

# CURRENT RISKS IN THE MICROFINANCE INDUSTRY IN NEPAL

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नेपाल लघु बित्त बैंकर्स संघ  
Nepal Microfinance Bankers Association  
(NMBA)

# 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 in to 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

.....Though diverse suppliers MFFIs are predominant players in microfinance sector in Nepal



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# Microfinance in Nepal

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

**Congratulations!!!**



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# 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

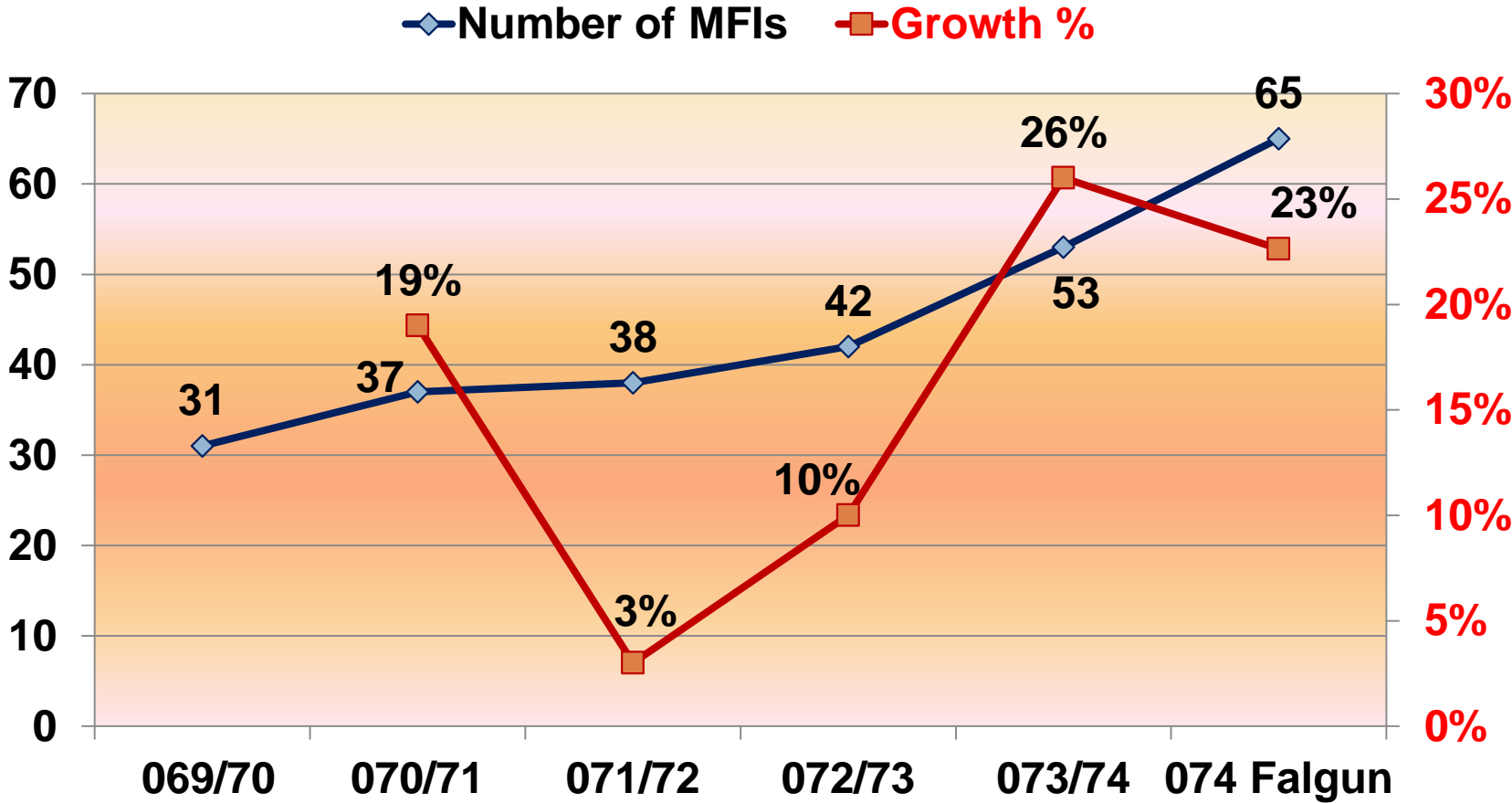
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## Growth and Trends.....

