

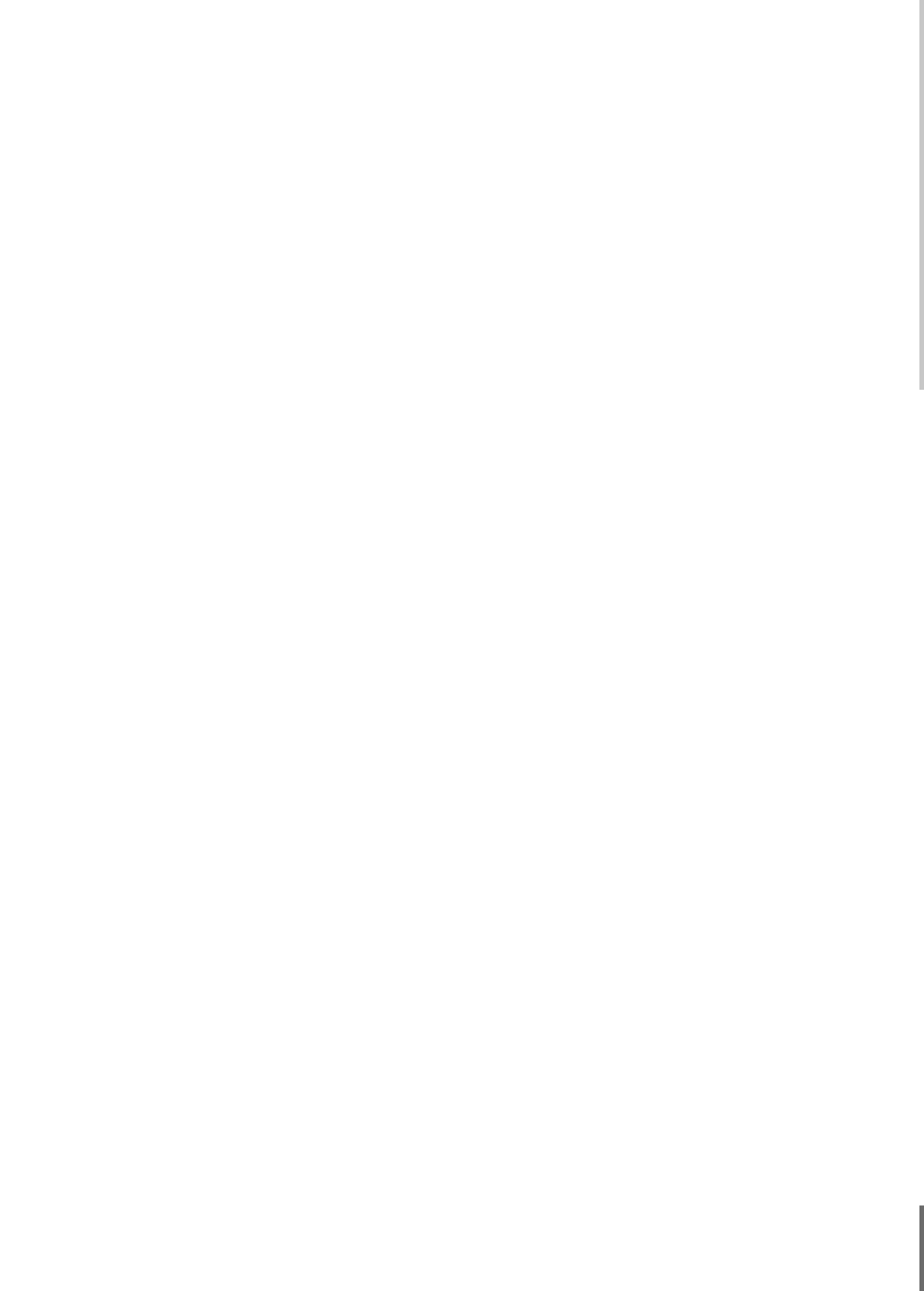


# **Fourth National Microfinance Summit Nepal 2017**

## **Summit Declarations Progress Report**

**CENTRE FOR MICROFINANCE (CMF), Nepal**

March 2019



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## Foreword

Microfinance is both complimented and criticized as a policy and a practice for addressing the issue of poverty in the developing world. While it has delivered fairly well in respect of giving access to resource for millions of the poor across the globe, it has at the same time attracted some sharp questions and even some degree of disapproval about its impact and usefulness as an instrument for poverty alleviation. This is true for Nepal as well.

What is, however, also true is that Microfinance has shown much potential and promise in a developing society like Nepal where poverty is an endemic problem, and its reduction a national priority. Against this background, Microfinance has in the last four decades emerged as an economic and social strategy for poverty reduction. Microfinance Institutions (MFIs) across the breadth and length of the country have taken on the mission of working with and for the poor, creating access to economic and social resources for them to fight poverty and improve the quality of their life. Some success has been registered but much more remains to be done.

For the Microfinance industry to contribute more in Nepal it is important that problems and challenges facing its operations and growth are understood well and efforts are undertaken to address them in a way that enables the industry to move ahead strategically. Policy discourses and interactions for institutional reforms are important mechanisms through which this can be achieved. National Microfinance Summits, which are coordinated by the Centre for Microfinance Nepal (CMF/N) as part of its institutional role as a knowledge institution in the industry, have been one of such significant platforms for dialogue and discussion.

The Fourth National Microfinance Summit organized in 2017 took stock of the issues facing the industry and concluded with 17-points Declarations calling all the relevant actors, partners, and regulators for playing their respective roles in reforming many existing policies and practices for greater impact of the industry. As directed by the Summit, CMF/N carried out a quick assessment of the implementation status of the Declarations two years after the Summit, and this report presents the progress (or lack of it) on the Declarations.

As the report informs, the progress is only moderate in some cases and limited in many instances. What is more disappointing is that there has been no progress in case of some other Declarations. I believe these findings should make us all more determined, rather than being deterred, to push hard for their implementation, playing our respective roles with more seriousness and sense of responsibility. The report indicates the factors influencing the implementation of the Declarations in both directions, and we would do well if we heeded them attentively and with a motive of learning while taking initiatives to work on them. I hope this report will also help us in making better preparations for the next Summit due next year in terms of identifying issues for discussion and implementing the decisions.

CMF/N is grateful to the Summit Steering Committee for entrusting us with the responsibility for this assessment. I would like to thank all Microfinance practitioners and policy officials for their engagement in this quick assessment survey and also to the CMF/N team members who have been involved in this project.

March 2019

**Jalan Kumar Sharma**  
Executive Chair  
Centre for Microfinance Nepal

## List of Abbreviation

BFI	Bank and Financial Institution
CIB	Credit Information Bureau
CMF/N	Centre for Microfinance, Nepal
DIP	Declarations Implementation Plan
GoN	Government of Nepal
MFI	Microfinance Institute
MIFAN	Microfinance Association Nepal
MoF	Ministry of Finance
NACCFL	Nepal Agriculture Co-operative Central Federation Ltd
NCDBL	Nepal Cooperative Development Bank Ltd
NCFN	National Cooperative Federation Nepal
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Ltd
NGO	Non-Government Organization
NMBA	Nepal Microfinance Bankers Association
NPC	National Planning Commission
NRB	Nepal Rastra Bank
SFACL	Small Farmers Agriculture Cooperatives Limited





# CHAPTER 1

## Introduction

### Background

Microfinance Institutions (MFIs) have in the past decades emerged globally as a policy and institutional instrument for poverty alleviation. These institutions have been working with and for the poor and marginalized people by providing the much-needed access to a range of financial services for earning livelihood and to other support systems for development engagements. Both the appeal and the action of Microfinance have been so widespread and intensive across the developing world in the recent times that it has now evolved into a growth industry - and indeed into a movement.

Of the various institutional systems in place for poverty alleviation, MFIs have been the mainstay community-focused agency working for the poor and against poverty in Nepal. They started working with the poor from the late 1970's, and more earnestly from the 1990's, by providing them with an access to finance to pull them out of the vicious cycle of grinding poverty. As a result of their contributions in reducing poverty in the country, they have been recognized as an effective policy instrument as well as a potent institutional arrangement for addressing the needs of the vast population of the poor, particularly women and other marginalized groups.

MFIs in Nepal are robustly growing, and yet largely wanting in delivering what they ought to from the perspective of the scale and sustenance of impact. About four decades into operations experiencing rapid and extensive growth, they are still short of realizing full potential as transformative institutions for the economic and social upliftment of the people in the poverty bracket.

