

**Microfinance (Financial Service) for Agricultural
Commercialization and Its Accessibility in SRCAMP Project
Areas**

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1. Introduction

This paper has focused on reality of microfinance in SRCAMP project areas. SRCAMP is “the project for the Master Plan Study on High Value Agriculture Extension and promotion in Sindhuli Road Corridor (SRC) area”. The SRCAMP was launched in June 2011 and will terminate in March 2014. It has three phases. In phase one (May 2011 – March 2012), it reviews the potentiality and constraints of agriculture in SRC area and develop tentative master plan and ideas of pilot projects. In phase two (April 2012 – March 2013), it conducts verification study through pilot projects. In phase three (April 2013 – March 2014), it integrates experiences of the pilot projects to the master plan, and formulates a master plan till 2020 to promote the High Value Agriculture (HVA) in SRC area. The SRCAMP project areas are Bhimkhori Village Development Committee (VDC) from Kavre District, Ratanchura VDC and Ratamata VDC from Sindhuli District, Hattitar VDC from Ramechhap District, and Boch VDC from Dolakha District.

The goal of SRCAMP is to promote High Value Agriculture (HVA) to bring livelihood improvements of local residents through income generation. For that purpose, the financial aspect related with agriculture is also inevitable to analyze the reality that how the farmers are accessing to finance to involve in their agriculture productions. So this paper has discussed the current status and challenges of microfinance in SRC area and searched the countermeasures and recommendations to cope with those challenges.

2. Current Status of Microfinance in Nepal

The history of agricultural finance is comparatively long in Nepal. The first attempt of cooperative activities in Chitawan District in 1956 can be distinguished as a primary step of microfinance. The following is time table of the development of microfinance in Nepal. The development of microfinance has accelerated specially from mid 1990’s.

Year	Development Events in Microfinance Sector in Nepal
1956	Firstly, microfinance was in use by registering first cooperative – Bakhan Singh Credit in Rapti Doon area of Chitawan District, mainly focusing on shelter.
1963	Cooperative Bank, for investing cooperatives.
1966	Land Reforms Savings Cooperation, for lending in agricultural sector, capital was the amount that was collected through land reform in 1964.
1968	Agriculture Development Bank of Nepal (ADBPN).

1973	Land Reforms Saving Cooperation was merged in ADBN.
1974	Priority Sector Credit (PSC), Central Bank of Nepal (CBN) mandated commercial banks to provide 5% of the total saving to small farmers and rise up to 12% in 1990. So 25% of PSC, 3% of loan portfolio is divided to Deprived Sector Credit focusing to poor farmers. It is first government oriented microfinance program in Nepal.
1975	Small Farmer Development Program (SFDP), Pilot Project of ADBN focusing to poor farmers, as the Government of Nepal (GoN) initiated Poverty reduction as formal strategy, and recognized the importance of microfinance – from Sixth Development Plan (1980/1-1984/85).
1981	Intensive Banking Program, reinforcing PSC.
1982	Production Credit for Rural Women (PCRW), first program focusing on gender with cooperation of UNICEF, CBN and Ministry of Local Development.
1991	Center for Self-help Development (CSD), provided self-help banking program in 1993 and firstly did financial activities in 3 Village Development Committees. In 2002, CSD converted into Swabalamban Bikas Bank to broaden the MF services.
1991	Nirdhan, later, it also became Nirdhan Utthan Bank getting license of Development Bank Act 1996.
1992	Grameen Bikas Bank (GBB), replication of Grameen Bank in Bangladesh. 5 GBB in 5 development regions of the country.
1994	Development Project Center (DEPROSC), started providing MF services from 1995. It also became DEPROSC Development Bank in 2001.
1998	Center for Microfinance (CMF), promoting the MFIs.
1999	Microfinance Association of Nepal (MIFAN).
2001	Chhimek Microfinance Development Bank Ltd.
2002	Sana Kisan Bank Limited (SKBBL)-Small Farmer Development Bank.
2003	National Cooperative Development Bank (NCDB).
2007	Nerude Laghu Bitta Bikas Bank Ltd.
2009	Naya Nepal Laghu Bitta Bikas Bank Ltd., Sworojagar Laghu Bitta Bika Bank Ltd., First Microfinance Development Bank Ltd., Mithila Laghu Bitta Bikas Bank Ltd., Summit Microfinance Development Bank Ltd.
2010	Mirmire Microfinance Development Bank Ltd., Nagbeli Microfinance Development Bank Ltd., Kalika Microcredit Development Bank Ltd., Janautthan Samudayik Microfinance Development Bank Ltd.

