SUSTAINABILITY OF GRAMEEN BIKAS BANKS IN NEPAL: A FINANCIAL PERSPECTIVE

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in

RURAL DEVELOPMENT

By

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LETTER OF RECOMMENDATION

We certify that, this dissertation entitled "SUSTAINABILITY OF GRAMEEN BIKAS BANKS IN NEPAL: A FINANCIAL PERSPECTIVE" submitted by Mr. Kirti Bikram Dahal to the Office of the Dean, Faculty of Humanities and Social Science, Tribhuvan University for the degree of Doctor of Philosophy was completed under our supervision and guidance.

The dissertation is the candidate's original research work. We have carefully read this final work. We are fully satisfied with the language and substance of this dissertation. To the best of our knowledge, the candidate has fulfilled all the other requirements of the Ph.D. program of Faculty of Humanities and Social Science, Tribhuvan University.

We, therefore recommend that the dissertation be considered for the award of Ph. D. degree.

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APPROVAL LETTER

This dissertation entitled "SUSTAINABILITY OF GRAMEEN BIKAS BANKS IN NEPAL: A FINANCIAL PERSPECTIVE" was submitted by Mr. Kirti Bikram Dahal for final evaluation to the Research Committee of the Faculty of Humanities and Social Sciences, Tribhuvan University, in fulfillment of the requirements for the DEGREE OF DOCTOR OF PHILOSOPHY IN RURAL DEVELOPMENT. I hereby certify that the Research Committee of this faculty has found the dissertation satisfactory in scope and quality, and has accepted it for the degree.

____

(Prof. Dr. Chintamani Pokharel)
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DECLARATION

I hereby declare that this Ph. D. dissertation entitled "SUSTAINABILITY OF GRAMEEN BIKAS BANKS IN NEPAL: A FINANCIAL PERSPECTIVE" submitted to the office of the Dean, Faculty of Humanities and Social Science, Tribhuvan University is an entirely original work prepared under the guidance of my supervisor. I have made due acknowledgement to all ideas and information borrowed from different sources in the course of writing this dissertation. The result presented in this dissertation has not been presented or submitted anywhere else for the award of any degree or for any other reason. No part of the content of this dissertation has ever been published in any form before. I shall be solely responsible if any evidence is found against this declaration.

Kirti Bikram Dahal

May 6, 2013

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ABSTRACT

Grameen Bikas Banks (GBBs) are in operation since beginning of nineties with the initiation of Nepal Government and Nepal Rastra Bank in the regional level in Nepal. GBBs have provided micro finance services to more than 150 thousand families as a form of tiny loans in group based guarantee associated with compulsory savings. The total loan outstanding by the end of mid-July 2008/09 is 2,361 million; at the same time, they have collected Rs. 649 million as savings. Beside loan disbursement and saving mobilization, they have contributed for social mobilization and women empowerment as well. Many studies have shown that GBBs have helped remarkably to reduce poverty.

Although, GBBs are instrumental for poverty reduction, financial health of GBBs is not satisfactory. It was thought that GBBs would have operationally viable within 3-5 years and attain financial viability in 5-7 years of their operation. But the result appeared opposite. Out of five, four GBBs incurred heavy losses and NRB and GoN injected extra capital to revive them in the beginning of twenties. Even though, after more than 15 years of their operation, financial viability of GBBs always appears questionable. They are not able to be financially self sufficient till now.

Many impact studies have been made by many researchers and organizations including NRB, but their financial sustainability have not been examined yet. Therefore, the researcher has undertaken this study to assess the financial sustainability of GBBs.

Sustainability is meeting goals now and in the long term. Sustainability looks to the future. Sustainability depends on future performance. Human can only guess future performance. Financial viability analysis provides the base to forecast sustainability. Viability can be measured in terms of operational self–sufficiency (OSS) and financial self-sufficiency (FSS).

The main objective of this research is to assess the operational and financial viability of GBBs. This is an evaluative research focusing on evaluation of services of GBBs to determine whether and to what extent they are working in financially sustainable fashion. Mainly secondary data have been used in this study to analyze the different aspects of financial sustainability. For sustainability analysis, the research is based on the model developed by "PLAN International Credit/MED Monitoring System". To know the perception of clients and staff about sustainability, primary data have also been used and analyzed using simple statistical tools.

Profits of GBBs matter for sustainability and sustainability matters for repayment. Profits protect for permanency. It has to depend upon its own income to provide sustainable services. A financially self- sufficient GBB should collect that much profit that when external support if not provided, it will not shrink in real terms nor will it reduce the size or scope of its service to the poor.

Repayment also depends on the sustainability and permanence of the GBBs. Dishonest debtors stop repayment to weak and sick GBBs. As the expected life of an MFI shrinks and as the chance of future loans drops, the net present worth of default is more likely to exceed the net present worth of repayment from the point of view of a debtors.

Major findings of this study are Purwanchal Grameen Bikas Bank (PuGBB) and Paschimanchal Grameen Bikas Bank (PaGBB) are operationally viable and financially possible to be self sustainable. Madhyamanchal Grameen Bikas Bank (MGBB) and Madhya Paschimanchal Grameen Bikas Bank (MPGBB) are operationally viable in recent year but the trend is not positive but, the financial performance of Sudur Paschimanchal Grameen Bikas Bank (OSS) very pitiable. The OSS ratio of Sudur Paschimanchal Grameen Bikas Bank (SPGBB) is always below hundred i.e. SPGBB is in operational losses almost every year. All GBBs have not crossed the Financial Sustainability Ratio yet. Unless and until they cross that level, their sustainability is questionable.

The equity of SPGBB is negative since long ago. The unrecovered loan ratio is highest of all in SPGBB. The staff efficiency in PuGBB and PaGBB as compared to other GBBs are better. But it seems low in MGBB SPGBB and MPGBB. But the extent of saving collection is low in PuGBB as comparative to other GBBs.

There is a lack of professionalism in GBBs. Similarly, weak technical capacity is also hindering the performance of GBBs. Staff are less motivated in GBBs. Limited outreach, poor governance and lack of supervision are also hampering the productivity of GBBs. Lack of capacity build up activities of staff and clients, poor marketing, high competition, lack of attractive loan and saving products, lack of sufficient loan fund, lack of insurance, general strike and road obstacles are some major hurdles to achieve sustainability of GBBs.

To achieve the financial viability, these banks should increase their revenue to cover all the cost including cost of capital and adjusted impact of inflation to its equity. To increase revenue is impossible because clients are hesitating to repay the current rate of interest (20 percent in average in general loan) if it increased, the dropout rate may increase. Therefore other alternative way to achieve financial viability is to reduce its cost of fund as well as to reduce operating costs. Therefore, GBB should generate internal fund by attracting savings from its borrowers and should increase its efficiency performing business in low cost.

On the other hand it should extend its outreach to the level which may generate the economies of scale leading towards financial viability. For this, GBB should strengthen its institutional capacity, management information system, internal control mechanism, delinquency management, human resource management and product and delivery management.

The self evaluation system of their performance in GBB is very poor. They only produce their reports to fulfill the requirement of NRB only. NRB regulation for microfinance institution has not been so effective because microfinance is new concept and NRB is manly focusing its activities to regulate and supervise bank and financial institutions other than MFIs. There is also another perception that microfinance should be self regulated. This concept is also true because microfinance institution is rural organization which provides its services from the corner of the remote areas and from inaccessible location. Therefore, self regulation is justifiable. To be self regulated, these institutions should follow some international models of performance measurement for the evaluation of themselves.

All GBBs are operating in Nepal replicating the Grameen Bank financial system. They are adopting almost same methodology and also facing same problems. Lack of professionalism and low productivity, high operating cost, weak management and limited network are the major problems facing GBBs. Therefore, merge of five regional GBBs to a national wide Grameen Bikas Bank becoming more professional, strong nationwide network and scale of outreach would be the other alternative to be GBB financially self-sufficient.

To sum up, the researcher has tried to adopt the newly developed 'PLAN' model for the evaluation of GBBs. Good evaluation of GBB itself helps to perform better and reduces inefficiencies which in turn, increase the productivity and finally help the GBB to be sustainable. If the knowledge sharing as the form of this dissertation would have little bit helpful for any sectors like GBBs themselves, researchers, policy makers, planners, NRB and GoN; that would have been a modest achievement for the researcher.

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ACRONYMS

ACC	Agriculture Credit Corporation
ACR	Administrative Cost Ratio
ADB/M	Asian Development Bank Manila
ADB/N	Agricultural Development Bank Nepal
ADBL	Agriculture Development Bank Limited
ADBP	Agriculture Development Bank of Pakistan
ANOVA	Analysis of Variance
APA	Average Performing Assets
BAFIA	Bank and Finance Intermediary Act
BAFIO	Bank and Financial Intermediary Ordinance
BIDS	Bangladesh Institute of Development Studies
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Bank
BRI	Bank Rakyat Indonesia
BWTP	Banking with the Poor
CBB	Chhimek Bikas Bank
CBOs	Community-based Organizations
CBS	Central Bureau of Statistics
CBs	Commercial Banks
CCU	Central Cooperative Union
CEAPRED	Centre for Environmental & Agricultural Policy Research Extension and Development
CECI	Canadian Centre for International Studies and Cooperation
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poorest
CGC	Credit Guarantee Corporation
CGISP	Community Ground water Irrigation Sector Project
CGT	Compulsory Group Training

CIDA	Canadian International Development Agency
CMF	Centre for Microfinance
CSD	Centre for Self-help Development
CSI	Cottage and Small Industries
DBs	Development Banks
DDB	Deprosc Development Bank
DEPROSC	Development Project Service Center
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DSCP	Deprived Sector Credit Program
DWD	Department of Women Development
EU	European Union
EAFS	Enhancing Access to financial services
FAO	Food and Agriculture Organization
FCR	Financial Cost Ratio
FINCA	Foundation for International Community Assistance
FINGOs	Financial Intermediary Non Government Organizations
FSS	Financial self-sufficiency
G8	Group of Eight
GB	Grameen Bank
GBA	Grameen Bank Approach
GBB	Grameen Bikas Bank
GBFS	Grameen Bank Financial System
GBR	Grameen Bank Replicator
GDP	Gross Domestic Product
GNP	Gross National Product
GoN	Government of Nepal
GRT	Group Recognize Test
GTZ	Gesselschaft fur Technische Zussamenarbeit (German Development Assistance)
HDI	Human Development Index

HSG	Self-Help Group
IBP	Intensive Banking Program
ICC	Imputed cost of capital
IDA	International Development Agency
IDP	Institution Development Program
IFAD	International Fund for Agricultural Development
IFRPI	International Food Research Policy Institute
INGO	International Non-government Organization
IRDP	Integrated Rural Development Project
LBS	Lead Bank Scheme
LLR	Loan Loss Ratio
LLPR	Loan Loss Provision Ratio
LP	Loan Portfolio
MCPW	Microcredit Project for Women
MDG	Millennium Development Goal
MDI	Multidimensional Poverty Index
MFDB	Microfinance Development Bank
MFI	Micor Finance Institution
MFIs	Micro Finance Institutions
MFO	Micro Finance Organization
MGBB	Madhyamanchal Grameen Bikas Bank
MIS	Management Information System
MLD	Ministry of Local Development
MPGBB	Madhya Paschimanchal Grameen Bikas Bank
NABARD	National Bank for Agriculture and Rural Development
NABIL	Nepal Arab Bank Limited
NBL	Nepal Bank Limited
NCDB	National Cooperative Development Bank
NEFSCUN	Nepal Federation of Savings and Credit Cooperative
NGOs	Non Government Organizations

NIDC	Nepal Industrial Development Corporation
NLSS	Nepal Living Standards Survey
NPA	Non-performing Asset
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRCR	Nepal Rural Credit Review
NUBL	Nirdhan Utthan Bank Limited
OSS	Operational Self-sufficiency
OCR	Operational Cost Ratio
PAF	Poverty Alleviation Fund
PaGBB	Paschimanchal Grameen Bikas Bank
PAPWT	Poverty Alleviation Project in Western Terai
PBs	Partner Banks
PAR>30	Portfolio Arrear Ratio Greater than 30 days.
PCRW	Production Credit for Rural Women
PEARLS	Protection, Effective financial structure, Rate of return and cost, Liquidity, and Signs of Growth
POs	Partner Organizations
PSCP	Priority Sector Credit Program
PuGBB	Purbanchal Grameen Bikas Bank
RBB	Rastriya Banijya Bank
RD-12	Rural Development Project - 12
RDB	Rural Development Bank
RMDC	Rural Microfinance Development Centre
RMP	Rural Microfinance Project
ROA	Return on Average Performance Assets
ROSCA	Rotating Saving and Credit Association
RRDB	Regional Rural Development Bank
RSRF	Rural Self-Reliance Fund
RUFIN	Rural Finance Nepal

SACCOS	Saving and Credit Cooperative Society
SFCL	Small Farmer's Cooperative Limited
SBB	Swabalamban Bikas Bank
SBP	Self -help Banking Program
SCC	Savings and Credit Cooperative
SCGs	Savings and Credit Groups
SCOs	Savings and Credit Organizations
SDI	Subsidy Dependence Index
SDR	Special Drawing Rights
SEEP	Small Enterprise Education and Promotion
SEWA	Self-Employed Women's Association
SFDP	Small Farmer Development Project
SHG	Self-help Group
SKBB	Sana Kisan Bikas Bank
SPGBB	Sudur Paschimanchal Grameen Bikas Bank
SPSS	Statistical Program for Social Science
STI	Second Tier Institution
TLDP	Third Livestock Development Project
TU	Tribhuvan University
UN	United Nations
UNDP	United Nations Development Project
UNICEF	United Nations Children fund
UNO	United Nations Organization
USAID	United States Agency for International Development
VDC	Village Development Committee
VRS	Voluntary Retirement System
WB	World Bank
WOCCU	World Council of Credit Union
WWB	Women's World Banking

CHAPTER I

INTRODUCTION

1.1 Background

Nepal is a land locked country situated between India (East, West and South) and China (North). The country is divided into three geographical range i.e. Himalayan range, Mountain range and Terai Range. The hills and mountains covers 83 percent of land in the middle and north side of this country where as, only 17 percent of land is plain in the southern part. Out of total population, 86 percent people live in rural area and rest 14 percent resides in urban area (CBS, 2001).

Most of the Nepalese people depend upon agriculture and its related activities for their livelihood. The labor survey conducted by NPC estimated that 76 percent of economically active people in Nepal still employed in agriculture related activities. The share of agriculture in GDP was 72 percent in 1975 but it has fallen to 38 percent in 2001/02 and 33 percent in 2007. However, a vast majority of people still compelled to continue subsistence agriculture for income and employment opportunity. Women constitute of 60 percent of labor force. They have very little access to the alternative economic opportunities.

To operate economic activities, finance is essential. Although there is high potential of non-farm activities in rural area, they are not implemented at full capacity. However provision for rural credit is not adequate as it demanded. GBBs are such institution, which provide credit without collateral. GBBs are working in rural areas for augmenting credit to the poor. However, their income statements show that most of these are running in losses, a few are earning negligible profit. It shows that their sustainability is vulnerable.

1.2 Rural Economy: Dominance of Subsistence Agriculture

Agriculture is the mainstay of economic activities in Nepal. It is main source of livelihood of Nepalese people. Despite agriculture's declining share in GDP it is still a most dominating sector of the economy. Not only in terms of GDP, but it has also contributed as the main source of employment, income and livelihood, contribution to exports and industrial development. More important, the agriculture sector provides employment around three out of four economically active people.

Agriculture has been constantly regarded as the backbone of the economy but the development outcomes in this crucial sector have remained distressingly inadequate. Up to the decade of mid-seventies, Nepal was a food-exporter country, but now the position has changed. It shifted from food exporter to net food-importer country and continued to remain least developed country in the South Asia. The share of Agriculture in GDP of Nepal is high as compared to its neighboring countries. It was 33 percent in 2008. In the same time, India has its share of Agriculture to GDP is 18 percent, whereas, Bangladesh, Pakistan and Sri Lanka have their share of 19 percent, 20 percent and 13 percent respectively.

1.2.1 Characteristics of Agriculture Household

The NLSS II survey (CBS, 2005) revealed that 83 percent of households are agriculture household. Around ninety percent of the households in rural mountains/hills and one third of urban household is agriculture household. The majority of agriculture household heads are male however; the percent of female-headed agricultural households have been increased from 13 percent in 1995/96 to 16 percent in 2003/04. Household size of agriculture households seem to have been smaller between the survey periods from 6.0 to 5.7. Therefore, without transformation of subsistence agriculture to modern and professional source of income, it remains the main hurdle for socio economic development of the rural Nepal.

1.2.2 Area, Land Fragmentation and Farm Size Distribution

Distribution of land among people is highly skewed and unequal in Nepal. The top five percent of the owners have controlled 40 percent of total land and rest 60 percent people have owned only 20 percent. It indicates that majority of the rural population are either marginal or smallholdings of land. In terms of area, the average size of farmland is reduced from 1.1 hectare in 1995/96 to 1.0 hectare in 2003/04. There is uneven distribution of the agricultural land within households. Table 1.1 depicts the distribution of agricultural households with land.

