MICROFINANCE SITUATION IN NEPAL

A Paper Presented At The 10th Microcredit Summit

At Dubai

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OUTLINES

- About Nepal
- About BFIN
- MFIs in Nepal
- Legality of MFIs in Nepal
- Microfinance in the past
- Microfinance in the current situation
- Issues and challenges
- Future of microfinance


Arctic Ocean
Atlantic Ocean
Nepal
Pacific Ocean
Pacific Ocean
Atlantic Ocean
Indian Ocean
Southern Ocean



THE COUNTRY OF HIMALAYAS



THE BIRTHPLACE OF LORD BUDDHA



THE COUNTRY OF NATURAL BEAUTY



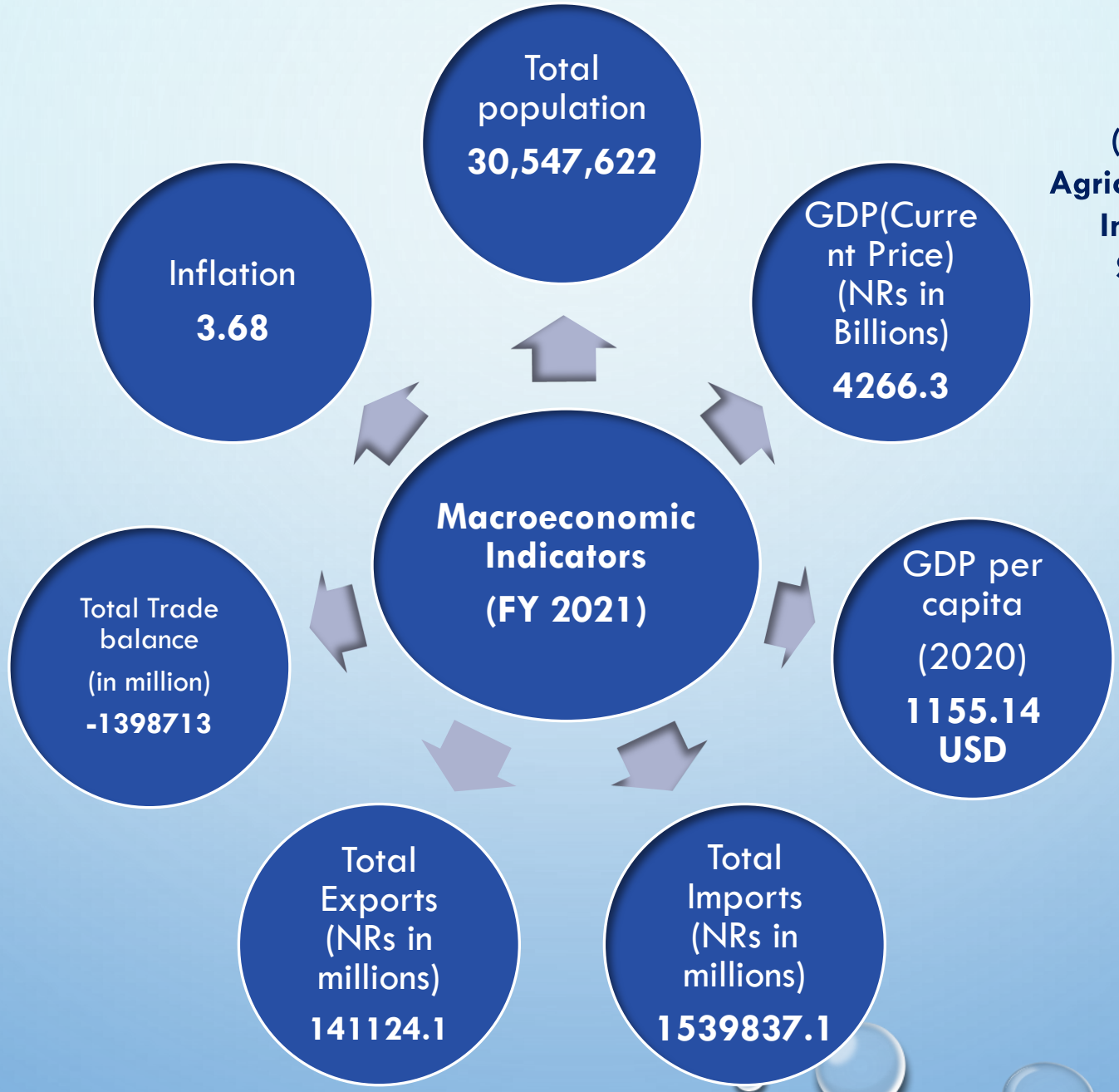
THE COUNTRY OF BIR GORKHALIS



THE COUNTRY OF HOSPITABLE PEOPLE



THE COUNTRY OF WILDLIFE



(GDP%)
Agriculture : 25.83
Industry: 13.11
Service: 61.06

GDP Growth Rate: 4%

1USD = Around NRs. 120


Total Deposits
(In billions)
4,795
Banking Indicators
(FY 2021)
Total Lending(In billions)
4,581
Non Performing Loans(NPA)
