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MINISTRY OF
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KATHMANDU, NEPAL

PROJECT ADMINISTRATION AND FINANCIAL MANAGEMENT REPORT
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT
CLUSTER PROGRAM I**
(April-June 2010)

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MINISTRY OF FINANCE**

July 2010

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Abbreviations

ADB	Asian Development Bank
ADBL	Agriculture Development Bank Limited
AFMS	Account and Financial Management Specialist
CEO	Chief Executive Officer
CTA	Chief Technical Advisor
CBS	Core Banking System
DGM	Deputy General Manager
GBB	Grameen Bikas Bank
HRIS	Human Resource Information System
HRMD	Human Resource Management Division
HRMS	Human Resource Management Specialist
IT	Information Technology
KPIs	Key Performance Indicators
MOF	Ministry of Finance
MS	Marketing Specialist
NBA	Nepal Bankers' Association
NBTI	National Banking Training Institute
NRB	Nepal Rastra Bank
PPTA	Project Preparatory Technical Assistance
RFSDCP	Rural Finance Sector Development Cluster Program
SFDB	Small Farmers' Development Bank
STI	Second Tier Organization
TA	Technical Assistance

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 on achieving the intended goals. The project consists of five components and the results are vivid in all five components. For instance, the Government withdrew from refinancing and direct provisioning of credit to major RFIs, including Agricultural Development Bank Limited (ADBL). The Government phased-out priority sector lending scheme while continuing deprived sector lending. Rural finance outreach is steadily improving and clients served by Rural Finance Institutions (RFIs) have reached to over 2.0 million savings clients and 1.8 million loan clients, an increase from 640,000 clients in 2004 (Microcredit Summit 2010). Major RFIs¹ have achieved operating self-sustainability and financial self-sufficiency of 95% or above.

2. There has been improvement on capacity of the Nepal Rastra bank (NRB) to regulate and supervise RFIs. National Banking Training Institute (NBTI) established by the leading commercial banks have commenced implementation of high quality training programme on bank operation and management. Most RFIs are adopting BASEL II standards. ADBL, all Microfinance Development Banks (MDBs) [except Grameen Bikas Banks (GGBs) and two apexes namely Rural Microfinance Development Centre (RMDC) and Small Farmer Development Bank (SFDB)], over 2 Financial Intermediary NGOs (FI-NGOs), over 1,000 rural Savings and Credit Cooperatives (SCCs) and 123 Small Farmers Cooperatives Limited (SFCLs) are providing savings, insurance and remittance services to their clients.

2. Component Outputs

3. The goals of the RFSDCP are to (i) ensure sustainable access of rural households to institutional financial services, and (ii) encourage private sector participation in the RF sector. Its objective is to develop a sustainable RF system to generate income and reduce poverty among the rural households. Considering the comprehensiveness required on the reform initiatives and medium-term approach to institutional reforms, RFSDCP was structured in two sequential subprograms under the program cluster modality. The sub-program I is on-going and will be over in June 2011. The objective of subprogram I have been to develop an enabling RF sector framework through policy, legal, regulatory and institutional reforms. The subprogram II has been already processed and currently at agreement phase. As a continuation of subprogram I, subprogram II seek to promote enabling sector environment, expand sound RF outreach, and enhance private sector participation in RF sector.

4. The program components of RFSDCP are (i) policy reforms to create an enabling RF sector environment, (ii) restructuring and reforms of RFIs, (iii) supportive legal and regulatory framework, (iv) sector capacity building, and (v) product and process innovations. The policy reforms are to deregulate and liberalize RFIs to limit Government interventions and to increase private sector participation. RFSDCP supports fundamental reform and restructuring of major RFIs such as ADBL, SFDB and GGBs and eventually their privatization.

5. The RFSDCP I emphasized on consolidating fragmented RF regulatory framework, initiating commercialization of RFI operations and upgrading sector capacity. The ADB provided a loan of \$56 million from the Asian Development Fund for RFSDCP I, with a loan term of 24 years, including a grace period of 8 years, at an interest rate of 1.0% during the grace period and 1.5% thereafter.

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

6. Implementation of RFSDCP I started in November 2006 and will be completed in June 2011. The program loan under RFSDCP I were released in two tranches over 2 years. The first tranche of \$40 million was released upon loan effectiveness, while the second tranche of \$16 million was released about 12 months after the release of the first tranche.