Table 1.1

Percentage Distribution of Agricultural Households with Land

Size (hectares)	**<0.5**	**0.5-2.0**	**>2.0**	**Total**
1995/96 (percent)	37.0	47.4	15.6	100
2003/04 (percent)	35.8	53.6	10.6	100

Source: CBS, 2006

There were about 37 percent small farmers in 1995/96 holding less than 0.50 hectare of agricultural land while 15.6 percent of large farmers held 2.0 hectare or more. From 2003/04 panel data, it showed that there are about 36 percent small farmers operating less than 0.50 hectares of land and about 11 percent large farmers operating 2.0 hectares and more (Table 1.1). The declining percentage of large farmers shows further fragmentation of agriculture land during the periods of the two surveys. Those smallholdings are subject to fragmentation due to growing population. Consequently, there is a large segment of population at bottom who are landless and extremely poor. Thus small land holdings, landlessness, low and stagnating productivity, insufficient production, and little or no savings define the vicious cycle of poverty in Nepal.

1.2.3 Cropping Pattern and Productivity

The agriculture product is divided into broadly three groups, i.e. food grains (paddy, maize, wheat, barley, and millet etc.) cash crops (sugarcane, oil seeds, potato, tobacco, jute etc.) and other crops (fruits, vegetables, spices, tea, coffee, floriculture etc). Within agriculture products, food grains hold the share of 46 percent. Whereas, the cash crops shares of 31 percent and the shares of other remains 23 percent. The land under the major food grains rose from 3,262 thousand hectare in 1996/97 to 3,418 thousand hectare in 2008/09 (Ministry of Finance, 2010) with an annual average compounded growth of 0.4 percent. The production of major food crops (mentioned above) increased with an annual average compounded growth of 2.0 percent, resulting in a productivity growth of 1.6 percent during the period. Assuming the 2.2 percent population growth, the 2.0 percent annual growth of the major food crops during the period meant the decline in the per capita food production by an annual rate of 0.2 percent point. It showed that the performance of agriculture production has been remained unsatisfactory.

The productivity of agriculture sector is very low as compared to other sectors of economy. Agriculture shares one-third portions in GDP, whereas, industrial sector contributes 17 percent and service sector holds about 50 percent (Pradhan, 2005). It showed that the per capita income in the agriculture is 39.4 percent of the industrial income and 21 percent of the services sector income, reflecting wide deviation across the sectoral incomes. This situation calls for more resources to be allocated for the agriculture so as to ensure an equitable and inclusive development of the country (Basyal, 2008).

1.2.4 Rural Poverty

Poverty in Nepal is sectorally concentrated in Agriculture and mainly rural areas. Although, poverty is widely spread in Nepal, its extent and severity vary across regions. The extent of poverty is higher in rural area compare to urban area. It is more severe in remote parts of the hilly and mountainous regions, where subsistence agriculture is the only source of livelihood. In fact, agriculture is the primary source of livelihood for vast majority of the rural people including the poor but the production and productivity of agriculture has remained always low which led to aggravation of poverty.

According to the report of National Planning Commission in 1977, only 32 percent people were below poverty line. In 1984/85, the ratio increased and reached to 49 percent. Nepal Living Standard Survey (NLSS I) in 1995/96 estimated that people below poverty line were 42 percent where as the Second Nepal Living Standard Survey (NLSS II) in 2003/04 estimated that 31 percent of people are still below poverty line. However, according to the study undertaken by University of Oxford for the UNDP, (Human Development Report, 2010) the percentage of poor is measured in terms of Multidimensional Poverty Index (MDI) is 65 percent. Thus, it can be conclude that overall situation of poverty in broader terms is going from bad to worse.

Nepal Living Standard Survey (NLSS II) reported that the reduction of poverty decreased by eleven percent points between 1995/96 and 2003/04, from 42 percent to 31 percent (CBS, 2005). The main cause of poverty reduction is labor remittance sent from abroad. The incidence of poverty in urban areas decreased more than halved (from 22 percent to 10 percent) during this period. While, poverty in rural areas also declined from 43.3 percent to 34.6 percent. Although the head count poverty seems to be decreased, the Gini Co-efficient is increased from 34.2 to 41.4 during this period. It indicates that the inequality between haves and have-nots has increased.

Nepal continues to remain one of the poorest countries in the world with per capita income of around US$ 427 (World Bank, 2009). Unemployment and under employment is one of the major characteristics of Nepalese people. The surplus labor force is generally unskilled due to limited access to education and training, cannot move from agriculture to non-agricultural occupations for two reasons. Firstly, the non-agriculture sector remains chronically miniscule due to mostly the country's land locked position. Secondly, only twenty percent jobs in the manufacturing sector are skilled otherwise, the biggest employer of labor i.e. agriculture, are for the unskilled. Therefore, excess labor continues to remain trapped in largely subsistence agriculture, even as the per capita availability of agricultural land has steadily diminished from 0.6 hectare in 1954, 0.24 hectare in 1990 and 0.15 hectare in 1998 (Shrestha and Shrestha, 2007).

The domestic saving rate has been stagnated during last few years. The rate was 9.8 percent in 2006/07 and 9.7 percent in 2007/08; 9.7 percent in 2008/09 and 9.4 percent in 2009/10 (Ministry of Finance, 2010). Low level of household income led to low level of saving resulting limited extent of self-financing for farm and off-farm employment as well. Adequate access to financial services has therefore been considered essential factor to promote growth and reduce widespread rural poverty in Nepal.

For most people, the available holdings of land or income from partial employment are not enough to assure them food security, or to buy health services and decent education for their children. The situation is obviously much worse for the landless or near landless people in the rural communities.

Therefore, it is necessary to increase production and productivity of agriculture along with promotion of non-farm activities of the rural mass that can contribute to poverty reduction. It can be done by bringing unbanked people into the banking fold. Therefore, such type of banking system is needed which provides the banking services exclusively to rural poor people. In Nepalese banking history, Grameen Bikas Banks (GBBs) are such banks having main objective to provide financial services to the rural poor people. In the area of poverty reduction, the role of GBBs will be more instrumental through making credit more inclusive.

1.3 Financial Exclusion

1.3.1 Introduction

The role of credit and finance in rural development particularly in developing countries like Nepal has become a focal point for discussion. Credit is one of the major productive resources for those households who do not have either land or enough savings of their own. Informal sector is the major source of credit for rural households. Formal source of borrowing covers almost 20 percent of the households (NRB, 1994). Out of 20 percent households who borrow from formal sources, also resort to informal source of financing also. The distribution of formal sector credit remains highly unequal as only 9 percent the land-less households able to get formal credit only as compared to 38 percent of large farm households (Khatiwada, 2002).

First National Living Standard Survey, NLSS I, (CBS, 1997) showed that 59 percent of the households are borrowers of one kind or other. The proportion of borrowers is 35 percent households in the urban area and 66 percent in the rural area. Moneylenders and relatives account for more than 80 percent of the borrowings whereas a bank borrowing is just 16 percent of the total borrowings.

Poverty is the main phenomenon of Nepalese economy. High incidence of poverty is also concentrated in the rural areas. Income distribution is more skewed in Nepal. Ten percent people are occupying 52 percent of the national income (Khatiwada, 2002). If the major productive asset is not evenly distributed, poverty reduction is impossible. It is only possible through enabling access to credit and skill to undertake self-employment creating enterprises.

Besides labor factor, there are other factors of production with rural people also. On account of high absolute poverty, the saving rate is very low (less than ten percent) and due to the mass illiteracy, skill for entrepreneurial and managerial work is almost absent. Off farm activities is very limited. As a result, high underemployment seems in rural areas. In absence of basic infrastructure and institutions, 'market' rarely exists in rural area. The meaningful existence of government in terms of economic activities is limited in rural area. So the role of non-government organization and community-based organizations is pertinent. Micro-credit is one of the several activities undertaken by these organizations in the rural areas. More recent phenomenon is financial cooperatives which has been helping savings mobilization and catering credit for members. Although this is an encouraging sign for rural finance perspective, it is also marked by off- line activities and supervisory laxity.

Demand of rural credit is very much high as compared to its supply. The World Bank has estimated that the total rural credit requirement was Rs. 18 billion in 2007. But the total credit supplied by the formal sector was only Rs. 5 billion in rural area. It indicates that only about 28 percent of rural credit demand is fulfilled by formal sector. The major share of rural credit is still being provided by the exploitative informal sector. Hence it can be said that there exists a considerable gap between demand and supply for rural credit in Nepal (Ferrari at al., 2007)

The outreach of formal financial institutions has covered only one third of the total population (World Bank, 2006). Almost two third of the people are relying on informal sources of financing (merchants, money lenders, traditional cooperatives, etc.) to fulfill their social and economic activities. In absence of access to formal sources of credit, the rural poor continue to be subjected to exploitative terms (high interest, gift, premiums, free labor, bonded labor, etc.) falling on perpetual cycle of indebtedness and poverty (NRB &CECI, 2008).

Eighty-six percent of people still live in rural sector of Nepal (CBS, 2001). Most of their economic activities are based on agriculture. A financial source is essential for every kind of economic activities. Although there is high potential to operate economic activities, they are not to be implemented due to lack of financial as well as technical difficulties.

The productivity of agriculture is full of uncertainty. It depends upon arrival and intensity of monsoon. Sometime it would be favorable and crops production gets improve in spite of traditional methods of farming and use of domestic seeds. Otherwise, their investment could not bring enough return on invested capital and labor cost.

1.3.2 Needs of Credit

It is already discussed that demand of agriculture credit is very high but supply is limit. Most of rural people have to depend upon informal sector to fulfill their loan requirement. The agriculture productivity of rural farmer is low. It is clear that without developing agriculture sector, the development of Nepal is impossible. To uplift the economic condition of rural poor people, their potential and capacity should be explored and utilize. For this purpose, rural based economic activities should expand and utilized. Rural people have many resources to operate domestic economic activities. To utilize their resources, their economic condition should be improved. To utilize the domestic resources for the production purpose, they need some technical as well as financial resources. But rural poor people do not have capacity to invest themselves. Therefore, they need credit for that perspective. Lack of access to finance for weaker section of the rural area is a major threat to economic equality and poverty alleviation.

1.3.3 Microfinance Institution and GBBs

The system of traditional credit relation increased indebtednesses of farmers, dispossession of land and bondage of labors. In this context, growth of microfinance through various banking and non-banking sectors, acquire a great deal of significance.

Government of Nepal tried to implement microfinance as a targeted credit programs to make poor people able to carry them self-employed. A major theme underlying the implementation of the targeted credit program has been that the informal sources are exploitative and therefore, need to be replaced by formal sources.

In 1993, an important initiative to augment the supply of microfinance, first two Grameen Bikas Banks (GBBs), (one in the Eastern and other in the Far Western Development region) were established with initiation of Nepal Government and Nepal Rastra Bank (NRB). Some commercial banks also participated in the equity share of GBBs. The financial system of these GBBs adopted from Grameen Bank of Bangladesh propounded by Nobel Laureate Prof. Mohammed Yunus. By 1996, other three Grameen Bikas Banks were set up in remaining each development region of Nepal. As of Mid July 2008, Grameen Financial Model was replicated by five GBBs, Five MFDBs, one cooperative and three FINGOs in Nepal. The rational for the establishment of GBBs provide sustainable credit low cost to poor rural women neglected by other credit programs. GBBs have played a significant role in providing credit to rural Nepal.

1.4 Statement of the Problems

There is no denying in the fact that economic development of country like Nepal lies at the bottom of the pyramid. Rural micro finance institutions can play an important role in this regard. GBBs working in rural area for augmenting rural credit to the poor are a case in point. They are playing a steering role in poverty alleviation functions. However, for getting success in such functions, the banks should be financially sound and well managed themselves. The actual financial positions and effectiveness of these banks are not reflected in depth due to lack of research and studies in this context. However, according to the income statements of these banks, most of them were in heavy losses from the very beginning of their establishment whereas a few were earning negligible profit.

Grameen Bikas Banks are adopting the replication of Grameen Bank Financial System of Bangladesh. This financial system is well success in Bangladesh and more than 100 countries in the world but, this successful financial system could not get success in Nepal. It was anticipated that these banks will attend their Operational Self Sufficiency (OSS) within 3-5 years of operation and will attend Financial Self Sufficiency (FSS) within 5-7 years of operation (Pradhan, 2005). According to report of NRB in 2000, none of five GBBs except Paschimanchal Grameen Bikas Bank (PaGBB) was able to reach the condition of OSS. This is shocking. What, therefore, can be done is to strengthen GBBs through (i) effective linkage with more member groups and (ii) viability oriented operational reforms. In this context; sustainability of GBBs needs a careful study.

1.5 Rationale of Study

The major barrier to rural development is financial exclusion of people. Rural development, anywhere, in the world requires sufficient monetization in economy. Which means ratio of financial assets to physical assets in rural areas should be balanced. Monetization of rural economy in Nepal couldn't be achieved through conventional route finance and banking system alone. To develop rural Nepal, it is required to pass through unconventional ways to bring more people into the mainstream of financial services for those who have no collateral. Realizing this fact, Nepal Rastra Bank (NRB) had taken initiative to address the credit demand of deprived class through the establishment of Grameen Bikas Banks (GBBs) with NRB charting the path to the unbanked hinterland; GBBs are rolling out innovative programs to reach out rural poor.

The rationale behind the establishment of Grameen Bikas Banks is to provide financial services to the deprived section of the society at their doorsteps and to generate gainful employment opportunities. GBB provides micro-credit to the poorest of the poor group of society without any collateral. The banks, apart from the loan and saving activities, conduct other social development programs to uplift both social as well as economic status of the poor people.

In the beginning of the establishment of GBBs, it was expected that these banks would run in Operational Self Sufficiency (OSS) conditions within three to five years and would have achieved Financial Self Sufficiency (FSS) in five to seven years. But in the operation of more than 15 years, they have not been able to generate sufficient revenues to cover their all required costs. So the study is focused to evaluate the financial sustainability of these banks.

By the end of mid July 2009, GBBs have provided financial services in 1092 VDC of 50 districts. The total members of GBBs are around 170 thousand comprising 5441 center out of them, more than 150 thousand have got micro credit form five GBBs. It indicates that GBBs have made significant contribution to reduce poverty. The household survey 2008 conducted by Nepal Rastra Bank has revealed that the average family size of Nepal is 5.36 person. According to NLSS II conducted by Central Bureau of Statistics, 31 percent of Nepalese people are below poverty line. Calculating this fact, we can make a conclusion that only 10.5 percent people are getting financial services form Grameen Bikas Banks (NRB, 2009).

From the very beginning of the establishment of GBBs, these banks were suffered from many institutional problems. Over staffing, low productivity, scarcity of fund, lack of professionalism high overhead cost etc were the internal problems. On the other hand, political conflict, local and national strike, a decade long civil war, political interventions etc. were the external factors affecting the performance of GBBs.

By the end of 2000, out of five GBBs, the equity capital of four GBBs had been eroded incurring huge losses. A comparative study from Nepal Rastra Bank in 2000 concluded that by 1999/2000, some 43.8 percent equity had been lost by these GBBs. PuGBB had lost 94.4 percent of its equity. Whereas, MGBB and MP GBB had lost 15.6 percent and 24.1 percent of their equity. Similarly, SPGBB had lost 92.1 percent of its equity. Only PaGBB was operating in nominal profit. That study made a conclusion that immediate action should be taken to protect these banks from bankruptcy and sustainability of these institutions should be considered in all aspect of operation.

Increasing financial access for small businesses and low-income households requires that financial institutions be able to serve these segments in a financially sustainable and repeatable manner. Lending profitably to small businesses requires a high level of efficiency, while operating microfinance institutions with large outreach requires high levels of professionalism and technical skills (Schreiner, 1999), but such level of efficiencies, professionalism and technical skills could not seen at GBBs. Therefore sustainability of GBBs is questionable. Unless and until poor oriented financial institutions could not be sustainable themselves, its services to the poor could not be last long. That is why; to find the prospects and problems' regarding financial sustainability of GBBs looks relevant.

Meanwhile, several measures have been taken to make GBBs self sustainable by Government. In 2001, Government of Nepal and NRB implemented a five–years restructuring program for GBBs. This program included recapitalization of four of the five GBBs (equivalent to Rs. 163 million), reforms of the banks' operating practices, and progressive privatization of profitable ones. Reforms included introducing productivity measures for each bank, appointing executive directors through open competition, and implementing cost reduction schemes. As a result of the recapitalization and other reform programs, Paschimanchal Grameen Bikas Bank (PaGBB) and Purbanchal Grameen Bikas Bank (PuGBB) generated profits since 2005.

Out of five GBBs, NRB has divested all its share capital to private sectors form PuGBB, MGBB and MPGBB. In PaGBB, only 10 percent share remained left with NRB. Now NRB has owned major shares in SPGBB only, which is incurring regular losses from its establishment to date. Out of five, four GBBs have been privatized and only SPGBB is running under NRB/ Government ownership. Many impact studies have been made form

NRB, academic institutions and individuals. The study about sustainability aspect of GBBs remained scanty. Sustainability of this kind of financial institution is also a critical problem in providing services to the poorest of poor in rural areas. This study is an attempt to explore the financial sustainability of GBBs.

GBB is serving poor people for more than 15 years. Restructuring measures have been taken time to time. In spite of this, the time has come to analyzed scientifically whether:

a) Its outreach is growing.

b) In what extent they are meeting the credit needs of rural people.

c) They are able to cover its operating and financial cost.

d) They will be able to serve rural poor in the long run also.

