Current Issues, Challenges and Way Forward on Microfinance

Janak Bahadur Adhikari  
Nepal Rastra Bank  
Microfinance promotion and supervision department,  
Email: janakba@nrb.org.np
Coverage

- Background
- Key Players in the banking system
- Institutional framework
- Current Issues in Microfinance
- Challenges
- Way Forward
GoN started to promote microfinance (MF) services from 1975.

MF was recognized as a poverty alleviation tool in Sixth Plan (1980/81-1984/85).

MF was gained its shape after the restoration of democracy in 1991,

Microfinance institutions are regulated by these acts:
- The Bank and Financial Institution act 2063 (2006),
- The Cooperative Act 2048 (1991),
- Company act 2063 (2006)

Regulation: to MFIs, to FINGO, to Cooperative.

Micro Finance lending Institutions MFIs;
- Wholesale: RSRF, RMDC, SKBBL, First MF Institution, RSDC MF Institution
- Retail, 54 MFIS, FINGOs and Cooperatives.

Lending Modalities: Models: Grameen, Cooperative, SFCL, SHG / SRG, CO, Village bank, Wholesale lending, Branchless, agent Banking,

Products: micro credit, saving, insurance & money transfer;
Financial Service Providers Licensed by NRB

- Banks As of Paush 2074
  - Class A Banks - 28
  - Class B Development Banks - 36
  - Class C Finance company - 25
  - Class D Microfinance development banks - 58
- FINGOs - 24
- Cooperatives - 14
- Hire purchase : margin lending companies - 9
Other Financial Service Providers

Non bank financial institutions/ MoF:
- Employees’ Provident Fund -1
- Citizens’ Investment Trust -1
- Postal Savings Bank
- Credit Information Center Limited -1
- Deposit & Credit Guarantee Fund -1

Insurance; Insurance committee:
- Non life insurance (17)
- Life insurance (17)
- Re Insurance (1)

Capital Market/ security Board:
- Nepal Stock Exchange
- Listed company
- Merchant banker / share broker
- CDS
- Credit rating agencies

Cooperatives: Cooperative Department /
- Different types of Cooperatives – 34000+
Microfinance Institutions

- Micro Financial Institutions: 58
- FINGOs: 24
- Cooperatives: 14
- Direct lending through Banks: A, B & C: 89
## Major Indicators (MFIs only)

<table>
<thead>
<tr>
<th>Description</th>
<th>2072 Ashad</th>
<th>2073 Ashad</th>
<th>2074 Ashad</th>
<th>2074 Paush</th>
<th>change in percentage/ 074/73 Ashad</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of MFIs</td>
<td>38</td>
<td>42</td>
<td>53</td>
<td>58</td>
<td>26.19</td>
</tr>
<tr>
<td>Paid up capital</td>
<td>39873</td>
<td>54254</td>
<td>77398</td>
<td>97443</td>
<td>42.65</td>
</tr>
<tr>
<td>Total Capital</td>
<td>61473</td>
<td>86737</td>
<td>159940</td>
<td>163044</td>
<td>84.39</td>
</tr>
<tr>
<td>Credit outstanding</td>
<td>549155</td>
<td>772329</td>
<td>1074630</td>
<td>1212801</td>
<td>39.14</td>
</tr>
<tr>
<td>Deposit</td>
<td>157755</td>
<td>240953</td>
<td>343963</td>
<td>403082</td>
<td>42.75</td>
</tr>
<tr>
<td>Branches</td>
<td>1116</td>
<td>1378</td>
<td>1899</td>
<td>2121</td>
<td>37.38</td>
</tr>
<tr>
<td>No of members</td>
<td>1548767</td>
<td>1898891</td>
<td>2338618</td>
<td>2519778</td>
<td>23.15</td>
</tr>
<tr>
<td>No of borrowers</td>
<td>1080878</td>
<td>1296303</td>
<td>1573739</td>
<td>1675562</td>
<td>21.40</td>
</tr>
<tr>
<td>Employees</td>
<td>5749</td>
<td>7077</td>
<td>8905</td>
<td>10059</td>
<td>25.83</td>
</tr>
<tr>
<td>Borrowing</td>
<td>383944</td>
<td>524314</td>
<td>668790</td>
<td>729288</td>
<td>27.55</td>
</tr>
<tr>
<td>Coverage Districts</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>0</td>
</tr>
</tbody>
</table>

Latest scenario

JANAK ADHIKARI: NRB / MFDB: 2074/11/10
## Financial Indicator in percentage or compliance status

