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MINISTRY OF
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MONTHLY PROGRESS REPORT
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT
CLUSTER PROGRAM I**
(May 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 May 2010 centered around institutional restructuring and reform of the Agriculture Development Bank Limited (ADBL) and the Small Farmer's Development Bank (SFDB) Limited; commencement of training programme by National Banking Training Institute (NBTI); and creating enabling policy environment.

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 May 2010 includes: (i) revision of HR policy, (ii) Treasury Manual, (iii) ADBL Training Proposal, (iv) Functional Stream Preparation Training Proposal, (v) draft staff rules and (vi) draft accounting manual and (vii) preliminary report of internal control system in SFDB.

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 May 2010 follow hereunder.

2.1 Favorable Policy Environment

5. MOF forwarded the draft Microfinance Act received from NRB to Ministry of Law and Justice to initiate the official process for drafting the act in the prescribed format. MOF has also started work regarding divestment of its share in ADBL, SFDB and Grameen Bikas Bank.

2.2 Institutional Restructuring and Reforms

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

2.2.1. Agricultural Development Bank Limited

7. Reforms activities were undertaken in ADBL using the services of the consultants recruited under (i) project grant, and (ii) TA 4857 NEP (supplementary). Key activities undertaken in ADBL either directly by itself or through the initiative of the consultants are outlined hereunder.

8. ADBL, with support from the issue manager (ACE Bank) allotted the application for its share through Initial Public Offerings (IPO) amounting NRs. 960.0 million to general public. ADBL has planned to distribute its share to the winning applicant by July 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) that was instrumental to expedite 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. Letter of Credit (LC) for CBS procurement has been opened and MOF has sent the request for the commitment letter to this effect in ADB Manila.
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. Draft HR policy statement and HRM manual has been prepared and the document is being discussed within ADBL management.
12. Account and Finance Management Specialist (AFMS) (i) finalized Investment Accounting Manual after Treasury Division has requested for some additions in the manual, (ii) finalized Guarantee Accounting Manual and coordinated for finalizing the Actuary Valuation wherein the Actuary Specialist 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 are being finalized in June 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. The activities undertaken by these consultants are summarized in Table 1 in the Annex.
14. The CTA worked with different consultants to polish and finalize the different working papers they prepared. CTA conducted series of briefing meetings with TA members, completed training proposal cost estimates, revised HR Policy, finalized functional stream preparation training proposal and discuss the proposal with DC IT Division, reviewed and revised career paths and minimum entry criteria, undertook MIS activity review and commissioned NBTI activity review.
15. The BPPM reviewed loan collection bylaws drafted by credit division, drafted letter of indemnity and letter of continuity, discussed on credit policy statement, drafted assignment of bills and account receivables, prepared security documentation formats, drafted additional credit product profiles, finalized draft "credit type" document, review and finalize guarantee paper, etc. as a process to upgrade credit policy and procedures manual and worked on problem account management manual.
16. Throughout the month the Risk Management Specialist prepared risk management policy, discussed on ALCO/LPMC workshop, discussed on ALCO policy and prepared the training manual on risk management for ADBL staff.
17. 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.
18. The Treasury Specialist reviewed and finalized treasury policy documents both in Nepali and English, prepared comprehensive Treasury manual, prepared the mandates for the Treasury Unit, provided training to Treasury units on regular basis, provided oversight to Treasury on a continuous basis and finalized proposal for FOREX operation.

19. The Trade Finance Specialist conducted meeting with credit division on integration of the trade finance component on its operation (i.e. credit policy), discussed on LC manual and guarantee manuals, prepared training materials on LC and guarantee, undertook discussion with DC and DGM on LC manual and guarantee manual and supported the company secretary to prepare the agenda for presentation in ADBI board meeting.

2.2.2.Small Farmers Development Bank

20. Microfinance and Banking Operation Specialist (MBOS) continued providing technical support to SFDB to implement restructuring plan. In May 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.

21. Further, MBOS compiled/developed operational manuals and guidelines, assisted SKBBL to prepare presentation at privatization committee of MOF, reviewed business plan of SKBBL (2009-13), procured hardware and software, provided inputs on restructuring and strengthening of SFCLs.

2.2.3.Grameen Bikash Banks

22. 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

23. 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

24. 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 recruited the support staff. NBTI has started to conduct training courses pooling resources locally and regionally.

25. In May 2010, the NBTI conducted training on bank risk management and completed training need assessment analysis. It has received quotations as per ADB/NBTI procurement guideline vehicle purchase and has received approval from MOF.

2.5 Product and Process Innovations

26. 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 May 2010

27. Key outputs produced in the month of May 2010 are the following:

- Accounting Manual: This includes various process and procedure to operationalize accounting process.
- Service rules: The report contains various rules on staff management including recruitment, promotion, transfer, career development, etc.
- Risk management manual: includes processes to be followed for risk management.
- 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 and manual: 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.
- Trade finance manual: includes processes to be followed on Operationalizing LC and guarantee function.

4. Assessment/Level of Satisfaction of Consultants' Performance

28. 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

29. 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

30. RFSDCP I have smooth implementation in May 2010. Technical support provided by a number of international and national consultants to host organizations has not been properly absorbed and transformed on their enhanced operational and financial performance. There is lack of ownership on consultant's work in host organization. Concerned staff in the host organizations should be fully aware on type of outputs produced by the consultants and plan to use the outputs on operational management of their organization.