Most financial institutions are sophisticated in activities. Small ups and downs may harm their activities. A careless operating system may raise the financial crisis which may lead to collapse the entity. These banks are public enterprises and small shock and mismatch of portfolio may cause dangerous situation. These institutions are not only loan providing agency, but some remarkable amount of member deposits also they have collected. They have double responsibilities. To provide safe saving services and secure loan to their clients and to achieve real profit are the main goals of these institutions. On the other hand, they have to perform some social responsibility to the rural poor people also. These GBBs neither have been able to purely profit oriented institution nor they are able to serve poor people in massive level to the ultra poor. The dual objective of microfinance institutions, which have not been clear yet, i.e. 'welfare approach' and 'commercial approach' to be adopted is the main debate to be resolved.

Microfinance concept is new in the world. It came out with the concept of Grameen Bank financial system by Muhammad Yunus form Bangladesh in the beginning of the eighties. In Nepal, it started in the beginning of the nineties as a form of Grameen Bikas Banks and other private micro finance development banks. Micro finance activities are not only profit organization rather it is development approach with special objectives, natures, and activities. It has two obligations: one is to provide credit facilities to the poorest of the poor and other is to be self sustainable and be able to conduct their activities to the scale of outreach for long run. The twin obligations make the task of commercial viability of GBBs very challenging.

Unfortunately, performance and sustainability of GBBs have so far remained unexamined. These institutions have never used effective technique to assess their performance and sustainability. They only calculate profit or loss. Therefore, it is high time, the study to be undertaken about the sustainability in financial perspective.

Grameen Bikas Banks have significant role to play in poverty reduction, but the performance of these institutions itself can be anticipated which makes the sustainability of these institutions still more questionable. In this context, there is a need to conduct a research that evaluates essential pre-requisite to substantial expansion of outreach and achieving sustainability of Grameen Bikas Banks and providing practical examples of strategies that may correct the existing drawbacks, inefficiencies, and unsuccess of these institutions and to recommend some useful tools to improve its effectiveness as expected. The gain of knowledge emerging form this process may contribute on financial development that has implication on economic growth and ultimate help to poverty reduction, which is the important goal of Periodic, plans in Nepal.

1.6 Research Questions

Although the activities performed by GBBs are special, their assessment techniques should be also special. Their performance analysis tools should be different from traditional commercial banks. Many international organizations regarding microfinance sectors have developed the tools to assess these microfinance institutions. They are new and have not used by MFIs in Nepal. Hence in this study, the researcher has tried to use some internationally accepted tools to assess the financial performance of GBBs to get the answer of the following research questions.

- What are the existing situations of financial positions of five GBBs. in Nepal?
- What are their cost and revenue structures?
- How far these banks are operationally efficient and financially viable?

1.7 Objectives of the Study

The objective of the study is to evaluate the financial viability of Grameen Bikas Banks. Specifically, this study intends to:

- To find out the scale and depth of its outreach,
- To assess the operational and financial viability of GBBs and
- To suggest measures for Financial Sustainability.

1.8 Limitations of the Study

Sustainability of financial institution has multiple dimensions. This research is focused on only financial aspect of sustainability. However, the research is mainly secondary data based, to enrich the study from qualitative aspect, the view of clients, field staff and field managers form different branches and centers of GBBs have also been taken into consideration. Due of lack of available dada, some part of analysis will be limited. For instance, to assess the portfolio quality, only portfolio in arrear is used because data regarding portfolio at risk are not available. Nepal Rastra Bank (NRB) directed all GBBs to generate their financial statements in newly developed format provided by NRB since 2004/05. Therefore, the researcher has taken the new data series form 2004/05 to 2008/09 for analysis purpose in this study.

1.9 Organization of Chapters

The study is divided in to nine chapters. The First chapter is the Introduction where the Second chapter contains the Review of Related Literature. The Third Chapter concerns with Research Methodology. The Fourth chapter contains Conceptual Framework about the Proposed Study. Similarly, the Fifth chapter deals with Growth and Development of Rural Credit in Nepal. Chapter Six highlights the Profiles of GBB in Nepal. Likewise, the chapter Seven explains the Presentation and Analysis of Data. The Chapter Eight deals with the Clients and Staff Perceptions of GBBs. Finally, the Chapter Nine concludes with Summary of Major Findings, Conclusion and Suggestions.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Even today, a large section of the population of developing countries lives in villages. These people carryout several economic activities like production, consumption saving and investment etc. All these activities are prone to fluctuations and it is quite likely that there are fluctuations in their level of income, production and consumption of many rural people because of their level of financial accessibility. Therefore, there is need for augmenting finances through ways other than the known and expected incomes of the rural population. Hence the role of credit sources is crucial for rural development and alleviating poverty. Rural people have to borrow for a variety of needs. However, the provision of credit for rural sector has been beset by several problems. Moneylenders charge high rate of interest, sometimes accompanied by an element of cruelty. One policy implication is that if the informal sector can't be supplemented by the formal institutions, the rural development will remain as unfulfilled dream. Micro finance institutions have emerged at many places with this policy perspective behind them but, it is also a fact that a micro finance cannot operate or expand for long unless it is self-sustained. To those institutions who deliver credit and saving services for long run, sustainability is a vitally important goal.

2.1.1 Theoretical Concept

Rhyne and Otero (1994) in their article "Financial Services for Microenterprises: Principles and Institution" have depicted the tendency of traditional financial institution. The traditional finance or the commercial banks generally do not serve the needs of low-income families, or cannot easily serve micro enterprises run by the self-employed poor.

The traditional bankers perceive different types of risks in providing credit to low-income households such as, credit risks, high transaction and service costs, or high operating costs. These institutions require borrowers' stable source of income but low-income households would not have much income sources. Therefore, poor people are not fit to access formal financial system. Hence, it is felt the need of microfinance to cater the needs of poor and low-income household.

Hulme and Mosley (1996) in the book "Finance against Poverty" explain that the use of micro finance as a mechanism for poverty reduction is very simple. If access to credit improved, the poor can finance productive activities that will allow income growth. They further state that in general, the success rate for lifting people out of poverty is much higher for those living just under the poverty line than for the very poorest.

Women's World Banking (1997) in its publication "Profiles of Asian Microfinance Practitioner organizations" has mentioned that over the last three decades microfinance has emerged for providing financial services to those large numbers of excluded people in building income and assets lubricating their household economies, and mitigating the risks that poor families face. Thus, the new paradigm emerged is that the poor should be accessed from informal to formal financial system to achieve the goal of poverty alleviation. It is also believed that microfinance institutions (MFIs), using solidarity group guarantees or peer group guarantees or peer group methodology help to reach poor segment of the people.

Guli (1998) in the book "Microfinance and Poverty: Questioning the Conventional Wisdom" describes that microfinance has provided itself as a powerful tool for alleviation of poverty through access to the poor the financial services for operating their small enterprises. This access can help in improving their efficiency, productivity, and welfare reducing risks during the production process, which is the major theme of business. The financial services provided can also enable the poor to leverage their initiative accelerating the process of building incomes, assets, and economic security. As a matter of fact, microfinance assists the poor in many ways such as, (i) promoting investment in assets, (ii) facilitating activities to earn a livelihood, (iii) protecting against income shocks (reducing household's vulnerability by providing means to cope with emergency needs and smooth consumption), and (iv) building social capital and improving quality of life.

World Bank (2001) in its report explains that microfinance is the provision of credit, saving and insurance services to the poor and low income households through financial institutions who are still away from traditional banking services. Poor people have not enough collateral to put against the credit; on the other hand they have not enough courage to demand the loan from traditional bank and financial institutions. Savings and credit facilities allow poor people to take advantage of profitable business opportunities and increase their earnings potential. But they are often excluded for traditional financial markets. The transaction costs are often high relative to the small loans typically demanded by poor people. Mostly poor people live in the remote areas, where population density is low, physical access to banking services can be very difficult. Therefore, poor people are often discouraged and simply do not seek loans. At the same time, conventional banks often find it unprofitable to provide services to poor people using traditional lending practices.

Robinson (2001) in his book "The Microfinance Revolution: Sustainable Finance for the Poor" describes that the decade of eighties demonstrated that 'microfinance could provide large-scale outreach profitably', and in the decade of nineties, 'microfinance began to develop as an industry' Similarly, in the decade of two thousand, the microfinance industry's objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. Much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges to building a sound commercial microfinance industry include: (i) inappropriate donor subsidies (ii) poor regulation and supervision of deposit-taking MFIs (iii) few MFIs that meet the needs for savings, remittances or insurance (iv) limited management capacity in MFIs (v) institutional inefficiencies (vi) need for more dissemination and adoption of rural, agricultural microfinance methodologies

He is in favor of ‘financial approach’ or 'commercial approach' of microfinance. This approach focuses for its sustainability first. Unless and until institutional sustainability, its services cannot long last and could not serve the poor for long time. This approach supplies financial services to economically active poor people in a sustained manner. According to him, large scale sustainable microfinance can be achieved only with the 'financial approach' or 'commercial approach.' The distinction between the extremely poor and the economically active poor is not precise. Households move from one category to the other over time.

He criticizes the traditional approach of microfinance i.e. welfare approach of microfinance. He further adds if microfinance activities are conducted in welfare ways, these institutions are not sustainable primarily because their interest rates on loans is below than commercial rate which cannot cover their all costs. He further argues that this approach does not meet the demand among the poor for voluntary saving services.

Zeller (2003) in his article "Models of Rural Financial Institutions" mentions that lack of access to savings and credit and insurance services are among the main constraints facing low-income households and the poorest in the developing countries that contributes on limiting the ability of the poor to finance their activities, improve their incomes, and access to basic services such as food, education, medical services, clothing etc. which results the stagnant position of their life style and remains under improved financial condition in spite of hardworking to other's firm instead of creating self employment. The traditional financial institutions neglect to provide savings and credit services to rural poor. In order to mitigate imperfections in financial markets, microcredit projects were established after the Second World War under governments' and donors' support with the objective to reach the greatest number of poor people and to provide them with financial services at a low cost.

Yunus (2004) in his article "What is Grameen Bank?" has differentiated some essential elements and practices of MFIs from traditional financial system. Some of them are: (i) conventional banks targets to the people who have ability to repay loan on time, whereas Microfinance institutions targets who have not got the chance of credit although they have got potential for economic activities (ii) objectives of the commercial banks is to maximizes the profits where as MFI's objectives are to bring financial services to the poor particularly to the women and poorest – to help them fight poverty as well as to stay profitable and financially sound (iii) commercial banks are centered mostly in urban areas whereas targets of MFIs are poor but potential people throughout the country (iv) commercial banks believe upon collateral against their loan disbursed, but the MFIs believe with individual potentials and expressed through group guarantee.

Microfinance, among other priorities for rural development, is a financial system that provides access and opportunity to the less privileged segments of society for improving their living standard. Certain binding constraints like collateral requirements or guarantor requirements create the saturation of inaccessibility of the poor who are predominantly excluded from the formal financial services. Therefore, microfinance system is expected as a means to address the issue of poverty.

Weiss and Montgorney (2004) in their discussion paper "Microfinance and Poverty Reduction in Asia and Latin America" have asserted the importance of microfinance for poverty reduction. The focus of microfinance institutions is to expand micro loans to support economic activities of the poor and disenfranchised encompassing a range of financial services such as loans, savings, and insurance to help these people. In addition, several MFIs have focused on women's empowerment as their explicit goal. The basic theory of empowerment is that putting capital in women's hands can generate income and contribute financially to their households and communities, when they can socially be mobilized in community-based or non-government organizations. Thus, they can be empowered both economically and socially, and these empowerments are expected to generate increased self-esteem, respect, and other forms of empowerment form women beneficiaries.

Akula (2004) in his article "Microfinance and its Challenges" tries to distinguish between commercial approaches of microfinance activities to charity. Microfinance is considered as a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Rest of the people those can be best served by financial institutions.

2.2 Concept of Sustainability

Microfinance is a provision to deliver saving, credit, insurance and money transfer activities to the poor people. Many financial activities around the world are operating with assistance of donors' fund. Such donor-funded organization could not be long last. Once donor withdraws its fund, such activities will vanish. Therefore, to provide long-term financial services, this organization must be self sustained. Hence, sustainability of MFIs means its capability to provide its services to the large portion of the poor people without any subsidy for long run.

Adams, Graham, and Von Pischke (1984) in their book "Undermining Rural Development with Cheap Credit" have explained the concept of sustainability. According to them, sustainability of MFI is the continue process of providing financial services to the poor people (meeting its goals) now and in the long run to come. Sustainability looks to the future. Any MFI which is not sustainable can’t serve the poor people in the long run."

Yaron (1992b) in his paper "Assessing Development Finance Institutions, a Public Interest Analysis" clarifies about sustainability and self-sustainability of MFIs. There is difference between Sustainability and self-sustainability. Sustainability is meeting goals now and in the long term. Self-sustainability is meeting goals now and in the long term with subsidized funds replaced with market funds. A financially sufficient MFI could be sustainable without being self-sustainable.

Khandker, Khalily and Khan (1995) in their book "Sustainability of Govt. Targeted credit program, Evidence from Bangladesh" have highlighted about the microfinance program’s sustainability. It is the ability of a program to continuously carry out activities and services in pursuit of its objectives. Any organization uses loanable funds from various sources to finance productive activities; it can only sustain its operations if it remains financially sound. They have further classified the sustainability of MFIs as (i) financial viability, (ii) economic viability, (iii) institutional viability and (iv) borrower's viability. Any microfinance institution can be said financially viable if it can at least equalize the cost per unit lent with the price (that is, the interest rate) it charges its borrowers. It is defined as economically viable if it can meet the economic cost of funds (the opportunity cost) used for credit and other operations with the income it generates from lending. Finally, in order to be institutionally viable, it must have effective and well-institutionalized procedures for ensuring administration and management succession, so that it is not dependent on the leadership of a particular person.

Rosenberg (1996) has cast light about the importance of profit for sustainability of MFIs. Profits of MFI matter for sustainability and sustainability matters for repayment. Profits protect for permanency. Low profits tell poor borrowers that the MFI is sick, and they will stop repayment. Again, any MFI could not get donation or subsidized fund for long time. It has to depend upon its own income to provide sustainable services. A financially self- sufficient MFI should collect that much profit that when external support if not provided, it will not shrink in real terms nor will it reduce the size or scope of its service to the poor.

Repayment also depends on the sustainability and permanence of the MFI. Poor customers take losses or low profits by a weak and sick MFI. Dishonest debtors stop repayment to ill MFIs. As the expected life of an MFI shrinks and as the chance of future loans drops, the net present worth of default is more likely to exceed the net present worth of repayment from the point of view of a debtors.

Schreiner (1997a) in his study "A Framework for the Analysis of the Performance and Sustainability of Subsidized Microfinance Organizations with Application to Bancosol of Bolivia and Grameen Bank of Bangladesh" has defined sustainability as repeatable. Sustainability has two faces: the sustainability of a transaction and the sustainability of organization. Sustainable organizations have the structure and the incentives to repeat transactions for the long time. Therefore, sustainability is the ability to repeat performance in the future. Such permanency takes in a flexible organization and a structure of incentives that can maintain performance in spite of changes in the environment.

MFI operating smoothly may not be sustainable. Once operated and served its services may not be long last. Such institutions that would not serve the poor people for long term may create distortion in economic activities. **Schreiner Mark** (1997a, p. 64) distinguishes sustainable and unsustainable in his own words:

> An MFI might be unsustainable yet still be the best use of funds meant to help the poor. But I think a sustainable MFI would most likely help the poor. Even more a sustainable MFI helps a lot of poor people through a long time frame. In contrast, an unsustainable MFI helps just a few poor people through a short time frame.

Mohapatra (1997) in his book "Rural Banks for Rural Development" has made the distinction between sustainability and profitability. Sustainability requires more than just financial self-sufficiency from profit. For example, just as one year of marriage does not mean happily ever after; similarly, one year of high profit and of strong performance does not mean an MFI is sustainable. Financial self-sufficiency can last in the long term only if the structure of rules, incentives and the system of organization help the stakeholders to adapt the rules to fit changes in the market.

2.2.1 Financial Sustainability

Christen et al. (1995) in their article "Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Program" describe the need of adjustment of inflation in interest rates. Theoretically, MFIs must add inflation in the interest rates they charge to their clients. In case, the interest rates are not adjusted for inflation and the return on capital falls below the inflation rate, the MFI would fail to cross the financial self-sufficiency hurdle and the real value of its capital will shrink. Similarly, MFIs that are expanding rapidly also face reduced profitability. Expansion requires investment in staff and facilities that may not be covered from an interest earning loan portfolio for some years. When an MFI crosses financial self-sufficiency level, the investors can expect a return on equity equivalent to returns that can be obtained elsewhere in the private sector. MFIs that attain this level will be profitable and secured and therefore, can gain access to commercial funding sources.

Ledgerwood (1998) in her book "Microfinance Handbook an Institutional and Financial Perspective", highlights the importance of sustainability. Sustainability refers to the ability of any MFI to cover its costs with earned revenue. To be financially viable, MFI should not rely on donor's fund for its operations. To determine financial viability, self-sufficiency indicators are calculated. There are usually two levels of self-sufficiency against which MFIs are measured: operational self-sufficiency and financial self-sufficiency. If an organization is not financially self-sufficient, the subsidy dependence index can be calculated to determine the rate at which the MFIs interest rate needs to be increased to cover the same level of costs with the same revenue base.