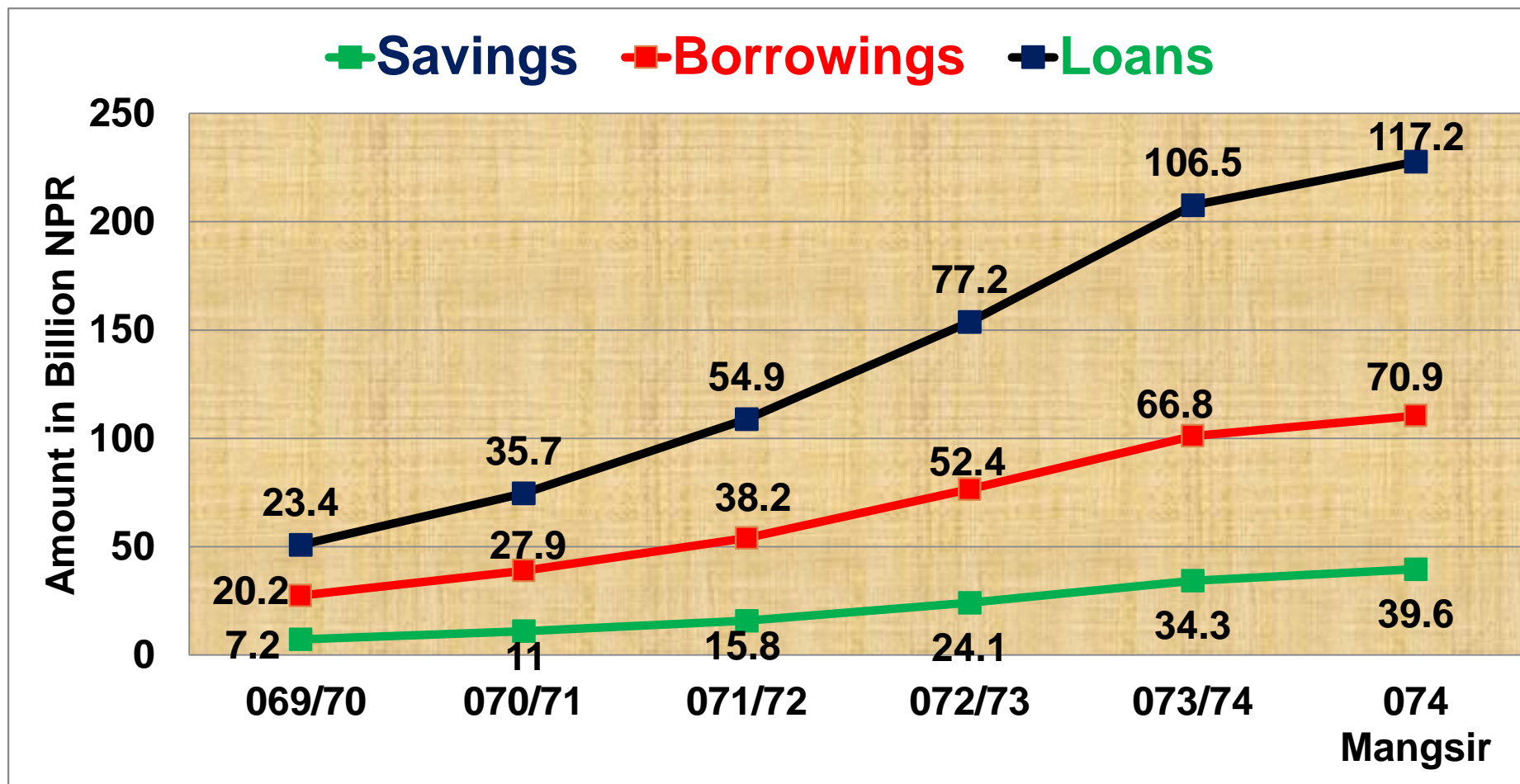


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# Growth of MFFIs



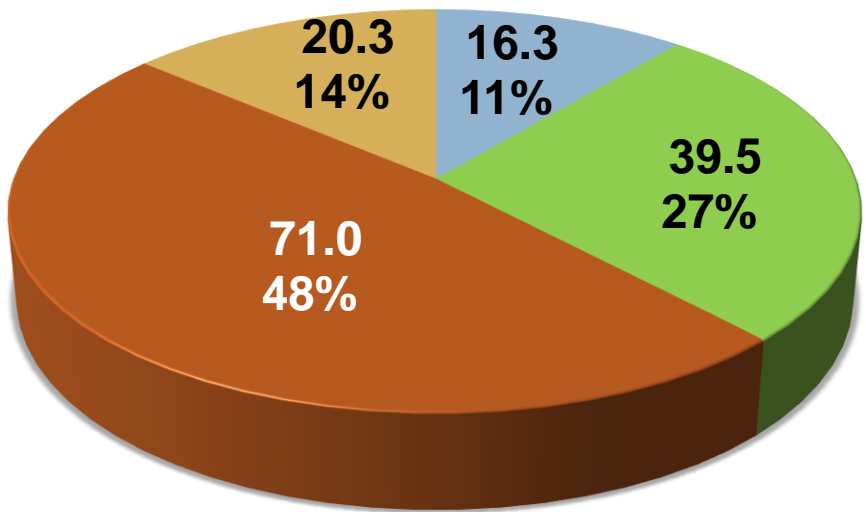
# Growth of Loans, Savings and Borrowings



