



Mercy Corps Nepal Microfinance Assessment

Scope of meso-level technical service provision to MFIs in Nepal

Mercy Corps Nepal
January 2008

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Acronyms

ADB	Asian Development Bank
ADBN	Agricultural Development Bank Nepal
BDS	Business Development Services
CAMEL	Capital Adequacy, Asset Quality, Management, Earning, Liquidity and Sensitivity to Market Risk
CBO	Community-Based Organization
CB	Commercial Bank
CECI	Center for International Studies and Cooperation
CGAP	Consultative Group to Assist the Poorest
CMF	Center for Microfinance
CSD	Center for Self-Help Development
DEPROSC	Development Project Service Center Development Bank
DSL	Deprived Sector Lending
FI	Financial Institution
FINGO	Financial Intermediary Non-Government Organization
GBB	Grameen Bikas Bank
GTZ	German Technical Co-operation
INAFI	International Network of Alternative Financial Institutions
INGO	International Non-Government Organization
IO	International Organization
MC	Mercy Corps
MCRIL	Micro-credit Ratings International Ltd.
MFDB	Microfinance Development Bank
MFI	Microfinance Institution
MICRA	Microfinance Innovation Center for Resources and Alternatives
MIFTAR	Microfinance Training and Research Institute
MIS	Management Information System
NGO	Non-Government Organization
NRB	Nepal Rastra Bank
PEARLS	Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, Signs of growth
PGBB	Pashchimanchal Grameen Bikas Bank Ltd.
RMDC	Rural Microfinance Development Centre
RRDB	Regional Rural Development Bank
RSRF	Rural Self-Reliance Fund
SACCO	Savings and Credit Cooperative
SFCL	Small Farmer Cooperative Ltd.
SFDP	Small Farmer Development Project
SHG	Self-Help Group
SKBB	Sana Kisan Bikas Bank (Small Farmer Development Bank)
SME	Small and Medium Enterprise
TLDP	Third Livestock Development Program
TYIDP	Three Year Interim Development Plan
UAI	Usage, Attitude, Image
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VYCCU	VYCCU Savings and Credit Cooperative (no acronym)

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WB
WCS

World Bank
Women's Cooperative Society

Section I: Introduction

Summary

Access to diverse financial products and services is an indispensable component for successful participation in a market economy. In Nepal, out of a total population of 26 million, 13 million people lack access to even basic formal financial services, a figure thought to be steadily declining.¹ MFI outreach, through both government and international donor efforts, is inadequate and heavily concentrated in easily accessible areas, reaching only 23% of rural people.² Although estimations vary, the microfinance sector is comprised of over 50,000 institutions and microfinance groups, both formal and informal. Central among the myriad factors that contribute to and exacerbate the lack of access to financial services despite this plethora of institutions, is the relatively low capacity of many MFIs.³ Many Nepali MFIs themselves lack both the awareness of and access to meso-level technical services that could help them increase outreach, reduce risk and plan for the future. Thus, supporting a more robust, efficient microfinance sector through MFI-level technical support is an essential component in enabling the poor to gain access to financial services.

This study seeks to illuminate the landscape of the meso-level technical service provision sector in Nepal through synthesizing data collected from MFIs, technical service providers, commercial banks, key stakeholders and international organizations. The information is intended to contribute to a fuller picture of the overall micro-finance sector in Nepal. The findings from this assessment indicate that the immense need for higher quality and increased technical inputs and capacity building for MFIs is a significant bottleneck to increased outreach. Existing meso-level services do not appear to be meeting the needs of MFIs.

The assessment team consisted of Tulasi Uprety, consultant and former commercial banker now on the National Planning Commission; Sanjay Karki, former commercial banker and current MC Nepal Deputy Director/ Economic Development Manager; and, Liz Larson, former MICRA (Micro-finance Innovations Center for Resources and Alternatives) Indonesia Networking Unit Manager. The team carried out the study in Kathmandu, Nawalparasi and Chitawan with a mix of rural and urban microfinance stakeholders. Section I of the study includes a full description of the team's methodologies and an outline of the study's objectives. Section II provides an overview of the microfinance sector, with attention to MFI types and outreach, showing that despite various typologies, microfinance has yet to reach most Nepalis in need. Section III outlines the findings from the team's interviews with microfinance stakeholders and presents a description of individual MFIs, technical service providers, INGOs and other organizations active in the sector.

¹ World Bank. "Access to Financial Services." Finance and Private Sector Development Unit. 2006.

² ADB. "Technical Assistance to the Kingdom of Nepal for Strengthening Selected Rural Financial Institutions." December 2003.

³ World Bank. 2006.

Objectives

As mentioned earlier, the purpose of this assessment is to gain a basic understanding of the consumption, provision and general nature of meso-level microfinance technical services involving MFIs, NGOs, donors, multilateral organizations, and private companies in Nepal. To this end, the study not only focuses on ascertaining usage data from a cross section of stakeholders, but also paints a picture of microfinance priorities, industry strengths and weaknesses, and potential future directions among donors and other meso-level actors. The types of services investigated will mirror the five basic technical areas of service provision in the MICRA Indonesia portfolio⁴: MIS, research, ratings, training and financial services. Within these technical areas, the assessment illuminates what potential customers might want and need, awareness of and perceived importance of such services and willingness to pay for these services. Specific objectives are as follows:

- To make an in-depth description of the consumption of microfinance technical services among donors and MFIs;
- To describe the quality and usage pattern of existing services;
- To identify needed or desired services and willingness to pay for such services;
- To investigate the micro-finance policy environment.

Methodology

This assessment was loosely based on the UAI survey methodology as outlined in “Guide to Market Assessment for BDS Program Design” by Alexandra Overy Miehlsbradt, ILO, 2001. A Usage, Attitude, Image (UAI) market study, as it is usually applied to BDS product design is defined as, “a broad look at the current market for a specific service from known suppliers. The power of a UAI market study is that it provides information *from the perspective of the consumers, MSEs.*”⁵

A strict UAI study is designed to analyze products and services which already exist, and usually involves gathering a large amount of data from potentially hundreds of informants, often with information randomly collected from at least 10% of the total preliminary estimated market. UAI studies also frequently engage professional marketing research firms and utilize a sizable number of professional surveyors to collect these large quantities of data. This study will vary from the traditional UAI study methodology by being smaller in sample size, more heavily reliant on key informant interviews, address both existent and nonexistent services and not involve random selection. Thus, it is more qualitative in nature than a traditional UAI study.

The team visited a variety of organizations and individuals over the period of approximately four weeks, interviewing stakeholders in both rural and urban locations on a one-on-one basis, using questionnaires developed by the Mercy Corps team. The team created six questionnaires geared toward different types of practitioners and informants: financial institutions (including MFIs), key industry

⁴ MICRA stands for “Microfinance Innovations Center for Resources and Alternatives.” Started by Mercy Corps Indonesia, MICRA is now an independent company that provides meso-level financial services to the Indonesian MFI sector in the areas of: MIS, research, ratings, training and financial services.

⁵ Alexandra Overy Miehlsbradt, “Technical Note: Applying Marketing Research to BDS Market Development” 2000.

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stakeholders, commercial banks, donors and INGOs, technical service providers, multi- and bi-lateral organizations and associations. These questionnaires were targeted at potential competitors and consumers of technical services. While collecting data, the questionnaires and study design were reviewed and updated in response to changes in the field. Questionnaire delivery was adapted to each individual's circumstance and certain questions were skipped if appropriate. A full interview took two hours and some interviews were cut short because of the informant's time constraints. After the survey, the researchers collaboratively examined the data, articulated the key findings and developed four main recommendations to guide MC's path forward.

