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MINISTRY OF
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Singhdurbar
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PROJECT ADMINISTRATION AND FINANCIAL MANAGEMENT REPORT
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT
CLUSTER PROGRAM I**
(JULY-SEPTEMBER 2009)

PREPARED BY

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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 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 RFIs¹ 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 (GGBs) and two apexes namely Rural Microfinance Development Centre (RMDC) and Small Farmer Development Bank (SFDB)], about 27 Financial Intermediary NGOs (FI-NGOs), over 1,000 rural Savings and Credit Cooperatives (SCCs) and 100 Small Farmers Cooperatives Limited (SFCLs) are providing savings, insurance and remittance services to their clients. A pilot crop insurance plan is developed by GON 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 September 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 level², (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 enhance the access to financial services through improved institutional coordination and supervision and regulation from formal and semiformal RFIs³, NRB in coordination with GON/MOF has drafted microfinance act and related 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 GGBs. As part of its ongoing

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)

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.

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 requirements⁴.

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)⁵ 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 progressive divestment of Government shares of ADBL, which is linked to performance improvement and commercialization eventually creating environment for privatization. The restructuring of ADBL is detailed in Agricultural Development Bank Limited Restructuring Plan Implementation Guide (ARP)⁶. 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 to inject additional capital by subscribing more preference shares subject to ADBL's ability to meet agreed performance benchmarks⁷. 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 pursuant to changes in government due to political instability.

9. A team of three consultants: Human Resource Management Specialist (HRMS), Marketing Specialist (MS) 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 Specialist and Training Specialist under TA 4857 NEP 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.

⁴Monetary Policy 2009 states that commercial banks, development banks and finance companies are required to invest 3 percent, 2 percent and 1 percent of their total loan portfolio in deprived (i.e. rural finance) sector under Deprived Sector Lending requirement.

⁵ADBL 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.

⁶ADB. 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.

⁷Progress 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. During the reporting period, CTA mainly mentored the performance of domestic consultants procured both under grants and TA thereby assuring that quality outputs are produced. CTA has assisted the bank on CBS procurement, recruitment of IT Project Manager who joined the bank from 1 August, 2009 and other more practical aspects of reform initiatives.

11. HRM Specialist (HRMS) has reviewed existing organization structure and their function and designed, shared and finalized new organization structure with ADBL management. Some of the recommendations are implemented and some changes in head-office organisational structure are observed⁸. In consultation with MIS Specialist, HRMS designed and developed Human Resource Information System (HRIS) to establish a comprehensive database for HRM and to this effect a report on HRIS is completed and submitted. HRMS collected suggestions on staff rules and drafted sections on recruitment, selection, induction, promotion, skill development and training, retirement, etc. which will be eventually included in staff rules. Further, 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.

12. Marketing Specialist (MS) worked with Planning Division Chief, prepared central marketing plan for bank in collaboration with marketing section and suggested marketing tools for 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. The contract of the MS was terminated on 23 August 2009.

13. Account and Finance Management Specialist (AFMS) (i) finalized New Accounting Policy for ADBL which came into implementation with the approved by ADBL Board, (ii) drafted branch financial reporting format, (iii) finalized Payment Procedure Manual and accounting manual related to Staff Expenditure and Advances and these manuals are in process of approval by ADBL board, (iv) provided technical inputs to develop software for account reconciliation to IT department programmer for reconciliation of previous year transaction under Account Code 17 and the software has been brought into implementation⁹, (v) advised to book (a) additional provision amount equivalent to additional provisioning required to categorize Bank's current restructured / rescheduled loans as sub-standard loans as a cushion for ADBL to report its Net Profit in a comfortable manner¹⁰, and (b) preference dividend payable to the Government on Redeemable preference shares of Rs. 2.30 billion, already approved by ALCO on 31.7.2009¹¹, and (vi) advised ADBL for collecting information as per NRB reporting requirements on No. 9.1 and 9.2 and suggested to immediately regroup off-balance sheet items under separate head and to re-classify various detailed account heads to bring at par with NRB reporting requirements¹².

