertainty often exist in the agricultural sector, including the vagaries of weather and market shocks.

It is estimated that more than 2.5 billion people in the world do not have a formal account and therefore are unable to access formal financial institutions. Bangladesh is the pioneer of rural microfinance that has been a powerful narrative since the 1970s. The success has received public celebration in rural development and poverty reduction agenda. Its contribution lies in making microcredit available to the poor and extreme poor and in particular to millions of women in rural areas.

Microfinance in Bangladesh is considered to be more developed than other markets. It helps poor and extreme poor women and men have access to highly needed credit. It is also increasingly profitable for Micro Finance Institutions (MFIs) and other finance or credit lenders. More and more MFIs are in the business, and the outreach of clients is estimated to be high, numbering 18 million.6

The critical challenge, however, is poor and extreme poor women and men have too small economies of scale to make transactions more attractive. In other words, the bottleneck in access to suitable financial products and services is how to effectively and efficiently reach poor and extreme poor women and men. This requires aligning incentives and capacities with MFIs, banks and other sources of finance, and scaling up good practices that can sustainably and inclusively address poverty.

A study by the World Bank showed that in Bangladesh as a whole, only 7% of small businesses such as Micro and Small Enterprises (MSEs) are served by formal credit providers. These small businesses require 29 administrative steps, nine extensive meetings, and processing of 50 forms and 20 hours of negotiations.6 The problem is more severe when combined with powerlessness of the poor and extreme poor arising from fear of rejection (apprehension of bureaucracy). This, in turn, pushes the poor and extreme poor to rely on exploitative informal moneylenders and dadon system.7

It is estimated that close to 10 million of the extreme poor in Bangladesh survive somehow by their own without any assistance from governmental or Non-Governmental Organisations (NGOs).6 The number of people who do not have suitable access to financial products and services is staggering, including millions of functionally landless households living from hand-to-mouth. With an outreach of 23%9 in the country, the potential “breadth of outreach” is high in terms of number of customers reached and usage.

4.1 Why financial inclusion is important

Access to suitable financial products and services is crucial to ensure poor and extreme poor women and men have the opportunities they need to start or grow their enterprises. The financial products and services enable the producers to grow, and remain competitive and sustainable.

Financial inclusion is the absence of price and non-price barriers in the use of financial products and services.10 It constitutes credit, savings, payments and insurance from formal and informal sources of financial product and service providers. It also covers remittance and financial literacy. Access, availability, and usage of financial products and services are some of the features of financial inclusion as a one-time service of getting a product, a

7. Dadon is a transaction based on verbal agreement between a producer and money lender where the lender requires the producer sell the product to the lender, or the lender gets commission if the producer sells the product to a third person.
repeat or a continuous service, or long-term service (e.g. saving accounts).

A financial product is defined by the various conditions attached to it, loan size, terms, interest rates, collateral requirements, usage restrictions and repayment terms. Delivery modality is the set of systems and procedures an institution develops to deliver its services to clients. The products and services are inclusive if they are demand-responsive (catering for needs) and affordable. In addition, their reliable provision or availability depends on whether the products and services are commercially viable (sustainable) for the providers.

**Bizly Rani, 38, lives in Kashpur village in Joypurhat District.** She knows very well the importance of access to finance for poor rural women. For Bizly, what is more important is the ability to use available finance to support her family's livelihoods through a small business. She has been interested to rear cows for selling milk. The initial investment of buying a cow, however, is too much for a poor woman like her. Taking care of the cows is costly as this requires feed and veterinary treatments.

With effusive praise to the efforts of her neighbours working in groups in the dairy value chain, Rani confides that, “I was able to secure 50,000 Taka from the Panchbibi branch of Rajshahi Krishi Unnayan Bank. The loan has enabled me to buy cows. We plan together to buy inputs, receive services from the LSPs and sell our milk. This helps a lot in increasing our income. The business that I am engaged in has changed my life. What we have done so far in my village demonstrates to other poor producers the importance of access to finance and how we can be successful in using the money.”

As the story of Bizly Rani above shows, increasing poor people’s access to better financial products and services contributes to accelerate the rate at which they move out of poverty. Financial inclusion is an important step towards inclusive growth, and it supports the process of achieving sustainable economic growth and development by opening up blocked opportunities for marginal groups. Engaging more people to benefit from suitable financial products and services means bringing more resources into the economy – money and participation in production. It also means improving poor people’s well-being and resilience to economic shocks.

**Dhon Kumar, 41, is from Kashpur village in Joypurhat District.** He is an extremely poor man with no assets to use as collateral to borrow money from financial providers. He sells his labour to earn meagre income to support his family. He believes that access to suitable financial products and services enables him to do a small business to improve his livelihood. The 10,000 Taka that he had borrowed from a local MFI to rear cows together with his villagers was the first step to supplement his small income. He and his neighbours are organised in a group, and they are interested to learn more on how to grow their initiative. They rely on the services of the LSPs to approach and negotiate with lenders, buy inputs and sell their milk.

4.2 Financial exclusion and underlying causes

Exclusion can be voluntary or non-voluntary. Most poor and extreme poor women and men have limited access or they lack the products and services, and continue to rely on small self-finance or expensive informal sources of microfinance. This curbs their ability to actively participate in and benefit from employment and income opportunities. They often sell their products to middlemen, at farm gate, from whom they borrow money for production. The low price they then get does not lead them to invest in long-term businesses. The producers are not well organised. So, they do not have access to adequate and suitable financial products and services to buy inputs in bulk or sell products collectively. This increases their production costs and decreases sales price. Thus, their competitive position further weakens, aggravating the poverty trap that they

11. 1 USD = 85 Taka
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Often find themselves in.

Financial exclusion arises, among others, from the following general reasons:

- Lack of or limited access to suitable products and services due to difficult lending conditions;
- Limited skills and knowledge of the target group about availing/negotiating for formal services;
- Limited information and knowledge of products and services by both providers and the target groups; and
- Inability to choose between alternate products and services by the target groups due to low financial literacy.

An assessment of different farm and non-farm value chains by Samriddhi confirmed that access to adapted financial products and services is one of the major systemic constraints for poor and extreme poor women and men. Specifically, the following systemic constraints were identified:

Limited source and type of adapted financial products and services: The type and source of financial products and services are limited. Borrowers seek out loans individually without having relevant business plans. They often do not know the process and lack the bargaining power for better financial products and services. The problem is more acute among poor and extreme poor women, despite the fact that women constitute the largest number of clients.

Small amount with short-term instalment and repayment systems: Closer review of the loan portfolio of microfinance in Bangladesh reveals that most loans are small, short-term and repayments are usually weekly, not tailored to the business cycles of agricultural producers.

Weak savings and over-indebtedness: Microcredit has taken roots at the expense of the “saving culture”, inhibiting investment for expanding small-scale enterprises. Borrowers tend to take out more loans from other lenders to meet repayments and “recycle” money in order to match available money with their agricultural activities. This has the risk of further leading to over-indebtedness. The proliferation of lenders with aggressive business strategies (e.g. enticing and even “forcing” people to borrow and join credit groups) has created over-indebtedness of the poor.

"I am a poor person so I cannot take a loan as I cannot be sure of paying back the interest. I am afraid of finding myself indebted."

Saleha Begum, Dohkindeshibari village, Nilphamari District

High transaction costs and rigid collateral: Formal lending institutions like banks are difficult to access by small-scale and landless women and men. The transaction costs are high and they have rigid collateral requirements. Banks do not have good information on poor customers and contracts are costly to enforce, making the whole process less efficient.

"I work for the National Development Programme (NDP). NDP is a national NGO-MFI established in 1992. In addition to other development projects, we provide microfinance products. We have more than 65,000 clients. We mainly provide short-term loans to be paid weekly with an interest rate of more than 15%.

Borrowers use the money for running their small businesses and other income generating activities. From my experience, the financial products and services are not suitable to poor and extreme poor women and men. Government-subsidised loans like the one run by the Palli Karma-Sahayak Foundation (PKSF) are good for poor people – the interest rate is between 4%-12% and loans are paid after four months. Most MFIs do not have the interest to work with poor and extreme poor women and men as the administrative and monitoring costs are higher than the return."

