CURRENT RISKS IN THE MICROFINANCE INDUSTRY IN NEPAL

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Nepal Microfinance Bankers Association
Microfinance in Nepal

- Emerged as a poverty reduction tool from 1970s with the implementation of Small Farmer Development Program (SFDP)

- 1990s witnessed introduction of Grameen Bank Financial System (GBFS) in Nepal with Nepal Rastra Bank’s (Central Bank of Nepal) initiation

- Private sector also implemented GBFS through Non Governmental Organizations (NGOs) which were transferred into Regulated Microfinance Financial Institutions (MFFIs) later
Microfinance in Nepal

- Since last few years Commercial Banks, Development Banks are down scaling their business in microfinance through different means.

- Emergence of wholesale funding institutions for MFFIs has also come in to enforcement.

- Many Savings and Credit Cooperatives (SACCOs) and Financial Non-Governmental Organizations (FINGOs) are also providing microfinance services in Nepal.


\[ \text{Though diverse suppliers MFFIs are predominant players in microfinance sector in Nepal} \]
Microfinance in Nepal

Modern Microfinance movement that started from 1993 in Nepal has completed a glorious 25 years of Operation.

Congratulations!!!
## Industry Overview *(Mid December 2017)*

- **Number of licensed MFFIs:** 58 *(65 as of today)*
  - National level: 26 *(4 wholesale)*
  - Regional/district level: 32
- **Total equity invested:** NPR 8,652.6 m *(USD 83.2 m)*
- **Reserve and surplus:** NPR 7,651.8 m *(USD 73.6 m)*
- **Number of Branches:** 2,121
- **Total Staff:** 10,059
- **Total clients:** 2.52 m
- **Total MFFI loans:** NPR 117,225.5 m *(USD 1,127.2 m)*
- **Total Savings deposits:** NPR 39,575.3 m *(USD 380.5 m)*
- **Total Borrowings:** NPR 70,974.9 m *(USD 682.4 m)*
Growth and Trends
Growth of MFFIs

Number of MFIs:
- 069/70: 31
- 070/71: 37
- 071/72: 38
- 072/73: 42
- 073/74: 53
- 074 Falgun: 65

Growth %:
- 069/70: 19%
- 070/71: 3%
- 071/72: 10%
- 072/73: 26%
- 073/74: 23%
- 074 Falgun: 23%
Growth of Loans, Savings and Borrowings

<table>
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<th>Year</th>
<th>Savings</th>
<th>Borrowings</th>
<th>Loans</th>
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<tr>
<td>069/70</td>
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<td>11</td>
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<td>15.8</td>
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<td>074</td>
<td>39.6</td>
<td>70.9</td>
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Amount in Billion NPR

069/70 070/71 071/72 072/73 073/74 074

Mangsir

Nepal Microfinance Banker's Association (NMBA)
Sources of Funds (Amount in billion NPR)

**Mangsir 2074**
- Capital Fund: 71.0 (48%)
- Saving Deposits: 39.5 (27%)
- Borrowings: 16.3 (11%)
- Total: 126.8 billion NPR

**Mangsir 2073**
- Capital Fund: 57.3 (51%)
- Saving Deposits: 27.4 (24%)
- Borrowings: 17.1 (15%)
- Total: 101.8 billion NPR
Uses of Funds (Amount in billion NPR)

Mangsir 2074
- Loans: 117.2 billion NPR (80%)
- Investments: 3.1 billion NPR (2%)
- Liquid Funds: 14.0 billion NPR (9%)
- Fixed Assets: 11.4 billion NPR (8%)

Mangsir 2073
- Loans: 88.7 billion NPR (78%)
- Investments: 11.7 billion NPR (11%)
- Liquid Funds: 9.3 billion NPR (8%)
- Fixed Assets: 2.6 billion NPR (2%)

Legend:
- Loans
- Investments
- Liquid Funds
- Fixed Assets
- Other Assets
Funding Liabilities to Total Loans

Mangsir 2074
- Borrowings: 60.6%
- Savings/deposits: 33.8%

Mangsir 2073
- Borrowings: 64.6%
- Savings/deposits: 30.9%
Problems and Issues

Financial Resources – a major constraint for expansion and growth
Regulatory Provisions on MFFIs