While its contributions are substantive in relation to economic and social transformation of the people at the bottom of development pyramid, the Microfinance industry in Nepal, as elsewhere, has lately come under pressures for justifying its value and utility as a transformative institution of the poor. It has been facing challenges for sustenance as a business and for its further growth. As a matter of fact, the Microfinance industry is presently at a crossroads, requiring redefinition of its roles and scope and rethinking and revision of its business modality if it is to sustain and grow

further over the next couple of decades in the changing economic, social, and political context of the country. On the other hand, the industry also has opportunities it can – and must – take advantage of.

Issues facing the Microfinance industry in Nepal are many and varied ranging from policies and regulations to mission and goal drive as well as from clientele coverage and servicing to business models and sustainability. Other issues relate to performance and operational efficiency of MFIs, their governance and management effectiveness as well as market coverage and penetration, strategies for growth, and institutional and human resources capacity. Funding availability and technology adoption have been other major issues many MFIs are trying to grapple with. The industry has been experiencing increasingly negative public perception about its operations as well as some operational dysfunctionality in running the business.

The way these issues is understood and addressed will be crucial in terms of sustaining the growth of the Microfinance industry and steering it forward for even greater impact. This demands regular and wider discourses among all the Microfinance stakeholders on these issues, development of common understanding of their underlying causes and implications for the growth of the industry, and agreeing on the ways of addressing them through policy and regulatory reforms, capacity building initiatives, programs and operations innovations, and institutional effectiveness measures. National Microfinance Summits have been one of the most comprehensive platforms for wider and deeper policy discourses and agenda generation for reforms in the Microfinance industry in Nepal.

#### **Fourth National Microfinance Summit 2017**

Giving continuity to the tradition of organizing national level summits for deliberations on various critical issues facing the Microfinance industry in Nepal, the fourth National Microfinance Summit was organized on 15-17 March, 2017, in Kathmandu. The Summit was designed around the main theme of “Balancing Financial, Social and Human Values” with the main purpose of uniting the Microfinance stakeholders in Nepal in a common platform to express their collective commitment to build a strong, socially responsible, and financially sustainable industry.

More specifically, the Fourth Summit had the following objectives as the intended outcomes:

- Develop common understanding between regulators and practitioners on major problems, issues, challenges, and difficulties currently facing Nepal’s Microfinance industry, and recommend options and suggestions for effective and progressive service delivery;
- Create a dialogue among practitioners, regulators, specialists, and clients based on concrete research findings related to the Microfinance industry;
- Restore balance between social and financial objectives of MFIs through an emphasis on human value;
- Explore the trends in International Microfinance and examine their relevance in relation to Nepal;
- Review and evaluate the effects of the Microfinance policies officially declared by the regulators;

- Provide a forum for mutual learning and joint action and complementarity; and
- Produce a Summit Declaration to address key issues, opportunities, and necessary revisions in Microfinance programs.

As guided by the last objective, the Summit concluded by agreeing on and announcing a statement comprising 17 points Declarations and directed that the progress on the implementation of the Declarations be monitored throughout 2018 and 2019 at the Annual Progress Update Workshops. The 17 points Declarations of the fourth Summit 2017 as officially issued at the end of the Summit is reproduced in Annex I.

To assist in monitoring the progress on Declarations, the Summit Steering Committee assigned the Centre for Microfinance Nepal (CMF/N) as the Secretariat of the Summit with the responsibility for carrying out a quick survey of their progress by the end of 2018 and present a report thereof, to inform the formal evaluation at the next Summit.

### **Report on Progress of Summit Declarations**

As mandated by the Steering Committee of the Summit, CMF/N took stock of the implementation status of the Declarations post Summit up to the end of 2018. The objectives of the quick survey were:

- Trace the post-Summit status of implementation of the 17 points Declarations;
- Identify the factors affecting the progress or lack of it in implementation of the Declarations; and
- Suggest measures for effective implementation of the Declarations.

The survey involved collecting, compiling, and analyzing the available published sources documenting and reporting the implementation of the activities related to the 17 points Declarations. A list of documents referred to is given in Annex II.

Additionally, to triangulate the information, informed views on the progress were gathered through interviews with the executives of 12 MFIs and 10 officials from other relevant organizations, including the Nepal Rastra Bank (NRB), the Ministry of Finance (MoF), and the National Planning Commission (NPC). The interviews focused on their views on the status of the implementation of the Declarations related to their functional domains. A list of the interviewees is given in Annex III.

This report documents the findings of the quick survey for monitoring the progress of the Declarations post Summit and for feeding into their evaluation at the time of the next Summit. Following the introduction of the Summit and the survey, the report presents in Chapter Two the current implementation status of the Declarations based on the information gathered. This is followed by the presentation and discussion of the factors affecting the implementation of the Declarations. In the last chapter, the major findings are summarized, their implications identified, and measures for effective implementation suggested.



# CHAPTER 2

## Progress on Implementation of Summit Declarations

This chapter presents the results of the survey of the current implementation status of the 17 points Declarations of the fourth National Microfinance Summit 2017. The post-Summit implementation status covers the period till the end of 2018.

### 1. Augmentation of Lendable Fund

The Summit noted the deficiency in fund available for MFIs to lend to the borrowers and the increasing need for such fund in view of the growing demands for loans. Hence the Summit proposed that a separate fund be established and potential foreign resources be mobilized by the Government of Nepal (GoN) and NRB to augment the resource base for and cover the deficiency in Microfinance lending.

The provision of committing certain percent of the total lending by the Banks and Financial Institutions (BFIs) to the deprived sector continues to be a major source of fund to MFIs. However, there has been only limited progress on expanding the resource base for lending.

In the review period, NRB made a slight revision in its policy regarding the percentage of credit disbursement to the deprived sector by BFIs. Monetary Policy for the fiscal year 2018/19 revised the earlier requirement of having to commit 5 percent, 4.5 percent, and 4 percent of the total lending for the deprived sector by commercial banks, development banks, and finance companies respectively by fixing the limit at minimum five percent in case of all BFIs. The Monetary Policy (2018) stated:

*The existing provision requiring commercial banks, development banks, and finance companies to disburse minimum 5.0 percent, 4.5 percent, and 4.0 percent respectively of their total credit to the deprived sector has been fixed at minimum 5.0 percent for all three types of institutions.”*  
(pg 9, point 72)

This provision goes some way, albeit marginally, in the direction of augmenting the available fund for Microfinance lending as emphasized in the Declarations. However, little progress is

noticed during this period in instituting the additional sources of fund in response to the call for establishing a “separate fund”. Almost as a compensatory measure, it appears some efforts have been made by a few MFIs to mobilize additional fund from the market by introducing and expanding saving services like pension saving, golden saving etc. A small step of course, but such mobilization of fund suggests a good potential for expanding the base of lendable fund. Initiatives have also been taken by some MFIs to coordinate with commercial and development banks for channeling their lending into and through the Microfinance sector, which will make additional resources available.

As a cumulative result of these initiatives, there has been a fair level of increase in the availability of fund for lending by MFIs in the period after the Summit as compared to the pre- Summit period. The aggregates of the capital fund, borrowing, and loan and advance of MFIs for the three years (2016, 2017, and 2018) period are given in Annex IV.

As can be seen in Annex IV, the yearly increase in borrowings by MFIs in 2018 over the previous year figure was 36.8 percent, a reasonable increment in the year after the Summit as compared to 23.8 percent annual increase in 2017 over the figure of the year before (pre-Summit period). In absolute term, the total borrowing by MFIs in the year 2018 increased by NRs 26152.4 million over the last year figure whereas the increment was NRs 13632.7 million in the year 2017 over the previous year borrowing, twice as much borrowing than in the previous year.

Similarly, loans and advances MFIs made also increased at a reasonable rate during the post-Summit period as compared to the same period before it. There was almost 41 percent increase in loans and advances in 2018 over the last year figure whereas the increase in 2017 was 31.2 percent. On the whole it is apparent that MFIs were able to mobilize more lendable fund and utilize it post-Summit, suggesting the widening of the resource base. This is however not adequate in relation to the demand.

With regard to “mobilizing potential foreign resources”, NRB came out with a policy in 2018 allowing MFIs to get foreign capital up to 25 percent of their core capital (NRB, 2018) supplementing the earlier policy of such external borrowing by individuals and institutions, including banks, up to US \$ 500,000 or IRs 50 million in case of borrowings from India (NRB, 2017). The Monetary Policy 2018 clearly stated:

*Microfinance institutions will also be allowed to mobilize external borrowing up to 25 percent of their core capital. This is expected to facilitate these institutions in resource mobilization and cost management. (pg 8, point 65)*

Apparently, this provision has opened to an extent the possibility for expanding the resource base for lending by MFIs, a major issue deliberated in the Summit. Specific data to suggest the expansion of resource base through this source is not available, but the progress is quite limited than expected.