1.89

LEGAL STATUS

- Limited Company registered as per Company Act
- Operated as per Bank And Financial Institution Act (BAFIA) and regulated By Nepal Rastra Bank
- Categorized as Class “D” Financial Institution as per BAFIA
- Listed and traded in stock exchange

MISSION OF MFIs

- **Social mission** – To provide financial services to low income clients that will enable them to improve their welfare
- **Commercial mission** - To provide financial services in a way that allows the organization to be an on-going concern

PIVOTAL ROLE OF FINANCIAL INCLUSION



To ensure social inclusion

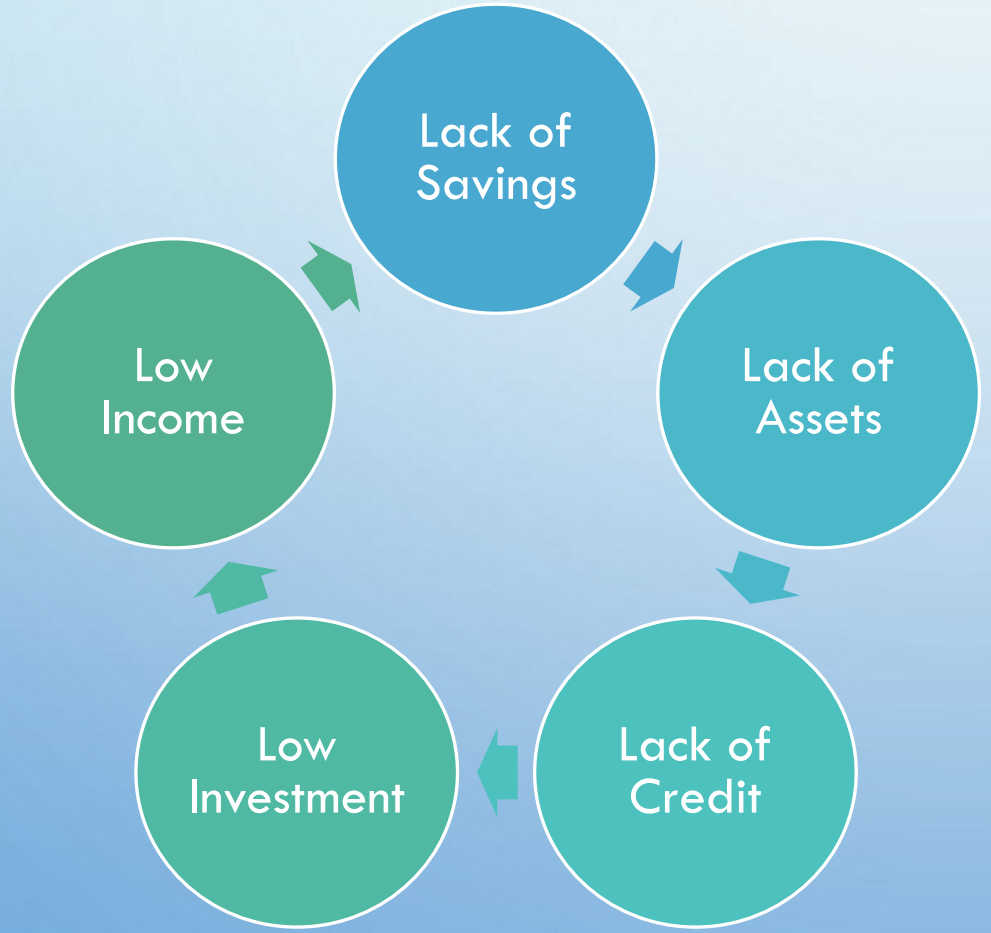


To foster inclusive growth



To open up blocked opportunities for the poor

POOR BECAME "BANKABLE WITHOUT COLLATERAL", THANKS TO MICROFINANCE …



Microfinance innovations ensured collateral free loans and helped the marginal household break the vicious cycle.