Saiful Islam, Zonal Manager for Microcredit Programme, NDP, Sirajgonj
Limited capacity of lenders and LSPs: In addition to what Saiful Islam from the NDP in the above quote stated, grassroots based lenders have insufficient technical knowhow and financial capacity. This hinders them – apart from ensuring repayments – from providing demand-responsive products and services. The LSPs also lack skills and knowledge in financial literacy and business management. A holistic package of services should include capacities in technical, business and financial services, which not all LSPs possess. The LSPs are lead-farmers who provide a holistic package of financial, business and technical services to producers and producers’ groups or MSEs. The LSPs are organised in Service Providers’ Associations (SPAs) at the sub-district level (see section 5).

Weak risk management system: Functional agriculture-related loan risk management system is weak, or it is just used to ensure repayment of loans by any means, often leading to coercion and conflict. It is not tailored to agricultural production processes, ensuring risks and corresponding funding needs of producers. Agricultural insurance services in Bangladesh are in their infancy and not yet integrated into the microfinance business. This limits expansion and outreach to the poor and extreme poor. Consequently, the poor and extreme poor lose out from employment and income opportunities through investing in products which have good demand in the dynamic rural markets of Bangladesh.
Samriddhi is active in northern parts of Bangladesh, areas with high prevalence of poverty. The project uses the economic transactions of poor and extreme poor women and men as entry to its analyses and interventions to address systemic constraints of the market systems, including limited or lack of access to financial products and services.

The vision of Samriddhi in access to adapted financial products and services is to ensure the poor and extreme poor are able to get suitable products and services as well as the skills and knowledge they need to start or grow their enterprises. Such access is crucial for local enterprises to grow, and remain competitive and sustainable. Samriddhi addresses the constraints by broadening the source (from MFIs to traders and banks) and type (both cash and in-kind) of products. The project contributes to increasing the financial literacy and organisational capacity of the LSPs so that they can provide demand-responsive and quality services to producers.

Samriddhi has engaged more than 100 large, medium and small private sector enterprises. The project has identified and supported critical changes that facilitate access by reducing the cost and increasing the efficiency of financial intermediation with MSEs, traders and individual producers.

**Samriddhi ("Prosperity" in Bangla)**

**Goal:** To contribute to sustainable well-being and resilience of poor and extreme poor households through economic empowerment.

**Objectives:** Strengthening the competitiveness of rural products, value addition at producers’ level and the improvement of value chain performance through market systems development; enhancing the capacity of rural producers’ groups or MSEs in business management and in the acquisition of financial capital; and strengthening local service provision through the capacity building of LSPs and their associations (the SPAs) through collaboration with government line agencies and private sector enterprises.

**Approach:** Samriddhi follows the Making Markets Work for the Poor (M4P) approach. Based on systemic actions, the project seeks to bring about sustainable changes and large-scale impacts. It identifies systemic constraints of markets and addresses them through aligning market functions and actors according to their incentives and capacities.

Funded by the Swiss Agency for Development and Cooperation (SDC) and implemented by HELVETAS Swiss Intercooperation Bangladesh.

### Table-1: Actors and their incentives in sustainable financial inclusion

<table>
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<tr>
<th>Actor</th>
<th>Role</th>
<th>Incentive</th>
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<tbody>
<tr>
<td>MFIs and banks</td>
<td>Financial product and service providers.</td>
<td>Increase outreach for portfolio growth through expanding clients with low transaction cost and risk.</td>
</tr>
<tr>
<td>Producers’ groups or MSEs and their networks</td>
<td>Producers engaged in the production, selling and buying of products and inputs in different value chains. Most</td>
<td>Increase the potential for investing in competitive and profitable business; enhance productivity and production</td>
</tr>
<tr>
<td>Actor</td>
<td>Role</td>
<td>Incentive</td>
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<tr>
<td>--------------------------------</td>
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<td>---------------------------------------------------------------------------</td>
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<tr>
<td>LSPs and SPAs</td>
<td>LSPs are lead-farmers who live and work in the communities. Most of the service providers are organised in SPAs at the sub-district level.</td>
<td>Opportunities for providing holistic package of services (technical, business and financial); good source of income from multiple source of market actors; serves as capacity building in negotiation and engagement of different market actors.</td>
</tr>
<tr>
<td>Private companies</td>
<td>Large (lead firms), medium and small enterprises in the input and output markets.</td>
<td>Access to aggregated and high quality products; reliable supply; niche market for selling inputs; low transaction costs.</td>
</tr>
<tr>
<td>Local traders and inputs providers</td>
<td>Large and small traders engaged in buying and selling of inputs and products. Most are not organised and operate individually. They can be bulk or retail buyers and sellers.</td>
<td></td>
</tr>
<tr>
<td>Government line agencies</td>
<td>Specialised line agencies in different sub-sectors; the major ones are the Department of Livestock Services (DLS), the Department of Agricultural Extension (DAE) and the Department of Fisheries (DoF).</td>
<td>The line agencies have limited human and financial resources. The services that the LSPs and SPAs provide to poor and extreme poor women and men fill the &quot;gap&quot; and complement the agencies' mandates</td>
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</table>

Samriddhi has designed specific interventions to address the constraint of access to financial products and services. The interventions follow specific results chains – showing how the activities of the project contribute to changing or improving the financial market system, how changes in this market system induce producers and producers’ groups to change their practices and start using improved methods, and how those changes in producers and producers’ groups ultimately reduce poverty through additional employment and income.

Samriddhi plays a facilitative role – it does not provide direct inputs (such as financial assistance or loans) to producers and producers’ groups or the LSPs. It engages market actors, including producers and producers’ groups, by paying attention to their incentives and capacities. This facilitative role starts, based on the value chain assessments, identifying appropriate market actors. The

“Before starting our interventions, we wanted to understand if the limited or lack of access to demand-responsive financial products and services was a real constraint to poor and extreme poor women and men. Our assessment of the market systems confirmed that this was indeed a major problem in most value chains.”

Shamim believes that ensuring access to financial products and services is part of the complex market systems that requires careful facilitation. “We are not part of the systems. Rather based on the context and problems that we understood from our assessment, we facilitate
the market actors to work together. We try to offer good business models in different value chains. Our entry points are the LSPs and private sector companies. We facilitate making deals between these actors so that they will be able to improve or change the existing system.”

Md. Shamim Alom, Senior Value Chain Specialist, Samriddhi Project, HELVETAS Swiss Intercooperation Bangladesh

project staff play “deal-making” role by offering business models to identified private sector enterprises, traders, banks and MFIs. Private companies, local entrepreneurs and financial institutions serve as drivers of the market systems.

The LSPs reach large number of producers, which otherwise will be difficult for financial product and service providers due to high transaction costs. The LSPs are men and women who have experience in agriculture and/or related fields and who are from the community where they work. The LSPs provide a service package to poor and extreme poor women and men in support of their enterprising activities in selected value chains. The service providers are organised in 63 SPAs which operate at the sub-district (Upazila) level. The purpose of the associations is to expand business opportunities for their LSPs members, and to plan and to coordinate services for the poor and extreme poor that respond to their needs and requirements. Both objectives are considered prime by the SPAs.

The SPAs, through their LSPs, motivate the poor and extreme poor to form and organise into an MSE. They coach them in identifying value chains that have potentials for them. The MSEs will inform the SPAs about their future requirements for support services. The SPA management will negotiate with the producers' groups to reach agreement on a price for the services to be delivered. A contract is drafted that covers a time period of several months. The SPAs also sign agreements with private sector companies for the provision of extension services to poor and extreme poor women and men, and for commissions on input supplies. The SPAs support and facilitate capacity building of the LSPs in order to build their competencies and provide relevant services. This increases the willingness of producers to pay for the services of the LSPs. In other words, the MSEs pay as the services are of good quality and meet their expectations in terms of contents, delivery method and language.12

Samriddhi facilitates linkages between private sector companies, financial institutions and the SPAs. Private sector companies and financial institutions develop a training module to increase the skills and knowledge of the LSPs in financial literacy, business planning/management and market extension (establishing and strengthening producers’ groups). The LSPs provide training and services to producers and producers’ groups to develop relevant business plans. The LSPs, together with the SPAs, facilitate sharing these business plans through workshops with potential MFIs, banks and traders.

