



**Government of Nepal**

Tel. No.: 4259837  
4259804

MINISTRY OF  
FINANCE  
Singhdurbar  
KATHMANDU, NEPAL

MONTHLY PROGRESS REPORT  
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT  
CLUSTER PROGRAM I**  
(April 2010)

PREPARED BY  
**ECONOMIC AFFAIRS AND POLICY ANALYSIS DIVISION  
MINISTRY OF FINANCE**

May 2010

## TABLE OF CONTENT

1. SUMMARY .....	1
2. COMPONENT-WISE PROGRESS .....	1
2.1 FAVORABLE POLICY ENVIRONMENT.....	1
2.2 INSTITUTIONAL RESTRUCTURING AND REFORMS .....	1
2.2.1. <i>Agricultural Development Bank Limited</i> .....	1
2.2.2. <i>Small Farmers Development Bank</i> .....	2
2.2.3. <i>Grameen Bikash Banks</i> .....	3
2.3 SUPPORTIVE LEGAL AND REGULATORY FRAMEWORK .....	3
2.4 SECTOR CAPACITY BUILDING .....	3
2.5 PRODUCT AND PROCESS INNOVATIONS.....	3
3. KEY OUTPUTS OF APRIL 2010 .....	3
4. ASSESSMENT/LEVEL OF SATISFACTION OF CONSULTANTS' PERFORMANCE .....	4
5. SCHEDULE OF PLANNED OUTPUTS AND DEADLINES .....	4
6. CONCLUSIONS .....	4
ANNEX A: SUPPORTING TABLES.....	5
TABLE 1: ASSESSMENT/LEVEL OF SATISFACTION OF CONSULTANT'S PERFORMANCE BY HOST ORGANIZATION .....	5
TABLE 2: OUTPUTS PRODUCED BY THE CONSULTANTS AND STATUS OF USE BY HOST INSTITUTIONS .....	6
TABLE 3: SCHEDULE OF PLANNED OUTPUTS OF THE CONSULTANTS AS OF APRIL 2010.	8

## Abbreviations

ADB	Asian Development Bank
ADBL	Agriculture Development Bank Limited
AFMS	Account and Financial Management Specialist
ALCO	Assets and Liabilities Management Committees
BPPMS	Business Process and Portfolio Management Specialist
CEO	Chief Executive Officer
CBS	Core Banking System
CTA	Chief Technical Advisor
CTI	Central Training Institute
DGM	Deputy General Manager
GBB	Grameen Bikas Bank
HR	Human Resources
HRIS	Human Resource Information System
HRMD	Human Resource Management Division
HRMS	Human Resource Management Specialist
IA	Implementing Agency
IT	Information Technology
KPIs	Key Performance Indicators
LPMC	Loan Portfolio Management Committee
MOF	Ministry of Finance
MDB	Microfinance Development Banks
MIFAN	Microfinance Association of Nepal
MIS	Management Information System
MS	Marketing Specialist
NBA	Nepal Bankers' Association
NBTI	National Banking Training Institute
NMBA	Nepal Micro Bankers' Association
NRB	Nepal Rastra Bank
NUFSCUN	National Federation for Savings and Credit Cooperatives in Nepal
PPTA	Project Preparatory Technical Assistance
RFSDCP	Rural Finance Sector Development Cluster Program
RMDC	Rural Microfinance Development Centre
RMS	Risk Management Specialist
SFDB	Small Farmers' Development Bank
SFCLs	Small Farmers' Cooperative Limited
STI	Second Tier Organization
TA	Technical Assistance
TFS	Trade Finance Specialist
TOR	Terms of Reference
TS	Treasury Specialist / Training Specialist

## **1. Summary**

1. Activities initiated under the Rural Finance Sector Development Cluster Program I (RFSDCP I) in April 2010 centered around institutional restructuring and reform of the Agriculture Development Bank Limited (ADBL) and the Small Farmer's Development Bank (SFDB) Limited; creating enabling policy environment and only limited activities undertaken in other components of the Project.