Criteria for Respondents: The team made every effort to include a diverse range of individuals within the pool of informants. To this end, the team included INGOs, NGOs, multi and bi-lateral organizations, government bodies, apex institutions, university departments, MFIs, associations, development banks, technical service providers and other key informants. All efforts were made to meet with CEOs and/or senior managers. A breakdown of informants by type is as follows:

Sampling method and size: Given Kathmandu's status as the headquarters for most donors, multilateral organizations, banks and private firms, most of the survey and in-depth interviews took place in Kathmandu. All attempts were made to interview MFIs listed on the MIX Market, as well as some that were not listed.⁶ NGOs, donors, commercial banks, private consulting firms, associations, relevant experts and other organizations have been selected specifically for their known engagement in the sector, not as a random sample. The team also took a five-day field visit to Chitwan and Nawalparasi, to meet various cooperatives and NGOs. With a significant presence of MFIs of all forms and scale, these two districts areas are considered representative of rural and semi-urban microfinance throughout the Terai. The team conducted 51 interviews with all types of organizations and individuals.

Interview Type	Number interviewed
International Organizations	15
MFIs	10
Apex Institutions	2
Government Bodies	4
Associations and Technical Service Providers	4
Key Individuals	6
Commercial Banks	2
Total	43

Questions

The data obtained in this survey has been used as a foundation to analyze the following key areas:

- Consumer segmentation: What kind of MFIs, donors, NGOs are using microfinance technical services in general?
- Market Demand: Is the current supply of technical services meeting demand? If not, why?

⁶ The MIX Market is the world's leading information clearinghouse on MFI financial data. For more information and to view Nepali institutions reporting to the MIX, visit www.mixmarket.org.

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- *Awareness and Reach:* What is the level of awareness of technical services? Do institutions know where to purchase services? How do institutions become aware of what services are available to them?
- *Payment:* What services do institutions provide on their own and/or have donors provide for them? Are most consumers willing to pay for service provision?
- *Reasons for non-use:* Why aren't organizations using certain services? What does this tell us about demand?
- *Suppliers:* From what type of supplier do firms purchase their services? What are the perceived strengths and weaknesses of existing service providers?
- *Valuation:* How do organizations perceive the value of various services for either survival or growth?
- *Overall Microfinance Sector:* How sustainable are Nepali institutions? Are they growth oriented? What are their main constraints to growth? What are their capacity building needs?
- *Innovations and Best Practices:* Are Nepali stakeholders interested in microfinance innovations? Are they networked in or aware of global best practices?

Limitations of Market Research

While this study sheds light on various aspects of the market, it has limitations. Market assessments, in general, can never provide all the information necessary to develop a market without risk. Furthermore, this study attempts to contribute to a fuller picture of the micro-finance sector in Nepal by illuminating meso-level technical service provision needs. In this sense, respondents could potentially have been limited by the scope of currently existing services in Nepal, and therefore may not have envisioned or commented upon other possible technical service provision models or possibilities. Market research has been known to be particularly limited in predicting future demand for innovations and can never replace real piloting within the market itself. Market assessments must be utilized in tandem with other strategies to test innovations and/or develop markets.⁷

⁷ Overy, p7.

Section II: Overview

MFIs, Outreach and Key Policy Issues

Since the 1950s, despite several major changes in government leadership and internal conflicts, Nepali MFIs have flourished in number. However, the MFI boom has not translated into increased access for most Nepalis, especially those residing in rural and remote areas. MFIs in Nepal have relatively low outreach and weak capacity. Access to financial services for poor Nepalis is actually decreasing.⁸

An MFI is defined in Nepal as an institution that is governed by one or more of the government's microfinance acts: the Cooperative Act of 1992, the Development Bank Act of 1996 and the Act for Non Government Organization involving in Financial Intermediation. There are four main types of registered MFIs in Nepal:

SACCOs (Savings and Credit Cooperatives): SACCOs are usually small, indigenous savings and credit groups, which on-lend funds from group savings. SACCOs may be unregistered or registered under the cooperative act and are managed and staffed by local people, usually on a volunteer basis.
SFCLs (Small Farmers' Cooperatives Limited): These rural cooperatives were established under ADBN. SFCLs are member owned and controlled cooperatives which provide both financial and non-financial services in almost every district.
FINGOs (Financial Intermediary NGO): FINGOs are NGOs with limited licenses to carry out financial services. FINGOs act as intermediary groups that conduct financial services, usually savings and loans, for end clients through MFIs.
MDBs (Microfinance Development Banks): Development Banks are often started by Nepali NGOs after significant experience in the sector, usually with assistance from an INGO. MDBs implement Grameen style lending methodologies and maintain their NGO counterparts. There are currently four registered in the country: Nirdhan DB, Chemik DB, Swayambalan and DEPROSC.
In addition to these registered forms, large numbers of informal SACCOs , sometimes called Savings and Credit Groups (SCG), Self Reliance Groups (SRG) or Self Help Groups (SHG), are active in the country. It is unclear how many of these unregistered groups exist. Estimates vary from 8,000 -50,000.

MFI Type	No. Registered in Nepal
FINGO	47
SACCOs	8000

The number of registered MFIs is outlined below:⁹

⁸ World Bank. 2006.

⁹ Nepal Rastra Bank. 2007.

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SACCOs with Limited Banking License	19
Private MFDB	4
SFCLs	139
Public MFDB	5
Apex Institutions	3

Outreach

Thirty-one percent of Nepal's 26 million people currently live below the poverty line, with a higher incidence of poverty in remote and rural areas. There is no consensus on how many poor or non-poor Nepalis are reached by microfinance services. One study on poverty reduction, conducted by INAFI, states that 655,000 (2005) persons in Nepal are now accessing microfinance. The latest UNDP data shows that microfinance is reaching 886,003 savings clients and 729,869 (2007) loan clients, even after an adjustment for duplication of services. CMF's statistics show that 8% of Nepalis, 2 million people (2007), or 26% of those living under the poverty line, currently have access to microfinance. GTZ states that 1.2 million are currently being reached.¹⁰ In all cases, one thing is clear: microfinance in Nepal is only reaching a fraction of those in need of formal financial services.

According to the UNDP, microfinance services have penetrated only 37% of the market overall, with the highest penetration in the southern Terai region (66%), followed by the accessible areas in the middle hills (33%), the inaccessible hills (9%) and the high Himalayan region (6%). This follows an opposite pattern to poverty incidence as the highest incidence of poverty is found in the high mountains and the lowest incidence of poverty is in the Terai. Among registered institutions, MDBs are reaching the most clients, followed by SACCOs, commercial banks, SFCLs and FINGOs.¹¹ According to the World Bank, access to formal financial services for low-income Nepalis is steadily declining. Furthermore, those individuals actively using microfinance services actually prefer to save and borrow informally, and still engage in most of their financial transactions by informal means.¹² For a full listing of microfinance outreach by institutional type, see Annex VI.

While myriad factors prohibit bringing microfinance to scale, including difficult logistical and demographic issues in more remote areas of the country that may limit the potential for MFI profitability, a significant bottleneck to increasing outreach is the relatively weak institutional capacity of many Nepalis MFIs. MFIs in Nepal are characterized by relatively narrow outreach and generally display sluggish growth, low profitability and high liquidity. Capacity is relatively low in such key areas as auditing and accounting, financial management, strategic planning and human resources. Microfinance is often considered a charitable activity and thus, many MFIs lack a high commercial orientation and professionalism. Significant inputs are needed to build capacity within the microfinance sector, including both for MFIs themselves and technical service providers.¹³

Policy and Regulations for MFIs in Nepal (as of January 2007)

NRB oversees the system of regulation and monitoring all commercial and non-commercial institutions. Through the TYIDP, NRB announced that a new microfinance policy will be disseminated this spring.

¹⁰ GTZ. Private Sector Promotion Rural Finance Nepal. www.microfinance.org.np/microfinance.html. January 2007.

¹¹ Dhakal, Nara Hari, UNDP Re-Alignment Coordinator. "Towards Expanding the Frontier of Microfinance Services in Nepal". International Conference on Rural Finance Research. FAO Headquarters. Rome, Italy. March 19-21, 2007.

¹² World Bank. 2006.

¹³ World Bank. 2006.