The facilitation by the LSPs and the SPAs increases the awareness of traders, MFIs and banks, and further convinces them to provide suitable financial products and services to producers and producers’ groups. MFIs, banks and traders benefit from collaborating with the SPAs. Each LSP meets regularly with about 300 poor producers; one SPA has 40 to 60 LSP members. That way, they can reach out to a large number of producers through just one SPA, thereby drastically reducing their transaction costs.

“Our assessment and facilitation convinced us that access to financial products and services contributes to start and expand businesses in the different value chains. However, not all value chains have equal challenges or constraints. The amount needed also differs from one value chain to the other. Value chains with high initial investment needs like bull fattening and fruits are challenging for poorer and women producers.

From my experience, producers who are more organised in large number and who include well-to-do producer members with assets have high likelihood of engaging banks and other MFIs. Local traders are crucial source of access to financial products for smaller, newer and poorer/women producers.

We should not also forget to highlight the importance of the LSPs and their associations. The LSPs and the SPAs are crucial for addressing the constraints in most value chains. They have good reputations and linkages with private companies and input providers. The service providers are from the local communities and they have social responsibility to help poor people.”

Mola Sabiha Sultana, Senior Value Chain Specialist, Samriddhi Project, HELVETAS Swiss Intercooperation Bangladesh

### Table-2: Steps along the results chains to improve access to financial products and services

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
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<tbody>
<tr>
<td>Step 1</td>
<td>Samriddhi facilitates linkages between private sector enterprises/MFIs &amp; SPAs</td>
</tr>
<tr>
<td>Step 2</td>
<td>Private sector enterprises/MFIs develop training module through the support of Samriddhi</td>
</tr>
<tr>
<td>Step 3</td>
<td>Private sector enterprises, MFIs &amp; SPAs organise training for the LSPs on financial literacy, business planning/management &amp; market extension</td>
</tr>
<tr>
<td>Step 4</td>
<td>LSPs receive training on financial literacy, business planning/management &amp; market extension</td>
</tr>
<tr>
<td>Step 5</td>
<td>LSPs increase their skills &amp; knowledge in financial literacy, business planning/management &amp; market extension</td>
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<tr>
<td>Step 6</td>
<td>LSPs provide training &amp; services to producers &amp; producers’ groups</td>
</tr>
<tr>
<td>Step 7</td>
<td>Producers &amp; producers’ groups are sensitised &amp; incentivised to improve their financial literacy, business planning/management knowledge &amp; skills</td>
</tr>
<tr>
<td>Step 8</td>
<td>Producers/producers’ groups develop business plans</td>
</tr>
<tr>
<td>Step 9</td>
<td>LSPs/SPAs facilitate sharing business plans of producers’ groups through workshops with potential MFIs, banks &amp; traders</td>
</tr>
<tr>
<td>Step 10</td>
<td>Traders/MFIs/banks are aware &amp; provide suitable financial products &amp; services to producers/producers’ groups</td>
</tr>
<tr>
<td>Step 11</td>
<td>Producers/producers’ groups receive suitable or adapted financial products &amp; services</td>
</tr>
<tr>
<td>Step 12</td>
<td>Producers/producers’ groups utilise financial products &amp; services based on their business plans</td>
</tr>
<tr>
<td>Step 13</td>
<td>Producers/producers’ groups have the capacity to increase production and productivity</td>
</tr>
</tbody>
</table>

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**Figure-1:** Facilitating financial inclusion and the LSP/SPA model
There were seven systemic constraints in the 12 value chains identified in the value chain assessments conducted by Samriddhi. Skills and capacities of producers, service and input providers and traders, and availability of and access to improved/new technologies and quality inputs were common in all value chains. Limited access to adapted financial products and services was a major constraint in all except medicinal plants value chain.

Addressing lack or limited access to suitable financial products and services requires more than facilitating linkages. It includes making deals between financial providers and producers for credit or loans. It involves enabling poor and extreme poor women and men to manage cash flows, save and cope with risk. In the sections that follow, this document discusses important issues for effectively and efficiently facilitating access to adapted financial products and services. The discussion centres on concrete practical cases (good practices and challenges) from a range of value chains.

6.1 Collective action and access to financial products and services

Producer's groups are organised in a particular product. The experiences of Samriddhi demonstrate collective action of producers increases their ability to negotiate with financial product and service providers. Poor and extreme poor individual borrowers, on the other hand, are seen by providers as risk and working with them as costly. This makes breaking the access and usage barriers difficult.

By the end of June 2013, there were more than 5,000 producers' groups or MSEs across the different value chains. In comparison to January-June 2012, there was a 56% growth during January-June 2013. Collective action enhances the groups' capacity for empowerment of rural communities and effective rural poverty alleviation.

Vibrant and strong producers' groups are instrumental to represent the different demands and priorities of poor and extreme poor women and men. These include mobilising capital, attracting investment from private companies and entrepreneurs, and creating access to various services. They play a role in enhancing competitive production and improving productivity, buying quality inputs, linking to output markets and lobbying at higher level for better terms and regulations. Financial product and service providers see these key features of organised producers as less risky and more as opportunities for expanding businesses.

The mini-garment producers' group in Parchim Boragari village of Domar Upazila in Nilphamari District was established in 2004 by 20 women. The members initially had the main objective of saving 3 Taka a month from their wages. Most of the women did not have good skills for making various types of garments. Few of the members, including the President of the producers' group, Rafia Begum, approached the Youth Development Department for training on tailoring. After the training, Rafia bought a second-hand sewing machine using her savings. She encouraged other members to receive training and increase their savings. Rafia even provided training to some of the producers.

The turning point for the group came in 2010. Samriddhi facilitated strengthening the group, linking the members with local private sector enterprises. Student Care was one of the local private enterprises that supported the group by training on a number of products and designs. The members used to work in a small and crowded shade. Through negotiation with Student Care for loan, the group established production centre. Producers worked for longer hours which increased their production. The group has identified and negotiated with other buyers. The savings of the group that started a decade ago has grown to 160,000 Taka. The members received registration from the Women Affairs Bureau and the Youth Development Department of the Government of Bangladesh. This enabled them to secure 130,000 Taka loan from the Women Affairs Bureau with an interest rate of 10% paid monthly.
Sunamganj District, in North-Eastern part of Bangladesh, is suitable for rearing ducks both for meat and egg purposes. The ponds and Haor make duck rearing ideal for many poor and extreme poor households. However, producers did not have the market linkages and access to finance for producing good quality eggs. Households were rearing ducks and selling eggs individually. Local traders were not interested to work with individual households due to high transportation cost.

In Dharmapasha Upazila, 15 producers' groups collectively sell duck eggs to local traders. This created good market niches for 23 local traders who provided credit to the producers. The traders, with the financial contribution from Samriddhi, established collection centres.

**Shohel Mia** is one of the traders using the collection centre, which is one of the 157 collection centres facilitated by Samriddhi in the different value chains. “I am the Secretary of the collection centre’s Management Committee. I have three collectors who collect eggs as per the collection schedule from different producers' groups. It is much easier for the producers and for us to collect eggs. Producers get additional 10 Taka per 100 eggs at the collection centre compared to Dharmapasa Bazar (market). I am also happy because the centre is one-stop bulk buying spot and I am better ensured of quality products. Women are also able to sell their eggs and get the money directly because of the proximity of the collection centre to their house. It is a less risky business as we negotiate with the leader of the producers' groups. In 2013, I provided 4,500 ducklings to 225 members of 9 producers' groups.”

The cases from the mini-garment producers' group in Domar Upazila and the duck rearing value chain in Dharmapasha Upazila attest one central fact – that there is a positive correlation between collective action by producers and bigger amount of credits from providers with better terms of payment (e.g. longer grace period). It is less risky for financial product and service providers to invest in vibrant producers’ groups. Credit recovery is efficient and effective. Organised producers have stronger sense of ownership and responsibility, and thus have better financial discipline (low rate of default). Sharing of information and discussion among members creates common understanding to overcome threats of over-indebtedness that may push women and men producers further into poverty, accompanied by the material, psychological and sociological consequences of debt.