⁸Some of the changes include: (i) a new Treasury Department separating functions from the then Treasury and Accounts Division has been created, (ii) compliance unit established under the CEO Office and (iii) the name of the then General Services Division, Banking Division, Loan Division, and Treasury and Accounts Division has been changed to Management Services Department, Branch Management Department, Credit Department, and Finance and Accounting Department respectively and their functions adjusted accordingly.

⁹The software is in process of revision to include the matching codes. The matching codes are generated in the Transaction Recording System. The New Reconciliation System under centralized approach suggested by the specialist during June 2009 is not adopted in its basic form. Some of the recommendations such as establishing specific code for reconciliation have been agreed upon under Account Code 17. Directive incorporating new mechanism is yet to be circulated by the Department.

¹⁰This was the suggestion of the last year's NRB Inspection Report observations regarding restructured loans. This has already been approved by ALCO held on 31.7.2009.

¹¹Compliance in reporting on these issues ensures and ADBL has already provided for these in the financial statement of FY 2008/09.

¹²The directive to this effect is yet to be circulated by the Department.

14. Under TA 4857 NEP, Chief Technical Advisor, Treasury Specialist, Risk Management Specialist, Business Process and Portfolio Management Specialist and Training Specialist were mobilized, the team prepared an inception report and submitted to ADBL and ADB. During this period, each member of the team prepared working paper on status in his area of specialization. The working papers were presented on 01.09.09 in a meeting participated by ADBL senior management and consolidated inception report was presented to ADBL management on 09.09.2009. Relevant divisions are agreeing on action to be taken by TA team members in conjunction with divisional personnel.

15. A team of consultants comprising of International Team Leader and domestic MIS Specialist, HRD Specialist and Banking Business Development Specialist are working under PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II continued their work during the reporting period. The team (i) undertook diagnostic review of ADBL financial and operational performance, (ii) review status of procurement of CBS including guidelines for successful installation, (iii) review existing ADBL HR policy on recruitment, promotion, incentive, etc. and (iv) assess the critical issues of Nepalese financial sector, determine best suitable service delivery mechanism, develop new products especially fee-based including credit lending process. The team prepared (i) policy matrix for RFSDCP II, (ii) ADBL Restructuring Plan II, and (iii) ADBL Capital Restructuring Plan which has been submitted to ADBL and ADB for their observation, comments and suggestions.

2.2.2.Small Farmers Development Bank

16. 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. Based on diagnostic review of SFDB¹³, an SFDB restructuring plan was developed to enhance SFDB's viability and outreach to SFCLs with specific key performance indicators (KPIs). 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 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 in their attempt to implement SFDB restructuring plan. Three broader areas of support has been envisaged viz. automation of MIS, restructuring and strengthening of SFCLs, and institution development of SFDB.

17. A Microfinance and Banking Operation Specialist (MBOS) is providing technical support to SFDB in this process since February 2009. During the reporting period, MBOS supported (i) SFDB to formulate annual plan and budget in line with its business plan prepared in last reporting period and enhanced their capacity to monitor progresses against targets set in business plan, (ii) developed guidelines (minimum criteria and KPIs of client MFI to be eligible for getting loan, loan approval authority, documents to be submitted, loan security, supervision and follow-up) for on-lending to SFCLs and SCCs which was approved by SFDB board meeting on 2 September 2009, (iii) prepared SFCL restructuring and strengthening plan, manual for business planning and institutional assessment of client MFIs, which has been used by SFDB for day to day management and (iv) assisted SFDB to recruit new CEO through open completion, prepare progress report and a proposal for extending microfinance services in the hills. The new CEO joined SFDB in the last week of August 2009.

¹³ADB. 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).

18. 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 using SFCL restructuring plan to strengthen SFCLs and manual on business planning and institutional assessment on day to day operation. The draft proposal for extending microfinance services in hills was submitted to ADB for comments and feedback.

19. International Microfinance and Banking Operation Specialist working under PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II prepared draft SFDB Restructuring Plan II which is being discussed by SFDB management and will be presented at a workshop in October 2009.