ADB/N (2002) in its report indicates that if the number of microfinance clients is to grow significantly, MFIs need to become financially self-sufficient. That is, they need to be able to cover all administrative costs, loan losses, and financial costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had commercial cost. Because of the high operational cost, the microfinance institutions are bound to charge interest on their loans higher than other formal banking sources. It makes high cost loan to the borrowers, so high that they may not always earn that much return from the micro enterprise undertaken under such loan.

Shrestha B. (2007) in her article "Micro Finance: A Tool to Fight with poverty" highlights that microfinance is not only a tool for poverty alleviation but also a catalyst which can bring socio economic progress of the nation. To meet the credit demand, government has initiated many targeted credit programs in various forms in Nepal. Though, the targeted programs have made positive impact on the access of the poorer to the credit, informal sources still predominates in credit market of Nepal. In her analysis, she has clearly indicated that despite numerous efforts, people's access particularly of poor has not been increased. Although the demand of rural credit has been increased substantially in rural areas, supply of rural credit has been declining continuously over the years. It indicates that institutional finance available in the rural areas is on declined trend despite government efforts to increase rural credit supply.

Sharma (2003) in his report "Banking Development and Poverty Alleviation Efforts in Nepal" mentions that MFIs have to bear five types of costs: social costs, operating costs (including salaries and other administrative costs, and depreciation of fixed assets), fund costs, provision for loan losses, and inflation. Social preparation/ activities such as, identification of geographical working area, identification of target group, organization of pre-group training, formation/organization of groups, formation of centers has to be performed before a loan is disbursed. Costs incurred on these activities can be categorized as 'social costs'. Credit and savings services are to be provided in the 'Center' which is established in a place convenient to the group members. Field staff visits the center weekly or fortnightly depending upon the process adopted by the institution. At the center, the field staff performs his/her duties, such as demand collection, weekly/fortnightly savings and loan installments collections, loan disbursement, review and discussions on problems and further needs. Costs incurred on the salaries and other facilities provided to such staff and those in the branch/ area/ regional/ head offices along with other administrative costs including depreciation of fixed assets can be categorized as 'service delivery costs'. Interest paid on borrowed funds and deposits can be categorized as 'fund costs'. All these five types of costs have to be covered by fees and interest amount they derive from their loan portfolio. If such cost could not born by MFIs, they are supposed to be unsustainable.

He further mentions that MFIs have to be concerned with their financial sustainability. It is a precondition for reaching large numbers of micro entrepreneurs with microfinance services over a sustained time period. Financial sustainability refers to a stage attaining which the MFIs become independent of continuing financial resources from governments, international agencies, or charitable organizations. In the other words, it refers to the extent, to which an MFI, in addition to being financially viable, mobilizes its own financial resources internally, that is through equity, deposits, and retained profits instead of depending on government or donor resources.

The first hurdle in reaching financial sustainability is attaining operational self-sufficiency. It refers to the extent, to which an MFI covers its expenses such as salaries and other administrative costs, depreciation of fixed assets, interest on borrowings and deposits (i.e., cost of loanable funds), and provisioning for loan losses (i.e., the cost of loan principal lost to default) out of fees and interest income.

Mali (2006) has shown the importance of savings in sustainability. The long–term financial sustainability of microfinance operations deserves particular attention on saving mobilization. Microfinance operations are not a welfare charity operation. Probably the single most important element in ensuring long-term financial sustainability of MFIs is to mobilize the savings. The operation that lends to the poor should also cater to their savings needs. Savings habits are widespread in rural areas, but the institutional structures do not usually cater to them.

2.2.2 Measurement of Sustainability

Von Pischke (1996) in his article "Measuring the Trade-off between Outreach and Sustainability of Microenterprise Lenders" suggests some ideas for MFIs to be sustainable. Good performance is being progressed toward the mission of development finance. The mission of MFIs is to make the lives of poor people better. Microfinance institutions do this by producing outreach, loans and deposits used by the poor people. Measuring performance sparks better performance and casts light on bad performance. A direct way to evaluate financial viability is to quantify an institution's cost structure and examine whether the cost per unit of principal lent is equal to the rate of interest that borrowers are charged. This method is known as the financial criterion of efficiency. A credit program, if it is to maintain its capital holdings, must generate sufficient revenue over a given period of time to meet its operating costs. Any financial institution receives revenue from borrowers' interest payment, and its costs arise from raising loan able funds, organizing and training borrower groups, administering loans and covering bad debts. To meet the financial efficiency criterion, the program should charge an interest rate that generates revenue equal to or exceeding the cost per unit of principal lent.

CIDA (1999) in its book "Reference Guide for the Microfinance Sector" describes the methodology of measuring sustainability. There are two level of sustainability. One is Operational self-sustainability (OSS) and other is Financial Self-sustainability (FSS). OSS requires MFIs to cover all fund cost, administrative costs and loan losses from operational income. This is calculated by dividing operating income by operating expenses. MFIs that have not yet crossed this hurdle may be said to be heavily subsidy-dependent. Such institutions require frequent injections of fresh funds, and in case such funds are not forthcoming, they will quickly eat up their capital in financial routine operational costs. The second hurdle in reaching financial sustainability is Financial Self-Sufficiency. It refers to the extent, to which an MFI (i) is able to cover the additional costs i.e. interest on borrowings at the market rate, and compensation for inflation in addition to other costs included in assessing 'operational self-sufficiency'; (ii) has its loan repaid, and (iii) makes a profit for expansion and further growth.

2.3 Empirical Studies of MFI's Sustainability in Global Context

Yaron (1992a) has made empirical assessment of Agriculture Development Bank of Pakistan (ADBP) and Agriculture Credit Corporation (ACC) in Jordan. The result showed that ADBP was heavily subsidy –dependent. ADBP would have had to increase its on-lending interest rate in 1987 by 52 percent, or by 6.2 percentages of points from 11.9 percent p.a. to 18.1 percent p.a., to fully eliminate the subsidy of 1987. The situation worsened in 1988 when the SDI reached 61 percent. ADBP would have been required to increase its on-lending interest rate by 61 percent or by 6.9 percentage points from 11.3 to 18.2 percent p.a. to fully eliminate the subsidy of 1988. Similarly, ACC would have had to increase its on-lending interest rate in 1987 by 246 percent from 3.5 to 12.2 percent p.a. or by 8.7 percentage points, to fully eliminate 1987's subsidy, in 1988; the conventional accounting measurement indicates minor deterioration in return on average annual equity from 0.2 to 0.0 percent. The SDI, however, indicates an opposite trend: moderate progress was made toward subsidy independence, whereby the SDI declined from 246 percent in 1987 to 224 percent in 1988.

Khandker, Khan and Khalily (1995) conducted a research entitled "Grameen Bank Performance and sustainability". This study highlights through the study based on Grameen Bank, data collected from its aggregate –level records and from selected sample of 136 branches out of 915 Grameen bank branches. They generally measured the borrowers' viability, which is directly related to GB performance, its dropout rate, repayment rate and saving trend. Regarding the sustainability, they express there is a high administrative cost for group formation and disbursing group based credit and ancillary inputs. They further aid, to insure sustainability, GB should enhance its program design and institutional framework and should help the poor to meet the cost of program participation and reduce poverty. The GB is only defined as financially viable when it can at least equalize the cost per 'Taka' lent with its price (i.e. interest rate) it charges to its borrowers.

Gibbson (1995) in his article on "The Grameen Reader" has mentioned financial viability as one of the fundamentals of successful replication of Gramee Bank activities to the reduction of rural poverty. Focusing aim for financial viability, he has highlighted all the explicators must aim for financial viability right from the beginning otherwise, it may be dependent on subsidies, which may not be forthcoming so that the program might be postponed. He points out some major elements i.e. cost of fund, operating cost, inflation, anticipated bad debt, repayment rate, system loss, rate of interest charged on loan and amount of loan disbursed annually to be considered for financial viability for GB type program.

Khandker (1996) has analyzed on the Grameen Bank of Bangladesh from different angles. Defining financial sustainability is the ability of a program to sustain its operation on the basis of financial viability. The interest rate on lending, lower costs of loan default, administration and resource mobilization for on lending would enhance a program's financial viability. Therefore financial viability is attained if a program charges an interest rate, which equals or exceeds the cost per unit of principal lent. The researcher further explains that loan disbursement and recovery are critical elements for financial viability. Loan size determines the extent of cost per unit of principle lent because of economies of scale; administrative cost and recovery rate determine the loan default cost.

About the Grameen bank, he comments it to be a high-cost activity because of supervision and administrative costs of lending although the group-base help reduce loan default cost by increasing loan repayment rates among borrowers through peer pressure. In order to reduce cost of operation, GB relies heavily on subsidized resources (such as grants and concessionary funds) for on lending and institutional development. But reliance on subsidized resources cannot be permanent feature of financially viable institution. So, to reduce external dependence, Khandker has emphasized on savings mobilization as an indicator of a programs capacity for self-finance and hence for its independence. He further suggested calculating financial viability at market resources level and not at subsidized resources level. Measuring financial viability or operational efficiency ignoring the existence of grants and concessionary funds would not reflect true cost of resources and hence it does not reflect true subsidy dependence. The cost of resources should be evaluated in terms of their opportunity costs.

Satish and CK Gopalkrishna (1997) have also analyzed on viability of rural banking in their article "Viability of Rural Banking". In the Indian contest, the author clarifies the need of their research work that in the last two and half decades the rural banking structure has expanded spatially throughout the country. However it has not been characterized by robust financial healthy and over the years the structure of rural banking itself has been viewed as an unviable one. So they reviewed the framework regarding viability of banking and examine the macro level components of the financial structure of rural banking institutions. To see whether non-viability is structurally in-built, they state that a financial institution is financially viable when its' assets exceed the liabilities excluding share capital and reserve fund. So, a financial institution is currently viable if it can generate surplus over its expenses. According to them, transaction cost is the major issue related to viability of banking. Financial institutions must cover the administrative costs (essentially salaries and establishment expenditure), taxes, the cost of capital and losses from default by charging an interest on the loan.

Khandker (1998) have analyzed the economic and financial viability of RD-12 which was Govt. initiated credit program in Bangladesh. His analysis conclude that the economic and financial viability of credit program depends on the extent of financial and economic subsidy regarded for its operation. This can be measured with cost and revenue data as well as alternative market interest rates. A direct way to evaluate financial viability is to qualify an institutions' cost structure and examine whether the cost per unit principal lent is equal to the rate of interest that borrowers are charged. To analyze financial viability of RD -12 program, profitability, subsidy dependency and cost efficiency are taken as parameters. The author says that profitability is the necessary condition for insuring long run viability. Increasing lending interest rates and rate of return on investment and loans can reduce subsidy dependence. But increase in lending interest rate as demanded by subsidy amount to make it nil may be unacceptable and would adversely affect the demand for loans and membership. So subsidy dependency estimates are to better utilize as an indicator of performance trends rather than as a basis for policy design.

Nair (2005) in his research entitled "Sustainability of Microfinance Self Help Group in India: Would Federation Help?" has discussed about the Sustainability of Microfinance Self Help Groups in India. The main objective of the study was to assess the financial viability of SHG in its federation. The study arrived at the conclusion that federations helped to make sustained availability of financial resources and other services in scale. The reduction of transaction cost, delinquency rates and other services i.e. insurance and remittance should be provided with saving and credit activities. The profitability is considered as the main determinant to be any SHG viable. The profitability analysis estimates the adequacy SHG’s actual income to meet its costs. The profitability analysis revealed a trend of increasing operational self-sufficiency for SHG over 100 percent. But a main weakness of SHGs' profitability analysis is non-inclusion of loan loss provision costs. SHGs maintain a loan loss reserve created from fees of one percent of loans to members. However, it is not clear if this is adequate to cover possible loan losses and recommended to increase in it would cover poor quality loans. The paper has suggested to additional research to be needed to determine the impact of poor quality loans on the sustainability of SHG.

2.4 Empirical Studies of MFI's Sustainability in Nepalese Context

UNICEF (1993), in its report regarding Small Farmer Development Program (SFDP), implemented by the Government of Nepal states that the repayment rate for the loans is above 80% in the women's groups and 60% in the men's. The loan repayment rates were higher in those areas where social interventions were combined with credit than in areas where credit alone is given. Credit provision combined with social sector intervention increase the school attendance of girls; reduce infant mortality rate; enhanced importance of immunization and nutritional needs among women of reproductive age and also brought awareness regarding sanitation and importance of safe drinking water.

CECI (1998) has conducted an assessment for SACCOs in Nepal by using WOCCU PEARLS rating technique. This study elaborated a set of hypothesis on five different headings such as: promotion and initiation; financial services, management and decision-making, prices of institutional development and networking and linkages. The study covered 17 leading SACCOs and rated their performance. This study recommended that clear vision, effective governance, reduction of costs, easy and effective credit services and institutional development are the main factors for sustainability of any microfinance institutions.

NRB (2000a) conducted a research entitled “Special Study on Impacts Extended by the Eastern Rural Development Bank, Nepal to the Deprived Women". Objectives of this study were (i) to study the creation of employment, income and production after the intervention of the bank in the rural area (ii) to ascertain the consumption pattern and saving capacity of the beneficiaries (iii) to find out the volume of financial intermediation i.e. institutional lending and saving mobilization. The main assumption of the study was 'after expansion of banking activities of PuGBB in the sampled area, the socio economic status of the rural poor women would have gone up'.

That survey has incorporated 304 households (76 households each form Jhapa, Morang, Sunsari and Saptari District). Along this course, 16 branches of PuGBB are the sample branches for the study. The findings of the study showed that notable positive change observed in the land holdings of the GBB clients. There was positive increment in holding physical asset also. Another significant impact has been observed on roofing of the house of GBB clients. The business activities also got momentum in the society after being the clients of GBB. Along with income increment, saving amount has increased as compared to being non-clients of GBB. Hence the study concluded that GBB activity helped to reduce the poverty in rural area of Nepal. This study concludes that there is positive change in socio-economic condition of the rural women since PuGBB has operated its activities in these regions. But the financial condition of the bank itself is not so good. To be the financially viable, some points to be considered listed as follows:

- The number of members and borrowers should increase.
- PuGBB should float its share to its members.
- Paid up Capital should be increased up to full figure to 12 million.
- Operating cost should be minimized as possible level.
- There should be provision for bad assets.
- Job description and specification should be made for employees.
- Security system should be improved.
- Reward and punishment system should strictly follow.
- While recruiting, equal opportunity should be given to male and female applicants both on the basis of fair competitions.
- Male borrower also should have taken under the purview of credit scheme.
- Public deposit taking should also be considered.
- As per its name, its head office should be shifted from Biratnagar to other area to be center for all branches.

Wehnert and Shakya (2001) with the institution of Rural Finance Nepal (RUFIN), has conducted a research called "Are Small Farmer co-operative Ltd. (SFCLs) Viable Microfinance Organizations?" A comprehensive financial analysis of 33 SFCLs on PEARLS rating technique concludes that adequate savings made by the SFCLs help them to continue on its resources. Improve of the loan portfolio quality is the positive sign for sustainability. Equity capital has also improved remarkably from very low levels. Operational self-sufficiency as well as financial self-sufficiency has been achieved during the last fiscal year 1999/2000 and average of financial self-sufficiency ratio is 117.2 percent in 1999/2000. The increasing internal resource has helped the SFCLs to become less dependent on external funds.

Khatiwada and Lamichane (2002) have conducted a case study on "Financial Sustainability of SFCL, Anandavan of Rupandehi". The information is collected with 27 members individually and with 54 members of 15 groups (with group discussion). The aim of the case study is to identify the sustainability of the SFCLs Anandaban, to assess the impact of the SFCL in the villages and find the problems in the SFCL. The SFCL had 861 members and the asset was found to have an outstanding loan of Rs 11052 thousand. The study has revealed that there was increase in income by 90.13 percent and employment increased by 91.36 percent after the SFDP was transformed into SFCL.

SFCL Anandaban succeeded to incorporate all castes, religions, occupations, and multi-level economic groups and genders in socio-economic development programs. Dependency on external agencies had been reduced gradually. SFCLs are cost-effective and profit receptive. As a result, SFCLs have been able to 17 percent to 20 percent profit from their business.

Shrestha R (2003) in his research study entitled “Financial Institutions working in Rural Areas are Facing Challenges for Financial Viability", has used secondary data to analyze the challenges faced by the MFIs including the SFCLs. He has concluded that the financial sustainability of micro finance institutions is the major problem facing by MFIs. MFIs are also concentrating in the urban areas due to the high business potentiality and ample profitability from the investment. The researcher has concluded that the MFIs operating in the rural areas are facing the problem of high overhead cost as well as high risk.

Bashyal (2005) has conducted a research study entitled “Impact of Micro credit Programs on Poverty Alleviation in Nepal: A Case Study of Rupandehi District”. Primary and secondary information were used in the research. Analysis had done on the basis of mean and percentage.

This study investigated that micro finance institution has provided credit services hardly 35 percent to the poorest of the poor populace. Many poor people are still away from the micro finance services due to the lack of basic services, inadequate investment for capacity building of the financial intermediaries, lack of coordination among various government agencies and lack of core capital to meet operating cost of many small MFIs. However, this study focused on qualitative analysis so that it had not analyzed dependent variables such as loan investment, repayment, delinquent, outstanding, interest income and profit with independent variables such as group meeting, training, representation, gender, group guarantee, duration, policies, coordination, technical assistance, and monitoring and supervision etc.