Microfinance providers in Nepal include formal, semi-formal and informal entities. The main providers in formal sector include microfinance development banks (MFDBs), financial

intermediary non-governmental organizations (FINGOs), licensed (by the Central Bank) savings and credit cooperatives (SACCOs) and state-run regional rural development banks (RRDBs). There are total five RRDBs in Nepal. The Nepalese term of this institution is Grameen Bikas Bank which is the replication of Grameen Model from Bangladesh. Semi-formal providers include unlicensed SACCOs and unlicensed NGOs. SACCOs are registered by the Department of Cooperatives within the Ministry of Cooperatives and Poverty Reduction. On the other hand, NGOs must register with the respective local District Administration Office. The informal microfinance providers include self-help groups, informal savings and credit organizations, and money lenders.

3. Current Status of Microfinance in Project Area

Three types of MFIs are providing microfinance services in the project area districts which include microfinance development banks (MFDBs), savings and credit cooperatives (SACCOs) and financial intermediary non-governmental organizations (FINGOs).

Table 1 - List of Microfinance Development Banks (MFDBs) Functional in SRC Districts

	Name of Institution	Kavre	Dolakha	Ramechhap	Sindhuli
1	Madhymanchal Grameen Bikas Bank Ltd.	✓			
2	Rural Microfinance Development Centre Ltd.	✓	✓	✓	✓
3	Deprosc Microfinance Development Bank Ltd	✓	✓	✓	✓
4	Chhimek Microfinance Development Bank Ltd	✓			✓
5	Shawalamban Laghu Bitta Bikas Banks Ltd.	✓			✓
6	Sana Kisan Vikas Bank Ltd.	✓	✓		
7	Nerude Laghu Bitta Bikash Ltd.				✓
8	Naya Nepal Laghu Bitta Bikas Bank Ltd.	✓		✓	✓
9	Sworojagar Laghu Bitta Bika Bank Ltd.	✓			
10	First Microfinance Development Bank Ltd.	✓	✓		
11	Mirmire Microfinance Development Bank Ltd.	✓	✓		
12	Mithila Laghu Bitta Bikas Bank Ltd.			✓	✓
13	Womi Microfinance Bittiya Sanstha Ltd.	✓			

Source: NRB, 2011 & 2013

MFDBs operate based on Grameen Model. According to Grameen Model, the banks organize center¹ meeting in every week and the financial transactions such as repayment of the loans,

¹ One center consists of maximum eight groups and there are five members in one group.

application of new loans, savings, etc. However, it is difficult to run center meeting in every week especially in hilly areas due to the difficulties in transportation access. So MFDBs have been operating center meeting in every four weeks (one month) instead of every week since past few years. Furthermore, some MFDBs have also introduced village model or self-reliance model in which the villagers themselves run the center meeting and the financial transactions to minimize the operating cost of the MFDBs.

The criteria of target groups of MFDBs are quite similar. MFDBs carefully target their services to a selected group of women. MFDBs recruit new clients who fit the following targeting criteria for their group based financial services:

- Married woman from the age of 16, more than age of 35 in case of unmarried woman.
- Must be maximum ten members in each group or unit.
- Own less than 0.25 hectares of irrigated land or less than 0.5 hectares of un-irrigated land per five person family.
- House must not have brick or cement walls/ceiling (pucca house)
- Permanent resident of area.
- No family members employed in the formal sector.
- No current loan from other financial services providers.
- A per capita income of less than NRs. 55,000.

However, with these criteria remained intact, a new individual-based service that does not use these criteria was developed from 2000's.

According to Mix Market², here are some detail information of services and products provided by Chhimek Microfinance Development Bank.

Gross Loan Portfolio USD, 2012: 27.1 million

Number of active borrowers 2012: 113,963

Average loan balance per borrower USD, 2012: 237.6

Deposits USD, 2012: 18.2 million

Assets USD, 2012: 40.5 million

Interest rate for loan – 21 percent (including one percent of service charge)

Interest rate for saving – 8-12 percent

² MIX stands for Microfinance Information Exchange, Inc. Mix Market is a non-profit organization, founded in June 2002, acts as a business information provider in the microfinance sector. Its headquarters is in Washington DC in United States, and it has regional offices in Peru, Morro and India.