2.2.3. Grameen Bikash Banks

20. There is no significant work done on restructuring of GBBs during reporting period. International Microfinance and Banking Operation Specialist working under PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II prepared a working paper on GBB and submitted to ADB for feedbacks, comments and suggestions.

2.3 Supportive Legal and Regulatory Framework

21. During the reporting period, the Government and NRB are working on developing acts and bylaws consistent to Microfinance Policy 2007. The draft microfinance act was prepared and currently being discussed among key stakeholders. Under TA 4857 NEP, a Regulation and Supervision Specialist is assisting NRB to create supportive legal and regulatory framework for rural finance sector including providing feedback on draft microfinance act.

2.4 Sector Capacity Building

22. RFSDCP I supported establishment of an autonomous National Banking Training Institution (NBTI) 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.

23. NBTI was established as an educational institution under Nepal's Company Act under the leadership of Bankers' Association of Nepal and with share capital from all the commercial banks. Recruitment of CEO for NBTI is at final stage¹⁴. Draft business plan for NBTI is prepared and management for course curriculum, materials, library, training of trainers, and equipment is in process. NBTI has yet to start actual training course. NBTI is currently working to obtain licence from the Ministry of Education to operate as an instructional institution and the CTA is supporting NBTI in this process. No action has been taken in staff recruitment as NBTI Board wishes major administrative decisions upon recruitment of CEO. Pursuant to the indication of the ADB to support NBTI to draft business plan ahead of mobilization of the CEO, CTA has prepared the draft business plan for NBTI.

24. International Microfinance and Banking Operation Specialist working under PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II working paper on (i) Debt Recovery Tribunals (DRT) and (ii) Credit Information Bureau (CIB) and these papers are submitted to ADB for feedback, comments and suggestions.

¹⁴International Chief Technical Advisor/Commercial Banking Specialist is providing technical backstopping support to NBTI to design operational and management system.

2.5 Product and Process Innovations

25. There has been no significant work on product and process innovations during the reporting period. International team Leader working under PPTA TA 7196 NEP: Rural Finance Sector Development Cluster Program II has flagged the need to revisit and re-define scope of product and process innovation component, conduct training on market led-approach to new product development, technical support to new product development and process refinement and piloting of crop insurance scheme.

3. Program Management

26. 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 has been 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

27. 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.

28. 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 core banking system for ADBL, (iii) office equipment for RFIs, and (iv) a vehicle for ADBL.

29. 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 September 2009

Number	Items	Original Allocation (\$)	Revised Allocation (\$)	Expenditure as of September 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		52,500.00	
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		0.00	
		8,700,000		307,491.23	

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.

30. 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

31. 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

32. Process continued on the procurement of the CBS in ADBL adopting international competitive bidding and the process is at the final stage of negotiation. It is expected that procurement process will be finalized and installation will be started before December 2009.

3.2.2. Automation of MIS in SFDB

33. Draft procurement plan for automation of MIS in SFDB and its client MFIs prepared during the last reporting period has not been progressed much during this reporting period. Considering the significant need of the automated MIS within SFDB, there is a need to finalize the process at the earliest.

3.2.3. Procurement of Vehicle

34. Project Steering Committee has agreed the procurement of a vehicle in ADBL to facilitate and expedite project implementation and ADBL is currently in process to procure the vehicle.

3.2.4. Procurement of Consulting Services

35. 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 104 person months in cognizance to the context, realities, need and functions that have already been taken by staff of the IAs. IT Project Manager joined ADBL during the reporting period. Involvement of Marketing Specialist was completed in August 2009 and other consultants recruited in the last reporting period continued their services during this reporting period.

36. **Consultant Inputs:** The project has used the 36 person month services of the international consultant and 73.5 person month services of the national consultants. Table 2 provides information on inputs of various consultants used by the project as of September 2009.

37. **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.

38. **Consultant's Planned Outputs and Deadlines:** All consultants working in the project either under TAs or grants are 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.