7. The Ministry of Finance (MOF) is the Executing Agency of the Project and Nepal Rastra Bank (the central bank), ADBL, SFDB and NBTI are the implementing agencies. MOF has set-up the Project Management Unit (PMU) headed by Project Director (Joint Secretary, Economic Affairs and Policy Analysis Division) to coordinate and monitor the overall project management and each implementing agencies have created a Project Implementation Unit (PIU) headed by head/Chief Executive Officer (CEO) or his designates (senior staff). MOF has constituted a program steering committee comprising the PIU directors and representatives from MOF and other Government agencies for interagency coordination and provide required technical support for programme implementation.

8. RFSDCP – I consists of a grant component amounting US\$ 8.7 million ADB's Asian Development Fund resources to support the Government's RF sector reform efforts by facilitating institutional reform and restructuring of key RFIs and improving sector capacity and governance. The Executing Agency, Implementing Agencies and implementation arrangements for the project grant are the same as the program loan. The disbursement of project grant will be officially closed on 30 June 2011.

9. A discussion on status of component outputs of RFSDCP I as of June 2010 follow hereunder.

2.1 Favorable Policy Environment

10. 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 level², (iii) phase out government ownership of technically insolvent RFIs and (iv) discontinue application of interest rate ceilings to ADBL and SFDB. There has been substantial progress in creating favorable policy environment.

11. The reforms measures pursued throughout RFSDCP revolved around (i) ensuring the full enforcement of the debt recovery law for willful defaulters; (ii) promoting lending from formal and semiformal RFIs to CBOs; (iii) divesting the Government shares and increasing participation of the private sector in ADBL and SFDB; and (iv) discontinuing Government interventions in ADBL and SFDB to implement financially or economically unsound concessions, write-offs, or waivers.

12. In order to enhance access to financial services through improved institutional coordination and supervision and regulation from formal and semiformal RFIs³, NRB has drafted microfinance act consistent to Microfinance Policy 2008. Government is gradually phasing-out its ownership on three state-owned commercial banks and GBBs⁴. Government phased-out priority sector lending requirements for commercial banks and expanded the scope of deprived sector lending (DSL) requirements⁵.

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

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

⁴As part of its ongoing reengineering initiatives, NRB has completely withdrawn its ownership in three GBBs and partially withdrawn its ownership in one GBB.

⁵Monetary Policy 2009 requires commercial banks, development banks and finance companies to disburse 3%, 2% and 1% of their total loan portfolio in deprived (i.e. rural finance) sector under DSL requirement.

2.2 Institutional Restructuring and Reforms

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

2.2.1. Agricultural Development Bank Limited

14. RFSDCP support to reform and restructure ADBL⁶ focused on its transformation 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 progressive divestment of Government shares of ADBL, which is linked to performance improvement, commercialization and eventually creating environment for privatization. The restructuring of ADBL is detailed in ADBL Restructuring Plan (ARP)⁷ Implementation Guide. 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.

15. Series of reform initiatives started in ADBL since November 2006. Government began the process of recapitalization to cover debt and authorized capital of NRs. 12 billion since May 2006 through the conversion of it's the then outstanding loan with ADBL to preferential shares and is planning to inject additional capital by subscribing more preference shares subject to ADBL's ability to meet agreed performance benchmarks⁸. The Board of Directors (BOD) is constituted in accordance with BAFIA requirement, the Company Act and the Articles of Association. The efforts however suffered due to frequent change in BOD pursuant to changes in government due to political instability.

16. A team of two consultants: Human Resource Management Specialist (HRMS) and Account and Finance Management Specialist (AFMS) under grants and six consultants: Commercial Banking Specialist/Chief Technical Advisor, Treasury Specialist, Risk Management Specialist, Business Process and Portfolio Management (BPPM) Specialist, Trade Finance Specialist and Training Specialist under TA 4857 NEP are assisting ADBL to enhance its financial, operational and management capacity on different aspects. Consultants has supported on different aspects of ADBL management during the reporting period. These activities are summarized hereunder.

17. During the reporting period, CTA working under TA 4857 NEP was unable to work for the first six weeks of the reporting period owing to an eye infection that was persistent and made reading and writing difficult at best and frequently not possible. Activities performed by the CTA can be grouped into following.

18. CTA prepared proposal for functional stream training and submitted by CSC to ADB and ADBL. The proposal remains under review by both.

⁶ADBL was founded as the Agricultural Development Bank of Nepal (ADBN) under the ADBN Act, 1967 with the objective of contributing to developing agriculture and improving living standards of rural population.

