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MINISTRY OF  
FINANCE  
Singhdurbar  
KATHMANDU, NEPAL

PROJECT ADMINISTRATION AND FINANCIAL MANAGEMENT REPORT  
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT  
CLUSTER PROGRAM I**  
(APRIL-JUNE 2009)

PREPARED BY  
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July 2009

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## 1. Summary

1. Implementation of the Rural Finance Sector Development Cluster Program I (RFSDCP I) started in November 2006 and series of activities / initiatives started after loan effectiveness in order to achieve intended goals. There exist evidences that the project has achieved desired results in all the five project components. For instance, the Government withdrew from refinancing and direct provisioning of credit to major RFIs, including the Agricultural Development Bank Limited (ADBL). The Government phased-out the priority sector lending scheme while continuing the deprived sector lending. Rural finance outreach is steadily improving and clients served by Rural Finance Institutions (RFIs) have reached to over 1,000,000 in 2009, an increase from 640,000 clients in 2004. Major RFIs<sup>1</sup> have achieved operating self-sustainability and financial self-sufficiency of 95% or above.

2. Nepal Rastra bank (NRB) is committed to improve its capacity to regulate and supervise RFIs. Process is underway to establish the National Banking Training Institute (NBTI) with leading commercial banks as promoters which is expected to provide capacity building training for RFIs. Pursuant to the legal and regulatory requirement of the central bank, most RFIs are adopting BASEL II standards. ADBL, all Microfinance Development Banks (MDBs) [except Grameen Bikas Banks (GBBs) and two apexes namely Rural Microfinance Development Centre (RMDC) and Small Farmer Development Bank (SFDB)], about 27 Financial Intermediary NGOs (FI-NGOs), over 200 rural Savings and Credit Cooperatives (SCCs) and 50 Small Farmers Cooperatives Limited (SFCLs) are providing savings, insurance and remittance services to their clients. A pilot crop insurance plan is developed by the Government and NRB, awaiting its pilot implementation.

## 2. Component Outputs

3. RFSDCP was designed with the ultimate goal of expanding the frontier of finance services adopting an integrated package of policy and institutional strengthening measures under a sector development cluster program approach that facilitate comprehensive reforms, with specific policy and institutional reform targets, while enabling flexible reforms according to changing political and economic conditions. It has five components: (i) favorable policy environment, (ii) institutional restructuring and reforms, (iii) supportive legal and regulatory framework, (iv) sector capacity building and (v) product and process innovations. A discussion on the status of program implementation as of June 2009 follows hereunder.

### 2.1 Favorable Policy Environment

4. Aligned with the Government's financial sector reform strategy, the program seeks to create favorable policy environment by (i) establishing a supervisory and regulatory system for RFIs, (ii) divest NRB shares in RFIs to legally defined level<sup>2</sup>, (iii) phase out government ownership of technically insolvent RFIs and (iv) discontinue application of interest rate ceilings to ADBL and SFDB. The program has demonstrated substantial progress in creating favorable policy environment.

5. In order to expand the frontier of financial services through enhanced institutional coordination and developing appropriate supervision and regulation for improved outreach of financial services for the poor through formal and semiformal MFIs<sup>3</sup>, NRB in coordination with the Government is currently working on developing the microfinance

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<sup>1</sup>These RFIs are Microfinance Development Banks except Grameen Bikas Bank (GBBs), financial intermediary NGOs, some Savings and Credit Cooperatives (SCCs) and Small Farmers' Cooperative Limited (SFCLs)

<sup>2</sup>The Nepal Rastra Bank Act, 2001 restricts NRB shareholding up to 10% of the equity of a financial institution.

<sup>3</sup>Fiscal year 2008 budget speech; semi-formal MFIs include approximately 4,500 microfinance NGOs and SCCs.

acts and bylaws consistent to the Microfinance Policy 2008. Government is in a process to gradually phase-out its ownership on three state-owned commercial banks and GBBs. As part of its ongoing reengineering initiatives, NRB has completely withdrawn its ownership in three GBBs and partially withdrawn its ownership in one GBB. Government phased-out priority sector lending requirements for commercial banks while expanding the scope of deprived sector lending requirements<sup>4</sup>.

## **2.2 Institutional Restructuring and Reforms**

6. As discussed already, institutional restructuring and reforms mainly relates to the restructuring and reforms of ADBL, SFDB and GBBs. A discussion on activities started in relation to institutional restructuring and reforms of ADBL, SFDB and GBBs during the reporting period follows hereunder.

