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

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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 November 2009 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 accounting and financial management specialist (AFMS), human resource management specialist (HRMS) and microfinance and banking operation specialist (MBOS), (ii) PPTA consultants comprising of international Team Leader and Microfinance and Bank Operation specialist; and four national consultants on Financial Analysis, Management Information System, Human Resource Development and Banking Business Development and (iii) Technical Assistance (TA) 4857-NEP (Supplementary) consisting of Team Leader, 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 November 2009 includes: (i) Structuring Plan of ADBL, SFDB and GBBs; (ii) hardware and software procurement plan for SFDB, (iii) preliminary draft accounting manual, (iv) preliminary draft staff rules and (v) inception report on trade finance.

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 November 2009 follow hereunder.

2.1 Favorable Policy Environment

5. Discussions and dialogues with key stakeholders in the sectors continued in November 2009 on Microfinance Act drafted by NRB consistent to the Microfinance Policy 2008. The Legal and Regulation Expert provisioned under TA 4857-NEP has been facilitating NRB to finalize the draft Microfinance Act.

2.2 Institutional Restructuring and Reforms

6. RFSDCP I focused on institutional re-structuring and reforms of ADBL, SFDB and GBBs in November 2009 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, (ii) PPTA TA 7196 NEP and (iii) TA 4857 NEP (supplementary). Activities undertaken by these consultants are discussed hereunder.

8. ADBL has gradually addressed various issues related to implementation of IPO. More specifically ADBL has solved the issue of under-writing and other procedural and required clearance related to IPO which is expected to be effective within 2009.

9. Under project grant, ADBL used full month services of two national consultants on IT Project Manager, Human Resource Management Specialist (HRMS), Account and

Finance Management Specialist (AFMS) were used to assisting bank on bringing changes on various aspects of its operation.

10. Under project grant, ADBL used full month services of two national consultants on IT Project Manager, Human Resource Management Specialist (HRMS), Account and Finance Management Specialist (AFMS) were used to assisting bank on bringing changes on various aspects of its operation.

11. The IT Project Manager is assisting ADBL on finalizing procurement of Core Banking System (CBS) and supporting its installation and operation. ADBL received approval to initiate negotiation with potential bidders and ADBL is at the final stages of negotiation with potential bidder. The contract is expected to be awarded by the end of December 2009.

12. The HRM Specialist (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 and also started some work on sharing of the staff rules with concerned staff and management representatives. HRMS also discussed with CEO and DC/HR Division regarding the implementation of 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.

13. Account and Finance Management Specialist (AFMS) continued working on (i) drafting the 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 the 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.

14. 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, team has prepared documents on (i) Review of ADBL Restructuring Plan I, (ii) ADBL Capital Restructuring Plan II, (iii) ADBL Restructuring Plan II, (iv) SFDBL Restructuring Plan II, (v) GBB Restructuring Plan II, (vi) Technical Assistance to Debt Recovery Tribunal, and (vii) Technical Assistance to Credit Information Bureau. These documents are being reviewed by concerned host agencies and their feedbacks are being collected for finalization.

15. 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. International rural finance regulation specialist was mobilized in November 2009. The ADBL has been receiving intermittent inputs from international MIS specialist. Replacement of Treasury Specialist and Business Process and Portfolio Management Specialist was managed from the last week of November 2009. DGM Training and other team in Central Training Institute in ADBL have raised concern on

quality of output and competency of the Training Specialist and have requested for replacement.

16. Under TA 4857 NEP (supplementary) International Team leader has prepared draft policy statement while Risk Management Specialist continue working on ALCO and LPMC framework and format and training specialist has prepared document on minimum entry criteria/career path curricula and integrated it with HR policy statement. Treasury policy for ADBL, Risk Management System and Operating Framework scheduled to be produced in November 2009 is awaiting mobilization of (i) treasury Specialist and (ii) Business Process and Portfolio Management Specialist. The Trade Finance Specialist has prepared inception report. CSC and MIS specialist (International) is discussing timing and duration of proposed MIS upgrading work.

17. For reasons outside control, the Risk Management Specialist has been unable to attend to the work in ADBL, it appears that this difficulty has been resolved and the specialist can now return to the ADBL work. ADBL has indicated that it would like the Training Specialist replaced. In the meantime, the Team Leader has taken on the task of preparing the career path curricula while the Training Specialist undertakes the tasks based on work instruction developed in consultation with DGM Training. The MIS specialist has been arranging training for IT Division and waiting for the opportune moment to work with the Risk Management Specialist in upgrading the ADBL MIS so that ALCOs and LPMCs can operate on timely, relevant and up-to-date information.

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 November 2009, MBOS (i) worked with International Microfinance and Banking Operation Specialist of the PPTA team to finalize the second phase restructuring plan of SKBL which has been presented in SFDB's stakeholder meeting and inputs from the meeting was provided to the consultant, (ii) finalized bidding documents for procuring MIS software, hardware and communication equipments for installing computerized MIS which was endorsed by MIS committee of SFDB later awaiting ADB's approval for time extension to procure software and hardware; (iii) follow-up of business plan development process of SFCLs, (iv) documented business expansion models and steps to implement SFCLs in financially and institutionally viable level and (v) facilitated to upload loan application from in SFDB website.

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 offered a commentary on the draft Microfinance Act and followed this with a proposal for an alternative act. A round table discussion involving stakeholders (MOF, NRB, MDBs, GBBs, NMBA, MIFAN, SFDB, RMDC and NUFSCUN) in microfinance was

organized in November 28 and 29, 2009 in Nagarkot to share the content of the draft act and receive their feedbacks. The participant of the roundtable discussion program provided highly invaluable feedback on the draft act and NRB is currently incorporating the feedback received in the draft act.