Table 2: Consultant Inputs Used as of September 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	6.5	MOF
2	Internal Audit Specialist	12	12	ADBL
3	Human Resource Management Specialist	16	8	ADBL
4	Account and Financial Management Specialist	16	7	ADBL
5	Marketing Specialist	12	12	ADBL
6	Banking and IT Specialist	24	20	ADBL
7	Microfinance and Bank Operation Specialist	12	8	SFDB
8	IT Project Manager	12	2	ADBL

39. **Reporting Arrangements:** In order to ensure effective and efficient monitoring of the consultants work a system of monthly and quarterly reporting has been 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 October 2009.

3.3 Disbursement

40. Program loan has been 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 2009.

41. As of June 2009, only US\$ 583,033.69 has been disbursed out of the project grant. Disbursement from grant has been 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: Disbursement as of September 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	0.00	

Number	Items	Original Allocation (\$)	Disbursement	Remarks
3	Training	490,800	62,573.78	
4	Consulting services	2,555,700	52,500.00	
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	583,033.69	

3.4 Highlights of Audit Report of ADBL and SFDB

42. 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.

4. Issues and Recommended Actions

4.1 Issues

43. 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.

44. *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. There is a need to finalize the procurement process and complete the initial installation by December 2009.

45. *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 and 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.

46. *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.

47. *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 division¹⁵ 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.

48. *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.

49. *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 is not interested on consultant's work. Division Chief and staff of concerned division are not fully aware on type of output that consultant will be producing and the 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.

50. *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

51. 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	Procurement of CBS in ADBL			
	Staff training on computer application	IT Project Manager	CTA	31/12/09
2	Automation of MIS in SFDB			
	Meeting with SFDB on MIS need	PPTA Team	PC/RFSS	31/10/09
	Review of the procurement plan	PPTA Team	MBOS	31/10/09
	Decision on automation of MIS in SFDB	PPTA Team, CTA	ADB	31/10/09
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	30/11/09

¹⁵Contrary 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 and MOF	
4	Duplication of activities (SME finance in ADBL and Microfinance by SFDB)			
	Review the scope of SME operation in ADBL	CTA, HRMS	PC/RFSS	31/12/09
	Policy on small and medium enterprise (SME) lending	BDS	CTA	31/12/09
	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	31/12/09
7	Operation of National Banking Training Institute			
	Recruitment of CEO and training consultant	NBTI	CTA	31/10/09
	Business plan for NBTI	CTA	NBA	30/11/09
	Recruitment of support staff	NBTI	CEO	30/11/09
	Design of training curricula	CEO	CTA	31/12/09
	Accreditation with universities (national, regional and global level)	CEO	CTA	31/03/10
	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.

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	Additional task submitted to DC, HR
4	Format /Form for transferred employee and process thereof	September 2009	Review	Additional task submitted to DC
5	Change in employee promotion rules as per the direction of CIAA	September 2009	Review	Additional task submitted to DC
B Account and Financial Management Specialist				
1	Revised Accounting Policy	Aug. 2009	Approved by the Board and has come into effect	Implemented
2	Accounting Manual			
a	Payment Procedure Manual	Aug. 2009	To be presented to CEO soon	
b	Accounting Manual related to Staff and Expenditure	Sept. 2009	To be presented to CEO soon	
C Microfinance and Banking Operation Specialist				
1	SKBBL's business plan	April, 2009	SKBBL has applied business plan in day to day operation	
2	SFCLs restructuring and Strengthening Plan	April, 2009	Change management in process	
3	MIS Procurement plan	June, 2009	Under review by SFDB management and other concerned	
4	Lending guidelines and brochure of SKBBL's product and services	July 2009	Change management in process	
5	Proposal for extending microfinance services in the hills and mountains of Nepal.	Aug., 2009	Proposal submitted to ADB	
6	Brochure on SKBBL's product and services	July 2009	Change management in process	
7	Manual and guideline for business planning in SFCL and SCCs	Sept. 2009	Change management in process	
8	Institutional Assessment tools for SFCLs and SCCs	Sept. 2009	Change management in process	
9	Training on Business planning to SFDB and SFCL staff	Sept. 2009	Institutionalization of business planning concept within SFDB and SFCLs	
D PPTA TA 7196 NEP Team				
1	Policy Matrix	July 2009	Currently under review	
2	ADBL Restructuring plan II	Aug. 2009	Awaiting feedback from ADBL	
3	Working Paper on Debt Recovery Tribunals	Sept. 2009	Awaiting ADB feedback	
4	Working Paper on Credit Information Bureau	Aug. 2009	Awaiting ADB feedback	
5	SFDBL Restructuring Plan II	Aug. 2009	Discussed and to be presented at a workshop in Oct.	

