

Best Practices and Standards

In This Document:

- Best Practices Among Microfinance Organizations
- Best Practices – Institutions and Methodologies
- Standards
 - Outreach and Productivity
 - Profitability and Sustainability
 - Portfolio Quality
 - Efficiency

Best Practices in Microfinance

The leading microfinance organizations in Nepal follow international best practices, sometimes adapted to local circumstances such as: conflict, disparity of population, and hilly and mountainous landscapes. The following are key best practices adopted in Nepal, as reported by microfinance practitioners.

- ✓ Client and poverty focus, through customized financial products
- ✓ Sound management practices, including cost control, risk management, commercial interest rates on lending, resulting in efficiency and sustainability.
- ✓ Strong institutional development, in systems and controls (finance and MIS), capacity building of staff, and a strategy for expansion
- ✓ Mobilisation of local savings and access to domestic sources of commercial funding.
- ✓ Participation to network organizations and events.

Best Practices - Institutions and Methodologies

As experienced by commercial banks and specialized microfinance institutions, it is easier to reach large poor population in the **Terai (plain) region** where there is a higher density of population, better infrastructure and therefore easier access to clients, in opposition to hills and mountains.

Nirdhan Uttan Bank Ltd. has adopted sound management practices, in streamlining its operations with the development of a set of operating manuals. Moreover, Nirdhan has always kept a strong focus on the poor, while developing highly effective systems including: a computerized MIS, an internal training department and building key strategic alliances with donors, investors, and networks.

Studies of **Savings and Credit Cooperative Societies (SCCS)** demonstrate that savings mobilization is improved when the cooperatives offer customized savings products to their members, satisfying their financial needs. The level of savings mobilization in SCCs is also increased by offering high interest rates on deposits, linkages with insurance cover, and access to larger loans. Credit methodologies are mostly successful when a wide range of credit products are offered to members, for productive and social purposes. According to recent CMF publications, SCCs can become sustainable organizations within a two to three years period if they meet the following minimum thresholds:

- ✓ 500 members
- ✓ Rs.50 in savings per member per month
- ✓ Rs.500 in share capital per member
- ✓ Repayment rate of 95%

In addition, several other best practices among SCCs can be identified as: strategy for scaling up and strong institutional development, effective and transparent governance, financial sustainability, and sound financial services responding to clients needs.

Standards

The following is a summary of the comparative performance of the major Grameen Bank replications (GBR) in Nepal, i.e. the five public 'Grameen Bikas Banks' and the two private rural microfinance banks, Nirdhan Uttan Bank Ltd and Swabalamban Bikas Bank Ltd, with the performance of medium and small institutions operating in South Asia as reported by the Microbanking Bulletin (MBB). More details are included in the recent paper presented by Sunil Khanal, from Nirdhan, at the latest BWTP workshop in Nepal. This section also integrates a comparison between the five public and the four private GBRs, as developed into the paper presented by Mukunda B. Bista, Executive Director, Center for Self-help Development (CSD) & Keshar B. Shrestha, Executive Director, Swabalamban Bikas Bank Ltd. in the BWTP workshop in Nepal.

Outreach and productivity

Grameen Bank replications in Nepal are in line with their MBB South Asian counterparts, with loan officers handling an average of 150 loans – 20 more, on average, than the small South Asian organisations (130), but 50 less than medium Asian organisations (200). As of July 2003, Eastern Region Grameen Bikas (public) was the largest of the GBRs operating in Nepal, reaching about 50,000 clients, savers and borrowers. The second largest was the Western Region Grameen Bikas (public) with 40,000 clients. Private GBR, Nirdhan and SB Bank reached approximately 33,000 clients each.

Profitability and sustainability

Despite a slightly negative figure (-1%), GBRs post better results in terms of Return on Assets than MBB Asian institutions, which show greater, negative results. GBRs as a group are operationally and financially self-sufficient, whereas this is not the case in MBB small South Asian institutions (for both indicators), and their medium-size counterparts reach only operational self-sufficiency.

Portfolio quality

With an overall Portfolio at risk of 5.7%, GBRs match the results of MBB Medium South Asian institutions (5.6%), and are much better than MBB Small South Asian institutions (14.8%).

Efficiency

GBRs in Nepal seem less efficient than the average of small and medium Asian institutions, with operating expenses representing 20% of their loan portfolio, against 14% in MBB South Asian institutions. The cost per borrower for GBRs (\$22) is similar to MBB Small South Asian institutions (\$21), but higher than medium institutions (\$11). The higher costs of running microfinance operations in Nepal can be a result of the difficult context (conflict, hills, mountains, higher poverty levels) and the relatively young and small microfinance organisations in Nepal, compared to their more matured counterparts in South Asia.

Sources

- *'Best Practices in Nepal and Regional Standards in Microfinance'*. Suni Khanal. Nirdhan Uttan Bank Limited. Presented at BWTP-CMF workshop in February 2004;
- *'A directory of MFIs in Nepal'*. CMF December 2003.