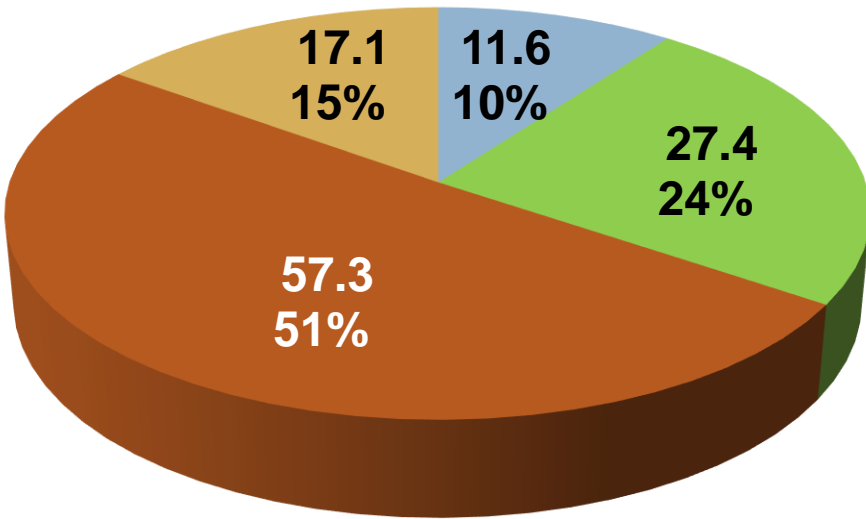


# Sources of Funds (Amount in billion NPR)

### Mangsir 2074



### Mangsir 2073

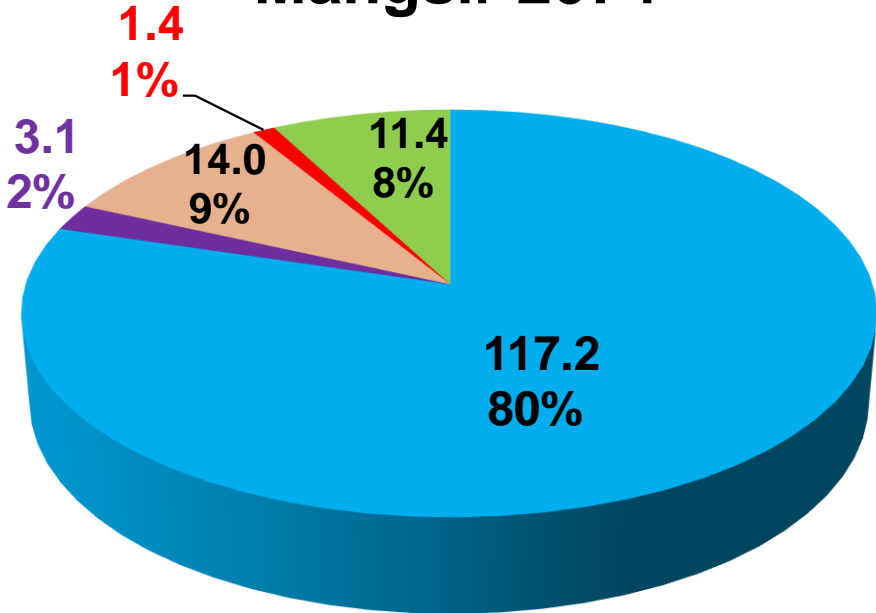


- Capital Fund
- Saving Deposits
- Borrowings

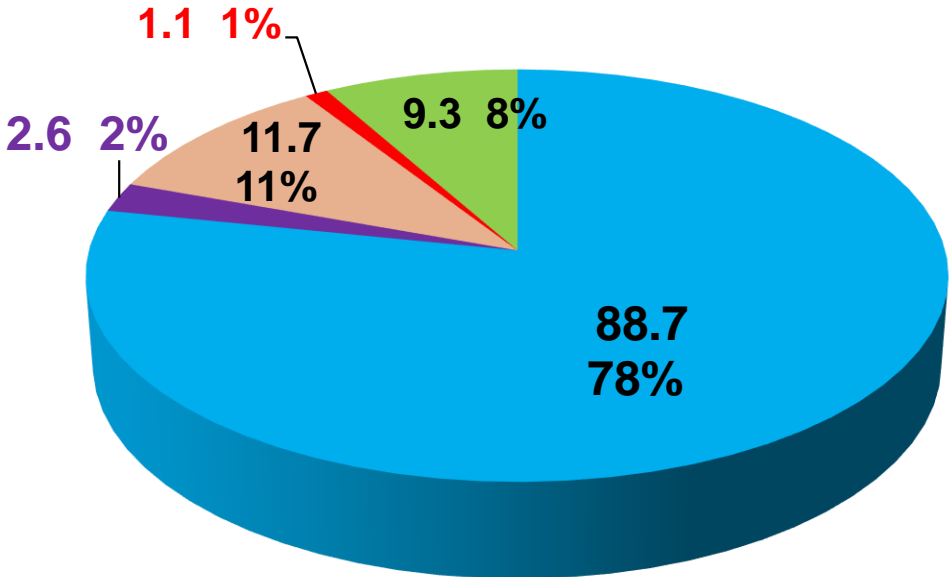


# Uses of Funds (Amount in billion NPR)

**Mangsir 2074**



**Mangsir 2073**

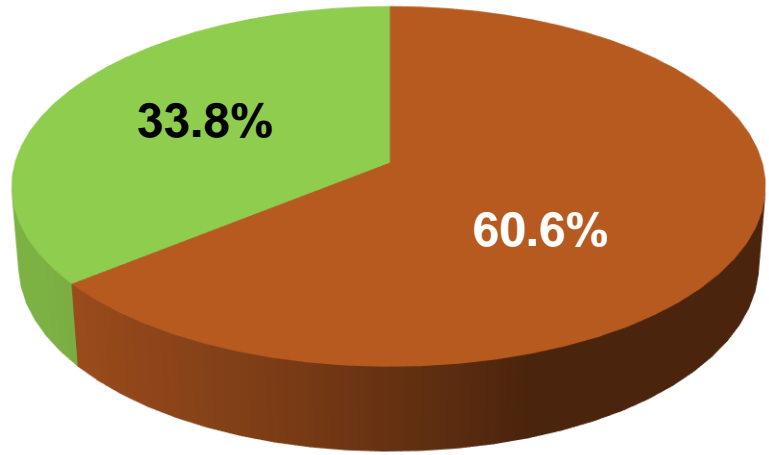