## **2. Flexibility in Determining Lending Rates**

The Summit discussed the restricting effects on MFIs operations of the interest rates cap of 18 percent and spread rate of 7 percent as fixed by NRB, and concluded that it was important that some flexibility be given to them in determining their lending rates. The Declaration thus made

a request to NRB to review this policy directive and allow MFIs some flexibility in fixing interest rates and spread rates.

As the operating costs of MFIs are high, such restrictive provisions have the effect of making business unviable, especially in case of new and small MFIs. This has put heavy pressure on them to reduce operating costs which may not be feasible in most of the cases. On the contrary, this has discouraged many MFIs to expand operations in remote areas, which obviously involves high operating costs.

In response to this demand, NRB has since made some change in its policy with regard to the interest rates and spread rates, allowing MFIs some flexibility in this respect. The Monetary Policy 2018 maintained:

*Provision will be made for the Microfinance institutions allowing them to determine the lending rate by adding 6 percentage points to their cost of funds in addition to their administrative cost. (pg 14, point 126)*

This is a step forward towards giving flexibility in determining lending rates by MFIs. However, a general consensus is that this is not adequate, and much remains to be done for granting the required flexibility.

### **3. Review and Implementation of Microfinance Policy 2064**

The Summit recognized that while the Microfinance Policy 2064 BS issued by the Government of Nepal provided somewhat supportive enabling framework for MFIs to operate, it was time that the various provisions of the Policy were reviewed and updated in view of the emerging context during the last decade since the framing of the Policy. What is more important is that the provisions of the Policy are effectively implemented for deriving the intended results. The Summit took note of the need for timely revisions of the Policy and its effective implementation, and hence made the request that the GoN review and implement the Microfinance Policy 2064.

Evidence suggests that little progress has been made in this respect as not much effort is afoot till date on the part of the Government and other concerned authorities to review the Policy, let alone amend its provisions to address various problems facing the Microfinance industry and give a major push to its further growth. What appears is that adequate and appropriate mechanisms for ensuring effective implementation of the provisions of the policy are still not fully in place, creating problems for the smooth operation of MFIs. Almost all practitioners think it is high time that a review of the Policy was undertaken while streamlining the implementation provisions of the Policy for its effective execution.

### **4. Effective Advocacy by Microfinance Networks**

Acknowledging the criticality of policy advocacy for addressing major problems facing MFIs and for supporting their further growth, the Summit urged the Microfinance networks currently in operation to work out effective strategies for strengthening advocacy through collective planning and actions, not very evident hitherto. It called upon such network organizations as CMF/N, National Cooperative Federation Nepal (NCFN), Nepal Microfinance Bankers Association (NMBA), Microfinance Association Nepal (MIFAN), Nepal Federation of Savings and Credit

Cooperative Unions Ltd (NEFSCUN), Nepal Agriculture Co-operative Central Federation Ltd (NACCFL), and Nepal Cooperative Development Bank Ltd (NCDBL) to work collectively and launch effective advocacy programs so as to create a synergistic effect to attract the attention and actions of the policy and regulatory authorities for reforms and problem-solving exercises.

A few joint advocacy actions have been noticed post Summit, particularly in the form of seminars and interaction fora designed to bring all the major stakeholders in a common platform for discussion and recommendations on issues related to the operation and growth of the Microfinance industry. One such forum was organized by NMBA and Sakchyam, and another by CMF/N, Unnati Access to Finance, and NRB in 2018.

While a couple of network organizations appear to be active in advocating role, e.g. NMBA, the efforts are both inadequate and isolated. Collective initiatives for advocacy on prioritized issues are not much visible, and advocacy programs are less comprehensive and not professionally designed employing innovative approaches for creating greater impact. The role of network organizations is generally minimal and inadequate relative to the need that exists. There is a general consensus that a network organization like CMF/N needs to give more priority to collective advocacy programs. Many important issues such as merger of MFIs are awaiting advocacy initiatives by the network organizations.

Progress on this Declaration is slow and limited. Much more remains to be done to make advocacy both collective and effective as directed by the Declaration of the Summit.

## **5. More Responsible and Transparent Microfinance Services**

With its rapid growth in the last two decades, it is but natural that the Microfinance industry is expected of being - and is also seen as being - more responsible and transparent in providing services, the signs of a maturing industry. The Summit hence emphasized that all MFIs conduct themselves in a responsible manner while being transparent in giving services.

While a more comprehensive examination is required to establish the real progress in this direction, evidence suggests that some initiatives have been taken to implement this Declaration. More noticeable are emphasis by many MFIs on such practices as giving priority to effective implementation of the client protection principles and responsible finance and improvements in organizational mechanisms for receiving, handling, and delivering the grievances from clients and employees. Other examples include charging lowest possible interest rate to certain priority group or under certain condition, e. g., 16 percent interest rate on credit for agriculture and giving free skill training related to it.

These are definitely important steps in the direction of doing a responsible business by MFIs. However, much more is expected of them in becoming more responsible and transparent as a social and economic enterprise for the poor.

## **6. Implementation of Credit Information System**

The rapid increase in the number of MFIs in the recent years has led to a highly competitive lending market resulting in a number of operational problems with the potential of having major implications for both the lenders and the borrowers in terms of their financial burdens. One such



major problem has been multiple borrowings by the clients resulting in their over-indebtedness and exposing the lenders to the risk of loan defaults. In view of this, the Summit urged to put in place and operationalize effectively a system of credit information at the earliest while actively combating the problem of multiple borrowings and over-indebtedness by MFIs.

Following this declaration, NMBA in 2017 took initiative to develop a software program to institute credit information system with the financial support of MFIs and Sakcham but this has not been operational yet due to technical hitches.

NMBA has been however taking the issue of multiple borrowings seriously as evidenced in a policy declaration it issued in a program organized in March 2018. The Declaration directed its member institutions to:

*Make provision for attaching with the loan application by a group member or an individual borrower the details of loan amounts borrowed from other banks, financial institutions, MFIs, financial NGOs, Cooperatives or any other agency engaged in financial services in view of the observed problem arising out of multiple lending by various MFIs in their credit operations.*

*Approve the requested loan only after verifying the details of borrowings from other institutions as submitted and ensuring that the borrower belongs to the deprived community.*

*Issue directives to the branch offices by all MFIs for coordinating and making coordination arrangements among the local MFIs so as to discourage multiple lending. (pts. 2 and 7)*

It is too early now to assess the implementation of this directive and its effect. However, this is an important initiative within the Microfinance industry for self-regulation for implementing this Declaration.

In the meantime, the policy with regard to credit information has been made more stringent. The Monetary Policy 2018 has made it mandatory for MFIs to register in the network of Credit Information Bureau. It stated:

*Microfinance institutions will be required to compulsorily register in the network of Credit Information Bureau (CIB). An additional loan loss provision of 2 percentage points will be made on the loans that are not reported to the CIB. (pg 14, point 119)*

This provision is expected to establish the credit information system. However, making the system effective requires much more progress on technological and capacity related issues.

For its part, Sakcham has been supporting NMBA for preparing policy declaration (code of conduct) for credit information system. It has also been supporting partner MFIs in affiliating them to CIB, review their performance in CIB reporting, and working to develop their capacity to report CIB effectively

## **7. Development and Implementation of Code of Conducts**

For self-regulation, good governance, and responsible financial services, it is important that an industry develops and abides by professional code of conducts, more so when it deals in as a sensitive operation as financial service. Considering the importance of self-regulatory framework for operation of MFIs,

the Summit called upon the relevant networks to facilitate the development and implementation of a Code of Conduct to guide their operations in a professional and ethical manner.

Some efforts have been made for implementing this Declaration. In March 2018, NMBA organized a workshop to review and revise the industry Code of Conduct with participation of the representatives of MFIs and other stakeholders. This has yet to be formalized and fully adopted. However, it was emphasized by many MFIs that they have been practicing the required professional and ethical norms relevant to the nature of the industry pending the formal industry-wide Code of Conducts. And some of them have revised their institutional Code of Conducts following the workshop, a step forward to implement the Declaration.

## **8. Conduction of Research and Stakeholders Interactions**

The Summit noted that in its present stage of growth the Microfinance industry would need to be enriched in framing policies, developing products, and achieving management excellence by authentic and relevant knowledge and its sharing among the main players. It thus urged that the relevant Microfinance networks periodically organize interactions and discussions among the regulators, microfinance practitioners, service recipients, and the media while making necessary arrangements for conducting studies and organize research to make microfinance services more systematic, customer oriented, and responsible to people.