⁷ADB. 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.

⁸Progress 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.

19. On HR management CTA revised career paths and prepared minimum entry criteria. These documents are kept on hold while other facets of the HR management task - job descriptions, HR plan, HR policy revision - were undertaken. The CTA also drafted some part of Medium Term Training Plan (MTTP) but remain incomplete while clearance of the job descriptions, career paths and minimum entry criteria is sought. A first draft of the revised Service Rules has been completed. This is now under review and editing. Further, a draft HR Plan has been prepared which is under review by HRM Division.

20. The CTA supported for BPPM on (i) strategy and policy approval which is being reviewed by a Board of Directors sub-committee, (ii) problem credit account management manual which is being reviewed by the Chiefs of Credit and Risk Assets Management divisions, (iii) credit manual upgrading and (iv) Branch Management Division's mandate formulation which is in process to finalization.

21. There has been daily contact of the CTA with the other TA specialists to discuss, and to edit framework documents, procedure manuals, and training schedules and materials, and attending training conducted by them.

22. During the reporting period, HRM Specialist (HRMS) participated in a number of meetings with ADBL management, staff unions, etc. to discuss on various issues related to reform on HR management system, staff service rules, job descriptions of the key staff positions, etc.

23. Account and Finance Management Specialist (AFMS) finalized cash account manual, general ledger accounting manual, guarantee account manual, staff accounting manual, bills and remittance accounting manual, loan and advances accounting manual, etc. and consolidated all these manuals into a single comprehensive accounting manual. Accounting policy prepared by AFMS has been approved by the BoD of the ADBL and currently implemented. Other manuals are in queue for approval by the bank management which will be implemented upon approval.

24. Under TA 4857 NEP, specialists in Rural Finance Regulation, Management Information System, Treasury, Risk Management, Business Process and Portfolio Management, Trade Finance and Training were mobilized. The team worked with concerned divisions of ADBL and implementing various activities outlined in the inception report.

25. Input of rural finance regulation specialist is currently pending. Discussion with the Microfinance Department at NRB indicated that the Microfinance Act, which is central to the specialist's input, has completed its review at the Ministry of Finance, and has now been passed to the Ministry of Legal Affairs for clearance. Once cleared by the Ministry of Legal Affairs, the document will go to Parliament for enactment but, because the budget has priority, it is unlikely that the Act will be approved for some time. NRB does not anticipate any movement towards establishment of the Second Tier Institution within the tenure of the TA.

26. There has been some doubt on the part of ADBL as to the practical value of the MIS specialist's input as the CBS software will include an integral MIS component and a linked programme to cover a broad range of data analytics and report writing.

27. BPPM specialist drafted strategy and policy for business process and portfolio management, prepared manual on problem loan account management, assisted to upgrade the credit manual, prepared unit mandates and reviewed/updated portfolio management policy. The business strategy and policy for business process and portfolio management has been drafted and has undergone extensive discussion with Credit

Division and DGM Operations but has yet to be sent to the Board for approval. Problem loan account management manual has been cleared by a small working group comprising persons from Credit, Branch Management and Risk Assets Management divisions and is now under discussion with the chiefs of these divisions. The upgrading of credit manual and a draft revised manual are in progress. The specialist conducted review of the portfolio management policy and the specialist is of the opinion that there is currently no need for revision.

28. Throughout the reporting period, Risk Management Specialist (RMS) attended Central ALCO meetings regularly, agreed modifications needed in policies and procedures for ALCO and LPMC operations, worked on revision of risk management policy statement and an upgrading of risk management manual, and contributed to resuming LPMC meetings which was not held in ADBL for more than a year. RMS supported approval of ALCO and LPMC frameworks, is about to complete the procedure manual, drafted training materials for risk management and conducted a symposium for trainers' preparation. RMS has conducted on-the-job (OTJ) at head office wherever the ALCO and/or LPMC have been convened. However, it has not yet been possible to take the training to the regions.

29. Trade Finance Specialist (TFS) reviewed the guarantee activities, conducted OTJ for guarantee activities in various branches, prepared report of field visits on guarantee transactions, recommended to update guarantee manual, commissioned discussion on (i) trade finance strategy and policy in the board and subcommittee and (ii) L/C manual with management and comprehensive training on L/C. TFS completed the strategy and policy on trade finance operation along with mandate and job description. TFS also assisted IT Division with the preparation of letters of credit needed for the procurement of goods and services for the CBS installation.

