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MONTHLY PROGRESS REPORT
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT
CLUSTER PROGRAM I**
(August 2009)

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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. Most of the activities initiated under the Rural Finance Sector Development Cluster Program I (RFSDCP I) in August 2009 centered around institutional restructuring and reform of the Agriculture Development Bank Limited (ADBL) and the Small Farmer's Development Bank (SFDB) Limited; and only limited activities undertaken in other components of the Project.

2. Contract of Marketing Specialist (MS) ended in mid-August 2006. The IT Project Manager joined in August 2009 to assist ADBL finalizing Core Banking System (CBS) procurement and support its installation and operation. Other consultant namely accounting and financial management specialist (AFMS), human resource management specialist (HRMS) and microfinance and banking operation specialist (MBOS) continued providing technical support to ADBL and SFDB.

3. PPTA team comprising of international Team Leader and Microfinance and Bank Operation specialist; and four national consultants on (i) Financial Analysis, (ii) Management Information System, (iii) Human Resource Development and (iv) Banking Business Development continued their work of preparing project document on RFSDCP II including the ADBL, SFDB and GBB restricting plan. International Microfinance and Banking Operation Specialist of the team provided technical support to (i) Nepal Rastra Bank (NRB) to operationalize concept of Second Tier Institution (STI) and to privatize insolvent Grameen Bikas Bank (GBB) located in the far-west and (ii) SFDB to prepare the restricting plan.

4. Technical Assistance (TA) team under TA 4857-NEP (Supplementary) were mobilized on 16 July 2009 with Team Leader, Treasury Specialist, Risk Management Specialist, Business Process and Portfolio Management Specialist and Training Specialist. The teams are currently working on site at various divisions within ADBL. Other team members provisioned under this TA namely Rural Finance Regulation Specialist (international), MIS Specialist (International) and Trade Finance Specialist (national) are yet to be mobilized. The TA team will be producing the inception report in the first week of September 2009.

5. Key outputs produced in August 2009 includes: (i) a report on strengthening Human Resource Information System (HIRS) in ADBL; (ii) draft list on authority delegation related to training nomination, transfer, leave sanction and deputation, (iii) revised accounting policy; (iii) payment procedure manual and draft accounting manual; (iv) marketing plan for ADBL and (v) proposal for extending microfinance services in the hills and mountains for SFDB.

2. Component-wise Progress

6. 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 July 2009 follow hereunder.

2.1 Favorable Policy Environment

7. Discussions and dialogues with key stakeholders in the sectors continued in August 2009 on Microfinance Act drafted by NRB consistent to the Microfinance Policy 2008. The Legal and Regulation Expert provisioned under TA 4857-NEP has reviewed the draft of Microfinance Act and provided his feedback for improvement.

2.2 Institutional Restructuring and Reforms

8. RFSDCP I focused on institutional re-structuring and reforms of ADBL, SFDB and GBBs in August 2009 as outlined hereunder.

2.2.1. Agricultural Development Bank Limited

9. Reforms activities were undertaken in ADBL through the services of the consultants recruited under (i) project grant, (ii) PPTA TA 7196 NEP and (iii) TA 4857 NEP (supplementary). Activities undertaken by these consultants are discussed hereunder.

10. Under project grant, ADBL used full month services of two national consultants on Human Resource Management Specialist (HRMS) and Account and Finance Management Specialist (AFMS) and 0.5 person month service of Marketing Specialist (MS). Consultants were involved on assisting bank to bring changes on various aspects of its operation.

11. ADBL is using the service of the IT Project Manager from August 1, 2009 who is assisting ADBL finalizing Core Banking System (CBS) procurement and supporting its installation and operation. ADBL received approval to initiate negotiation with potential bidders and ADBL is preparing for negotiation with potential bidder in the month of September 2009.

12. The HRM Specialist (HRMS) completed and submitted report on Human Resource Information System in ADBL and submitted to human resource division. HRMS is coordinating with IT Project Manager on aspects related to HRIS development and integration with CBS being considered. Further, HRMS continued collecting suggestions on staff rules and also drafted the sections such as recruitment, promotion, performance evaluation, etc. to be included in the staff rules.