Regulations for incorporated MFIs range as per institutional typologies. MFDBs and FINGOs are regulated by NRB and cooperatives are regulated by the Department of Co-operatives. Both of these agencies are in the process of improving regulations with the aim of promoting institutions as well as best practices, but their awareness of these best practices is limited. There has been discussion within NRB on establishing a Second Tier Institution (STI) for regulation and supervision of MFIs, but this has yet to be realized. If and when this STI is created, it would be intended to increase supervision in the sector and be housed separately, but overseen by NRB. NRB's current relevant policies and policy issues, expected to be revised through the upcoming new policy, are described below:

- **Deprived sector lending policy (DSL):** This is a directive to commercial banks mandating investment of at least three percent of their portfolio, or lending, to the deprived sector (microfinance) either directly or in partnership with MFIs or apexes. This policy has been extended to development bank and finance companies as well. Commercial Banks meet the DSL requirement by providing investments as share capital, by providing block loans to MFIs, or by paying a penalty fee to NRB. This has had a positive effect on fund availability for MFIs and apexes, but has also resulted in highly liquid MFIs with little incentive to improve efficiency or focus on savings mobilization. These funds are largely channeled through apex institutions, and the entire DSL policy has significantly distorted the market, hindering truly commercial microfinance.
- **Interest Rate policy:** Interest rates are currently not regulated, and there are no interest rate caps in Nepal. However, interest rates at both the client and apex level are significantly lower in Nepal than in other areas of the world for a various reasons. First, the DSL policy, which forces banks to invest in the sector often with low expectations on returns, has distorted the market. Second, apex institutions, which on-lend funds received through DSL passes on this distortion to MFIs, lending at rates of 3-6%. Third, and as explained in Section III, interest rates are highly politicized. They are kept low by politicians who publicly advocate for low interest rates in an effort to be viewed as “pro poor”, a desired trait for any politician who wants to get elected.
- **SACCOs:** Registered SACCOs are not regulated or self regulated appropriately. The government is seriously considering how to best develop the cooperative sector.
- **Capacity Building:** Capacity building of smaller rural-based MFIs is being supported by INGOs on a project-based approach but it is not coordinated on a larger scale or on a policy level.
- **National MF Development Fund:** There is an ongoing discussion within the government over creating a microfinance development fund in the future which the upcoming national policy is expected to address. This fund is intended to be the outcome of a restructuring and privatization of RSRF. It will be largely focused on apex lending to MFIs, but with a vision for supporting MFIs that reach scale, rather than the smaller MFIs which RSRF now supports. One quarter of the fund will be exclusively dedicated to capacity building. This initiative, even if outlined in the upcoming policy, is not expected to be realized in the near term.

Section III: Findings and Conclusions

Summary Findings on Microfinance Technical Services Supply and Demand

S U P P L Y	Very Strong				
	Strong			Financial Services	
	Weak			MIS	Ratings
	Very Weak				Research
		Very Weak	Weak	Strong	Very Strong
		DEMAND			

In the matrix above, analysis of the supply and demand of meso-level technical services, based on the findings of this study are charted from two angles: a) the demand side; and, b) the supply side, or the availability of service providers and quality and delivery of services through these providers. As illustrated above, demand for microfinance technical services remains largely unmet. In general, most informants expressed that there was heavy demand and relatively inadequate supply for **all** services *except* financial services. It was difficult for the team’s interviewees to distinguish differences in need between the five technical services, again besides financial services, because all services are needed to a comparable degree in the sector.

Based on analysis of interview data, trainings are the most in demand because of the relatively high perceived need for trainings within MFIs and the relatively low supply of existing, high quality training packages. Financial Services to MFIs are in high demand, but being adequately serviced by Nepal’s in-country apex institutions. Ratings have not yet been tested on a commercial level. Only more advanced, sustainable MFIs, such as the 20 institutions listed on the MIX Market website and for commercial banks interested in microfinance, know the value and use of ratings, and among this constituency, interest was high. For the vast majority of institutions, however, full international ratings are not in demand, but the team did see potential for latent demand. Research regarding microfinance was an expressed need in this study, but takes a back seat in both supply and demand given other more urgent capacity building needs. Computerized MIS systems are not widely used, and some of the larger MFIs that are computerized use Microsoft Excel. Local companies occasionally design packages for large MFIs, and interviewees were split about how important MIS development should be when compared to other capacity building needs. An important point that is not outlined in the matrix above is the reality that most small and medium

MFIs face: they do not have access to the few meso-level technical services that are available on the market. Specific details of these services follow in the sections below.

Microfinance Activities

As mentioned, the team conducted interviews with apex institutions, NGOs, INGOs and other international organizations (IOs), MFIs, banks, associations, and technical service providers. The following section describes a sampling of the activities conducted by relevant stakeholders and divided by organizational type.

Technical Service Providers

CMF is considered Nepal's "one-stop shop" for technical service provision. While there are other players to a degree, those players mostly offer services to MFIs in their own network or for only specific services such as MIS. CMF offers products and services in the following technical areas: Capacity Building and Training, Research and Studies, Policy and Advocacy, Business Development, Catalyst and Consultancy, and Networking. CMF offers six set trainings

per year and are contracted for an average of approximately 20 additional training. It hosts a resource library on its premises and spearheaded the Nepal Microfinance Summit in February 2008.

With the assistance of Oxfam and SAP Nepal, **INAFI**, an INGO focused largely on microfinance networking and research, started a chapter in Nepal. This organization has conducted some advanced research studies on impact and conflict and microfinance and conducts trainings and seminars.

A retired central banker started **MIFTARI**, a technical service provision company yet to be fully operational. MIFTARI intends to conduct trainings on best practices and eventually ratings.

TMS is a consulting company with whom the team was unable to schedule an interview during this timeframe as their team was engaged in a WB mapping study in the field. Thus, the exact scope of their services remains unknown. However, they have held more than one contract for research with the World Bank and should be finished with the mapping study in mid-February.

International Organizations and INGOs:

International Organizations - including multi and bi-lateral organizations - and INGOs are considered to be a major consumer segment of potential products and services of meso-level technical services, not necessarily for their own use but rather for the benefit of their partner MFIs. The findings of this assessment show that these organizations rarely engage in microfinance programs only. Integrating their microfinance activities into a diverse portfolio of development activities, IOs and INGOs provide capacity building, including training, rating, MIS and some financial assistance to their partner MFIs. However,

Microfinance Activities Summary:

- TA providers, other than CMF, are fairly inactive
- International Organizations (IOs) plan on increasing their microfinance activities
- IOs are willing to contract others for technical services
- Existing technical service providers are limited in capacity and scale
- Apex institutions are active providing technical services to members free of charge but at a small scale and with limited capacity
- Associations are not widespread, but are providing some technical services
- GTZ owner of numerous assessment tools in public domain

IOs and INGOs interviewed admitted that despite their efforts more inputs are needed to achieve the desired outreach within the country. For a listing of IOs and INGOs and their microfinance activities, see Annex II.

IOs and INGOs are keen to provide capacity-building activities to local savings and credit cooperatives, community-based organizations, FINGOs and larger MFDBs like Nirdhan Utthan Bank, Ltd. INGO's capacity building activities are a mixture of trainings and other supporting activities either conducted by their own staff, or contracted to CMF, consultants, or occasionally other organizations. INGOs, in general, try to hire locally and generally prefer not to hire international consultants. Most informants in this category expressed commitment to increase microfinance activities in the future and most organizations are open to contracting outside services from new providers.

Habitat for Humanity, as an exception to the trend within other INGOs, engages almost exclusively in microfinance new product development for housing and construction related ventures. They conduct training, assessments and commercial linkages with their partner MFIs. Habitat for Humanity currently conducts all activities with their own staff.