NRB (2006) made an Assessment about the outreach and financial performance of MFIs. That report revealed that GBBs, SFDP, GB replicators and SFCLs made substantial amount of savings generated from rural depositors. The size of the savings is estimated about Rs, 20 billion, which is about 10 percent of commercial banks' total deposits. The savings thus generated could be used for small-scale needs of poor people for which some sort of legal framework is to be designed.

That report has pointed out MFI's activities to be recognized tools and an effective development intervention for poverty reduction for the following three basic reasons:

a) The services provided through micro-finance can be targeted specifically at the poor and poorest of the poor level,

b) These services can make a significant contribution to the socio-economic status of the targeted community, and

c) The institutions that deliver these services can be developed within few years, into sustainable organizations with steady growing outreach.

While making conclusion in that report, it concludes that difficult topography; remoteness, heterogeneous groups and culture, etc. have hindered the successful delivery of micro-finance in Nepal. The major challenges are:

a) Formulating a micro credit delivery mechanism that is better suited to the people in hills and mountains,

b) Successfully extending the outreach to the hills and mountains,

c) Redesigning the existing programs of the formal MFIs to better target the poorest, and

d) Unsustainable delivery mechanism of government initiated MFIs and programs.

Shrestha (2007) has conducted a research study entitled “Financial Performance of Micro finance Institutions with Special Reference to Small Farmers’ Cooperative Limited (SFCL) in Nepal". Altogether 128-sample stakeholder had chosen for information collection purpose. SFCLs are sampled by using the stratified clustering method.

Research study investigated that training is major independent variable that is significantly correlated with three important performance indicators such as loan investment, repayment rate and profit. Internal resource revealed second most important independent variable that significantly correlated with two dependent variables such as loan investment and profit. Saving is the third most important independent variable, which significantly correlated with the dependent variables such as loan investment. Loan number revealed fourth most important independent variable that significantly correlated with dependent variable such as investment. From the regression analysis, research study investigated that dependent variable such as investment influence by four independent variables such as women clients, skill development, trainee, internal resource, and social and community development. Similarly, repayment rate (dependent variable) had influenced by two independent variables such as loan investment and skill development of clients. Overhead cost was not influenced by any independent variables. Finally student’s t-test was carried out to investigate the differences in the mean level of investment, repayment rate and profit of the SFCLs of Hills and Terai. Research study further investigated that there was no significant difference in mean levels of loan investment, repayment rate and profit between Hills and Terai.

Devkota (2009) has conducted a research study entitled "Institutionalization and Financial Sustainability of Small Farmers' Cooperatives in the Hills of Nepal" with objectives (i) assess status of saving activities (ii) identify the status of credit activities (iii) find out financial and institutional *sustainability* and (iv) provide recommendations and suggestions for further improvement of Small Farmers' Cooperative Limited. He has used mainly primary data. Altogether 555 samples taken for interview taking one SFCL of hills from each development region.

The findings of the research are (i) annual savings, interest rate, duration of loans, income of the project need to be improved for making the SFCL financially sustainable (ii) miscellaneous costs like saving cost, cost on meeting allowances should be decreased while increase in staff salary, and total income from project leads the SFCL to be financially sustainable and viable. (iii) Correlation between project income of the borrowers and repayment are strongly positive. Similarly, correlation between saving and repayment has also significantly positive. (iv) a loan amount is correlated with variables repayment, loan outstanding, and delinquent amount. It indicates that higher loan investment increases chances of overdue loan. Loan investment must increase gradually to control the overdue loan.

2.5 Microfinance Policy in Nepal

The government has unveiled the National Micro-Finance Policy in 2008 intended at enhancing the capacity for microfinance. The policy also plans to establish a separate body to regulate and supervise the microfinance industry**.**

The demand for microfinance services by the poor and the destitute is ever increasing in the country. The government of Nepal, on the advice of the Nepal Rastra Bank promulgated 'National Microfinance Policy, 2008' in order to do away with the problems related to organizational and legal issues with a view to smoothly providing microfinance services in the rural areas, increasing the access of the destitute class to such services, creating a healthy and competitive atmosphere among MFIs, and encouraging the private sector to get involved in the task of providing such services on a sustainable basis. This Policy was introduced as a new mechanism to boost up microfinance industry. It aims to improve the smooth flow of funds to the poorest segment of the rural populace by creating national fund for microfinance. It also has envisaged establishing a regulatory and supervisory body for regulating and supervising the MFIs in the country as such that they discharge their services effectively and efficiently. The basic points of the policy are as follows (Ministry of Finance, 2008)

a) Enhance the supply of microfinance services to the rural and urban poor to suit to their geographical, social and economic diversity.

b) Improve the smooth flow of microfinance services with or without collateral (group guarantee) to the poor and the destitute by establishing a standard procedure for identifying the target groups.

c) The government will provide necessary help to the microfinance institutions for social mobilization, capacity development, organizational development, re-structuring, and also will encourage wholesale micro credit providers both from public as well as private sectors.

d) The government will also integrate microfinance with various poverty alleviation programs and projects and implement these in a coordinated manner.

e) The government will coordinate its activities with the institutions responsible for micro-enterprise development and assist the targeted poor people for their enterprise development.

f) The government will establish relations with microfinance service providing institutions (MFIs) such as Community Organizations (COs), and Savings and Credit Groups (SCGs), by making a legal provision to easily recognize these MFIs.

g) The government will also motivate destitute class to mobilize their savings in order to improve their access to microfinance services.

h) The government will make the necessary institutional and legal arrangements, and create a separate Second Tier Institution (STI) under the direct control of NRB to make the microfinance service providers (MFIs) self- regulatory for timely operation, monitoring, supervision, and evaluation such that they can provide microfinance services to the poor in a sustained manner.

i) In order to mobilize resources for long-term easy access of the poor to microfinance services a "National Microfinance Development Fund" will be established. Assistance for microfinance from foreign and national donors will be mobilized through this fund.

j) Conduct a survey to exactly know the existing number of cooperatives and microfinance institutions, extension of services and access to services.

k) Organize trainings to improve the capacity of people engaged in microfinance sector.

l) Adopt the policy of relaxation in permitting saving deposits to the MFIs based on the services they provide and their share capital status, and

m) Adopt the flexible tax policy on income of the MFIs and tax on interest earnings of the poor.

Microfinance Summit (2010) held in Kathmandu in February; set its goal as it was determined by the First Microfinance Summit Nepal of 2008 to ensure access to financial services to three million poor families, especially women, by 2015. The summit has recognized that widespread and acute poverty continues to pervade Nepal and much need to be done to meet the poverty reduction target of the country including the Millennium Development Goals in this respect. The summit has also convinced that in a predominantly agrarian country like Nepal, banking resources must be accessible to rural people on priority basis. Many research has proved that membership of the poor people in MFIs brings about positive improvements in other areas such as adult literacy, children's education, health, sanitation, empowerment, family planning etc.

Second Microfinance Summit Nepal 2010 has appealed Constituent Assembly and its members to include “Access to financial services for the poor is the primary responsibility and guiding principles of the state for inclusive economic growth” in the new constitution to be promulgated by the Constituent Assembly of Nepal.

Similarly the submit has also requests the National Planning Commission to include microfinance as a priority sector of national development and to that end, ensure that the MFIs are used as the conduit for the planning and implementation of various social and economic development activities,

The summit has requested the Ministry of Finance to ensure inclusion of microfinance sector as a pillar of macroeconomic framework for inclusive economic growth and provide tax incentives and financial support for social mobilization for MFIs to enhance access to financial services for the poorest and socially excluded groups in the remote, hills and mountainous region of the country and attract the poorest in the communities to participate meaningfully in them as members.

The summits has requested to Nepal Rastra Bank to review and implement National Microfinance Policy and formulate laws and regulations to suit the needs of the microfinance sector create conditions to avail sufficient wholesale resources for the MFIs from financial systems to accelerate outreach for meeting the summit goal.

This Summit has also requested to expand microfinance operations in all parts of the 75 districts to provide sustainable access to financial services for the poor, disadvantaged groups, and socially excluded groups to serve 3 million families by 2015. Finally the summit has requested Universities to include microfinance in the University curriculum.

2.6 Research Gap

Although GBBs are the microfinance institutions, their performances have not been assessed with the tools adopted and accepted globally. So the traditional evaluation system does not reflect the clear and explanatory financial condition of these institutions, which makes the reports incredible. Even Nepal Rastra Bank (NRB), which is the supervisory authority of all banks and financial institutions, has not adopted such tools and techniques to assess the financial condition of these class 'D' (Grameen Bikas Banks and other Microfinance Development Banks) financial institutions. Similarly the Grameen Bikas Banks themselves have not adopted newly derived tools to evaluate themselves. Thus, there is a gap in application of tools while evaluating the commercial viability of GBBs. So far as the application of tools is concerned, the study has tried to apply widely accepted tools and techniques so as to get the real financial status of GBBs. It has opened a new perspective for further research in the area of sustainability of GBBs.

2.7 Conclusion

The micro-financing program has been suffering from various issues such as incidence of overlapping of program, location areas, high operating costs, high interest bearing loan and mushrooming of different micro-finance development modules. It is found that they charge high rate of interest (from 20 - 25 percent) from poor clients but are not able to make the institutions to be operationally viable. Surprisingly, most of the microfinance programs running in the country incur high operation costs. This has brought in a questions mark on the sustainability of micro-finance program itself, which may bring higher social costs to the nation if not handled properly in time.

Grameen Bikas Banks as one of the actor of microfinance institutions in Nepal which are operating in five Development regions, are also not performing well. Out of five, Nepal Rastra bank has started to withdraw its share capital and handed over it to private sectors. In this context, PuGBB, MGBB, PaGBB and MPGBB have already been handed over to private sector. Only SPGBB is being operated under the major shares of NRB and GoN. Sooner or later it will also hand over to private sector. Although many modalities of microfinance were adopted in Nepal, but its sustainability are not assessed in systematic manner. Therefore, most of the programs remained experimental activities in microfinance sector. As a result, some of them could not stay for long time and changed its original forms and aims.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This study is mainly based upon secondary data and information derived from various sources. This is an evaluative search and focuses on evaluation of services of GBBs to determine whether and to what extent they are working in financially sustainable fashion. So, secondary data are used to analyze the relation between dependant and independent variables. In the mean time, primary data have also been collected through questionnaire, interviews and observations to know stakeholders' perception. This chapter covers research design, sources of data, population and sample, methods of data collection, data processing procedures and tools and techniques of analysis of data.

3.2 Conceptual Framework of the Proposed Study

Although, many international analytical model i.e. CGAP Model, SEEP Network Model, PEARLS Rating System, Plan Model etc. are in practice for evaluation of MFI performance, the researcher has adopted Plan Model for analyzing GBBs performance and their sustainability.

Plan International (2000) in its paper has come with clear-cut concept on sustainability with particular emphasis on its financial aspects. Financial sustainability is the ability of a credit and saving institution to maintain flow of funds it delivers through internally generated funds. Financial sustainability of micro-credit is not only necessary in order to reach a large number of poor clients, but it has also been recognized as an integral part of the financial sector and for sustainable business. Proposed study has adopted the model developed by Plan International, which has been presented in figure 3.1.

Fig. 3.1

Conceptual Framework of Financial Sustainability for the Proposed Study

Source: Adopted from "PLAN International Credit/MED Monitoring System", (2000) Arlington, Virginia USA.

3.3 Research Design

The main objective of this study is to access financial sustainability of GBBs. So this study has intended to find out the real financial situation of all GBBs, to evaluate their performance, and problems facing by them. The research is descriptive in nature. Analytical research design has been used to monitor the overall performance like financial and non-financial positions of GBBs. On the other hand, descriptive research design is used to capitalize the concept, operation and problems and perception of the people towards GBBs to make the study more meaningful from various angles. The research design developed for this study has been presented in figure 3.2

Figure 3.2

Research Design of the Proposed Study

Source: Derived by Researcher

3.4 Sources of Data

This study is related to evaluate financial performance of five GBBs. The researcher has tried to access their performance and financial sustainability by using their financial data. Therefore, the main source of data is secondary source. The annual audited financial statements (balance sheets and income statements), reports, bulletins, annual publications, and occasional publication of GBBs are used for source of data. NRB reports, publication, periodicals and other published and unpublished information regarding GBBs are also used. Similarly reports, publication, periodicals and other published and unpublished information from commercial banks, RMDC, other Microfinance Development Banks (MFDB) and Central Bureau of Statistics (CBS) are also used. Economic Survey Report, unpublished thesis, research studies, several books, journals, magazine, newspapers from different libraries have also been used in this study. The Internet is also used to get the latest and updated information about Microfinance activities.

Besides these, primary data are also collected and used in this research to examine the borrowers and staff attitudes towards the sustainability of GBBs. The major issues incorporated in this study for the case of borrowers are repayment, savings and loan amounts. Likewise, the major issues regarding the staffs in this study are human resource planning and development, internal control, job description, evaluation and compensation. For these purpose, a field survey has been conducted to get first hand information.

Fig 3.3

Sources of Data

Source: Derived by researcher

3.5 Methods of Data Collection

The required secondary data have been directly collected from related GBB's head offices and branch offices, Nepal Rastra Banks, other microfinance development banks, different libraries and other banks and financial institutions. To find the perception of clients and field staffs, required primary data have been collected through structured questionnaire from sampled field staffs and clients of GBBs. Necessary information have also been collected by taking interview with the clients and field staffs. Interview was conducted with each GBB's CEO to get the required information regarding management policies of banks for their sustainability.

3.6 Population and Sample

Considering the secondary data analysis, the population of this study constitutes all the five GBBs (PuGBB, MGBB, PaGBB, MPGBB and SPGBB). These five GBBs are population and they are also the sample for this study because this study is based on aggregate data of all GBBs. To find the clients' and field staff's perception, a purposive sampling survey was conducted in two branches form each GBB. For this purpose, one urban branch and another rural branch were taken using the judgment sampling technique. There were average five to six field staffs in a branch. Fifty percent of them (three field staffs) and the branch manager from sampled branch were taken as respondents to get field related information. From that much-sampled branch, an average performing center was taken in to consideration for survey of the clients. Generally center of eight groups is called full center. In each group, there are five members. So the full center of these banks consist 40 members. Therefore, twenty percent (eight members from each center) sample size is taken form-sampled centers from each GBB. Altogether there are 80 client respondents involved in this survey as shown in Table 3.1.

Table 3.1

Sampled Branches and Clients

GBBs	Urban Branch	Rural Branch	Sampled Clients	Sampled Staff
PuGBB, Biratnagar	Biratnagar Branch	Duhabi Branch	8+8=16	6+2=8
MGBB, Janakpur	Hetauda Branch	Nuwakot Branch	8+8=16	6+2=8
PaGBB, Butwal	Shankar Nagar Branch	Palpa Branch	8+8=16	6+2=8
MPGBB, Nepalgunj	Dhambojy Branch	Uttarganga Branch	8+8=16	6+2=8
SPGBB, Dhangadhi	Dhangadhi Branch	Attariya Branch	8+8=16	6+2=8
Total	Five Urban Branches	Five Rural Branches	80	40

Source: Derived by Researcher

3.7 Data Processing

All the information from filled up questionnaire have been processed by SPSS program. Similarly the financial statements of each GBB are processed through EXCEL to find the required ratios and facts to make comparison among them. The qualitative information from CEOs of GBBs were gathered, classified, and conceptualized.

3.8 Data Analysis

The analysis of data has been done according to the pattern of data available. Wide varieties of methodology have been applied according to the reliability and consistency of data. Before using analytical tools to compare the results, the data containing in the financial statements have been grouped and rearranged so as to make comparison easy. After that, various financial and statistical tools have been applied to interpret the results and drawn up conclusions. Quantitative as well as Qualitative method of analysis have been used. Mainly the analysis has been performed using following methods and tools.

3.8.1 Quantitative Method

Analysis has been performed by using two kinds of analytical tools in this respect:

a) Financial Tools

b) Statistical Tools

a) Financial Tools: Having summarized available data collected from various sources, the hidden facts put forth by financial statements have been analyzed with the help of relevant financial tools that is universally accepted. Financial Ratio helps to summarize the large quantities of financial data to make quantitative judgments about GBBs performance. The strengths and weaknesses of GBBs as well as theirs historical performance and current financial condition has been determined by systematic use of the ratios. In order to make the assessment of financial viability of the GBBs, the ratios developed by PLAN International Credit/MED Monitoring System (2000) has been used. This monitoring system includes three types of indicators: (i) Outreach (ii) Financial and operational performance (iii) Institutional Development**.** Details of these three indicators are given in subsequent pages of the chapter.

b) Statistical Tools: This study has used simple statistical tools like average, ratio, percentage, to compare and evaluate the figures of primary as well as secondary data to draw meaningful conclusion.

3.8.2 Qualitative Method

Only quantitative method has not been sufficient to make the study more meaningful from the various angles. Therefore, personal interviews through structured questionnaire, opinion survey and group discussion etc. have been conducted to make the study more qualitative. Personal interview is taken with Executive Director of each GBB. Collected information and expressions have been screened and relevant information has been grasped for purpose of analysis.

