

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

Objective	Actions	Time line	Implementation Status
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 and the notice was issued from 30 November 2007 to 3 January 2008.
	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.
	Settlement of the Government's dues payable to ADBL	July 2007	Government settled full amount of accumulated dues amounting NRs96.76 millions ¹ 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 40% of total ordinary shares 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 directives	July 2007	ADBL started to write-off bad debt and make loan loss provisions complying with NRB directives ² and Bank and Financial Institution Act 2062. 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	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.

¹These expenses include mainly the expenses incurred for implementing Government sponsored projects.

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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	ADB		
	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 ³ , except outreach indicators ⁴ .
	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 ⁵ in May 2007 which receives and investigates client complaints and directly reports, as and when needed, to audit committee to ADBL BODs.
	Establishment of Management Information System (MIS) by ADBL that allows measurement of its banking service outreach to women and disadvantaged group	Dec. 2009	ADBL has designed and implemented MIS to monitor performance indicators and has been producing quarterly performance monitoring report covering indicators on outreach, financial performance, operating efficiency, productivity and risk. ADBL signed an agreement with Wlink/Temanous for the supply and installation of Core banking System (CBS) and procurement process is ongoing.
	Completion of the phasing out of the ADBL's small farmers development program	July 2007	ADBL phased-out the SFDP on 15 July 2007 and transferred related loan portfolio to SFDB.
	Completion of ADBL's assessment of	July 2007	ADBL assessed performance of 214 SFCLs ⁶ and categorize them

³Non-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.

⁴Two 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.

⁵Key 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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	the performance of Small Farmers' Cooperative Limited (SFCL), which will be the basis for determining further onlending support by ADBL to SFDB		into four: good, substandard, doubtful, and bad based on criteria such as overdue loans, interest receivables, internal resources, share capital and profits and losses. This classification provided basis for further on-lending to SFDB and determine 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 strategy, legal and governance structure, organizational and human resources development, operating policies and guidance for financial activities, partnership arrangements, performance benchmarks and implementation schedule	July 2007	SFDB BOD approved SFDB restructuring plan on 15 November 2007. Reform has been started on outreach, portfolio management and institutional capacity. As part of restructuring exercises, SFDB's BODs recruited Chief Executive Officer through open competition and prepared plan to gradually return ADBL staff working on deputation in SFDB ⁷ . SFDB prepared a business plan for its operation and introduced a policy to enhance access to financial services to non-SFCLs. A pilot project on enhancing financial services in inaccessible hills and mountain districts through alternative modalities at the final stages of implementation. Process started on the procurement of MIS software in SFDB.
Continue strengthening of GBBs	Decision to be undertaken on the future direction of the technically insolvent GBBs.	Dec. 2008	NRB shares in four GBBs (Eastern, Central, Western and Mid-Western) were divested and divestment of Far Western GBBs suspended due to its insolvency and requirement of a substantial recapitalization and significant performance improvements.
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 that will provide strong 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 Regulation Authority as an autonomous institution to implement the supervisory and regulatory framework for the RFIs.
Develop a systemic sector capacity building mechanism	Incorporation of the training institution pursuant to Companies Ordinance, with necessary financial	Dec. 2008	National Banking Training Institute (NBTI) was established as an educational institution under the Company Act under the leadership of Bankers' Association of Nepal and with share capital

⁶These SFCLs are the clients of the SFDB.

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

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	contribution from NRB, ADBL and other financial institutions		from all the commercial banks. Recruitment of CEO from open market has been finalized ⁸ .
	Develop business plans for training, course curriculum and materials, library, training of trainers, and equipment	July 2009	Draft business plan for NBTI prepared and management for course curriculum, materials, library, training of trainers, and equipment in process. The business plan is being finalized.
	Start training by the proposed training institution	July 2009	NBTI just started actual training course.
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 has been done on this aspect.

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