

**NEP 2268 (SF) - NEPAL: RURAL FINANCE SECTOR DEVELOPMENT CLUSTER PROGRAM I**  
**PROGRAM PROGRESS REPORT**  
(As of June 2010)

<b>Objective</b>	<b>Actions</b>	<b>Time line</b>	<b>Implementation Status</b>
Transform ADBL into a sustainable and efficient RFI	Issuance of a notice to offer ADBL shares to the small shareholders of ADBL	June 2007	ADBL issued a notice on 7 October 2007 to offer NRs450 million worth of ADBL ordinary shares at par value of NRs100 to small shareholders.  Notice was issued from 30 November 2007 to 3 January 2008 and shares was offered to small shareholders.
	Decision to initiate initial public offering of ADBL	Dec. 2009	ADBL issued Initial Public Officer of NRs. 960 million worth of ordinary shares at par value of NRs. 100 to general public and successfully implemented in 4-7 April 2010.  Issue manager allotted the share in May 2010.  The bank is working on distributing allotted shares and listing the share in the stock market.
	Settlement of the Government's dues payable to ADBL	July 2007	Government settled full amount of accumulated dues amounting NRs96.76 millions <sup>1</sup> on 28 November 2007.
	Finalize divestment plan of Government shares in ADBL	July 2007	On 21 November 2007, GOA/MOF finalized/approved ADBL divestment plan which included, among other, (i) issue 5% of total ordinary shares to small shareholders between November 2007 and January 2008, (ii) issue IPO of 30% of total ordinary shares within 2009 and (iii) divest Government ordinary shareholding to at least 30% of total ordinary shares thereby bringing government share to 21% by 2011.
	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	July 2007	ADBL started to write-off bad debt and make loan loss provisions complying with NRB directives <sup>2</sup> and Bank and Financial Institution Act 2062.

<sup>1</sup>These expenses include mainly the expenses incurred for implementing Government sponsored projects.

<sup>2</sup>ADBL 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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	directives		A loan portfolio management system is established in head offices and all the branch offices to comply with NRB directives and Bank and Financial Institution Act 2062 on write-off and loan loss provisions.
	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	Dec. 2008	ADBL BODs adopted new policy on (i) portfolio management, (ii) human resource management, (iii) financial management, and (iv) credit management since early 2008 and (v) account and financial management policy in October 2009.  Additional manuals on (i) treasury management, (ii) risk management, and (iii) guarantee and LC operation are at the final stage and will be adopted in 2010.
	Completion by ADBL of second voluntary retirement scheme	Dec. 2008	ADBL completed three (June 2006, January 2007 and March 2009) voluntary retirement schemes (VRS) for staff with more than 20 years of service to accept early retirement.  A total of 588, 574 and 262 staff took early retirement under first, second and third VRS respectively.
	Achievement of the performance indicators and critical implementation targets set out in ADBL Restructuring Plan to the satisfaction of ADB	Dec. 2008	Progress on ADBL restructuring is evaluated based on sustainability, outreach, and productivity indicators. ADBL demonstrated some notable changes on performance targets <sup>3</sup> , except outreach indicators <sup>4</sup> .
	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	Dec. 2008	ADBL established a client complaints unit <sup>5</sup> in May 2007 which receives and investigates client complaints and directly reports, as and when needed, to audit committee to ADBL BODs. The clients' complain unit is fully functional.

<sup>3</sup>Non-performing loan ratio of ADBL declined from 36.5% in FY2005 to 9% in FY2009. ADBL went from a net loss of NRs79 million in FY2005 to a profit of NRs353 million, NRs. 700 million and NRs. 633 Million in 2007, 2008 and 2009 respectively.

<sup>4</sup>Two consultants (i) Human Resource Specialist and (ii) Account and Financial Management Specialist under grant finance and five consultants (i) Treasury Specialist, (ii) Business Process and Portfolio Management Specialist, (iii) Training Specialist, (iv) Risk Management Specialist, (v) Trade Finance Specialist and (vi) Chief Technical Advisor under technical assistance are providing technical backstopping support for improved operational and financial management of ADBL.