2. Consultants recruited under (i) grants consisting of IT Project Manager, accounting and financial management specialist (AFMS), human resource management specialist (HRMS) and microfinance and banking operation specialist (MBOS) and (ii) Technical Assistance (TA) 4857-NEP (Supplementary) consisting of Team Leader, MIS Specialist, Risk Management Specialist, Training Specialist, Treasury Specialist, Trade Finance Specialist, and Business Process and Portfolio Management Specialist continued their work on respective field.

3. Key outputs produced in April 2010 includes: (i) risk management manual, (ii) MIS review report, (iii) FOREX operation guideline, (iv) draft credit policy statement and (v) functional stream training case, (vi) draft staff rules and (vii) draft accounting manual.

## **2. Component-wise Progress**

4. A discussion on status of progress under 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 of RFSDCP I in April 2010 follow hereunder.

### **2.1 Favorable Policy Environment**

5. NRB drafted the Microfinance Act consistent to Microfinance Policy 2008 and approved it from the NRB Board of Directors (BOD). The NRB BOD has decided to forward the draft Microfinance Act in MOF for further approval.

### **2.2 Institutional Restructuring and Reforms**

6. RFSDCP I focused on institutional re-structuring and reforms of ADBL, SFDB and GBBs in April 2010 as outlined hereunder.

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

7. Reforms activities were undertaken in ADBL through the services of the consultants recruited under (i) project grant, and (ii) TA 4857 NEP (supplementary). Activities undertaken by these consultants are discussed hereunder.

8. ADBL issued Initial Public Offerings (IPO) amounting NRs. 960.0 million for general public in early April 2010 and there has been highly encouraging application with three times more subscriptions. Allotment of the IPO application is likely to be completed by early June 2010.

9. Under project grant, ADBL used full month services of three national consultants on IT Project Manager, Human Resource Management Specialist (HRMS), Account and Finance Management Specialist (AFMS) to initiate series of reform initiatives in ADBL system.

10. The IT Project Manager is assisting ADBL on implementing the contract on procuring the Core Banking System (CBS) and supporting its installation and operation.

11. The HRM Specialist (HRMS) collected suggestions on staff rules and shared the staff rules with concerned staff and management representatives. HRMS consolidated draft job descriptions of key staff positions in ADBL, prepared draft staff rules and initiated discussion at various levels.

12. Account and Finance Management Specialist (AFMS) (i) revised Investment Accounting Manual after Treasury Division has requested for some additions in the manual, (ii) drafted Guarantee Accounting Manual and coordinated for finalizing the Actuary Valuation wherein the Actuary Specialist has provided estimated liability to be booked by ADBL on employment retirement benefits viz. gratuity, employee security fund and medical benefits. Further, the AFMS has also consolidated various manuals which is being finalized in May 2010.

13. Under TA 4857 NEP (supplementary) consultants mobilized includes Chief Technical Advisor (CTA), MIS Specialist, Risk Management Specialist, Training Specialist, Treasury Specialist, Trade Finance Specialist and Business Process and Portfolio Management (BPPM) Specialist. Various initiatives started under the TA are summarized in Table 1 in the Annex.

14. The CTA worked with different consultants to polish and finalize the different working papers they had prepared. CTA conducted progress reporting meeting of the first quarter of 2010, review proposal to upgrade MIS, treasury manual and credit policy and manual, prepared HR policy draft and drafted unit mandates. The BPPM worked with a working group to upgrade credit policy and procedures and examine how to organize all credit operations into a single division, prepared a draft credit policy statement, credit procedure manual, product profile document, problem account management manual and credit risk management manual.

15. Throughout the month the Risk Management Specialist worked on ADBL Operational Risk Survey, Review of MIS of ADBL, Review of Compliance status of ADBL, provided inputs for ALCO and LPMC meetings, conducted on the job training at ALCO and LPMC, updated ALCO in English and translated ALCO Manual into Nepali. Trade Finance Specialist prepared policy and strategy document on letters of credit (LC) and guarantee.