PLAN Nepal provides general support to its partner MFIs (including Nirdhan Utthan Bank, Ltd.) and community savings groups, largely focused on making their members' businesses more sustainable. PLAN also provides start-up costs, subsidies for equipment and building material and occasionally pay for operational losses of their partners. In addition, PLAN has facilitated transformation services, turning informal groups into official SACCOs, for their partners. The organization conducts capacity building with their own staff, but also engages outside contractors such as CMF for training and Safe Save on a market research project. A small, local company developed the MIS system which PLAN provided to NUBL and others.

GTZ works on some microfinance policy issues and, through their RUFIN program, develops the capacity SFCLs. These 139 institutions are spread throughout rural areas across the country. In conjunction with this work, GTZ has created a variety of tools, mostly for assessment purposes, including the MANTRA ratings. These tools are in the public domain and GTZ is willing to share them, as long as the recipient is trained in their use. The RUFIN project is scheduled to end in June 2008.

Save the Children (SAVE), in conjunction with SIDA, is supporting 20+ women's SACCOs, largely focused on reaching youth, freed *Kamaiya*¹⁴, low caste and Dalit clients. SAVE supports their partners with seed grants and capacity building on the topics of group formation and business planning

World Vision works largely with community savings groups to which they provide training, funding and some research. WV is also looking to find an outlet for their "Vision Fund" in Nepal, and may potentially start a FINGO, which would operate like a microfinance apex institution.

¹⁴ Bonded laborers

UNDP is implementing “Community Based Banking and Linking Program” which created over 1,000 clients in 75 districts with over seven million USD in outstanding loans. Under this program, UNDP provides internal capacity building in the areas of debt collection, incentive schemes, write-offs, rating of savings groups, accounting and micro insurance. In addition, UNDP starts Greenfield SACCOs and links informal savings groups to formal MFIs. UNDP provides all these services directly but has hired consultants for training and small-scale rating. UNDP is partnering with UNCDF and the World Bank to fund the project detailed under the upcoming EOI. UNDP is currently in the process of handing over their microfinance work to UNCDF, which plans on conducting a SACCO mapping, ratings, capacity building and linkages, and specific training on banks wishing to work with SACCOs.

ADB founded Nepal’s first apex institution, RMDC, which now on-lends to institutions in 47 districts across Nepal. ADB’s microfinance activities are now solely focused on restructuring the Agriculture Development Bank Limited, a project that will be implemented by the Ministry of Finance.

The **World Bank** conducts a variety of activities in the financial sector including technical assistance, financial restructuring and privatizing public banks. Additional areas of activities include establishing a banker’s training center and strengthening financial law. The WB is also in the beginning phase of a new Access to Finance Program, based on the result of their Access to Finance report, published in 2006. Under this program, the World Bank is currently conducting a microfinance mapping study and will issue and EOI in the coming year.

Associations

NEFSCUN operates as the umbrella organization for over 100 SACCOs in Nepal. NEFSCUN offers trainings and TOTs to member savings and credit cooperatives in leadership, corporate governance, accounting, PEARLS rating and financial management. NEFSCUN also provides funds to their member SACCOs across Nepal at an annual interest rate of 11%.

NMBA is a newly formed association open to membership for microfinance practitioners. NMBA started operations without any outside funding, are active in the policy arena, and hope to offer financial management trainings to members and create cross learning platforms in the future. Their membership is open to any MFI, but their only current members are all the MFDBs. The annual membership fee is 5,000 NRS (80 USD).

MFIs

The team spoke with MFIs in both rural and urban locations varying in size from 398 - 87,000 clients with 375,000 NRS (6,000 USD) to 66 crore (10.4 million USD) loans outstanding respectively. Overall, these MFIs offer the full range of financial services. All offer both savings and loan products, with interest rates ranging from 4% - 9% and 10% - 25% (declining) respectively, depending on the product. Grameen replicator offer loan products at approximately 10% flat. Many also offer group loans, micro insurance and remittance services. Specific loan products include loans for individual general use and group use, biogas, latrine building, emergencies, housing, foreign employment, education, social events, micro enterprise and consumption. Savings products include those for groups and individual, child

savings, education, pensions, daily savings, both compulsory and voluntary. The smaller SACCOs open membership only to the poor or require a certain percentage of membership to be filled by the poor, though it is unclear how they make this judgment. Some FINGOs also have similar policies. A few of our informant MFIs specifically target low castes, Dalits and/or women. Start-up for the larger NGOs was subsidized by donors, but these MFIs now consider themselves sustainable. For more detailed information on the financial performance of Nepal's larger NGOs, see Annex VII. Three of the larger MFIs are detailed below:

Nirdhan Utthan Bank, Ltd. (NUBL) is Nepal's largest and most well-known microfinance development bank. Nirdhan began work in 1993 with the help of several donors including Grameen Trust and Asia Pacific Development Center, transformed to a development bank in 1999 and is now the first Nepali MFI to begin operations in India. The MFI is active in 11 districts in Nepal. CGAP, PLAN and SAVE maintain close partnerships with Nirdhan, and are providing significant support. Mercy Corps will also form a partnership with Nirdhan as of September 2008. Nirdhan has a profile on the MIX Market website and has been rated twice by MCRIL, through the CGAP Rating Fund.

DEPROSC is a FINGO, based in Kathmandu and operational in 12 districts. DEPROSC was started by PACT, and has had relationships with several donors over the years, most recently with LWF, which continues to support their operations. In addition to traditional savings and loan products, DEPROSC offers micro insurance and remittance products. The organization also conducts community development activities including training in handicrafts for women, health and sanitation programs and disaster preparedness.

Chemik Development Bank (meaning "neighborhood" bank) is the bank component of Chemik NGO. Based in Kathmandu, membership currently stands at 41,000 with 32,000 active borrowers. Established in 2001, their operational areas encompass 15 districts and they have 165 staff, 326 million NRS (5 million USD) in loans outstanding and a net worth of 56 million NRS (0.9 million USD). Chemik prides itself on having started and built sustainable operations without the assistance of foreign donors.

Apex Banks

RSRF is a wholesale fund managed and heavily subsidized by Nepal Rastra Bank, with 20 staff and 277 borrowing institutions in 48 districts. RSRF provides funds to MFIs and SACCOs located in rural and remote areas. Many of the MFIs and SACCOs with whom the team interacted during the study had used the services of RSRF. The effective interest rate is 6% however the clients can get a rebate of 4% if the payments are made on a regular basis. Although the process is slow, the clients feel that the funds are more accessible and hassle-free. RSRF provides 2-3 seminars annually for their member institutions, one in Kathmandu and one or two in the districts. General microfinance topics are covered at these 2-3 day seminars including governance, recovery and lending procedures. The fund also occasionally provides mentorship to MFIs that are struggling to pay back their loans. RSRF purchases trainings, both in country from CMF and internationally for their own staff.

RMDC was started with grant funds from the Asian Development Bank and now provides wholesale funding to around 48 microfinance institutions in Nepal with a fixed interest rate of 6%. RMDC provides some institution building services to its clients including trainings, cross-visits and on-site consultancies. Topics include MIS, governance, financial management, delinquency and a 6 –month long training program for new entry-level staff. RMDC also conducts client (end borrower) level trainings on the topics of literacy, skills development, leadership and gender. The majority of the respondents who have used RMDC funds are satisfied with the service (both financial as well as trainings). Others who have used RMDC perceive – correctly or not – that RMDC applies stringent criteria and favors the most affluent financial institutions.

Commercial Banks: The government’s DSL provision, requiring investment of 3% of the total lending portfolio in microfinance, has led commercial banks to seek investment opportunities in rural areas. One of the ways to fulfill this requirement is through lending to microfinance institutions operating in rural peripheries or giving to apexes. Banks like Bank of Katmandu have set up development credit units and have plans to venture into the microfinance sector through lobbying with the central bank. However, commercial banks face challenges of competing in a market which is highly distorted and subsidized.

The Five Technical Areas

Training

The FI informants, including MFIs and apex organizations prioritized training needs as follows, listed below in order of importance. It should be noted, however, that no single training stood out as the clear priority, and many respondents enthusiastically asserted that all of the following are greatly needed.