<sup>5</sup>Key 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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	Establishment of Management Information System (MIS) by ADBL that allows measurement of its banking service outreach to women and disadvantaged group	Dec. 2009	<p>ADBL has designed and implemented MIS to monitor its performance indicators and has been producing quarterly performance monitoring report covering indicators on outreach, financial performance, operating efficiency, productivity and risk.</p> <p>ADBL signed an agreement with Wlink/Temanous for the supply and installation of Core banking System (CBS) to automate its operation and entire MIS. The vendor has started its work since January 2010 and installation/operation of CBS will be completed in June 2011.</p>
	Completion of the phasing out of the ADBL's small farmers development program	July 2007	<p>ADBL phased-out the SFDP on 15 July 2007 and transferred related loan portfolio to SFDB.</p> <p>SFDB is operating as a independent MFI to provide wholesale loans to SFCLs.</p>
	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	July 2007	<p>ADBL assessed performance of 214 SFCLs<sup>6</sup> and categorize them into four such as good, sub-standard, doubtful, and bad based on criteria such as overdue loans, interest receivables, internal resources, share capital and profits and losses.</p> <p>This classification provided basis for further on-lending by ADBL to SFDB in addition to determining the monitoring requirements and disbursement procedures.</p>
Transform SFDB into a model apex agency for Small Farmers' Cooperative Limited (SFCL)	Development and adoption of SFDB restructuring plan in consultation with ADB covering strategy, legal and governance structure, organizational and human resources development, operating policies and guidance for financial activities, partnership arrangements,	July 2007	<p>SFDB BOD approved SFDB restructuring plan on 15 November 2007. The restructuring plan covers aspects such as outreach, portfolio management and institutional capacity.</p> <p>As part of restructuring exercises, SFDB's BODs recruited Chief Executive Officer through open competition and prepared plan to gradually return ADBL staff deputed in SFDB<sup>7</sup>.</p>

<sup>6</sup>These SFCLs are the clients of the SFDB.

<sup>7</sup>A Microfinance and Banking Operation Specialist is assisting SFDB to implement its Restructuring Plan.

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	performance benchmarks and implementation schedule		<p>SFDB prepared a business plan for its operation and introduced a policy to enhance access to financial services to non-SFCLs. A strategy for a pilot project on enhancing financial services in inaccessible hills and mountain districts through alternative modalities has been finalized and currently preparing for eventual implementation of the strategy.</p> <p>Procurement process for MIS software is completed. Vendor supplied hardware. ADBL and SFDB are working for the supply of the software.</p>
Continue strengthening of GBBs	Decision to be undertaken on the future direction of the technically insolvent GBBs.	Dec. 2008	<p>NRB shares in four GBBs (Eastern, Central, Western and Mid-Western) were divested.</p> <p>Divestment of Far Western GBBs suspended due to its insolvency and requirement of a substantial recapitalization and significant performance improvements.</p> <p>NRB is preparing the strategies for divestment of far-western GBB.</p>
Enhance the supervision and regulation of RFIs	Decision on appropriate supervisory and regulatory framework of RFIs	Dec. 2007	GON approved Microfinance Policy 2008 to provide an overall framework for developing RFIs. The policy provides framework for supervision and regulation of RFIs.
	Initiation of implementation of supervisory and regulatory framework of the RFIs	Dec. 2008	NRB drafted Microfinance Act that outlines establishment of Microfinance Regulatory Authority as an autonomous institution to supervise and regulate the RFIs.
Develop a systemic sector capacity building mechanism	Incorporation of the training institution pursuant to Companies Ordinance, with necessary financial contribution from NRB, ADBL and other financial institutions	Dec. 2008	<p>National Banking Training Institute (NBTI) was established as an educational institution under the Company Act.</p> <p>The establishment of NBTI was lead by Bankers' Association of Nepal and all the Nepalese commercial banks are its promoters.</p> <p>NBTI has recruited the CEO and support staff<sup>8</sup>.</p>

<sup>8</sup>International Chief Technical Advisor is providing technical backstopping support to NBTI to design operational and management system.

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	Develop business plans for training, course curriculum and materials, library, training of trainers, and equipment.	July 2009	Draft business plan for NBTI prepared and course curriculum, materials, library, training of trainers and equipment in being procured.
	Start training by the proposed training institution.	July 2009	NBTI has started training programmes to the staff of the commercial banks since March 2010.
Reduce vulnerability risks of lenders and borrowers	Development of the pilot crop insurance plan by NRB in consultation with local stakeholders (MOF letter)	Dec. 2008	GOA/NRB, in consultation with other technical agencies (World Bank), completed a study on feasibility of crop insurance scheme.  No further works done towards developing the pilot crop insurance plan.