

INNOVATION IN NEPAL MICROFINANCE AND BENEFITS FOR ASIA

- **RURAL FINANCIAL SYSTEMS IN FORMAL SECTOR**
- **The first formal rural financial system**
 - **Grain bin cooperative 1961**
 - **SAJHA**
 - **Land reform Saving Corporation (LRP 1964)**
 - **Agricultural Development Bank in 1967**

Commercial Banks in Rural and Microfinance

Priority Sector Credit

- Small sector credit 1974
- Intensive Banking Program - 1981
- Production Credit for Rural Women - 1982
- Cottage and Small Industries Project - 1982
- Banking With the Poor Program - 1991
(RBB Only)
- Micro Credit Project for Women - 1994

A turning point towards small and micro level credit

- Small Farmers Development Programme of ADB/N –1975
- Intensive Banking Programme 1981
- Grameen Bank replication/adaptation
- Banking With the Poor Programme 1991
- Savings and Credit Co-operatives
- Savings and Credit Self-Help Groups
 - Forest users' group
 - Mothers' group and
 - other non-formal groups

Banking With the Poor Programme

- "The Foundation for Development Cooperation" (FDC) in Brisbane, Australia in 1990.
- Formation of BWTP network and launching of the project **Banking With the Poor** 1991
- **The objectives:**
- To explore, demonstrate and publicise the scope for increased access to credit on a sound commercial basis for the very poor in developing countries.
- To promote commercially sound linkages between the formal financial sector and well managed NGOs and SHGs of the very poor.

General Information on BWTP (Mid July 2004)

- Programme started 1991
- Branch offices involved 27
- Districts 18
- NGO involved 1
- Outstanding loans (in thousand NRs.)
- Number 6868
- Principal 47967
- Interest 34224

Lessons Learned from BWTP

- Inappropriate piloting
- Insufficient social preparation
- Lack of clear vision, mission and goal
- Lack of procedure manual led to inconsistency of programme
- Lack of business planning
- Insufficient MIS
- Lack of close supervision and monitoring during pilot phase.
- In sufficient human resource development
- No any documentation on the lessons learned

- No clear accounting and recording system at ASHG level.
- Capacity building on this area was clearly lacking.
- Lack of proper leadership development
- Low cost involvement (both bank and borrowers)
- Cost sharing among stakeholders
- Peoples' acceptance and active participation
- Many success cases prove that there is significant impact on the lives of the poor

Toward the future

The Paradigm Shift

- The poor can be banked cost effectively
- They can and do save (this is a human nature)
- They can handle resources in a manner required by the formal system.
- Collectively they can take financial and non-financial decisions for common good.
- They are able to repay loans in time.
- Peer pressure generated in the group is a good guarantee of loan.
- They can graduate to micro entrepreneur.

The paradigm has been shifted from providing financial services to the individuals of a group made in joint liability to group banking.

The mantra is now from

individual banking to group banking.

- There is a marriage of "Strengths" of formal system with the "Groups", which creates an atmosphere of trust leading to a "win-win" situation for both the stakeholders.
- There is a shift from project banking to personal banking.