- Financial Analysis/Management
- MIS
- Business Planning
- Governance
- Delinquency Management
- Human Resources
- Accounting
- Loan Officer training
- Liquidity Management
- Leadership
- Client-level trainings

Training Summary:

- Training in all technical areas needed
- Trainings viewed as being most needed service
- Existing trainings described as relatively low quality
- Trainings can be donor driven
- Successful trainings depend on good staff
- INGOs and MFIs provide trainings internally in addition to contracting others

INGOs, bi- and multi-lateral organizations provide training to their partner MFIs themselves, often in conjunction with contracting outside services. Many of these trainings are woven into larger capacity building activities including cross-visits and consulting and as such, do not fit cleanly into one category. Trainings provided by these organizations, in no particular order, include: managing delinquency; financial analysis/ management; MIS; business planning; leadership; introduction to micro-finance;

accounting; good governance; social mobilization; inter-lending; pricing; interest rates; and, enterprise development.

No informants in this category rely solely on outside providers for their capacity building work. All conduct most capacity building in-house, and usually contract CMF for one to three trainings per year, as scheduled in CMF's annual training events. Several informants mentioned that CMF's "Introduction to Microfinance" course is popular.

Respondents offered different perspectives as well. One consultant mentioned that trainings in Nepal are supply driven and that MFIs need to become more aware of and advocate for their own training needs. Another echoed this sentiment stating that donors often choose the trainings and the participants. Consequently, it is sometimes perceived that the wrong staff gets trained or participants do not have the appropriate background for a given training. Overall, informants view training as being extremely important, more so than other technical services.

Interestingly, many of the main trainings for which FIs expressed need are the exact trainings that are offered by CMF, NEFSCUN and INAFI. However, the team did not encounter any party, with two exceptions, who had taken training from NEFSCUN or INAFI.

CMF offers six fee-based trainings per year: Introduction to Microfinance, Managing Delinquency, Business Planning, Financial Management, Social Intermediation and Management of MFIs. An additional 20 trainings are contracted per year, mostly from development banks and donors. CMF also is capable of conducting TOTs in Financial Management and Managing Delinquency. The organization develops their own training materials, and has not translated CGAP or any other course materials into Nepali.

RMDC offers trainings in virtually all of the above-specified areas, which are available to their clients free of charge. Clients of RMDC seem generally satisfied with the trainings.

CMF and RSRF do not usually train their staff in country. Rather, their staff attends trainings in Bangladesh and India, and occasionally at the Boulder MFT in Turin, Italy.

SACCOs and smaller MFIs cannot pay for trainings themselves. Many larger MFIs cost share with the INGOs with whom they are affiliated and some can pay for their own trainings. Larger MFIs tend to have more international support and hence, often get trainings at a reduced price or free of charge. Most of our informants had purchase trainings with a mixture of cost sharing and paying themselves.

Both INGOs and MFIs report that their training budgets have been increasing and will continue to increase next year. All respondents expect to pay between 8-12,000 NRS (127-190 USD) for a weeklong, in-country residential training.

Ratings

While there are distinct movements in the market surrounding ratings and assessments, the awareness level regarding ratings amongst smaller MFIs and INGOs is fairly low. Only the few large MFIs, commercial banks, SACCOs and senior consultants had some knowledge of ratings. The larger MFIs were rated by MCRIL two years ago, through the CGAP Rating Fund. The ratings have not taken place

Ratings Summary:

- Awareness of ratings low overall
- Simpler rating tools may be in demand
- GTZ developed several rating tools, one currently utilized by BOK
- Commercially oriented informants think ratings are important
- International ratings too expensive for current market
- Need for localized rating tool

since then and MFIs really do not see the importance of such highly complex rating tools used by MCRIL India.

In Nepal, rating and assessment are often interchangeable terms. INAFI is working with their Bangladesh counterpart to introduce an assessment tool in Nepal. Bank of Katmandu, with the help of GTZ, has developed an assessment tool, MANTRA, which it is applying during the credit review process.

There was a difference in opinion with the interaction we had with higher-level professionals, practitioners and key informants. This group believes rating is the need of the hour in Nepal, but feels that market is not yet ready for complex tools like MCRIL's. Several informants, both MFIs and INGOs, expressed a need for a simpler assessment tool designed for those MFIs and SACCOs which would like to improve their sustainability ratios.

Respondents unilaterally agreed that no one, other than international donors like CGAP, would be able to pay for full-scale ratings at the prices charged by MCRIL. These informants reported the price of an MCRIL rating to be 7,000-9,000 USD. However, there is a general consensus that provided a rating tool is packaged and priced well, there could be a market for a 'localized rating' tool.

One of the critical findings across all services, and especially with ratings, is the lack of availability of competent service providers. Prominent service providers like CMF have planned to include ratings as one of their core services as evident in the strategic plan, but at the time of writing have not yet done so. MIFTARI has already gone to the extent of getting approval from the central bank to conduct ratings in Nepal.

There is currently no policy requiring that MFIs get ratings to access funding from an apex or a commercial bank. While it is rumored that this may change in the future, this change had not been made at the time of writing. However, when and if this policy is reversed, the team anticipates that there will be an increased demand for ratings.

Financial Services

The Nepalese financial sector is highly liquid, as is the microfinance sector. The majority of the respondents stressed that apex level funding to MFIs is not currently a need. Besides being liquid, most MFIs and SACCOs with whom we spoke can avail themselves of funds as needed

at affordable rates. In addition, the majority of the respondents were also satisfied with the financial services offered by the apexes in Nepal and are aware of different providers and their offerings. However, smaller SACCOs cannot access these funds.

Apex institutions in Nepal are providing funds at a subsidized rate, given their heavy inputs from donors and the government. Commercial banks are of the view that because funds are given at very low rates, the market is distorted and unsustainable over the long term. The ongoing rate in the market ranges from apex institutions is 4 to 8%. The commercial banks are providing funds at 10 to 11%.

In summation, there are an adequate number of players offering the service and clients are, by and large, satisfied.

Research

Financial Services Summary:

- Sector highly liquid
- No need for more apex funding
- Distorted market for apex funding

Although informants universally agreed that research in microfinance should not be the highest priority, this was only because other capacity building needs are more urgent. Thus, research in Nepal takes a bit of the backburner position to more urgent needs in technical service provision. Not surprisingly, most MFIs and donors had never purchased a research service, but do conduct research themselves with varying frequency. Despite its lower demand, many respondents commented that research is important for expanding microfinance in Nepal and most respondents view it as being important.

Research Summary:

- Perceived need for research takes backseat to more urgent needs
- Some organizations conduct research themselves, with limited success
- Study on impact of Nepal's various modalities needed

Some organizations conduct research themselves. PlaNet Finance, an organization which has not conducted research in Nepal, hires local companies to deliver their patented research projects in other countries. PLAN attempted to conduct research through its partner MFIs in preparation for new product development, including a market study with one of their smaller SACCOs. MFIs have also conducted branch feasibility and market studies. Of those organizations which did not purchase or conduct research themselves, most did so because they did not feel the need, did not have time or did not want to dedicate resources to research. A few informants report committing to spend more money on research next year. No one reported lessening their research budgets although many informants did not have a research budget. The World Bank is currently conducting a countrywide MFI mapping through TMS, a large research initiative.

CMF has the largest presence on the research market, having conducted 29 research studies for clients such as ILO, UNIFEM, CECI, SDC, World Education, ADRA, SAVE and World Bank. These studies are now slightly outdated. CMF is followed distantly by INAFI.

Standing out among the more useful research topics yet to be undertaken is documentation and impact assessment of the various modalities of microfinance in Nepal, particularly those methodologies utilized in the middle hills. Myriad models exist, some very different from one another, and some just slightly modified. For example, Chemik, DEPROSC and Nirdhan all employ the Grameen methodology, but each is slightly different. No one has yet attempted to ascertain which one of these myriad methodologies works the best and why. A high quality study on this topic would be extremely useful for the entire industry.