Some interaction programs involving major stakeholders have been organized in the period post Summit by different organizations creating space for deliberations on issues facing the Microfinance industry, but they have been more in the nature of sporadic organizational efforts rather than a concerted and planned one. Network organizations are not very active for creating such fora for wider and regular deliberations on issues facing MFIs.

Research has not been a prioritized function in the Microfinance industry, and there has been little progress in this field since the Summit. Almost as an exception, CMF/N has recently taken an initiative to conduct a major research study to evaluate the impact of Microfinance on the national scale. To this end, it has prepared a detailed proposal and shared it in a seminar with major stakeholders. CMF/N is now in the process of finalizing the proposal for starting the research work.

There is now a more positive attitude among the practitioners and policy makers alike about the need for knowledge generation activities within the industry and some willingness to participate in such a process. There is also an increasing stress on more proactive measures for engagements among the stakeholders within a planned framework of consultations.

## **9. Stakeholders Engagements for Policy Inputs**

The Summit acknowledged the need for inputs in framing Monetary Policy from the practitioners. It was quite specific in directing CMF/N to take initiative by engaging NMBA and NCFN in organizing interaction and joint-action between regulators and Microfinance practitioners to provide suggestions while developing such policy.

There has not been much progress in this respect inasmuch as organization of formal interaction forum by CMF/N before the framing of the Monetary Policy is concerned. No such

joint-action and interaction has taken place between regulators and Microfinance practitioners with a view to collect feedback and provide suggestions for drafting the Monetary Policy. However, as requested by NRB, CMF/N and other organizations have been providing feedback from time to time. Sakchyam, for its part, has started reviewing monetary policy and providing feedback immediately after the policy issued. More proactive and expanded role is expected of CMF/N and other network organizations in mobilizing stakeholders for involvement and engagement in policy inputs.

## **10. Amendment to Cooperatives Act and Policies**

Desirous to have a more cooperative friendly regulatory framework and to facilitate for more effective implementation of the Cooperative Policy 2069 BS for supporting the operations and growth of Cooperatives, the Summit demanded that GoN amend the existing Cooperative Act. This would help Cooperatives to function more effectively and serve the poor better.

A new Cooperative Act 2017 was promulgated post Summit that addresses some of the demands of Cooperatives. Its effects on the functioning of Cooperatives are yet to be established.

## **11. Hold on Divesting Shares of MFIs by NGOs and SFACs**

The Summit noted the directive of the Company Registrar's Office requiring Non-Government Organizations (NGOs) and Small Farmers Agriculture Cooperatives (SFACs) to divest the shares of MFIs they have subscribed. As these organizations have been making substantial contribution to alleviating poverty, the Summit was of the view that they should not be debarred from supporting MFIs, organizations with the similar purpose, by investing in their ownership capital. The implementation of the directive would limit the availability of ownership capital for many MFIs constraining their operations.

There has been no progress on this Declaration. The Company Registrar's Office has made no amendment to the directive, nor has it withdrawn it.

## **12. Policy for Ownership Participation by MFI Clients**

The Summit called for allowing ownership participation by clients to increase their sense of ownership in MFIs and also to augment their ownership capital base by allowing the clients to invest in shares. Such a practice does exist in case of energy programs in which the locals are allowed to invest in shares of the energy companies.

In this case also, there has been no progress. No initiative has been taken by the regulating bodies in this direction.

## **13. Policy for Market Driven Interest Rates**

Acknowledging that it is high time that market forces of demand and supply determined the interest rates for MFI services, the Summit demanded that NRB brought out a policy whereby MFIs could fix their interest rates in light of the interplay of demand and supply forces in the market. This would make the services more competitive and efficient while giving benefits to both the clients and MFIs.

There has been no progress on this Declaration as well. For determining the interest rates of MFI services, the policy provision is rather restrictive. The Monetary Policy 2018 continued the earlier provision of regulated interest rates by stating:

*Provision will be made for the Microfinance institutions allowing them to determine the lending rate by adding 6 percentage points to their cost of funds in addition to their administrative cost. (pg. 14, point 126)*

#### **14. Effective Monitoring and Supervision Practices**

The Summit noted the need for streamlining monitoring and supervision practices in the Microfinance industry, and urged all relevant agencies to administer effective monitoring and supervision of MFIs, Cooperatives, NGOs, and other financial institutions.

No additional specific measures to strengthen monitoring and supervision practices in respect of MFIs and other concerned organizations have been initiated during this period. On the contrary, the Monetary Policy 2018 stated:

*Cooperative institutions licensed by this bank to conduct limited banking transactions will be withdrawn from the regulatory and supervisory ambit of this bank effective from 17 July 2018. (pg. 13, point 111)*

There has been no progress on this Declaration. However, the emphasis on effective monitoring and supervision by the regulatory bodies and also within MFIs, Cooperatives, and NGOs continues as before.

#### **15. Dedicated Allocation of Fund for Research and Training**

In view of the limited capacity development and knowledge generation activities in the Microfinance industry, the Summit considered it important that adequate financial resources be mobilized for addressing this apparent gap. It called upon GoN and NRB to earmark certain fund for training and research works while urging MFIs to allocate a fixed percentage of their annual income for this purpose.

The Monetary Policy 2018 responded positively to this request by stating that:

*A provision will be made for the BFIs to provide banking training to their assistants to officer level employees. A provision will be made to provide such training within two years of recruitment in order to develop skilled manpower in the banking industry. (pg. 12, point 97)*

The Policy however does not mention anything about the generation of fund for research. There has been no initiative for creating training and research fund till date. The policy of creating and using training fund does not appear to have been fully practiced yet, resulting in the shortage of resource for training and research programs.

However, in this period the Cooperative Act 2074 BS provided for a Cooperative Promotion Fund in each Cooperative for business promotion vide Cause 68. Similarly, a directive of NRB issued to MFIs in 2074 BS has also provided for a Client Protection Fund by setting aside one percent of the net profit of MFIs as well as other additional funds. These funds may be partially available for training and research works.

## **16. Agency Supports for Efficiency, Expansion and Upgradation**

The Summit recognized that for the next stage development of the Microfinance industry it is important that MFIs enhance operational efficiency, expand its reach and services to the hitherto unserved or underserved areas, and upgrade technology. It pleaded GoN, NRB, and other development partners to provide substantive supports for these purposes.

In continuation of the existing supports and in addition to them, some activities have been implemented for improving operational efficiency and expand service reach during the review period. Most notable of them include technological supports by development partners such as the use of tablet and supporting software, online service and central information collection system, SMS alert (balance alert and next meeting date and time), voice alert messaging, use of other financial applications (tablet, mobile). These agencies have also helped in extension of branches in remote areas in a few cases. Of particular importance is the supports provided by Sakchyam in improving efficiency, expansion and upgradation in Core Banking System installation/improvement, tablet banking, branchless banking, online service, Interactive Voice Response (IVR), product development, and branch expansion in remote areas.

The progress, however, is limited and not much support from the Government and NRB has been forthcoming during this period directed at improving operational efficiency or expansion of services.

## **17. Joint Initiative for Partnering in Expansion Drive**

In view of the opportunity and need for growth of the Microinsurance services across the country, the Summit urged all MFIs and partner organizations to take joint initiative to work with relevant agencies to widely expand these services in different regions.

During the review period some MFIs have initiated and expanded Microinsurance services such as life insurance, life and shelter security plan (child delivery, shelter damage, death ritual support), credit insurance, optional life insurance (premium of members to be paid through MFIs), and optional spouse and livestock insurance. Sakchyam has launched a project to support Nepal Insurer's Association to distribute micro-insurance products. Nepal Insurers Association provided agency license to 20 MFIs and sold more than 14,000 insurance policies through MFIs. These developments notwithstanding, the joint initiatives as expected have taken place only at a minimum level.



# CHAPTER 3

## Factors Influencing Implementation

Whatever progress has been observed in implementing some Declarations, it is largely due to certain conditions supporting their implementation. In the same way the lack of progress with respect to other Declarations can be attributed to some other factors inhibiting actions to put the Declaration into practice.

This chapter presents some of the more important factors that have helped or hindered the progress on the implementation of the Summit Declarations as inferred from the responses of the interviewees and also from the quick survey of the documentary evidence. As the purpose is just to take note of those factors and not to delve deeper into their underlying causes, they are presented as they have been identified without detailed analysis.