Interest rate for pension – 16 percent

Cost up on saving average – 11 percent

Products and Services:

Loans

Voluntary Savings

Insurance

Funds Transfer Services

Training and Consulting

Products:

1. Loan products:

- a) General loan: NRs. 1,000 to NRs. 20, 000
- b) Discipline loan: Maximum NRs. 30, 000 including General loan
- c) Micro Enterprise loan: Maximum NRs. 100,000 including General loan and Discipline loan
- d) Unit house Loan: NRs. 1,000 to 50,000

2. Saving products:

The bank has offered four types of savings products. The bank pays 8 percent interest in daily balance method to all kinds of savings. They are followings:

a) Monthly saving: It is compulsory to every member to save NRs. 30 monthly. This fund is refundable if the saving is more than NRs. 5,000.

b) Disaster saving: At the time of taking loan, borrowers have to save 5 percent of the total loan amount. This fund will be provided in the time of disaster cases like flood, landslide, fire, snakebite, earthquake, thunder etc. Otherwise they will get the first saving only after 5 years of the savings.

c) Optional saving: It is a current account for the members. To open the account, NRs 100 is necessary for minimum balance. From this account the members can deposit and allowed to withdraw any amount from their account.

d) Unit fund: This fund is created for helping the members to make Unit house, necessary materials for the meeting, training, and social welfare work. It is compulsory to save NRs. 5 per unit member in this fund monthly.

3. Security fund:

The bank has managed two types of security fund.

a) Animal security fund: When the clients take out a loan for big livestock, they have to pay 5 percent premium of loan amount to preserve livestock. If the animal died in the period of preservation time, the clients will get 75 percent of total loss as insurance.

b) Member security fund: In the time of taking the loan from the bank, compulsorily the program members should save 1 percent of loan amount in member security fund. This fund operation compensates in the death of borrower, which provides hundred percent of loan amount or if in the case of guardian's death, the borrower will get NRs. 1,500 as compensation.

4. Disciplined member welfare fund:

This fund is created for the disciplined unit. Every disciplined unit can get NRs. 250 monthly. This amount of money can be used in the work of their need by their selves such as education, health etc.

The bank's mission is to extend financial services and social awareness to poor in under-served and UN –served areas of Nepal in a sustainable manner.

Table 2 - List of Saving and Credit Cooperatives with Limited Banking Authority Registered under NRB Operating in SRC Districts

Names	Operation Date	Head Office	Paid up Capital (NRs. '000)
Bindabasini Saving & Credit Co-operative Society Ltd.	6/21/1995	Khopasi, Kavre	411
Shree Manakamana Sahakari Sanstha Ltd.	2/18/1997	Banepa, Kavre	120

Source: NRB, 2011

Table 3 - List of Financial NGOs Providing Financial Services with NRB License Functional in SRC Districts

	Names	Kavre	Dolakha	Ramechhap	Sindhuli
1	Mahuli Samudyik Bikas Kendra				✓
2	MANUSHI		✓		
3	Jiwan Bikash Society				✓
4	Women Development Centre of Nepal	✓	✓	✓	
5	Nepal Mahila Utthan Kendra	✓	✓	✓	

6	Gramin Mahila Utsukta Bikas Manch				✓
7	Sawabalamban Bikash Kendra	✓			
8	Srijana Community Center				✓

Source: NRB, 2011 & 2013

Except these institutions, many local cooperatives are providing financial and non-financial services in those areas. Here are the numbers of cooperatives in Sindhuli Road Corridor (SRC) districts.

Table 4 - Details of Cooperatives in Study Districts

No. of Cooperatives by type of activity		Total No. of Agriculture based Cooperatives
Kavre district		
Agriculture Cooperatives:	146	1,152
Vegetable and Fruit Producers' Cooperatives ³ :	19	
Coffee Producers' Cooperative:	8	
Bee Keeping Cooperative:	5	
Milk Producers' Cooperatives:	272	
Multipurpose Cooperatives:	184	
Other Cooperatives including Saving and Credit Cooperatives:	518	
Dolakha district		
Agriculture Cooperatives:	154	494
Vegetable and Fruit Producers' Cooperatives:	6	
Tea Producers' Cooperatives:	3	
Milk Producers' Cooperatives:	7	
Multipurpose Cooperatives:	40	
Other Cooperatives including Saving and Credit Cooperatives:	284	
Ramechhap district		
Agriculture Cooperatives:	98	376
Tea Producers' Cooperatives:	1	
Milk Producers' Cooperatives:	4	
Multipurpose Cooperatives:	37	
Other Cooperatives including Saving and Credit Cooperatives:	236	
Sindhuli district		
Agriculture Cooperatives:	112	400
Vegetable and Fruit Producers' Cooperatives:	8	
Medicinal Plants Cooperative:	16	
Bee Keeping Cooperative:	6	
Milk Producers' Cooperatives:	17	
Multipurpose Cooperatives:	21	
Other Cooperatives including Saving and Credit Cooperatives:	220	