30. Training Specialist (TS) conducted TOT (Teaching) courses in Dhangadhi and Letang but his work has not moved much further forward as he has been unavailable for work since returning to Kathmandu owing to bad health.

31. Treasury Specialist prepared a comprehensive strategy and policy documents, discussed and submitted to the board for approval as per the schedule time. He developed an appropriate organisational structure with unit mandates and job descriptions to undertake full-fledged treasury activities – a comprehensive manual, organization structure with unit mandate, prepared and submitted to Treasury Division for review as per schedule time; provided OTJ and classroom sessions to treasury division personnel and training on manual continues and conducted 3 training sessions at BODE. Outstanding work of the specialist with priority includes: approval of policy documents by the Board, approval and implementation of manual and organization structure, organization of core training course, foreign exchange Operation and OTJ and classroom session for Forex.

2.2.2.Small Farmers Development Bank

32. The program targets to strengthen SFDB and SFCLs to supplement ADBL's efforts to ensure that agriculture credit needs of small farmers are met adequately in areas where commercial banks do not consider their operation to be viable. In addition, transformation of SFDP into SFCLs and their links with SFDB was redesigned for expediting outreach to small farmers and local communities. The SFDB Restructuring Plan prepared based on the diagnostic review of SFDB⁹ seek to enhance its viability and outreach to SFCLs with specific key performance indicators (KPIs). The restructuring

⁹ADB. 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 2003).

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 SFDB restructuring plan, (ii) initiation of restructuring process, and (iii) partial divestment of Government shares to legally required level as set out in the BFIA. Series of reform initiatives was started in SFDB since November 2006 as part of implementation of the SFDB restructuring plan.

33. SFDB's reform initiatives can be broadly grouped into three viz. automation of MIS, restructuring and strengthening of SFCLs, and institution development of SFDB. A Microfinance and Banking Operation Specialist (MBOS) is providing technical support to SFDB in this process since February 2009.

34. During the reporting period, MBOS supported to (i) compile and develop the operational manuals and guidelines, (ii) revise business plan, (iii) procure hardware and software, (iv) hire local consultant to support in software and hardware procurement process, (v) develop website of SFDB, (vi) restructure SFCLs, and (vi) developed training manual.

35. All the area offices of SFDB have been implementing SFCL Restructuring plan. The ailing SFCLs have started to revive and gradually improving their business. Capable SFCLs are continuously increasing their outreach and expanding business within and adjoining VDC. Number of good performing SFCLs (A and B grade) increased from 137 to 164 (From July 15 2008 to July 14 2009). SFDB has reached around 156,721 clients through 232 partner microfinance institutions (mainly small farmer cooperatives). During the last 4 years the bank has shown an impressive growth rate (about 83%) in expanding outreach of microfinance services in rural Nepal.

36. SFDB is gradually using outputs produced by MBOS for its enhanced operational and financial performance. To start with, lending guidelines is used for on-lending to seven non-SFCLs. It is implementing SFCL restructuring plan and using the manual on business planning and institutional assessment for day to day operation. It has been planning to implement a pilot project to expand the microfinance services in hills.

2.2.3. Grameen Bikash Banks

37. There is no significant work done on restructuring of GBBs during reporting period. NRB is working to divest its shares in the Far Western GBB to the level defined in the NRB Act and eventual privatization of Far Western GBB. Monetary policy of GON announced by NRB for FY 2009/10 has outlined divestment of far western GBB and its privatization as one of the activities. The preparatory work on privatization of far western GBBs has been completed but actual privatization process is yet to be started.

2.3 Supportive Legal and Regulatory Framework

38. During the reporting period, there has been no significant work on supporting legal and regulatory framework on rural finance operation. MOF has forwarded the microfinance act drafted by the NRB to Ministry of Law and Justice for proper formatting and processing for enactment by the parliament. The draft act seek to establish the Microfinance Development Authority as a second tier institution to regulate and supervise the microfinance operation.

2.4 Sector Capacity Building

39. RFSDCP I supported to establish National Banking Training Institution (NBTI) as an educational institution under Nepal's Company Act to address capacity building needs of formal and semiformal RFIs for enhancing access of rural communities to financial

services and improve financial literacy of rural communities. Bankers' Association of Nepal led the establishment of NBTI with share capital from all commercial banks. CEO for NBTI was recruited from open competition. Draft business plan for NBTI is prepared and management for course curriculum, materials, library, training of trainers, and equipment is underway. NBTI has also started actual training course. NBTI is currently working to obtain licence from Ministry of Education to operate as an instructional institution. NBTI has also recruited few support staff.

