

Best practices in Nepal and regional standards in microfinance

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Microfinance Programs/Models in Nepal

I. Grameen Bank model (Replication/adaptation)

- Regional Grameen Bikas Banks - 5
- Nirdhan Utthan Bank Limited
- Self-help Development Bank Limited
- Deprosc Development Bank Limited
- Chhimek Bikas Bank Limited
- NRDSC (an NGO involved in microfinance)
- Women's Cooperative Society
- NERUDO (an NGO involved in microfinance)
- TRWS (an NGO involved in microfinance)

II. Community Based Models

- Saving & credit cooperatives
- Self-help group

III. Small Farmers Development Program (SFDP) and Small Farmers Cooperative Limited (SFCL

IV. Productive Credit for Rural Women/Micro-credit Project for Women

V. Village banking model

- **VI. Financial Intermediary Non-governmental Organizations (FINGO)**
- **VII. Development Banks**

Best practices

- **Strategy to cover poor:**
 - Most of the above mentioned programs/models have the client selection criteria that focus the poor households.
 - Starts with small loans
 - Provides repeat loans
 - **Management practices:**
 - Committed to the Provision of Microfinance Services: MFIs are committed at the highest levels of management to the delivery of financial services to the entrepreneurial poor and to micro and small business owners who lack access to traditional sources of capital.
 - Maximization of efficiency of operations: MFIs have streamlined their lending procedures and developed accurate loan approval, disbursement and collection methods for maximum efficiency.

Best practices Contd.

- o Thorough training of field staff: MFIs either have established training wing within their organization that regular organize training events or using external people to train the staff for microfinance best practices and operating procedures.
- o Affiliation with Networks: SCOs, Microfinance banks, FINGOs are taking membership with network organizations and are getting regular opportunities to learn/share with regional microfinance partners through practitioner forums and associations.

Best practices Contd.

- **Institutionalization:**

- o Formal personnel rules in place for human resource management
- o Formal Accounting and loan tracking manual in place
- o Internal audit and external audit system in place
- o Loan and saving manual in place
- o Client and staff capacity building process in place

- **Vision for Growth:**

- o Outreach expansion: Most of the MFIs are now aware of being financially viable that ultimately require a reasonable number of clients to be served. In this regard, MFIs are deepening their program within the existing working area.
- o Branch expansion: SFDB/SFCL, Grameen replicates have developed their capacity to serve large number of clients through the opening of new branches.

Best practices Contd.

- **Managing costs:**
 - o Operating costs are being kept low and tightly managed by ensuring that each unit/branch is managed as a separate cost centre that must reach certain performance targets. Similar targets are set for individual staff and, although basic staff compensation packages are low, there are incentives built in to reward individuals that meet and surpass these targets (i.e. in terms of number of clients served, loan portfolio managed, repayment rates, etc.).
- **Charging appropriate interest rate:**
 - o All programs are charging an appropriate interest rate to cover their cost (operating cost, financial cost, loan loss provision and inflation). A few government-sponsored programs (Banking with the Bishesheor, Mahila Jagriti Program) are not charging appropriate interest rate. These programs have very few numbers of clients at the moment. In case of SCOs administrative cost, especially personnel, is low because of volunteer basis support from the members and they have relatively small size of loan portfolio that normally could not generate enough interest income to cover the cost.

Best practices Contd.

- **Offer of customer friendly financial products:**
 - o The financial services offered by a MFI must be designed in response to the needs and capacities of the clientele, and not just be down-market versions of services provided to better-off clients. Terms and conditions of savings and loan products should respond to the particular needs of the client group. In this regards, MFIs have started continuous market research for product refinement/innovations.
- **Management information system:**
 - o All models/programs are using either manual or computerized information systems. They follow generally accepted accounting principles (GAAP) so that they could produce reports on time. MIS produces the report that requires submitting regulatory authorities.

Best practices Contd.

