

**NEP 2268 (SF) - NEPAL: RURAL FINANCE SECTOR DEVELOPMENT CLUSTER PROGRAM I
PROGRAM PROGRESS REPORT
(APRIL-JUNE 2009)**

Objective	Actions	Status	Action to be Taken
Transform ADBL into a sustainable and efficient RFI	Issuance of a notice to offer ADBL shares to the small shareholders of ADBL (ADBL Notification)	With the approval of the Securities Board of Nepal dated 4 October 2007, ADBL issued a notice on 7 October 2007 to offer its shares to the small shareholders by an issue of NRs125 million worth of ADBL ordinary shares at par value of NRs100. The issue was open from 30 November 2007 to 3 January 2008. The turn-out was highly encouraging.	-
	Decision to initiate initial public offering of ADBL (ADBL Board of directors Resolution)	The ADBL Board of Directors approved the ADBL divestment plan and made a decision to initiate an IPO at a board meeting on 20 November 2007. ADBL has appointed ACE Development Bank as an issue manager to undertake IPO.	<ul style="list-style-type: none"> • Review the progress on issuing IPO.
	Settlement of the Government's dues payable to ADBL (MOF Notification and ADBL Audit Report)	The Government settled full amount of the accumulated amounting NRs96.76 millions ¹ on 28 November 2007.	-
	Finalize divestment plan of Government shares in ADBL (Divestment Plan)	The Government, through the Ministry of Finance, finalized and approved the divestment plan on 21 November 2007 with a plan to (i)	<ul style="list-style-type: none"> • Review of the divestment plan in the changed context.

¹mainly relating to expenses incurred for implementing Government sponsored projects.

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		<p>issue 5% of the total ordinary shares to small shareholders between November 2007 to January 2008, (ii) issue IPO of 30% of total ordinary shares within 2008, and (iii) divest Government shareholding of ordinary shares to at least 40% of the total ordinary shares by the end of 2011.</p>	
	<p>ADBL will (i) write-off bad debts and (ii) provide adequate provisions for its other categories of debts, in each case in accordance with NRB directives (MOF Notification and ADBL Audit Report)</p>	<p>ADBL's Treasury and Account Division and Risky Assets Management Division certify that ADBL has written off NRs812 million as bad debts and made loan loss provisions of NRs7.19 billion in accordance with the NRB directives² in FY 2006. It has also created a loan portfolio management system throughout its branches which includes writing off bad debts and making adequate provisions in accordance with NRB directives.</p>	<ul style="list-style-type: none"> • Training on Portfolio and Risk Management, • Training on best practices to recover the Non Performing Loans and Non Bank Assets
	<p>Revision and update by ADBL of its policies related to (i) human resource management, (ii) portfolio management, (iii) financial management and (iv) credit management to the satisfaction of ADB (ADBL approved policies)</p>	<p>The ADBL Board of Directors adopted new policy documents relating to (i) portfolio management on 15 October 2007, (ii) human resource management, (iii) financial management, and (iv) credit management on 20 November 2007.</p>	<ul style="list-style-type: none"> • Continued review and update of these policies and finalization of staff rules. • Collective Bargaining Agent election of the staff.
	<p>Completion by ADBL of second</p>	<p>ADBL completed two voluntary</p>	<p>-</p>

²ADBL categorizes loans and maintains loan loss provisions in accordance with NRB directives. For the FY2006, ADBL made loan loss provision in excess of the minimum provision requirement of NRs6.13 billion based on the NRB directive. ADBL writes off its bad debts in accordance with NRB's Loan Write Off Regulation 2005.

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	voluntary retirement scheme (ADBL Progress Report)	retirement schemes (VRS) in June 2006, January 2007 and March 2009. The VRS were offered to staff with more than 20 years of service to accept early retirement. For the first, second and third schemes, 588, 574 and 262 staff respectively took early retirement.	
	Achievement of the performance indicators and critical implementation targets set out in ADBL Restructuring Plan to the satisfaction of ADB (ADBL Progress Report)	The progress of the ADBL restructuring is evaluated based on sustainability, outreach, and productivity indicators. By March 2009, ADBL had achieved the performance targets, except for outreach, by significantly reducing the nonperforming loans and increasing profitability. Non-performing loan ratio declined from 36.5% in FY2005 to less than 10% in FY2008. ADBL went from a net loss of NRs79 million in FY2005 to a profit of NRs353 million in FY2007 and further net profit of 700 million in 2008.	<ul style="list-style-type: none"> • Awareness on performance indicators and critical implementation targets. • Preparation disaggregated performance indicators and critical implementation of the branch and regional offices.
	Establishment of a separate unit within ADBL to deal with client complaints, including those relating to corruption. The unit will report to the Audit Committee (ADBL	In May 2007, ADBL established a client complaints unit ³ , which receives and investigates client complaints and directly reports to the audit committee of ADBL Board	<ul style="list-style-type: none"> ▪ Review the operation of client complaints unit ▪ Training on addressing the client complains

³Key responsibilities of the unit are to (i) investigate client complaints including those regarding corruption and allegations of misconduct by units and/or employees of ADBL, and propose remedial actions; (ii) formulate for approval of ADBL Board of Directors policy and procedures for managing complaints from clients about conduct of ADBL and its employees; (iii) advise and support branch managers and regional directors in applying complaints policies and procedures; and (iv) prepare quarterly reports on the status of client complaints, outcomes, and actions taken.