- MFFIs can mobilize financial resources (Savings + Borrowings + Debentures) 30 times of their core capital (NRB directives 16.1)

- Retail MFFIs that has qualified certain condition can accept public deposits with prior approval from NRB (NRB directives 16.5) – only 2 MFFIs have received approval and it is limited to few branches

- Class “A”, class “B” and class “C” banks and financial institution have to lend minimum 5, 4.5 and 4 percent respectively of their loan and advances portfolio to deprived sector in the form of retail or wholesale loans (NRB unified directives 17/074)
Growth of Loans, Borrowings and Savings in Recent Months

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<tr>
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<th>Ashoj'74</th>
<th>Kartik'74</th>
<th>Mangsir'74</th>
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<tbody>
<tr>
<td>Loans</td>
<td>113.9</td>
<td>115.25</td>
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<td>73.07</td>
<td>71.03</td>
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<tr>
<td>Savings</td>
<td>37.6</td>
<td>38.44</td>
<td>39.57</td>
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Fund Availability Situation

- All Banks and Financial Institutions have complied with NRB directives. As of Mangsir 2074 following is the deprived sector to total loans of banks and financial institutions:
  - Class A: 5.97%
  - Class B: 8.55%
  - Class C: 4.63%
  - Fully saturated
  - No room for additional funding from banks and FIs
  - Clients deposit is not sufficient (only funds around 34% of loan on average)
Problems and Issues..

Interest on borrowings and Interest from loans – impact on sustainability of the operations
Existing Provision for Interest Rate

- Commercial banks can not charge interest rate less than their base rate (Different interpretations by CBs and NRB)
- MFFIs can not charge interest rate more than 18%
- The spread rate of MFFIs after adding maximum 4% of administrative cost on cost of fund should not exceed 7%. However the maximum rate of interest should not exceed 18% in any case (Total spread given to MFI is up to 11% but practical margin at present is 6 - 7%)
Existing Scenario of Interest Rate

- The borrowing interest rate has gone as high as 14.5%
- The average portfolio yield of MFFIs is around 17%

... MFFIs can not survive in the existing interest rate scenario
Problem and Issues...

Multiple financing detrimental to the industry
Probable Causes of Multiple Financing (Over Indebtedness)

- Over presence of MFFIs in one area/branch expansion policy
- Ineffective credit information system
- No proper loan utilization check by MFFIs
- Improper client appraisal
- Unrealistic target set by Head office
- Loan amount not sufficient as per credit need of a client
- Duplication and no coordination between different categories Microfinance providers (class A, B and C BFIs; FINGOs, SACCOS etc)

Multiple financing may lead to over indebtedness which may result in adverse effect on capacity to repay of the clients.
Other Operational Problems and Issues

- Unhealthy competition
- Mission drift
- Decreasing trend of portfolio quality
- Violation microfinance norms and client protection principles
- Lack of qualified and professional human resources
- Poor Governance and poor internal control system
- Over commercialization and tendency to seek profit immediately
- Aggressive expansion and Growth
- Improper Management Information System
- No market research….no innovation…supply driven products and services…
Policy Recommendations

- Issuance of new microfinance policy
- Policy address to mitigate financial resources constraint
  - Increase in deprived sector lending requirement from BFIs
  - Establishment of separate fund by the government
  - Access to international funding by wholesale MFFIs
  - Allowance of public deposit mobilization to MFFIs
Policy Recommendations

- Review of the existing interest rate policy by the NRB
  - BFIs to lend deprived sector loan at their average cost of fund plus max 2 percent premium (if interest cap is there)
  - No Interest rate cap if base rate plus premium is applicable on MFI’s borrowings

- Licensing of new MFFIs needs to be stopped

- Branch opening/approval policy needs to be reviewed and organized differently

- Participation in credit information system from all MFFIs to avoid multiple financing

- Same regulations as MFFIs to other microfinance suppliers
Recommendations to NMBA

- Formulation of code of conducts and strictly implement those code of conducts
THANK YOU !!!