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MONTHLY PROGRESS REPORT
**NEPAL: RURAL FINANCE SECTOR DEVELOPMENT
CLUSTER PROGRAM I**
(October 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 October 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. 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 and Training Specialist continued their work on respective field. Work under TA 4857-NEP (Supplementary) suffered due to resignation of specialist on Treasury and Business Process and Portfolio Management Specialist and excessive time required for arranging the replacement. Trade finance specialist joined in TA 4857-NEP (Supplementary) team.

3. A Fact Finding Mission¹ of the Asian Development Bank (ADB) visited Nepal during 1–17 October 2009 to prepare and discuss: (i) the design of the components, (ii) implementation arrangements, (iii) procurement plan and consultant inputs, and (iv) restructuring plans for rural finance institutions, of the proposed Rural Finance Sector Development Cluster Program [RFSDCP] Subprogram II.

4. Key outputs produced in October 2009 includes: (i) Structuring Plan of ADBL, SFDB and GBBs; (ii) hardware and software procurement plan for SFDB, (iii) preliminary draft accounting manual and (iv) preliminary draft staff rules.

2. Component-wise Progress

5. 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 October 2009 follow hereunder.

2.1 Favorable Policy Environment

6. Discussions and dialogues with key stakeholders in the sectors continued in October 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

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

2.2.1. Agricultural Development Bank Limited

8. 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

¹ Mayumi Ozaki (Finance Specialist [Rural and Microfinance]/Mission Leader), John Versantvoort (Counsel).

NEP (supplementary). Activities undertaken by these consultants are discussed hereunder.

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. 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.

11. 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.

12. Account and Finance Management Specialist (AFMS) continued working drafting the accounting manual in consultation with banking, auditing, accounting and financial management division of ADBL and the manual is expected to be ready for sharing and discussion in November 2009.

13. 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 been preparing the following reports.

- 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

14. 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 September-October 2009. The ADBL has been receiving intermittent inputs from international MIS specialist. National trade finance specialist was mobilized from the last month of October 2009. Unfortunately two team members (Treasury Specialist and Business Process and Portfolio Management Specialist) resigned from the team and are yet to be replaced.

15. 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 October 2009 is awaiting mobilization of (i) treasury Specialist and (ii) Business Process and Portfolio Management Specialist. The Trade Finance Specialist is newly mobilized and preparing inception report. CSC and MIS specialist (International) is discussing timing and duration of proposed MIS upgrading work.

16. For reasons outside control, the Risk Management Specialist has been unable to continue the assignment in ADBL since September 15, 2009. 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

17. Microfinance and Banking Operation Specialist (MBOS) continued providing technical support to SFDB to implement restructuring plan. In October 2009, MBOS (i) worked with International Microfinance and Banking Operation Specialist of the PPTA team to finalize the second phase restructuring plan of SKBL, (ii) worked with MIS consultant to finalize bidding document for procuring MIS software, hardware and communication equipments and training and technical support for installing computerized MIS; (iii) follow-up of business plan development process of SFCLs.

2.2.3.Grameen Bikash Banks

18. 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

19. 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. This is being reviewed by NRB. It has been agreed with NRB that once NRB has finalized the Act to be approved by the Government, discussion will be held to determine the role (and timing of the input) of the specialist.

2.4 Sector Capacity Building

20. 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 seven candidates were short-listed using agreed short-listing criteria. The interview will be arranged in November 2009. Work to recruit the international training specialist has been currently suspended until the recruitment of the CEO for NBTI. Team Leader under

TA 4857 NEP (supplementary) has submitted draft NBTI business plan and awaits the recruitment of CEO for finalization.

21. Team Leader under TA 4857 NEP (supplementary) 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, Team Leader under TA 4857 NEP (supplementary) revised earlier ADB contribution drawdown schedule that derives from business and training plans will be revised once business and training plans are finalised.

2.5 Product and Process Innovations

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

3. Key Outputs of October 2009

23. Key outputs produced in the month of October 2009 are the following:

- HR Policy Statement: This document includes various policy on 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.
- Preliminary draft accounting manual: This includes various process and procedure to operationalize the accounting policy into practices.
- Preliminary draft staff rules: The report contains information on various rules related to staff management such as recruitment, promotion, transfer, etc.

4. Assessment/Level of Satisfaction of Consultants' Performance

24. 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

25. 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

26. Implementation of RFSDCP I in October 2009 was 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.

27. Technical support provided by a number of international and national consultants on different aspects of ADBL, SFDB and GBB restructuring and NRB capacity building 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 host organizations should be ensured for enhanced effectiveness and efficiency. Staff of the concerned host organizations 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.

28. 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	Risk Management Specialist	ADBL	High	Medium	Medium	Positive	High	Satisfactory
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

Table 2: Schedule of Planned Outputs of the Consultants as of October 2009

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of October 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	
			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	Draft prepared
4	Human Resource Development Specialist	ADBL	Consultant's report on Human Resource Development	October 2009	Draft prepared
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	

S. N.	Expertise type	Host Organization	Planned Outputs	Deadlines	Status of Output as of October 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	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	ADBL	Treasury Policy for ADBL	October 2009	Awaiting mobilization of Treasury Specialist
			Risk management system	October 2009	
			Manuals and Training Materials for Treasury Management	November 2009	
			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	Work continues
			Manuals preparation	December 2009	
			Training preparation and delivery	February 2009	
5	Training Specialist	ADBL	Minimum Entry Criteria/Career Path Curricula	October 2009	Awaiting mobilization of BPPM Specialist
			Course Materials Amendment/Design	December 2009	
			Medium Term Training Plan	January 2010	
			Trainers Preparation	March 2010	
6	Trade Finance Specialist	ADBL			Newly mobilized, preparing inception report
7	MIS Specialist (International)	ADBL			CSC and specialist discussing timing and duration of proposed MIS upgrading work.
8	Legal and Regulatory Specialist	NRB			Awaiting reaction from NRB to alternative Act proposed by specialist