- **Risk Management:**
 - o Establishment of Emergency fund or Social security fund by several MFIs
 - o Linkages with Deposit Insurance & Credit Guarantee Corporation for livestock insurance
 - o Loan repayment funds and savings collections are immediately disbursed in the field to prevent from robbery or attack from external people
 - o Public audit/interaction meetings/borrowers' workshops are conducted to motivate people for timely repayment of loan

Practices in Nirdhan Utthan Bank Limited (NUBL)

- **Geographical Coverage and Target Market**

The client selection criteria of the bank are as follows:

- o Women having less than 0.25 hectares of irrigated land or less than 0.5 hectares of un-irrigated land per five-person family.
- o A house that does not have cement walls or ceiling (pucca house).
- o The member being a permanent resident of the bank working area.
- o No family member is employed in the formal sector.
- o No current loans from other financial service providers.
- o A family per capita income less than US\$ 56.00.

Practices in NUBL Contd.

- **Financial services**
 - **Loan products**

Products	Max^m limit Rs.	Max^m limit US\$	Loan period
General loan*	30,000	407	3 to 12 months
Seasonal agriculture loan	3,000	41	1 year
Seasonal business loan	10,000	136	6 months
Tubewell/sanitary loan	6,000	81	2 years
Housing loan	15,000 to 50,000	203 to 678	2 to 5 years
Micro-enterprise loan (Collateral based)	100,000	1,355	Up to 5 years
Emergency loan	10,000	136	2 years

Practices in NUBL Contd.

- Saving products

Products	Source
Group Fund Saving (Compulsory)	1. 5% of loan except in Housing, Emergency and Micro- enterprise loan. 2. Weekly saving @ Rs. 2/week
Personal Saving	Voluntary

- Microinsurance services

- o Emergency fund

The second and above cycle borrower pays Rs. 25 at the time of each *General Loan* disbursement and if death happens her family gets the following benefit:

Practices in NUBL Contd.

1 st year member	Rs. 15,00.00
2 nd year member	Rs. 2,500.00
3 rd year member	Rs. 3,500.00
4 th year member	Rs. 4,500.00
5 th year & above member	Rs. 5,000.00

Micro-life insurance: In collaboration with National Life & General Insurance Company; Premium and benefit is as follows:

Premium	Benefit	Remarks
Rs. 70	Rs.10,000	Rs. 20,000, if death occurs by accident
Rs. 140	Rs.20,000	Rs. 40,000, if death occurs by accident
Rs. 280	Rs.40,000	Rs. 80,000, if death occurs by accident

Practices in NUBL Contd.

- **Management practices**
 - Commitment to serve the poor: The mission statement of NUBL is to extend financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner. This is a guiding principle to serve the poor for NUBL.
 - Streamlining of operation: Operation manual, Loan and saving manual, Financial procedure manual, Personnel manual, Internal audit manual
- **Management information system:**
 - Computerized MIS software installed in all offices. MIS has Loan tracking system and Accounting system

Practices in NUBL Contd

- **Institutional capacity building:**
 - Separate training department
 - Strategic alliances with international organizations (Plan International, Save The Children US, CGAP)
 - Member of different network organizations (CASHPOR, INAFI, The Grameen Trust, Microcredit Summit Campaign)

Comparison of South Asian MFIs and Grameen replicate of Nepal in terms of performance

