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

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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 February 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, Business Process and Portfolio Management Specialist and Microfinance Regulatory Specialist continued their work on respective field.

3. Key outputs produced in February 2010 includes: (i) draft risk management manual, (ii) MIS review report, (iii) FOREX operation proposal, (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 February 2010 follow hereunder.

2.1 Favorable Policy Environment

5. Discussions and dialogues with key stakeholders in the sectors continued in February 2010 on Microfinance Act drafted by NRB consistent to the Microfinance Policy 2008. The microfinance act drafting committee has completed microfinance act and submitted to NRB board for approval.

2.2 Institutional Restructuring and Reforms

6. RFSDCP I focused on institutional re-structuring and reforms of ADBL, SFDB and GBBs in February 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 has gradually addressed various issues related to implementation of IPO and has received approval from Securities Board of Nepal (SEBON) to issue the IPO and all the preparatory works related to publishing IPOs has been completed and notice for issuing IPO is expected to be issued in the month of March 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) on bringing changes on various aspects of its operation.

10. The IT Project Manager is assisting ADBL on implementation of the contract on the procurement of 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 also discussed with CEO and DC/HR Division on implementing proposed organization structure, assisted in designing training utilization record/survey form and supported training specialist on training plan and career paths. HRMS prepared draft staff rules and initiated discussion at various levels.

12. Account and Finance Management Specialist (AFMS) prepared (i) draft accounting manual in consultation with banking, auditing, accounting and financial management division of ADBL, revised Deposit Accounting manual to simplify accounting treatments within the manual with easy to understand write-up pattern, (ii) facilitated ADBL to award the actuary valuation of employment retirement benefits to actuary specialist on the least cost basis, (iii) supported to finalize the key basis and assumptions on the projected financial statements for the purpose of IPO and (iv) advised changes on depreciation rates for the fixed assets owned by ADBL.

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 IT Division in identifying functional stream training courses, preparing internal payment procedures for CBS installation, and worked with HRM Division in upgrading HR management policy. The MIS Specialist examined MIS and examined technical training needs of IT staff at ADBL. The BPPM facilitated the formation of a working group to upgrade credit policy and procedures and examine how to organize all credit operations into a single division and prepared a draft credit policy statement. Throughout the month the Risk Management Specialist attended central ALCO meetings regularly, has agreed modifications needed in policies and procedures for ALCO and LPMC operations, worked on the revision of risk management policy statement and an upgrading of the risk management manual, and has contributed to resuming LPMC meetings which was not held in ADBL for more than a year. Trade Finance Specialist assisted IT Division with the preparation of letters of credit (LC) needed for the procurement of goods and services for the CBS installation.

15. The Training Specialist reviewed capacity in the ADBL training units and because on career development curricula has been in abeyance because adoption of a revised HRM Policy, in which are defined the career paths, minimum entry criteria and rules for recruitment and promotion, is still in progress. The Treasury Specialist worked on liquidity management and drafted a strategy and policy statement now being discussed with the bank management and prepared proposal for FOREX operation.

2.2.2.Small Farmers Development Bank

16. Microfinance and Banking Operation Specialist (MBOS) continued providing technical support to SFDB to implement restructuring plan. In February 2010, MBOS drafted strategies for expanding microfinance services in hills, reviewed hardware and software procurement process; supported SFCLs to prepare the business plan and provided inputs on the business plan that SFCLs have developed and documented financial products of SFCLs. SFDB finalized and approved strategies for expanding

microfinance services in the hills and use the strategies will be used to improve the accessibility of microfinance services in the hills.

2.2.3. Grameen Bikash Banks

17. 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

18. The Government and NRB continued discussion on draft Microfinance Act on different forum among key stakeholders and the act is at the final stage to be forwarded to the government for enactment.

2.4 Sector Capacity Building

19. The CTA under TA 4857 NEP (supplementary) assisted the NBTI board to complete the recruitment of a CEO, prepare a draft of the institute's business plan and apply for the drawdown of ADB funds.

20. 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.

2.5 Product and Process Innovations

21. 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 February 2010

22. Key outputs produced in the month of February 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.
 - Draft risk management manual: includes processes to be followed for risk management.
 - MIS review report: The document review the state of the art on current MIS and suggests areas of improvement.
 - FOREX operation proposal: This proposal outlines various preparatory work to be compiled for FOREX operation.
 - Draft credit policy statement: This report outlines various dimensions of credit operation and management in the form of policy statement.
 - Functional stream training case: This document provides an overview of the functional stream training case for bank operation.
 - Microfinance strategies for the hills: This document contains information on different aspects of microfinance strategies and activities for expanding microfinance services in the hills and mountains.

4. Assessment/Level of Satisfaction of Consultants' Performance

23. 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; (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 2 in Annex A.

5. Schedule of Planned Outputs and Deadlines

24. Consultants working for the project based on different host organizations (i.e. ADBL, SFDB and NRB) 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

25. Implementation of RFSDCP I in February 2010 have been generally satisfactory with the exception of components on (i) favorable policy environment, (ii) 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 implementing these components.

