

Introduction

Micro-finance is termed as the financial services rendered to the deprived groups of the people and small entrepreneurs in savings, credit, remittance, micro insurance, etc. to help them in developing self-employment opportunities and various income generating activities. Small sized loan, group based lending, group savings, small-scale entrepreneurs, diversified utilization, quick repayment, close monitoring and simple terms/conditions on credit (without collateral) are the determining characteristics of micro-finance.

Nepal has an experience of about four decades in micro-finance. Although many programmes have been implemented for poverty lessening initiatives Nepal, only micro-finance programmes are seen as pro-poor and rural based. A variety of micro-finance development programmes including deprived sector credit programme as well as other donor supported micro-credit programmes were launched during the period. Micro-finance has been particularly recognized as an effective development intervention for basic three reasons:

- The services provided through micro-finance can be targeted specifically to the poor and poorest of the poor,
- These services can make a significant contribution to the socio-economic status of the targeted community, and
- The institutions that deliver these services can develop within few years, into sustainable organizations with steady growing outreach.

Difficult topography, remoteness, heterogeneous groups and culture, etc. have hindered for the successful delivery of micro-finance in Nepal. Micro-finance institutions are the specialized types of institutions pursuing income generating activities to promote the interest of the poor by providing banking and financial services and thereby contributing in upgrading their economic and social standards. Some microfinance outreach studies have revealed that micro-finance activities are still untouched to the poor and rural households in remote terai, hill and mountain regions. Microfinance activities in upper hill and mountain regions are found to be costly. This phenomenon urge Nepal for developing or replicating unique indigenous sustainable type of model of micro-finance so as to have meaningful outreach in the mentioned regions which could uplift socio-economic status of poor households, yield more employment opportunities through the involvement in SMEs and thereby break the culture of poverty and deprivation.

Modalities of Nepalese Micro-finance Sector

Micro-finance programmes are established and promoted in Nepal with diversified method and modalities. Some of the successfully operated models are as follows:

- *Grameen* banking model
- Deprived sector lending model
- Rural Self Reliance Fund (RSRF) model
- Small farmers' cooperatives model
- Financial non-government organizations (FINGOs) model
- Savings and credit cooperatives (SACCOs) model
- Project based micro-credit model
- Wholesale lending model

Grameen banking model in Nepal was started in 1992. As of mid April 2013, there are 28 micro-credit development banks

in operation including 5 regional based rural development banks and 3 wholesale lending agencies. Deprived sector lending programme was initiated in the fiscal year 1991/92. Under the deprived sector lending requirement, there is a mandatory provision for commercial banks (Class-A), development banks (Class-B) and finance companies (Class-C) to extend a specified percent of their total loan portfolio. To increase the income and render employment opportunities for the deprived people in the rural areas, the Government of Nepal has established the Rural Self-Reliance Fund in 1990. As of mid April 2013, it has a total capital base of Rs. 443.4 million with contribution of Rs. 190 million by the Government of Nepal and Rs. 253.4 million by Nepal Rastra Bank. RSRF provides the wholesale credit for on-lending purpose to the deprived people through co-operatives and long-term loan to the sector like tea, cardamom and cold storage through Agricultural Development Bank Ltd.

In Nepal, agriculture based cooperatives were initiated in the 1950s as a first step in micro-finance. Small Farmers' Development Project (SFDP) was transformed into (SFCLs) Small Farmers Cooperative Limited, being managed by the farmers themselves.

The micro credit activities of financial non-government organizations (FINGOS) and saving and credit cooperatives (SACCOs) come under community-based model and basically they confine their banking services within their members only. Nepal Rastra Bank stopped issuing further licenses to these types of institutions.

Some of the major donor-supported project-based micro-credit programmes operated in the past were Production Credit for Rural Women (PCRW), Micro-credit Program for Women (MCPW), Poverty Alleviation Project in Western Terai (PAPWT), Third Livestock Development Project (TLDP), Rural Microfinance Program (RMP) and Community Ground Water Irrigation Service Project (CGISP). Enhancing Access to Financial Services (EAFS) Project, a programme with financial support from United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF), was successfully completed in March 2013.

The wholesale micro credit programmes are Rural Self-Reliance Fund (RSRF), Rural Microfinance Development Centre Ltd. (RMDC), Sana Kisan Bikas Bank Limited (SKBBL) and First Microfinance Development bank Ltd. (FMDBL).

Besides, a number of self-help groups are also rendering micro finance services to the rural people Although large numbers of MFIs have emerged in Nepal, micro-finance services from these institutions are yet to cover the target

Donor Sponsored Micro-Credit Programmes

There were six major donor funded micro-credit programmes and all those programmes were phased out. They were PCRW, MCPW, TLDP, PAPWT, RMP and CGISP. All

these programmes were focused to reduce poverty and to facilitate micro-credit to the targeted groups. They also assisted in capacity building of participating financial institutions.