3.9 Overall Methodological Framework

The overall Methodological Framework of this study has been presented in Fig.3.4 below.

Fig 3.4

Overall Methodological Framework

Financial Sustainability of GBBs

FOCUS

OBJECTIVES

METHODOLOGY

ANALYSIS

POLICY

RECOMENDATION

Source: Derived by Researcher

3.10 Methodological Steps

Step One: Development of Indicators:

The first step is to define and develop of outreach and sustainability indicators for measuring financial sustainability GBBs in Nepal.

Step Two: Data Collection:

The secondary data have been collected from five GBBs, Nepal Rastra Bank, and other available sources whereas, primary data have been collected from sampled centers of sampled branches from each GBB.

Step Three: Compilation of Available Primary and Secondary Information:

The available data will be presented in tables and figure for further use in analysis.

Step Four: Analysis of Data for Measuring Indicators:

To analyze financial sustainability, different financial and statistical tools and techniques like OSS, FSS and other ratios are used. Similarly, to measure the portfolio quality; portfolio quality ratios and loan loss provision ratios are used. To evaluate program efficiency, efficiency ratios have been used to make analysis. To evaluate institutional development; institutional development indicators are used.

Step Five: Analysis of the Result:

It helps to find out the scale and depth of outreach along with to evaluate financial sustainability the GBBs.

Step Six: Comparison of GBBs:

It makes comparison among five GBBs and ranks the positions among them.

Step Seven: Conclusion and Recommendation:

It will focus on current situation of outreach, level of viability of financial services of GBBs and provide suggestions to be financially sustainable and operationally efficient towards its goal.

3.11 Details of Key Indicators Used in this Study

A. Outreach

To measure the scale and depth of outreach, five types of indicators have been used.

a) Scale of Outreach

(i) Number of members

(ii) Number of active clients

(iii) No of staffs

b) Scale of Lending Services

(i) Number of active borrowers

(ii) Outstanding portfolio

c) Scale of Saving Services

(i) Number of savers

(ii) Total savings

(iii) Average saving balance

d) Outreach to Low Income Clients

(i) Average loan size

(ii) Average loan size per capita GNP

e) Outreach to Women

B. Financial and Operational Performance

To measure Financial and Operational Performance of GBBs; three types of ratios have been used in this study.

(a) Financial Sustainability Ratios

The financial sustainability ratios analyze financial sustainability of the GBBs or assess ability of GBBs to meet the needs of its clientele without reliance on external assistance. The definitions of the above ratios are given in the Table 3.2.

Table 3.2

Financial Sustainability Ratios

Code	**Ratio**	**Definitions**
i)	Return on Performing Assets Ratio (ROA)	Financial Income / Average Performing Assets (It shows financial productivity of credit services and investment activities)
ii)	Financial Cost Ratio (FCR)	Financial Cost / Average Performing Assets (It indicates average cost of funding institution's assets with debt and shows capital cost incurred)
iii)	Operation Cost Ratio (OCR)	Operating Expenses / Average Performing Assets (It indicates that how much an organization must spend on operating costs to keep a unit of money loaned out for one year).
iv)	Loan Loss Provision Ratio LLPR	Loan Loss Provision / Average Performing Assets (It indicates that how much amount have been allocated to cover the loan loss as compared to APA)
v)	Imputed Cost of Capital (ICC) Ratio	[(Average Paid up capital – Average Net Fixed Assets) * Inflation Rate] + [Average Borrowed Fund Outstanding * (Market Rate of Interest on Bank Loan – Actual Interest on Borrowings)]
vi)	Operating Self-Sufficiency (OSS)	Total Internally Generated Income / Total Expenses (It indicates the ability of institution to cover costs of operation with internally generated income)

vii)	Financial Self-Sufficiency (FSS)	Total Internally Generated Income / Total Expenses +Imputed Cost of Capital (It indicates degree to which institutions are earning revenue to cover all its cost while maintaining value of its equity and quasi equity relative with inflation and borrowing at market rate).

b) Operational Efficiency Ratios

Operational Efficiency Ratios measure key aspects of the efficiency of a microfinance institution's operations. These ratios affect the number of clients reached with services as well as the institution's financial viability. The ratios and their definitions are presented in Table 3.3.

Table 3.3

Operational Efficiency Ratios

Code	Ratio	Definitions
i)	Loans per Field Staff Ratio	Number of Loans Outstanding / Number of Field Staffs
ii)	Outstanding Portfolio per Field Staff Ratio	Loan Portfolio / No. of Field Staff (It signifies the earning possibilities and potentialities of field staff)
iii)	Member Retention Rate	Net Members Increased (this period) / Previous Period's Net Members+ This Period's New Members (It indicates the program's high efficiency in maintaining clientele and reflects high-level acceptability of the program by its clients.)

c) Portfolio Quality Ratios

The outstanding portfolio is primary revenue-earning asset of a microfinance institution. All loan may not be quality loans. Some loans will not earn revenue and may not be paid back in time. It is very critical for institution's financial sustainability. There are two types of portfolio quality ratios.

Table 3.4

Portfolio Quality Ratios

i)	Portfolio in Arrears Ratio (PAR)	Payment in Arrears Volume of Loan Outstanding
ii)	Reserve Ratio	Loan Loss Reserve Volume of Loans Outstanding

C. Institutional Development

Institutional Development is the ability by which microfinance institutions gain the capacity to achieve their outreach and sustainability objectives. Institutional development is not quantifiable in the way that outreach and financial and operational performance are. Mostly, by the help of primary data collected from field survey, the researcher has tried to assess the institutional aspects of GBBs for sustainability. In this context, four indicators have been used.

a. Governance and Organizational Structure

(i) Mission Statement
(ii) Business Plan
(iii) Legal Capacity and Governance
(iv) Ownership Structure
(v) Organization Chart
(vi) Board of Directors

b. Human Resource

i) Staff Recruitment

ii) Evaluation and Compensation

iii) Staff Development

c. Management System

i) Management Information System

ii) Audit and Internal Control

iii) Financial Program and Planning

iv) Monitoring and Evaluation

d. Service and Service Delivery

i) Products

ii) Effective Delivery

iii) Delinquency

3.12 Conclusion

It is obvious that it would be impossible to comprehend the nature and content of the present study without an appreciation of a method. The method used in this study is designed to monitor and evaluate programs and services of GBBs, which not only brings about verifiability of the facts but also lays the confidence in the validity of findings.

CHAPTER IV

CONCEPTUAL ISSUES IN SUSTAINABILITY

4.1 Introduction

Microfinance Institutions such as GBBs are becoming more and more concerned with their sustainability. Sustainability is meeting goals now and in the long run. Sustainability looks to the future. It matters since there are poor now as well as in the future. Sustainability is not an end in itself. It is just a means to the end of improving the living standard of lots of poor people. Sustainability depends on future performance, and a human can only guess future performance. The guess is informed by past and present performance and by a holistic understanding of the MIFs (Schreiner, 1997b).

An MFI might be unsustainable yet still be the best use of funds meant to help the poor. But sustainable MFI would most likely help the poor even more. A sustainable MFI helps a lot of poor people through a long time frame. In contrast, an unsustainable MFI helps just a few poor people through a short time frame.

Sustainable means repeatable. It deals with the ability to repeat in the future. Such permanency takes a flexible view of organization and a structure of incentives that can maintain performance in spite of changes in the environment. Performance is progress toward the mission of development finance. This mission is to make the lives of poor people better. MFIs do this by producing outreach, loans and deposits used by the poor. Measuring performance sparks better performance and casts light on bad performance (Von Pischke, 1996).

Sustainability has two faces: the sustainability of a transaction and the sustainability of an organization. Sustainable transactions are repeatable. Sustainable organizations have the structure and the incentives to repeat transactions. (Schreiner, 1999)

A profit is necessary for sustainability and sustainability is necessary for repayment. Low profits tell poor borrowers that the MFI is sick and they will stop repayment. The MFI weakens unto death, and the dead MFI does not help the poor. Any microfinance organization is financial self-sufficient if its true profits would be positive even after compensating for the effects of inflation of subsidized resources and after replacing debt from donors with debt from the market. It could meet its obligations without shrinking even without donors (Schreiner, 1997a).

Sustainability is long-term phenomena. Self-sustainable institution never stops its transaction in unfavorable condition too. By seeing one or few year's well performance, it can't say that the MFI is sustainable. One year of good marriage does not guarantee happily ever after, and one period of good performance does not guarantee sustainability. (Chaves and Gonzalez-Vega, 1996)

Sustainability is difficult to measure. It can be forecasted. Their forecast must build on an understanding of the past and of the present. Some fundamental features of sustainability are described as follows (Schreiner, 1997b).

Sustainability requires Profits. Profits protect permanency: A financially self-sufficient MFI has so much profit that when donors leave, it will not shrink in real term nor will it reduce the size or scope or its services to the poor.

Repayment also hinges on the sustainability and permanence of the MFI: Poor customers take losses or low profits as proof of a weak and sick MFI. Dishonest debtors stop repayment to ill MFIs. As the expected life of an MFI shrinks and as the chance of future loans drops, the net present worth of default is more likely to exceed the net present worth of repayment from the point of view of a debtor. Too much default weakens the MFI unto death. Dead MFIs do not help poor people.

Sustainability requires more than just financial self-sufficiency from profit. Financial self-sufficiency can last in the long term only if the structure of rules and incentives and the system of organization prompt stakeholders to adapt the rules to fit changes in the market. Such permanence requires 'meta-rules' – rules for making rules. Good meta-rules help an MFI to perform well over time without extraordinary labor or leadership. MFIs live in a market environment that changes with time, and to MFI must change to if they are to do well in the long run.

4.2 Sustainability versus Self-sustainability

Sustainability is not the same as self-sustainability. Sustainability is meeting goals now and in the long term. Self-sustainability is meeting goals now and in the long term replaced subsidized funds of MFI with market funds. Therefore any MFI, which is sustainable, cannot necessarily be self-sustainable.

Sustainability is not the same as subsidy independence (Yaron, 1992b). An MFI with a weak organization and rigid rules could perform well for a time without being able to make such stellar performance last. If subsidy independence implied sustainability, then no private from would go bankrupt. The basic element for sustainability is financial self-sufficiency. To maintain the size and scope of its service to the poor, an MFI must maintain the real value of the subsidized funds lodged in its equity while paying market rates for the rest of its funds. Hence a financially self-sufficient MFI could not sustainable while not being self-sustainable.

Financial self-sufficiency does not mean that MFI could replace all its subsidized funds with market funds. A financially self-sufficient MFI is permanent, but it might not attract investors, and so it may miss some chances to help the poor.

Microfinance sustainability means an MFI is sustainable and keeps its mission of service to the poor. The distinction matters since an MFI might gain sustainability at the cost of its mission. Microfinance self-sustainability means an MFI is self –sustainable and keeps its mission (Gonzalez-Vega et al., 1997)

4.3 Interrelation between Performance and Sustainability

Gonzalez-Vega (1997) has explained performance of MFIs as a sequence of four steps (i) Accounting profitability (ii) Operational profitability (iii) Financial self-sufficiency (iv) Private profitability.

Accounting profitability is the lowest level of performance towards sustainability. To make accounting profit is the basic thing for sustainability. Without accounting profitability, an MFI is dying fast in spite of help from donor. It is shrinking in real terms and in nominal terms.

Operational profitability is the second level of performance for sustainability. It implies positive true profit before taxes and dividends. An operationally profitable MFI could have met its obligations and kept its nominal size without donors.

Financial Self-sufficiency is the third level of performance for sustainability of MFI. An MFI is financial self-sufficient when true profit after taxes, dividends and the return required by private owners is enough to maintain the real value of subsidized funds in net worth against inflation. Financial self-sufficiency is necessary but not sufficient for sustainability. Sustainability also requires strong structure of incentives and a flexible organization.

Private Profitability is the forth and the last stage for sustainability. A privately profitable MFI has enough true profit to replace subsidized funds with market funds without shrinking in real terms.

4.4 Some Fundamental Methods of Sustainability Measurement

Interest among scholars and researchers in developing countries in recent years is growing on the study performance and its relation with financial sustainability of MFIs. Their interest lies apparently in finding ways and measures by which the MFIs can be evaluated properly to make them sustainable. Several theories and empirical models have been developed to explain their financial performance and its impact on their sustainability.

However, until recently, there has been a dearth of published literature on concrete and universally accepted view on financial sustainability. Instead much of the literature has been devoted to the different aspects of cost and revenues with credit activities associated with high productivity. During the study of MFIs, especially of GBBs, sustainability has emerged as the prominent subject after the emergence of Grameen Bank (GB) as evolved by Muhammad Yunus in Bangladesh in 1983.

Khandker, Khan and Khalily (1995) in a World Bank Discussion Papers based on Bangladesh experience on "Grameen Bank: Performance and Sustainability" has helped to raise the understanding of the sustainability issue in broad way. They have explained that financial viability can be evaluated by using three parameters: profitability, subsidy needed and employee and capital productivities (operational efficiency).

Ledgerwood J. (1998) in her book "Microfinance Handbook: An Institutional and Financial Perspective" treats in depth the key elements needed for building sustainable financial institutions with effective outreach to the poor. She has developed certain performance indicators in the forms of ratios, which show whether the financial performance is improving or deteriorating. The performance indicators developed by her has been organized into six areas:

- Portfolio quality
- Productivity and efficiency
- Financial viability
- Profitability
- Capital adequacy
- Scale, outreach and growth

CGAP (1999) has published a framework called "Format for Appraisal of Microfinance Institutions" to appraise microfinance institutions. To analyze the financial performance, this framework is mostly based on the Balance sheet and Income statement of MFIs.

CGAP has developed seven indicators to assess the financial performance of MFIs, which are given below.

- Profitability
- Efficiency
- Loan Portfolio analysis
- Liquidity management
- Interest rate analysis
- Liabilities and cost of fund analysis
- Capital management (Solvency) analysis

Rosenberg (2001) in his article "Core Performance Indicators for Microfinance" has developed some key measures for assessing performance of MFIs. He has taken five basic areas of microfinance activities. These indicators are:

- Outreach (breadth) - how many clients are being served?
- Outreach (depth) – how poor are the clients?
- Collection performance or repayment rate (how well is the MFI collecting its loans?
- Financial sustainability – is the MFI profitable enough to maintain and expand its services without continued injections of subsidized donor funds?
- Efficiency – how well does the MFI control its administrative costs?

SEEP Network and Calmeadow (1995) have developed a guide called "Financial Ratio analysis of Microfinance Institutions" sets out a framework for analyzing the financial condition of an MFI. The framework is divided into three groups each of which comprises a set of ratios.

The first group of ratios analyzes the 'financial sustainability' of the MFI- or the ability of an MFI to meet the needs of its clientele without reliance on external assistance. These ratios are : (i) return on performing assets (ii) financial cost ratio (iii) loan loss provision ratio (iv) operating cost ratio (v) adjusted cost of capital (vi) donations and grants ratio (vii) operational self-sufficiency ratio and (viii) financial self-sufficiency ratio.

The second group of ratios analyzes 'financial efficiency' of MFIs. These ratios are: (i) cost per unit of money lent (ii) cost per loan made (iii) number of active borrowers per credit officer and (iv) portfolio per credit officer.

The third group of ratio is 'portfolio quality' ratios. This ratios measure the quality of portfolio of MFIs. This ratio includes: (i) portfolio in arrears (ii) portfolio at risk (iii) loan loss ratio and (iv) reserve ratio.

Rosenberg (1996) has developed a sustainable interest rate analysis for assessing the performance of MFIs. According to him, the sustainable rate of interest of MFIs can be estimated using five elements, each expressed as a percentage of average outstanding loan portfolios. These elements are: loan portfolio (LP), loan losses (LL), administrated cost (AP) the desired capitalization rate (K), and investment income (II).

The sustainable interest rate can be calculated as:

$$R = \frac{[(AC+LL+FC+K)}{1-LL} - II$$

R = Viable interest rates

AC = Administrative Cost

LL = Loan Losses

FC = Financial Cost

K = Desired Capitalization Rate

II = Investment Income (other income except from loan i.e. income from fixed deposits and other investment)

Each variable in this equation is divided by average outstanding loans, and is therefore expressed as a decimal fraction.

Yaron, (1992a) has developed an Index called 'subsidy dependence index' to measure the rate of dependency on subsidy of MFIs. SDI is defined as the ratio which measures the percentage increase in the average on-lending interest rate required to compensate an MFI for the elimination of subsidies to a given year while keeping the return on equity equal to appropriate non-concessional borrowing cost. This index can be calculated by using formula below.

$$SDI = \frac{S}{LP*i} = \frac{A(m-c) + [(E*m) - P] + K}{LP*i}$$

Where;

SDI	=	Subsidy Dependence Index
S	=	Total Subsidy
A	=	MFI concessional borrowed funds outstanding (annual average)
m	=	Interest rate that the MFI would be assumed to pay for borrowed funds if access to borrowed concessional funds were eliminated (market interest rate of borrowing)
c	=	Concessional interest rate paid by MFI for borrowing
E	=	Annual average equity
P	=	Profit (Losses)
K	=	the sum of all other annual subsidies received by the MFI (grants and benefits etc.)
i	=	Lending Interest Rate.