40. During the reporting period, CTA working under TA 4857 NEP assisted the NBTI Board to complete the recruitment of some of the administrative personal. For lack of funds equipment procurement and Kathmandu Centre establishment within NBTI have been put on hold. CTA also met with the Director for Corporate Training at the Institute for Financial Studies (formerly the Chartered Institute of Bankers) in London to explore possibility of NBTI affiliating with IFS in order to make access to IFS modular diploma/degree courses possible through NBTI. IFS Board was unwilling to extend help at this early juncture of NBTI's operation and will be providing advice and materials for short courses.

41. During the reporting period, NBTI has organized the meeting of the HR club, conducted training on (i) personal and inter-personal effectiveness, (ii) bank risk management, (iii) strategy execution, and (iv) customer service excellence. It has planned for the visit to reputed training institutions in India, Bangladesh and Sri Lanka for its possible collaboration for diploma, degree and other short term professional training on banking and finance.

2.5 Product and Process Innovations

42. There has been no work on product and process innovations during the reporting period. The component has been currently suspended for further intervention.

3. Program Management

43. PMU appointed Project Coordinator/Rural Finance Sector Specialist (PC/RFSS) continued assisting Program Director to coordinate, monitor, and supervise overall program implementation in cooperation and coordination with other staff in the PMU. A system of conducting monthly and quarterly review meeting was instituted in ADBL and SFDB. PC/RFSS regularly contacted PIU in ADBL, SFDB and NRB in addition to review of project performance consistent to the PAM and RRP.

3.1 Project Expenditures

44. 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.

45. Government used program loan to recapitalize ADBL through cash subscription of additional preference shares, which has been divided into redeemable and irredeemable shares. The project grant is being used to finance (i) consultants inputs for RFI restructuring; (ii) procurement of CBS for ADBL and MIS for SFDB, (iii) office equipment for RFIs, and (iv) a vehicle for NBTI and ADBL.

46. Project steering committee has agreed to re-allocate 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 2010

Number	Items	Original Allocation (\$)	Revised Allocation (\$) January 2008	Revised Allocation (\$) June 2010	Expenditure as of June 2010 (\$)*	Expenditure as a percent of total budget
1	Equipment	5,152,900	6,860,746	7,114,403	596,461	8.4
2	Vehicle	25,300	25,300	117,000	-	0.0
3	Training	490,800	490,800	593,207	75,336	12.7
4	Consulting services	2,555,700	847,854	644,652	294,306	45.7
4a	International consultants	648,000	278,363	90,000	83,069	92.3
4b	National consultants	1,907,700	569,491	554,652	211,237	38.1
5	Project Management Support	61,000	61,000	230,738	36,719	15.9
6	Unallocated	414,300	414,300	-	-	-
		8,700,000	8,700,000	8,700,000	1,002,822	11.5

47. The project is rather slow on expenditure on grant. Only 11.5% of the total grant has been used as of the June 2010.

3.2 Procurement

48. Using the allocated project grant, the program is procuring 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

49. Process continued on procuring the CBS in ADBL adopting international competitive bidding, the procurement process was finalized and agreement signed between ADBL and Wlink/Temanous for CBS supply, installation and operation. Operation of the CBS will be started in 2010.

3.2.2. Automation of MIS in SFDB

50. Procurement plan for automated MIS in SFDB was progressed and approved during reporting period. A procurement committee has approved the procurement of the software and hardware in SFDB and installation process is ongoing.

3.2.3. Procurement of Vehicle

51. Project Steering Committee has agreed the procurement of a vehicle in ADBL and NBTI amounting US\$ 117,000 to facilitate and expedite project implementation and ADBL has procured the vehicle. Both NBTI and ADBL are currently in process to procure the vehicle.

3.2.4. Procurement of Consulting Services

52. 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 reduced the inputs of national consulting services to 120 person months in cognizance to the context, realities, need and functions that have already been taken by staff of the IAs. The consultants recruited in the last reporting period continued their services during this reporting period.

53. **Consultant Inputs:** The project has used 36 person month services of the international consultant and 119 person month services of national consultants. Table 2 provides information on inputs of various consultants used by the project as of June 2010.