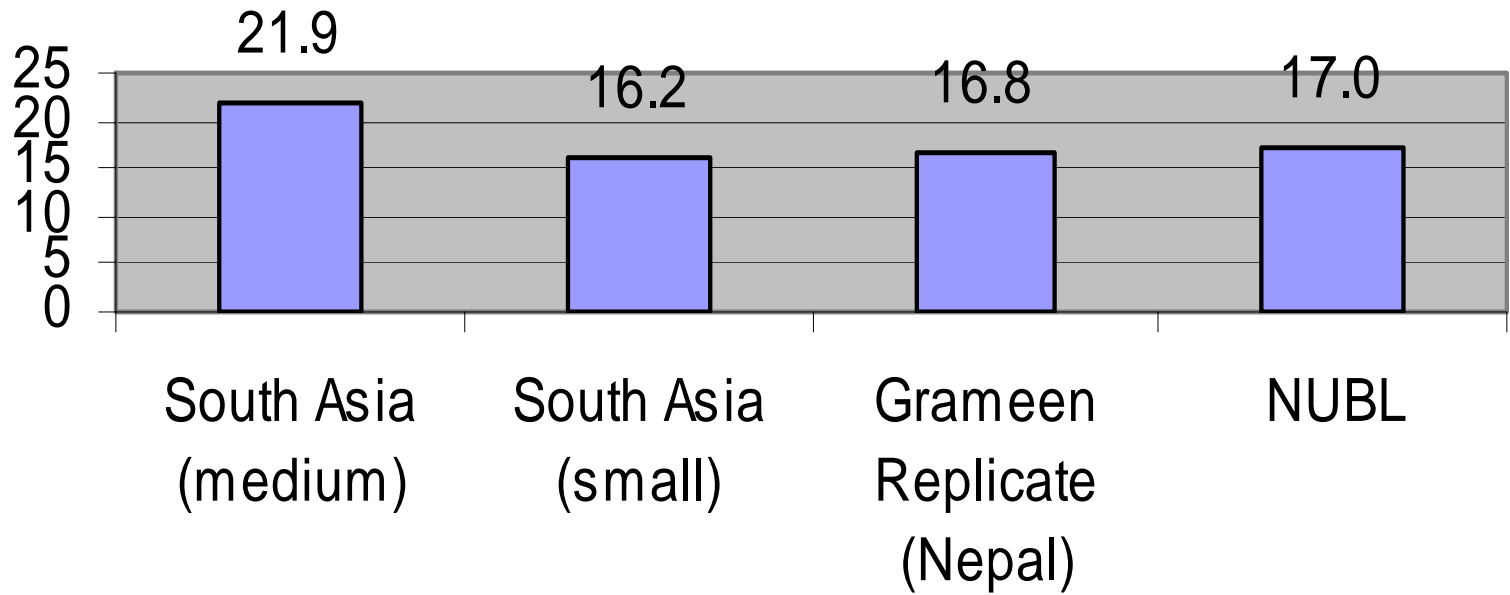
The Grameen replicates have significant numbers of clients that they play major role in microfinance industry in Nepal. The table below compares the performance standards of 7 Grameen replicates:

S.N.	Particular	Unit	South Asia (medium)#	South Asia (small)#	Grameen Replicate (Nepal)	NUBL January 2004
A	Outreach and productivity					
1	Average loan portfolio per loan client	US\$	97	153	101	95
2	Average number of loan clients per staff	No.	195	129	150	141
B	Profitability and sustainability					
1	Adjusted return on assets (Adjusted net operating income after taxes/Average total assets)	%	-2.5	-7.3	-1	1
2	Operational self-sufficiency	%	129.1	77.2	104.1	112.0
3	Financial self-sufficiency	%	94.1	57.4	100.2	111.0
C	Income					
1	Yield on portfolio	%	21.9	16.2	16.8	17.0
D	Operating expense					
1	Operating expense ratio (Adjusted operating expense/Total assets)	%	9.1	9.8	11.9	5.0
E	Portfolio quality					
1	Portfolio at risk > 30 days	%	5.6	14.8	5.7	5.9
F	Efficiency					
1	Adjusted operating expense/loan portfolio	%	14.3	13.7	20.5	11.8
2	Cost per borrower	US\$	13	21	22	11

