

Introduction

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

Nepal has an experience of about three decades in Micro-finance. Although many programmes have been implemented for poverty alleviation in Nepal, only micro-finance programmes are seen as pro-poor and rural based. In Nepal, agriculture based cooperatives were initiated in the 1950s as a first step in micro-finance. The SFDP was transformed into SFCLs (Small Farmers Cooperative Limited), which have been managed by the farmers themselves. Other micro-finance development programmes, including Priority and Deprived Sector Credit Programme and donor supported various micro-credit programmes were launched during the period.

Micro-finance has been particularly recognized as an effective development intervention for basic three reasons:

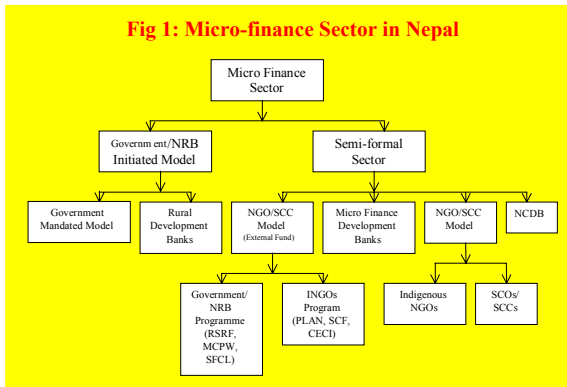
- The services provided through micro-finance can be targeted specifically at the poor and poorest of the poor,
- These services can make a significant contribution to the socio-economic status of the targeted community, and
- The institutions that deliver these services can develop within few years, 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. Principally, micro-finance institutions pursue the income generating activities to promote the interest of the poor by providing basic services and contribute in upgrading their economic and social standard.

Modalities of Nepalese Micro-finance Sector that has been Practiced in Nepal and their Outreach

Micro-finance programmes are established and promoted in Nepal with diversified method and modalities. They are in public vs private sector modality, project based modality, wholesale lending based modality, community vs deprived sector based modality, etc. The micro-credit programmes such as PCRW, MCPW, GBBs Replicates, etc., fall under gender based programmes while the programmes as PAPWT, TLDP, RMP, CGISP, etc. come on project based micro credit programmes. The wholesale micro credit programmes are RSRF, RMDC, SKBBL, etc. The micro credit activities of SACCOPs and FINGOs come under the modality of community based. 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 group in full capacity particularly in remote hills and mountains. Based on institutions involved, micro-finance sector can be classified into two groups- formal (Government and NRB) and semi-formal model as depicted in Fig 1.



1. Small Farmer Co-operatives Limited

Previously it was the Small Farmer Development Project under Agricultural Development Bank, which has been transferred to the local community under the Cooperative Act, 1991.

| | |
|--------------------------|------------------|
| No. of SFCL | 139 |
| Benefited no. of members | 85,730 |
| Benefited no. of groups | 13,322 |
| Technical Support | IFAD, CGAP & GTZ |
| Financial Support | SKBBL |

As of Mid-July 2006

2. Priority Sector and Deprived Sector Credit Programmes

There is the mandatory provision for all commercial banks to disburse 2 percent and 3 percent of the total loan portfolio to priority and deprived sector credit programme respectively. By Mid-July 2007, the priority sector credit programme will be phased out.

| | (Rs. in million) | |
|---|------------------|-----------------|
| | Priority Sector | Deprived Sector |
| Direct credit from Commercial Banks (CBs) | 8057.71 | 1208.24 |
| Agriculture | 1206.76 | 776.86 |
| Domestic Industries | 1813.52 | 85.50 |
| Services | 4025.12 | 345.88 |
| Power Sector | 1000.51 | - |
| Machine and Import of Raw Materials | 11.80 | - |
| Indirect credit through MFIs | 2046.36 | 4046.89 |

As of Mid-July 2006

3. Rural Micro-finance Development Banks

To provide the banking facilities for the socio-economic upliftment of the deprived people in the rural areas 5 regional rural development banks were established with the initiative of the government, NRB

and some other financial institutions. Later 4 private sector micro-finance development banks (Nirdhan, Swabalamban, Depros & Chhimek) were also established.