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	Progress Report).	of Directors as and when needed.	
	Establishment of Management Information System (MIS) by ADBL that allows measurement of its banking service outreach to women and disadvantaged group (ADBL Report).	ADBL has established MIS to monitor indicators and producing quarterly program performance monitoring report that covers 70 indicators including financial, efficiency, and productivity indicators.	<ul style="list-style-type: none"> ▪ Training on Use of the MIS for Operational Decision Making
	Completion of the phasing out of the ADBL's small farmers development program (ADBL Progress Report and Audited Statements).	ADBL completed the phasing out of SFDP on 15 July 2007 by transferring the related portfolio to SFDB and closing SFDP subprogram offices.	<ul style="list-style-type: none"> ▪ Review the scope of work of SME division ▪ Expanding the scope of operation of SME division
	Completion of ADBL's assessment of the performance of Small Farmers' Cooperative Limited (SFCL), which will be the basis for determining further onlending support by ADBL to SFDB (ADBL Assessment Report)	In 2007, ADBL conducted an assessment of the performance of 214 SFCLs who are the clients of the SFDB and categorized them into four groups such as good, substandard, doubtful, and bad based on their overdue loans, interest receivables, internal resources, share capital and profits and losses. Based on this assessment, ADBL has determined further on-lending support to SFDB including monitoring requirements and disbursement procedures.	-
Transform SFDB into a model apex agency for Small Farmers' Cooperative Limited	Development and adoption of SFDB restructuring plan in consultation with ADB covering: <ul style="list-style-type: none"> ▪ Strategy ▪ Legal and governance structure, 	Institutional and operational constraints of SFDB identified as part of the ADBL restructuring include limited scale of operations, weak loan portfolio management	<ul style="list-style-type: none"> ▪ Revisit the diagnostic review of the SFDB in consultation with SDDB BOD and management ▪ Awareness on SFDB restructuring plan to BOD and management

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	<ul style="list-style-type: none"> ▪ Organizational and human resources development, ▪ Operating policies and guidance for financial activities, ▪ Partnership arrangements, ▪ Performance benchmarks and ▪ Implementation schedule (SFDB Restructuring Plan, SFDB Board Approval) 	and insufficient institutional capacity. SFDB BOD agreed to initiate a reform to address these weaknesses and adopted the SFDB restructuring plan on 15 November 2007.	<ul style="list-style-type: none"> ▪ Support to automation of MIS in SFDB ▪ Technical support on clients diversification and new product development and ▪ Support towards increasing competitiveness in SFDB
Continue strengthening of GBBs	Decision to be undertaken on the future direction of the technically insolvent GBBs (NRB Report).	NRB shares in four GBBs (Eastern, Central, Western and Mid-Western) were divested. The Far Western GBBs is insolvent and require substantial recapitalization as well as significant performance improvements before divestment.	<ul style="list-style-type: none"> ▪ Decision on privatization of far-western GBB ▪ Review the performance of privatized GBBs after divestment
Enhance the supervision and regulation of RFIs	Decision on appropriate supervisory and regulatory framework of the RFIs (NRB report)	NRB, in consultation with the Government, approved the Microfinance Policy 2008 to provide an overall framework for development of microfinance sector.	<ul style="list-style-type: none"> ▪ Finalization of operation and management of Second Tier Organisation for enhanced regulation and supervision of RFIs ▪ Capacity development support to Debt Recovery Tribunal
	Initiation of implementation of supervisory and regulatory framework of the RFIs (NRB report)	Government and NRB are currently drafting the actual supervisory and regulatory framework, pursuant to the Microfinance Policy 2008.	<ul style="list-style-type: none"> ▪ Capacity development for actual supervisory and regulatory framework
Develop a systemic sector capacity building mechanism	Incorporation of the training institution pursuant to Companies Ordinance, with necessary financial contribution from NRB, ADBL and	The National Banking Training Institute (NBTI) proposal was approved and adopted by NRB, ADBL, and NBA on 7 November	<ul style="list-style-type: none"> ▪ Finalization of initial technical and financial support to NBTI, ▪ Recruitment of CEO, training consultant and other support staff,

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	other financial institutions (Certificate of Incorporation)	2007. The memorandum of association and articles of association of NBTI were submitted to the company registrar's office for incorporation on 23 November 2007. Currently process is underway to recruit the expatriate Chief Executive Officer to lead NBTI.	
	Develop business plans for training, course curriculum and materials, library, training of trainers, and equipment (Training Institute Report)	The process is underway to develop the training, course curriculum and materials, library, training of trainers, and equipment.	<ul style="list-style-type: none"> ▪ Business plan for NBTI
	Start training by the proposed training institution (Training Institute Report)	The NBTA contact office has been established and the actual training has not been started yet.	<ul style="list-style-type: none"> ▪ Design of training curricula ▪ Accreditation with universities (national, regional and global level) ▪ Develop certification process
Reduce vulnerability risks of lenders and borrowers	Development of the pilot crop insurance plan by NRB in consultation with local stakeholders (MOF letter)	Government and NRB, in consultation with other technical agencies, completed a study on feasibility of the crop insurance scheme. Plan for piloting of the crop insurance scheme is being prepared and piloting is expected to start by the end of 2009.	<ul style="list-style-type: none"> ▪ Revisit and re-define the scope of product and process innovation, ▪ Training on market led-approach to new product development and processing mapping to selected RFIs ▪ Technical support to new product development and process refinement ▪ Piloting of crop insurance scheme