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

14. Account and Finance Management Specialist (AFMS) (i) supported the approval of Payment Procedure Manual from Audit committee and the manual was approved on August 28, 2009; (ii) revised Payment Procedure Manual after incorporating views of the Division Chief, Accounts and the views of the Treasury Division and (iii) discussed the draft of the Accounting Manual on Bills Collection with the concerned staff.

15. PPTA (TA 7196 NEP) team continued their work through the mobilization of international Team Leader; and four national specialists on (i) Financial Analysis, (ii) Management Information System, (iii) Human Resource Development, (iv) Banking Business Development and (v) Microfinance and Banking Specialist. The TA team has completed the review of RFSDCP I, are working closely in consultation with the ADBL concerned department. The team has submitted inception report, defined the scope of RFSDCP II and preparing the ADBL, SFCB and GBB restructuring plan. The PPTA is making progress as scheduled and have produced the output as requested by ADB. In line with the overall TOR and the requirements of the proposed fact finding mission, the following reports have been prepared and submitted as first draft.

- Review of ADBL Restructuring Plan I
- ADBL Capital Restructuring Plan II

- ADBL Restructuring Plan II
- SFDBL Restructuring Plan II
- GBB Restructuring Plan II
- Debt Recovery Tribunal - Preliminary Paper on Technical Assistance
- Credit Information Bureau - Preliminary Paper on Technical Assistance

16. With feedback from stakeholders, the team will continue to improve the reports. Of the team, HR consultant completed his inputs of 2 months and MIS and Banking Consultant times are ending in August. The team leader, microfinance international consultant and Financial Analyst will continue their work and provide further input to these reports and future mission of ADB.

17. Under TA 4857 NEP (supplementary) consultant team comprising of international team leader and national consultants (treasury specialist, risk management specialist, business process and portfolio management specialist and training specialist) was mobilized on 16 July 2009 and mobilization of international rural finance regulation specialist and MIS specialist and national trade finance specialist has been delayed. The consultant team met with CEO, DGM operations and DGM services, company secretary, director PIU, Division Chiefs (IT, general services, HRM, banking, credit, planning, finance and accounting). The team also discussed with PPTA team to exchange documents, information and opinions and they are provided with office accommodation and basic furniture. Each members of the TA team signed confidentiality letter and deposited in with PIU. Team members have requested essential documents from their respective Division Chiefs; in addition, a formal request to access to information, with a list of essential documents, has been made to CEO. Each team member is currently developing a picture of the position in their respective field and in Treasury and Risk Management some advance has been made to bring change and innovation into effect. The TA team is expected to submit the inception report of the TA in the first week of September 2009.

2.2.2.Small Farmers Development Bank

18. Microfinance and Banking Operation Specialist (MBOS) continued providing technical support to SFDB to implement restructuring plan. In August 2009, MBOS presented the SFDB business plan in the planning workshop of Area Offices (AOs) and facilitated the AOs to plan as per the target set by the business plan and operate AOs as a profit centre. MBOS provided feedback to PPTA team on draft MIS plan and presented draft lending guidelines in the planning workshop of AOs and incorporated their inputs. Further, MBOS prepared draft proposal for extending microfinance service in the hills and mountains of Nepal and forwarded the raft proposal to ADB for further processing.

2.2.3.Grameen Bikash Banks

19. International Microfinance and Banking Operation Specialist of the PPTA team provided technical support for the privatization of insolvent Grameen Bikas Bank (GBB) located in the far-west as well as re-structuring plan for GBBs.

2.3 Supportive Legal and Regulatory Framework

20. The Government and NRB continued discussion on draft Microfinance Act on different forum among key stakeholders including creation, operation and management of microfinance fund and STI. International Microfinance and Banking Operation Specialist working in the PPTA team provided technical support to operationalize the concept of STI. Further, challenges inherent to regulation and supervision of different types of credit union (single purpose and multi-purpose) is on-going to identify the most practical and operable approaches.

The Legal and Regulation Expert provisioned under TA 4857-NEP has been providing distance support on finalization of the Microfinance Act and other services, as required by the NRB, on other aspects of rural finance.