- To improve the socio-economic status of rural women by accessing them to institutional loan for their productivity, Production Credit for Rural Women (PCRW) was launched in 30 November 1988.
- To increase the economic status of the rural and urban women by providing micro-credit for their micro businesses, Micro-Credit Project for Women (MCPW) was launched in 15 December 1993.
- To increase the income and employment of the rural poor by engaging them in livestock management and productivity, Third Livestock Development Project (TLDP) was launched in 1997.
- To increase participation of the deprived poor in Western Terai for their socio-economic upliftment, Poverty Alleviation Project in Western Terai (PAPWT) was launched in 1998.
- To increase the agriculture productivity by providing the irrigation facilities to the deprived community's farmers for the poverty alleviation program, Community Ground Water Irrigation Sector Project (CGISP) was launched in March, 1999.
- An agreement was signed to implement Enhancing Access to Financial Services Project (EAFS) with financial support from the UNDP and UNCDF in 2008. The Project came to an end in March 2013 and by that time total grant of USD 1.3 million was distributed to 9 strategic and 8 innovative partners to enhance their capacity under the Fund for Inclusive Finance component of the Project.
- Asian Development Bank, Manila approved Raising Incomes of Small and Medium Farmers Project (RISMFP) on 24 November, 2010 with a grant of USD 20.1 million for Nepal. The project agreement was signed on 16 March, 2011, which became effective on 14 June, 2011. The Ministry of Agriculture Development is the main implementing agency of the projects with other different stakeholder' participation including Nepal Rastra Bank. The main objectives of the project is to support for increasing production of high value commodities (HVC) by small and medium farmer through reduction of market and business risks in ten districts of Mid-western and Far-western development regions of Nepal.

Prudential Regulation Related to Micro-Finance

Nepal Rastra Bank has issued regulation related to micro-finance sector. The prudential regulation for Micro-Finance Development Banks (MFDBs) came into existence in 2003. This regulation became effective from January 2004 with some amendments. MFDBs are classified as "D" class financial institutions under the Banks and Financial Institutions, 2006. Some of the major regulatory provisions issued to MFDBs are as follows:

- To open MFDBs at national level, a minimum paid-up capital of Rs. 100 million is needed while such MFDBs is supposed to be operated at regional level excluding Kathmandu Valley requires Rs. 60 million as its minimum paid-up capital, 4 to 10 districts excluding Kathmandu Valley requires Rs. 20 million

as its minimum paid-up capital and MFDBs supposed to operate in 3 districts excluding Kathmandu Valley require up to Rs. 10 million paid-up capital.

- Minimum of 7 promoters are needed to establish a proposed MFDBs. The promoters can hold up to 70 percent stake. At least 30 percent of the total share capital should be floated to the general public.
- So far as the foreign stake is concerned, such investors can hold a minimum of 20 percent to a maximum of 85 percent including category "D".
- MFDBs are required to maintain a minimum of 4 percent as core capital (Tier-I) and 8 percent as total capital on the basis of their risk weighted assets.
- MFDBs can mobilize financial resources up to 30 times of the core capital. Such financial resources include deposits, special saving deposits and borrowings.
- MFDBs are required to maintain a minimum a prescribed percentage of their financial resources in the form of liquid assets and cash reserve requirement. Additional provision has been made for those institutions accepting public deposits.
- MFDBs to be operated in rural areas are accorded top most priority for obtaining operating licenses from Nepal Rastra Bank.
- NRB has introduced additional prudential regulation effective from mid-April 2003 specially for MFDB operating in the country with an objective of making micro-finance business more reliable, sustainable, competent, and effective on service delivery matter.
- Based on the ageing of overdue loans of MFDBs, such loans are to be classified into four groups namely pass (overdue up to 3 month), sub-standard (overdue by 3 to 6 months), doubtful (overdue by 6 months to one year) and loss (overdue by one year or more).
- MFDBs require approval from NRB for the expansion, closure and merger of their branches within the approved geographic areas. For the opening up of a new branch, MFDBs must have a Business Plan an approval from their respective board.
- MFDBs can provide loan up to the amount of Rs. 100 thousand of collateral free loan to the group members and the bank could extend the loan up to Rs. 300 thousand with the collateral based to run micro and small enterprises.
- All MFDBs should be effortful to maintain a good corporate governance culture.

Future Prospective

To assist the poverty lessening programme of the Government, Nepal Rastra Bank has played pivotal role in building up the institutional network and mechanism for easy and smooth availability of the micro-finance for the income generating activities of the poor and the deprived people. This has resulted in the emergence of many micro-finance institutions, which have been participating in the micro-financing operation using it as one of the effective financial tools for poverty reduction. However, these micro-finance institutions have not been able to provide services to all the targeted people. There is a wide scope and tremendous opportunity for these institutions to involve in micro financing right through various rural financing programmes. The challenge of the day is first reaching out to the majority of the poor people with micro and rural finance and secondly making them viable, sustainable, and profitable. The Government of Nepal has already approved and implemented

National Micro-finance Policy. A separate Micro-finance Authority has been proposed in a draft law that has already been submitted to the Government of Nepal. Similarly, the existing Rural Self Reliance Fund (RSRF) has been proposed to be transferred into a separate entity once the proposed draft act of National Micro-finance Development Fund comes into effect. Socialization of micro-finance activities support further speeding up of the pace of access to finance in Nepal. Capacity build up of micro-finance and gradual improvement in governance state supports further to financial inclusion. Additionally, assurance of financial education supports on obtaining an additional outreach in Nepal.

SOME GLIMPSES OF MICRO-FINANCE ACTIVITIES IN NEPAL

June 2013

**NEPAL RASTRA BANK
MICRO-FINANCE PROMOTION
AND SUPERVISION DEPARTMENT**

Baluwatar, Kathmandu

Nepal

Tel: 4412823

Fax: 4412224

www.nrb.org.np

e-mail: mfd@nrb.org.np

NEPAL