16. The Training Specialist prepared the training of trainers (ToT) materials into Nepali Language, revised/upgraded syllabus of HR Management training; drafted syllabus of Managerial Skills training and submitted to Central Training Institute for discussion, revised/upgraded syllabus of Leadership Management training and planned to conduct TOT at RTC, Letang and Dhangadhi. The Treasury Specialist finalized treasury policy document both in Nepali and English, prepared comprehensive Treasury manual, prepared the mandates for the Treasury Unit, provided training to Treasury units on regular basis and support as well as provided oversight to Treasury on a continuous basis and finalized the proposal for FOREX operation.

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

17. Microfinance and Banking Operation Specialist (MBOS) continued providing technical support to SFDB to implement restructuring plan. In April 2010, MBOS started drafting of the internal control manual, designed home page and links of the SKBBL website and compiled relevant publications, reports and write up to place in website. SFDB has practices of conducting internal audit on half yearly basis. The audit mostly focuses on accounting matters. The bank lacks the policy and procedure for conducting internal audit and maintaining sound internal control system. A committee headed by

Chief Manager has been formed to draft the internal control manual. The committee has already initiated the process of developing manuals. SFDB also finalized and approved strategies for expanding microfinance services in the hills and started some preparatory work to use strategies to improve the accessibility of microfinance services in the hills.

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

18. There has not been any work done during the month regarding the restructuring of the Grameen Bikas Bank (GBBs).

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

19. The Government and NRB continued working on draft Microfinance Act. NRB issued directives for MFIs to expand their services on deposit mobilization.

### **2.4 Sector Capacity Building**

20. The CTA under TA 4857 NEP (supplementary) assisted the NBTI board to operationalize its activities. CEO in NBTI started to revise its business plan and work related to the recruitment of the support staff has also been started. At the same time, NBTI is in a process to conduct some of the training courses pooling resources locally and regionally.

21. In April 2010, the NBTI formed the HR Club wherein speaker Miriam Lindwer made presentation to 20+ HR professionals from banks and financial institutions, started training need assessment analysis wherein a survey was sent to all commercial banks and awaiting response. NBTI also planned to conduct three Training program for May and has received the nominations for the participants. It has received quotations as per ADB/NBTI procurement guideline vehicle purchase.

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

22. There has not been any significant breakthrough on product and process innovations. This component is being dropped in the RFSDCP II.

## **3. Key Outputs of April 2010**

23. Key outputs produced in the month of April 2010 are the following:
- HR Policy Statement: This document includes various policy related aspects related to human resource management such as recruitment, promotion, transfer, etc.
  - Draft Accounting Manual: This includes various process and procedure to operationalize accounting process.
  - Draft staff rules: The report contains various rules on staff management including recruitment, promotion, transfer, career development, etc.
  - Credit policy statement: This report outlines various dimensions of credit operation and management in the form of policy statement.
  - Risk management manual: includes processes to be followed for risk management.
  - Operational Risk Survey: The survey identifies series of risk associated with ADBL operation and management in key aspects such as credit, interest, portfolio, etc.
  - Training need assessment: NBTI has started the survey of training need assessment that provides basis for its business plan and future course of action.
  - Treasury Policy: This document provides policy statement on treasury operation and management.
  - Credit Procedure Manual: The document identifies missing components and shortcomings in current credit procedure manual (CPM), supplementary components / points, formats and contract papers etc.

#### **4. Assessment/Level of Satisfaction of Consultants' Performance**

24. A total of 12 consultants worked in different host organizations (i.e. ADBL, SFDB and NRB) under this project in different capacity. Host organization's level of satisfaction on consultant performance has been assessed based on factors such as creativity, timeliness, communication, attitude and technical soundness. In general, host organization expressed their satisfaction on consultant's performance with few exceptions. The findings of the assessment revealed that host organizations are (i) satisfied with the performance of 8 consultants; and (ii) partially satisfied with the performance of four consultants. For partially satisfied consultant they mentioned the need to enhance performance, change attitude and improve communication. Details on the assessment of the level of satisfaction of consultant's performance by host organization are provided in Table 2 in Annex A.

#### **5. Schedule of Planned Outputs and Deadlines**

25. Consultants working for the project based on different host organizations (i.e. ADBL, SFDB, NRB and NBTI) have prepared schedule of planned outputs and deadlines in order to simplify coordination process and ensure transparent system to monitor consultant's performance overtime. Schedule of planned outputs and deadlines for each consultant is provided in Table 2 in Annex A. It can be noted that there has been some delays on consultants' production of the outputs.

