



BEST PRACTICES IN NEPAL AND STANDARDS IN MICROFINANCE

(Spreading best practices and developing standards in Microfinance)

*By: Mukunda Bahadur Bista - CSD
& Keshar Bahadur Shrestha – SB Bank*



Best Practices in Nepal

GENERAL OVERVIEW:


- Successful MFIs have proved that financial services can be an effective and powerful instrument for poverty reduction by enhancing the ability of poor people to increase incomes, build assets and reduce their vulnerability in times of economic stress.
- There is greater consensus than ever before about the importance of spreading the best practices and developing regional standards in microfinance.
- Over the last decade, Nepal has turned into a microfinance laboratory, exploring various approaches to provide financial and non-financial add-ons services to the rural poor both in the hills and plain areas of the country.

○ The list of Institutions and Programs engaged in Micro/ Rural finance is long and includes:

- ↪ Self-help Groups/ Organizations (SHGs/SHOs)
- ↪ Savings and Credit Organizations (SCOs)
- ↪ Savings and Credit Cooperatives (SCCs)
- ↪ Multi Service Cooperatives
- ↪ Village Banks (Banking)
- ↪ Grameen Bikas Banks
- ↪ Government and Private owned Development Banks
- ↪ Microfinance NGOs

APPROACHES & METHODOLOGY

- The approaches and methodology adopted by these various MFIs are varied in terms of loan ceiling, targeting of clients, terms of loan, interest rate etc.
- These MFIs also differ in their approach of providing only micro-credit and mobilizing micro-savings, micro-insurance or including other non-financial add-ons such as inclusion of capacity building program like training and other support services.

- 
- A large black left bracket and a large yellow right bracket are positioned at the top of the slide. A horizontal bar with a light green-to-white gradient spans the width of the slide below the brackets.
- One common principle almost all the MFIs have realized that for the sustainability of the institutions they should meet their cost from the interest earnings to achieve Operational Self-Sufficiency (OSS) / Financial Self-Sufficiency (FSS).
 - MFIs are giving priority to women or limiting their services to women as their clients.

MICROFINANCE BEST PRACTICES (CUSTOMIZED INNOVATIONS) AS IMPLEMENTED BY CSD/ SB BANK



➤ Participatory targeting using PRA/ PWR tool to ensure reliability and cost effectiveness.

➤ Annual evaluation of centers and award system to generate positive competition.



➤ Monthly/ semi-annual participatory income assessment to build self-confidence and measure loan impact.



➤ Capacity building of members.

➤ In depth analysis of the needs of the clients in designing/ developing various products.

➤ Transparency through public audit.



➤ Sensitization of guardians and spouses to build cooperation and harmony.

➤ Study tours / exposure visits to successful system /enterprises.



Development of Customized Products

A. *Loan Products*

- General Loan
- Seasonal Loan
- Microenterprise Loan
- House Loan
- Centre/ Group Fund Loan
- Special Loan

A large black left bracket and a large yellow right bracket are positioned at the top of the slide. A horizontal line, colored light green on the left and yellow on the right, spans the width of the slide below the brackets.

B. Savings Products

- Group Savings
- Centre Fund
- Individual Savings
- Welfare Fund
- Educational Fund
- Pension Fund
- Parva Bachat (Festival Savings)

A large black left bracket and a large gold right bracket are positioned at the top of the slide. A horizontal line with a gold-to-white gradient runs across the slide, starting from the left bracket and ending at the right bracket.

C. Protection Scheme

- Life and Housing
- Livestock

SERVICE FLOW CHART OF CSD/ SB BANK

Identification of Target Area



Identification of Target Group



Organization of Pre-group Training






Organization of Group/ Centre



Organization of Two Weekly Meetings to:

- *Collect Savings*
- *Recommend loan request*
- *Extend loan*
- *Review Regular Progress*
- *Discuss and determine other activities*

ORGANIZATIONAL DEVELOPMENT OF CSD PROMOTED SELF-HELP GROUPS/ SAVINGS AND CREDIT COOPERATIVES

Stages of Mobilization	Level	Promotion of SHGs/ SCOs	Time Frame	Changing Role of CSD
Stage 3: Cooperative Alliances, networks and federation	District	<div style="border: 1px solid black; padding: 5px; text-align: center;">District Level Federation and Networks</div> 	2 years	<ul style="list-style-type: none"> - Networking and facilitation. - Consultation and advisory support - Basically self-organizing and self-motivated initiatives of cooperatives.
Stage 2: Transformation to Primary Cooperatives	VDC or settlements in Adjoining VDCs	<div style="border: 1px solid black; padding: 5px; text-align: center;">SCC as Primary Cooperative</div> 	2 years	<ul style="list-style-type: none"> - Back stopping support
Stage 1: Formation of SCOs	Settlement	<div style="border: 1px solid black; padding: 5px; text-align: center;">SCO at settled Level</div>  <div style="border: 1px solid black; padding: 5px; text-align: center;">Self-help Groups</div>	3 years	<ul style="list-style-type: none"> - Motivating, training, guiding and facilitating - Capacity building of SCO/ SCCs. - Networking and linking with the resource/ service centers and markets

What is at the core of building best practices that work for the rural masses?