2.4 Sector Capacity Building

21. The CTA has supported Nepal's Bankers Association (NBA) to recruit the Chief Executive Officer (CEO) and international training specialist for National Banking Training Institution (NBTI). A total of 55 applications received for the CEO is evaluated and potential candidates has been short-listed using agreed short-listing criteria. The interview will be arranged in September 2009. In order to recruit the CEO for NBTI, advertisement was placed in local media, on non-resident Nepali websites and in the Economist on 17 July 2009. The deadline for the applications is 17 August 2009. Several applications from both locals and from overseas received at NBA. Work to recruit the international training specialist has been currently suspended until the recruitment of the CEO for NBTI.

22. The CTA is making enquiries about process and cost for NBTI to obtain the license for the educational program from Nepalese universities and potential universities abroad. Further, CTA has draft NBTI business plan and training plans and revise earlier ADB contribution drawdown schedule. Drawdown schedule derives from business and training plans will be revised once business and training plans are finalised.

2.5 Product and Process Innovations

23. There has not been any significant breakthrough on product and process innovations. MBOS based in SFDB has prepared a draft proposal for extending microfinance services in hills and mountains for SFDB and the proposal is currently being reviewed by ADB for possible funding. PPTA team has identified the need for product based costing including the diversification of financial products and services suitable for inaccessible hills and mountains areas.

3. Key Outputs of July 2009

24. Key outputs produced in the month of July 2009 are the following:

- *Report on human resource information system:* The report contains system analysis and information to be included in the HRIS and challenges and way-forward for automation of HRIS in ADBL. As the system is included in CBS, development shall start immediately after the process on CBS installation started.
- *Revised Accounting Policy:* The report was initially produced in April 2009 and after incorporating comments from concerned departments, finalized in August. The document is currently in process of board approval.
- *Accounting Policy:* Two aspects of accounting manual (i) payment procedure manual and (ii) draft account manual was initially produced in July 2009 and they are revised in August 2009. The document will provide operational strategies for using accounting policy on operational process. The document will be placed to CEO's approval after approval of accounting policy.
- *Marketing plan for ADBL:* The report identifies the core-competencies of ADBL and analyse the internal and external environment under which ADBL should operate and suggest strategies for future in order to serve the market segments on which it needs to operate.
- *Proposal for extending microfinance services in hills and mountains for SFDB and other financial service providers:* The report documents challenges to enhancing financial services in inaccessible hills and mountains and recommends the community based banking and linkage banking scheme to be the options for expanding frontier of microfinance services in high hills and mountains for further discussion.

- *Inception Report of PPTA TA 7196 NEP*: The PPTA (TA 7196 NEP) team submitted the inception report that critically analyse the performance of the RFSDCP I and present the scope of RFSDCP II.

4. Assessment/Level of Satisfaction of Consultants' Performance

25. A total of 14 consultants are currently working in host organizations (i.e. ADBL, SFDB and NRB) under this project in different capacity. Level of satisfaction of the host organization 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 10 consultants; (ii) partially satisfied with the performance of three consultants and (iii) suggested the replacement for one consultant. 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 1 in Annex A.

5. Schedule of Planned Outputs and Deadlines

26. All the consultants are asked to prepare schedule of planned outputs and deadlines in order to simplify coordination process and ensure transparent system of monitoring of the consultant's performance overtime. Schedule of planned outputs and deadlines for each consultant is provided in Table 2 in Annex A.

6. Conclusions

27. Implementation of RFSDCP I in August 2009 is generally satisfactory with the exception of components such as (i) favorable policy environment, (ii) supportive legal and regulatory framework and (iii) product and process innovations. Since the Implementing Agency (IA) for these components is NRB, there is a need to prepare time bound action plan for timely implementation of these components.

28. Technical support provided by a number of international and national consultants on different aspects of ADBL and SFDB management has not been properly absorbed and transform on their enhanced operational and financial performance. There is lack of ownership and ownership of the consultant's work by concerned divisions should be ensured for enhanced effectiveness and efficiency. Division Chief and staff of the concerned divisions should be fully aware on type of outputs that the consultant has produced and/or is expected to produce and extent to which this will meet their expectations and priorities.

29. Despite huge demand and need for product and process innovations component to expand the frontier of rural finance services in inaccessible hills and mountains, scope of this component has been narrowly defined. Scope of work under this component should be revisited and expanded to cover activities such as 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. ADB should take required action on the proposal prepared by the consultant on expanding the microfinance services in the hills for SFDB at the earliest in order to expedite the product and process innovation process.