Organised producers have increased their credit worthiness by forming networks. The advantage of these networks is that they are neither too small to attract loans or incentivise commercial banks, nor too large to benefit from MFIs. In other words, collective action makes producers more bankable. The networks have enabled poor and extreme poor women and men to search for and buy competitive services and inputs (obtain bulk sale discounts), sell products (share storage, processing and transport) and access financial products and services. The number of the networks increased to 273 in January-June 2013 compared to 123 networks in January-June 2012. As a result, the number of buyers with whom a producers' group established market linkages increased to more than four.

### 6.2 Tailoring financial inclusion with business management and technical skills

Access to financial products and services without proper and adequate business management skills is insufficient for efficient and effective use of the products and services. Financial investment in value chains needs to be guided by relevant business plans. The vision of collective action in forming and strengthening producers’ groups and their networks lies in good business plans and their effective implementation.

As of June 2013, a total of 43% of all MSEs facilitated by Samriddhi were able to cover at least half of their financial requirements as per their business plans. This was an improvement compared to the 3,012 MSEs in January-June 2012. Yet, not all MSEs see business plans as essential to their business – some just think that they are

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13. A *Haor* is a wetland ecosystem in northeastern Bangladesh which physically is a bowl- or saucer-shaped shallow depression. It is estimated to have 150 varieties of fish, more than 100 resident birds and around 200 species of wetland flora.
“nice to have”. This is one area that requires better facilitation.

Technical know-how also increases production and productivity. Technically sound and well-organised producers are better positioned to adopt improved/new technologies and buy quality inputs. With the availability of sufficient financing, producers are willing to acquire and apply their skills and continue adopting them for more production and productivity.

Arjina Begum is a poor producer in the Paschimpara bull fattening producers’ group in Rajshahi District. She always dreams of overcoming her poverty. She hopes for a better future for her children. She wants her children to be able to lead a dignified life. She would like them to be free from daily worrying about what to feed their families and to have a house to call their own, with toilets and access to clean drinking water. Arjina knows that bull fattening is a profitable business. She also knows it would not be easy for her or her family to buy a young animal for fattening.

In 2010, Arjina joined the bull fattening MSE in her village. The MSE members receive support from the LSPs on how to prepare and implement business plans. Arjina realised that the business plan would help the producers make financial and production decisions. As a member of the Business Management Committee (BMC) that manages and leads the producers’ group, she worked closely with the LSPs who organised match-making workshops with traders, MFIs and banks. Arjina was able to secure 20,000 Taka from SACHETAN, an NGO-MFI, and bought two young animals.

Her MSE bought feed from input providers and vaccination services from the LSPs. Improved management of the bulls enabled the members to fatten the bulls in four months. From the income of selling the bulls, Arjina leased mango orchard. She further borrowed 50,000 Taka from Grameen Bank for bull fattening. “I have been in the business of bull fattening for four years. Every four or five months, I sell bulls. I have now doubled my income. My children are able to go to school. My family can have three meals a day.” Beaming in confidence, she shares her future plan: “I want to join hands with other group members and establish a small bull fattening farm.”

The key to the success of improved access to financial products and services is the availability of a holistic package of advisory services (finance + business management + technical) from competent LSPs. The number of poor and extreme poor women and men who were satisfied by the level/quality of services provided by the LSPs was higher in 2013 than in 2012. The number of producers that adopted new or improved technologies and bought quality inputs also increased from 117,200 in January-June 2012 to 124,300 in January-June 2013.

“I started working as LSP in the vegetables value chain in 2004. Through a number of training programmes provided by public and private sector organisations, I was able to increase my technical competency. My business grew and I had a good number of producers seeking my service.

Gradually, however, I realised that producers were not simply looking for technical services. They struggled in coordinating their activities and securing capital to support their businesses. Later on I received training in business plan development and management. I help producers identify, approach and negotiate with financial product and service providers using good business plans. Most producers have increased their income because they plan their production, marketing and organisational development. This is good for me too as I can increase my income.”

Md. Noman Ali, LSP, Badorganj Upazila, Rangpur District
Producers’ groups benefit from the services of capable and professional LSPs in making better financial decisions, accessing financial products and services, building assets, overcoming vulnerability and planning towards economic security. This is vital particularly for women-led MSEs who often face a “sense of powerlessness” in dealing with financial issues. The LSPs support the business services (e.g. preparation and updating of business plans, facilitating market linkages) in addition to enhancing the strategic vision of producers’ groups to grow, and become competitive and sustainable.

“I have been a member of the Gopinagar duck MSE since 2011. Before becoming a member, I had faced a number of problems – I lost most of my ducks and I was selling eggs at a lower price. My income was low and it was difficult to support my family. I wanted to rear more ducks, but I did not have the capital for buying ducklings and cover the cost for feed and vaccination.

Abdul Malek, the business LSP, helps us prepare business plans to strengthen our collective action. He also supports us by linking the members with Sukla Rani (the livestock LSP) and Shohel Mia (an egg trader). Sukla provides duck vaccine regularly and duck mortality has decreased in our village. We receive ducklings on credit from Shohel. I have 20 ducks and my monthly income has increased to 2,500 Taka. We have the plan to set up a duck farm.”

Runa Begum, Dharmapasha Upazila, Sunamganj District

6.3 Broadening the types of financial products and services

Most producers in the different value chains borrow in cash and use the money for both doing small-scale businesses and meeting other daily needs. Exclusive reliance on cash is not conducive for producers due to lack of collateral and sporadic cash flows. Producers have to generate income for loan repayment. Complementing cash credits with in-kind or trader credit increases the access and usage of financial products and services by producers.

In-kind credit or non-monetised credit is provided in the form of inputs to producers (e.g. young animals or feed in bull fattening value chain; fertile eggs or young chicks in duck and chicken value chains; fingerlings in fish value chain; seeds or seedlings in fruits value chain). The repayment mechanism can either be cash payment after sell of a product, or selling of products to providers of the in-kind credit.

“There are a number of sources for finance. In our group, we use savings. We borrow from some credit groups in our village. Rich producers in our groups also provide loans. If the need is for more money, there are MFIs and banks. I was able to borrow 55,000 Taka from Rajshahi Krishi Unnayan bank. By discussing among ourselves and seeking support from the LSPs, we try to have responsive borrowing based on our business needs.”

Kazuli Rani, producer, Kashpur Union, Panchbibi Upazila, Joypurhat District

Most in-kind credits are available from local traders and entrepreneurs. Good horizontal and vertical coordination of value chain actors is necessary for building trust. Personal contacts and existing relationships with traders and input suppliers are used as substitute for collateral and reducing risk (e.g. side-selling, conflict due to change in price during the time of selling a product).

Table-3 shows the type of cash and in-kind products facilitated by Samriddhi in the different value chains. The information shows the expansion/diversification of products that enabled producers to manage their business based on agricultural cash flow cycles.

6.4 Diversifying the sources of financial products and services

Rural Bangladesh has multiple lenders. Producers with low financial literacy and no access to affordable and quality local advisory services borrow to simply pay back the loans they have received from other institutions. Although this risky behaviour is observed, access to multiple financial sources is crucial to producers. When combined with affordable and quality services from competent LSPs, it offers options and opportunities to effectively use the loan as working capital. The major sources of financial products and services include MFIs, banks, traders and input suppliers, group savings and leasing entrepreneurs.

