

Project Overview

2010 and 2011



Nepal Rastra Bank Enhancing Access to Financial Services (EAFS) Project

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Director's note



I am pleased to present 2010–2011 progress overview for “Enhancing Access to Financial Services” (EAFS) Project. This report presents our key activities and achievements in 2010 and 2011. Our primary aim in publishing this report is to share our results.

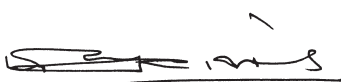
Nepal continues to make steady progress towards broadening and deepening financial access through microfinance services. Lack of access to financial services is a hindrance to the economic development of Nepal and one of the major contributors to persistent poverty. Access to financial services enables the poor to build assets, increase incomes and reduce vulnerability to economic stresses and shocks, contributing to the achievement of the Millennium Development Goals (MDGs).

Enhancing Access to Financial Services Project is essentially aimed at enabling microfinance institutions to expand and deepen the outreach in a sustainable and pro-poor manner. We have worked hard in ensuring that the underserved and excluded poor get access to appropriate and sustainable financial services and products. We have reached 214,900 individuals by the end of 2011. Our approach, from the beginning of the project, has been forging strategic partnership with microfinance institutions in the country supporting them at different levels, building their capacity in offering affordable and efficient financial services for poor people in Nepal.

The results we have achieved during 2010 and 2011 would not have been possible without the financial and technical support of UNCDF and UNDP, and the commitment and perseverance of the Nepalese Financial Service Providers with whom we partnered.

All progress we have made is entirely based on the achievements of our partners in a shared commitment to expand access to financial services to poor in Nepal.

Finally, we foresee that during 2012 we will focus on increasing effectiveness of our efforts to ensure that we expand access to financial services to include more poor. Additionally we will focus on improving financial competencies of Nepalese people, through financial literacy efforts.



Pradip Raj Panday
Executive Director,
Microfinance Promotion and Supervision Department,
Nepal Rastra Bank
National Project Director - EAFS Project

Foreword

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Foreword

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Enhancing Access to Financial Services (EAFS) Project : An Introduction

Enhancing Access to Financial Services (EAFS) is run under the initiative of the Central Bank of Nepal. The project is supported by the United Nations Capital Development Fund (UNCDF) and the United Nations Development Program (UNDP). The project aims to expand access to 330,000 poor people of Nepal who have previously got no banking facilities.

Nepal Rastra Bank

Nepal Rastra Bank, the Central Bank of Nepal is the apex body that regulates and supervises financial institutions in Nepal. It formulates various policies and gives directives for strengthening and promoting financial system.

UNCDF

UNCDF is the UN's capital investment agency for world's 48 least developed countries. It provides seed capital grants and loans and technical support to help microfinance institutions reach poorer households and small businesses. Local governments make the capital investments for water systems, feeder roads, schools, irrigation schemes to improve poor peoples' lives.

UNDP

UNDP is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. UNDP works in 166 countries to find solutions to global and national development challenges.

Acknowledgements

This report was made possible by the generous support of UNDP and UNCDF. We would like to thank the 18 Financial Service Providers (FSPs) that are a part of this project. This report would have not been possible without their hard work and commitment to expansion of financial services in Nepal. We offer special thanks to all EAFS staff members and those who provided comments to this report from Nepal Rastra Bank, UNDP Nepal and UNCDF Nepal.

Acronyms and Abbreviations

CFUGs	Community Forest User Groups
CMF	Centre for Micro-Finance
CPAP	Country Programme Action Plan
EAFS	Enhancing Access to Financial Services Project
FINGO	Financial Intermediary Non-Governmental Organization
FSPs	Financial Service Providers
GON	The Government of Nepal
HDI	Human Development Index
ICT	Information Communication Technology
MDGs	Millennium Development Goals
MFDB	Microfinance Development Bank
MFI	Microfinance Institution
MIS	Management Information System
NLSS	Nepal Living Standard Survey
NRB	Nepal Rastra Bank (Central Bank of Nepal)
PBA	Performance Based Agreement
POS	Point of Sale
RSP	Retail Service Provider
SACCOs	Savings and Credit Cooperatives
SCGs	Savings and Credit Groups
SMART	Singles Measurable Accurate Realistic Time bound
UCGs	User Community Groups
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme

Introduction

Nepal has three decades of experience in microfinance. Microfinance programmes contribute to poverty alleviation, and have been implemented throughout the country. The Government of Nepal recognizes microfinance as a particularly effective development tool for raising living standard of poor people because the services provided by the microfinance institutions in Nepal target poor and very poor clients. Moreover these services can make a significant contribution to the improvement of the socio economic situation of the poor by providing them access to credit to build and develop their livelihoods.

Difficult topography, remoteness, heterogeneous groups and culture have hindered successful delivery of microfinance in Nepal. To address this issue UNCDF and UNDP pooled their resources and expertise in the “Enhancing Access to Financial Services” EAFS project, with the ultimate goal to extend financial services to the poor and excluded in Nepal.