Table 2: Consultant Inputs Used as of June 2010

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
	Total	36	36	
	Local Consultants			
1	Project Coordinator/Rural Finance Sector Specialist	16	14	MOF
2	Internal Audit Specialist	12	12	ADBL
3	Human Resource Management Specialist	16	16	ADBL
4	Account and Financial Management Specialist	16	16	ADBL
5	Marketing Specialist	12	12	ADBL
6	Banking and IT Specialist	24	20	ADBL
7	Microfinance and Bank Operation Specialist	12	17	SFDB
8	IT Project Manager	12	12	ADBL
		120	119	

54. Considering the emerging need for the consultant services for coordination and smooth project implementation, the project steering committee meeting in June 2010 has agreed to extend the services of the Project Coordinator/Rural Finance Sector Specialist and IT Project Manager till June 2011.

55. **Outputs Produced by the Consultant:** The consultants have produced different outputs during their tenure in this project. Information on type of outputs produced by the consultants and their use by host organisations is provided in Appendix 1.

56. **Consultant's Planned Outputs and Deadlines:** All consultants working in the project either under TAs or grants was asked to provide outputs that they are producing under this assignment along with deadlines in order to ensure transparent monitoring of consultant's outputs. Information on planned outputs and deadlines of each consultant is provided in Appendix 2.

57. **Reporting Arrangements:** In order to ensure effective and efficient monitoring of consultants work, a system of monthly and quarterly reporting was introduced. In general, monthly reporting is done verbally in a meeting between concerned DCs, the consultants, Director / PIU with one person to record the proceedings and the record when edited becomes monthly report for work in concerned host institutions. On the other hand, quarterly reporting is a combination of verbal and written reporting at a meeting between DGMs, concerned DCs, the consultants and PC/RFSS with someone to record the meeting, specifically the Q&A part of the meeting. The consultants will prepare brief reports based on reporting format which will be circulated before the meeting. This arrangement is being effective from January 2009.

3.3 Disbursement

58. Program loan was disbursed 100% 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 2010.

59. As of June 2010, only US\$ 883,033 was disbursed out of the project grant. Disbursement from grant was delayed due to prolonged holdup on CBS procurement, institutional development of NBTI including recruitment of CEO and training specialist and recruitment of national and international consultants for ADBL, SFDB and NRB.

Table 3: Contract Awards and Disbursement as of June 2010

Account head	Allocation (June 2010) (\$)	Contracts Awards (\$)	Disbursed Contracts (\$)	Undisbursed contracts (\$)	Uncommitted Amount (\$)	Undisbursed Amount (\$)
Equipment	7,114,403	6,727,529	596,461	6,131,068	386,874	6,517,942
Vehicle	117,000	-	-	-	117,000	117,000
Training	593,207	114,589	75,336	39,253	478,618	517,871
Consulting services	644,652	573,967	294,306	279,661	70,685	350,346
International consultant	90,000	95,000	83,069	11,931	(5,000)	6,931
National Consultant	554,652	478,967	211,237	267,730	75,685	343,415
Project Management Support	230,738	108,537	36,719	71,818	122,201	194,019
Unallocated	-	-	-	-	-	-
	8,700,000	7,524,622	1,002,822	6,521,800	1,175,378	7,697,178

3.4 Highlights of Audit Report of ADBL and SFDB

60. Audit of overall operation and management of the ADBL and SFDB for FY 2009/10 was undertaken in time and audit of impress account for FY 2009/10 was delayed due to lack of clear understanding on audit process. Auditors have not raised the serious objections on audit report of ADBL and SFDB and they have already addressed their objections.

4. Issues and Recommended Actions

4.1 Issues

61. 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.

62. *Expedite the approval of the policy statement from ADBL BOD:* Consultants working in ADBL has prepared several policy statements on treasury, trade finance, human resource management, risk management, medium term career planning, human resource planning and business process and portfolio management, etc. Further work on these documents (i.e. manual preparation and training) has been constrained due to delay on approval of these policy statements by ADBL BOD. ADBL management should expedite the process of approval of these crucial documents from BOD.

63. *Procurement of CBS in ADBL:* The success on RFSCDP implementation is centered on the procurement, installation and operation of CBS. Operation and installation of CBS has been delayed due to varied reasons. There is a need to expedite installation and of the CBS.

64. *Automation of MIS in SFDB:* SFDB should expedite the procurement of the MIS software in order to enhance efficiency and effectiveness on its operation.

65. *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 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 stakeholders 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.