14. Women-led producers’ groups are those where the leader of the groups is a woman, or where more than 75% of the Business Management Committee (BMC) members of the group are women.
Table-3: Type of financial products by value chain

<table>
<thead>
<tr>
<th>Type of financial product</th>
<th>Availability of financial products by value chain (out of 12 value chains)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Weekly instalment</td>
<td>7</td>
</tr>
<tr>
<td>Monthly instalment</td>
<td>2</td>
</tr>
<tr>
<td>Interest free loan</td>
<td>1</td>
</tr>
<tr>
<td>Seasonal/after product sell</td>
<td>X</td>
</tr>
<tr>
<td>Input loan</td>
<td>X</td>
</tr>
<tr>
<td>Loan with discounted interest</td>
<td>X</td>
</tr>
<tr>
<td>Profit sharing (after sell of products)</td>
<td>X</td>
</tr>
</tbody>
</table>

x = not available

Microfinance Institutions: The history of microfinance in Bangladesh dates back to the relief and rehabilitation work by NGOs after independence. Many of these NGOs soon moved into development work which gradually expanded to include microcredit programmes. The “Jobra” experiment spearheaded by the Grameen Bank was the first to start group-based credit delivery through peer monitoring. The Government of Bangladesh established PKSF in 1990 to provide funds to various organisations for their microcredit programmes. As a microfinance apex funding institution, it is estimated to have more than 8 million borrowers.15

According to the Microcredit Regulatory Authority (MRA) of Bangladesh and the Bank of Bangladesh, there were 610 licensed MFIs in 2012. However, the number exceeds 2,500 including organisations that had already submitted applications for licenses.16 Loans amounting up to 50,000 Taka are generally considered as microcredit; loans above this amount are defined as microenterprise loans. Products and services of MFIs can be grouped into six broad categories:
- general microcredit for small-scale self employment based activities
- microenterprise loans
- loans for the extreme poor
- agricultural loans
- seasonal loans
- loans for disaster management

The role of MFIs in promoting financial inclusion and improving the livelihoods of the poor and extreme poor in Bangladesh has been debated. Some studies contend that “250 USD one-year loan would raise a borrower’s income by 12.50 USD/year, or about 0.03 USD/day. For someone living on 2 USD/day, that is a 1.5% increase. This does not live up to the microfinance hype.”17 Other studies claim microfinance contributed 18% drop in extreme poverty of households in seven years and 8% drop in the case of poor households.18

The experiences of Samriddhi echo both sides of the debate. MFIs are close to the poor and they are the first to make loans available to many poor and extreme poor women and men. However, due to challenges of risk management, customised or appropriate products and services to actual demands are far from being optimal. This brings negative trade-offs – unplanned and supply-driven portfolio growth through aggressive marketing techniques that create many over-indebted poorer people.

Developing good business models to engage providers and receivers of financial products and services is an important first step. The models, depending on the market characteristics of a value chain, take into account pricing, terms and conditions set in a way that is both affordable to clients and sustainable for the financial institutions. For instance, financial products for bull fattening and cotton crafts value chains have overall cost to producers maintained at a level that is consistent with the repaying capacity of the producers. The business models have ensured services and products contribute to increase production and productivity of poor and extreme poor women and men, and they do not result in further impoverishment of already poor clients.

Anjera Beowa, 51, is a member of the Halidagachhi bull fattening producers’ group in Rajshahi District. She is an extreme poor woman and lost her husband 19 years ago. She had no assets to use as collateral for accessing financial products. She had tried a number of times to get the financial support from local MFI to start bull fattening. She was unable to get the money due to her extreme poverty status and her age. After joining the bull fattening producers’ groups in 2012, she was able to get 15,000 Taka from SACHETAN, an NGO-MFI. She also secured 5,000 Taka from the group savings and purchased a young bull.

Anjera has now developed the confidence to approach financial institutions together with her group members. MFIs like SACHETAN have positively assessed the business plan that the producers use in running their bull fattening activities. In the next cycle of fattening bulls, Anjera received 20,000 Taka from SACHETAN. The LSPs from the Chargart SPA support her and other members in providing feed, treatment and linkages with other traders.

“Since the establishment of SACHETAN as NGO-MFI in 1984, it has supported communities to overcome their poverty status. The microcredit programme currently covers about 11,000 clients, and 95% of these are women. The programme has contributed to economic empowerment and improvement of the social status of poor women.

The partnership with Samriddhi has been a turning point for our microcredit programme. It has transformed the programme into ‘responsible microcredit’. SACHETAN does not have the technical and business management training skills. The LSPs and SPAs bridge this gap – their services to producers increase our confidence to invest more in the poor and extreme poor, not just in those who have the capacity to pay back the loans. There is a lot to improve to reach out more needy clients, and we hope to increase the coverage and suitability of providing capital to rural enterprises.”

Hasibul Islam Chunnu, Executive Director, SACHETAN
Banks: There are four major state-owned commercial banks in Bangladesh: Agrani, Sonali, Rupali and Janata. Additional seven specialised banks with a full or majority ownership by the Government of Bangladesh provide agricultural development loans and services. Without including the nine major foreign commercial banks, there are 38 private commercial banks operating in Bangladesh. Most of the banks have branches in the Upazila level, while few of them operate limited services accessible by poor and extreme poor women and men.

The commercial banking sector in the country is dynamic. Most cases in the value chains showed that a number of banks generally require significant collateral, have a preference for high income and high loan clients and have lengthy and bureaucratic application procedures. Poor and extreme poor women and men have the sense of fear and lack of capacity to approach and negotiate with banks.

“Financial products and services for poor and extreme poor women and men are not easily available. Most banks are reluctant to provide financing without collateral. There are also a number of documents and conditions that have to be met.”

Shahajamal, Senior Officer, Janata Bank Branch, Joypurhat Sadar District

Traders and input suppliers: In addition to banks and MFIs, local traders and input suppliers have proved to be crucial source of financial products. Traders are mainly involved in buying products from producers. Input providers are in the input market and usually receive money from producers after the sale of the products. Both traders and input providers have written agreements with producers’ groups. These contracts are facilitated by the LSPs. Traders and inputs providers know the communities that they work with, and they rely on the services of the LSPs. This helps them minimise information asymmetry problem and manage the loan portfolio.

Traders buy the products back from the producers. In case there are surpluses beyond the requirements of traders, the producers sell the products to other buyers. A duck egg trader provides ducklings to producers and buys back eggs; a bull trader provides young animals and buys back fattened bulls. Healthy ducks that lay good eggs and well-fattened bulls that fetch good price require improved feed and vaccines. Input providers contribute to enhance the productivity of producers. This way, traders and input providers support the market system for expanding their businesses.

“We established the traders’ association to provide quality young animals to producers for fattening. We wanted to make our business grow by reaching more producers. Through the support of the LSPs, we have signed contracts with bull fattening producers’ groups. Since the formation of our association in January 2011, we were able to supply more young animals to the producers on credit. The terms and conditions for fattening, selling and profit sharing are clearly stipulated in our agreement. When producers sell the fattened bulls, the profit is shared equally between the producers and the traders. Our association supports extreme poor producers by providing feed and insurance. We are confident that we will be able to expand our business to many places in Rajshahi District.”

Moyaguddin, President of Sarishabari Bull Traders’ Association, Puthia Upazila, Rajshahi District

Samriddhi facilitates setting up strategic partnership between banks and producers to align their incentives and capacities. The role of the LSPs in providing fee-based business and technical services to the producers’ groups has increased access to financial products and services from banks. It has expanded the “access frontier” to banks. This means more and more organised producers have access to bank services. The LSPs increase loan recoveries, competitive lending costs and adequate profit margins for the producers and banks. Most importantly, replication is possible as banks, the LSPs and additional producers are incentivised to work together.

“It is true that banks are not easily accessible by marginal producers living in remote and vulnerable places like us. Our experience in the duck rearing value chain proved it is not always difficult. Collective action and good planning as well as support from the LSPs enabled us to borrow 100,000 Taka from Sonali bank.”

Members of Shahagonj duck rearing group, Tahirpur Upazila, Sunamganj District

19. These are Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, Korma Sangsthan Bank, United Leasing Commercial Bank, Bangladesh Development Bank Limited, BASIC Bank Limited and Probashi Kallyan Bank.
"As a former staff of HELVETAS Swiss Intercooperation Bangladesh in the Samriddhi project, we facilitated the development of innovative practices. Our experiences show that flexibility and ‘thinking out of the box’ are required to have bigger and lasting impacts. In particular, engaging ‘non-traditional’ financial product providers, such as hatchery owners and traders, should be given more focus. At present, I try to apply the good practices in my current organisation which is involved in microfinance provision as one of its main programmes."

