

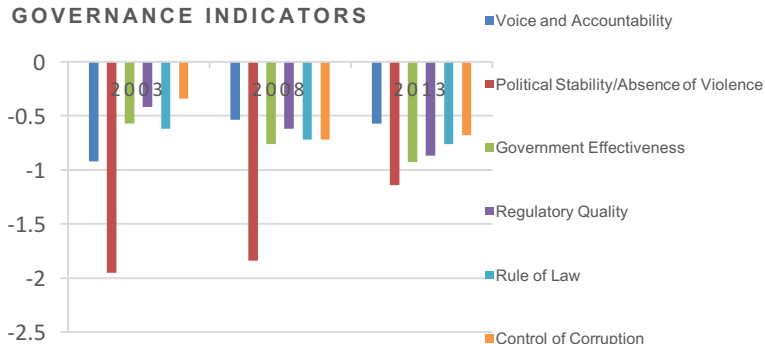
Down-scaling of NMB Bank to increase outreach to microfinance clients in Nepal

1. Development relevance

Economic and poverty context:ⁱ Nepal has been passing through a prolonged political transition following a 10-year violent conflict that ended in 2006. The constitution, which is needed to bring in political stability (see governance figure), has repeatedly experienced setback as the Constituent Assembly failed to come to an agreement. The lack of political consensus has prevented economic reform. The country is dependent on remittances and agriculture, the latter providing a livelihood for more than 70% of the population. Nepal is among the poorest countries in the world and currently ranks 157th out of 187 countries on the Human Development Index. However, the proportion of poor people was halved in only seven years.

Population and Economic indicators	
Population (in million) (2012)	27,4
GDP growth (2013)	3,8%
Inflation (2014)	8,4%
Economic Freedom Index (Rank among 185 countries) (2015)	152
Poverty indicators	
GDP per capita (current USD) (2013)	694,1
Gini Index (0= equality 100= inequality) (2010)	32,8
International (at 1,25 USD/day), national and rural poverty headcount ratio (2010)	25,2
	27,4

GOVERNANCE INDICATORS



Poor access to power, roads, irrigation facilities, educational and medical institutions are the most serious infrastructure bottlenecks. Nepal is highly susceptible to climate change risks and ranks 11th in the world in terms of vulnerability to earthquakes.

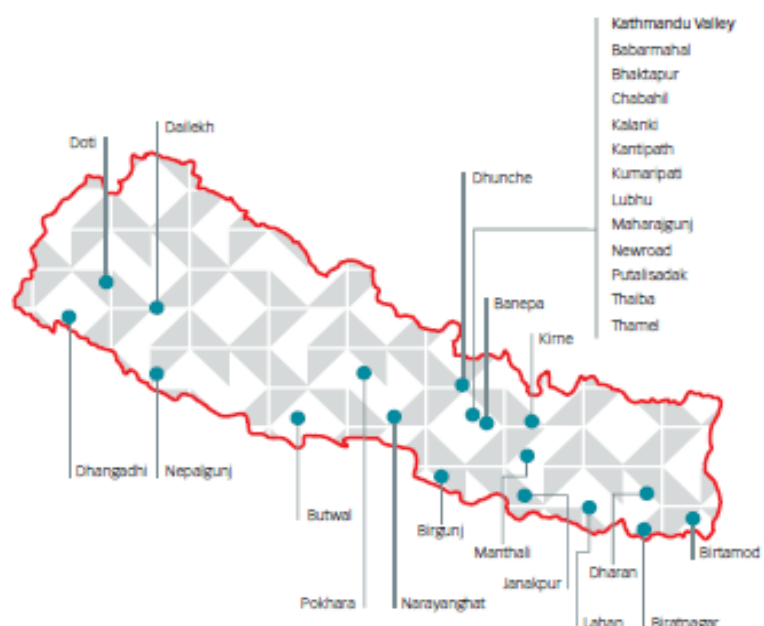
Financial sector context: Since 2000, the number of financial institutions has grown strongly due to government efforts towards a more competitive financial sector. According to the central bank, the

Nepal Rastra Bank, there were 26 commercial banks, 58 development banks, 78 finance companies and 12 microfinance development banks by the end of the financial year 2010-11. Moreover, there were 16 licensed Savings and Credit Co-operatives (limited banking) and 46 licensed Non-Government Organizations.

Commercial banks are supposed to lend 4,5% (to be increased to 5%) of their total assets to the 'deprived' sector of the country. As the presence of commercial banks in rural areas, especially in hills, is limited, most of their "deprived sector lending" are loans to microfinance banks, which have limited legal mandate, finances and technology to offer various microfinance products.

In 2014, 34% of the population aged 15+ had an account at a financial institution, 16% had formal savings and 12% had formal borrowing.