The core paradigm is that we need a range of institutions:

- Commercial Banks,
- Microfinance Development Banks
- MFI/ NGOs,
- Savings and Credit Co-operatives
- Grassroots Self-help Groups (SHGs/SCOs)

The key is not only legal status or structure

- The key is performance against agreed measures of scale, efficiency, portfolio quality, financial sustainability and integration into domestic financial system.
- **Those institutions that meet high performance standards should be given a supportive policy environment, reflecting what works in microfinance .**
- They should be allowed to mobilize savings from the public if they demonstrate compliance with the safety and soundness standards.

The best practices that need to be embodied in the vision and policies for microfinance are the following:

- Build access, not subsidies in microfinance
- Build sustainable, responsive institutions, not short-lived projects
- Focus on savings mobilization and domestic commercial sources in mobilizing resources
- Where appropriate, utilize second-tier institutions, to build shared performance standards for financing, and provide or broker technical services for capacity building
- Build favorable policy and regulatory umbrella that reflects what work in microfinance

In outlining the optimum roles of each set of actors, the best practices call for:

- **Government** and government agencies being active in establishing good policies and regulations, promoting the importance of sound microfinance services, and staying out of the provision of direct services.
- **Microfinance Institutions** building efficient, responsive, sustainable lending services to substantial numbers of poor people, and providing savings and other services, either directly or in collaboration with other institutions.

Banks and other regulated financial institutions seeing the opportunities in providing sustainable microfinance services, rather than forcing all banks to deal with this market.

- **Funders/Networking Organizations** supporting the build-up of financial systems employing standards, supporting institutions, and developing a menu of financial and technical service instruments that fit the needs of microfinance institutions at various stages of development, including working through sound practitioner networks and wholesalers.

A decorative horizontal line with a gradient from light green to white, spanning the width of the slide. A large black left bracket '[' is positioned at the start of the line, and a large gold right bracket ']' is positioned at the end of the line.

Standards in Microfinance

INSTITUTIONAL & OUTREACH

As of Mid – July 2003

S.N.	Particulars	Regional Grameen Bank					Private Dev. Bank				Total	Average
		ERGB	MRGB	WRGB	MWRGB	FWRGB	SB Bank*	NUB*	DEPROSC	CBB		
A	AGE (Years) OF INSTITUTION	10	6	9	9	10	9	10	2	1	66	7
B	COVERAGE											
1	No. of District	6	12	13	4	5	8	8	5	7	68	8
2	No. of VDCs	262	246	275	102	83	229	219	133	63	1,612	179
C	OUTREACH										-	-
1	Total No. of Active Borrowers (on an individual basis)	49,232	36,274	39,004	16,515	11,755	27,275	27,457	7,952	5,158	220,622	24,514
2	Total No. of Active Savers (on an individual basis)	53,270	37,351	40,315	19,460	19,148	33,948	34,817	10,397	7,327	256,033	28,448
4	Total No. of Active Clients	53,270	37,351	40,315	19,460	19,148	33,948	34,817	10,397	7,327	256,033	28,448
5	Percentage of Women Clients	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
D	LOAN PORTFOLIO										-	-
	Loan Outstanding -NRs.'000	474,620	234,680	318,100	121,298	99,353	194,417	210,686	45,024	45,425	1,743,603	193,734
	-US \$'000	6,328	3,129	4,241	1,617	1,325	2,592	2,809	600	606	23,248	2,583
E	CLIENTS' DEPOSIT										-	-
1	Total Savings -NRs.'000	171,557	72,691	90,325	70,664	50,423	84,576	64,284	10,912	11,637	627,069	69,674
	-US \$'000	2,287	969	1,204	942	672	1,128	857	145	155	8,361	929
2	Percentage of Savings on Loan Portfolio	36%	31%	28%	58%	51%	44%	31%	24%	26%	36%	36%
a	* Figure includes NGO period also											
b	Some of the districts/VDCs are overlapped by more than one Banks.											
c	Exchange Rate US \$ 1 = NRs. 75											

Progress Summary of CSD & SB Bank

As of Poush 2060 (Mid Dec – Mid Jan, 2003)