### **2.2.1. Agricultural Development Bank Limited**

7. RFSDCP is supporting the reform and restructuring of Agricultural Development Bank Limited (ADBL)<sup>5</sup> to transform it into a viable and efficient RFI relevant to enhance access to finance to un-reached and contribute to poverty reduction. The restructuring under RFSDCP focused on the progressive divestment of the Government shares of ADBL, which is linked to performance improvement and commercialization eventually creating environment for privatization. The restructuring of ADBL is detailed in the Agricultural Development Bank Limited Restructuring Plan Implementation Guide (ARP)<sup>6</sup>. Important reform output targets are: (i) divestment of Government shares to the legally defined level under the Banks and Finance Institutions Act (BFIA) 2005, (ii) initiation of the initial public offering (IPOs), (iii) completion of a voluntary retirement scheme, and (iv) attainments of viable operations by meeting performance indicators and critical implementation targets set under ARP.

8. Series of reform initiatives was started in ADBL since November 2006. The government began the process of recapitalization to cover debt and authorized capital of NRs. 12 billion since May 2006 through the conversion of the then outstanding loan of the government with ADBL to preferential shares and is planning inject additional capital by subscribing to more preference shares subject to ADBL's ability to meet agreed performance benchmarks<sup>7</sup>. The Board of Directors (BOD) is constituted in accordance with BAFIA requirement, the Compliance Act and the Articles of Association, but there is a frequent change in BOD as a consequence of frequent changes in government due to political instability.

9. One international consultant [Chief Technical Advisor (CTA)] and four national consultants: Human Resource Management Specialist (HRMS), Marketing Specialist (MS), Account and Finance Management Specialist (AFMS) and Banking and IT Specialist (BITS) are assisting the bank to enhance the capacity on various aspects of its operation. Consultants are involved on different aspects of bank management during the reporting period. These activities are summarized hereunder.

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<sup>4</sup>Under Deprived Sector Lending, commercial banks, development banks and finance companies are required to invest 3 percent, 1.5 percent and 1 percent of the total deposits in deprived (i.e. microfinance) sector.

<sup>5</sup>ADBL was founded as the Agricultural Development Bank of Nepal (ADBN) under the ADBN Act, 1967 with the objective of contributing to the development of agriculture and improvement of living standards of the rural population.

<sup>6</sup>ADB. 2006. Report and Recommendation of the President on the Proposed Sector Development Program Cluster of Loans, Asian Development Fund Grant, and Technical Assistance Grant for Nepal: Rural Finance Sector Development Cluster Program Manila, Supplementary Appendix F.

<sup>7</sup>Progress since then has been the private placement of 5% of ordinary shares to Group NB shareholders and the bank is now preparing for the issues of 30% of ordinary shares for public subscription, and has appointed ACE Development Bank as issue manager in order to bring issue capital to NRs. 2.5 billion.

10. The CTA has mainly mentoring the works performed by the domestic consultants (HRMS, MS, AFMS and BITS) thereby assuring the quality of the output produced. The CTA has drafted a problem account management manual, cleared it from the working group and supported the working group to prepare the training materials. CTA worked as a member of the committee selecting an IT Project Manager to be responsible for CBS installation and commissioning. The recruitment has been completed and a contract has been signed. The new IT Project Manager is expected to join the bank in early August after completing his period of notice at his current employer's bank.

11. The HRM Specialist (HRMS) is conducting a review of ADBL HR policy and procedure, drafted revised policy and provided recommendations for changes to organizational structure in addition to examining bank's Service Rules. HRMS has identified the need of significant changes in Service Rules to ensure that the principles of merit become the sole criterion of HTM practices in the bank. HRMS has participated in a number of meetings at which HR management reform has been discussed with the CEO and with the management of the four unions operating in the bank. Getting agreement on change has been testing.

12. Marketing Specialist (MS) is working Planning Division Chief and preparing the central marketing plan for the bank in collaboration with marketing section in addition to suggesting the marketing tools for the development of new products and services better adapted to the needs of the market. The plan tries to determine the target segments the bank should address, refine this knowledge into a marketing plan to guide business managers in formulating business plans.