Partner Financial Institution: NMB Bank Limited is, since May 2008, a commercial bank regulated by the central bank. It started as a finance company providing merchant banking services in 1996. The bank is listed at



the Nepal Stock Exchange. The public holds 48% of its equity shares, a private equity group of Malaysia holds 13% and various business groups in Nepal hold the remaining 39%.

The bank's mission is to gain leadership in the financial sector by reaching out to a wide range of clients by offering them innovative and customer friendly products, quality services, use of technology and prudent policies and procedures. Additional objectives include being efficient by the use of technology, good human resources practices, strong statutory compliance and making a contribution to the society at large. With its 300 staff members, NMB Bank operates through 29 branches spread in all regions. As of end of January 2015 it had about 10'000 clients. It provides financing mainly to various businesses including small and medium enterprises and traders. Other services include various deposits, remittances and insurance brokerage. Furthermore, NMB Bank has started providing microfinance services.

2. Intervention approach

Capacity building needs: To meet the deprived sector lending targets set by the central bank (4,5% of the total assets), NMB Bank mainly relied upon lending to MFIs. However, it wanted to reduce this dependency due to perceived higher risks in MFIs' operations (increase in multiple lending, weak quality of operations, limited products). NMB Bank's main challenges included lack of appropriate microfinance products, operational policies, processes and appropriate skills. Other challenges were to build client awareness around products and develop a market strategy. To overcome the problem of high operational costs, the management proposed branchless banking to the Board.

Main activities: The intervention started in April 2013 after the central bank's approval. M-Cril provided support in following main areas:

- **Development of a microfinance strategy**
- **Product development:** Three loan products were developed to cater to the needs of different income groups (see figure). NMB piloted the Grameen and JLG loan products and has not yet decided on individual loans as it perceives a higher risk in lending unsecured individual loans.

- **Development of following product policies, processes and systems:**

	Grameen	JLG	Individual
Loan Size	186-370 USD	370-930 USD	930-3'730 USD
Loan Purpose	Livestock, agriculture, trading	Micro and small enterprises	Small businesses

- A microfinance **products manual** describing roles and responsibilities, including product wise policies and processes
- **Credit risk scoring tools** for microfinance as well as for the small and medium enterprise (SME) lending model
- An internal **audit manual and an audit tool for the microfinance operations** audit
- A system for providing branchless banking services to microfinance clients developed by FINO Paytech. It is now operational in 4 branches. As part of this project, a new **IT system** was developed that operates via hand held devices for agent banking and has been integrated with the core banking system. All microfinance and a few other clients are serviced by this system.
- A **financial literacy training module in Nepali Language** developed by Planet Finance in consultation with the bank's training team to provide training to current and potential microfinance clients. As planned, 5 days of training to trainers to NMB Bank's 7 training team members and 15 community leaders of various microfinance groups (formed using the Grameen and JLG methodology) was provided. All participants also received training on teaching practices. In the last 5 months of the intervention, the trainers trained 500 microfinance clients under observation of the consultants to ensure capacity building and allow the trainers to gain experience.
- Human resources and training systems for the microfinance division

Training	2013-14	2014-15
Number of staff trained	5	5
Number of management personnel trained	2	2
Number of clients trained in financial literacy	0	500

3. RESULTS

3.1 Client level

Outreach to microfinance clients has started to increase. However, growth has remained slow as the bank was concerned about the quality of the loan portfolio and decided to test the collection processes to ensure a

good repayment rates before increasing outreach. By the end of January 2015, there were 681 active microfinance borrowers (against a target of 1'700) with a loan portfolio of NPR 59 million (USD 549'500).

Regarding financial education, no evaluation of the results was available at the end of the intervention as this was not included in the planning. A separate study on financial literacy needs and outcomes is under discussion. Nevertheless, what can be seen as a positive result of the financial education efforts is that NMB Bank's senior management has decided to carry out financial literacy programmes for all its microfinance clients.

The following profiles provide a picture of NMB's microfinance clients.

Outreach of microfinance services	2012-13	2013-14	2014-15
	as per end of financial year, i.e. July 15		January 2015
Number of active borrowers	395	602	681
Active female borrowers	372	572	621
Rural active borrowers	395	602	681
Gross loan portfolio (in USD)	227'990	373'680	550'100
Average loan balance per borrower (in USD)	580	620	810
Total deposits value (in USD)	22'740	57'550	62'920
Total micro depositors	440	1'155	1'205
Total branches providing microfinance services	10	12	12
Branches with branchless banking technology	0	0	4



Bibirani Tamang is a resident of Thulo Bharkhu, Syaphru 05, district Rasuwa. She has been rearing Yaks and local hill cows (*Chauri*) for more than ten years. Almost all of her eight family members are involved in this livelihood activity (*Chauripalan*) as cattle rearing in hills requires a lot of physical effort and time. They travel and shift their shed towards the lower part of the Himalayas in winter, when food for cattle becomes scarce in the upper mountains; then they move again to the upper part of the Himalayas in summer.