The overall objective of EAFS project is to expand access to financial services (both in terms of quantity and quality), especially to small businesses and low income households (poor youth, excluded and vulnerable groups), in a sustainable fashion aiming to reach 330,000 new clients by the end of the project. Additionally the project aims to link 10,000 Savings and Credit Groups to the financial sector, most notably with EAFS partnering institutions. These targets are aligned with the UN Development Assistance Framework (UNDAF) as well as in UNDP’s Country Programme Action Plan (CPAP).

The project focuses on areas where there is no, or very limited, presence of financial institutions (known as “priority districts”). The project target is to reach excluded and vulnerable groups such as women, Dalits/ Janajatis/ Muslims and the like groups. The project places a special emphasis on reaching the rural poor.

The project implementation started in April 2010 with activities focusing on supporting the retail level institutions in extending their outreach to the unbanked poor. Investment at retail level was seen as the most appropriate investment to expand financial services to the very poor.

This report presents EAFS’ key activities and achievements in 2010 and 2011 and is divided into five sections. The first section of the report provides a general overview of the Nepalese context; section two examines the role of microfinance in Nepal, while section three summarizes EAFS approach and key achievements in 2010-2011. Section four outlines the achievements and strategies of the EAFS project in expanding financial access through geographic inclusion. Finally, section five outlines the focus areas of the EAFS project for 2012.

I. Context of Nepal

Nepal is a landlocked country between India and China. It has a population of 26,620,809 (Nepal National Population Census, 2011). The country is stretched from the highest altitudes in the world to the low plain lands. Despite its geographical pluralism, Nepal has a complicated geography and adversely large areas of hill and mountain regions of the country remain out of reach of road network causing impediments to development programmes.

Emerging from a feudal history and recent post conflict era of Maoist Insurgency, in terms of development, Nepal is the poorest country in South Asia and the 12th poorest country in the world.¹ Nepal's Human Development Index (HDI) of 0.458.² is below the regional average for South Asia which has an HDI of 0.548, Nepal ranks as 157th out of 187 HDI countries. However, the overall poverty has fallen in Nepal from 41.76% in 1995-96 to 25.2% in 2011 (CBS, NLSS 2010/11). Nepal's HDI rose from 0.242 in 1980 to 0.458 in 2011 thus showing significant improvements in Nepal. Access to primary schools within 30 minutes of travel time has improved from 88% in 1995/96 to 95% in 2010/2011. Overall literacy rate (6 years and above) has increased by some 23% from mid 90's. Average

Nepal at Glance

Population: 26.6 million

% of people below national poverty line: 25.4%

Median Age: 20 years

% population living on less than US\$ 1 per day: 19.7%

(UNDP, 2011)

income per capita has increased from NRs. 7,690 to NRs. 41,659 (an increase of 442%). Agriculture remains the biggest sector of the Nepalese economy accounting for 40% of GDP, with some 65.7% of the population engaged in it. The World Bank (2006) estimated that the informal economy accounts for 38% of GDP, employing more than 90% of the 9.9 million strong domestic work forces.

Access to financial services in Nepal is particularly hard in rural areas or areas with limited infrastructure. Institutions have struggled to extend financial services beyond some populated areas especially in rural Nepal as building a physical network of branches is costly. Transportation costs, opportunity costs and lack of financial providers remain major impediments to access financial service for many people in rural areas, some have to walk for hours to access a branch. Therefore, households are still very much dependent on loans from relatives, friends and neighbors. In effect 51% of households rely on friends and family to meet their loan needs, compared to 41% in 1995/96 (CBS, NLSS 2010/11)

Despite these challenges, a set of policies instituted by the government has significantly improved access to finance. The portion of households taking loans from formal financial institution such as banks has increased from 16% in 1995/96 to 20% in 2010/2011.

The use of costly and informal sources, such as moneylenders has decreased from 40% in 1995/96 to 15% in 2010/2011 (CBS, NLSS 2010/11). These are significant achievements; however majority of the poor is still without access to finance.

¹ World Bank. Poverty in Nepal. Available here: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSAREGTOPPOVRED/0,,contentMDK:20574069~menuPK:493447~pagePK:34004173~piPK:34003707~theSitePK:493441,00.html>

² UNDP. Human Development Report, Available here: http://hdr.undp.org/en/media/HDR_2011_EN_Complete.pdf

2. Role of Microfinance in Nepal

Development in Nepal has been significantly unequal across social groups. The latter observation is not reflected through MDG indicators that measure national averages and is in danger of being overlooked. Ensuring equitable growth, thus, is one of the key priorities of the Government of Nepal (GON). In light of these challenges the Government has well understood the substantial importance of financial inclusion and role of microfinance for poverty alleviation and economic development. The national interest to expand financial services to low income households is held as a high priority for the Government. As a consequence of this, GON adopted microfinance as one of the poverty reduction approaches and introduced a National Microfinance Policy in 2007 to promote rapid sectoral growth and increase the outreach of Microfinance Institutions (MFIs) to low-income groups in remote areas.