### **Commitment and Supportive Attitudes**

What stands out as the major contributing factor for the progress thus far is undoubtedly the unflinching commitment of the practitioners in the Microfinance industry and their persistent efforts to make financial services available to the poor deprived of access to economic resources. This industry is led by a cohort of development practitioners with a vision of and passion about working with and for the poor to help them with resources for breaking out of their poverty cycle. This has generated a high level of commitment on their part to work for the advancement of the industry making it instrumental for reducing poverty in the country. Hence, they are naturally serious in their purpose of ensuring the implementation of the Declarations and have taken some steps in this direction, knowing that this will go a long way for creating better conditionalities to develop the industry further while addressing various problems and obstacles it is facing currently.

The observed commitment of leadership has led to some initiatives on their part to implement or create conditions for the implementation of many Declarations, e.g. mobilization of resources from the market by introducing additional products such as savings to expand the base of lendable fund, decisions regarding coordination for sharing credit information and discouraging multiple borrowings, increasing adoption of client protection principles and responsible finance and improvements in organizational mechanisms for receiving, handling, and delivering the grievances

from clients and employees as part of transparent and responsible business, and advocacy for policy reforms pertaining to several issues facing the industry. The progress in these aspects is a step forward for advancing the industry.

Commitment within the industry has been complemented by the supportive attitudes and actions of the policy and regulatory authorities as well as development partners in facilitating implementation of some Declarations in aspects related to their roles. Examples include policy decisions with regards to augmenting the lendable fund, flexibility in determining interest and spread rates, amendments to the Cooperatives Act etc. This has partly taken care of some issues hindering the functioning of the industry.

On a closer look, however, what also comes up as a fact is that both the commitment of practitioners and the supportive actions of the policy and regulatory agencies are short of the expected and required level necessary for full implementation of the Declarations. Committed efforts of the practitioners seem wanting in respect of many Declarations such as dedicated fund for training and research, joint initiative for partnering in expansion drive, increasing operational efficiency, mobilization of stakeholders for engaging in policy inputs, implementation of credit information system etc. In other cases, such as implementing effective monitoring and supervision practices and more responsible services, where commitment has been observed, the dedication appears to be lukewarm, explaining limited progress with respect to many Declarations.

Similarly, policy and regulatory agencies as well as development partners for their part have been half-hearted in their supportive actions in case of a number of Declarations, e.g. supports for MFIs efficiency, expansion and growth, augmentation of lendable loans, and allowing flexibility in interests rates. With respect to some other Declarations such as dedicated allocation of fund for research and training, policy for ownership participation of clients, policy for market driven interest rates, and review and implementation of the Microfinance Policy etc. few, if any, actions have been initiated in line with the spirit of the Declarations. Both lukewarm commitment and partial supportive actions have constrained the progress on many Declarations and limited the outcomes of those which have been worked on after the Summit.

## **Recognition of Problems and Potential**

Commitment of practitioners in the Microfinance industry has also arisen out of their recognition of the challenges facing the industry as also of the potential it holds for alleviating poverty. There appears to be a high level of awareness and understanding among the leadership of the various challenges the industry is currently grappling with resulting in their recognition of the need for addressing them for furthering the industry. The problems are many and varied ranging from policy to performance, from regulations to resources, from tasks to technology, and from capacity to coordination, and there is a general acknowledgment among both the practitioners and the policy makers that they must be addressed at the earliest for the further development of the industry.

There is also the recognition of the tremendous potential of the Microfinance industry in terms of growth, expansion, and diversification of its coverage and services, the ability to realize which is critical for reducing poverty in the country. However, it requires major initiatives, innovations, and reforms within this industry, which are not currently forthcoming at the rate that would make it



possible to happen. And, both the practitioners and the policy makers are aware of this institutional limitation dogging the industry at present.

As is apparent, the Declarations of the Summit are built around the felt needs of the industry to address problems and realize potential. Hence, there is a level of willingness to work on the Declarations so as to address the industry problems and actualize its potential. This has helped implementation of many Declarations as reported earlier.

However, what is also obvious is that despite appreciation of their value, the pace of implementation of Declarations is both slow and partial as a result of which the recognition has not translated into the results. This clearly indicates that there is less intensity of readiness and less preparedness when it comes to working on the issues captured by the Declarations both within the industry and in its policy and regulatory agencies. It has hampered the implementation of the Declarations, and is symptomatic of the operation of the classical problem of having more of good wishes and less of good works.

### **Industry Dynamics of Growth and Competition**

As is typical of an industry in the growth stage of its life cycle, the Microfinance industry has a lot of both opportunities and pressures operating on it. Demands for Microfinance services have been growing rapidly; there is an even larger market for these services that has been untapped but can be served with proactive and imaginative strategies. There is, in general, a favorable policy environment supporting for the growth of services, and the learning curve of the industry is now approaching the higher plane.

On the other hand, pressures are also mounting as the industry has now entered a very competitive market structure with the proliferation of suppliers of Microfinance services often in unhealthy competition with each other for positioning in the market. This has resulted in some dysfunctions in the operations of MFIs, inviting less favorable perception of the industry among the public and the policy makers alike.

These industry dynamics have created conditions that demand reforms and changes more rapidly and substantially than in the past. The Summit Declarations have identified some major reforms that need to be put in place, some immediately while others in medium-term time frame. Naturally hence there is a positive climate for their implementation, which accounts for some immediate implementation measures that have been initiated. However, despite pressures for reforms caused by the current industry dynamics, the pace is slow, giving the impression that their major implications for the industry have not yet been fully understood by both the practitioners and the policy makers. This has constrained the implementation of the Declarations.

### **Policy Environment**

In Nepal, as elsewhere, MFIs have been recognized by the State as an important policy and institutional instrument for poverty alleviation, and hence there is a more supportive policy environment for growth initiatives in the Microfinance industry. Policies and regulations are generally framed in favor of the development of the industry, and this has helped to an extent the implementation of some policy related Declarations.

Despite a positive policy environment, what is also true is that the policy process is slow and at times not fully responsive to the operational problems facing MFIs. And in the recent time MFIs have been subject to some criticism also from the policy makers for certain practices considered not being in favor of the poor and not aligning with the policies of the government. This has caused slow and indifferent policy responses to a number of Declarations that require specific actions on the part of GoN and NRB, e.g. review of the decision to divest shares of MFIs by NGOs and SFACs, creation of a dedicated fund for training and research, policy for market driven interest rates, policy for ownership participation by MFIs clients etc. Progress on these issues is nil.

### **Advocacy Drive**

Advocacy efforts by the Microfinance networks have been instrumental in creating awareness and a sense of urgency among policy makers and development partners of the need for taking initiatives on some of the issues the Summit Declarations have focused on. The network organizations such as CMF/N, NMBA, NEFSCUN etc. have launched a number of advocacy actions like seminars, meetings, and issue representations to push for implementation of some policy related Declarations as well as of internal reform issues to be undertaken by MFIs themselves. This has resulted in some actions around those issues, thus helping partial implementation of some of the Declarations.

It is obvious that advocacy has not been regular and strong enough to create greater policy impact with respect to the issues covered by the Declarations. This is because advocacy has been inadequately undertaken, and much of the advocacy work has been designed and executed with only minimum level of professionalism. Persistent and professional efforts are critical for success of advocacy, and in their absence advocacy by the network organizations has produced only limited results. Many of the policy issues have not attracted any serious response from the concerned agencies. Even MFIs themselves have not taken up internal reform issues with the required level of seriousness largely as a result of insufficient and less intensive advocacy efforts pushing those agenda.

### **Implementation Plan**

One of the most important factors impeding the implementation of the Summit Declarations has been the absence of a specific framework to plan and pursue actions required for implementing them. The statement of Declarations agreed and issued at the Summit was not accompanied by a specific action plan identifying necessary activities, timelines, and responsible authorities for pursuing them, so critical for effective implementation of any intention or ideas.

In absence of a dedicated implementation plan it is difficult to assign responsibility for actions, identify specific courses of actions, and hold authorities to account. Without the assignment of specific responsibilities and time frames for actions, many concerned bodies appear not to have given priority for initiating efforts for implementation of the Declarations related to their respective domains. This has resulted in a rather sluggish progress in case of many Declarations, and even no progress at all of others.

### **Recognition of the Value of Reforms**

At a deeper level the main reason for lack of sufficient progress on many of the Declarations of the Summit appears to be a lack of full appreciation of the value of reforms in the Microfinance industry

among policy makers and practitioners alike. Going beyond the obvious actions associated with the Declarations, most of them as a matter of fact represent serious and substantive reform needs in the industry critical for its future growth and impact on economic and social transformation of the poor.

Unless there is a full recognition of their value, any efforts to push the ideas or intentions for implementation would attract only lukewarm supports. It seems that the apparent supports for the Declarations are guided more by the immediate actions they call for than the fundamental reform needs they embody. It explains the rather lukewarm commitment and low intensity actions that are visible, holding back the progress.