A.K. Osman Haruni, Programme Coordinator, Strømme Foundation Dhaka, Bangladesh

"In 2013, I provided 25 bulls worth 600,000 Taka to 25 poor members of four producers’ groups. The producers and I share the profit equally after the sale of the fattened bulls. I have made written agreements with the groups. In case the animal dies, I will not ask the producers to pay me back any money. However, if the animal is stolen, the producers have to pay 50% of the bull price at the time of our agreement. In addition, I provide feed to the producers on credit and the producers pay the money after selling the bull. I have also written agreement with Biswambapur SPA for vaccination and treatment services to the producers. This increases my confidence in the business. I think the gains are for all of us involved in this business."

Ataur Rahman, bull trader, Biswambapur Upazila, Sunamganj District

The LSPs create competitiveness in the market that is dominated by loan sharks. For example, the mohajon in the jute crafts value chain supply inputs during the off-season period of jute. They provide raw jute to the producers on credit. Producers buy raw jute from the mohajon at a higher price. Once a producer is linked with the mohajon, it is difficult to break from the cycle of dependence and buy raw jute from outside sources, even during high production period where raw jute is available. This is mainly due to conditions set by the mohajon. The absence of private companies in the vegetables input and output market was also one cause for the monopoly of the market by few private enterprises in Sunamganj District (North-East Bangladesh). The LSPs contributed not only to engage local traders but also to value chain upgrading where producers were able to enter into a new function as vegetables seed processors. By increasing market linkages with other traders and input providers, the LSPs create competitive input and output markets. Bigger traders and input providing companies use such institutional framework to have access to a large number of producers.

"As a former staff of HELVETAS Swiss Intercooperation Bangladesh in the Samriddhi project, we facilitated the development of innovative practices. Our experiences show that flexibility and ‘thinking out of the box’ are required to have bigger and lasting impacts. In particular, engaging ‘non-traditional’ financial product providers, such as hatchery owners and traders, should be given more focus. At present, I try to apply the good practices in my current organisation which is involved in microfinance provision as one of its main programmes."

A.K. Osman Haruni, Programme Coordinator, Strømme Foundation Dhaka, Bangladesh

"I am a businesswoman in the mini-garment enterprise. I work with more than 15 producers’ groups consisting of about 300 producers. I provide production materials such as anti-pipe, stitching inputs, yarns and threads to the producers. I also facilitate training of the women in different designs. This way I am able to expand my business and create employment opportunity to a large number of poor and extreme poor women in the villages."

Shilpi Begum, Kursa Union, Taraganj Upazila, Rangpur District

Group savings: The pro-poor financial inclusion agenda is criticised for simply telling poor and extreme poor women and men to save while eschewing the difficult part of showing how the poor can save. Samriddhi sees savings as complementary source of finance. It promotes this through accessible, affordable and quality private rural service provision system. The experiences of the project indicate the challenge of savings by individual, poor women and men.

20. Local money lenders
producers. These producers have irregular income flows which typically depend on harvests and financing needs. They have little disposable income and face difficulty of setting aside even small amount of money.

The producers' groups evolved from Community Based Organisations (CBOs). They were initially saving-and-credit groups formed by producers for saving and borrowing money for different purposes. The groups were not inclusive of extreme poor women and men who could not deposit money. Samriddhi facilitated building producers' groups as product-based rural enterprises/MSEs.

The objective of savings by producers' groups is to secure investment in profitable or viable products. Savings are also used as a buffer against emergencies and unforeseen expenses, supporting members to overcome the challenges without liquidating their assets. Producers have convenience (liquidity) and the savings create accumulation rather than obligations (e.g. paying interest rate). Savings enable producers to avoid the long process of approaching and negotiating with banks and MFIs which rely on scale and the management of large, low-cost loan portfolios. Savings are part of the business plans of producers' groups. The BMC, in consultation with producers, manages the savings for investment.

In 2010, 25 women from Maharajpur Union in Chapinawabganj District formed the mango producers' group. The producers received different technical training from the LSPs and private companies. They learnt about fruit tree management, using sex pheromone, judicious use of fertilizer and tree improvement.

Improved production and productivity led to good sales of mangoes. The producers soon realised that they required good business plan to save and manage their income in order to expand their business. They developed saving habits after receiving training on financial literacy from the LSPs in 2011. Initially each producer saved 20 Taka per month. With the growth of the membership to 40, the amount was also raised five times to 100 Taka per month. The group has so far saved about 800,000 Taka.

Producers use the business plan to invest their savings for inputs (insecticides, fungicides, sex pheromone and fertilizer) and leasing mango orchards. The group was able to reduce their cost through collective action and engaging specific input providers. The group also lent 27 members about 300,000 Taka with an interest rate of 4%. The group plans to expand its business by including more members and saving 150 Taka per month.

The added value of savings to producers is the opportunity to increase financial skills through group management. Participation in savings – knowing how much is saved and planning investments – contributes to financial literacy of the members. It requires financial discipline and developing saving habit. Most of the producers' savings used to be informal (outside of the formal financial system). A large number of producers' groups have opened bank accounts to deposit their savings, and this has contributed, while enabling them to earn small interest, to improve their financial literacy through dealings with banks.

"I joined the Nachole SPA in 2006. I provide services in the fruits and vegetables value chains. In 2011, I felt that good knowledge of financial products and management would help me expand my services. I received training on financial literacy including cost-benefit analysis, investment, savings, record keeping and negotiation.

I support a number of producers' groups in fruits, vegetables and chicken value chains. The Dakkhin Nejampur chicken producers' group was one of the groups that I provided service to start savings in 2011. By the end of 2012, the producers were able to save more than half a million Taka. They use the saving for buying feed, medicine, vaccine and repairing coops. I also use my skills and knowledge as a cashier to manage the finances of the SPA that I am a member. My income from this service is more than 3,000 Taka per month."

Sheuly Parvin, LSP, Nachole SPA, Chapainawabganj
Leasing entrepreneurs: Leasing as a source of finance requires that producers rent farm equipment for use or pay in instalments the full cost of the lessor’s purchase cost. This provides the opportunity to the producers to buy the equipment at the end of the lease term for a nominal fee. It is an important source of accessing productivity-enhancing assets in the absence of other financing. It is an easier option for producers who have problem of capital investment requirements for direct purchase and hard collateral requirements for borrowing.

Leasing entrepreneurs are small scale business people that provide farm equipment like spray machines and castration tools. The entrepreneurs either rent the equipment for a short period of time to producers (e.g. spray machine) or sell the equipment on credit to the LSPs (e.g. castration and other tools that require high skills).

6.5 Gender and financial inclusion

The story of Anjera Beowa from the Halidagachhi bull fattening producers’ group cited above embodies the challenges that women face in rural Bangladesh. Another study in Bangladesh in 2006 found out that women-led small enterprises represented less than 2% of the loans of formal institutions. Interviews between 2011 and 2013 with 20 women-led producers’ groups in the Samriddhi project showed that 35% of them had bank accounts. However, most banks are located in towns and the actual use of the bank accounts therefore is difficult as this requires mobility. It is common throughout rural Bangladesh for lone travel by women to be criticised. Women entrepreneurs had to ask men to do bank-related work on their behalf, or accompany them to the banks.

The experiences of Samriddhi in financial inclusion make clear the relationship between financial access and women’s involvement in economic activities. Higher involvement of women is common in value chains that have the least potential for added value but with a low initial capital need for investment. Women lack the initial capital investment to be involved in profitable value chains. Despite the challenges of having capital to start businesses, women were successful in using limited resources and initiating successful businesses.

This is the story of 12 extreme poor women in Charghat Upazila of Rajshahi District. With no assets and large number of family members to support, they dream of rearing chicken to support their livelihoods. Even though the women were able to rear limited number of flocks of chicken under scavenging system, buying feed and medicine was beyond their capacity. The challenge for the women was securing loans. They approached different banks like Janata and Rajshahi Krishi Unnyan banks but they were rejected. Negotiations with SACHETAN, an NGO-MFI, also failed. The women were seen as high risk.