Source: Department of Cooperatives (2012), Ministry of Cooperatives and Poverty Reduction

³ Vegetable and Fruits Producers' Cooperatives handles high value commodities, while Agriculture Cooperatives do crops and agricultural inputs.

While focusing of Saving and Credit Cooperatives (SACCOs), the number are as follows in four districts:

Table 5 – The Number of Saving and Credit Cooperatives (SACCOs) in Study Districts

District	Total No. of Saving and Credit Cooperatives (SACCOs)
Kavre	461
Dolakha	225
Ramechhap	205
Sindhuli	134

Source: Department of Cooperatives (2012), Ministry of Cooperatives and Poverty Reduction

4. Challenges of Microfinance in Nepal

There are several challenges regarding rural development and reducing rural poverty. They are listed as follows:

Lack of microfinance in mountains and hilly areas. The severe challenge of microfinance in Nepal is lack of prevalence of MFI branch in the mountains and remote hill districts. The MFDBs have to also consider their financial sustainability so they cannot broaden their services in rural and remote areas where the access of transportation scarces. As a result, MFDBs have still low coverage of the program in the hill districts and interior parts of the terai districts.

Heavy concentration in accessible areas. MFDBs' financial programs heavily concentrate in accessible areas, particularly municipalities and accessible VDCs. So many people are getting the financial services in those areas compare to rural and remote areas.

Overlapping of the program. As microfinance services are focused on accessible areas such as plain area of terai and accessible VDCs, the MFDBs come to face the challenge of overlapping of the programs in those areas in terms of geographical space. So it also causes unfair competition between MFIs in terai region.

Program is not strictly confined to the poor. The microfinance program is not strictly confined to the poor so there is the high possibility of bypassing the target groups and selection of relatively credit worthy clients.

Less participation of disadvantaged groups. Nepal is multi-ethnic country and people still consider about the caste system. Sometimes it brings the division between the people from two different castes, and in the case of microfinance program, lower caste people hesitate to participate in microfinance as they want to keep themselves passive socially and economically.

As a result, the participation of disadvantaged people in microfinance is comparatively low.

Limited information of microfinance to the households in remote area. The problem of limited information to the households about the availability of microfinance is severe, particularly it can be seen in the remote and inaccessible areas.

No microfinance service is available for migrated people. The people who migrate to town and urban areas from rural and remote area, cannot get microfinance due to their temporary nature of stay in the program areas.

Supply based approach. Supply based approach of the program on the presumption that supply creates its own demand.

Inadequacy of skill training and support activities. There is also serious challenge of inadequacy of skill training and support activities for generating demand for credit and its productive use. Moreover, there is also lack of entrepreneurship for undertaking income generating activities on commercial scale.

Poor Banking Culture. The elements of good banking are not well developed in Nepal, whether among bankers and customers too. Informed lending decisions are difficult as many clients fail to maintain or disclose good financial information on their activities. In other hand, the banks also feel difficulty to balance between credits and savings as they comparatively focus on increasing their customers rather than to provide financial service to the real customer, the poor.

Regulation and supervision. The legislative framework is control oriented. The MFDBs and Saving and Credit Cooperatives cannot deliver their services freely. Even Saving and Credit Cooperatives at village level should be registered and supervised to receive external credit.

Financial viability. It refers to the capacity of MFIs to provide continued access to financial services in the long-term. In order to do this, they must ensure that the savings and credit services provided meet the needs of their clients and do so in a financially sustainable manner.

Limited capacity. Most of MFIs suffer from human resource and systems deficiencies. They display significant weaknesses in financial managerial and strategic management capabilities. In particular financial management, internal controls and recording, analysis and reporting of key performance indicators is generally very weak, and has not been encouraged by the availability of cheap capital and general supply-drive.