### **Professional Approach and Capability**

Lastly, but quite significantly, the slower progress on the Declarations has to do with a lackadaisical approach that seems to characterize their implementation by those responsible for it. Effective implementation is largely a function of a high level of professional approach with which to address the issues and ideas. For the most part this is not happening, or at least is not seen as being the case, as one can easily infer by observing the engagements of the concerned entities with the process of implementation. One of the main reasons for this is, as pointed out above, the absence of a time-bound implementation plan with clear identification of accountabilities for each responsible entity. This may also be a reflection of the management approach characterizing the industry which is yet to fully professionalize its management practices.

Professional capability needed for pursuing the implementation of the Declarations is not much in evidence, accounting for their slow pace of implementation or no implementation at all. What is more importantly lacking is the initiative for systematic analysis and study of the issues involved as inputs for both policy advocacy and policy framing as well as for internal improvements in systems and practices as required in implementing the Declarations. There is virtually no practice of generating and utilizing empirically-validated and contextually-relevant knowledge for development of policies, programs, and procedures, largely because of the lack of research capability and practices in the Microfinance industry.

Similarly, there is not much emphasis on the advancement of professional management, leadership, policy analysis and development, and organizational transformation capability in the industry that accounts for limited availability of these fundamental competencies necessary for fully implementing the Declarations of the Summit. As a result of it, policy advocacy, policy development, and systems improvement tasks have not been approached and implemented with high quality professional inputs and processes resulting in only limited progress on the implementation of the Declarations.



# CHAPTER 4

## Summary, Implications and Moving Ahead

This chapter summarizes the status of progress on the implementation of the Summit Declarations and identifies some implications of the current state of their progress for the further growth of the Microfinance industry. Lastly, it proposes some courses of actions necessary for speeding up their progress.

### Progress Status

As described earlier, the progress status of the Summit Declarations in the first two years period is moderate to low as only limited progress has been made on some issues with no action initiatives with respect to others. The status is summarized below.

Declaration	Implementation	Progress Status
Augmentation of lendable fund	<ul style="list-style-type: none"><li>• The Monetary Policy 2018 revised the earlier requirement of having to commit 4 to 5 percent of their total lending for the deprived sector according to the types of BFIs by fixing the limit by all types of BFIs at minimum 5 percent.</li><li>• A separate fund for additional resources not instituted.</li><li>• Efforts made by some MFIs for mobilizing additional fund by introducing and expanding saving services.</li><li>• Initiatives taken by some MFIs to coordinate with commercial and development banks for channeling their lending into and through the Microfinance sector.</li><li>• The Monetary Policy 2018 allowed to mobilize external borrowing up to 25 percent of their core capital supplementing the earlier policy of such external borrowing by individuals and institutions, including banks, up to US \$ 500,000 or IRs 50 million in case of borrowings from India.</li></ul>	Moderate progress

Declaration	Implementation	Progress Status
Flexibility in determining lending rates	<ul style="list-style-type: none"> <li>The Monetary Policy 2018 allowed MFIs them to determine the lending rate by adding 6 percentage points to their cost of funds in addition to their administrative cost, somewhat easing the earlier provision of the interest rates cap of 18 percent and spread rate of 7 percent.</li> </ul>	Limited progress
Review and implementation of Microfinance Policy 2064	<ul style="list-style-type: none"> <li>Not much effort observed till date on the part of the Government and other concerned authorities to review the Policy, let alone amend its provisions to address various problems facing the Microfinance industry and give a major push to its further growth.</li> <li>Adequate and appropriate mechanisms for ensuring effective implementation of the provisions of the policy still not fully in place.</li> </ul>	Little progress
Effective advocacy by Microfinance networks	<ul style="list-style-type: none"> <li>A few joint advocacy actions noticed post Summit, particularly in the form of seminars and interaction fora designed to bring all the major stakeholders in a common platform for discussion and recommendations on issues related to the operation and growth of the Microfinance industry.</li> <li>Advocacy efforts both inadequate and isolated, collective initiatives for advocacy on prioritized issues not much visible, and advocacy programs less comprehensive and not professionally designed employing innovative approaches for creating better impact.</li> </ul>	Limited progress
More responsible and transparent Microfinance services	<ul style="list-style-type: none"> <li>Some initiatives taken by a number of MFIs such as giving priority to effective implementation of the client protection principles and responsible finance, improvements in organizational mechanisms for receiving, handling, and delivering the grievances from clients and employees, charging lowest possible interest rate to certain priority group or under certain condition, e. g., 16 percent interest rate on credit for agriculture and giving free skill training related to it.</li> </ul>	Limited progress
Implementation of Credit Information System	<ul style="list-style-type: none"> <li>NMBA in 2017 took initiative to develop a software program to institute credit information system with the financial support of MFIs and Sakcham but this not in operation yet due to technical hitches.</li> <li>NMBA issued a policy declaration in March 2018 for making it mandatory to provide the details of borrowings at the time of loan application, sanctioning of loans only after their verification, and coordinating among all MFIs at the branch level for discouraging the instances of multiple borrowings.</li> </ul>	Limited progress

Declaration	Implementation	Progress Status
	<ul style="list-style-type: none"> <li>The Monetary Policy 2018 made it mandatory for MFIs to register in the network of Credit Information Bureau and to make additional loan loss provision of 2 percentage points on the loans that are not reported to the CIB.</li> </ul>	
Development and implementation of Code of Conducts	<ul style="list-style-type: none"> <li>NMBA in March 2018 organized a workshop to review and revise the industry Code of Conduct with participation of the representatives of MFIs and other stakeholders but yet to be formalized and fully adopted.</li> <li>Many MFIs reportedly practicing the required professional and ethical norms relevant to the nature of the industry pending the formal industry-wise Code of Conducts.</li> <li>Some of them reportedly revised their institutional Code of Conducts following the workshop.</li> </ul>	Moderate progress
Conduction of research and stakeholder interactions	<ul style="list-style-type: none"> <li>Some interaction programs involving major stakeholders organized by different organizations creating space for deliberations on issues facing the Microfinance industry, but more in the nature of sporadic organizational efforts rather than a planned one but network organizations not very active for creating such for a.</li> <li>Research on and within the Microfinance industry not a prioritized function, and little progress in this field.</li> <li>CMF/N recently took an initiative to conduct a major research study to evaluate the impact of Microfinance on the national scale a detailed proposal prepared and shared.</li> </ul>	Limited progress
Stakeholders engagements for policy inputs	<ul style="list-style-type: none"> <li>Formal interaction forum before the framing of the Monetary Policy not organized.</li> <li>No joint-action and interaction took place between regulators and microfinance practitioners with a view to collect feedback and provide suggestions for drafting the Monetary Policy.</li> <li>Informal feedback and comments provided from time to time as requested by NRB.</li> </ul>	Little progress
Amendment to Cooperatives Act and policies	<ul style="list-style-type: none"> <li>A new Cooperative Act 2017 promulgated that addresses some of the demands of Cooperatives.</li> </ul>	Moderate progress
Hold on divesting shares of MFIs by NGOs and SFACs	<ul style="list-style-type: none"> <li>The Company Registrar's Office made no amendment in its directive, nor withdrew it.</li> </ul>	Little progress

Declaration	Implementation	Progress Status
Policy for ownership participation by MFI clients	<ul style="list-style-type: none"> <li>No initiative taken by the regulating bodies in this direction.</li> </ul>	Little progress
Policy for market driven interest rates	<ul style="list-style-type: none"> <li>The Monetary Policy 2018 continued the earlier provision of regulated interest rates by allowing MFIs to determine the lending rate by adding 6 percentage points to their cost of funds in addition to their administrative cost.</li> </ul>	Little progress
Effective monitoring and supervision practices	<ul style="list-style-type: none"> <li>No additional specific measures to strengthen monitoring and supervision practices in respect of MFIs and other concerned organizations initiated.</li> <li>On the contrary, the Monetary Policy 2018 withdrew from the regulatory and supervisory responsibility in case of Cooperative institutions licensed by NRB.</li> </ul>	Little progress
Dedicated allocation of fund for research and training	<ul style="list-style-type: none"> <li>The Monetary Policy 2018 required BFIs to provide banking training to their assistants to officer level employees and to provide such training within two years of recruitment in order to develop skilled manpower in the banking industry.</li> <li>No provision made for generation of fund for research and no initiative for creating training and research fund by GoN or NRB.</li> <li>The Cooperative Act 2074 BS provided for a Cooperative Promotion Fund in each Cooperative for business promotion and a directive of NRB issued to MFIs in 2074 BS to provide for a Client Protection Fund by setting aside one percent of the net profit of MFIs as well as other additional funds with the possibility for these funds being partially available for training and research works.</li> </ul>	Little progress
Agency supports for efficiency, expansion and upgradation	<ul style="list-style-type: none"> <li>Some activities implemented for improving operational efficiency and expand service reach such as technological supports by development partners (e.g. the use of tablet and supporting software, online service and central information collection system, SMS alert, voice alert messaging, use of other financial applications (tablet, mobile), and extension of branches in remote areas in a few cases.</li> <li>Not much support from the Government and NRB directed at improving operational efficiency or expansion of services.</li> </ul>	Limited progress