2.4 Sector Capacity Building

21. There has no significant progress on implementing this component. The CTA continued supporting Nepal's Bankers Association (NBA) to recruit the Chief Executive Officer (CEO) and international training specialist for National Banking Training Institution (NBTI). The selection of the CEO is at the final stage. Work to recruit the international training specialist has been currently suspended until the recruitment of the CEO for NBTI. International Team Leader has submitted draft NBTI business plan and awaits the recruitment of CEO for finalization.

22. 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. This component is being dropped in the RFSDCP II.

3. Key Outputs of November 2009

24. Key outputs produced in the month of November 2009 are the following:
- HR Policy Statement: This document includes various policy related aspects related to human resource management such as recruitment, promotion, transfer, etc.
 - Structuring Plan of ADBL, SFDB and GBBs: This includes various activities related to the restructuring needs and areas on ADBL, SFDB and GBBs over the next two years.
 - Hardware and software procurement plan for SFDB: This includes basis and justification on MIS need in SFDB and plan for the procurement of the hardware and software for SFDB.
 - Draft Deposit Accounting Manual: This includes various process and procedure to operationalize deposit mobilization and addressing issues related to deposit accounting.
 - Draft staff rules: The report contains various rules on staff management including recruitment, promotion, transfer, career development, etc.
 - Inception report on Trade Finance: This document contains information on technical support to enable ADBL involve on trade finance such as letter of credit, guarantee, trust receipt loan, export loan, document against payments, cash against documents, and trade finance related risk management.

4. Assessment/Level of Satisfaction of Consultants' Performance

25. A total of 17 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 11 consultants; (ii) partially satisfied with the performance of four 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. 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.

6. Conclusions

27. Implementation of RFSDCP I in November 2009 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 to properly implement these components.

28. 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 host organization for enhanced effectiveness and efficiency. The concerned staff in host organizations should be fully aware on type of outputs that the consultants have produced and/or is expected to produce and extent to which these outputs 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 and not much has been done under this component.

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	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: Schedule of Planned Outputs of the Consultants as of November 2009

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of November 2009
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	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	Draft prepared
			Institutional Assessment Tools for SFCLs and SCCs	September 2009	Draft prepared
			Training of Business Plan Preparation for staff of 20 SFCLs	September 2009	Draft prepared
B	PPTA (TA 7196 NEP)				
1	International Team Leader	ADBL/NRB/SFDB	Review of ADBL Restructuring Plan I	November 2009	Completed and under discussion
			ADBL Capital Restructuring Plan II	November 2009	Completed and under discussion
			ADBL Restructuring Plan II	November 2009	Completed and under discussion
2	Financial Analysis Specialist	ADBL/SFDB	Consultant's report on Financial Management	November 2009	Completed and under discussion
3	Management Information System Specialist	ADBL/SFDB	Consultant's report on Management Information System	October 2009	Completed and under discussion
4	Human Resource Development Specialist	ADBL	Consultant's report on Human Resource Development	October 2009	Completed and under discussion
5	Banking Business Development Specialist	ADBL	Consultant's report on Banking Business Development	November 2009	Completed and under discussion
6	Microfinance and Banking Operation Specialist	NRB/SFDB	SFDBL Restructuring Plan II	November 2009	Completed and under discussion
			GBB Restructuring Plan II	November 2009	Completed and under discussion
			TA for Debt Recovery Tribunal	November 2009	Completed and under discussion

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of November 2009
			TA for Credit Information Bureau	November 2009	Completed and under discussion
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	Submitted
			Quarterly Report	October 2009	Submitted
			Business Plan for NBTI	September 2009	Draft submitted to NBTI; awaits recruitment of CEO for finalization
2	Treasury Specialist (TS)	ADBL	Treasury Policy for ADBL	October 2009	TS mobilized in end of Nov. 2009
			Risk management system	October 2009	TS mobilized in end of Nov. 2009
			Manuals and Training Materials for Treasury Management	November 2009	TS mobilized in end of Nov. 2009
			Trainers Preparation	December 2009	
3	Risk Management Specialist (RMS)	ADBL	ALCO and LPMC framework and format	October 2009	Technical problem to RMS
			Procedure Revision and Manual	November 2009	Technical problem to RMS
			Training Preparation and Materials	December 2009	
			Trainers Preparation	February 2010	
4	Business Process and Portfolio Management Specialist (BPPMS)	ADBL	Operating framework	October 2009	BPPMS mobilized in end of Nov. 2009
			Manuals preparation	December 2009	
			Training preparation and delivery	February 2009	
5	Training Specialist (TS)	ADBL	Minimum Entry Criteria/Career Path Curricula	October 2009	Work continues, concern to replace TS by DGM Training and DC in CTI.
			Course Materials Amendment/Design	December 2009	
			Medium Term Training Plan	January 2010	
			Trainers Preparation	March 2010	
6	Trade Finance Specialist (TFS)	ADBL	Inception report	Nov. 2009	Inception report prepared
			Product introduction	Dec. 2009 – Jan. 2010	
			Business exploration and OJT	Dec. 2009 – Aug. 2010	
			Strategy and policy development	Dec. 2010	
			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	

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of November 2009
7	MIS Specialist (International)	ADBL			CSC and specialist discussing timing and duration of proposed MIS upgrading work.
8	Legal and Regulatory Specialist (LRS)	NRB			Awaiting reaction from NRB to alternative Act proposed by specialist