Lack of coordination. Financial Service providers including MFIs have not coordinated their efforts to any large extent, neither terms of outreach such as mapping, expansion planning nor industry performance monitoring takes place. MFDBs and FINGOs are under the supervision of

the central bank whereas SACCOs are under the supervision of Department of Cooperatives and the National Federation for Savings and Credit Unions in Nepal (NEFSCUN). There is lack of coordination between those supervision bodies.

5. Challenges of Microfinance in Target Areas (Project Fields)

Bhimkhori (Kavre)

Not enough financial services. The farmers are not getting financial services from MFIs in this area. They are getting loan from the landlords. The interest rate is 24 percent. If someone borrow loan for going abroad, the landlords charge 36-48 percent of interest rate. Although they have to pay high interest rate to the landlords, they are willing to borrow from them because of the procedures of MFIs are complicated.

Utilization of loan. The farmers use their loan on daily family needs rather than financial purpose. They have very less idea how to use their loan in agricultural sectors in order to get maximum productivity.

Lack of savings. The farmers have less habit of savings. They have lack of plan that what they are going to do when there is an emergency need of fund.

Ratanchura, Ratamata (Sindhuli)

Active cooperatives. In these areas, cooperatives are more active than MFDBs. Among them, agriculture cooperatives have comparatively high transactions in agriculture sector because the total saving amount is comparatively low in comparison of the total amount of loan.

Insufficient loan. Some project-base donors lend the farmers some loan, but it was insufficient for them. In that case, they usually get the loan from informal sectors.

Difficult to repay. The farmers who work in livestock feel difficult to repay the installment of loan on time because certain time is needed to get the output from their business.

Hattitar (Ramechhap)

Lack of fund. The famers who are running cooperative, are facing lack of fund. Even they invest the loan and get the interest for the loan, it is insufficient to invest in agriculture sector.

Need of fund and skilled staff. The farmers of this area need either rotating fund or donors to run

their cooperatives. Furthermore, most of the cooperatives need skilled staffs to smoothen their operating system.

Inclusive finance. Most of the farmers in Hattitar are focused in fishing. So they need inclusive finance in which the fishermen can participate easily. This area has comparatively less access of MFIs so the farmers need make their groups and cooperatives to cope with financial problems.

Need of community development fund. Most of the farmers are willing to have community development fund to develop the infrastructure which will boost their socio-economic activities such as drinking water development program, etc.

Boch (Dolakha)

Access in MFI. Compare to other project area, farmers from this area have access in MFIs to some extent. However, there is high possibility of misusing the loan in household sectors rather than the topic they have borrowed for.

Active women group. In Boach, there are approximately eleven cooperatives including four SACCOs, and 7 other women groups and community finance. As it is near from District Headquarter Charikot, this area is comparatively active in financial activities.

Lack of cooperative education. Even though, there are plenty of cooperatives in this field, most of the farmers have lack of knowledge about cooperative. So the capacity development of the farmers is pressing issue to develop the commercial cooperative in this area.

Lack of saving habit. The farmers have no habit of saving their money in cooperatives or banks. Instead of saving in banks, most of them put their money at home as they are busy on their daily works. Some of them take a loan from bank to go abroad for work, and some of them use their loans to buy a land in urban area. So the farmers have less sensitivity of using their loan in agriculture sector.

6. Potentiality of Microfinance including Hello Paisa in Project Area

Potentiality of Microfinance in Project Area

Observing the project areas in four districts, there is high potentiality of microfinance especially the cooperatives. However, some points we need to be conscious to develop the outreach of MFIs in these areas. Most of the farmers claim that the interest rate of MFDBs and FINGOs are

high such as 18 to 25 percent interest rate in loan, and less interest rate in savings such as 8 percent. Furthermore, the operational aspects for applying loan are also quite complicated and long process for the farmers. So MFIs including MFDBs, FINGOs and other banks should notice the real voice of farmers in order to broaden their activity in rural and remote areas.

On the other hand, the cooperatives get enough funds if MFIs enlarge their services in rural areas including the project areas. In order to access in field areas, MFIs also need some kind of incentives and financial cooperation from the Government and international donors. Moreover, MFIs can organize capacity development programs and broaden the information about microfinance among the farmers in project areas that would be the win-win relation between the farmer and bank.