| | (Rs. in thousand) | |
|---------------------|-----------------------|---------------------|
| | 5 Grameen Bikas Banks | 4 Replicating Banks |
| Number of Centre | 5046 | 7054 |
| Number of Groups | 36403 | 36717 |
| Number of Member | 167886 | 185833 |
| Number of Borrowers | 149255 | 146402 |
| Total Disbursement | 12484829 | 6642502 |
| Total Repaid | 11224716 | 5495863 |
| Total Outstanding | 1260113 | 1146639 |
| District Covered | 47 | 40 |
| Number of Branch | 142 | 120 |
| VDC Covered | 1038 | 1163 |

As of Mid-July 2006

4. Financial Intermediary Non-government Organizations (FINGOs)

Out of about 10,000, only 47 NGOs are licensed by NRB for financial intermediary. They usually form the groups and collect deposit through MFIs as well as they obtain wholesale credit from MFIs and disburse it to the group members.

5. Savings and Credit Co-operatives (SACCOPs)

The co-operatives have been introduced in Nepal since 1956. About 8000 co-operatives are registered in Co-operative Department of the Government of Nepal. Some near about 2600 cooperatives are involved with the savings and credit programmes. Of them, only 19 cooperatives are licensed by NRB for limited banking transaction and 199 co-operatives are associated with the RSRF.

6. Wholesale Micro-finance Institutions

RSRF: To increase the income and render employment opportunity for the deprived people in the rural areas, the Government of Nepal has established the Rural Self-Reliance Fund in 1991 with the seed capital fund of Rs. 20 million and added another Rs. 20 million in 2004/05. NRB has provided a total amount of Rs. 253.40 million from its profit in this fund in different periods. In F.Y. 2006/07 the Government of Nepal is injecting the amount of Rs. 50 million in the fund. RSRF provides the wholesale credit for on-lending purpose to the deprived people through MFIs, Co-operatives and NGOs and long-term loan to the sector like tea, cardamom & cold storage through Agricultural Development Bank.

| | (Rs. in thousand) | |
|--------------------|-------------------------------|-------------------|
| | Short Term (51 NGO, 199 SFCL) | Mid and Long Term |
| PFI | 250 | 5 |
| Total Disbursement | 101359 | 159200 |
| Total Repaid | 68593 | 21666 |
| Total Outstanding | 32766 | 137534 |
| District Covered | 47 | 40 |
| Family Benefited | 9949 | - |

As of Mid-July 2006

RMDC & SKBBL To provide the wholesale loan to MFIs, SFCLs, RMDC and SKBBL were established in 2000 and 2002 respectively.

| | (Rs. in thousand) | |
|--------------------|--|------------------------------------|
| | Rural Micro-finance Development Centre Ltd. (RMDC) | Sana Kisan Bikas Bank Ltd. (SKBBL) |
| PFI | 45 | All SFCL |
| Total Disbursement | 982602 | 827785* |
| Total Repaid | 481748 | 724054* |
| Total Outstanding | 500854 | 1430539 |
| District Covered | 24 | - |

As of Mid-July 2006

* Current year disbursement and repayment only.

7. Donor Sponsored Micro-credit Programmes

There are six major donor funded micro-credit programmes that are running in the country of which some are now in in-active stage. They are PCRW, MCPW, TLDP, PAPWT, RMP and CGISP. All these programmes are focused to reduce poverty and have contributed to the facilitation of micro-credit to the targeted groups and assisted in capacity building of PFIs.