<table>
<thead>
<tr>
<th>S. No</th>
<th>Indicators</th>
<th>NRB’s directives</th>
<th>2074 Paush</th>
<th>2074 Ashauj</th>
<th>2074 Ashad</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Core capital / risk weighted assets</td>
<td>4</td>
<td>12.19</td>
<td>12.67</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>Capital fund/ risk weighted assets</td>
<td>8</td>
<td>13.25</td>
<td>13.94</td>
<td>13.99</td>
</tr>
<tr>
<td>3</td>
<td>NPL</td>
<td>Below 5</td>
<td>0.98</td>
<td>0.89</td>
<td>0.72</td>
</tr>
<tr>
<td>4</td>
<td>Lone loss provision/ total loan</td>
<td>Minimum 1% for insured 25% only</td>
<td>1.67</td>
<td>1.75</td>
<td>1.53</td>
</tr>
<tr>
<td>5</td>
<td>Credit /Deposit and borrowing</td>
<td>At least 100% of borrowings</td>
<td>106.03</td>
<td>118.41</td>
<td>105.12</td>
</tr>
<tr>
<td>6</td>
<td>Liquid assets/ Total deposit and borrowing</td>
<td>Minimum 2.5%</td>
<td>12.02</td>
<td>14.05</td>
<td>14.54</td>
</tr>
<tr>
<td>7</td>
<td>Financial Resources /core capital Times</td>
<td>30 times</td>
<td>7.61</td>
<td>6.41</td>
<td>8.05</td>
</tr>
<tr>
<td>8</td>
<td>Collateralized lone/ total loan</td>
<td>1/3 maximum</td>
<td>10.19</td>
<td>9.74</td>
<td>9.75</td>
</tr>
<tr>
<td>9</td>
<td>CRR</td>
<td>0.5 % / 2%</td>
<td>0.77</td>
<td>0.77</td>
<td>3.47</td>
</tr>
<tr>
<td>10</td>
<td>Weighted Average Interest Rate :Deprived Sector Loan aggregate of A,B &amp; C</td>
<td></td>
<td>10.16</td>
<td>10.48</td>
<td>10.16</td>
</tr>
<tr>
<td>11</td>
<td>Cost of fund in percentage (including 4% Admin cost)</td>
<td></td>
<td>12.02</td>
<td>12.64</td>
<td>9.95</td>
</tr>
</tbody>
</table>
### Resource mobilization from MFIs as of Paush 2074 Rs. In Lakh

<table>
<thead>
<tr>
<th></th>
<th>Deposit</th>
<th>Borrowing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2074 Paush</td>
<td>403082</td>
<td>740765</td>
<td>1143847</td>
</tr>
</tbody>
</table>

Resources mobilization/ Core capital 7.61 times

### Liquid assets of MFI as of Paush 2074 Rs. In Lakh

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>NRB Deposit</th>
<th>Bank balance</th>
<th>Investment in government Bond</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2074 Paush</td>
<td>1677</td>
<td>7914</td>
<td>124009</td>
<td>3907</td>
<td>137507</td>
</tr>
</tbody>
</table>

Liquid assets /total deposit and borrowings 12.02 percent
# Market participation including cooperatives

### Market participation of MFIs as of Paush, 2074

<table>
<thead>
<tr>
<th>Bank and FIs</th>
<th>Paid up capital</th>
<th>O/S Loan</th>
<th>Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
</tr>
<tr>
<td>A</td>
<td>2048171.6</td>
<td>61.83</td>
<td>18860309.5</td>
</tr>
<tr>
<td>B</td>
<td>329564.4</td>
<td>9.95</td>
<td>2244734.7</td>
</tr>
<tr>
<td>C</td>
<td>105442.4</td>
<td>3.18</td>
<td>498593.9</td>
</tr>
<tr>
<td>D</td>
<td>97443</td>
<td>2.94</td>
<td>1212801</td>
</tr>
<tr>
<td>Coopera</td>
<td>731787.2</td>
<td>22.09</td>
<td>2737104.4</td>
</tr>
<tr>
<td>Total</td>
<td>3312408.6</td>
<td>100</td>
<td>25553544</td>
</tr>
</tbody>
</table>

**Rs. In Lakh**

Janak Adhikari : NRB / MFDB : 2074 /11/10
## Market participation of MFIs as of Paush, 2074

<table>
<thead>
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<td>4.09</td>
<td>498593.9</td>
</tr>
<tr>
<td>D</td>
<td>97443</td>
<td>3.78</td>
<td>1212801</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2580621.4</td>
<td>100</td>
<td>22816439</td>
</tr>
</tbody>
</table>

Janak Adhikari: NRB / MFDB: 2074/11/10
Current Issues

- Financial access to:
  - Geographically remote or hill and high hill area,
  - Target groups: Poor, vulnerable and marginalized group of the society.
- Increasing cost of fund, market interest rate has increased,
- Capacity building:
  - Human: Entrepreneurship Development, need to financial literacy
  - Fund for investment to MFIs,
- Ensuring adequate finance to the poor,
- Resource mobilization / liquidity problem
  - Deposit taking,
  - Support from GoN or central bank
Current Issues.....

- Information Gathering and Dissemination:
  - Need of central data collection centre
- Consumer Protection:
  - Minimum standards to protect consumers’ right,
- Deteriorating Microfinance fundamentals,
- Malpractice, duplication and multiple borrowing,
- Supervisory issues:
  - Internal control function,
  - Corporate governance,
  - Risk management
  - Reporting
  - Credit information
Current Issues ......