Hello Paisa

Hello Paisa is a platform that allows multiple financial institutions and mobile companies to come together to offer mobile financial services (MFS) that is not possible to do in Nepal. The Hello Paisa system takes banks and its customers beyond branchless banking and empowers all the players: customers, banks, and mobile service providers with state of the art MFS.

Thus, for the customer, the experience is a seamless one. A customer of any partner bank of the Hello Paisa platform can:

- Use the branches and Hello Paisa Operators (HPOs) of all the member banks
- Send and receive money among each other
- Customer can have a mobile SIM number from any of the major mobile services in Nepal
- All monies / funds of the customers is always with the related partner Banks of the Hello Paisa platform
- Is highly secure and safe

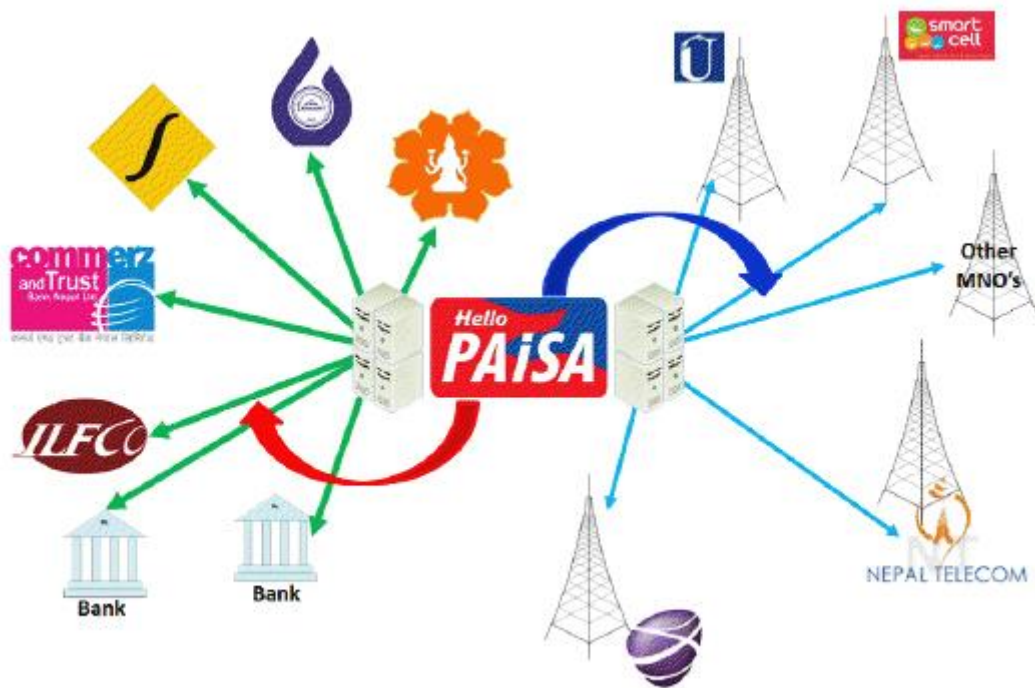
Finaccess Private Limited, the creator of “Hello Paisa”, has always been a pioneer in innovative services. Through the Hello Paisa platform, they are introducing total MFS and within this branchless banking for the first time in Nepal. The innovative product umbrella of Hello Paisa gives the people of Nepal complete convenience and empowerment that they have always wanted in life.

Hello Paisa is not just limited to banked customers. With Hello Paisa, customers have access to the easiest way to conduct their financial transactions, whether they are related to paying bills,

sending/receiving money within Nepal, receiving money from abroad, purchasing airtime for their mobile phones or making merchant payments.

No longer do people have to travel long distances, wait in long queues at banks or be constrained by limited working hours. Any person can use Hello Paisa services by visiting their nearest Hello Paisa operator locations, or partner bank branches. As of November 2012, there are hundreds of Hello Paisa operators offering these services all over Nepal.

The services offered by the partner Banks of the Hello Paisa platform are and have to be approved by the Nepal Rastra Bank, and thus, everyone can enjoy secure branchless banking service through Hello Paisa with instant transactions.



Potentiality of Hello Paisa in SRCAMP Target Area

Among the field area, the farmers from Boch are familiar with Hello Paisa. In Boch, the farmers have started to get the service of Hello Paisa since four months ago. The service of Hello Paisa is limited on savings for the first six months; the other services can be obtained afterwards. Charikot, the district headquarter of Dolakha is nearer to Boch so Hello Paisa is well known for some farmers.