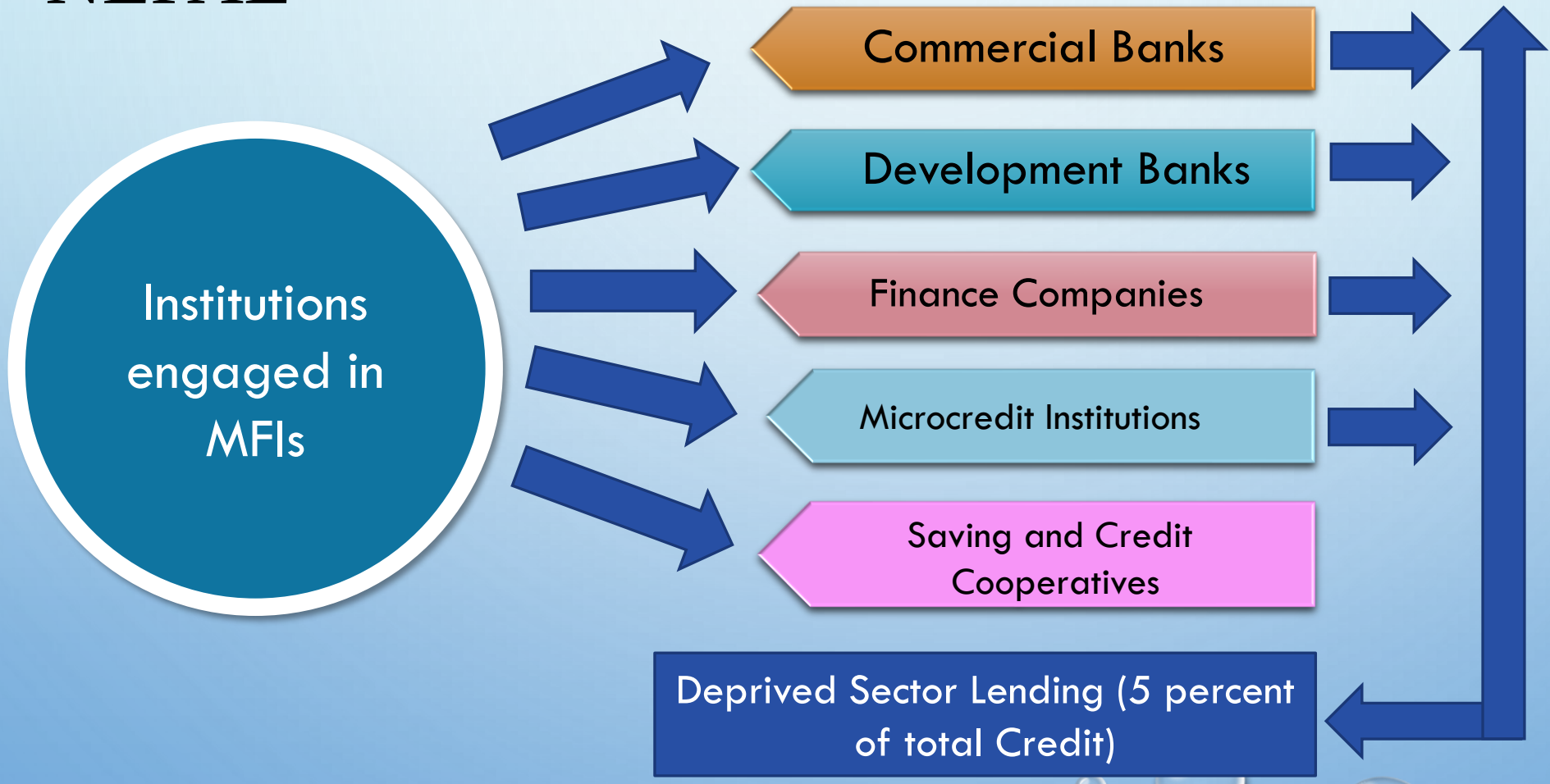
MICRO FINANCE IN THE PAST

- **Priority Sector Lending** - May 1974 - 5% of deposits to small sector, Intensive Banking Program (IBP) in 1981 - 8% of total credit - increased to 12%, finally phased out in 2006/07.
- **Deprived Sector Lending** - A certain (now 5%) of total loan portfolio to the deprived sector since 1990 changing coverage of meaning of deprived sector
- **Microfinance Institutions** - In 1992, The GON And NRB established two regional level Rural Development Banks. By 1996, Additional three Rural Development Banks were set up, Merged In 2013/14.
- Since 1997, private sector started opening MFIs.