Particulars	Unit	CSD	SB Bank	Total
<i>Institutional Profile</i>				
District Covered	No.	1	8	9
VDCs/Municipalities Covered	No.	10	244	254
Branches	No.	2	27	29
Centers	No.	107	1247	1,354
Groups	No.	684	7,300	7,984
Members (Households)	No.	3,200	34,245	37,445
Percentage of Women Members	%	100	100	100
Population Served	No.	17,600	210,265	227,865
<i>Total Staff</i>	No.	12.5	137	150
- Field Staff	No.	6.5	80	87
<i>Loan Portfolio</i>				
No. of Borrowers	No.	2721	27,147	29,868
No. of Loans Outstanding	No.	4,866	50,104	54,970
Loan Disbursement	Rs.	98,035,450	1,653,420,035	1,751,455,485
Loan Repaid	Rs.	83,013,725	1,464,337,376	1,547,351,101
Loan Outstanding	Rs.	15,021,725	189,082,659	204,104,384
Amount in Arrears	Rs.	164,729	3,118,430	3,283,159
Portfolio at Risk	Rs.	191,409	3,916,450	4,107,859
Repayment Rate	%	99.80%	99.79%	99.51
<i>Savings Balance</i>				
Centre Fund	Rs.	5,912,611	84,241,193	90,153,804
Individual Savings	Rs.	853,324	6,318,168	7,171,492
Welfare Fund	Rs.	49,635	548,983	598,618
Total	Rs.	6,815,570	91,108,344	97,923,914
Savings to Loan Outstanding	%	45.37%	48.18%	47.98%
<i>Performance Indicator</i>				
Members per Field Staff	No.	492	428	433
Members per Center	No.	30	27	28
Loan Outstanding per Field Staff	Rs.	2,311,035	2,363,533	2,359,588
Loan Outstanding per Borrower	Rs.	5,521	6,965	6,834
<i>Capacity Building</i>				
Pre Group Training (Total Enrollment)	No.	4,967	63,033	68,000
Central Hall Construction	No.	52	933	985

INSTITUTIONAL AND OUTREACH INDICATORS

S.N.	Particulars	CSD	SB Bank	Total
A	AGE (Years) OF INSTITUTION	10	2	12
B	COVERAGE			
1	District	1	8	9
2	VDCs	10	229	239
C	NO OF OFFICES			-
1	Central Office	1	1	2
2	Regional/Area Office	-	3	3
3	Branches	2	27	29
	Total	3	31	34
D	NO OF PERSONNEL			
1	Total Personnel	13	139	152
2	Total Center Manager (Loan Officer)	7	84	91
D	OUTREACH			-
1	Active Borrowers (on an individual basis)	2,615	27,275	29,890
2	Active Savers (on an individual basis)	3,116	53,270	56,386
<u>3</u>	Active Clients	3,116	53,270	56,386
4	Women Clients	3,116	53,270	56,386

INSTITUTIONAL AND OUTREACH INDICATORS

Cont...

S.N.	Particulars	CSD	SB Bank	Total
E	LOAN PORTFOLIO			-
1	Total Loan Disbursement- NRs.'000	83,772	1,479,154	1,562,926
	-US \$ '000	1,117	19,722	20,839
2	Total Loan Repayment -NRs. '000	68,443	1,284,737	1,353,180
	-US \$'000	913	17,130	18,042
3	Loan Outstanding -NRs. '000	15,329	194,417	209,746
	-US \$ '000	204	2,592	2,797
F	CLIENTS' DEPOSIT			-
1	Mandatory Savings -NRs.'000	5,010	75,663	80,673
	-US \$ '000	67	1,009	1,076
2	Voluntary Savings -NRs. '000	796	6,394	7,190
	-US \$ '000	11	85	96
3	Total Savings -NRs. '000	5,806	82,057	87,863
	-US \$ '000	77	1,094	1,172
4	Percentage of Savings on Loan Portfolio	38%	42%	42%