Other topics mentioned included looking deeper at traditional notions of household economy dynamics and gender and a qualitative study of remittance flows which looks beyond just the numbers. On a more immediately applicable level, market studies to support new product development would be useful to a wide range of actors.

It is extremely difficult to get reliable primary data in Nepal, and this has potentially thwarted efforts to conduct studies. Most studies thus far have been donor driven and the research needs of MFIs remain largely unknown.

MIS

Computerized MIS systems are only used by larger MFIs. Smaller and medium sized SACCOs record all transactions and store all information by hand on paper.

MIS Summary:

- Computerized MIS not widespread
- Local software companies creating MIS for some MFIs, quality substandard
- Many institutions with computers use Excel

Many informants reminded the team that before computerized MIS systems can be successfully utilized, the underlying mindset, recognizing the importance of capturing quality data, must be present. The awareness of systemization and using information as a management tool is lacking throughout the microfinance sector.

Some private companies, including NepaSoft and Synergy Solutions, are developing MIS systems for MFIs. Diverse opinions exist regarding the quality of these systems and the importance of MIS in general although most MFIs view it as extremely important. Mercantile, a Nepali company, has also developed a package system available off-the-shelf. NEFSCUN has apparently developed a simple system for its member SACCOs. WCS is using the MicroBanker system developed by FAO and Habitat is looking into this option as well. SBB is developing its own MIS through an open source software system from the Grameen Foundation. NRB provides the system for RSRF. Larger institutions often use Microsoft Excel. Little in the MIS realm appears to be up to international best practice standards. Several informants view correcting the MIS gap as being crucial to the development of the sector. The price of a locally developed system ranges from 40,000 NRS (615 USD) for smaller MFIs with no branches, to 50 million NRS (770,000 USD) and upwards for larger institutions.

Constraints to Microfinance in Nepal

According to this study's informants, there are a variety of constraints to growth and quality of microfinance in Nepal. Chief among them, at the time of writing, is the lack of a clear national microfinance policy, although it is hoped that this will be rectified in the near future. It is rumored that the government's new microfinance policy will be issued shortly after the Nepal Microfinance Summit in February 2008. The policy will be based on the recommendations to be authored during the summit.

In addition to policy, and as mentioned earlier, the general capacity of many MFIs hinders the growth of the sector significantly. Institutions are in need of capacity building at all levels, from basic microfinance

theory to advanced financial management and governance. Most organizations do not have access to the capacity building inputs that could strengthen them, and those that do, often do not have access to quality inputs.

Nepal's rugged topography further constrains microfinance. The topography of the middle hills and high Himalayas is extremely rugged and in many places local people live days walk from the nearest road. Much of the middle hills are sparsely populated, yet roughly 45% percent of Nepal's population lives there. The microfinance community, in general, has not yet discovered an effective methodology for reaching these areas, as illustrated by the country's low outreach indicators, although certain methodologies are in use (such as Nirdhan's SRG model, developed jointly with PLAN). MFIs cannot operate well in a self-sustaining manner with such lack of infrastructure and rugged topography.

In the Terai, where there is a high population density and no real geographical obstacles, duplication of services is everywhere. There may be four or five MFIs in one small area, with no

Constraints Summary:

Constraints to the growth of the microfinance sector in Nepal include the following, in order of priority:

- Policy
- Capacity of MFIs
- Rugged geography, and associated demographic and logistics factors, in the hills and mountains
- Program duplication and overlap in the Terai
- Low capacity of end clients
- Politicization of low interest rates
- Low outreach to vulnerable groups
- Nepal not global priority for donors

methods of communication between each other. Clients in these areas may be using similar products from several different MFIs.

Many informants cited the capacity of the end clients themselves as one of the biggest limiting factors in the industry. Many literate and non-literate clients are in need of business development services and training, particularly financial literacy. They may have only limited capacity or time to invest in businesses or ventures that generate profitable returns. For the lower end of the pyramid and for those living in remote areas with no access to markets, financial services may need to be coupled with non-financial services in order to be most effective.

Interviewees also cited low interest rates as being a significant challenge to growth within the sector. Loan interest rates in Nepal range from 8-25%, with many interest rates hovering around 12-15%. This is much lower than microfinance in other areas of Asia or around the world. Interest rates, especially since the conflict, have become a politicized topic. Political candidates are seen as being “pro-poor” if they support lower interest rates. Over time, the clients in the sector are now used to these extremely low interest rates and as a consequence, institutions suffer since they cannot charge enough to cover costs and expand operations.

INGO interviewees cited a major challenge to the sector as learning how to reach the poorest, Dalits, and the *janajatis*.¹⁵ Outreach to these groups is generally lower, and as of now, no methodology has been proven to solve this issue.

Other issues that informants mentioned as constraints to growth in the sector include Nepal not being a global priority for donors, donor dependence mentality, lack of funding for small MFIs, poor marketing, and information quality.

Demand and Capacity Building Needs

Actual speculation on what services informants would likely purchase differs slightly from what services informants feel are most needed in the market. This is likely a result of the study’s small sample size, but nonetheless, worth exploring. In both the cases, training is considered the most needed and most demanded service. However, ratings are considered very important by many informants but not yet in high demand comparatively. The team believes that this is due to a low level of awareness and/or a vague definition of what ratings can do. Additionally, the team concluded that commercial banks, the number of which was limited in this study, would likely be a potential client base, which further showed low actual demand for ratings. INGOs seem unlikely to purchase ratings, but potentially likely to purchase assessments for savings groups or SACCOs. The MFIs would like to be rated, but could not afford an MCRIL rating on their own. Almost all organizations queried would take advantage of all types of services, with training in the lead, if offered to them for free or at a significantly reduced rate.

Demand and Capacity Building Needs Summary:

- Trainings highest likelihood for purchase among most consumer segments
- Commercial Banks potential consumers for ratings – INGOs less interested in ratings
- INGOs potential consumers for SACCO assessments
- MFIs would like to be rated but cannot afford large scale ratings
- Research needed but takes back seat to more urgent priorities
- MIS extremely limited, but stakeholders want this to change

¹⁵ Lower castes and ethnic groups

Best Practices and the MIX

As an indicator of awareness of and adherence to standard international microfinance best practices, MFI and other organizational informants were asked if they had a profile on the MIX Market website. Half of the respondent to this question were aware of the MIX Market website and the country's largest MFIs all maintain profiles, usually accompanied by an MCRIL rating paid for by CGAP's rating fund. INGOs have profiles which are maintained by their headquarters. The website currently hosts profiles of 20 Nepali MFIs, including Nirdhan, CSD and Chemik.

Most respondents without a MIX profile had not posted one because they are unaware of the MIX, however, a few who were aware did not see the value of providing information to the site or were too busy conducting other activities. Smaller MFIs and NGOs do not have profiles, nor have they heard of the MIX.

Best Practices and Awareness of Services Summary:

- 20 best MFIs listed on MIX Market with MCRIL/CGAP rating
- Awareness of best practice limited

Reasons for Use, Awareness of Services and Advertising

When questioned about the most important factor to consider when selecting a service, respondents almost unilaterally replied that their first priority is quality. Second to this answer was cost and relevance to the staff. MFIs outside of the Kathmandu Valley responded similarly, but expressed a sincere desire for more services, especially trainings, to be offered in the districts.

When questioned about awareness of technical services including MIS, training, rating, research, transformation and financial services, most FIs were aware of services that exist and are available to them and those that are not. Respondents were also largely aware of where to purchase services if they needed. Respondents were least aware of ratings, their value or where to purchase them. All respondents were aware of trainings and knew where to purchase these services as well.

The team queried informants regarding how they discovered services which they later purchased. Most major players in the sector are deeply networked in the microfinance community and know what is available to them and where. Knowledge of services spreads largely by word of mouth. CMF publishes its training schedule and sends out announcements on its list serve. Others do the same and also send letters and faxes to promote their work. Apexes like RMDC and associations like NEFSCUN promote directly to their members. MIFTARI approaches donors on a regular basis to promote their work. One interviewee contradicted this sentiment, commenting that the microfinance community needs better communication and that not all potential clients are aware of what services are available and how to get them. This is certainly true for smaller MFIs which are outside the mainstream, especially in rural areas.