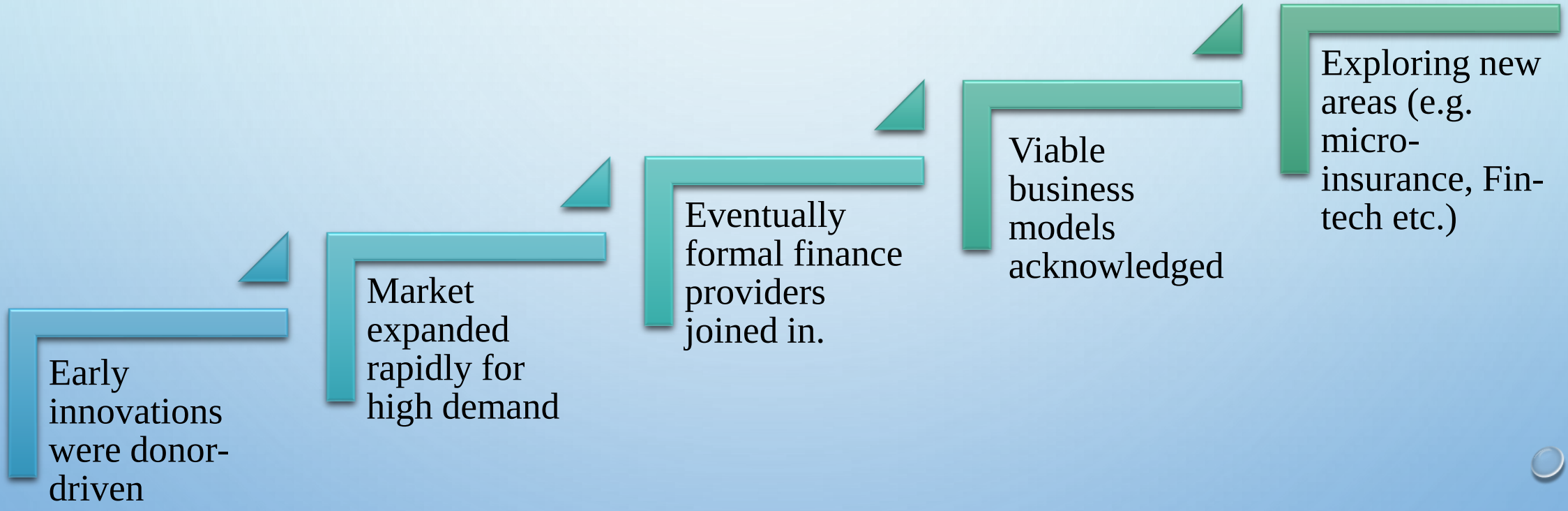
PAST EFFORTS

- **Rural Self Reliance Fund (RSRF)** - Established in 1991 by the GON to provide wholesale credit to the financial intermediaries - cooperatives and financial NGO. Government contributed Nrs. 540 Million And NRB Contributed Nrs. 253.40 Million.
- **Project Led Model For Financial Access** - Production Credit For Rural Women (PCRW), Micro-credit Project For Women (MCPW), Cottage And Small Industries (CSI) Project, Community Ground Water Irrigation Sector Project (CGISP), Third Livestock Development Project (TLDP), Poverty Alleviation Project In Western Terai (PAPWT), Rural Micro-finance Project (RMP), Enhancing Access To Financial Services (EAFS) Project, Raising Income Of Small And Medium Farmers Project (RISMFP), Unnati-access To Finance Project (A2F), **Sustainable Economic Development In Rural Areas ,Nepal (SEDRA).**

