

Nirdhan Utthan Bank Ltd.

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Brief History

Started by Dr Harihar Dev Pant (former deputy governor of the central bank), Nirdhan began its microfinance activities in 1993, modelled on the operations of the Grameen Bank of Bangladesh, and was one of its earliest replications in Nepal. Nirdhan's first operations started in Siktohan, Rupandehi District in Western Nepal. Nirdhan obtained a limited banking license from the central bank of Nepal in 1994, under which, Nirdhan was permitted to mobilise voluntary savings only from its members/clients. In November 1998, Nirdhan Utthan Bank Limited (NUBL), "the bank for the upliftment of the poor" was registered as a company. In April 1999, the Central Bank granted license for NUBL to undertake banking activities under the Development Bank Act 1996. In July 1999, Nirdhan NGO transferred its microfinance portfolio to Nirdhan Utthan Bank. The NGO Nirdhan continued its work on primary education, vocational training for youth and adults, entrepreneurship training and health insurance. NUBL's mission is 'to extend financial services and social awareness to the poor in under-served areas of Nepal in a sustainable manner'.

Methodology

NUBL provides both individual and group financial services. Group financial services include lending through groups, which requires no collateral and uses a simple loan process by focusing on the poorest 20% of the population. Clients are required to undergo compulsory training and group recognition tests in order to qualify for loans. For individual-based loans, which focus on microenterprises, clients are expected to contribute 20% towards the funded project and provide some form of collateral, while being a permanent resident within the local area of the bank.

- *Loan products:* general loans, seasonal agriculture loan, seasonal business loan, sanitary loan, housing loan, micro-enterprise loan, and emergency loan.
- *Savings products:* group fund saving, personal saving
- *Microinsurance services:* emergency fund, micro-life insurance

Area of Operations

NUBL operates 33 branch offices in the central western and mid-western Terai (plains), located between the mountains and the border with India. NUBL branches cover nine districts, Rupandehi, Nawalparasi, Kapilvastu, Chitwan, Bara, Parsa, Rautahat, Palpa and Banke. Although NUBL has not set up in Dang, the tenth district in this region, it has received the rights to do so by the Nepal Rastra Bank.

Clients

Active clients	Active savers	Active borrowers	Gender
36,830	29,092	36,830	

As of 15 January 2004

Poverty Focus

Nirdhan provides financial services to the poor in underserved areas. Clients are selected based on several poverty criteria such as ownership of less than 0.25 hectares of irrigated land or less than 0.5 hectares of non-irrigated land per family. In addition, to be eligible for a loan, clients cannot be repaying other loans and earn a per capita income of less than Rs 4,404 (1997-98 price level). Other criteria are related to societal parameters such as: living in houses without cement walls or ceiling, no family members employed in the formal sector and being a permanent resident in that area.

Average outstanding loan size	Average outstanding loan size / GNP per capita	Average deposit size
Rs. 5,355	31%	Rs. 2,371

As of 15 January 2004

Distinctive Features

Although Nirdhan Bank's main focus is to provide financial services, especially through regular group saving deposit, Nirdhan also offers personal saving alternatives as a voluntary service for individual members. Given the diversity of loans provided, the services cater to either: micro-entrepreneurs who have graduated from the group-based lending services, or to less developed businesses, through group methodology.

Innovations

The establishment of NUBL, as the first private Grameen Bank replication, has been an innovation in itself for Nepal. Nirdhan also provides microinsurance services to provide risk coverage for its clients. Due to the uncertainty involved in providing loans to clients with low-income, the micro-insurance service is designed to eliminate some of the financial uncertainty and protect the loans of the clients, as well as costs related to life events. As a new initiative, it is currently being piloted in two of Nirdhan branches. This new product should also reduce the number of clients dropping out, reduce risk, and improve on the overall credit rating of clients.

Financial Results

Nirdhan received in 2000 a rating grade of $\alpha+$ with a composite score of 72% by the rating agency M-CRIL.

Loan Portfolio	Portfolio at risk	Savings Deposits	OSS / FSS	RoE / RoA
Rs 197,243,142	11.26%	Rs 68,983,317	112.4% / 111%	- / 1%

As of 15 January 2004

Challenges and Development Plans

Nirdhan faces major problems with the current Maoist insurgency, with some branches looted and pressure put on clients not to repay their loans. In result, Nirdhan has taken security measures such as reducing the movements of cash, introducing payment slip transactions and requesting clients to go to the branch office for cash transactions.

Inclusion in the Financial Sector

Nirdhan is partly owned by commercial banks (Himalayan Bank 12%, Nabil bank 12%, Everest Bank 12%) as well as private sector individuals. As a development bank, Nirdhan has been able to further extend its presence in the financial sector through strategic alliances with key financial providers and development institutions in Nepal and abroad. These organisations include: Grameen Trust, CASHPOR, Save the Children Federation, Plan International, CMF, Micro-finance Association of Nepal (MIFAN), CGAP and ILO. Nirdhan is a shareholder of RMDC, which has also provided a line of credit to Nirdhan. In addition, Nirdhan has obtained loans from several commercial banks.

Sources

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