

Microfinance in the Financial Sector

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Commercialisation

Under the Development Act 1996, NGOs are able to establish rural microfinance development banks by transferring their microfinance loan portfolio. With this status, they can access new sources of commercial funding as institutions, and mobilise savings. Over a period of four years (1998-2002), four NGOs established rural microfinance development banks, Nirdhan, Center for Self-Help Development, DEPROSC and the Neighbourhood Society Service Center.

In 2002, with 37,000 clients, Rs. 170 million loan outstanding, and accepting deposits from members, the NGO, Center for Self Help Development, looked at the options to be regulated under the 'Development Bank Act'. Two options were then possible:

1. To continue as an NGO. Under this status directors would become personal guarantors for deposits mobilised, and the organisation would have to go through an annual registration process to continue its financial operations as an NGO.
2. To transform into a development bank, which would build trust from members and the public and provide a higher profile by being a bank.

It was decided that all staff, clients and assets would be transferred to the newly created development bank 'Swabalamban Bikas Bank Ltd.'

Commercial Banks

Commercial banks in Nepal are required by the central bank to earmark a portion of their loan portfolio to priority lending (agriculture, cottage industry, services), which includes 0.25% to 3% to the deprived sector (poor population). Under this obligation, commercial banks can lend directly to individuals or self-help groups, charging a 6-7% interest rate, or provide wholesale funds or equity to microfinance providers serving the poor. Two thirds of the priority and deprived sector lending and investment are provided by the two public commercial banks, Nepal Bank Limited and Rastriya Banijya Bank. Until recently the priority lending was set at 12% of the loan portfolio. It is now being phased out, ending completely in 2007, while the 3% deprived sector requirement will stay in place, and therefore loan and investment in microfinance with it. As of mid July 2003, Rs.22,605 million were affected to the priority sector, while Rs. 3,563 million allocated to deprived sector lending, from which 132.6 million was in the form of equity. Under this requirement, investments made by commercial banks in the Rural Microfinance Development Center, an apex organisation providing wholesale fund to microfinance, can be seen as a new link between the formal finance sector and microfinance.

However, commercial banks are not seeing a commercial interest in lending to microfinance clients, directly or indirectly, as they are judged being too poor, without the necessary collateral to secure their loans. They have reduced their lending to microfinance over time. Some believe that banks need to see opportunities in microfinance for their banking business, instead of being forced to serve a population unknown to them, with inappropriate approaches and products.

Microfinance, Commercial Banks and Insurance Companies

Fulfilling their 'deprived sector' requirements, Nabil bank and Himalayan bank provide lending and equity capital to the two leading private rural microfinance banks, Swabalamban Bikas Bank and Nirdhan Uttan Bank. Everest Bank is also an investor in Nirdhan, while Nepal Investment Bank is a key shareholder of the Swabalamban Bikas Bank. In addition, the banking office of the Women Cooperative Society (an NGO) has a 12% share in Swabalamban Bikas Bank.

Self Help Groups, which have evolved into registered cooperatives, can access commercial bank lending if they gather at least 25 members and satisfy the bank borrowing criteria. However, there is often little interest from cooperatives to borrow from commercial banks as they can access funds at subsidised interest rates from the Rural Self-Reliance Fund (8% reduced to 2% in case of good repayment).

Nirdhan and BISCOL (a cooperative) collaborated during the last two years, with the leading insurance company in Nepal, National Life Insurance Company, on the implementation of a microinsurance product. Facilitated by the Center for Microfinance, the pilot project provided life insurance, health insurance and livestock insurance policies to the clients of microfinance providers. BISCOL is providing matching fund in the scheme, while Nirdhan has announced that it will now extend this product to all its clients.

Sources

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