Due to the favourable policies, Nepal's financial sector has grown rapidly over the past two decades, increasing the number of financial institutions from only two in 1980 to 264 in 2010³. Currently, there are 31 Commercial Banks, 87 Development Banks, 79 Finance Companies, 21 Microfinance Development Banks (MFDBs), 16 Savings and Credit Cooperatives (SACCOs) with limited banking licenses,

Financial Inclusion

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

and 37 Financial Intermediary Non-Governmental Organizations (FINGOs) operating in the country. In addition, there are hundreds of cooperatives providing financial services all over the country.

Despite the expansion of retail providers, the microfinance sector in Nepal has yet to meet the growing needs of low income households, especially in rural areas. However, as roads and telecommunications begin to link previously isolated areas to the national economy, opportunities, goods and services, including financial services, follow. Nevertheless, high costs of obtaining basic infrastructure services, such as energy, appear to impose significant constraints to enterprise development and thus limit demand for financial services.

Low population density in the hills and mountains coupled with difficult terrain and limited infrastructure makes it very difficult for microfinance institutions to reach those areas. Moreover, limited economic activities and high operational costs make hills and mountain unattractive for microfinance institutions. Not surprisingly, reaching hills and mountains remains a challenge for most microfinance institutions.

³ Nepal Rastra Bank Website: www.nrb.org.np

3. EAFS approach: Building Strong Microfinance Sector

EAFS is a national initiative that supports the creation of an inclusive financial sector in Nepal. It is designed to support the government of Nepal's efforts to improve access to finance for low income households and achieve the Millennium Development Goals (MDGs). It is a joint initiative of the Nepal Rastra Bank (Nepal's Central Bank), UNCDF and UNDP.

EAFS supports the efforts of 17⁴ financial institutions in scaling up, deepening and broadening outreach, especially in rural areas. By 2012, with the funding and technical support from UNCDF and UNDP, the project efforts will lead to an additional 330,000 individuals accessing the formal financial sector as well as 10,000 community based groups such as Savings and Credit Groups (SCGs).

In Nepal, opportunities and constraints towards inclusive financial sector exist on a number of levels. EAFS intervention logic is that improvements in the enabling environment for inclusive finance, supported by catalytic investments in Financial Services Providers (FSPs) and supporting industry infrastructure, will strengthen selected FSPs, thus improving their ability to provide appropriate products and services to previously unbanked and marginalized populations.

Therefore, EAFS vision of inclusive finance encompasses⁵:

- Access to the range of financial products and services by all target bankable household;
- Sound Financial Service Providers (FSPs);
- Financial and institutional sustainability of FSPs;
- Sufficient number of demand driven providers of financial services;
- Strong regulatory and supervisory framework for microfinance institutions.

To achieve this vision, EAFS project employs a sector wide approach working on micro, macro and meso level.

On *micro level* the EAFS strengthens the capacity of retail providers to develop appropriate financial products and extend financial services to the geographically excluded poor.

On *meso level* the EAFS strengthens the capacity of the broader sector through research and technical assistance to support the retail sector providers.

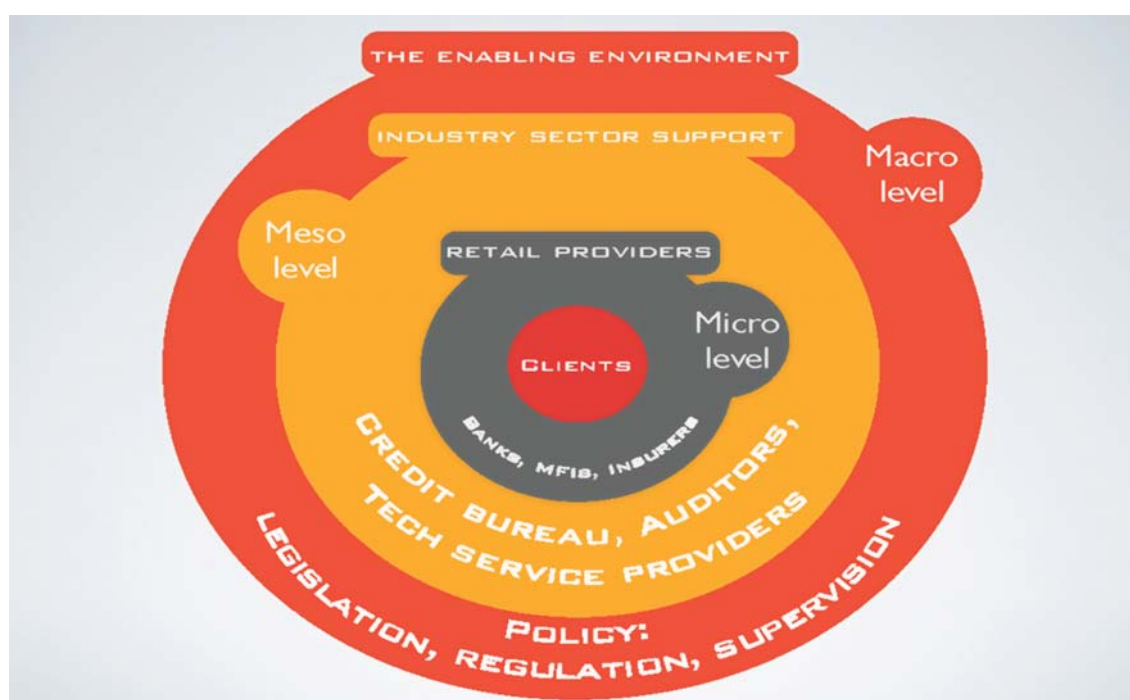
On *macro level* the EAFS works with policy makers to support the creation of effective and enabling environment.