Plan Model of performance measurement focuses on three categories of microfinance indicators: Outreach, Financial and Operational performance and Institutional Development to assess the sustainability of MFIs. Outreach indicators measure the scale of services and the characteristics of the client group. Financial and operational performance enables donors, stakeholders to assess the sustainability and efficiency of MFI. Lastly, institutional capacity determines whether the microfinance institution can achieve its outreach objectives in a sustained manner.

Sustainability relates primarily to financial resources. Financial sustainability is the ability of a credit and savings institution to maintain or increase the flow of benefits it delivers through internally generated funds. In other words, it is financial self-sufficiency leading to the ability to generate a surplus. To those who deliver credit and saving services to the poor, sustainability is a vitally important goal. The financial sustainability of micro finance programs is not only necessary in order to reach a large number of poor clients but it has also been recognized as an integral part of the financial sector and sustainable business. The services of MFIs are possible only when they manage their activities in a sustainable way. Sustainability of organization is necessary to reach service to a significant number of the poor people. Building sustainable financial systems for the poor is building sound domestic financial intermediaries, which can provide financial services to poor people on a permanent basis.

From above discussion, the researcher has decided to use Plan Model to assess the performance and sustainability of GBBs which is illustrated in fig 4.1.

Figure 4. 1

Conceptual Framework of Financial Sustainability Analysis of GBBs

Source: PLAN International Credit/MED Monitoring System (2000) Arlington, Virginia USA.

As discussed above, sustainability is a future concept, which can be achievable by continuous profits of the organization. Three independent components are used to examine the sustainability of GBBs in this study. These independent components affect the sustainability of GBBs through Profit. Remarkable profit for one or two years may not lead to the institution for its sustainability. Only long run profit leads MFI to be sustainable.

- **Outreach:** Outreach represents the main objective of a microfinance institution, to deliver as large quantity of services as possible to a particular population. Outreach indicators measure the scale of services and the characteristics of the client group. These indicators enable institutions to assess whether they are reaching the population they have targeted at the scale they intend. In above model, there are few key outreach indicators, which measure the scale of their financial services and the degree to which these services reach low-income clients. The larger the expansion of outreach, the greater is the chance of sustainability of MFIs.

- **Financial and Operational Performance:** These indicators enable programs to assess their financial sustainability and efficiency. Key ratios enable MFIs to assess the most important factors affecting institution's sustainability and efficiency. It measures the financial productivity of credit services, productivity of staff, loan quality, relative operating costs and the relative cost of capital. Monitoring financial and operational performance with these types of indicators is essential for measuring sustainability of MFIs.

- **Institutional Growth:** Information concerning financial and operational performance and outreach is not sufficient to improve performance of MFIs. Boosting of financial and operational performance requires a strong institutional capacity of MFI on a number of levels; as adequate and appropriate governance and organizational structures, human resources, management information systems, and services and service delivery mechanism. Stronger institutional capacity means greater the chance of institutional and financial sustainability of MFIs.

4.5 Conclusion

The issues stated above are concerned with the dynamics of sustainability of microfinance institution, which applies appropriately with Grameen Bikas Banks (GBBs) also. Some of the issues raised and tools developed are already covered under different studies by scholars and researchers and many more are yet to be taken up in greater depth to provide a basis for understanding of the mechanism of financial sustainability. Based on the experience of Nepal's GBBs, the proposed study mainly deals with three components (outreach, operational and financial performance and institutional growth) for financial sustainability analysis of GBBs.

CHAPTER V

GROWTH AND DEVELOPMENT OF RURAL CREDIT INSTITUTIONS IN NEPAL

5.1 Introduction

In rural areas of Nepal, there is tremendous inequality in distribution of income. There are a few individuals (landlords) who won a disproportionate amount of all assets. On the other hand, there are vast majority of people without any assets, such as landless laborers and marginal farmers, *Dalit* and women. Thus, different people or sections of the population have different credit needs. To satisfy these needs in timely fashion, the state has taken policy initiatives to provide institutional credit. Such institutions are required to weaken the traditional sources of credit such as moneylenders who have a strong grip on the provision of credit for the rural people. In this context, a brief historical background of informal as well as formal source of rural credit is given below.

5.1.1 Informal Credit Intermediaries

Informal credit has historically played an important role in meeting the financial needs of rural people in Nepal. Even after advent of democracy and liberation, its importance has continued. The main active partners of informal sources are moneylenders, landlords, merchants, friend and relatives etc. It is very difficult to ascertain when the system started and to count individuals involved in this system. The history of informal credit however depicts altogether a different picture. These sources have continued to dominate the rural financial market in Nepal as well as in many other countries of Asia. For example, rural informal credit accounts for two-fifths of total rural credit in India, two-third in

Bangladesh and more than two-thirds in the Philippines. In Nepal, informal source accounts for about 70 percent of the total rural credit (NRB, 1994).

Besides this, the informal credit intermediary includes self-help groups and organization. In strict sense, this category of lending agencies may be more appropriately called semi-formal rather than informal agencies, as they tend to be organized in some way and follow certain procedures that are not followed by individual informal sources. Although, the numbers of such semi-formal agencies are already in thousands and are still growing in Nepal, their significant existence is only a recent phenomenon. The informal sources have existed in the country since ages.

While the informal lenders are a heterogeneous group, they also share some common characteristics – informality, adaptability and flexibility. Their loan transactions are highly personalized and they are flexible in loan purpose and in lending terms and conditions in respect to their interest rates, collateral requirement and repayment schedule. These characteristics help to keep their transaction costs low and to makes informal credit more accessible for the poor borrower, who have remained largely outside the purview of the formal credit.

5.1.2 Formal Credit Intermediaries

Nepalese banking system began in 1937 with the establishment of the Nepal Bank Limited (NBL) - a commercial bank (CB) and the first bank in the country but the operation of this bank was concentrated in urban centers only. So in true sense, the rural credit initiative starts with the cooperatives established for the first time under an executive order in Rapti Valley of Chitwan District in 1956 with the objective to extend credit support to resettle poor people in the valley. This may be considered as the beginning of institutional credit in rural areas. Prior to this, credit needs of rural people were met completely by informal sources. Those credit cooperatives were formalized with the enactment of Co-operative Act, 1959. Credit cooperatives were provided financial support through Co-operative Development Fund created with government contribution. Later on, in 1963, Co-operative Bank was established with the objective of extending credit to these cooperatives. That cooperative bank was the first official attempt to flow formal credit to rural areas through cooperative societies. In 1968, the merger of this Cooperative Bank with another agency (the then Land Reform Savings Corporation) led to the establishment of the Agricultural Development Bank of Nepal (ADB/N). Over time, it has evolved as the largest formal sector rural credit institution in Nepal accounting nearly half of the total rural credit (Upadhyaya, 2001). Now this rural and agriculture focused development bank transferred in to full-fledged commercial Bank and its role for microfinance is transferred to Sana Kisan Bikas Bank (SKBB) established in 2002.

In 1966, another commercial bank called Rastriya Banijya Bank (RBB) was established as the second commercial bank as a fully government–owned commercial bank of the country. Following the liberal financial policies introduced in early 1980s, the numbers of banking and non-banking financial institutions have grown rapidly over the years. As a result, the formal financial system has now evolved into a reasonably large system. As of mid-July, 2011 there are 31 Commercial Banks, 87 Development Banks, 79 Finance Companies, 16 Cooperatives (licensed from NRB) and 38 licensed Financial Intermediary Non Government Organizations (FINGOs) (NRB, 2011). In addition to financial institutions, there are 117 postal deposit banks under Post Office Department for the collection of deposits and supply of microfinance services. The Table 5.1 highlights the banking and financial institutions of Nepal.

Table 5.1

Development of Formal Credit Institutions in Nepal, 2011

S.N.	Institutions	No	First Operation
1	Commercial Banks (Class A)	31	1937
2	Financial Institutions (Class B)	87	1968
3	Financial Institutions (Class C)	79	1990
4	Financial Institutions (Class D)	21	1991
	Sub Total	**218**	
5	Cooperative Societies (Limited Banking Transaction)	16	1957
6	NGOs (Microcredit Transaction)	38	1978
	Sub Total	**54**	
	Grand Total	**272**	

Source: Nepal Rastra Bank, Bank and Financial Institution Regulation Dept., 2011

Alongside the expansion of formal financial institutions, the government of Nepal has introduced a number of targeted credit programs since mid of seventies. Their main objective has been to expand rural coverage of institutional sources of credit. The approach has basically consisted of promoting institutions within government control, expanding the branch network of CBs and directing them to extend cheap credit under various targeted programs. Major targeted programs implemented so far like – (i) Priority Sector Credit Program (PSCP) (ii) Intensive Banking Program (IBP) (iii) Small Farmer Development Program (SFDP) (iv) Production Sector Credit Program (PCRW) (v) Micro Credit Project for Women (MCPW) (vi) Rural Self Reliance Fund (RSRF) etc.

Although, considerable efforts have been made in the past to increase the rural coverage of the formal financial sector, statistics showed that these efforts have not achieved much success in covering the rural people, much less than rural poor. Available figures showed that only 20 percent of all rural borrowers had access to formal sources of credit in 1991/92, and this proportion declined to from 38 percent among large farmers to 15 percent among marginal farmers and further to only 9 percent among landless people (NRB, 1994). Furthermore, most of the programs suffered from institutional inefficiencies and poor financial performance. Their loan recovery has been typically low and resulting high financial losses. Most importantly, the poor and smaller borrowers faced problems of collateral and higher-level transaction costs while borrowing from formal sources.

5.1.3 Transaction Cost for Borrowing in Formal and Informal Sources.

As discussed above, low or negligible transaction costs and flexible terms and conditions of lending are some common features of informal credit. In contrast, the formal credit involves high transaction costs and lending procedures that are often lengthy and rigid. As shown in the table 5.2 the difference in transaction cost between formal and informal credits is significant and revealing.

Table 5.2

Average Transaction Cost of Borrowing

(Figures in percent)

	Household				
Transaction Cost (formal)	**Large**	**Medium**	**Small**	**Marginal**	**Landless**
Mountain	4	5	15	5	-
Hills	3	6	7	7	7
Terai	2	5	3	6	21
Nepal	3	6	7	6	12
Transaction Cost (Informal)					
Mountain	0.0	0.9	0.4	0.3	0.1
Hills	0.0	0.5	0.2	0.3	0.0
Terai	0.0	0.0	0.0	0.0	0.0
Nepal	0.0	0.3	0.2	0.2	0.1

Source: Nepal Rural Credit Review Survey, 1991/92, NRB

The transaction cost associated with informal credit is close to zero; but the transaction cost of formal varies from 3 percent for the large landholders to 12 percent for the landless borrowers. It has been shown that the level of transaction costs borne by the borrowers is inversely proportional to the size of loan (Upadhyaya, 1994). Hence the poor people, who borrow small loans, face large cost of borrowing than more well off borrowers, whose loans are generally bigger.

The formal credit is almost always collateral based, while the informal credit is mostly collateral-free. The informal credit usually comprises small loans, while the formal credit mostly involves bigger loans. Thus, in as much as the collateral requirement and the difference in loan size distinguish the types of borrowers, the formal and informal credits have no conflict over their clientele, as their borrowers belong to different groups.

5.1.4 Access to Formal Sector Credit.

Though the targeted programs have made positive impact on access of poorer to the credit, informal sources still predominates. Despite numerous efforts made in the past, people's access particularly of poor has not been increased (Table 5.3). Proportion of household taking loan increased substantially in rural areas. The demand of rural credit is increasing day by day.

Table 5.3

Proportion of Households Taking Loans

(Figures in percent)

Description	1995/96	2003/04
Urban	37.6	46.2
Rural	63.1	73.2
Total	61.3	68.8

Sources: NLSS I and NLSS II (1997, 2004)

Table 5.3 indicates increased demand for credit in rural areas. Asian Development Bank has estimated that there is gap of Rs. 13 billion per annum to meet rural credit demand. The demand from rural credit is expected to increase rapidly in future. Thousands of displaced and conflict-affected people are gradually returning to their villages after establishment of peace in Nepal. Under such situation, it is necessary to implement credit programs targeted to displaced and conflicts affected areas with wider coverage. There has been slight decrease in borrowing from the banking system (fig. 5.4). Decline in outreach by formal financial institutions could reflect the closing of bank branches in the past several years because of a decade long conflict (Shrestha B. 2007).

Table 5.4

Comparison of Access of Credit

(Figures in Percent)

Description (Households)	1995/96	2003/04
Household with borrowing	61.3	68.8
Borrowing form Bank	16.1	15.1
Borrowing from relatives and friends	40.8	54.4
Borrowing from money lenders	39.7	26.0

Sources: NLSS I and NLSS II (1997, 2004)

In Table 5.4, increasing borrowing from friends and relatives suggests people's limited access to formal sources and also suggest the lack of good saving institutions to provide alternative opportunities for investment and resource pooling in rural areas (World Bank, 2005).

5.1.5 Demand and Supply of Rural Credit

The study made by NRB Nepal Rural Credit Review Survey 1991/92 has projected the rural credit demand and institutional credit supply as presented in Table 5.5. The Table shows that the credit supply is much less than the credit demands. The gap of demand and supply of credit is in range between 45.48 percent to 55.65 percent. The credit demand is around double where the institutional credit supply is only half of them. It shows that there is huge gap between credit demand and supply in rural areas.

Table 5.5

Rural Credit Demand and Supply

(Rs. in Million)

FY	Rural Credit		
	Demand (D)	**Supply (S)**	**S/D Percent (gap)**
1997/98	4927	2742	55.65
1998/99	5588	2986	53.44
1999/00	6382	3283	51.44
2000/01	7324	3510	47.92
2001/02	8434	3836	45.48

Source: Nepal Rural Credit Review Survey, 1991/92, NRB

Table 5.5 represents the credit demand in 1997/98 as Rs. 4927 million, whereas the credit supply was only Rs. 2742 million (55.65 percent). In the same way the table shows that in 2001/02, the credit demand was Rs 8434 million but the credit supply was Rs 3836 only. There is a huge gap between demand and supply of credit in rural area of Nepal.

Findings of the Access to Financial Services Survey-conducted by the World Bank (Ferari et al., 2007) concluded that only 26 percent of Nepalese households have a bank account. Just 28 percent of Nepalese households have an account with or loan from a bank. Another 25 percent have an account with or loan from a formal financial institution other than a bank. Some 28 percent rely solely on informal financial services, and 20 percent are financially excluded-with no services from formal or informal financial sector.

5.2 Financial Sector Development for Rural Credit

5.2.1 Growth of Financial Institutions

Before financial sector liberalization (beyond decades of eighties), there were only two commercial banks (RBB and NBL) and two development banks (ADB/N and NIDC) in Nepal. GoN and NRB tried to deliver financial services to rural poor people through RBB NBL and ADB/N with many projects and programs. In this context, (Priority Sector Credit Programs (PSCP) and Deprived Sector Credit Program (DSCP) were conducted through commercial banks (RBB and NBL) and another program called Small Farmer Development Project (SFDP) was implemented through ADB/N in rural areas of Nepal. It was impossible to cater the whole demand of financial services throughout the country by limited programs and projects. In spite of these approachs, to get easy loan from bank remained dream for rural poor. To increase the outreach and improve quality financial services, this sector was liberalized since mid of eighties. As financial sector liberalized, some joint venture and private commercial banks were established. But they were mostly concentrated in urban areas. To improve the access of financial services, Finance Company Act, 1985 was enacted. Similarly Development Bank Act 1999 was also enacted to enrich the financial activities all over the country. It is thought that if financial sector takes momentum, the rural poor people directly or indirectly able to come inside the circumference of banking activities. There are 31 Commercial Banks, 87 Development Banks, 79 Finance Companies, 21 Microfinance Development Banks, 16 cooperatives (which have got license to conduct limited banking activities from NRB) and 45 NGOs (they have got license to operative banking activities from NRB) providing financial services also. The numerical growth of financial sector is illustrated in Table 5.6.

