

Nepal Stakeholder Workshop

Kathmandu, 27th February 2004, Sharing Microfinance Resources and Knowledge in South Asia

The workshop focused on four sections:

1. Cooperation Between Microfinance and Regulated Commercial Finance
2. Innovations in Nepal Microfinance and Benefits for Asia
3. Best Practices in Nepal and Regional Standards in Microfinance
4. Forms of Regional Cooperation in Microfinance

In February 2004, in partnership with the Centre for Microfinance (CMF) the Banking with the Poor Network Secretariat conducted a series of individual consultations with leading practitioners and other supporters (wholesalers, government, central banks, training and networking organisations, commercial banks and regulated companies), which was the opportunity to build the base of a collaborative relationship with local organisations, to integrate them in the regional information sharing platform put in place by the BWTP network, the Asia Resource Centre for Microfinance (ARCM), and to collect essential and updated information.

These consultations focussed on the four topics defined in the workshop organised on the 27 February 2004 in Kathmandu and presented below. Local experts and leading practitioners were asked to present relevant papers and to participate to discussion panels. The central theme of the workshop was "Sharing microfinance resources and knowledge in South Asia".

For each topic included in the workshop agenda, two to three speakers provided their views and perspectives through a short presentation, summarising in some cases in a more elaborated paper. Cooperation between microfinance and regulated commercial finance

The workshop was co-organised by the Banking with the Poor Network and the Center for Microfinance, and was chaired by Mr. G.B. Thapa, Chairperson of the Center for Microfinance. The guests of honour were: Dr. Hari Krishna Upadhyaya, Honourable member of the National Planning Commission, Mr. Ram Babu Pant, Deputy Governor of Nepal Rastra Bank, and Dr. Mohan Man Sainju, Honourable Vice Chairperson of Poverty Alleviation Fund.

List of workshop speakers

Cooperation between microfinance and regulated commercial finance

- Tulasi P. Uprety, Executive Director, Financial Institution Supervision Department, *Nepal Rastra Bank -Nepal Central Bank*
- Krishna Pradhan, Executive Director, Microfinance Department, *Nepal Rastra Bank -Nepal Central Bank*

Innovations in Nepal Microfinance and benefits for Asia

- Nav Raj Simkhada, Microfinance Professional, Rural Finance Nepal (RUFIN), GTZ
- Ulrich Wehnert, Team Leader, Rural Finance Nepal (RUFIN), GTZ
- Gopal Chandra Sharma, Rastriya Banijya Bank

Best Practices in Nepal and regional standards in Microfinance

- Sunil Khanal, Senior Manager, Nirdhan Utthan Bank Ltd.
- Mukunda B. Bista, Executive Director, Center for Self-help Development (CSD) & Keshar B. Shrestha, Executive Director, Swabalamban Bikas Bank Ltd.

Forms of regional cooperation in microfinance

- Achyut Hari Aryal, microfinance professional

- Hem Raj Poudyal, Credit/MED Coordinator, Plan Nepal

1. Cooperation Between Microfinance and Regulated Commercial Finance

In his presentation to address the cooperation between microfinance and regulated commercial finance, Tulasi Prasad Uprety of the Nepal Rastra Bank (Central Bank of Nepal), looked at the structure of the financial system in Nepal and the linkages between commercial banking and microfinance. He found that despite Nepal's move towards a market-based economy it was still struggling with poverty in rural areas. Microfinance services allowed the predominantly poor rural population to partake in normal business practices, within the absence of a healthy income, to financially support such prospects or ventures.

Krishna Pradhan, the Executive Director of the Microfinance Department of the Nepal Rastra Bank (NRB), presented a report on the development of the Rural Self-Reliance Fund (RSRF). Set up by the government of Nepal in 1991, when no microfinance was in existence, the fund is managed by the NRB, and provides wholesale funding to Savings and Credit Cooperatives (SACCOs) and NGOs operating in rural areas. RSRF targets areas where there is no access to financial services, and provides access to microcredit services to populations with less than one hectare of land and no regular income - or to lower casts. In the case of 100% repayment to RSRF by partners, the interest rate changes on their borrowings - decreased from 8% to 2%. As of October 2003, RSRF has benefited 8,500 households, through loans made by 147 SACCOs and 49 NGOs. The repayment rate of partners ranges from 88% (NGOs) to 95% (SACCOs).

2. Innovations in Nepal Microfinance and Benefits for Asia

To see the tangible effects of Savings and Credit Cooperative Societies (SACCOS), *Nav Raj Simkhada of the GTZ program 'Rural Finance Nepal (RFN)'* looked at four operating SACCOs – Bindhabasini Savings Fund Co-operative Ltd (BISCOL), Janasachetan Savings and Credit Cooperative Ltd (JSACCOS), SFCL and the Barahi Women's Multipurpose Co-operative Ltd (BWMCL). He found that due to the overall financial sustainability of the current SACCOs, there was certainly room for innovation in the current microfinance services being provided. However, it was also noted that the type of new services and products being provided needed to be very consumer specific. Therefore, needing to reflect attributes such as "geography, market opportunity, development and stability of financial market and inflation" (Simkhada 2004 p. 9). In response to that need, BISCOL offers an innovative micro-insurance scheme, covering life and health risks. The premium represents 5% of the accumulated savings or a maximum of Rs250 for each client, which is matched by an equal amount by BISCOL. This premium entitles the beneficiary to receive insurance payments in case of hospitalization, treatment or death of a family member or nominee.