EAFS approach includes the following aspects:

- Direct financial support and technical assistance to Financial Service Providers (FSPs) to help them expand microfinance services;
- Provision of financial support and technical assistance to financial sector support organizations;

4 EAFS signed Performance Based Agreement with 18 FSPs in 2010. CSD transferred its microfinance operations to SBB in 2011.

5 Building Inclusive Financial Sectors for Development http://www.uncdf.org/english/microfinance/pubs/bluebook/pub/index.php?get_page=contents



- Promoting financial literacy among the Nepali public at large and especially in the target areas/ groups and people;
- Enhancing credibility, transparency and accountability of the microfinance sector by improving the collection, analysis, reporting and independent verification of key microfinance data.

3.1 Partnerships with Retail Service Providers for Greater Financial Inclusion

Retail Service Providers (RSPs) are the ones that offer financial products and services to the poor. On the micro level, they are the most important players. Often

lack of technical “know – how” or perceived risks prevent RSPs from entering new areas, or diversifying and expanding services. Therefore, the EAFS project provides support in the form of performance based grants and technical assistance contracts. Provision of grants serves as a way to incentivize the institutions to enter new areas and expand outreach to disadvantaged groups.

This support is seen both as an investment in dramatically scaling up outreach and innovation in remote locations, rural areas and underserved client groups, as well as an investment in the financial services providers as a whole for their organizational development. In effect, this investment contributes to the overall sustainability of the sector, along with creating geographically remote and pro-poor financial sector. In addition, after partnering with EAFS the RSPs have recruited nearly 800 new staff to achieve target outreach.

“The EAFS project design and implementation are in line with government priorities of ensuring the social and financial inclusion and poverty alleviation”

Independent Evaluation report, 2011

EAFS uses two windows of grant support

Figure 1 EAFS Grant Support Windows for Outreach Expansion

Window I Institutional Building	Window II Financial Innovations
<ul style="list-style-type: none"> ■ Grants to increase efficiency, strengthen governance, and overall operations of the institutions; ■ Assistance for institutional building is primarily seen as a way to support the expansion of FSPs into hard to reach areas, as well as to maximize long term profitability and sustainability of the institutions to ensure continuity of the service. 	<ul style="list-style-type: none"> ■ Grants to develop, innovative and therefore largely untested approaches to providing or facilitating the provision of financial services to people in rural areas, remote locations and hitherto un-served markets; ■ Assistance for small-scale innovation projects is seen primarily as discrete investments to test new products and innovations.
10 partners	8 partners

In 2010, EAFS signed performance based agreements with 18 financial service providers, 10 of these providers received support under Window I, while 8 received support under Window II. After two FSPs merged, there are now 9 partners under Window I. Considering that microfinance services were concentrated mostly in Tarai (plain) areas EAFS gave preference to the institutions willing to expand their services in remote hills and mountains.

Figure 2 EAFS Partners

Microfinance Development Banks (MFDBs)	Financial Intermediary NGOs (FINGO)	Commercial Banks
Chhimek Laghubitta Bikas Bank Ltd.	Center for Self-help Development	Siddhartha Bank Ltd.
Deprosc Laghubitta Bikas Bank Ltd.	Nepal Women Community Service Center	
Nerude Laghubitta Bikas Bank Ltd.	Forum for Rural Women Ardency Development	
Nirdhan Utthan Bank Ltd.	Jeevan Bikas Samaj	
Paschimanchal Grameen Bikas Bank Ltd.	National Educational and Social Development Organization	
Swabalamban Laghubitta Bikas Bank Ltd.	Mahuli Community Development Center	
Madhya Paschimanchal Grameen Bikas Bank Ltd.	Rural Women Development Center	
	Society of Local Volunteers' Effort	
	United Youth Community	
	Women Development Center of Nepal	

3.2 Supporting Innovations in Product Design and Methodology

Through its innovative window, EAFS is supporting 8 partners to pilot ground-breaking approaches of financial service delivery in the country. These innovations are intended to expand the frontiers of financial services in Nepal. EAFS provided grant support to 8 FSPs to develop innovative and therefore largely untested approaches for supplying or facilitating the provision of financial services to people in rural areas, remote locations and hitherto un-served markets. The investment in innovation leads to the funds being used to undertake experimental programs that have been researched globally, but not proven to work at the field level in Nepal.