13. Account and Finance Management Specialist (AFMS) is working to develop an accounting policy, procedure manual to ensure accuracy, reliability and effectiveness of the accounting system. Accounting Policy is in process to board approval, finalized Payment Procedure Manual including payment sanction authorities and limits while Deposit Accounting manual has been drafted and currently being discussed. AFMS has also reviewed the existing accounting policies and procedures and redefine them to ensure their accuracy and reliability and proposed an exhaustive and detailed Chart of Accounts in line with NRB reporting requirements and proposed future CBS implementation. Account Codes are designed in such a way that it will be readily available for implementation in CBS application without delay. The Bank's current requirements and practices have also been kept into consideration while designing Account Codes. Bank branch reconciliation process has been reviewed and the process to ensure consistency and reliability across branches revised, and a plan to complete the pending branch reconciliation developed along with a scope of possibility of automated reconciliation system after observation of ledger entry systems and current manual reconciliation systems. The unique and specific transaction code has been defined for Inter office/ branch transactions for generating keys to match/ reconcile these transactions. After discussion with IT Division Head, Inter Office/Branch Reconciliation System has been decided to be refined from Mid July 2009 with the help of two software developers/programmers. With the approval of CEO, the special task has been given to these software developers (programmers) for designing reconciliation program for centralized inter office/ branch transactions. The programmers have also been given task to update the current main ledger accounting software to include the specific transaction code. Further, support has been provided to the bank for strengthening overall system and in line with preliminary report of external auditor, advice on reply to NRB Inspection Report and on appropriate and timely NRB statistics compilation.

14. Banking and IT Specialist (BITS) has prepared a preliminary financial evaluation report for the installation of CBS for contract negotiation which has been provided to the all procurement committee members for discussion in the meeting and got clearance on the same from the committee meeting. Further, compiled financial evaluation report was

prepared and provided to committee members including CTA for their review. Financial Proposal report prepared earlier was updated based on the feedback of the procurement committee and CTA. Procurement committee meeting approved the updated financial evaluation report and same was sent to ADB for their no objection. Positive response received from ADB on the same. BITS provided needed information and guidance in Technology related matters to Bank as and when necessary.

### **2.2.2.Small Farmers Development Bank**

15. The program targets to strengthen the SFDB and SFCLs to supplement ADBL's efforts to ensure that agriculture credit needs of small farmers are met adequately in areas that commercial banks do not consider viable. In addition, the transformation of SFDP into SFCLs and their links with SFDB was redesigned for expediting outreach to small farmers and local communities. Based on the diagnostic review of SFDB<sup>8</sup>, an SFDB restructuring plan was developed to enhance SFDB's viability and outreach to SFCLs with specific performance indicators. The restructuring assistance has prioritized strengthening SFDB's microfinance and banking operations, staff capacity building, and accounting and auditing. The reform output targets was (i) adoption of the SFDB restructuring plan, (ii) initiation of the restructuring process, and (iii) partial divestment of Government shares to the legally required level as set out in the BFIA. Series of reform initiatives was started in SFDB since November 2006 in their attempts to implement the SFDB restructuring plan. Three broader areas of support has been envisaged namely automation of MIS, restructuring and strengthening of SFCLs, and institution development of SFDB.

16. A Microfinance and Banking Operation Specialist (MBOS) is providing technical support to SFDB in this process since February 2009. During the reporting period, MBOS prepared draft procurement plan to procure and install MIS software for SFDB and its client MFIs and send to ADB-Manila for approval which is currently being reviewed; developed SFCLs restructuring and strengthening plan and incorporated the feedbacks and inputs of SFDB staff; and compiled the progress of SFDB and SFCLs in the areas of outreach, efficiency and profitability which has been used for preparing the future plan of SFDB restructuring in aspects such as automated MIS, strengthening capital base, human resource development, strengthening of SKBBL's business and restructuring SFCLs.

### **2.2.3.Grameen Bikash Banks**

17. Governance, institutional, and financial issues left unaddressed for a long period have reduced significantly the potential service delivery capacity of Grameen Bikash Banks (GBBs). RFSDCP is supporting the Government to complete the GBB divestment. Two GBBs (Eastern and Western) were privatized in June 2007, and another GBB (Central) was privatized<sup>9</sup> in 2008 and last one (Mid Western) was privatized in April 2009. The fifth GBB (Far Western) is insolvent. Government and the NRB have decided to initiate restructuring process by adopting time-bound business plans. There is little sign that the four already privatized GBBs has demonstrated improved efficiency and effectiveness after divestment of NRB share to strategic investors and GBBs clients.