In the second RFN study, led by *Ulrich Wenhart from GTZ*, the focus was on Small Farmer Cooperatives Ltd (SFCL) and Nepal's learning points on implementing it successfully. SFCLs are the outcome of the transformation of rural branches of the Agriculture Development Bank of Nepal into cooperatives, which received the rural innovation award from CGAP and IFAD in 2002. Wenhart found that with the stable performance of SFCL in Nepal, innovation could be successfully supported in five specific areas. The first guiding principle is the adhesion to a systematic approach to microfinance, where SFCLs are part of the overall financial system. Second, innovation can also be present through the implementation of a three-tiered structure of SFCL, with farmer groups at village level, inter-groups at ward level and main committee at Village Development Committee level. Third, innovation is also the ability to replicate the current structure at a more affordable price, where experienced SFCLs provide technical support to establish new ones. Fourth, innovation came from the financing sources, with the founding of the Sana Kisan Bikas Bank, an apex bank providing wholesale funds to SFCLs. Finally; the role of federations will also contribute to the innovative development of SFCLs in the future, providing non-financial support services to them. The lessons learnt from the SFCLs experience is that a strong focus on vision and people's participation is important, while breaking old thinking in microfinance is possible, i.e. by creating large multi-service cooperatives, using external funds to scale-up programs and by collaborating with government institutions.

Gopal C. Sharma for the *Rastriya Banijya Bank (RBB)*, looked at the involvement of a commercial bank in rural finance. Several programs have been implemented over the years, such as the Small Farmers Development Program, the Intensive Banking Program, and the Banking with the Poor (BWTP) program. Overall, the bank has achieved mixed results. With the BWTP program, the pilot phase was never transformed into a real business venture, because the bank lacked technical support and the ability to develop systems, controls and the vision to reach a large population of low-income clients, while making a profit. However, this experience also resulted in a paradigm shift, by demonstrating that the poor could: be banked cost effectively through group mechanisms, could repay on time and eventually graduate to microentrepreneur status. Sharma showed that “there was a marriage of ‘strengths’ of the formal system with the group methodology, creating a mutual trust between the bank and the borrowers, leading to a “win-win” situation for both stakeholders’.

3. Best Practices in Nepal and Regional Standards in Microfinance

Sunil Khanal, Senior Manager of *Nirdhan Utthan Bank Ltd. (NUBL)*, identified seven different microfinance models that exist in Nepal. These models were the Grameen Bank model, community-based models, the Small Farmers Development Program (SFDP), the Productive Credit for Rural Women (PRCW), the village banking model, Financial Intermediary NGOs (FINGO) and development banks. He then summarised some of the best practices, which included, for instance, access to small and repeat loans, customer friendly financial products and the successful training of local staff in appropriate microfinance skills. Other aspects of best practices related to the professionalising of operating processes through tight and transparent management controls. Such controls included regular internal and external audits, specific human resource management controls, standard accounting practices, and supporting information systems. For NUBL, the application of these best practices resulted in successful product development (credit, savings, insurance), a commitment to serve the poor cost efficiency, the ability to charge appropriate interest rates, and a strong focus on MIS development and strong institutional capacity built through alliances and membership to international networks. Mr. Khanal also presented the performance standards of NUBL in comparison with the Microbanking bulleting benchmarks in Asia, and the aggregated results of the Grameen replications in Nepal.

With Mukunda Bista, from the *Centre for Self-Help Development (CSD)*, and Keshar Shrestha, from the *SB Bank*, jointly looking at their respective institutions, they found that what allowed SB Bank and CSD to develop and follow best practices was that they both looked at making their operations transparent and cost effective for their staff and clients, in order to build trust, commitment and achieving scale and sustainability. Both organisations customised their products to suit their client base, focused on the mobilisation of local resources through deposit taking and access to loan from domestic commercial sources. Finally, Mr Bista and Shrestha presented their financial performance indicators, and compared them with standards in South Asia.

4. Forms of Regional Cooperation in Microfinance

Achyut Hari Aryal, a former microfinance practitioner in Nepal, presented his experience in implementing microfinance in conflict-affected regions of Sri Lanka, in order to draw lessons for Nepal. Aryal, working for the Danish Refugee Council, developed revolving loan funds in villages where resettled or relocated Internally Displaced Persons were living. The DRC model focused on the development of local capacities of community-based organisations (CBOs), government officials, and implementing partners. DRC was also able to introduce savings, linked to credit products, and applied international best practices in this unstable context. The major challenges were: the initial lack of experience in microfinance among implementing partners and CBOs, the dependency and culture of grants in an emergency environment, the reluctance of displaced populations to take part in medium term enterprises and financing schemes, fear of new displacement and a lack of confidence in peace. However, recent surveys showed that DRC activities have made a substantial impact on the lives of the populations served by the program, in increasing income, the high participation of women and the productive use of the loans provided.

Finally, Hem Poudyal of *Plan International Nepal*, chose to look at the reason for establishing networks and the types of networks existing in microfinance, worldwide and in Nepal. Two major types of networks were presented: practitioners' networks and support networks. In Nepal, the key microfinance networks were the Grameen Network Nepal, Microfinance Association of Nepal (MIFAN) and the Nepalese Federation of Savings and Credit Unions (NEFSCUN), which were all now inactive. Some of the common problems were the lack of sustainability focus, the absence of appropriate groundwork before establishment, and the difficulties to organise meetings given the diversity of members and their dispersion in Nepal. Such diversity among members and the distance between members and their network resulted in a lack of financial commitment from the members. In addition, the availability of wholesale funds decreased the need for MFIs to jointly advocate for further funding. Learning from this experience, Poudyal proposed options to revive the current network(s) or to form a new network to suit the current needs of practitioners. These needs comprise the establishment of standards, product development, impact evaluation, credit bureau, advocacy for larger outreach and supporting regulatory framework.

Note: papers and presentations are available upon request and on BWTP website.