The major concern for the project is deepening microfinance services in the rural areas of the hills and mountains. The main challenge lies in motivating and encouraging partner FSPs to expand their services in such areas and offer new products and services. Similarly, another challenge is to build confidence and create an enabling environment for FSPs to extend their services in underserved priority districts.

The specific challenges that these districts present - scattered settlements coupled with poor infrastructure and limited economic and business opportunities - make the mainstream Grameen methodology of microfinance inadequate, generating higher operational cost for FSPs. Support to innovative financial services and products, through use of mobile technology, agent banking and other innovations, therefore becomes key to overcoming these challenges.

In this context, EAFS project is exploring different options and sharing them with project partners to increase outreach to these areas.



Figure 3 EAFS Support of Innovations

Financial Service Providers	Innovation
Nepal Women Community Service Centre (NWCSC)	Creating a financial linkage with existing community based groups and providing wholesale lending to the groups as a way to include informal groups in the financial sector.
United Youth Community (UNYC)	Design of a loan product specifically for migrant workers that are leaving for short term or longer term labour as a way to address a growing need of migrant workers for appropriate financial products and services.
Mahuli Community Development Center (MCDC)	MCDC innovation is to link the existing User Community Groups (UCGs) as an outreach model as a way to build on already existing community social capital rather than using Grameen model
Rural Women Development Centre (RWDC)	Use of “sales agent” model for outreach expansion rather than credit officer model, as a way of lowering costs and using community representatives as an outreach and transaction agents.
Society for Local Volunteers' Effort (SOLVE)	Use of existing Community Forest Users' Groups (CFUGs) as financial intermediaries through which it provides wholesale loans to user group members, as a way to reduce transaction costs and include informal groups in the financial sector.
Madhya Paschimanchal Grameen Bikas Bank Ltd. (MPGGBB)	Individual lending for Micro Enterprises as a way of meeting the growing business capital needs of entrepreneurs.
Siddhartha Bank Limited (SBL)	Branchless banking using ICT (POS, Biometric, Mobile) through business correspondence / agent as a way to address geographical constraints.
Women Development Centre of Nepal (WDCN)	Product diversification

“EAFS project helped us understand that while credit plays a vital role in supporting growth of small businesses, meeting consumption needs and so forth, credit alone is not enough. Our clients have multiple needs that go beyond credit; they need to protect their assets and savings. We need to diversify our product and services to better meet the needs of our clients”.

*National Education and Social Development Organization
(NESDO Nepal)*

4. Expanding Financial Access: Geographic Inclusion

In Nepal, location imposes significant constraints in terms of the access and use financial services. The experiences of economically challenged Nepalese people show us that accessing financial services in rural and hilly areas is particularly hard. To access financial services many poor have to walk for hours to the nearest urban centre, therefore occurring high transaction and opportunity costs.

Traditionally, microfinance institutions in Nepal have struggled to extend

financial services beyond key population centres especially in hilly and mountainous areas; therefore a large segment of the potentially bankable population still remains unbanked. Recognizing a need to go beyond urban centres, EAFS project works in those areas where there is little or no available or accessible financial services.

Considering poverty levels, geographical and financial exclusion and the existence of community based savings and credit groups, EAFS project identified 38 districts as the project's priority.



Figure 4 EAFS Priority Districts in Development Regions

Eastern	Central	Western	Mid-Western	Far-Western
Khotang	Mahottari	Arghakhanchi	Dailekh	Achham
Okhaldhunga	Parsa	Kapilbastu	Dolpa	Baitadi
Panchthar	Ramechhap	Myagdi	Humla	Bajhang
Siraha	Rasuwa	Nawalparasi	Jajarkot	Bajura
Solukhumbu	Rautahat		Jumla	Dadeldhura
Taplejung	Sarlahi		Kalikot	Darchula
Terathum	Sindhuli		Mugu	Doti
Udayapur			Pyuthan	
			Rolpa	
			Rukum	
			Salyan	
			Surkhet	

Out of 75 districts in the country the project reached 28 priority districts, and 35 other districts in 2010-2011. In total, partnering institutions opened 105 new branches, out of which 59 are in priority districts.