Reasons, Awareness and Advertising Summary:

- Respondents prioritize quality when selecting a service
- Respondents aware of existing services and where to get them
- Smaller MFIs likely not aware of existing services and where to get them
- Respondents hear about services largely by word of mouth

Innovations

As an indicator to gauge interest in and activities surrounding microfinance innovations, respondents were queried regarding micro insurance, remittance transfers and venture capital initiatives. Many MFIs are currently providing micro insurance products to their end clients. These products include health insurance, livestock insurance, loan insurance and others. Many of these same MFIs are also providing remittance services by acting as agents for Western Union and other money transfer services.

Innovations Summary:

- High awareness of and engagement in microinsurance
- High awareness of and engagement in remittance services
- Low knowledge of or interest in venture capital

When questioned regarding interest in venture capital initiatives, the majority of respondents did not understand the term and after explanation, were not particularly interested. PlaNNet Finance, GTZ and a few others have entertained the idea but reportedly do not plan to engage in this type of initiative in the near term. There may also be legal obstructions to repatriating capital. Some MFIs may be able to use an equity infusion, but what would be more helpful to them would be the mentoring and business consulting aspect of a venture capital partnership.

Payment of Services

INGOs generally provide technical services to their partner MFIs free of charge. There is some desire to start cost sharing, but INGOs lament that their partners don't yet recognize the value of cost sharing.

Payment Summary:

- Smaller MFIs and SACCOs cannot pay for services themselves
- Larger MFIs can pay for some services like trainings
- Medium and large MFIs willing to cost share

Small SACCOs and CBOs cannot pay for services themselves. The vast majority of SACCOs across Nepal do not have a partnership with an INGO that can purchase services on their behalf. Larger MFIs can pay for some services, mostly local trainings, but would not be able to pay themselves for more expensive services like international ratings. Even those more professional MFIs that could pay for services often times do not because they attract more donor support. This study's larger MFI informants reported they had the ability to pay for many services and were willing to cost share as well.

CMF's clients rarely cost share. Rather, donor's purchase services on behalf of their partners or for themselves. CMF does not actually make a profit on some products but considers them "catalysts products" with the dual goals of giving CMF more experience and contributing to the advancement of the sector. The organization reports that it is financially sustainable.

The Nepal Microfinance Summit

CMF and a host of donor organizations, including Mercy Corps, are conducting the first-ever Nepal Microfinance Summit from February 14-16, 2008 in Kathmandu. As the first summit of its kind, this even is a giant leap forward for the microfinance sector.

Annexes

Mercy Corps Nepal Micro-Finance Assessment:
Scope of Meso-Level Technical Service Provision to MFIs in Nepal
January 2008

Annex I: List of Interviews

Interviewee	Position	Organization	Date	Location	Team Members Present
Narendra Prasad Joshi	Executive Director	INAFI	Nov 20	Kathmandu	Tulasi, Liz, Sanjay
Bishnu Pathak	Executive Director	NMBA	Nov 20	Kathmandu	Tulasi, Liz, Sanjay
Dr. Harihar Dev Pant	CEO	Nirdhan DB	Nov 22	Kathmandu	Tulasi, Liz, Sanjay
Ron Dery	Nepal Advisor, SME Development	PlaNet Finance	Nov 22	Kathmandu	Liz
Bishnu Prasad Pathak, Pushpa Adhikari	CEO, Relationship Manager	DEPROSC DB	Nov 23	Kathmandu	Tulasi, Liz, Sanjay
Ram Chandra Joshee	Executive Director	Chemik DB	Nov 23	Kathmandu	Tulasi, Liz, Sanjay
Mukunda B. Bista	Executive Director	CSD	Nov 26	Kathmandu	Tulasi, Liz, Sanjay
Gyanendra Prasad Dhungana	Director, Microfinance Department	Central Bank	Nov 27	Kathmandu	Tulasi, Liz, Sanjay
Tejhari Ghimire	CEO	CMF	Nov 27	Kathmandu	Tulasi, Liz, Sanjay
Sharkar Man Shrestha	CEO	RMDC	Nov 28	Kathmandu	Tulasi, Liz, Sanjay
David Purnell, Francis Chhetri	National Director, Microenterprise Development Associate	World Vision	Nov 28	Kathmandu	Tulasi, Liz, Sanjay
G.B. Thapa	Consultant	CMF BOD	Nov 30	Kathmandu	Tulasi, Liz, Sanjay
Tory Clawson	Country Representative	SAVE	Nov 30	Kathmandu	Sanjay, Liz
Janardan Acharya	CEO	RBB	Dec 1	Kathmandu	Tulasi
Ram Chandra Joshi	CEO	Chemik FINGO	Dec 3	Kathmandu	Tulasi
Gyanendra Dhungana	Director, NRB, Micro-finance Dept.	RSRF	Dec 4	Kathmandu	Tulasi,
Keshar B. Shrestha	CEO	SBB	Dec 4	Kathmandu	Tulasi
Sribindu Bajracharya	Project Development Specialist	USAID	Dec 4	Kathmandu	Sanjay, Liz
D.O. Aruna Paul Simitrarachchi	Country Representative Nepal	Habitat	Dec 5	Kathmandu	Liz
Kesav Koirala	Country Representative	CECI	Dec 5	Kathmandu	Tulasi
Bhim Neupane	Member	NPC	Dec 5	Kathmandu	Tulasi
Delphine Thizy	Regional Director South Asia	PlaNet Finance	Dec 6	Kathmandu	Liz

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Rama Basyal	Associate Professor	Tribhuvan University, Econ. Dept.	Dec 6	Kathmandu	Tulasi
Namrata Sharma		Consultant	Dec 7	Kathmandu	Liz, Sanjay
Biaml Wagle	Joint Secretary	Ministry of Finance	Dec 7	Kathmandu	Tulasi
Min Raj Kandel Shiva Adhikary	Chair person CEO	NEFSCUN	Dec 9	Kathmandu	Tulasi
Prakash Raj Sharma	Branch Manager	Nirdhan	Dec 10	Bhairawa	Tulasi, Liz, Sanjay
Uday Raj Khatiwada	Programme Coordinator	NSSC	Dec 11	Kathmandu	Tulasi, Liz, Sanjay
Rajendra Subedi, K. B. Kunwar	Operation Dept Manager	PDB	Dec 11	Butwal	Tulasi, Liz, Sanjay
Mr. Madhav Poudel	CEO	PGBB	Dec 11	Butwal	Tulasi, Liz, Sanjay
Ram P. Kafle C. M. Kharel Gita Thapa	Chairperson Vice Chairperson Manager	Nava Prativa SACCOS	Dec 12	Nawalparasi	Tulasi, Liz, Sanjay
Sabitri Adhikary	Manager	Srijoti Mahila Co-operative	Dec 12	Chitwan	Tulasi, Liz, Sanjay
Sita Adhikary	Chairperson	Mahila Swawalamban Samaj, FINGO	Dec 12	Chitwan	Tulasi, Liz, Sanjay
Madhab Prasad Paudyal	Manager	VICCU	Dec 12	Nawalparasi	Tulasi, Liz, Sanjay
Sushil R. Mathema	Executive Director	NRB	Dec 13	Kathmandu	Liz, Tulasi, Sanjay
Nara Hari Dhakal	Re-Alignment Co- ordinator	UNDP	Dec 14	Kathmandu	Sanjay, Liz
Hem Poudel	Livelihood and Microfinance Coordinator	PLAN	Dec 17	Kathmandu	Sanjay, Liz
Saraswati Shrestha	CEO	WCS	Dec 17	Kathmandu	Liz
Ron Dery, Delphine Thizy	Nepal Advisor, Regional Director	PlaNet Finance	Dec 17	Kathmandu	Sanjay, Arend, Liz
Sabin Raj Shrestha	Economics Officer	World Bank	Dec 18	Kathmandu	Liz
Jan Kerer	Senior Advisor	GTZ	Dec 19	Kathmandu	Sanjay, Liz
Upendra Karki	General Manager	SKBB	Dec 20	Kathmandu	Sanjay
Shyamal Shrestha	Economics Officer	ADB	Dec 20	Kathmandu	Sanjay, Liz
Ajay Shrestha	Senior Officer	BOK	Dec 21	Kathmandu	Tulasi, Sanjay, Liz
Tanka Mani Sharma	Registrar	Dept. of Co- operatives	Dec. 26	Kathmandu	Tulasi
K.K. Pradhan	CEO	MIFTARI	Jan 8	Kathmandu	Sanjay, Pam, Liz
Aurora Ferrari	Authors of WB Access	World Bank	Jan 8	Kathmandu	Pam, Liz