During winter, Bibirani makes butter and *churpi* and sells it in the local market. During summer, she sells the milk of Yaks and local hill cows to the Dairy Development Corporation Chandanbari, Rasuwa, which produces cheese and

butter and sells it using the brand of the Corporation. The demand for these products is high as they are made of milk of Yak whose fat level is very high. It is also believed that *Chauris* graze in pristine Himalayas where many useful herbs are found and that their milk has medicinal value and is organic.

In 2005, Bibirani invested around NPR 50'000 (USD 470) to buy 8 local hill cows. At that time, a cow was priced between NPR 5'000 and 8'000 (USD 47 to 75) each. In 2013-14, NMB Bank provided a loan of NPR 100'000 (USD 930) to Bibirani Tamang. She received another loan of NPR 200'000 (USD 1860) in 2015. Now she has more than 25 cattle and plans to have her own machine to make *churpi* during the off-season. Considering her enterprising abilities and financial prudence in taking loans, NMB is confident in her ability to manage her cash flows well.

The key improvements observed are that Bibirani today generates cash surpluses that allow her to invest in business and personal assets. In the past, she faced difficulty in maintaining a good living standard, but today she is able to provide an improved quality of life to her family. Moreover, she is a well-respected woman and a role model in the savings and loan group operating in her village.

Sita Katun is a local resident of Damaitar, Lalitpur in the Kathmandu valley. Her family is composed of her husband, two sons and a daughter in law. She has been engaged in colour dyeing of clothes for the past three years and operates a business together with her husband and two staff in a small rented place. Small textile companies had approached her to dye their shawls. She had a machine for the activity and the activity was going well. She then planned to expand her business by having also a sewing machine that would allow her to sew – she already had experience in stitching clothes – and dye shawls by herself and sell directly in the market. She requested a bank loan and along with her group members was provided a micro loan of NPR 60'000 (USD 560) as a first tranche by NMB Bank in 2013-14. With this amount she purchased a sewing machine and with the second tranche of NPR 40'000 (USD 370) she purchased other materials to dye clothes. While earlier she was dyeing clothes for small textile mills for remuneration, today she buys fabrics, stitches and dyes them and sells them herself directly to retail shops in Kathmandu.





3.2 Partner financial institution/s level

NMB Bank now has all the systems and skills in place to expand its direct microfinance outreach with a suite of products and with the support of a financial education programme for its clients and skilled trainers.

NMB Bank was able to increase direct microfinance outreach to 12 branches by the end of March 2015 (opposed to an original target of 9 branches by January 2015). It has 10 trained staff members exclusively for microfinance services and 4 branches have started offering services in remote regions with the use of PoS machines (the original target was only 3 branches). In addition, NMB Bank has planned to establish 8 rural branches which will mainly focus on microfinance. This is in line with the central bank's requirement to set up branches in rural areas.

3.3 Financial sector level

Due to the regulatory push to increase microfinance lending and increased lending targets, it is expected that commercial banks will consider downscaling as an option. A successful direct microfinance programme of NMB Bank may encourage other banks to pilot similar programmes.

4. Recommendations for other similar interventions

Working with a commercial bank offers an opportunity to increase the scale and scope of microfinance given the resources and legal approval to offer a wide range of products. However, since microfinance usually only accounts for a small share of a large bank's portfolio, it may not receive adequate management attention. It is time consuming and difficult to make changes in the existing set-up. Thus, it's crucial to thoroughly involve both the Board and senior management and to provide adequate microfinance expertise.

It took considerable time to have specialised microfinance staff recruited. The initial disbursement of microfinance loans by regular staff without adequate efforts in group formation, client selection and monitoring (including field visits) as requested in microfinance led to problems and delayed the intervention.

Another lesson learnt considers the importance of appropriate timing and preparation of different components: The financial literacy component was positively influenced by the timing of its launch, i.e. when all modules and tools, the bank's own financial literacy team and separate microfinance staff were ready and the bank already had a pool of microfinance clients from which community leaders for providing trainers' training could be identified. Furthermore, the bank's financial literacy team was involved in the development of the modules and tools. All this led to a sense of ownership for the bank's training team. The successful implementation of the training was also covered by the local media which gave additional encouragement to the bank's training team and senior management to carry out such trainings in future.



ⁱ Sources: <http://www.worldbank.org/en/country/nepal/overview> (retrieved August 31, 2015) <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> (retrieved August 31, 2015).