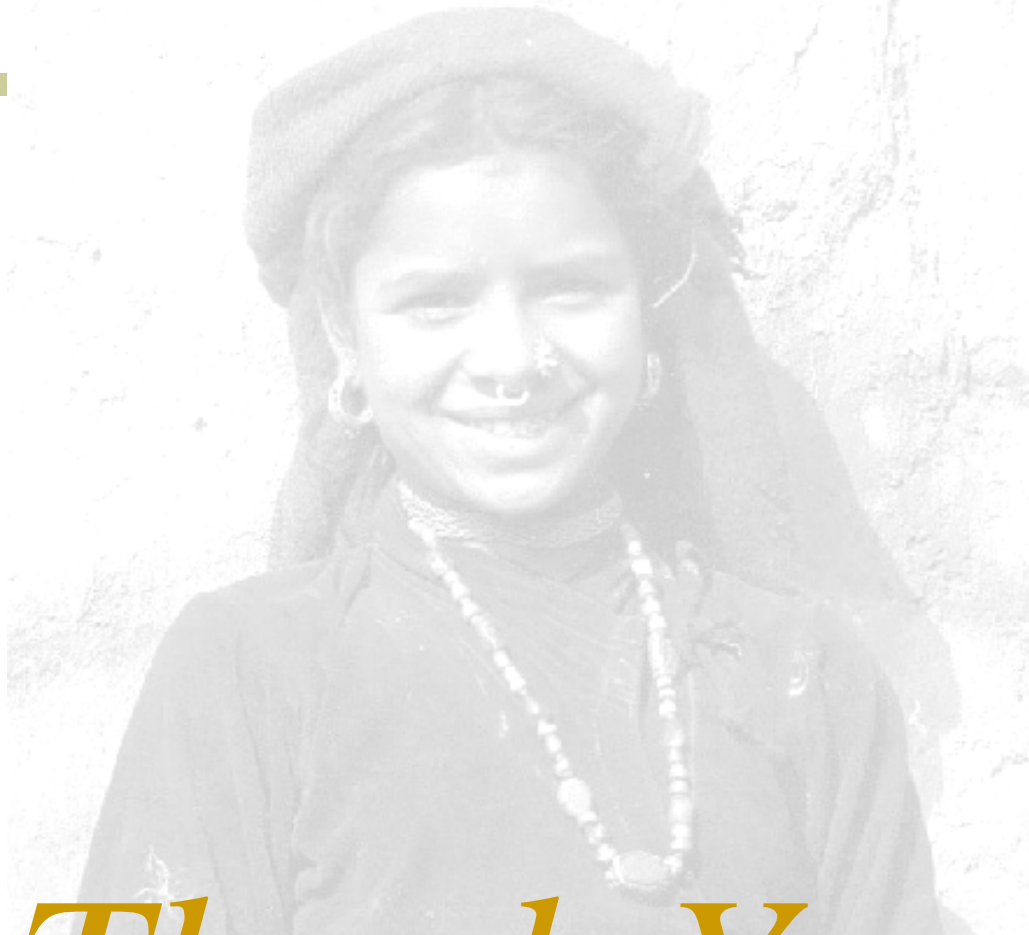
Financial Highlights

Amount in '000

S.N.	Particulars	CSD	SB Bank	Total
A	TOTAL ASSETS	38,587	220,494	259,081
	US \$ '000	514	2,940	3,454
B	TOTAL LIABILITIES	14,050	206,042	220,092
	US \$ '000	187	2,747	2,935
C	NETWORTH NRs.'000	24,537	14,452	38,989
	US \$ '000	327	193	520
<u>D</u>	OPERATING REVENUE NRs.'000	<u>4,559</u>	<u>42,777</u>	47,336
	US \$ '000	61	570	631
B	OPERATING COST	2,473	32,235	34,708
	US \$ '000	33	430	463
a	Financial Cost NRs. '000	653	11,303	11,956
b	Provision for loan losses NRs.'000	66	651	717
c	Operating Expenses NRs. '000	1,754	20,281	22,035
C	INCOME FROM OPERATION	2,086	10,542	12,628
D	OTHER INCOMES/EXPENSES	-	1,103	1,103
	US \$ '000	-	15	15
E	CONSOLIDATED EARNINGS	2,086	11,645	13,731
	US \$ '000	28	155	183
F	TAX AND PROVISIONS	-	7,458	7,458
	US \$ '000	-	99	99
G	CURRENT YEARS' PROFIT/LOSS	2,086	4,187	6,273
	US \$ '000	28	56	84

Performance Indicators

S.N.	Particulars	CSD	SB Bank	South Asia Medium
A.	PORTFOLIO QUALITY			
1	On-time Repayment Rate	99.24%	99.53%	
2	Loan Loss Reserve Ratio	2.0%	1.39%	
3	Write-off Ratio	0%	0%	
B	SUSTAINABILITY/PROFITABILITY			
1	Overall Operating Self-sufficiency	141%	133%	129%
2	Overall Financial Self-sufficiency	139%	107%	94%
C	EFFICIENCY			
1	Opt. Cost per Avg. Portfolio Outst.	0.10	0.11	
2	Average Loan Size -NRs.	8,600	7,200	
	US \$	114.67	96.00	
3	Average Loan Outstanding -NRs.	5,862	7,128	
	US \$	78.16	95.04	97%
4	Average Savings Amount -NRs.	1,973	2,400	
	US \$	26.30	32.00	
5	Yield on Portfolio	16.2%	22.0%	21.9%
6	Case Load			
a	Active client per loan officer	445	390	
b	Active borrower per loan officer	374	314	195
c	Average portfolio per Loan Officer	2,190,000	2,218,000	
	US \$	29,200	29,573	



Thank You