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<sup>8</sup>ADB. 2003. Technical Assistance to the Kingdom of Nepal for Strengthening Selected Rural Financial Institutions (Co-financed by the Government of Germany). Manila (TA 4259-NEP, for \$515,000, approved on 16 December).

<sup>9</sup>Current NRB shareholdings are 10% in Western GBB and 68.5% in Far Western GBB.

### **2.3 Supportive Legal and Regulatory Framework**

18. During the reporting period, the Government and NRB are working on developing acts and bylaws consistent to Microfinance Policy 2007. The draft microfinance act has been prepared and currently being discussed among the key stakeholders.

### **2.4 Sector Capacity Building**

19. RFSDCP I is supporting the establishment of an autonomous National Banking Training Institution (NBTI) to address the capacity building needs of formal and semiformal RFIs for enhancing the access of rural communities to financial services as well as to help improve the financial literacy of rural communities.

20. NBTI has been incorporated as a private limited liability institute and has held the initial Board meetings needed to approve the vision and strategy statements, the recruitment of a CEO and the design of an appropriate logo. The CTA drafted the articles and memorandum of association and worked with the NBA Secretariat to persuade Class A banks to be founder shareholders and also attended the Board meetings to present the draft vision and strategy statements (which were approved) and has worked on the draft initial budget.

21. The CTA prepared the TOR, job description and invitation to apply for the post of CEO in NBTI. The advertisement has been published both locally and overseas and applications are being received at Nepal Bankers' Association. The CTA has drafted the procedures and records for the paper sift of the applications and for the interviews of short-listed candidates. The closing date for applications is 17 August 2009. The CTA has prepared the TOR for the post; these have been accepted by the NBTI Board. Recruitment will take place once the CEO has been mobilized.

22. NBTI is currently exploring the possibilities of obtaining licence from the Ministry of Education to operate as an instructional institution and the CTA supporting the institute in this process. No action has been taken in staff recruitment as the NBTI Board wishes major administrative decisions upon recruitment of the CEO. Pursuant to the indication of the ADB to support NBTI to draft business plan ahead of the mobilization of the CEO, CTA is currently working on preparing the business plan.

### **2.5 Product and Process Innovations**

23. The Government, jointly with NRB, has recruited international and national experts to develop pilot crop insurance plan. The report on pilot crop insurance plan has been prepared and a dissemination workshop was conducted during the reporting period. The action plan for pilot crop insurance scheme is being formulated jointly with Ministry of Agriculture and Cooperatives (MOAC), MOF and NRB.

## **3. Program Management**

24. The PMU has appointed Project Coordinator/Rural Finance Sector Specialist (PC/RFSS) who has been assisting the Program Director to coordinate, monitor, and supervise overall program implementation in cooperation and coordination with other staff in the PMU. A system of conducting the meeting of the consultants working in ADBL and SFDB has been instituted. PC/RFSS has been regularly contacting with PIU in ADBL, SFDB and NRB in addition to review of project performance consistent to the PAM and RRP.

### 3.1 Project Expenditures

25. RFSDCP comprises of a program loan of \$56 million and a project grant of \$8.7 million, supplemented by a TA grant of \$500,000.

26. Government used the program loan to recapitalize ADBL through cash subscription of additional preference shares, which has been divided into redeemable and irredeemable shares.

27. The project grant is being used to finance (i) consultants inputs for RFI restructuring for ADBL and SFDB, supportive legal and regulatory framework, sector capacity building, and product and process innovations; (ii) core banking system for ADBL, (iii) office equipment for ADBL, SFDB, supportive legal and regulatory framework, sector capacity building, and project management support, and (iv) a vehicle for sector capacity building.

28. Project steering committee has agreed to re-allocate the original allocation of project budget under consulting services thereby reducing the allocation on consulting services and increasing the allocation under equipments and training. Table 1 provides information on original and revised allocation of project expenditure and expenditure as of June 2009.

Table 1: Project Expenditures as of June 2009

Number	Items	Original Allocation (\$)	Revised Allocation (\$)	Expenditure as of June 2009 (\$)	Remarks
1	Equipment	5,152,900		6,626.00	
2	Vehicle	25,300		0.00	
3	Training	490,800		62,572.78	
4	Consulting services	2,555,700		0.0	
4a	International consultants	648,000		90,000.00	
4b	National consultants	1907,700		79,713.53	
5	Project Management Support	61,000		16,078.92	
6	Unallocated	414,300		0.00	
		8,700,000		254,991.23	

Note: Advances amounting US\$ 250,000 and US\$ 25,541.46 has been deposited in the second generation imprest account in ADBL and NBA respectively.