66. *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 SFDP which eventually means that ADBL should phase-out its microfinance operation and channel microfinance services through SFDB. In contrast, ADBL has created SME division¹⁰ that is providing wholesale lending facilities to SFCLs promoted by ADBL, which are also the partner MFIs of SFDB. It is irony that interest rate (10.5% p. a.) charged by ADBL under SME scheme to partner SFCLs is significantly lower than interest rate (11% p. a.) charged to SFCLs by SFDB. There is duplication on access to financial services extended by SME division of ADBL and SFDB. This issue needs immediate attention.

67. *Absorption of Technical Services provided by Consultant:* A number of international and national consultants in the past and at present provide 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 counter-part staff is not interested on consultant's work. Staff of the host organization is not fully aware on type of output that consultant will be producing and extent to which such an output will meet their expectation and priorities. There is less than adequate effort to ensure ownership of consultant's work by concerned RFIs.

68. *Operation of National Banking Training Institute:* Despite being promoter of NBTI, key actors of the Nepalese financial sector still lack shared vision on its rationale, scope of work, operational mechanism and extent to which NBTI will meet their capacity development needs.

¹⁰Contrary 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.

4.2 Recommended Actions

69. Any delay on addressing outstanding issues outlined above will affect the implementation of the project and delivery of project outputs. Hence, these issues should be addressed systematically. Table 4 outlines key actions recommended for effective project implementation.

Table 4: Recommended Actions

S.N.	Recommended actions	Responsibilities		Time-line
		Primary	Support	
1	Expedite the approval of policy statement from ADBL BOD			
	Policy statement on treasury management	Concerned DC	TS	31/07/2010
	Policy statement on trade finance	Concerned DC	TFS	31/07/2010
	Policy on HR Management	Concerned DC	CTA	31/07/2010
	Policy statement on risk management	Concerned DC	RMS	31/07/2010
	Medium term career planning	Concerned DC	CTA	31/07/2010
	Human resource planning	Concerned DC	CTA	31/07/2010
	Policy statement on business process and portfolio management	Concerned DC	BPPMS	31/07/2010
2	Procurement of CBS in ADBL			
	Staff training on computer application	IT Project Manager	CTA	31/12/10
3	Automation of MIS in SFDB			
	Staff training on computer application	SFDB	ADB	30/09/10
4	Re-structuring of GBBs			
	Decision on privatization of far-western GBB	MFD/NRB	MOF	30/09/10
	Review the performance of GBBs after divestment	MFD/NRB	MOF	30/09/10
	Implementation of re-structuring plan for GBBs	MFD/NRB	MOF	31/12/11
5	Duplication of activities (SME finance in ADBL and Microfinance by SFDB)			
	Review the scope of SME operation in ADBL	CTA, HRMS	PC/RFSS	31/07/10
	Policy on small and medium enterprise (SME) lending	BDS	CTA	31/08/10
	Phasing out of micro-enterprise lending by ADBL to SFCL	ADBL	CTA	30/09/10
6	Absorption of Technical Services provided by Consultant			
	Consultative meeting with consultant and concerned division in ADBL and management in SFDB	CTA	PC/RFSS	31/08/10
7	Operation of National Banking Training Institute			
	Design of training curricula	CEO	CTA	30/04/10
	Accreditation with universities (national, regional and global level)	CEO	CTA	30/04/10
	Develop certification process	CEO	CTA	30/04/10

Note: CTA = Chief Technical Advisor, CEO = Chief Executive Officer, NBTI = National Banking Training Institute, PC/RFSS = Project Coordinator/Rural Finance Sector Specialist, HRMS = Human Resource Management Specialist, ADB = Asian Development Bank, TS = Treasury Specialist, TFS = Trade Finance Specialist, RMS = Risk Management Specialist, BPPMS = Business Process and Portfolio Management Specialist

Appendix 1: Outputs Produced by the Consultants and Status of Use by Host Institutions