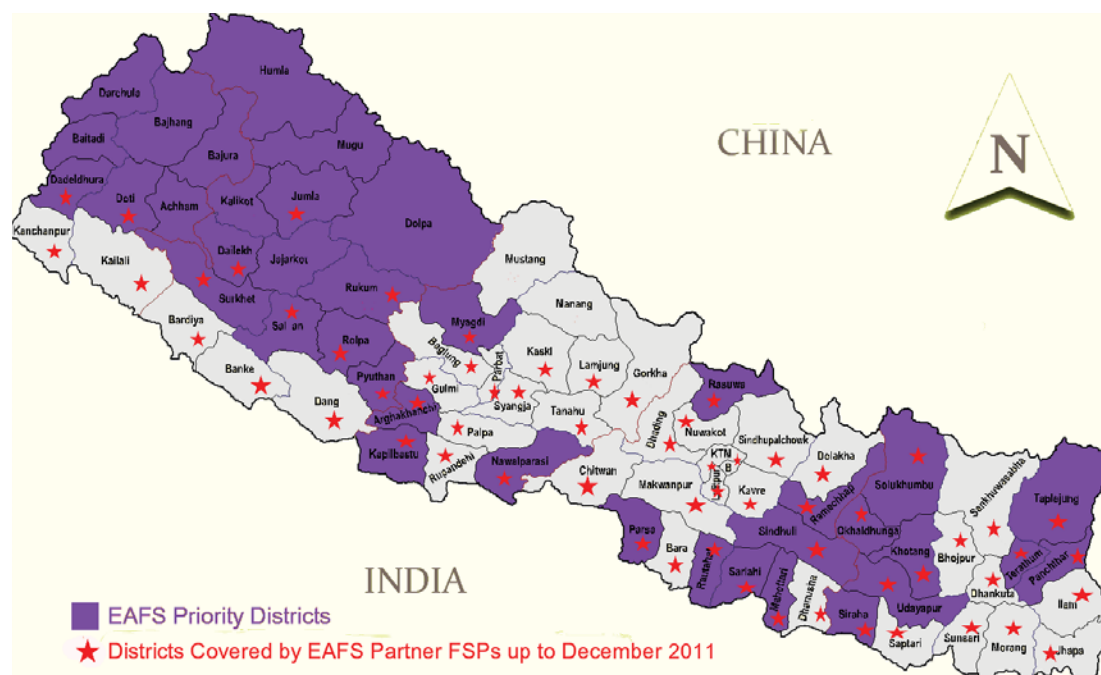
Figure 5 New Branches Opened in 2010 and 2011

Development Regions	Eastern	Central	Western	Mid-Western	Far-Western
In EAFS Priority Districts	13	20	12	11	3
In Other Districts	23	7	13	3	0

Meet Our Partner

Siddhartha Bank Ltd. is working on branchless banking initiative using biometric based smart cards to enable the underprivileged, deprived rural poor to access financial service. The biometric smart card is based on an automatic transaction processing which will create a cashless transaction even to the extent of P2P (person to person) fund transfer. Branchless banking will enable a variety of customers (urban as well as rural) to enjoy modern day banking products and services at fraction of cost. In coming years, the bank is planning to deploy more than 50 ATM Kiosks & 500 plus Point of sale (POS) terminals for the purpose of branchless banking throughout the country within next 2 years. The difficult geographic terrain of the country, inadequate rural infrastructure, and the high cost of opening bank branches are key reasons to use technological innovations, particularly mobile banking, to spread the use of financial products and services in Nepal.

Figure 6 EAFS Outreach-District Coverage



By the end of 2011, EAFS partners cover 63 out of 75 districts of Nepal, having operations in 28 out of 38 priority districts and 35 out of 37 remaining other districts.

EAFS project plays a key role in facilitating approval and expansion of microfinance institutions to new districts. In 2010 – 2011, EAFS project sent recommendation to NRB for granting working permission to 9 partners FSPs for expanding their services in 41 districts.

Meet Our Partner

Chhimek Laghubitta Bikas Bank Ltd. (CBB) is a licensed microfinance development bank established in January 2002. As of December 2011, the bank has 140,029 active clients which make it the third largest micro finance retailing institution in the country. The bank offers credit, savings, money transfer and insurance products focusing on the marginalized and the deprived poor women living below the poverty line.

By the end of 2011, EAFS project reached 214,900 individuals. EAFS' contribution to this growth has been significant; its SMART subsidy grants provide a percentage of start-up or operating costs of setting up new branches and expanding outreach. The project support covers only a part of the costs. The FSPs provide the other part. This support has been catalytic in encouraging the partner FSPs to open new branches and expand to new areas, where they otherwise would not have gone.

Figure 7 EAFS Outreach End of 2011

Outreach	Overall Project Target (July 2012)	Achivement end of 2011	Achievement percentage against total target
Total New clients	330,000	214,900	65%