29. The project is rather slow on expenditure on grant. Only a fraction of the project grant has been used as of the June 2009.

### 3.2 Procurement

30. Using the allocated project grant, the program is supporting the procurement of goods, related services and works. The major share of grant resources are allocated for the procuring the CBS in ADBL and automation of MIS in SFDB. Other procurement includes procurement of equipment, vehicle, consulting (national and international) services and project management support.

### **3.2.1. Procurement of CBS in ADBL**

31. Process continued on the procurement of the CBS in ADBL adopting international competitive bidding. In order to procure the CBS for ADBL, bidding documents is prepare/finalize, potential bidders are clarified on bidding documents, bid evaluation methodology is prepared with required forms in accordance with ADB's procurement guidelines and bidding documents and evaluation of Technical Proposals was completed and Technical Evaluation Report was presented Bank's CBS Procurement Committee and ADB and approval received, financial evaluation report including financial proposal prepared and evaluation completed.

32. Two bids were received. One bid failed to comply with mandatory qualification requirements and was rejected. The remaining bidder's technical proposal was evaluated and was found to be substantially responsive to ADBL's requirements. ADB's no objection to an evaluation of this bidder's financial proposal was obtained.

33. The financial evaluation was completed at the end of May. The bidder's cost estimate for the installation of the CBS throughout ADBL was USD 15,620,888. Contract negotiation cannot start until ADB authorization has been received.

34. A report proposing the bidder be approached to agree modifications to cost and content was sent to ADB for approval. ADB's response was that, because the total cost estimate is in excess of USD 10 million (the ceiling for the procurement methodology applied), a case must be made to justify opening discussions on price and content modification with the bidder rather than re-issuing the invitation to bid.

35. A draft case was prepared, was discussed with the evaluation team, and was sent to ADB Manila where it has been placed before the ADB Procurement Committee. A decision is expected only after one month.

36. As the ADB Procurement Committee is unlikely to issue a decision in less than a month, a letter has been sent to the bidder JV of WorldLink and Temenos requesting an extension of the validity of the prices quoted in the JV's financial proposal. A response from the JV has yet to be received.

### **3.2.2. Automation of MIS in SFDB**

37. During the reporting period, The MBOS based in SFDB prepared draft procurement plan to for automation of MIS in SFDB and its client MFIs. The procurement plan has been send to ADB-Manila for review and approval. Expenditure for MIS in SFDB was created through re-allocation of consultancy inputs originally planned in SFDB. The process is currently pending awaiting ADB clearance. Considering the amount of cost estimates, MIS for SFDB will be procured through national competitive bidding.

### **3.2.3. Procurement of Vehicle**

38. The amount allocated for the procurement of vehicle for sector capacity building has not been used due to excessive time required on creation and operation of NBTI.

### **3.2.4. Procurement of Consulting Services**

39. The project was designed to finance approximately 26 person-months of international consulting services and 318 person-months of national consulting services to support implementation and provide capacity development support for institutional and policy reforms. The consultant recruitment process was initiated by the Government in March 2007 and was only completed in February 2009. Project Steering Committee

agreed to reduce the inputs of the national consulting services drastically in cognizance to the context, realities, need and functions that have already been taken by staff of the IAs. The project procured the services of Chief Technical Advisor (International), MIS Specialist (International) and seven national consultants: Internal Audit Specialist, Human Resource Management Specialist, Marketing Specialist, Account and Finance Management Specialist and Banking and IT Specialist (based in ADBL), Microfinance and Banking Operation Specialist (based in SFDB) and Program Coordinator/Rural Finance Sector Specialist (based in Ministry of Finance) to assist on different aspects of program implementation both from TA and grant.

### 3.3 Consultant Inputs

40. The project has used the 36 person month services of the international consultant and 59.5 person month services of the national consultants. Table 2 provides information on inputs of various consultants used by the project as of June 2009.