- Loans
- Investments
- Liquid Funds
- Fixed Assets
- Other Assets



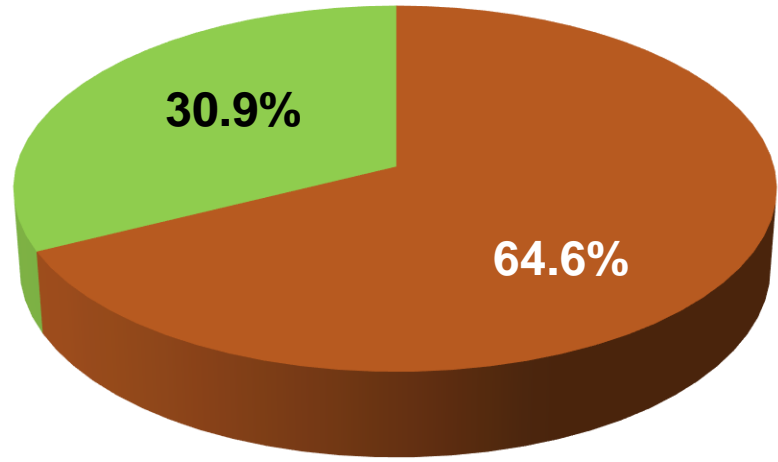
# Funding Liabilities to Total Loans

**Mangsir 2074**



■ Borrowings

**Mangsir 2073**



■ Borrowings  
■ Savings/deposits



# Problems and Issues

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Financial Resources – a  
major constraint for  
expansion and growth