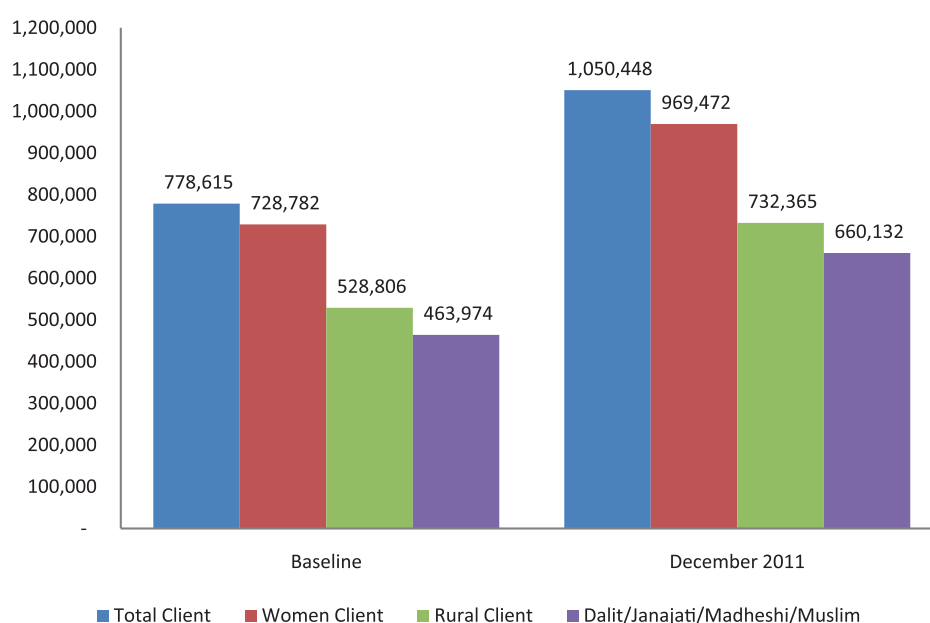
Appropriate policy legislation and regulations are imperative to enable the banking system to withstand financial shocks, serve a growing economy, develop markets for financial securities and promote long-term as well as short-term financial intermediation. In other words, the role of policy and regulations is key to build and create a financial sector inclusive of the Nepalese poor and vulnerable segments of society. As a part of its policy and capacity building support, EAFS organized a study tours for a team of regulators and supervisors of Nepal Rastra Bank as well as sponsored two NRB representatives to attend the Boulder Microfinance Training held in Turin, Italy.

4.1 Expanding Financial Access: Including the Poorest

Poverty profile and income levels have important role in shaping a person's use and access to financial services. Often, because of poverty many poor people in Nepal are largely excluded and discouraged to use financial services. Therefore, EAFS places a special emphasis to include marginalized and excluded poor in the financial sector. In specific the EAFS is focusing on including women, Dalit, Janajati, Madhesi and Muslim communities.

At the time of the agreement date (2010) with the partner FSPs, the combined outreach figure of partners stood at 778,615 while at the end of 2011 it stands at 1,050,448.

Figure 8 Client Composition of Partner FSPs



4.2 Community Based Groups: Missing Link in the Financial Inclusion Chain of Nepal

Largely promoted by development partners in the country, Nepal is a home to thousands of community based groups. They range from forest users groups to savings and credit groups. Mostly involving the poorest these groups depend on the group's internal resources for credit. These internally generating sources are not adequate to meet the credit needs of the members; therefore many borrow from money lenders at high cost.

Recognizing the need to access financial products and services, EAFS project facilitates the linkages between EAFS partnering microfinance institutions to accelerate the access to financial services for these groups. EAFS focuses on Savings and Credit Groups (SCGs).

In an effort to create an enabling environment that can support linkages among community based groups and microfinance institutions, EAFS ran two workshops focusing on the ways of forming links with community groups. EAFS also developed an assessment tool for rating the strengths and weaknesses of the groups and subsequently pilot tested and oriented partners on its use. By the end of 2011, partner FSPs have been able to create financial linkages with 2748 SCGs which have been promoted by different government and non-government development agencies. As a result of their efforts, 62537 members of 2748 SCGs have been able to access financial services.

These SCGs were outside the purview of the formal financial institutions. Hence, to bring them under the fold of formal financial institutions the project has initiated their linkages with the microfinance institutions. Without this move, SCG will not have sufficient capacity for serving their credit and savings needs.

4.3 Sector Development through Technical Assistance

Traditionally, financial institutions in Nepal targeted only middle income customers, excluding poor and vulnerable segments of the population. Building an inclusive financial sector with the poor accessing different financial services requires FSPs to have adequate capacity to include the poor in their business model.

As stated earlier one of the major roles of the project is to build institutional capacity of the microfinance sector in Nepal through a provision of tailored technical assistance in a variety of microfinance operations areas. EAFS strengthens technical capacity and “know – how” of microfinance institutions so that they can offer appropriate products and services to the poor, as well as to extend outreach to remote areas that are un-served or under served.

“Without EAFS support, we would not have expanded our outreach. The quarterly meetings enable us to share information and learn from each other. Technical assistance and exposure to new ideas and, products has been instrumental in changing how we work.”

Chhimek Laghubitta Bikas Bank Ltd.

Figure 9 EAFS Technical Assistance Summary

	Market Research & Product Development	Business Planning	SCG Linkages	Mix Market
What we did	A five days training by MicroSave India to partner FSPs in order to enable them to provide services as per the demand of the rural people.	One day orientation (two events one for strategic and another for innovative partners) were held with FSPs to advise them on streamlining their project proposal and business plan.	Two national level workshops, three events of trainings on SCG linkage and two events of trainings on SCG rating tools were held with FSPs and development agencies who promote SCGs.	Two events of (two days) training on MIX Market Reporting and Social Performance Management were conducted in collaboration with Centre for Micro-Finance (CMF).
Why we did it	FSPs lack expertise in modifying existing products or introduce new products that match with the desire of their clientele.	FSPs that were interested to partner with EAFS lacked clarity on the format and contents of the business plan they had to submit.	To create a congenial environment for linkages and to build capacity of different stakeholders, i.e. FSPs and development agencies.	To increase the visibility of partner FSPs and link them to global microfinance information platform, the "MIX Market".