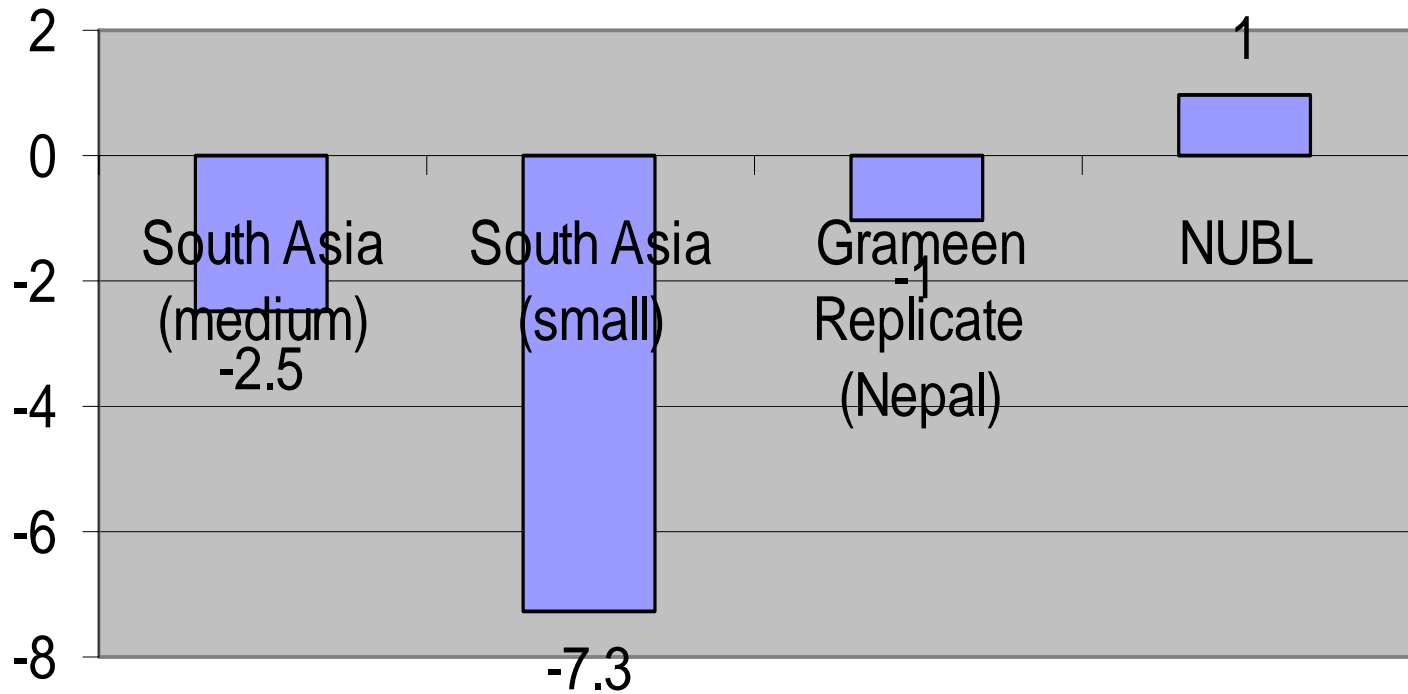
- # Source: 1. Microbanking Bulletin, Issue No.8
2. Annual report of respective Grameen replicates: Grameen Bank Biratnagar, Grameen Bank Janakpur, Grameen Bank Butwal, Grameen Bank Nepalgunj, Grameen Bank Dhangadhi, Self-help Development Bank Janakpur and Nirdhan Utthan Bank Limited
 3. Monthly Progress Report of Grameen replicates

- Note: 1. Microbanking Bulletin classifies MFIs as small, medium and large according to the size of their loan portfolio.
2. South Asia (medium) includes AKRSP Pakistan, Basix India, BURO Tangali Bangladesh, FWWB India, NUBL Nepal, SEEDS Sri Lanka and SHARE India
 3. South Asia (small) includes Grama Vidyal India, IASC India, KASHF Pakistan, SIFFS India, Swyam Krushi India

Yield on portfolio



Adjusted return on assets



Average loan portfolio per loan client (US\$)