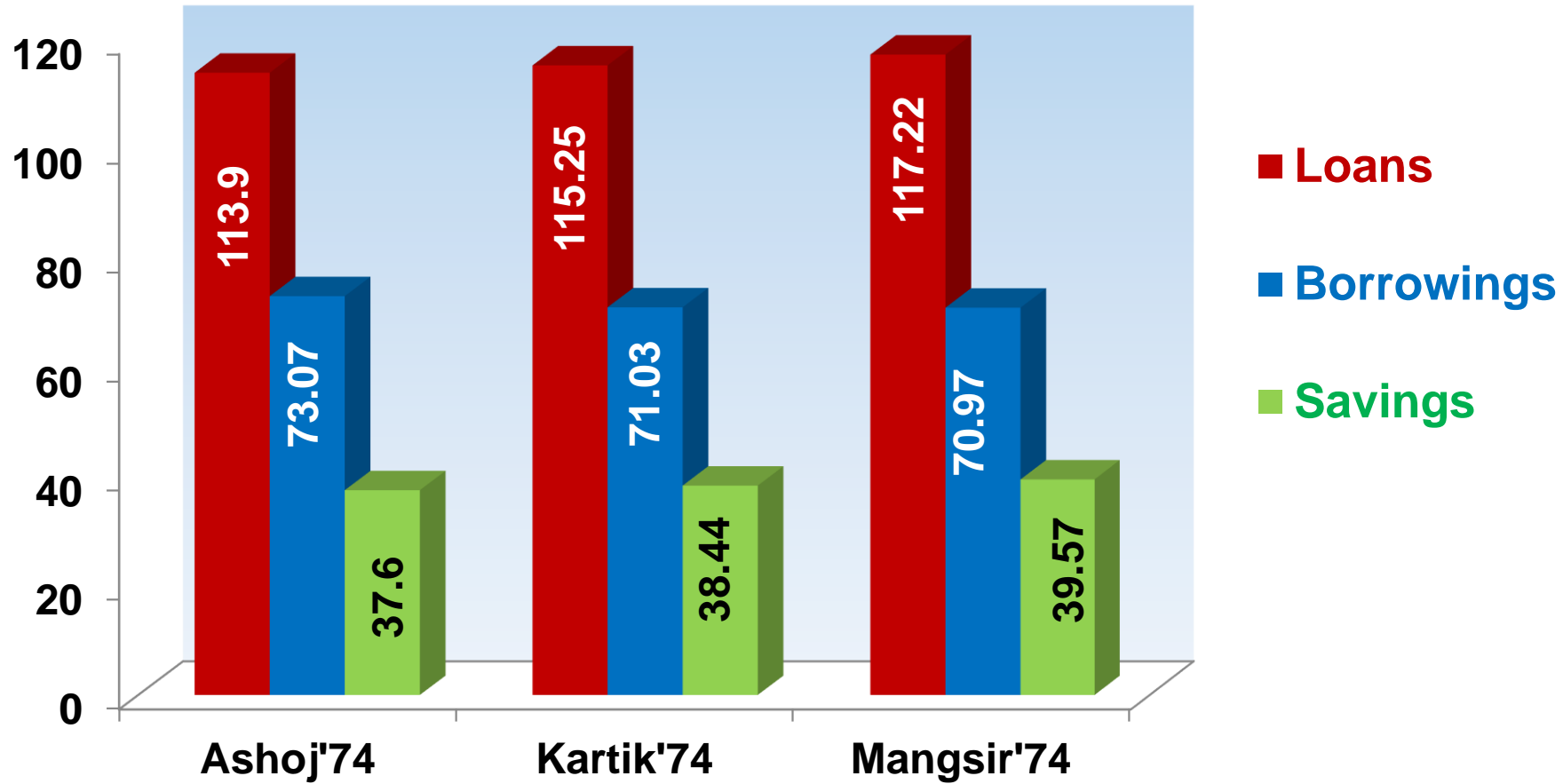


# Regulatory Provisions on MFFIs

- 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



# 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..

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**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...

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## **Multiple financing detrimental to the industry**



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# 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 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 !!!



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