Declaration	Implementation	Progress Status
Joint initiative for partnering in expansion drive	<ul style="list-style-type: none"> <li>• Some MFIs initiated and expanded Microinsurance services such as life insurance, life and shelter security plan (child delivery, shelter damage, death ritual support), credit insurance, optional life insurance (premium of members to be paid through MFIs), and optional spouse and livestock insurance.</li> <li>• Sakchyam launched a project to support Nepal Insurer's Association to distribute micro-insurance products and the latter provided agency license to 20 MFIs and sold more than 14,000 insurance policies through MFIs.</li> </ul>	Limited progress

### Implications for the Growth of Microfinance Industry

As is apparent from the findings of this quick survey, the progress status of the implementation of the Summit Declarations presents a mixed picture, with little or only limited progress in many cases and moderate degree of success in case of a few. The sluggish progress has some important implications for the consolidation and further growth of the Microfinance industry.

Slow progress on the expansion of the disposable fund for lending and financing social and livelihood projects of the poor will limit the ability of MFIs to widen their coverage and diversify services, constraining their further growth. To sustain and increase resource base, MFIs will require diversifying the funding sources, including mobilization of the savings from the internal market as well as reaching out to the external financiers. However, in the immediate to medium term period, they may not be in a position to go for rapid expansion in terms of target beneficiaries and variety of services.

While MFIs may expect to continue receiving some degree of policy and regulatory supports but the flexibility in operations as desired, particularly in determining interest rates based on market dynamics, will not be forthcoming any time sooner. As a result, they will have to continue operating in a tightly regulated market with its constraining effects on their growth. Their compliance ability will be a major determinant of their success than the competitive strength.

Little progress on many policy related issues clearly indicates that the Microfinance industry will need to engage more with the policy and regulatory agencies for major and speedier reform initiatives. Similarly, the industry will also require to engage development partners more intensively so as to compensate for its resource and technology gaps. Advocacy within the industry for institutional reforms and professionalization will be necessary. For this, a higher level and greater quality advocacy engagements will be required, planned, and executed with concerted efforts and focused goals. But the current scenario of limited networking effectiveness will make such a task more difficult.

The Microfinance industry will have to go without strong knowledge capital to guide policies, strategies, programs, and processes as a result of little progress on instituting a research and development fund as well as carrying out research activities and advancing training and development actions. Lack of knowledge generation and capability enrichment processes will continue produc-

ing mediocre performance and will have little innovation and development initiatives. This will limit the industry's competitiveness and efficiency. What is more important is that the industry will have difficulty taking full advantage of the tremendous opportunities for advancement as the most important socio-economic instrument for the implementation of the policy of poverty alleviation as emphasized by the government and also by the development partners.

Perhaps the most significant implication of the slow progress is for the leadership of the Microfinance industry, requiring it to assert more, dedicate more, and deliver more in creating conditions for effective implementation of the Declarations. More influence of leadership, individually and collectively, is expected of the industry leaders as is a clear vision and strategic orientation to guide the implementation process of the Declarations. Having set the ground for advancement in the form of the declarations, leadership can – and must – not go back over its own promises of delivery. Creating enabling conditions for their implementation is both a challenge for – and a test of – leadership.

Limited progress on the Declarations is as much symptomatic of the limited implementation capability of the Microfinance industry as it is indicative of its weak strategic orientation for growth, both of which will continue constraining the full implementation of the Summit Declarations in the days ahead in particular and the development of the industry in general. Its competitive position in the market will not significantly improve, and it will continue to be held in less positive light in public image and in policy makers' perception.

The industry will have a major challenge breaking out of the current frame of operations into a higher plane of sustained and impactful growth, maturing as the major development industry with a social conscience.

## **Moving Ahead**

Two years on, the Summit Declarations are still largely unfulfilled, remaining more as aspirations and propositions than actions and results. They have seen only partial and limited implementation and have produced lesser impact than what would have been expected. Considering the criticality of the Declarations for the growth and impact of the Microfinance industry in Nepal, it is but natural that more serious and responsible thought and effort be given to put them into practice in the period between now and the next Summit.

Without being elaborative and prescriptive, this report proposes a few specific action measures to create conditions for more effective implementation of the Declarations.

1. A stock-taking and planning meeting of Steering Committee of the Summit to discuss the progress status as presented in this report and to decide the courses of action to follow for their effective implementation of the Declarations in view of the status presented.
  - The Declarations to be reviewed and updated, refining and revising them, if necessary, to keep them relevant and feasible in view of the emerging context and the level of progress till now.
  - To be followed by regular meetings of the Committee to review the progress of the identified actions measures.

2. Preparation of the Declarations Implementation Plan (DIP) for the period before next Summit clearly identifying the major tasks to be undertaken, approaches/ methods to be used, implementing officials/ agencies, resources required for implementation, monitoring schedule, and time line for completing the tasks for all the issues as directed by the Steering Committee.
  - DIP to be prepared under the directives of the Steering Committee with the engagement of professionals as necessary and progress report of DIP to be reviewed by the Committee on a regular basis.
  - Each major task identified to be developed as an action project identifying a team responsible for them and activities to be undertaken.
3. More dedicated and frequent interactions and sharing between and among the Microfinance practitioners to review, discuss, decide, and facilitate the action projects planned for implementing the Declarations beyond the scope of the Steering Committee meetings.
  - To the extent, possible, other stakeholders, including policy and regulatory authorities and development partners to be invited in such interactions.
  - More engagements with policy and regulatory authorities and development partners on the issues related to the Declarations.
4. Activation of network organizations for creating platforms for sharing and interactions in relation to the issues related to the Declarations as part of the action measures of the Implementation Plan.
  - These organizations to be more professional in their networking and advocacy roles with thorough preparations, including necessary research and analysis, and use of more professional competencies for their role performance.
5. Training and development of core officials directly involved in the preparation and execution of the action projects related to the Declarations as part of DIP in such competencies as proposal writing, concept note preparation, advocacy program design, communication and negotiation, project design, progress monitoring, coordination, and leadership.
  - Existing knowledge institutions to be explored and used for this purpose. Coaching and practice-based training to be used.



# ANNEX



## Fourth National Microfinance Summit Declarations

1. In order to fill the deficiency in lendable funding and to continue the provision of 5 percent resource allocation under the Deprived Sector Lending program, and in view of the increasing need of resources, the Government of Nepal and the Nepal Rastra Bank are requested to establish a separate fund and mobilize potential foreign resources.
2. The Nepal Rastra Bank is requested to review their directives, with special focus on the interest rate cap of 18 percent and the spread rate restriction of 7 percent, which have negatively affected the microfinance sector.
3. The Government of Nepal is requested to review and implement the Microfinance Policy 2064 BS.
4. Networks like the Centre for Microfinance Nepal, the National Cooperative Federation, the Nepal Microfinance Bankers Association, the Microfinance Association Nepal, the Microfinance Association Nepal, the Nepal Agriculture Co-operative Central Federation Ltd, and the Nepal Cooperative Bank Ltd will collectively make advocacy functions more effective in order to address the problems, challenges, and issues currently seen in the Microfinance sector.
5. Currently, as the need for responsible Microfinance has become intensely apparent, MFIs will provide more responsible and transparent Microfinance services.
6. In order to address the serious problems of multiple borrowing and over-indebtedness currently observed in the Microfinance sector, the credit information system will be implemented as soon as possible, and Microfinance Institutions will focus their attention to actively combat these issues.
7. The relevant networks will facilitate the development and implementation of the Microfinance Institutions' code of conduct for self-regulation, good-governance, and responsible financial services.
8. The relevant networks will periodically organize interactions and discussions among the regulators, Microfinance practitioners, service recipients, and the media. They will also make

necessary arrangements for conducting studies and organize research to make Microfinance services more systematic, customer oriented, and responsible to people.