BUSINESS MODEL OF MICROFINANCE IN NEPAL



DONOR APPROACH TO VIABLE BUSINESS MODEL

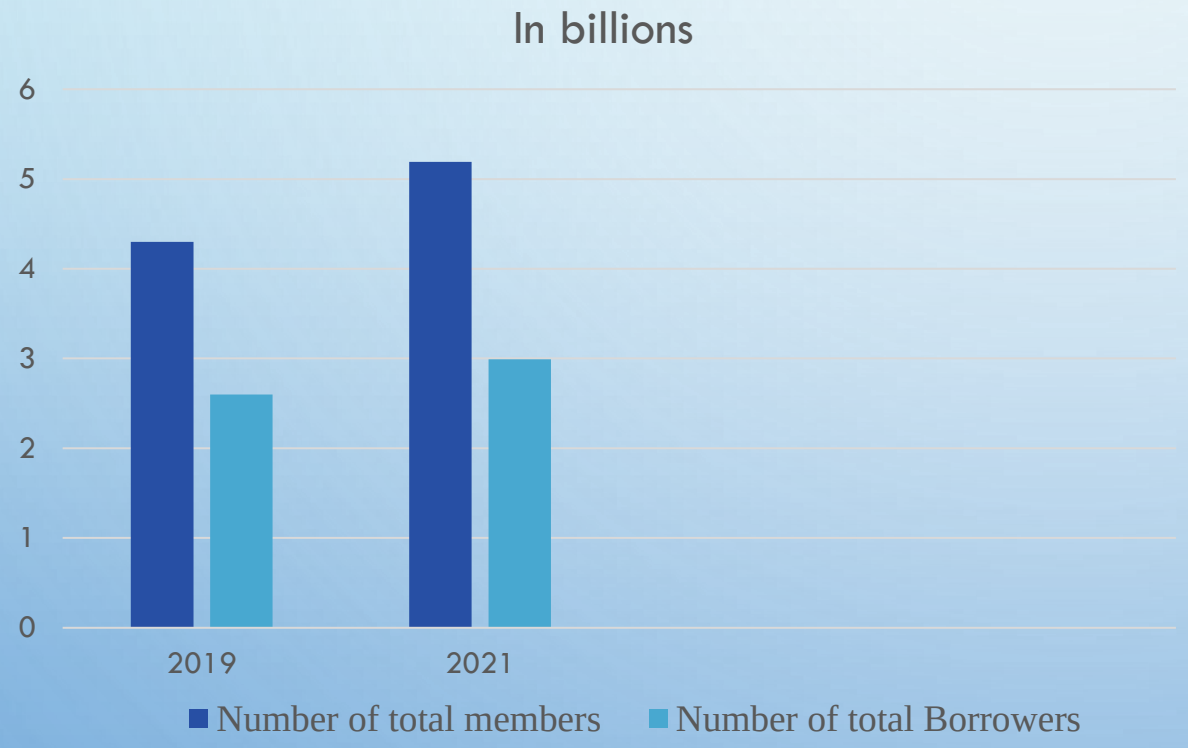


CURRENT STATUS OF MICROFINANCE FINANCIAL INSTITUTIONS (MFIS)

AS OF JUNE – JULY 2021

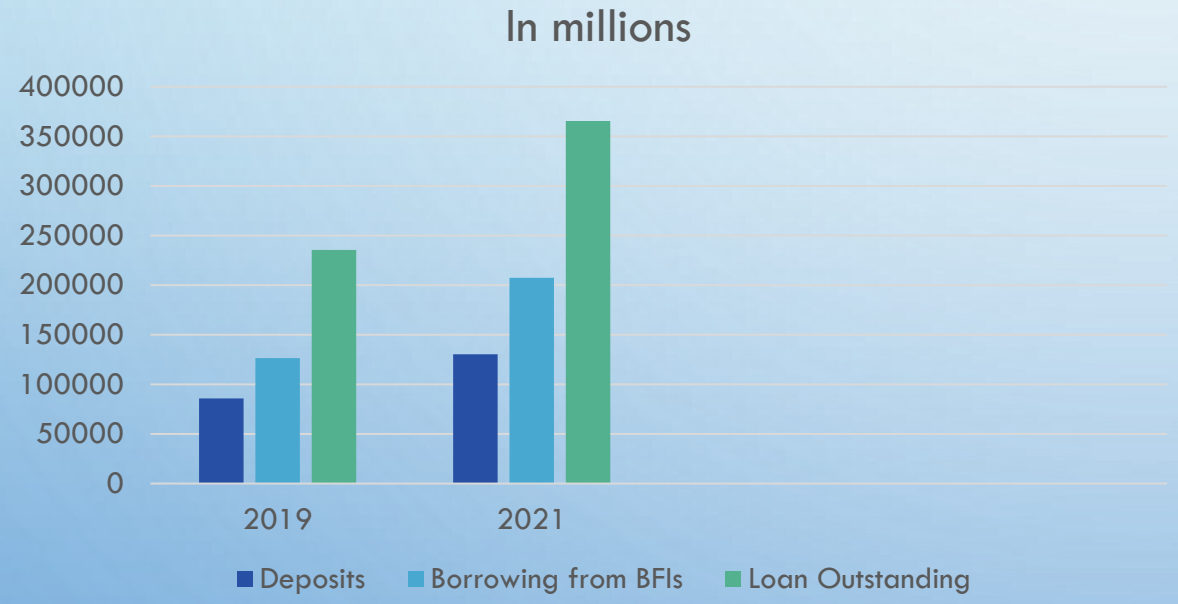
No. of Microfinance Fin. Institutions:	**70**
• National Level	48 (44 retail+4 wholesale)
• Province/District Level	22
Districts covered	**77**
Capital Fund	**Rs. 39,092 million**
No. of branch office	**4,685**
No. of staffs	**20,872**