#### **6. Conclusions**

26. Implementation of RFSDCP I in April 2010 have been moving smoothly. Technical support provided by a number of international and national consultants to host organizations is not properly absorbed and transform on their enhanced operational and financial performance. There is lack of ownership on the consultant's work in the host organization. The concerned staff in the host organizations should be fully aware on type of outputs consultants have produced and/or is expected to produce and extent to which these outputs meet their expectations and priorities.

## Annex A: Supporting Tables

**Table 1: Assessment/Level of Satisfaction of Consultant's Performance by Host Organization**

S. N.	Expertise type	Host Organization	Basis of Assessment					Overall level of satisfaction
			Creativity	Timeliness	Communication	Attitude	Technical soundness	
<b>A Grant financing</b>								
1	Human Resource Management Specialist	ADBL	Low	Medium	High	Negative	Medium	Need improvement on performance
2	Account and Financial Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory
3	IT Project Manager	ADBL	High	High	High	Positive	High	Highly Satisfactory
4	Microfinance and Banking Operation Specialist	SFDB	Medium	Medium	Medium	Positive	High	Satisfactory
5	Chief Executive Officer	NBTI	High	High	High	Positive	High	Highly Satisfactory
<b>B TA 4857 NEP (supplementary)</b>								
1	International Team Leader	ADBL/NRB	High	Medium	Low	Negative	High	Need some improvement on attitude and communication.
2	Risk Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory – some irregularities noted in the recent days
3	Training Specialist	ADBL	Low	Medium	Low	Positive	Poor	Suggested for replacement
4	Trade Finance Specialist	ADBL	Medium	Medium	Medium	Positive	Moderate	Satisfactory
5	MIS Specialist (International)	ADBL	Medium	Medium	Medium	Positive	High	Satisfactory
6	Legal and Regulation Specialist (International)	NRB	Medium	Medium	Medium	Positive	High	Satisfactory
7	Business Process and Portfolio Management Specialist	ADBL	Medium	Medium	Medium	Positive	High	Satisfactory
8	Treasury Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory

**Table 2: Outputs Produced by the Consultants and Status of Use by Host Institutions**

S.N.	Outputs Produced	Date	Status of Use by Host Organization	Remarks
<b>A</b>	<b>Human Resource Specialist</b>			
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
6	Draft Service Rules	March 2010	Review	
<b>B</b>	<b>Account and Financial Management Specialist</b>			
1	Inter-Branch Reconciliation System	June 2009	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.	Implemented
2	Revised Accounting Policy	Aug. 2009	Approved by the Board and has come into effect	Implemented
3	Accounting Manual			
A	Payment Procedure Manual	Aug. 2009	Approved by the Board and has come into effect.	
B	Accounting Manual related to Staff and Expenditure	Sept. 2009		
C	Accounting Manual (Draft) Deposit Acc. Manual	Dec. 2009	In process of obtaining immediate approval and implementation.	
D	Consolidated accounting manual	March 2010	Review	
<b>C</b>	<b>Microfinance and Banking Operation Specialist</b>			
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	

S.N.	Outputs Produced	Date	Status of Use by Host Organization	Remarks
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	
10	Documentation of financial products offered by SFCLs	Dec. 2010	Being disseminated during trainings/workshops of SFCL	
11	Draft Operational Procedure Manual	March 2010	Review	
	<b>D TA 4857 NEP Team</b>			
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	
3	Business Plan for NBTI	Sept. 2009	Newly recruited CEO is currently revising the business plan	
4	Policy Statement and Trade Finance Strategy	Dec. 2009		
5	Manual on Trade Finance	March 2010	Review	
6	Policy Statement and Treasury Specialist	Dec. 2009		
7	Manual on Treasury Management	March 2010	Review	
8	Manual on Risk Management	Dec. 2009		
9	Training Materials on Risk Management	March 2010	Review	
10	Policy Statement on Human Resource Management	Dec. 2009		
11	Job description of staff	March 2010	Review	
12	Draft report on impact of training	March 2010	Review	