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	
A Grant financing								
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	Microfinance and Banking Operation Specialist	SFDB	Medium	Medium	Medium	Positive	High	Satisfactory
B PPTA (TA 7196 NEP)								
1	International Team Leader	ADBL/NRB/SFDB	High	High	Medium	Positive	High	Satisfactory
2	Financial Analysis Specialist	ADBL/SFDB	High	Medium	Medium	Positive	High	Satisfactory
3	Management Information System Specialist	ADBL/SFDB	High	Medium	Medium	Positive	High	Satisfactory
4	Human Resource Development Specialist	ADBL	Medium	Medium	Medium	Positive	High	Satisfactory
5	Banking Business Development Specialist	ADBL	Medium	Medium	Medium	Positive	Medium	Need improvement on performance
6	Microfinance and Banking Operation Specialist	NRB/SFDB	High	High	Medium	Positive	High	Satisfactory
C TA 4857 NEP (supplementary)								
1	International Team Leader	ADBL/NRB	High	Medium	Low	Negative	High	Need some improvement on attitude and communication.
2	Treasury Specialist	ADBL	High	Medium	High	Positive	High	Excellent
3	Risk Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory
4	Business Process and Portfolio Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory
5	Training Specialist	ADBL	Low	Medium	Low	Positive	Poor	Suggested for replacement

Table 2: Schedule of Planned Outputs and Deadlines for Consultants' Outputs

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines
A	Grant financing			
1	Human Resource Management Specialist	ADBL	Human Resource Information System Development	September 2009
			Draft staff rules	October 2009
			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	September 2009
			Review of key performance indicators for FY 2008/09	January 2010
			Accounting manual	March 2010
			Budgeting system	April 2010
3	Microfinance and Banking Operation Specialist	SFDB	Guideline and Manual for Business Plan Preparation	September 2009
			Institutional Assessment Tools for SFCLs and SCCs	September 2009
			Training of Business Plan Preparation for staff of 20 SFCLs	September 2009
B	PPTA (TA 7196 NEP)			
1	International Team Leader	ADBL/NRB/SFDB	Review of ADBL Restructuring Plan I	November 2009
			ADBL Capital Restructuring Plan II	November 2009
			ADBL Restructuring Plan II	November 2009
2	Financial Analysis Specialist	ADBL/SFDB	Consultant's report on Financial Management	November 2009
3	Management Information System Specialist	ADBL/SFDB	Consultant's report on Management Information System	October 2009
4	Human Resource Development Specialist	ADBL	Consultant's report on Human Resource Development	October 2009
5	Banking Business Development Specialist	ADBL	Consultant's report on Banking Business Development	November 2009
6	Microfinance and Banking Operation Specialist	NRB/SFDB	SFDBL Restructuring Plan II	November 2009
			GBB Restructuring Plan II	November 2009
			Debt Recovery Tribunal - Preliminary Paper on Technical Assistance	November 2009
			Credit Information Bureau - Preliminary Paper on Technical Assistance	November 2009
C	TA 4857 NEP (supplementary)			
1	International Team Leader	ADBL/NRB	Report on HR and Change Management	May 2010
			Inception Report	September 2009
			Quarterly Report	October 2009
			Business Plan for NBTI	September 2009
2	Treasury Specialist	ADBL	Treasury Policy for ADBL	October 2009
			Risk management system	October 2009
			Manuals and Training Materials for Treasury Management	November 2009

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines
			Trainers Preparation	December 2009
3	Risk Management Specialist	ADBL	ALCO and LPMC framework and format	October 2009
			Procedure Revision and Manual	November 2009
			Training Preparation and Materials	December 2009
			Trainers Preparation	February 2010
4	Business Process and Portfolio Management Specialist	ADBL	Operating framework	October 2009
			Manuals preparation	December 2009
			Training preparation and delivery	February 2009
5	Training Specialist	ADBL	Minimum Entry Criteria/Career Path Curricula	October 2009
			Course Materials Amendment/Design	December 2009
			Medium Term Training Plan	January 2010
			Trainers Preparation	March 2010