CURRENT STATUS (Contd…)



No. of clients/members	**5.19 Billion (97.8% Female)**	
No. of borrowers	**2.99 billion (97.8% Female)**	
2019	**4.3**	**2.6**
2021	**5.19**	**2.99**

CURRENT STATUS (Contd…)



Savings/Deposits	**NPR 130,425 million**
Borrowings from BFIs	**NPR 207,349 million**
Loan outstanding	**NPR 365,554 million**
• Loan with Retail MFIs	NPR 311,426 million
• Loan with Wholesale MFIs	NPR 54,128 million
Loan without physical collateral	**83.4%**
Non-performing loans	**2.64%**

Year	Deposits	Borrowing From BFIs	Loan Outstanding
2019	85600	126500	235500
2021	130425	207349	365554

FUND AND INTEREST ISSUES

On-lending Fund	
Capital Fund	7%
Saving Deposits	36%
Borrowings	57%
Interest rate charged to borrowers	
Maximum ceiling fixed by NRB	15%
Interest rate charged to borrowers	10 -15%
Borrowing Interest Rate	9%
Saving Deposits	5 -10%
Administrative expenses ratio	5 - 9%

REGULATORY COMPLIANCE

Loan Limits without Collateral	**NRs. 5 – 7 Lakhs**
Loan Limits wit Collateral	**NRs. Upto 15 Lakhs**

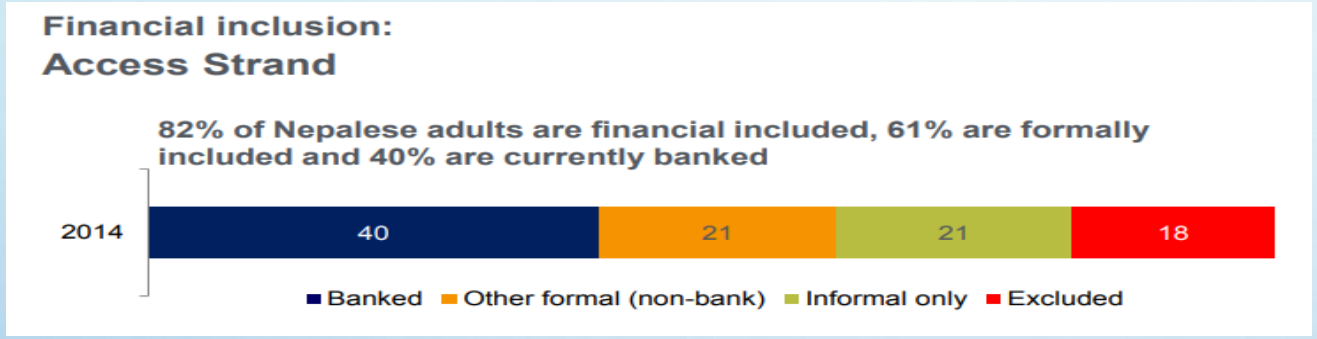
- Capital Adequacy
- Resource mobilization 30 times of core capital
- Loan Loss Provision and Case Reserve Ratio