There is an enough possibility of the growth of Hello Paisa as it is free of cost for opening account and saving amount is also voluntary. The interest rate of saving is 4 percent. Five

commercial banks (Laxmi Bank Limited, Sidhartha Bank Limited, Bank of Kathmandu Limited, Commerz and Trust Bank Nepal, and International Leasing and Finance Company Limited) have made alliance to provide the service of Hello Paisa so the customers can get the service any branch of those banks. While withdrawing money, the charge of withdrawing amount up to NRs. 10,000 is NRs. 10, and withdrawing amount up to NRs. 50,000. The farmers in Boch have claimed that the future of Hello Paisa is bright in that area.

7. Good Practices of Microfinance in Nepal

This paper will describe the good practices of microfinance based on the good records of microfinance service delivery in Nepal. For this purpose, this paper has chosen Nirdhan Utthan Bank Limited (NUBL) as an example of MFI that has good practices in microfinance services. With the discussion of some essences that NUBL is applying, other MFIs can also get reference from these practices.

(i) Contents of Activity

Strategy to cover poor. Most of the MFIs have the client selection criteria that focus the poor households. Furthermore, MFIs start their financial services with small loans and provide repeat loans if the previous loans are repaid on time.

Management practices. MFIs are committed at the highest levels of management to the delivery of financial services to the entrepreneurial poor and to micro and small business owners who lack access to traditional sources of capital. Furthermore, MFIs have streamlined their lending procedures and developed accurate loan approval, disbursement and collection methods for maximum efficiency. In addition, MFIs have established training wing within their organization that regularly organize training events or using external people to train the staff for best practices and operating procedures of microfinance. MFIs also have affiliated with their networks to learn and share with regional microfinance partners through practitioner forums and associations. For instance, MFDBs, SACCOs and FINGOs take membership with their network organizations to create the opportunities of sharing and communicating their practices and experience.

Institutionalization. MFIs have arranged several elements to make the institutions strong such as

- Formal personnel rules for human resource management
- Formal accounting and loan tracking manual
- Internal audit and external audit system

- Loan and saving manual
- Client and staff capacity building process

Vision for growth. Most of the MFIs are now aware of being financially viable that ultimately require a reasonable numbers of clients to be served. In this regards, MFIs are deepening their program within the existing working area. Furthermore, some MFIs have developed their capacity to serve large number of clients through the opening of new branches.

(ii) *Methods and Cost of Activity*

Managing costs. Operating costs are being kept low and tightly managed by ensuring that each branch is managed as a separate cost centre that must reach certain performance targets. Similar targets are set for individual staff and, although basic staff compensation packages are low, there are incentives built to reward individuals that meet and surpass the targets such as the number of clients served, loan portfolio managed, repayment rates, etc.

Charging appropriate interest rate. Microfinance programs are charging an appropriate interest rate to cover their cost (operating cost, financial cost, loan loss provision and inflation).

Offer of customer friendly financial products. Terms and conditions of savings and loan products should respond to the particular needs of the client group. In this regard, MFIs have started continuous market research for product innovations.

Risk management. Several MFIs have focused on risk management and operate following essences:

- Establishment of emergency or social security fund.
- Linkage between deposit insurance and credit guarantee corporation for livestock insurance.
- Loan repayment funds and savings collections are immediately disbursed in the field to prevent from robbery or attack from external people.
- Public audit/ interaction meetings/ borrower's workshops are conducted to motivate people for timely repayment of loan.

Geographical coverage and target market. MFIs select the clients according to their socio-economic status in targeted area. For instance, a family per capita income less than US\$ 56, and women having less than 0.25 hectares of irrigated land or less than 0.5 hectares of un-irrigated land per five-person family, the member being a permanent resident of the bank working area, etc.

Management practices. MFIs streamline their operations with a commitment to serve the poor.

Management information system (MIS). Some MFIs apply computerized MIS software, it has loan tracking system and accounting system. MIS produces the report that requires submitting regulatory authorities.

On the other hand, this paper focuses the good practice of vegetable cooperative (Shree Jana Jagriti Vegetable Producers Cooperative Limited), located at Dhulikhel in Kavre, and refer some unique idea that would be useful for the agriculture development in project area.