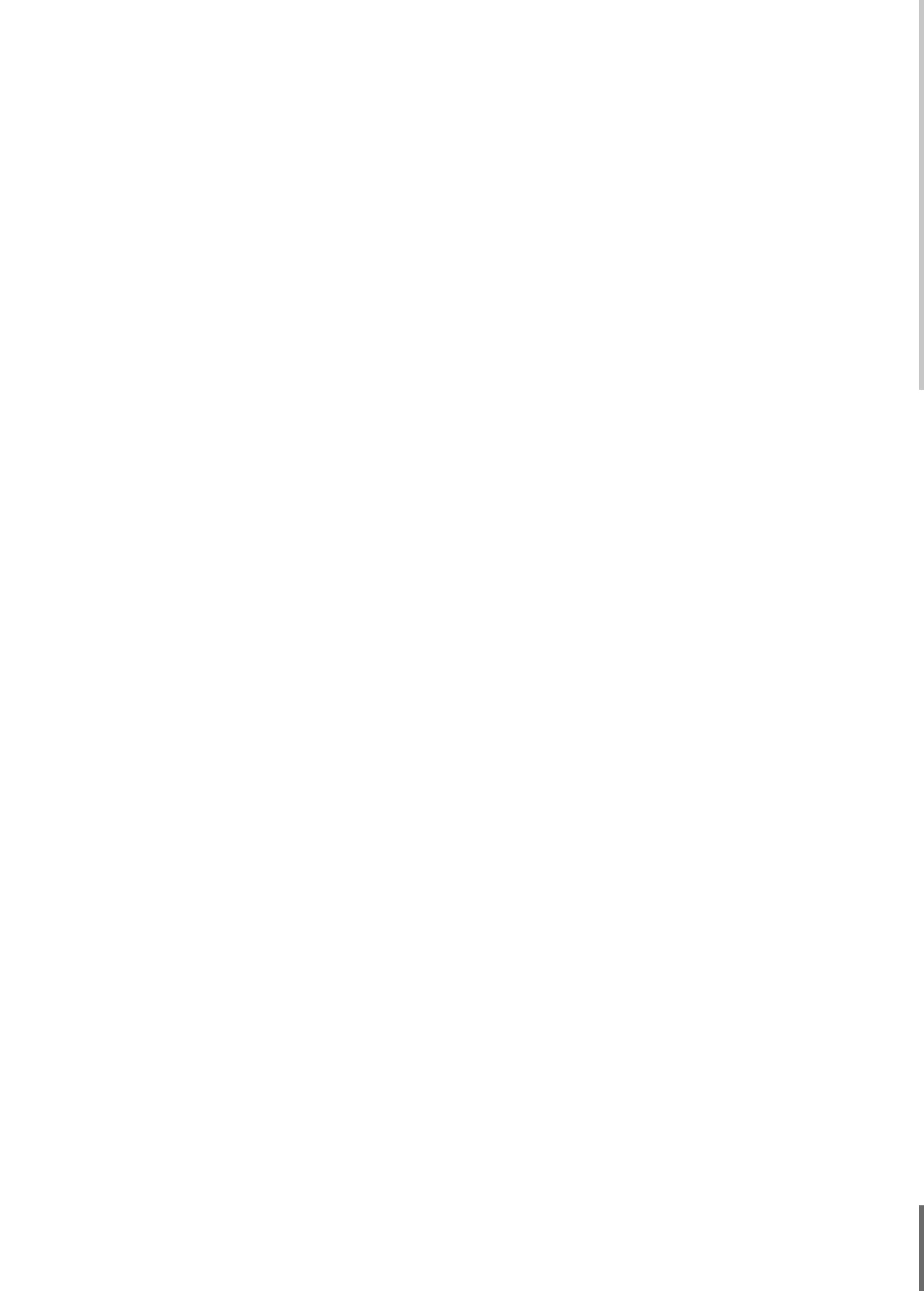
9. The Centre for Microfinance Nepal will take initiative by engaging the Nepal Microfinance Bankers Association and the National Cooperative Federation Nepal in organizing interactions and joint-actions between regulators and Microfinance practitioners to provide suggestions while developing the monetary policy.
10. The Summit places demands on the Government of Nepal to develop and implement a cooperative friendly act by making necessary refinements in the existing Cooperative Act and for the effective implementation of Cooperative Policy 2069.
11. The Company Registrar's Office is requested not to implement the provision made in their directives that requires Non-government Organizations and Small Farmers Agriculture Cooperatives that are contributing to poverty alleviation efforts to sell their shares invested in Microfinance banks.
12. The Summit calls for a policy provision whereby MFIs' clients will participate by investing in shares of Microfinance banks, in a similar way to the locals participating in energy programs.
13. The Summit calls on the Nepal Rastra Bank to set a policy provision of determining interest rates for the MFI services based on supply and demand.
14. The Summits urges relevant agencies to administer effective monitoring and supervision of banks, cooperatives, non-government organizations, and other financial institutions offering Microfinance services.
15. The Summit calls on the Government of Nepal, the Nepal Rastra Bank, Microfinance Institutions, and Cooperatives to allocate and use a fixed proportion of their income on research and training related to the field of Microfinance.
16. The Government of Nepal, the Nepal Rastra Bank, and relevant donor agencies (international partners) are requested to provide support in enhancing efficiency, reducing costs, expediting the expansion of services, increasing service in underserved areas, and expanding and upgrading the use of technology.
17. All institutions active in Microfinance will take joint initiative to work with relevant agencies to widely expand micro-insurance services in different regions.

# ANNEX



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10. <https://sakchyam.com.np/>





# ANNEX



## List of Interviewees

### Microfinance Practitioners

- |                           |   |
|---------------------------|---|
| 1. Ms. Shova Mishra       | Chimmek Laghubitta Bittiya Sanstha            |
| 2. Mr. Balaram Poudel     | Civil Laghubitta Bittiya Sanstha              |
| 3. Mr. Pitamber Acharya   | Nadep Laghubitta Bittiya Sanstha              |
| 4. Mr. Veshraj Panthi     | First Microfinance Laghubitta Bittiya Sanstha |
| 5. Mr. Prakash Raj Sharma | Laxmi Laghubitta Bittiya Sanstha              |
| 6. Mr. Amrit Kayestha     | Mahila Sahakari Sanstha                       |
| 7. Mr. Bharat Raj Dhakal  | Muktinath Bikas Bank                          |
| 8. Mr. Janardan Dev Pant  | Nirdhan Laghubitta Bittiya Sanstha            |
| 9. Mr. Jyoti Chandra Ojha | Rural Microfinance Development Centre         |
| 10. Dr. Shivaram Koirala  | Sana Kisan Bikas Bank                         |
| 11. Mr. Chandrakant Kafle | Swabalamban Laghubitta Bittiya Sanstha        |
| 12. Ms. Shova Bajracharya | Manusi Laghubitta Bittiya Sanstha             |

### Other Stakeholders

- |                                |                             |
|--------------------------------|-----------------------------|
| 13. Mr. D.B Basnet             | NEFSCUN                     |
| 14. Mr. Balkrishna Niraula     | Department of Cooperatives  |
| 15. Mr. Chandra Kumar Shrestha | NRB, Deputy Director, MFPSD |

16. Mr. Shuva Pd. Rijal Ministry of Finance, (Under Secretary)
17. Mr. Indra Bd. Devkota Ministry of Finance, (Under Secretary)
18. Dr. Chakrapani Acharya National Planning Commission (Program Director)
19. Dr. Gunakar Bhatta NRB, Director
20. Mr. Janak Bd. Adhikari NRB, Executive Director, MFPSD
21. Mr. Chrinjivi Chapagain Beema Samiti (Chairperson)
22. Mr. Harikrishna Sapkota Rastra Sahakari Bank, Asst. General Manager

# ANNEX IV

## Key Financial Transactions of MFIs

(Amount in million)

No. of MFIs	48	58	69		
Indicators	Mid-Dec 2016	Mid-Dec 2017	Mid-Dec 2018	% change 2017	% change 2018
1. Capital fund	11588.9	16304.4	21457.1	40.6898	31.60313
a. Paid-up Capital	6035.5	8652.6	12983.5	43.36178	50.05316
b. Statutory Reserves	1436.3	2191.3	2998.1	52.56562	36.81833
c. Retained Earning	2328.7	2996.2	2624.3	28.66406	-12.4124
d. Other Reserves	1788.5	2464.3	2851.2	37.78585	15.7002
2. Borrowings	57342.2	70974.9	97127.3	23.77429	36.84739
3. Loans & advances	88675.7	117225.5	165242.8	32.19574	40.96148
Institutional	21913.2	25879.4	31428.6	18.09959	21.44254
Individual	66762.4	91346.1	133814.3	36.82267	46.49153

Source: Monthly Banking and Financial Statistics, NRB