**Table 2: Consultant Inputs Used as of June 2009**

S.N.	Type of Experts	Revised inputs (Person months)	Used inputs (Person months)	Based on
	International Consultants			
1	Chief Technical Advisor	30	30	ADBL
2	MIS Specialist	6	6	ADBL
	Local Consultants			
1	Project Coordinator/Rural Finance Sector Specialist	15.5	3.5	MOF
2	Internal Audit Specialist	12	12	ADBL
3	Human Resource Management Specialist	16	5	ADBL
4	Account and Financial Management Specialist	16	4	ADBL
5	Marketing Specialist	12	10	ADBL
6	Banking and IT Specialist	24	20	ADBL
7	Microfinance and Bank Operation Specialist	12	5	SFDB

### 3.4 Highlights of Audit Report of ADBL and SFDB

41. Audit of overall operation and management of the ADBL and SFDB as well as program expenditure for FY 20064/65 was undertaken on time. In both the audit, the auditors have not raised any serious objections. Both ADBL and SFDB have already addressed the objections raised by the Auditors.

### 3.5 Disbursement

42. The project has disbursed 100% of the program loan while the project lagged significantly behind for the disbursement of project grant. Table 3 provides information on total disbursement of the project as of June 2009.

Table 3: Disbursement as of June 2009

Number	Items	Original Allocation (\$)	Disbursement	Remarks
A	Loan	56,000,000	56,000,000	
B	Grants			
1	Equipment	5,152,900	6,626.00	
2	Vehicle	25,300	0.0	
3	Training	490,800	62,573.78	
4	Consulting services	2,555,700	0.00	
4a	International consultants	648,000	90,000.00	
4b	National consultants	1907,700	79,713.53	
5	Project Management Support	61,000	16,078.92	
6	Unallocated	414,300	275,541.46	Advance deposited in the second generation imprest account in ADBL and NBA
		8,700,000	530,533.69	

43. As of June 2009, only US\$ 530,533.69 has been disbursed out of the project grant. Disbursement from grant has been delayed due to prolonged holdup on the procurement of the CBS, institutional development of NBTI including recruitment of CEO and training specialist through NBA and recruitment of the national and international consultants.

#### 4. Issues and Recommended Actions

##### 4.1 Issues

44. There are some issues inherent to project implementation that needs to be addressed for achieving the desired outcomes, purposes and goals of the project. Some of these issues are outlined hereunder.

45. *Procurement of CBS in ADBL*: The success on RFSCDP implementation is centered on the procurement, installation and operation of CBS, which has been delayed due to varied reasons. Despite delays, CBS procurement in ADBL has ended with no choice but procure it from one vendor i.e. JV of WorldLink and Temenos. Negotiation on financial proposal has not yet started while the prices quoted in the JV's financial proposal expire on 25 August 2009. There is a need to expedite the negotiation with the vendor and make the procurement decision at the earliest, preferably on or before August 25, 2009.

46. *Automation of MIS in SFDB*: Despite agreement in principles to re-allocate the budget under consultancy services for SFDB to procure the software to automate the MIS in SFDB, the process has been delayed awaiting review of performance on re-structuring in SFDB. The procurement plan to this effect has been prepared which is being reviewed by the CTA, PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II team. Any delay on deciding on the procurement of MIS in SFDB is likely to create confusion on staff and consultant working in SFDB.

47. *Re-structuring of GBBs*: Under this project, government and NRB has been quite-effective to privatize four GBBs as re-structuring initiatives. There is still government share yet to be divested to ensure that GBBs are fully managed by private investors. Further, little is known on post privatization performances of these GBBs and there is mixed reaction from key stakeholders of the microfinance sector on their efficiency and

effectiveness. The GBB yet to be privatized (far-western GBB) is almost insolvent and decision to this effect needs to be made without further delay. Further, re-structuring of the GBBs need to re-defined under new context.

48. *Duplication of activities (SME finance in ADBL and Microfinance by SFDB):* One of the covenants that ADBL had complies to be eligible for borrowing the second trench has been the completion of the phasing-out of the Small Farmer Development Program. This eventually means that ADBL should phase-out its microfinance operation and channel the microfinance services through SFDB. In contrast, ADBL has created SME division<sup>10</sup> that is providing wholesale lending facilities to SFCLs promoted by ADBL, which are also the partner MFIs of the SFDB. It is irony that the interest rate (9% p. a.) charged by ADBL under SME scheme to partner SFCLs is significantly lower than the interest rate (9.5% p. a.) charged to SFCLs by SFDB. There is duplication on access to financial services extended by the SME division of ADBL and SFDB.