➢ Transformation from FINGOs to MFIs,
  ▪ Not abiding the governance norms in general,
  ▪ Transfer of NGO culture in MFIs,
➢ Un realistic growth of MFIs
  • No of MFIs are increasing; need to deduct or ?,
➢ Interest rate cap and spread; 18 percent cap, 7% spread
➢ Cooperatives management,
➢ Lack of Infrastructures:
  ▪ Power supply,
  ▪ Internet services,
  ▪ Road access,
  ▪ Security
<table>
<thead>
<tr>
<th>Se. no.</th>
<th>Challenges</th>
<th>Reasons</th>
<th>Solutions</th>
</tr>
</thead>
</table>
| 1      | • Outreach to the hill, high hill and remote part of the country            | ▪ Lack of infrastructure  
▪ High cost to open branch  
▪ Tendencies to open branches in semi urban or nearer to highway,  
▪ Difficulties to retain trained staffs in remote areas | • Force to open branch in high hill with support,  
▪ Use technology to provide financial services: agent banking, mobile banking etc |
| 2      | ▪ Resource constraint borrowing of the deprived sector fund from A, B and C | ▪ Most banks have their own sister MFI,  
▪ Direct lending from A B and C,  
▪ Un availability of other fund                                      | • GoN support for low cost fund,  
▪ Refinance from NRB,  
▪ Loan from donors                                                      |
| 3      | • Duplication and multiple borrowing,                                       | ▪ No use of Credit Information,  
▪ Not abiding the NRB’s guideline,  
▪ Misuse of loan by borrowers,  
▪ Credit limit is very low,  
▪ Target given to staffs                                                  | • Active role of NMBA  
▪ Prevent to misuse of loan  
▪ Reporting to CIC,  
▪ Increase credit limit,                                                    |
| 4      | • Interest rate cap and spread in microfinance,                            | ▪ Cost of fund Increases,  
▪ Interest rate is increases,  
▪ Poor deposit base,                                                       | • Reduce capital cost and increase reserve,  
▪ Increase deposit,                                                        |
<table>
<thead>
<tr>
<th>Se. no.</th>
<th>Challenges</th>
<th>Reasons</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Staff retention;</td>
<td>Low remuneration, Pulling staffs from others, Offering high pay and perks, Offering higher post</td>
<td>Training and motivation, Proper remuneration, Clear currier path, Maintain discipline</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Imbalance in Financial sustainability, outreach and welfare.</td>
<td>High competition, Target for high dividends,</td>
<td>Entrepreneurship development, Financial Literacy</td>
</tr>
<tr>
<td>7</td>
<td>Consumer Protection</td>
<td>Awareness increases in Corporate social responsibility</td>
<td>Need to set up minimum standards</td>
</tr>
<tr>
<td>8</td>
<td>No Collaboration and Coordination among MFIs and other stakeholders</td>
<td>Unfair competition, Erosion in microfinance fundamentals</td>
<td>Self regulation, Strong commitment on not to make duplication</td>
</tr>
<tr>
<td>9</td>
<td>Increasing no of MFIs in operation</td>
<td>Conversion of FINGOs, Other A,B,C license has closed, Share price and dividends</td>
<td>Stop license, Merge and acquisition</td>
</tr>
<tr>
<td>Se. no.</td>
<td>Challenges</td>
<td>Reasons</td>
<td>Solutions</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>10</td>
<td>Supervisory challenges</td>
<td>▪ Small Capital base of MFIs ▪ Problems seen in corporate governance issues, ▪ Poor BOD’s oversight, ▪ Ineffective board Committee. ▪ Weak internal control. ▪ Untrained employees, ▪ Increased to profiteering, ▪ Providing of collateral loan, ▪ High risk in branch level</td>
<td>• Micro Insurance to mitigate credit risk ▪ Training for the BODs as well as employees, ▪ Increase social welfare,</td>
</tr>
<tr>
<td>11</td>
<td>Liquidity problems in MFIs</td>
<td>▪ New MFIs do not have Deposit base as well as credit worthiness for borrowing from Wholesale lender, ▪ Market is becoming tighter, ▪ No government fund available.</td>
<td>▪ Establishment of fund ▪ Increment of capital and reserve</td>
</tr>
</tbody>
</table>
Way forward

- Establishment of national data centre to gather and disseminate the MFIs information from one single window,
- Development of entrepreneurship and technology based microfinance in mass scale especially in remote area,
- Roles and responsibilities of practitioners must be defined to enhance effectiveness in services delivery,
- Establishment a national microfinance wholesale fund with the support of government and NRB, to provide financial support and capacity building,
- Need to regulation on multiple borrowing and duplication,
Way forward ...

- Saving mobilization to meet resource problems,
- Self regulation through microfinance bankers’ association to control unhealthy competition.
- Separate regulatory body or STI for the cooperatives,
- Focus in social part rather focusing on profit,
- Sufficient training to BODs, senior management and operational level staffs.
- Collective efforts to remove the ugliness or malpractice seen in the microfinance sector.
Thank you