The solution that the women thought was to include additional 10 women to their group and approach the Charghat SPA to negotiate with SACHETAN. Their effort was successful, even though only 15 producers received 75,000 Taka. The women expected 300,000 and to their disappointment the 15% interest rate charged by SACHETAN was higher than the interest rate paid by other producers. The women are determined to succeed by turning their fledgling business into a profitable one and continue negotiating with SACHETAN and other MFIs. They are not sure how long this will take, but they count on the LSPs and traders as crucial to their success.

Samriddhi’s baseline includes sex-disaggregated data. In 2012, the income for women was at par with the income of men only in vegetables value chain and lower in the remaining value chains. This was despite the percentage of women producers was higher than men in five value chains: duck (79%), cotton (90%), chicken (84%), goat (81%) and plant crafts (58%). If more than two-thirds of women producers were active in chicken, cotton crafts and duck value chains, their income was 20 times, four times, and three times lower than men, respectively.

Men are involved in bigger and more profitable poultry farms while women are mainly active in backyard poultry. The same is true in the duck value chain where men are involved in bigger and more profitable poultry farms while women are mainly active in backyard poultry.
likely to be involved in hatching and nursing of ducks. In the case of cotton crafts, men producers are more likely to own handloom devices for making more profitable products such as blankets. They have, at the same time, the mobility to engage in buying inputs and understand the market for their produce. Such evidence corroborates, in addition to other constraints, the lack of women’s capacity to secure sufficient and suitable capital to invest in profitable businesses.

6.6 The role of enabling environment/policy framework

The Government of Bangladesh established the MRA in 2006 under the Microcredit Regulatory Authority Act (Act no. 32 of 2006). Licenses are required to operate microfinance business. The MRA monitors and oversees the activities of MFIs. However, regulations are weak. Bangladesh also has the Consumer Rights Protection Act (2009). Even though this law does not apply to financial services, some MFIs have set up mechanisms by referring to Guidelines from the Bangladesh Bank. This includes disclosure of consumer rights and obligations as well as basic complaints and dispute resolution procedures.

The Social Welfare Department of the Government of Bangladesh also conducts yearly auditing of MFIs, looking into their memorandum, composition and function of the Governing Body and field level validation of MFIs activities. Some MFIs document the reviews which are readily available in their offices for reference.

“The Government lacks good policy or implementation regarding financial inclusion of the poor and extreme poor. The MRA provides certificates to local MFIs. PKSF also tries to create favourable environment for the poor so that they can increase their income and protect themselves from income erosion”

Md. Shahiduzzaman, Senior Internal Auditor, Sonali Bank

Even though most MFIs are registered, the work of Samriddhi reveals practices of non-transparent terms of lending and repayment. In some cases, MFIs charge exorbitant interest rates of more than 30% which are far above average interest rates of the sector. Indeed, controlling mechanisms by the supervisory authorities are weak and, therefore, exploitative “business of microcredit” has expanded.

The experiences of Samriddhi confirm that sustainable financial inclusion has clearly evolved away from simply having access to credits. It constitutes products and services to meet the needs and growing interest of local rural enterprises. Poor and extreme poor women and men need access to a diverse array of financial products and services.

It has been shown in this document that the facilitation by Samriddhi to address access constraints to financial products and services has brought positive impacts on employment and income of poor and extreme poor women and men. As indicated in the preceding sections, among the other major constraints of the market systems identified and facilitated by Samriddhi, the progress in addressing lack or limited access to suitable financial products and services has comparatively been weaker.

How can donors, market actors and other future project interventions build on the good practices/achievements of Samriddhi and further ensure better inclusiveness and sustainability of access to financial products and services?

7.1 Local service provision system for holistic package of services

The key to the success of Samriddhi in facilitating inclusive and sustainable access to financial products and services has been the private rural service provision system which was discussed in the previous sections. It leverages changes throughout the market systems as a result of providing demand-responsive and quality advice and information to producers.

There are currently more than 3,000 LSPs. They provide technical, business and financial services. In order for the services to remain relevant, interventions should focus on facilitating the updating of the knowledge and skills of the LSPs. This includes developing the institutional capacities of the SPAs to ensure increased bargaining power of producers at higher levels. The core business management and financial skills include:

- Conducting cost-benefit analysis for potential investments
- Establishing horizontal and vertical linkages with market actors
- Developing negotiation skills for ensuring access to input and product markets
- Understanding alternative methods of purchasing, such as group buying and contracting
- Establishing an effective market information gathering system and analysis skills
- Developing cash management alternatives
- Developing awareness and negotiation skills so that clients can negotiate affordable interest rates, loan repayment terms and collateral requirements.

Samriddhi has facilitated the capacity building of input providers, traders and hatchery owners in addition to the LSPs/SPAs. The project has improved the market systems through demand-driven and responsive institutions. Future facilitation should also focus on adequately increasing the capacities of input providers, traders and hatchery owners. Pluralistic services are crucial in deepening and broadening the impacts. Such services should take into account the diversity of rural areas in terms of demands, capacities, farming systems and local governance.

“As LSP, I support mainly poor and extreme poor women and men. The services that I provide are technical and business related. The poor do not have the start-up capital. To have access to financial products and services, they need good organisation and business plans. LSPs require the skills to support the producers in these areas.”

Md. Monowar Hossain, Livestock LSP, Panchbibi Upazila, Joypurhat District

“My experience as LSP has convinced me that we need to pay attention to ‘non-traditional lenders’. Sweet makers in the milk value chain, for example, are good source of finance.”

Sree Ranjit Kumar, Livestock LSP, Niita, Panchbibi Upazila, Joypurhat District
7.2 Gender disparity and deep-rooted socio-economic gaps

The work of Samriddhi has contributed to empower poor and extreme poor women. The project has made steady progress in addressing gender disparities. The achievements of Samriddhi in gender mainstreaming were recognised in 2011 as best practices by the partners of the SDC in Bangladesh.

Income of women has increased through improved participation in economic activities. Before-after comparison has shown equal opportunities to capacity development to use new or improved practices and technologies, and enhanced decision-making power at different levels — mainly access to and control over household resources (income, savings).

Samriddhi has made good progress in tackling social barriers as a prerequisite to Women’s Economic Empowerment (WEE). Glaring gender inequalities in economic opportunities mainly in access to financial products and services require a more focused (and nuanced) analysis of barriers to economic empowerment and adaption of approach (e.g. tools, strategies) for both practical and strategic gender needs.24

Women are not homogenous, and the degree of access to financial products and services is determined by the social status and age of the women. Older women, widows and single women are more likely to face financial exclusion. Implementers should come up with concrete strategy to consolidate the gains by Samriddhi based on a careful analysis of what works and how this can be further scaled up. This will enable implementers to convincingly build on the “business case” for women to have equal opportunities in financial inclusion.

7.3 Multiple risks and limited mitigation strategies

Agriculture-related loan risk management system is weak in Bangladesh, or it is just used to ensure repayment of loans by any means, often leading to coercion and conflicts. In other words, it is not tailored to agricultural production processes, addressing risks and corresponding funding needs of producers. Agricultural insurance services are in their infancy and they are not yet integrated into the microfinance business. This limits expansion and outreach to poor and extreme poor women and men.

Disaster Risk Reduction (DRR) was a cross-cutting issue in Samriddhi until July 2013. In August 2013, Samriddhi conducted value chain assessments to identify core elements of vulnerability and design interventions to address the constraints. The main risks for producers are drought, heavy rain/floods, pests and diseases, unreliable input supply, lack of storage and cooling facilities, and fluctuating prices and seasonality of many crops.

The interventions take into account risk management in financial products and services that concerns two core issues: securitisation and liability. The first is about how the financial product and service provider can be sure of getting the loan repaid, while the second one focuses on ensuring who actually has to pay the loan.

An important informal but growing practice in the in-kind credit provision is insurance service by traders mainly in the bull fattening value chain (see section 6.4 under traders and input suppliers). Traders provide young animals to organised producers. The traders give insurance to the producers in the event the young animal dies. Risk of cheating (leakage) is minimised due to the trust and closer interaction among the producers, traders and the LSPs.