49. *Product and Process Innovations:* Scope of product and process innovations component has been limited and requires renewed focus on new product development, diversification of products and services and expansion of services in inaccessible hills and mountains where enhancing access to financial services has been a challenge to different financial service providers.

50. *Absorption of Technical Services provided by Consultant:* A number of international and national consultants in the past as well as at present providing technical support on different aspects of ADBL and SFDB management to enhance their technical capacity. There are cases where consultants are working either in isolation or the counter-part staff are not expressing interest on the consultant's work. Division Chief and staff of the concerned division are not fully aware on the type of output that the consultant is expected to produce and extent to which this will meet their expectation and priorities. There is less than adequate effort to ensure ownership of the consultant's work by concerned division.

51. *Operation of National Banking Training Institute:* Despite being promoter of the NBTI, key actors of the Nepalese financial sector lack shared vision on rationale of the NBTI, its operational mechanism and extent to which NBTI will meet their capacity development needs. Operation of NBTI has been delayed due to delay on recruitment of CEO and completion of other formalities to operate as educational institution including affiliation with universities and accreditation process.

## 4.2 Recommended Actions

52. Any delay on addressing the outstanding issues outlined above will eventually affect the smooth implementation of the project and these issues should be addressed systematically. Table 4 outlines the key actions recommended for effective project implementation.

Table 4: Recommended Actions

S.N.	Recommended actions	Responsibilities		Time-line
		Primary	Support	
1	Procurement of CBS in ADBL			
	Request to the vender to extend the validity of Financial Proposal	Procurement Committee	CTA	31/07/09
	Negotiation with Vendor	Procurement Committee	CTA	31/07/09

<sup>10</sup>Contrary to the conventional notion that SME relates the small and medium enterprise finance, ADBL is defining it as small and micro enterprise finance and undertaking the business through SFCL.

S.N.	Recommended actions	Responsibilities		Time-line
		Primary	Support	
	Staff training on computer application	IT Project Manager	CTA	31/12/09
	Pre-procurement management	IT Division	CTA	31/10/09
2	Automation of MIS in SFDB			
	Meeting with SFDB on MIS need	PPTA Team	PC/RFSS	15/08/09
	Review of the procurement plan	PPTA Team	MBOS	15/08/09
	Decision on automation of MIS in SFDB	PPTA Team, CTA	ADB	31/08/09
3	Re-structuring of GBBs			
	Decision on privatization of far-western GBB	MFD/NRB	MOF	31/12/09
	Review the performance of GBBs after divestment	MFD/NRB	MOF	31/12/09
	Re-structuring plan for GBBs	PPTA Team	MFD/NRB and MOF	30/11/09
4	Duplication of activities (SME finance in ADBL and Microfinance by SFDB)			
	Review the scope of SME operation in ADBL	CTA, HRMS	PC/RFSS	31/08/09
	Policy on small and medium enterprise (SME) lending	BDS	CTA	30/09/09
	Phasing out of micro-enterprise lending by ADBL to SFCL	ADBL	CTA	31/12/09
5	Product and Process Innovations			
	Training on market led-approach to new product development and processing mapping to selected MFIs	MFD/NRB	PC/RFSS	31/12/09
	Technical support to new product development and process refinement	MFD/NRB	PC/RFSS	31/12/09
	Piloting of crop insurance scheme	MOAC	Selected MFIs	31/12/09
6	Absorption of Technical Services provided by Consultant			
	Consultative meeting with consultant and concerned division in ADBL and management in SFDB	CTA	PC/RFSS	15/08/09
	Identification of counter-part staff for each consultant	ADBL	CTA	31/08/09
7	Operation of National Banking Training Institute			
	Recruitment of CEO and training consultant	NBTI	CTA	30/09/09
	Business plan for NBTI	CTA	NBA	31/08/09
	Recruitment of support staff	NBTI	CEO	31/10/09
	Design of training curricula	CEO	CTA	31/12/09
	Accreditation with universities (national, regional and global level)	CEO	CTA	31/03/09
	Develop certification process	CEO	CTA	31/12/09

Note: CTA = Chief Technical Advisor, CEO = Chief Executive Officer, NBTI = National Banking Training Institute, PC/RFSS = Project Coordinator/Rural Finance Sector Specialist, MOAC = Ministry of Agriculture and Cooperatives, HRMS = Human Resource Management Specialist, MFD/NRB = Microfinance Department / Nepal Rastra Bank, MBOS = Microfinance and Banking Operation Specialist, ADB = Asian Development Bank.