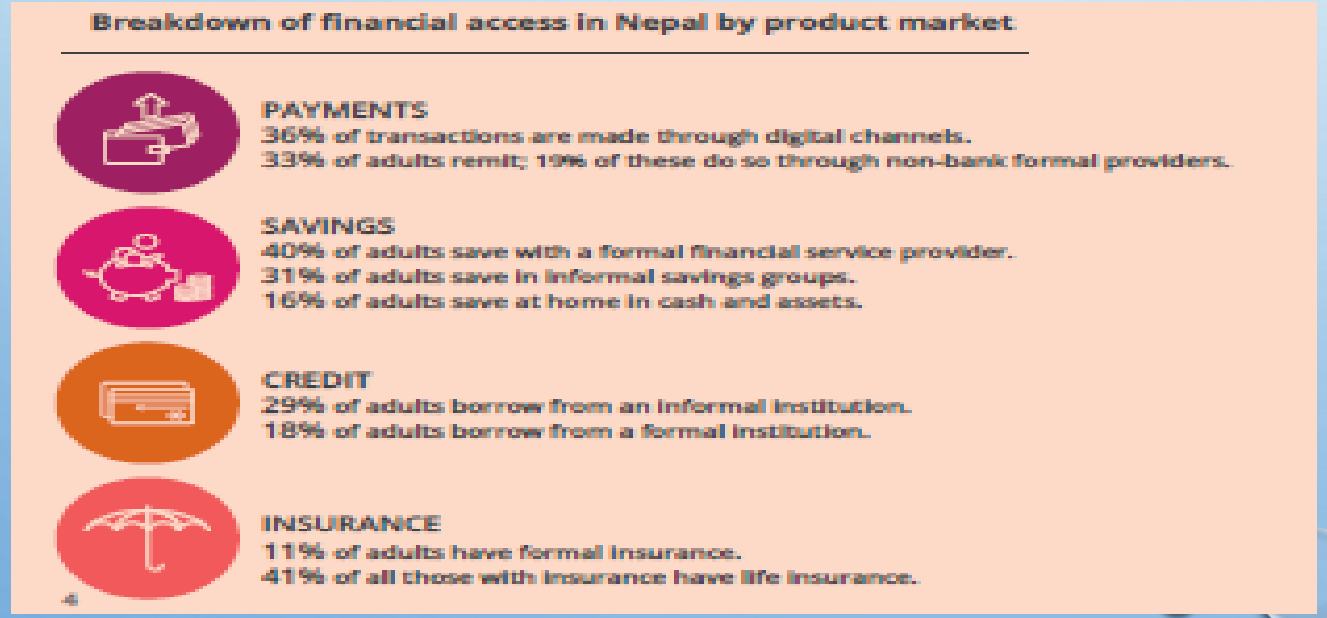
The regulatory body is Central Bank of Nepal (Nepal Rastra Bank)

CONTRIBUTION IN DEVELOPMENT

- Poverty reduction
- Access to finance
- Women empowerment
- Branch network all over the country
- Development of banking habit in poor people
- Elimination/Reduction of unseen/borrowing cost
- Banking service at the doorstep
- Private sector investment
- Recognition of - “Poor Are Bankable”

ACCESS TO FINANCE IN NEPAL





ISSUES AND CHALLENGES

- Competition (within MFIs, with other BFIs and cooperatives)
- Multiple borrowing and over- indebtedness – over crowding
- Reaching ultra-poor (Target not reached)
- Poor innovation in products and services (Similar nature of work)
- Limited source of fund (deprived sector lending)
- Inadequate monitoring of clients' activities
- Diversion of fund in unproductive areas (Consumption or investment?)
- Sustainability of micro business

ISSUES AND CHALLENGES

- Poor financial literacy and business skill of clients
- Inadequate use of ICT
- Geography and scatter settlement in hills and mountains
- Weak corporate governance
- High cost of operation
- High interest rate
- Mission drift (heavy profit seeking- social business ?)
- Insecurity and fraud

FUTURE OF MICROFINANCE IN NEPAL

- Rising competition – good for efficiency and outreach, but unhealthy competition
- Still scope for expansion – not all local areas are covered
- What after poverty level reaches to almost zero? limited role after two and half decades – need to migrate to SME sector
- Consolidation – merger
- Multiple borrowing and increasing indebtedness may lead to higher NPA in a near future.
- Developing credit scoring system
- Use of mobile banking
- Cooperatives vs. microfinance financial institution, which one is better for financial inclusion and access?
- Regulation and monitoring of finance cooperatives, who will do it?

CONFERENCE ON "LEADERSHIP DEVELOPMENT FOR THE NEW NORMAL“ ON 27 NOV 2021







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