

## **Rural Microfinance Development Centre Ltd. (RMDC)**

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### **Brief History**

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The Rural Microfinance Development Centre Ltd. (RMDC) was established through the initiative of the Nepal Rastra Bank (NRB), supported by the Asian Development Bank. It was registered in October 1998 under the Company Act 1996 with a mandate to operate as a development bank within the framework of the Development Bank Act 1995. Its promoters identified the need for an APEX institution to play a lead role in promoting and developing the rural finance sector. Most MFIs were constrained in their development due to a lack of financial resources. Originally created for wholesale lending to the five public Regional Rural Development Banks and the two private rural microfinance development banks (CSD, Nirdhan), RMDC had to open to a larger clientele after coming into direct competition with commercial banks.

### **Country Program**

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RMDC operates as a wholesale lender to microfinance institutions: rural development banks, microfinance development banks, rural cooperatives and NGO financial intermediaries. It charges a 6.5% annual interest rate on the wholesale loan, with repayments over 1.5 years (first loan), 3 years (second loan) and 5 years (third loan). It has provided so far Rs. 244 million to 23 partners, with a repayment rate of 100%.

RMDC also provides support to MFIs for their institutional strengthening and capacity building. It provides on-site technical services. Last year, RMDC delivered training services directly or through partners (MFIs, external trainers), in: business planning, microfinance operations, PRA and PWR, financial management and delinquency. RMDC also organise exposure visits to successful organisations.

RMDC is the implementing agency for the Rural Microfinance project funded through an ADB loan. Under the project, RMDC has access to a SDR 14.2 million of loan fund from ADB for on lending to poor households through retail MFIs. RMDC also plans to develop tools and methodologies for maintaining performance standards of MFIs and conducting performance monitoring and supervision of partner MFIs.

### **Area of Operations**

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RMDC plans to operate in 26 districts in Baitadi, Kailile, Dadeldhura and Kanchanpur in the far-western development region, Banke, Bardia, Surkhet and Dailekh in the mid-western development region, Lamjung, Palpa, Nawalparasi, Syangja, Tanahu and Rupandehi in the western development region, Dhading, Bara, Mahottari, Makwanpur and Rauthat in the central development region and Jhapa, Morang, Dhankuta, Udayapur, Sunsari, Siraha and Saptari in the eastern development region.

## Partners

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As of July 2003, RMDC has 23 partner microfinance institutions: 2 Grameen Bikas Banks, 4 rural microfinance development banks, 3 rural cooperatives and 14 NGO financial intermediaries. Microfinance institutions are selected according to different eligibility criteria:

- At least two years of micro credit operation and micro savings mobilization
- At least a 100 active clients
- Possess at least 20% balance of savings in relation to outstanding loan amount
- Loan recovery rate of minimum 90%
- Appropriate institutional and management capability, including in-house training
- Competent and credible members in the Board of directors
- Acceptable accounting, financial reporting and internal control system
- Staff trained in microfinance, accounting and financial management
- Minimum net worth of Rs. 250,000 and financial resources of Rs. 50,000
- Programs strictly targeting the poor particularly rural women
- Well established lending procedures ensuring frequent loan repayment by clients

## Poverty Focus

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RMDC's primary objective is to provide microfinance access, via microfinance institutions, to rural poor households, especially to women. The clients can then undertake viable farm and off-farm economic activities and improve their quality of life.

## Distinctive Features

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RMDC is governed by a general body including representatives of its shareholders. A board of seven directors represents the major shareholders, the Nepal Rastra Bank (two members), and commercial banks (five members), taking policy decisions. RMDC is headed by a CEO who is supported by several managers.

Lending at 6.5%, RMDC borrows at 4% from the government, allocates 2% to loan loss provision, and operates on a 0.5% margin. RMDC was able to decrease operating costs by outsourcing training and keeping its costs under control.

## Funding

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The authorized capital of RMDC is Rs. 160 million and the issued, as well as the paid-up, capital is Rs. 80 million. Its promoters and shareholders are the Nepal Rastra Bank, eleven national level commercial banks, two regional commercial banks, five rural development banks, the Deposit Insurance and Credit Guarantee Corporation and Nirdhan. The commercial banks have a 67% shareholding, while the Nepal Rastra Bank holds 26%. The Asian Development Bank provides a loan fund of SDR 14.2 million for on lending to the target clientele and for building institutional capacity of partners MFIs, under the Rural Microfinance Project.

## Challenges and Development Plans

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RMDC wholesale lending is constrained by the limited number of potential partners with adequate institutional capacity and sound performance in microfinance. In regard to its existing partners, RMDC is unable to satisfy the demand for funding, as its current modus operandi doesn't allow more than Rs. 40 million to a single partner. In addition, RMDC faces competition from commercial banks that are lending to microfinance institutions at 4% p.a. while RMDC lend at 6.5%. Commercial banks are required to lend to MFIs under the deprived sector policy of the central bank.

## Sources

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- Rural Microfinance Development Centre Ltd. (RMDC) Annual Progress Report 2002-2003