S.N.	Outputs Produced	Date	Status of Use by Host Organization	Remarks
6	Working Paper on GBB	Aug. 2009	Awaiting ADB feedback	
7	ADBL Capital Restructuring Plan	Aug. 2009	To be discussed by ADB with stakeholders	
E	TA 4857 NEP Team			
1	Inception Report	August. 2009		
2	Comment on the report	Sept. 2009	Relevant divisions agreeing action to be taken by TA team members in conjunction with divisional personnel	

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

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines
A	Grant financing			
1	Human Resource Management Specialist	ADBL	Draft staff rules	Oct. 2009
			Staff Rules	Feb. 2010
			Position requirements (staffing standard including staff mix ratio)	Apr. 2010
			Job description of key positions	June 2010
2	Account and Financial Management Specialist	ADBL	Draft Account Manual	Sept. 2009
			Review of key performance indicators for FY 2008/09	Jan. 2010
			Accounting manual	Mar. 2010
			Budgeting system	Apr. 2010
3	Microfinance and Banking Operation Specialist	SFDB	Documentation of business expansion model	Oct. 2009
			Develop guidelines for calculating set KPIs	Nov. 2009
			Monitoring format for SFCL and SFDB	Nov. 2009
			Procurement plan for MIS in SFDB	Dec. 2009
			Documentation of innovative products offered by SFCLs	Dec. 2009
			Update SFDB website	Jan. 2010
			Technical support report	Jan. 2010
B	PPTA (TA 7196 NEP)			
1	International Team Leader	ADBL/NRB/SFDB	Review of ADBL Restructuring Plan I	Nov. 2009
			ADBL Capital Restructuring Plan II	Nov. 2009
			ADBL Restructuring Plan II	Nov. 2009
2	Financial Analysis Specialist	ADBL/SFDB	Consultant's report on Financial Management	Nov. 2009
3	Management Information System Specialist	ADBL/SFDB	Consultant's report on Management Information System	Oct. 2009
4	Human Resource Development Specialist	ADBL	Consultant's report on Human Resource Development	Oct. 2009
5	Banking Business Development Specialist	ADBL	Consultant's report on Banking Business Development	Nov. 2009
6	Microfinance and Banking Operation Specialist	NRB/SFDB	SFDBL Restructuring Plan II	Nov. 2009
			GBB Restructuring Plan II	Nov. 2009
			Debt Recovery Tribunal - Preliminary Paper on Technical Assistance	Nov. 2009
			Credit Information Bureau - Preliminary Paper on Technical Assistance	Nov. 2009
C	TA 4857 NEP (supplementary)			
1	International Team Leader	ADBL/NRB	Report on HR and Change Management	May 2010
			Inception Report	Sept. 2009
			Quarterly Report	Oct. 2009
			Business Plan for NBTI	Sept. 2009
2	Treasury Specialist	ADBL	Treasury Policy for ADBL	Oct. 2009
			Risk management system	Oct. 2009
			Manuals and Training Materials for Treasury Management	Nov. 2009
			Trainers Preparation	Dec. 2009
3	Risk Management Specialist	ADBL	ALCO and LPMC framework and format	Oct. 2009

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines
			Procedure Revision and Manual	Nov. 2009
			Training Preparation and Materials	Dec. 2009
			Trainers Preparation	Feb. 2010
4	Business Process and Portfolio Management Specialist	ADBL	Operating framework	Oct. 2009
			Manuals preparation	Dec. 2009
			Training preparation and delivery	Feb. 2009
5	Training Specialist	ADBL	Minimum Entry Criteria/Career Path Curricula	Oct. 2009
			Course Materials Amendment/Design	Dec. 2009
			Medium Term Training Plan	Jan. 2010
			Trainers Preparation	Mar.2010