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and Henry Bagazonzya	to Finance Report				
G.B Thapa, Dr. Pant, Tej Ghimire	ED and BOD members	CMF	Jan 9	Kathmandu	Pam, Liz
Nara Hari Dhakal	Re-Alignment Co-ordinator	UNDP	Jan 9	Kathmandu	Pam
Namrata Sharma	Consultant	n/a	Jan 11	Kathmandu	Pam, Liz
Tulasi Uprety	Consultant	CMF BOD	Jan 16	Kathmandu	Liz

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Annex II: Selected Participating Organizations and their Activities

Organization Name	Activities	Microfinance Activities
Habitat for Humanity	None other than microfinance	<ul style="list-style-type: none"> • New Product Development in housing finance
PlaNet Finance	SME Development	<ul style="list-style-type: none"> • Capacity building with CMF • Regional Linking of MFIs with investors • Authoring regional Country Note
PLAN Nepal	Health Livelihoods Children's Issues	<ul style="list-style-type: none"> • Capacity building of SACCOS and CBOs • Pays partner organizations operational losses • Start-up costs
GTZ	Governance and Democracy Health Energy	<ul style="list-style-type: none"> • MFI Capacity Building under RUFIN • Policy
SAVE	Economic Development Health Children's Issues Education BDS	<ul style="list-style-type: none"> • Capacity building of MFIs and Cooperatives
World Vision	Economic Development Livelihoods Children's Issues	<ul style="list-style-type: none"> • Developing savings groups • Vision Fund
UNDP	Democracy and Governance Economic Development Tourism Natural Resources Gender Issues	<ul style="list-style-type: none"> • Community Based Linking Program • World Bank partner for Access to Finance Fund • Linking savings groups to formal institutions • Policy
CECI	Democracy and Governance Disaster Risk Reduction Economic Development Livelihoods Gender Issues	<ul style="list-style-type: none"> • Capacity Building to MFIs • Capacity Building to CMF • Community Savings Groups
USAID	-	<ul style="list-style-type: none"> • Not currently supporting microfinance
CMF	n/a	<ul style="list-style-type: none"> • 7 areas of technical service provision: training, research, networking, consultancy, BDS, catalyst services
INAFI	n/a	<ul style="list-style-type: none"> • Research • Training • Networking
NEFSCUN	n/a	<ul style="list-style-type: none"> • Networking • Training
NMBA	n/a	<ul style="list-style-type: none"> • Networking • Association

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Annex III: Outreach by MFI Type¹⁶

Name of Microfinance Institutions (MFIs)	No. of members	No. of borrowers in (000)	Savings Mobilization in NRS (000)	Outstanding Loan in NRS (000)	Percentage in total Outreach
Eastern Rural Development Banks	45194	41753	158033	594135	
Central Rural Development Banks	42602	42058	109624	317624	
Western Rural Development Banks	42451	41097	92985	430753	
Mid- western Rural Development Banks	18072	12492	45961	166398	
Far- western Rural Development Banks	19567	11855	3709	1127140	
Rural Development Bank (Sub total)	167886	149255	443694	1636050	14.6
Nirdhan Utthan Bank (MF Bank)	75263	58679	156900	556264	
Swabalamban Bank (MF Bank)	61739	47811	114490	322714	
Deprosc Bank (MF Bank)	20322	16759	7608	183045	
Chhimek Bank (MF Bank)	28509	23153	37090	199898	
Microfinance Bank (Sub total)	185833	146402	316088	1261921	16.1
Small Farmer Cooperative Ltd (SFCL) Total SFCLs: 205	117094	117094	563231	1856079	10.1
Savings and Credit Cooperatives (SCC) Total SCC: 2692	358312	250818	6485368	10961461	31.1
Financial Intermediary NGOs (FINGOs) Total NGOs: 47	138830	107931	218204	372353	12.0
Small Farmer Development Project (SPO)	25185	25185	5250	294429	2.2
SPOs merged with Agricultural Dev Bank Deprived Sector	105464	105464	17300	462025	9.1
Lending program of Commercial Banks, PCRW, MCPW and BWTP of Rastriya Banijya Bank (RBB)	55118	55118		221051	4.8
Total	1,153,722	957,267	8,049,135	17,065,369	100

¹⁶ GTZ. Private Sector Promotion Rural Finance Nepal. www.microfinance.org.np/microfinance.html. January 2008.

Annex IV: Financial Performance of Key MFIs (source: MIX market website)

MFI Name	Institutional Type	Gross Loan Portfolio (USD)	Number of Active Borrowers	Total Assets	Operating Expense/Loan Portfolio	PAR>30 Ratio	Number of Active Borrowers	Number of Active Savers	Total Assets	ROA	OSS	Write-Off Ratio
BISCOL	Cooperative/ Credit Union	1,068,663	970	1,334,297	2.95%	2.61%	970	3,804	195,928	10.00%	114.19%	1.28%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
BMSCCSL	Cooperative/ Credit Union	63,851	602									
		(31/07/05)	(31/07/05)									
CBB	Rural Bank	2,695,146	23,153	5,067,483	10.59%	1.83%	23,153	28,509	347,511	59.92%	158.44%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
CSD	Non-Profit (NGO)	1,020,967	12,452									
		(31/07/06)	(31/07/06)									
DD Bank	Rural Bank	2,466,028	16,102	4,491,680	7.04%	5.59%	16,102	18,074	282,522	39.53%	143.52%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
GBNB	Rural Bank	8,004,364	51,079	10,086,384	7.43%	19.54%	51,079	2,311	921,961	0.35%	101.97%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
JSCCS	Cooperative/ Credit Union	631,522	1,775									
		(31/07/06)	(31/07/06)									
MGBB	Rural Bank	4,279,130	42,058	7,995,905	11.74%	6.53%	42,058	24,188	491,603	1.65%	101.44%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
MPGBB	Rural Bank	1,358,364	12,582	5,958,330	13.81%	25.10%	12,582	6,853	188,917	43.03%	120.01%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
Nirdhan	Bank	9,516,920	58,679	10,812,155	10.62%	7.41%	58,679	63,847	1,187,516	-1.19%	102.20%	0.00%
		(31/07/07)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
NRDSC	Non-Profit (NGO)	1,263,798	18,473	1,928,007	15.87%	0.70%	18,473	19,945	230,222	-12.03%	91.95%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
NSSC	Non-Profit (NGO)	942,312	9,359									
		(31/07/05)	(31/07/05)									
PGBB	Rural Bank	5,803,237	41,097	8,699,490	10.20%	15.59%	41,097	9,432	822,146	-4.73%	98.50%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
SB Bank	Rural Bank	4,345,364	47,811	6,387,805	11.24%	5.99%	47,811	54,006	964,159	29.31%	155.52%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
SPGBB	Rural Bank	1,222,267	13,463	4,211,764	11.19%	33.44%	13,463	19,359	-309,433	-12.83%	119.75%	0.00%
		(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)	(31/07/06)
VYCCU	Cooperative/ Credit Union	603,682	1,898									
		(31/07/05)	(31/07/05)									