26. 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: Status of Implementation and Results Produced by the Consultants under TA 4857 NEP (supplementary)

SN	Activity	Status of Implementation and Results	Remarks
CTA/Team Leader at ADBL			
1	CBS Procurement		
	contract implementation	Preparations for initial work in progress	Participated in Procurement Committee meetings re CIAA enquiry Met with CIAA officer to clarify chronology and process of tender review and award and the associated documentation
	preparation training	Met with DGM Services, DGM Training and DCs IT, MS and HR Divisions to finalise MOUs with NIBM, VAMNICOM, Bank of Maharashtra and Vishweshwar Sahakari Bank Limited	DGM Training expressed misgivings over cost of courses at NIBM and requested that enquiries be made at other institutions in India. DGM Training proposed contact with IBFI and IIBM Enquiries have been made with IBFI who will respond shortly; local assessment of IIBM is not favourable IIBF distance learning
2	HR Policy	HR Policy Statement draft completed	Presentation made to DGM Services, DC HRMD, Section Chiefs HRMD, and union representatives. Union reps requested Nepali version – provided Unions have presented comment and proposals. Revision will be made to accommodate some of the proposals and finalizing meeting will be held in February
3	Job Descriptions	Job descriptions essential to effective work planning and evaluation	Job description survey has been conducted in Kathmandu and branches in the regions; reports have been submitted. Drafting starts in February
4	Medium Term Training Plan	HR Policy Statement draft contains career path proposals and minimum entry criteria; curricula for each career path drafted in outline but now needs HR Specialist and CTI input	HR Specialist comment on the minimum entry criteria and on the outline curricula will evolve from finalisation of HR Policy Statement
5	Oversight of Consultants	Regular contact with each consultant to discuss work in hand	
	5.1 Risk Management specialist	Risk Management framework	Framework of policy and procedures in draft - now being edited by CTA ALCO agenda and preparation being modified, with OTJ reinforcement
		MIS Reform	Risk Management specialist working closely with MIS specialist in review of MIS and preparation of upgrading proposals
	5.2 MIS Specialist	MIS Reform	In depth review of current MIS made; reform options formulated and discussed with those most closely involved in collection, interpretation, report preparation and information use; report will be available shortly.
	5.3 Trade Finance specialist	Trade Finance framework	Strategy and policy statement completed. Under review by DCs Credit and Branch Management. Guarantee manual and materials in preparation.
		CBS Procurement	Specialist working with bank on establishment of LC for CBS procurement
	5.4 Training specialist	Improved trainer/instructor quality	Course structure and materials designed
			First course given at RTC Manglapur - specialist preparing report on outcome
			Impact assessment questionnaire designed and tested - specialist preparing

SN	Activity	Status of Implementation and Results	Remarks
			report on efficacy of questionnaire
			Outcome of both reports to be reviewed with CTI once completed
	5.5 Treasury Specialist	Treasury Framework	Strategy and policy statement completed Risk management system in design phase
		Treasury Operations	Specialist preparing to commence theory and OTJ training in various practical aspects of treasury from first week of February

At NBTI

1	CEO	Recruitment	Recruitment completed
	NBTI operational start up	Operations Plan	Operations plan preparation commences
		Procurement	Procurement procedures being studied
		Office Accommodation	Possible provisional office space identified
		Recruitment of staff	Job descriptions in preparation, recruitment notices will be published shortly

At NRB

1	Microfinance Legislation		
	Microfinance Act	Draft commentary	Some proposals in consultant's commentary have been incorporated in draft Act
		Future Role of Specialist	Discussions held with Executive Director Microfinance at NRB – until decision on Act taken by government, difficult to formalise next input for the specialist

Table 2: 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	IT Project Manager	ADBL	High	High	High	Positive	High	Highly Satisfactory
4	Microfinance and Banking Operation Specialist	SFDB	Medium	Medium	Medium	Positive	High	Satisfactory
B	TA 4857 NEP (supplementary)							
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 3: Schedule of Planned Outputs of the Consultants as of February 2010

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of February 2010
A	Grant financing				
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
C	TA 4857 NEP (supplementary)				
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
2	Treasury Specialist (TS)	ADBL	Treasury Policy for ADBL	October 2009	Drafted
			Risk management system	October 2009	Scheduled for Feb. 2010
			Manuals and Training Materials	November 2009	Schedules for March 2010
			Trainers Preparation	December 2009	Scheduled for April 2010

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of February 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	Will be completed by the end of Jan. 2010
			Trainers Preparation	March 2010	
4	Business Process and Portfolio Management Specialist (BPPMS)	ADBL	Operating framework	October 2009	Being drafted
			Manuals preparation	December 2009	Review of existing manuals with ADBL working group initiated
			Training materials	March 2010	
			Training delivery	March 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	February 2010	Postponed till HRM Policy finalized
			Trainers Preparation	March 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	
			Training design and materials preparation	Jan.-March 2010	
			Trainers preparation	April-July 2010	
Impact measurement	April-August 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