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	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	TA 4857 NEP (supplementary)							
1	International Team Leader	ADBL/NRB	High	Medium	Low	Neutral	High	Satisfactory
2	Risk Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory
3	Training Specialist	ADBL	Low	Medium	Low	Positive	Poor	Satisfactory – some irregularities noted in the recent days
4	Trade Finance Specialist	ADBL	Medium	Medium	Medium	Positive	Moderate	Satisfactory
5	MIS Specialist (International)	ADBL	Medium	Medium	Medium	Positive	High	Value of service questioned
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
A	Human Resource Specialist			
1	Rationalization of Organization Structure	July 2009	Gradual adoption by ADBL management	
2	Strengthening HRIS in ADBL	August 2009	Endorsed by ADBL management	
3	List on authority delegation on training nomination, transfer, leave sanction and deputation	31 August 2009	Review	
4	Format /Form for transferred employee and process thereof	September 2009	Review	
5	Change in employee promotion rules as per the direction of CIAA	September 2009	Review	
6	Draft Service Rules	March 2010	Review	Additional task submitted to DC
B	Account and Financial Management Specialist			
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.	Approval process
B	Accounting Manual related to Staff and Expenditure	Sept. 2009		Approval process
C	Accounting Manual (Draft) Deposit Acc. Manual	Dec. 2009	In process of obtaining immediate approval and implementation.	Approval process
D	Consolidated accounting manual	March 2010	Review	To be completed in June
C	Microfinance and Banking Operation Specialist			
1	SKBBL's business plan	May, 2009	SKBBL has applied business plan in day to day operation	Implemented
2	SFCLs restructuring and Strengthening Plan	May, 2009	Change management in process	Implemented
3	MIS Procurement plan	June, 2009	Under review by SFDB management and other concerned	On-going
4	Lending guidelines and brochure of SKBBL's product and services	July 2009	Change management in process	On-going
5	Proposal for extending microfinance services in the hills and mountains of Nepal.	Aug., 2009	Proposal submitted to ADB	Awaiting implementation
6	Brochure on SKBBL's product and services	July 2009	Change management in process	Implemented

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	Implemented	Need continued improvement
8	Institutional Assessment tools for SFCLs and SCCs	Sept. 2009	Implemented	
9	Training on Business planning to SFDB and SFCL staff	Sept. 2009	Institutionalization of business planning concept within SFDB and SFCLs	On-going
10	Documentation of financial products offered by SFCLs	Dec. 2010	Being disseminated during trainings/workshops of SFCL	On-going
11	Draft Operational Procedure Manual	March 2010	Review	In process. Draft being prepared in June.
D	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	
3	Business Plan for NBTI	Sept. 2009	Draft business plan prepared and submitted in ADB and MOF for review	
4	Policy Statement and Trade Finance Strategy	Dec. 2009	Draft prepared and awaiting ADBL Board approval	Need to expedite ADBL board approval
5	Manual on Trade Finance	March 2010	Draft prepared and awaiting ADBL Board approval	Need to expedite ADBL board approval
6	Policy Statement and Treasury Specialist	Dec. 2009	Draft prepared and awaiting ADBL Board approval	Need to expedite ADBL board approval
7	Manual on Treasury Management	March 2010	Draft prepared	
8	Manual on Risk Management	Dec. 2009	Draft prepared and awaiting ADBL Board approval	Need to expedite ADBL board approval
9	Training Materials on Risk Management	March 2010	Review and training materials prepared	
10	Policy Statement on Human Resource Management	Dec. 2009	Draft prepared and consultation process on-going	Need to expedite ADBL board approval
11	Job description of staff	March 2010	Compiled	
12	Draft report on impact of training	March 2010	Yes to be prepared	

Table 3: Schedule of Planned Outputs of the Consultants as of May 2010

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of May 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)	May 2010	Job description compiled
			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	Being reviewed on regular basis every quarter
			Accounting manual	March 2010	Planned to be completed in June 2010
			Budgeting system	May 2010	Completed
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 May and on-going
			Certification and accreditation	June 2010	Efforts on-going
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

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of May 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 June 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 June 2010
			Trainers Preparation	May 2010	
4	Business Process and Portfolio Management Specialist (BPPMS)	ADBL	Operating framework	October 2009	Drafted
			Manuals preparation	December 2009	On-going
			Training materials	March 2010	Completed in May 2010
			Training delivery	March 2010	Postponed till June 2010
5	Training Specialist (TS)	ADBL	Minimum Entry Criteria/Career Path Curricula	October 2009	Included in draft HRM Policy statement
			Course Materials Amendment/Design	December 2009	Trainers' training design completed
			Medium Term Training Plan	May 2010	Postponed till HRM Policy finalized
			Trainers Preparation	March 2010	Postponed till June 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 May 2010
			Training design and materials preparation	Jan.-March 2010	Completed in May 2010
			Trainers preparation	May-July 2010	Postponed till May 2010
Impact measurement	May-August 2010	Postponed till May 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, further process on-going