Name of Cooperative – Shree Jana Jagriti Vegetable Producers Cooperative Limited
(Established at 1998)

Share members – Approximately 1000

Borrowable loan – maximum NRs. 30,000 (without collateral), NRs. 500,000 (with collateral)

Interest rate of loan – 14 percent

Interest rate of child saving – 10 percent

Interest rate of saving – 9-10 percent

Interest rate of emergency loan – 7 percent

The two unique elements that Shree Jana Jagriti Vegetable Producers Cooperative Limited has operating is i) Agriculture Clinic, and ii) Nursery Service

i) Agriculture Clinic.

Agriculture Clinic is opened twice a month (1st and 15th of every month in Nepali calendar) and agriculture specialist will consult the problems of farmers and give an appropriate advice to them.

ii) Nursery Service.

This cooperative has tunnel house with nursery of vegetables and fruits. If some farmers could not produce quality nursery, then they can buy nursery from this cooperative with reasonable price. The cooperative has recruited one staff to operate this nursery service.

With the reference of NUBL and Shree Jana Jagriti Vegetable Producers Cooperative Limited, SRCAMP can get some positive references to extend the services to the farmers to encourage on producing qualified agricultural products.

8. Countermeasures of Microfinance in Project Area

This paper has analyzed countermeasures of microfinance as opportunities of microfinance. So with observing existed opportunities in microfinance, it would be easier to think countermeasures of microfinance in project area.

Opportunities

Supportive government. Government of Nepal (GoN) representatives are supportive of the development of microfinance as a part of an inclusive finance sector, and the Development Plan of the country seeks to promote rapid, equitable and sustainable economic growth and the poverty reduction.

Sufficient and cheap capital for on-lending. GoN funding structures supporting the delivery of microfinance as targeted poverty reduction activities provide loan capital at sub-market rates to MFIs. On the other hand, wholesale lender MFIs Rural Microfinance Development Center (RMDC) and Sana Kisan Bikas Bank Limited (Small Farmer Development Bank Limited, SFDBL) also provides some training and whole lending to MFIs and Small Farmer Cooperative Limited (SFCLs). In addition, many commercial banks invest the required percentage of portfolio for the 'deprived sector' lending in MFIs, either as loans or equity. Thus, there is plentiful supply of cheap capital for on-lending.

High unmet demand. Significant growth of deposits and lending since 2002 suggests substantial excess demand and the subsidized microfinance available does appear to replace higher-cost informal borrowing among the poor from money lenders. So microfinance sector has still enough scope to broaden its services to meet the demand of loans.

Critical mass of bank-ready clients. The sustained achievements of many local community development projects, including international donors-supported projects, results in the existence of a large potential client-base that can be mobilized for saving and credit groups. So if MFIs can access into those groups with effective microfinance schemes, then there is huge opportunity to develop the microfinance sector.

Business support services for financial service providers (FSPs). Successful MFIs maintain a social mission by targeting the low income people by providing their services. For that FSPs need a range of business support services such as auditors, rating agencies, credit reference bureaus, cash-in-transit service providers, insurance agencies, IT support, trainers, consultants,

etc.

9. Recommendations of Microfinance in Target Areas (Project Fields)

Enter in project areas. Many MFIs need to enter the project areas with microfinance services to poor. As the challenge of microfinance, most of MFIs are interested in delivering their services in accessible areas. Most of the project areas are in remote area so comparatively few MFIs are providing services there. So MFIs including MFDBs and FINGOs should enter in project areas with reasonable interest rate.

Make easy to participate disadvantaged groups. MFIs can play an effective role to include disadvantaged groups into their services. They should make their service procedures such as membership, registration, etc simpler to attract ordinary farmers too.

Encourage women. MFIs should encourage women more to utilize the loans and begin their social entrepreneurship. For that purposes, MFIs should give women including farmers the capacity building training and give them basic knowledge of rotating their loans in their agri-business.

Replication and simplified methodology. Replication of successful MFIs in project area would be effective way to broaden the knowledge of microfinance. In addition, MFIs should follow simple methods in operating systems to make many farmers participate in microfinance.

Coordination between GoN and MFIs. Coordination between GoN and MFIs is pressing issue to innovate appropriate policy to access microfinance services in remote area.

Simplification of microfinance policies. Simplified microfinance policy is helpful to the uneducated clients for using microfinance. Nepal has several models of MFIs and every model is based on different acts and rules which may make the customers difficult to use microfinance service. This problem is also exists in project area so MFIs should become simpler to include many poor.

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