"I am a poor woman living in highly flood-prone parts of Sunamganj District. Duck rearing is an important source of income for my family. Every year I rear up to 20 ducks for selling eggs. When my village is flooded during the monsoon, I am forced to sell all the ducks. I face scarcity of feed and I cannot provide shed for the ducks. I am the only breadwinner in the family. My husband is bed-ridden. We do not have a son and our only daughter is married and she lives far away with her husband. Like my neighbours who took loans from BRAC, I also wanted to have access to loans to improve my well-being through duck rearing. But I worry if I will be able to pay back the loan due to the constant vulnerability of flash floods. It is also not easy to get the loan as I am 55."

Sita Rani, Derai Upazilla, Sunamganj District

As part of the ongoing interventions of DRR in value chains, implementers should focus on engaging local traders and other private sector companies to mitigate risks. Learning visits and exchange of ideas with current pilots in Bangladesh should also be encouraged.25

7.4. Learning from other innovative practices

The opportunities for broadening and deepening the impacts of financial inclusion are ample. Donors, implementers and market actors should enhance the conditions for innovation and continuous knowledge creation as well as adaptation to the context for further refinement and learning in the future. Two good practices for learning are mobile financial services and warehouse receipt system.

Mobile financial service

Mobile financial service market in Bangladesh is at its infancy. Other Asian countries also have limited penetration of mobile financial services. The Bangladesh Bank issued in 2011 guidelines clearly stating to make the market bank-led. There is a growing market of mobile financial service by providers, such as bKash service from BRAC Bank, Dutch Bangla Mobile, M cash from Islami Bank and Mobi Cash from Grameen phone in collaboration with other banks.

Mobile financial services provide rural access to information and increasingly contribute to the capacity to save, borrow and transact. They are significant in quickening poor people’s access to formal financial services through affordable and reliable financial tools and reduce the amount of time and money that poor people spend. The most successful mobile financial service so far is Safaricom’s M-PESA mobile money service in Kenya with more than 14 million users. The success is also visible in other Sub-Saharan African countries, as shown in Table-4, due to limited bank branches in rural areas and less developed financial informal services.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of people (age 15+) using mobile phone to send money</th>
<th>% of people (age 15+) using mobile phone to receive money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Nepal</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>7.3</td>
<td>12.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>60.5</td>
<td>66.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>9.9</td>
<td>11.2</td>
</tr>
<tr>
<td>Somalia</td>
<td>31.7</td>
<td>32.2</td>
</tr>
<tr>
<td>Sudan</td>
<td>30.5</td>
<td>44.7</td>
</tr>
</tbody>
</table>


Despite mobile phones are ubiquitous in Bangladesh, including in rural areas, implementers should carefully assess its feasibility. Barriers related to illiteracy, weak infrastructure and customer base, regulatory limitations and insufficient transaction volumes are some of the formidable challenges. For Samriddhi, for the time being, the option can be to facilitate simple services via cell phones and brick-and-mortar stores where subscribers can convert cash they earn into digital money (e.g. bKash service). Samriddhi has ongoing collaboration with Banglalink (the second largest mobile operator in Bangladesh) on agriculture services using mobile technology. More than 1,600 LSPs use the mobile service

25. The main pilots include weather index-based crop insurance by the Asian Development Bank (ADB) in collaboration with Insurance Development and Regulatory Authority (IDRA); weather index-based maize insurance involving 5,000 farmers by the International Centre for the Improvement of Maize and Wheat; a pilot on weather index-based insurance by the International Finance Corporation (IFC) partnering with private insurance companies and building their capacities; weather index-based on aman rice insurance in Bogra by the International Food Policy Research Institute (IFPRI); and flood insurance scheme for the poor and vulnerable farmers in Sirajganj district by Oxfam in collaboration with the Centre for Insurance and Risk Management (CIRM).
called 7676 to access information on a range of technical issues regarding their services. This experience should be documented and tapped into in any future intervention of facilitating mobile financial service.

**Warehouse receipts**

Warehouse receipts are alternative sources of finance. Producers store their produce right after harvesting if they do not want to sell the produce immediately for reasons such as low market price. The receipts can also warrant any value loss through theft or damage by fire or other catastrophes. The receipts are issued as evidence that a specific commodity of stated quantity and quality has been deposited at particular locations by named depositors/producers. Producers access loans from MFIs or banks by pledging their warehouse receipts issued against commodities deposited in the warehouses. The holder of the receipts can take delivery of the commodities.

The experience of Samriddhi shows warehouse receipts are used in limited manner especially in vegetables (potatoes) value chain. Although small-scale producers use the system, it mainly concerns medium to large-scale producers. Warehouse receipts are also not extensively used due to lack of quality warehouses with good facilities and difficulty of establishing grading standards for products. Future interventions should reflect the experience of Samriddhi and analyse the opportunities and constraints for effective use of warehouse receipts.

**“We formed five MSEs of vegetables in 2009. There are 153 members mainly producing potatoes. Through the support of the LSPs, we were linked with three cold storages of Himaloy Limited, Padma Limited and Bengal Limited. The LSPs supported us to negotiate and make deal with the cold storages. In 2012, we stored more than 112 tons of potatoes. We were able to use the receipts to negotiate with traders and sell our potatoes at good price.”**

Members of vegetables MSE, Paba Upazila, Rajshahi District

### 7.5 Pro-poor financial inclusion

Principles for demand-driven, safe and responsible treatment of borrowers in financial inclusion have received wider recognition by the microfinance industry leaders from around the world. The efforts led to the launching of the Smart Campaign in 2009. Donors and implementers working for financial inclusion should reflect the spirit of, as reasonably and practically as possible, the following seven principles that are integral to the Smart Campaign. They can encourage financial product and service providers to be signatories of the Smart Campaign as this does not cost or bind the providers but rather boosts their credibility.

**Appropriate product design and delivery:** Product design and delivery should meet the actual needs of borrowers. Donors and implementers can facilitate in supporting product and service providers to have the right skills and capacities.

**Prevention of over-indebtedness:** Donors and implementers should facilitate demand-driven financial products and services based on the needs of the poor and extreme poor, and their capacities to minimise the risk of over-indebtedness. Careful assessment of the financial market system identifies relevant bottlenecks and what can be done to improve the system and meet actual demands.

**Transparency:** Includes participatory consultation with poor and extreme poor women and men to ensure product suitability regarding amount, terms and delivery. Donors and implementers should include discussions on prices to borrowers by disclosing fees and charges. Formal contracts that specify terms and conditions support transparent business deals.

**Responsible pricing:** Donors and implementers should tap into the experience of Samriddhi on its achievements in facilitating pro-poor market systems development. In order to ensure inclusiveness and sustainability, issues such as pricing, and terms and conditions should be set in a way that is both affordable to the poor and extreme poor and commercially viable for financial institutions.

**Fair and respectful treatment of clients:** The poor and extreme poor have a sense of powerlessness. Facilitators should carefully understand the context of the poor and extreme poor.

**Privacy of client data:** Financial product and service providers and facilitators should have a clear consensus on the strict protection of borrowers’ data and privacy as an integral part of the engagement.

**Mechanisms for complaint resolution:** The LSPs and their associations are important actors to facilitate trust and coordination between financial institutions and producers to voice concerns regarding financial products and services.
HELVETAS Swiss Intercooperation is a member-based, non-profit association. It emerged in 2011 as a result of the merger of Intercooperation, Swiss Foundation for Development and International Cooperation, and HELVETAS, Swiss Association for International Cooperation.

HELVETAS Swiss Intercooperation is present in more than 30 countries in Africa, Asia, Latin America, Central Asia and Eastern Europe. Its vision is a just and peaceful world in which all human beings live in a self-determined way in dignity and safety, are able to satisfy their basic needs, have access to resources and services which are indispensable for life, and take care of the environment.

Thematic working areas of HELVETAS Swiss Intercooperation are:
- Water & Infrastructure
- Rural Economy
- Skills Development & Education
- Governance & Peace
- Environment & Climate Change

In Bangladesh, HELVETAS Swiss Intercooperation started working in 2000 at the request of the Swiss Agency for Development and Cooperation to manage its Sustainable Land Use Programme. Since then, HELVETAS Swiss Intercooperation's portfolio has grown to include local governance, livelihoods and market systems development, as well as drinking water and natural resource management projects.