S.N.	Outputs Produced	Date	Status of Use by Host Organization	Remarks
A Human Resource Specialist				
1	Rationalization of Organization Structure	July 2009	Gradual adoption by ADBL management	
2	Strengthening HRIS in ADBL	August 2009	Endorsed by ADBL management	
3	List on authority delegation on training nomination, transfer, leave sanction and deputation	31 August 2009	Review	
4	Format /Form for transferred employee and process thereof	September 2009	Review	
5	Change in employee promotion rules as per the direction of CIAA	September 2009	Review	
6	Staff service rules	June 2010	Review	
7	Job description of key staff position	June 2010	Review	
B Account and Financial Management Specialist				
1	Accounting Policy	Final Revision: August 2009	Approved by the Board and has come into effect.	Implemented
2	Chart of Accounts	June 2009		To be implemented during CBS implementation.
3	Inter-Branch Reconciliation System	June 2009	New Reconciliation System under centralized approach suggested by the specialist during June 2009 has not been adopted in its basic form. Some of the recommendations such as establishing specific code for reconciliation have been agreed upon under Account Code 17.	Yet to undergo implementation as agreed upon.
4	Payment Procedure Manual	August 2009	Approved by the Board and has come into effect.	Implemented.
5	Accounting Manual			
A	Deposit Account Manual	Dec. 2009	Approved by CEO on January 2010	
B	Investment Account Manual	Apr. 2010	In process of approval	
C	Letter of Credit Account Manual	Feb. 2010	In process of approval	
D	Fixed Asset and Store Account Manual	March 2010	Will be placed for approval	
E	Cash Account Manual	May 2010	Will be placed for approval	
F	General ledger Accounting Manual	May 2010	Will be placed for approval	
G	Guarantee Account Manual	May 2010	Will be placed for approval	
H	Staff Accounting Manual	May 2010	Will be placed for approval	
I	Bills and remittance Accounting Manual	June 2010	Will be placed for approval	
J	Loans and Advances Accounting Manual	June 2010	Will be placed for approval	
C Microfinance and Banking Operation Specialist				
1	Operational manuals and guidelines for SFDB	June 2010	Draft prepared	
2	SFDBs business plan	April, 2009	SKBBL has applied business plan in day to day operation	
3	Procurement of software and hardware	June, 2010	Installation process on going	

S.N.	Outputs Produced	Date	Status of Use by Host Organization	Remarks
4	SFDB websites	April, 2010	Operational	
5	Restructuring of SFCLs	June, 2010	On-going initiatives	
6	Training modules for bank and microfinance operation	June 2010	Piloting on-going	
7	Proposal for extending microfinance services in the hills and mountains of Nepal.	Aug., 2009	Proposal submitted to ADB	
8	Brochure on SKBBL's product and services	July 2009	Change management in process	
9	Manual and guideline for business planning in SFCL and SCCs	Sept. 2009	Change management in process	
10	Institutional Assessment tools for SFCLs and SCCs	Sept. 2009	Change management in process	
11	Training on Business planning to SFDB and SFCL staff	March 2010	Institutionalization of business planning concept within SFDB and SFCLs	
12	Documentation of financial products offered by SFCLs	June 2010	Being disseminated during trainings/workshops of SFCL	
D	TA 4857 NEP Team			
1	Inception Report	August. 2009		
2	Business Plan for NBTI	Sept. 2009	Newly recruited CEO is currently revising the business plan	
3	Policy Statement and Trade Finance Strategy	Dec. 2009	Awaiting BOD approval	
4	Comprehensive strategy and policy on treasury operation	April 2010	Awaiting BOD approval	
5	Policy Statement for Risk Management	Dec. 2009	Awaiting BOD approval	
6	Policy Statement on Human Resource Management	Dec. 2009	Awaiting BOD approval	
7	Credit Strategy and Policy	June 2010	Awaiting BOD approval	

Appendix 2: Schedule of Planned Outputs of the Consultants and Deadlines

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines
	TA 4857 NEP (supplementary)			
1	International Team Leader	ADBL/NRB	Functional stream training	July 2010
			Career planning	July 2010
			Medium Term training Plan	July 2010
			Service Rules Revision	July 2010
			HR Plan	July 2010
2	Treasury Specialist	ADBL	Manuals and Training Materials for Treasury Management	July 2010
			Trainers Preparation	Aug. 2010
3	Risk Management Specialist	ADBL	Training Preparation and Materials	Aug. 2010
			Trainers Preparation	Aug. 2010
4	Business Process and Portfolio Management Specialist	ADBL	Operating framework	July 2010
			Portfolio Management Policy Review / Update	July 2010
			Manuals preparation	Aug. 2010
			Training preparation and delivery	Aug. 2010
5	Training Specialist	ADBL	Course Materials Amendment/Design	July 2010
			Medium Term Training Plan	July 2010
			Trainers Preparation	July 2010
6	Trade Finance Specialist	ADBL	Operational Manual for Handling Guarantee and Letter of Credit Business	July 2010
			Trainers Preparation	Aug. 2010