

Current Issues, Challenges and Way Forward on Microfinance

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Coverage

- **Background**
- **Key Players in the banking system**
- **Institutional framework**
- **Current Issues in Microfinance**
- **Challenges**
- **Way Forward**

Backgrpund

- 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 :
 - Nepal Rastra bank act 2058 (2002)
 - The Bank and Financial Institution act 2063 (2006),
 - The Cooperative Act 2048 (1991),
 - The Financial Intermediary Act 2055 (1998).
 - 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)

Rs. In Lakh

Latest scenario

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

Financial Indicator in percentage or compliance status

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

Resource mobilization from MFIs as of Paush 2074 Rs. In Lakh

	Deposit	Borrowing	Total
2074 Paush	403082	740765	1143847

Resources mobilization/ Core capital 7.61 times

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

	Cash	NRB Deposit	Bank balance	Investment in government Bond	Total
2074 Paush	1677	7914	124009	3907	137507

Liquid assets /total deposit and borrowings 12.02 percent

Market participation including cooperatives

Rs. In Lakh

Market participation of MFIs as of Paush, 2074

Bank and FIs	Paid up capital		O/S Loan		Deposit	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
A	2048171.6	61.83	18860309.5	73.81	21973130.8	77.14
B	329564.4	9.95	2244734.7	8.78	2545706.2	8.94
C	105442.4	3.18	498593.9	1.95	541664.4	1.90
D	97443	2.94	1212801	4.75	403082	1.42
Cooperatives	731787.2	22.09	2737104.4	10.71	3021645.1	10.61
Total	3312408.6	100	25553544	100	28485228.5	100

Market participation of BFIs Cooperatives excluded

Rs. In Lakh

Market participation of MFIs as of Paush, 2074

Bank and FIs	Paid up capital		O/S Loan		Deposit	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
A	2048171.6	79.37	18860309.5	82.66	21973130.8	86.29
B	329564.4	12.77	2244734.7	9.84	2545706.2	10.00
C	105442.4	4.09	498593.9	2.19	541664.4	2.13
D	97443	3.78	1212801	5.32	403082	1.58
TOTAL	2580621.4	100	22816439	100	25463583.4	100

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

Challenge: reasons and solutions

Se. no.	Challenges	Reasons	Solutions
1	<ul style="list-style-type: none"> • Outreach to the hill, high hill and remote part of the country 	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> • Force to open branch in high hill with support, • Use technology to provide financial services: agent banking, mobile banking etc
2	<ul style="list-style-type: none"> ▪ Resource constraint borrowing of the deprived sector fund from A, B and C : 	<ul style="list-style-type: none"> ▪ Most banks have their own sister MFI, ▪ Direct lending from A B and C, ▪ Un availability of other fund 	<ul style="list-style-type: none"> • GoN support for low cost fund, • Refinance from NRB, • Loan from donors
3	<ul style="list-style-type: none"> • Duplication and multiple borrowing, 	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> • Active role of NMBA • Prevent to misuse of loan • Reporting to CIC, • Increase credit limit,
4	<ul style="list-style-type: none"> • Interest rate cap and spread in microfinance, 	<ul style="list-style-type: none"> ▪ Cost of fund Increases, ▪ Interest rate is increases , ▪ Poor deposit base, 	<ul style="list-style-type: none"> • Reduce capital cost and increase reserve, • Increase deposit,

Se. no.	Challenges	Reasons	Solutions
5	•Staff retention;	<ul style="list-style-type: none"> ▪ Low remuneration ▪ Pulling staffs from others ▪ Offering high pay and perks, ▪ Offering higher post 	<ul style="list-style-type: none"> ▪ Training and motivation, ▪ Proper remuneration ▪ Clear currier path, ▪ Maintain discipline
6	▪ Imbalance in Financial sustainability, outreach and welfare.	<ul style="list-style-type: none"> ▪ High competition, ▪ Target for high dividends, 	<ul style="list-style-type: none"> ▪ Entrepreneurship development • Financial Literacy
7	▪ Consumer Protection	▪ Awareness increases in Corporate social responsibility	Need to set up minimum standards
8	▪ No Collaboration and Coordination among MFIs and other stakeholders	<ul style="list-style-type: none"> ▪ Unfair competition, ▪ Erosion in microfinance fundamentals 	<ul style="list-style-type: none"> ▪ Self regulation , ▪ Strong commitment on not to make duplication
9	▪ Increasing no of MFIs in operation	<ul style="list-style-type: none"> ▪ Conversion of FINGOs ▪ Other A,B,C license has closed ▪ Share price and dividends 	<ul style="list-style-type: none"> ▪ Stop license, ▪ Merge and acquisition

Se. no.	Challenges	Reasons	Solutions
10	<ul style="list-style-type: none"> ▪ Supervisory challenges 	<ul style="list-style-type: none"> ▪ Small Capital base of MFIs ▪ Problems seen in corporate governance issues, <ul style="list-style-type: none"> ▪ Poor BOD's oversight , ▪ Ineffective board Committee. ▪ Weak internal control. ▪ Untrained employees, ▪ Increased to profiteering, ▪ Providing of collateral loan, ▪ High risk in branch level 	<ul style="list-style-type: none"> • Micro Insurance to mitigate credit risk • Training for the BODs as well as employees, • Increase social welfare,
11	<ul style="list-style-type: none"> ▪ Liquidity problems in MFIs 	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ Establishment of fund ▪ Increment of capital and reserve

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