**Table 3: Schedule of Planned Outputs of the Consultants as of April 2010**

<b>S. N.</b>	<b>Expertise type</b>	<b>Host Organization</b>	<b>Planned Outputs</b>	<b>Deadlines</b>	<b>Status of Output as of April 2010</b>
<b>A</b>	<b>Grant financing</b>				
1	Human Resource Management Specialist	ADBL	Human Resource Information System Development	September 2009	Draft prepared
			Draft staff rules	October 2009	Preliminary draft prepared
			Staff Rules	February 2010	
			Position requirements (staffing standard including staff mix ratio)	April 2010	
			Job description of key positions	June 2010	
2	Account and Financial Management Specialist	ADBL	Draft Account Manual	November 2009	Preliminary draft prepared
			Review of key performance indicators for FY 2008/09	February 2010	
			Accounting manual	March 2010	
			Budgeting system	April 2010	
3	IT Project Manager	ADBL	Support to CBS Installation	-	On-going support
4	Microfinance and Banking Operation Specialist	SFDB	Guideline and Manual for Business Plan Preparation	February 2010	Draft prepared
			Institutional Assessment Tools for SFCLs and SCCs	February 2010	Draft prepared
			Training of Business Plan Preparation for staff of 20 SFCLs	February 2010	Draft prepared
			Strategies for expanding microfinance services in the hills and mountains	February 2010	Finalized
5	Chief Technical Advisor	NBTI	Staff recruitment	March 2010	Finalized
			Business plan preparation	March 2010	Draft prepared
			Training implementation	On-going	Implementation started in April and on-going
			Certification and accreditation	June 2010	
<b>C</b>	<b>TA 4857 NEP (supplementary)</b>				
1	International Team Leader	ADBL/NRB	Report on HR and Change Management	May 2010	Draft HR policy statement prepared
			Inception Report	September 2009	Completed
			Quarterly Report	October 2009	Completed
			Business Plan for NBTI (Draft)	September 2009	Completed

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of April 2010
2	Treasury Specialist (TS)	ADBL	Treasury Policy for ADBL	October 2009	Drafted
			Risk management system	October 2009	Drafted
			Manuals and Training Materials	November 2009	Drafted
			Trainers Preparation	December 2009	Scheduled for May 2010
3	Risk Management Specialist (RMS)	ADBL	ALCO and LPMC framework and format	October 2009	Completed
			Procedure Revision and Manual	November 2009	Completed
			Training Preparation and Materials	December 2009	Completed in March 2010
			Trainers Preparation	May 2010	
4	Business Process and Portfolio Management Specialist (BPPMS)	ADBL	Operating framework	October 2009	Being drafted and completed in March 2010
			Manuals preparation	December 2009	Review of existing manuals with ADBL working group initiated and will be completed in May 2010
			Training materials	March 2010	Completed in April 2010
			Training delivery	March 2010	Postponed till May 2010
5	Training Specialist (TS)	ADBL	Minimum Entry Criteria/Career Path Curricula	October 2009	In draft HRM Policy statement
			Course Materials Amendment/Design	December 2009	Trainers' training design completed
			Medium Term Training Plan	April 2010	Postponed till HRM Policy finalized
			Trainers Preparation	March 2010	Postponed till May 2010
6	Trade Finance Specialist (TFS)	ADBL	Initial Working Paper	Nov. 2009	Completed
			Product introduction	Dec. 2009 – Jan. 2010	Deferred while manuals are completed
			Business exploration and OJT	Dec. 2009 – Aug. 2010	Deferred while manuals are completed
			Strategy and policy development	Dec. 2010	On-going
			Manual preparation and adoption	Jan.-March 2010	Completed in April 2010
			Training design and materials preparation	Jan.-March 2010	Completed in April 2010
7	MIS Specialist (International)	ADBL	Initial working paper	August 2009	Completed
			IT Training Search	December 2009	Completed
8	Microfinance Regulatory Specialist (LRS)	NRB	Commentary on Draft Microfinance Act	August 2009	Completed
			Act Modification Proposal	November 2009	Completed