- ❖ To improve the socio-economic status of rural women by *accessing* them to institutional loan for their productivity the project **Production Credit for Rural Women (PCRW)** was launched in 30 November 1988.
- ❖ To increase the economic status of the rural & urban women by providing micro-credit for their micro businesses the project **Micro-Credit Project for Women (MCPW)** was launched in 15 December 1993.
- ❖ To increase the income & employment of the rural poor by engaging them in livestock management & productivity the project **Third Livestock Development Project (TLDP)** was launched in 1997.
- ❖ To increase participation of the deprived poor in Western Terai for their socio-economic upliftment the project **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 the project **Community Ground Water Irrigation Sector Project (CGISP)** was launched in March, 1999.

| | (Rs. in thousand) | | | | |
|--|-------------------|-----------------|--------------|--------------|----------------|
| | PCRW | MCPW | TLDP | PAPWT | CGISP |
| PFI | 3 | 2 | 17 | 5 | 10 |
| Total Disbursement | 234593 | 195209 | 183464 | 136745 | 158748 |
| Total Repaid | 99702 | 48802 | 142157 | 62129 | 2870 |
| Loan Outstanding | 134891 | 146407 | 41307 | 74616 | 155878 |
| District Covered | 35 | 42 | 19 | 8 | 12 |
| Benefited family | N.A. | N.A. | 9773 | 21000 | 21262 |
| Donor Agency | IFAD | ADB/M | ADB/M | IFAD | ADB/M |
| Project Period | 1988 to 1997 | 1993 to 2004 | 1997 to 2004 | 1998 to 2004 | 1998 to 2007 |
| Last Repayment tenure to Multilateral agencies | May 2019 | Novem-ber, 2018 | Mid 2034 | Mid 2033 | 2037 Decem-ber |

As of Mid-July 2006

8. Prudential Regulation Related to Micro-finance

The Development Bank Act-1995 and Financial Intermediary Act-1998 were the instances of some

regulation related to micro-finance sector. The prudential regulation for micro-finance development banks came into existence in 2003. This regulation became effective from January 2004 with some amendments. Following, BAFIA -2006 permits to run micro-finance business while 1st Amendment of Financial Intermediary Act (1998) – 2002 facilitates FINGOs for doing limited financial intermediation as small savings, group savings, micro-credit and agent banking.

The main characteristics of NRB's prudential regulations for MFDBs are as:

- To open a MFDB at national level, a minimum paid-up capital of Rs. 100 million is needed while such MFDB 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 MFDB 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 MFDB. The promoters can hold up to 70 percent stake. Some 30 percent shares should be floated to the 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 urged to keep its CAR for Tier-I up to 4 percent and total capital adequacy ratio 8 percent from 2005/06 onwards.
 - MFDBs can mobilize 30 times of the primary capital. Such financial resources include deposits, special saving deposits and borrowings.
 - MFDBs are required compulsory to maintain a minimum liquidity balance at 2.5 percent of their stake of MFDB.
- MFDBs to be operated in rural areas are accorded top most priority for obtaining business licenses from NRB.
- 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 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 are accorded autonomy 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 and an Approval** from their respective board.
- MFDBs can provide loan upto the amount of Rs. 40 thousand of collateral free loan to the group members and the bank could extend the loan upto Rs. 100 thousand with the collateral based to run micro and small enterprises.
- All MFDBs should be effortful to maintain a good corporate governance culture.

9. Future Prospectives

To assist the poverty reduction 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 MFIs, which have been participating in the micro-financing operation using it as one of the effective financial tools for poverty reduction. However, these MFIs 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 the MFIs viable, sustainable, and profitable. Endorsement of National Micro-finance Policy and establishment of a Second Tier Institution (STI) as proposed by the Government of Nepal will facilitate the categorization of various MFIs even to formalize informal financing to provide easy access to the micro-finance. Besides, the cost effective and self-sustained MFIs are also the pre-conditions for the successful implementation of such programmes. For this, sound monitoring and supervision of MFIs is a must. This will certainly pave the way for meeting the national objective to expand the outreach of MFIs so far for the targeted people.

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Mission:
 Make micro-finance services more accessible to the poor and weaker section of the society in a sustainable and competitive way.



SOME GLIMPSES OF MICRO-FINANCE ACTIVITIES IN NEPAL



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