As a result of the technical assistance efforts, in 2010 and 2011, EAFS:

- Built capacity of more than 200 representatives of financial institutions through training and technical assistance in Market research & Product development, Innovations in Microfinance, Business planning, Financial Linkages, "MIX Market" benefits, Management Information Systems, Village and Savings Methodologies, Financial Education and Micro insurance;
- Linked partners to the global microfinance information platform "MIX Market" in order to increase their visibility;
- Facilitated independent financial and operational rating of 10 partners.

Partner Assessment through Independent Rating Agency

In 2011 EAFS project completed a rating activity of 10 Strategic Partners. The rating was conducted by M-CRIL - an international rating agency based in India. M-CRIL rating framework focused on assessment and rating of three areas of microfinance operations: Governance and Strategy, Management Systems and Financial Performance.

As a whole EAFS' strategic partners received positive ratings. The analysis however, highlighted some common issues facing all partnering institutions. A common challenge facing the Nepalese microfinance industry consists in the similarity in loan, savings and insurance products offered by different MFIs, thus not creating healthy competition for the clients. Moreover, M-CRIL's rating found that most clients use only two general loans products, despite the availability of a broader range of products. This suggests that there is a general lack of awareness among clients about products and services whereby they use only what they know about.

Based on the findings, the rating agency made recommendations for the partners and microfinance industry as a whole. Firstly, computerization of MIS was recognised as a top priority; secondly, there is a need for refinement and diversification of products, ensuring both competitions among MFIs and range of choice for clients. Client knowledge, on the other hand has to be strengthened, building up their financial capability and awareness.

EAFS project started to closely review recommendations both for the industry as a whole and for individual partners. It is important to highlight the recommendations made, as these impact directly the future success of the institutions as well as the users of financial services. These recommendations will be incorporated in future technical assistance interventions of the project.

Management Information Systems

Reliable Management Information Systems (MIS) are critical for effective performance management and decision making. Currently, most of NRB – EAFS partners (11 partners) do not use computerized management information system, meaning that they manually track performance of their portfolio which not only is error prone, but also proves to be inadequate to provide key reports for management decisions. Furthermore computerization of MIS reduces operating expenses while improving client relationship. Five partners operate a semi-automated MIS, using Excel spread sheet and some form of MIS application which often does not fulfill the information requirements of partner MFIs. Only two FSP partners use fully automated MIS systems that fulfill their information requirements.

EAFS has provided technical assistance to the partnering institutions in 2011 on selecting and implementing appropriate MIS in their institutions. As part of these activities EAFS project has taken the lead in liaising with software providers in Nepal to improve the offer of software, ensuring it matched the needs and requirements of microfinance institutions. While computerization is in progress this may take up to three years to come fully into place.

Market Research

Access to financial services remains highly constrained in the Western, Mid-Western, and Far Western regions of Nepal due to the challenging terrain, lack of infrastructure, and high levels of poverty. NRB's 2011 monetary policy identified Manang, Humla, Dolpa, Kalikot, Mugu, Bajhang, Bajura, Darchula, and Jajarkot as highly deprived districts where people have particularly hard time accessing financial services. In order to understand why financial services are hard to access in these areas, NRB-EAFS project conducted a research study in Kalikot, Bajhang and Humla. The purpose of the research was to understand the demand for financial services and assess available products and methodological approaches used by financial institutions to reach people living in those areas. The findings of this study (available in 2012) will be used to develop appropriate strategies to reach these areas.

5. EAFS Areas of Focus in 2012

In 2012, EAFS will focus on providing capacity building and technical assistance to its project partners to further support the expansion of outreach and contribute to better coverage.

Financial Literacy will be a major initiative for EAFS project in 2012. Financial literacy is the ability to make informed judgments and effective decisions regarding the use and management of money. Such a literacy develops partly through financial experience so it is inherent in most people's lives. However, low income people often find themselves unfamiliar with the new and rapidly changing array of financial instruments available to them and they often lack information about the terms and conditions of these new products. Their knowledge of these options and their ability to make informed decisions is limited. In Nepal about 26% of the households have bank account and 38% have outstanding loans exclusively from the informal sector. Poor people are often not aware of the potential benefits that can be derived from the use of financial services; however an effective



interaction with the financial sector can help the poor build assets, manage risks, and plan for the future.

EAFS initiative involves research, creation and dissemination of financial literacy materials as well as capacity building on financial education at meso level and end-user level.

EAFS project will additionally work on development of financial products to meet the needs of new micro entrepreneurs that currently have no access to business start-up loans. The project will work in partnership with Microenterprise Development Programme (MEDEP) and a microfinance institution. This initiative will allow the project to provide technical assistance, and support to enhance product development among microfinance institutions. This is a pilot initiative.

A special emphasis will also be placed on developing Client Protection guidelines for microfinance institutions in order to support responsible finance.

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