Table 5.6

Growth of Bank and Financial Institutions, 2011

(up to end of Ashadh)

N.S	Types of Institutions	1980	1985	1990	1995	2000	2005	2010	2011
1.	Commercial Banks	2	3	5	10	13	17	27	31
2.	Development Banks	2	2	2	3	7	26	79	87
3.	Finance Companies	-	-	-	21	45	60	79	79
4.	MFDBs	-	-	-	4	7	11	18	21
5.	Cooperatives (Licensed from NRB)	-	-	-	6	19	20	16	16
6.	NGOs (Licensed from NRB)	-	-	-	-	7	15	45	38
	Total	**4**	**5**	**7**	**44**	**98**	**149**	**264**	**272**

Source: Nepal Rastra Bank, Bank and Financial Institution Regulation Dept., 2011

5.2.2 Regulatory Framework of MFIs in Nepal

There are two separate legal frameworks for microfinance operations (i) Banking and Financial Intermediary Act (BAFIA) 2006 which permits MFDBs to do microfinance business and (ii) Financial Intermediary Act-1998 (1^{st} Amendment 2002) which facilitates FINGOs for doing limited financial intermediation like small savings, group savings, micro-credit and agent banking. With the introduction of BAFIA 2006, all microfinance development banks fall under citatory ‘D’ financial institution. A brief description of central bank's prudential regulation for MFDBs is presented below.

a) **Capital Requirement**: A minimum of paid-up capital of Rs. 100 million is required to open a MFDB at national level. Similarly, MFDB, which is to be operated within four to ten districts excluding Kathmandu valley, requires Rs. 20 million as its minimum paid-up capital. The lowest capital requirement for MFDB is Rs. 10 million and such MFDB can operate with the coverage of 3 districts, excluding Kathmandu Valley.

b) **Limit for Promoter's Stake**: A minimum of 15 promoters is required to promote an MFDB. The promoters can hold of maximum stake of 70 percent. At least 30 percent shares should be allotted to the general public, which should be issued within 2 years of the operation of the bank.

c) **Provision for Foreign Stake Holding**: Foreign institutional investors can hold a minimum of 20 percent to maximum of 85 percent stake at MFDB. However, such stake should not affect the public allocation. If foreign investment is equal or greater than 50 percent of the total paid –up capital, there should be a provision of 15 percent for public allocation. But foreign individuals are restricted to have equity in MFDB.

d) **Individual Share Holding Limit**: Any individual, firm, family, group, house, company falling in the same group can't hold more than 15 percent share of MFDB. Such limit is also applied to the promoters also.

e) **Licensing Procedures**: NRB will issue banking license within four month of application, if the institution is financially or technically viable.

f) **Graduation of MFDB**: Any MFDB (that presently falls under grade D) can be graduated if it fulfills all requirements for upgrading form grade 'D' to class 'C' and so on up to class 'A'.

g) **Priority for License**: MFDB, to be operated in rural areas, is given top priority for business license by NRB.

h) **Single Borrower/Member Limit**: MFDB can provide loan to up to Rs. 60,000/- per borrower on group guarantee and Rs. 150, 000/- for graduated members on physical collateral. Now the amount is increased to Rs. 90,000/- for borrowers on group guarantee and 200,000/- for physical collateral from Monetary Policy 2010 by NRB.

5.3 Structure of Microfinance Sector in Nepal

Different forms of microfinance modality are prevailing in Nepal. Some institutions are promoted and operated directly with Government involvement. Government operated models include in this sectors. On the other hand, cooperative societies, Non Government Organization, and private institutions are under semi formal sector. The classification of microfinance sector is depicted in Figure 5.1

Figure 5.1

Microfinance Sectors in Nepal

Source: NRB, Microfinance Department and CECI, 2008

NRB has been taking initiation for microfinance activities since its establishment. Government initiated microfinance initiatives relates to various microfinance programs implemented in Nepal under government's involvement. Based on modality and approach adopted, government and NRB initiated microfinance programs implemented in Nepal can be broadly grouped as follows (Dhakal, 2002).

5.3.1 Government Mandated Models

Government mandated models implemented through commercial banks and government line agencies. The initiatives so far include the establishment of Rural Microfinance Development Center (RMDC) and implementation of the programs like Jagriti (Women Empowerment Program), Bisheshwor with the poor, Intensive Banking Program (IBP), SFDP, PCRW and MCPW etc. Government has established and implemented these programs with the ultimate goal of poverty alleviation.

5.3.2 Grameen Bikas Banks

In 1993, Nepal Government established two regional level rural micro-finance development banks closely based on the Grameen Banking model of Bangladesh, with the major share participation of NRB (66.75 percent and 58.5 percent) one each in the Eastern and Far –Western Development regions as a name of Purwanchal Grameen Bikas Banks (PuGBB) and Sudur Paschimanchal Grameen Bikas Bank (SPGBB). By June 1996, other three GBBs one each in the other three development region were also established. NRB has invested Rs. 195.0 million as equity into these five GBBs. Establishment of GBBs is a major breakthrough in the microfinance development sector in Nepal. The GBBs' credit is provided for micro-level income generating activities on group guarantee basis for rural poor.

Semi formal sector includes NGOs and saving and Credit Cooperatives (SCCs) providing limited microfinance services to their clients. These are described as semi-formal because they are once registered entities but are neither regulated nor supervised as formal sector institutions.

5.3.3 Government and NRB Supported Programs

Rural Self Reliance Fund (RSRF) executed by GoN and Nepal Rastra Bank (NRB); Micro credit Project for Women (MCPW) executed by NRB and Department of Women Development (DWD); credit assistance from Institution Development Program (IDP) of Agriculture Development Bank (ADB/N) to federate small farmers' group into Small Farmers' Cooperative Ltd. (SFCL) are the example of government and NRB supported programs microfinance under semi-formal sectors.

5.3.4 INGO Supported Programs

Some International Non-government Organization (INGOs) i.e. (Action Aid, CECI-Nepal, PLAN-International, Save the Children etc.) has been supporting to local NGOs/ SCCs to enable them providing microfinance services to their clients. They assist them by providing (i) revolving funds for on lending, (ii) grants to cover operating costs including staff and administration expenses, rent and transportation, (iii) matching funds whereby INGO match (or provides a multiple of) the amount of saving collected by NGO/SCC from their members and (iv) technical assistance including program development, group formation, staff and client training, and financial management to support Nepalese microfinance movement.

5.3.5 Microfinance Development Banks

After the enactment of development bank act, 1996, Microfinance Development Banks are gradually emerging in Nepal. Some MFDBs that are active in Nepalese microfinance sector are Grameen Bikas Banks, Nirdhan Utthan Bank (NUB), DEPROSC Bikas Bank (DBB), Chhimek Bikas Bank (CBB), Swabalamban Bikas Banks (SBB) and etc. There are 18 MFDBs operating in Nepal up to mid- July, 2009 (NRB, 2009). Mostly Nepalese MFDBs are implementing microfinance program using lending methodology developed by Grameen Bank of Bangladesh with or without modification.

5.4 Prevailing Models of Microfinance Sector

A rapid upsurge in micro-finance programs has been witnessed since two decades. Within this period, Nepal exercised various microfinance programs with diversified methods and modalities. The models of microfinance activities differ from region to region. In the plain and low land area, where population density is high, Grameen Methodology of group based is dominant. In remote hill areas, self help groups and individual loans become more prevalent. Some prevailing models of microfinance sectors are described below.

5.4.1 Grameen Model

Prof. Muhammad Yunus in Bangladesh developed a new model in the field of microfinance called Grameen Bank Financial System (GBFS). This system is based on group solidarity mechanism in which credit is tied to savings and focus exclusively to women. Five GBBs and other 13 private MFD Banks (Swabalamban Bikas Bank Ltd., Nirdhan Utthan Bank Ltd., Chhimek Bikas Bank Ltd., DEPROSC Development Bank Ltd. NERUDE Laghu Bitta Bikas Bank etc.) are adopting Grameen model to cater financial services to their clients.

5.4.2 Small Farmers Cooperative Models (SFCLs)

Agriculture Development Bank Ltd. (ADBL) initiated a newly developed financing concept on cooperatives known by the name of Small Farmers Cooperative Limited (SFCL) which is, in fact, a convergent form of three-decade old Small Farmers Development Project (SFDP). The main objective of transformation of SFDP into SFCL is to ensure the viability and sustainability of Micro-finance institutions, which would be managed and administered by the members themselves.

5.4.3 FINGOs Model

This is the latest form of development in micro-finance in terms of financial intermediary process. There are almost 10,000 unregistered NGOs, engaged in either microfinance activities or social and community development activities. However, only 45 NGOs have been permitted for limited banking activities. After the promulgation of financial intermediary Act 1998 (1st amendment 2002), a broader scope has been created for NGOs to function as financial intermediaries for mobilizing savings and promoting credit activities within groups.

5.4.4 Priority Sector and Deprived Sector Credit Model

Priority sector lending model was introduced in early 1974 and renamed Intensive Banking Program (IBP) in 1981 to provide at least 12 percent of outstanding credit of commercial banks in agriculture, cottage industry and service sector. This program has been phased out 2006/07. Similarly, Deprive Sector Credit Program was introduced by NRB since 1991. In this program, commercial banks (Class A) should provide credit at least three percent of its total outstanding loans to deprive sector without collateral directly or through other wholesale lenders GBB, RMDC, etc. Similarly, Development Bank (Class B) and Finance Company (Class C) have to invest at least 2.5 percent and 2.0 percent respectively of their loan outstanding as deprived sector credit. This ratio has been increased by 0.5 percent point every year to all class institutions.

5.4.5 Saving and Credit Cooperatives (SACCOs) Model

The cooperative model emerged in Nepal as early as the 50's. This is a member-based organization, registered with the objective of self-help development among the members. As of mid-July, 2007 around 9362 cooperatives have been registered with the Department of Cooperative of which 3241 saving and credit cooperatives (SACCOs). Such SACCOs provide microfinance services to their members for running income-generating activities. Out to them, only 15 SACCOs have received licenses from NRB for limited banking transaction (Annex L). Out of 3241 SACCOs, 397 SACCOs are partner organization of RSRF.

5.4.6 Project-based Micro Financing Model

There are many external donor agencies that are providing technical and financial assistance to develop the rural finance activities in Nepal. Those agencies are bilateral or multilateral. IDA, ADB/M, UNDP, UNICEF, UNIFEM, EU, USAID, CIDA etc, are helping the microfinance sector through different projects. Some Major Donor funded projects are PCRW, MCPW, PAPWT, TLDP, CGISP, RMP etc. Most of these projects have been phased out now.

5.4.7 Wholesale Micro-financing Model

Wholesale micro financing in Nepal was introduced with the establishment of Rural Self-Reliance Fund (RSRF) in 1991. Late another institution called Rural Microfinance Development Center (RMDC) under RMP came into existence in 2000 to cater wholesale credit needs of MFIs for on-lending purposes as well as for institutional capacity building of MFIs and capacity building of clients of partner organizations (POs). Similarly, in 2002, another wholesaling microfinance institution called Sana Kisan Bikas Bank (SKBB) was established to provide wholesale credit to SFCLs. Likewise, wholesale institution called National Cooperative Development Bank (NCDB) was also established in 2003.

5.5 Targeted Credit Programs

Collateral based lending practice of commercial banks and development banks (CBs and DBs) deprived the poor people from institutional sources of credit. Similarly institutional credit is also conditional to business types, location and the social status of borrower. Realizing that expansion of traditional financial system alone does not necessarily ensure poor people's access to formal credit sources, numbers of targeted credit programs are initiated. NRB has been playing a crucial role in the promotion of rural financial institutions and making rural financial policy more rural and poor friendly. Government has introduced a number of targeted rural credit programs since Seventies.

The history of formal micro credit programs and projects in Nepal started with Small Farmers Development Program (SFDP) of ADB/N. SFDP has partly been transformed onto Small Farmers Cooperatives Ltd (SFCLs). This program was followed by Priority Sector Credit Program (PSCP), Production Credit for Rural Women (PCRW) etc. (shown in Table 5.7). These projects and programs were implemented by banks and financial institutions in different periods. The mission of these programs is to open up avenues for the flow of formal micro credit services for income generating activities in the rural sectors. Among the programs and projects, most of them have completed their term and only two PAF and DSCP are still continuing.

Table 5.7

Main Programs and Projects Related to Microcredit in Nepal

S.N.	Programs	Operation Year	Responsible Institutions
1	Priority Sector Credit Program	1974	CBs
2	Deprived Sector Credit Program	1990	CBs
3	Small Farmer Development Program	1975	ADB/N
4	Production Credit for Rural Women (PCRW)	1981	GoN
5	Micro Credit Program for Women (MCPW)	1993	GoN
6	Bisheshwor with the Poor	1982	GoN
7	Lead Bank Scheme	1988	NRB
8	Banking With the Poor	1991	RBB
9	Poverty Alleviation Fund (PAF)	2000	GoN
	Projects		
10	Cottage and Small Industry Project	1982	GoN
11	Rural Self-Reliance Fund	1991	NRB
12	Third Livestock Development Project	1996	NRB
13	Poverty Alleviation Project in Western Terai	2000	NRB
14	Community Ground Water Irrigation Sector Project	2001	NRB

Source: S.R. Sharma, 2003 (Banking Development and Poverty Alleviation Efforts in Nepal.

5.5.1 Priority Sector Credit Program

NRB introduced the concept of compulsory Priority Sector Credit Program (PSCP) for CBs in 1974 with main objective to inject institutional microcredit through CBs and also make CBs to meet their social obligation. PSCP carried different names in its implementation period such as Small Sector Program, Supervised Credit Program, and later the program was popular with the name of Intensive Banking Program (IBP)

In the initial period, CBs has to invest five percent of their deposit in small sector. Later, the provision based on deposit changed to as par the outstanding loan of CBs from five to seven percent of their outstanding loan. Again the percent is increased to ten and finally twelve percent. The PSCP was geared up with the implementation of Intensive Banking Program (IBP) in 1981. IBP Program was designed with project viability, area approach and regular supervision. In the beginning of the program, IBP covered 27 districts. Later, it was extended to the entire 75 districts. However IBP was dropped due to policy weaknesses and implementation issues. PSCP on the other hand ceased to exist in FY 2002/03 to 2006/07.

The PSCP was split into two sectors in 1990, creating a new program as Deprived Sector Credit Program (DSCP). This program aims to meet micro credit demand of ultra poor and marginalized people of the society. Now, as PSCP has phase out, CBs (Class A) have to invest only three percent of their loan outstanding to DSCP. Similarly, Development Banks (Class B) and Finance Companies (Class C) have to invest at least 2.5 percent and 2.0 percent of their loan outstanding in DSCP (NRB, 2010).

All three classes Institutions (A, B and C), they should either make direct lending to the people below poverty line or wholesale financing to the ADB/N, FINGOs, Grameen Bikas Banks (GBBs) and licensed Saving and Credit Cooperatives (SCCs) or they can make share participation in Rural Microfinance Development Center (RMDC) and GBBs. The CBs, DBs and Finance Companies if they fail to meet the target have to pay penalty.

Direct benefit from such lending to hard core poor is questionable. Because at present DSCP is quite broad which include loan extended to ADB/N, GBBs, Cooperatives and NGOs. It also includes lending to biogas, small hydropower, turbines, and nun-polluting vehicles. Financing agriculture and small business activities never had been a priority area of joint venture and Private Banks. Rather, they prefer to pay penalty in case of failure to meet the minimum lending requirement for DSCP.

5.5.2 Small Farmers Development Program

Small Farmer Development Program (SFDP) was the first poverty reduction program of Nepal implemented by Agriculture Development Bank of Nepal (ADB/N) in 1975. This was the first program of its kind to provide micro credit on non-collateral and group guarantee. The main objective of this program was to uplift the economic conditions of the poor people through (i) income generating activities (ii) group savings (iii) social activities and (iv) community development activities in the rural areas of hills and Terai of Nepal. The social activities like adult literacy, health service, child care centre, dirking water, low cost toilet and stove of clay etc. were also provided regarding this program. Skill training on agriculture and micro enterprise, interest subsidy, group insurance schemes etc. were also conducted along with this program. SFDP was a new banking model for reaching the poorer section of community. As of mid July 2006, the program was implemented up to 649 VDCs of 75 districts and 183, 355 people benefited from the program. Total loan disbursement was Rs. 7.8 billion and total saving collected was Rs 53,478 thousand (Shrestha P, 2007).

5.5.3 Production Credit for Rural Women

Production Credit for Rural Women (PCRW*)* was the first women target micro credit program of Nepal and also the first program launched by GoN in coordination with the banking sector. The execution of the project was done directly through Women Development Division of Ministry of Local Development. Under PCRW program, credit is canalized by NRB and the loan was disbursed through the Participating Banks (PBs) – Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB) and Agriculture Development

Bank (ADB/N). The objective of this program was to uplift socio economic condition of rural women through a combination of credit for income generation activities, training and community development activities and capacity development of women. The program had been supported by various bilateral and multilateral donor agencies such as, IFAD, IDA, UNICEF, UNIFEM, CIDA, USAID, and EU thruogh technical and financial assistance.

This program was operated in 564 VDCs and 28 municipalities of 75 districts. It provided credit of Rs. 933, 812 Thousand to 82,416 members as of mid July 2001. The outstanding loan amount of PCRW as of mid January of 2005 was about 158.4 million. The project was phase out in 2001. The program had created awareness among women with achievement of literacy enhancement, access to the credit, training packages, study tours, socialization, community and confidence building, experience sharing programs.

5.5.4 Micro Credit Project for Women

Micro credit Project for Women (MCPW) was another program under implementation with loan assistance of Asian Development Bank, Manila (ADB/M). Under this project, ADB/M provided an assistance of SDR 3.45 million. The project was implemented in 1993 with the objective of improving and enhancing socio-economic status of women and promotes their participation and integrating in national development, thereby contributing towards Poverty reduction in Nepal. The main components of the project can be specified as (i) group formation and training of women beneficiaries (ii) institutional strengthening of selected NGOs and (iii) provision of credit to women. The partner banks (PBs) of the program were NBL and RBB and the partner organizations of the project were 87 NGOs and 8 SCCs (Mathema, 2008).

This was the first credit program with the government recognition of NGOs for forming women groups, mobilizing savings and credit. As of March 2002, it was implemented in 182 VDCs and 14 municipalities of 14 districts and has benefited around 25, 000 rural and urban women. The total loan disbursed was Rs 395.2 million within the project period. This program has already been phase out in 2002.

5.5.5 Lead Bank Scheme

Lead Bank Scheme (LBS) was launched in 21 districts in 1988 with an objective of assigning one of the affiliated banks as the lead bank assigned with the lead role for the formulation, monitoring and maintenance of coordination of banking plans and for the extension and promotion of banking activities. In this scheme, the affiliated banks consisted of Nepal Bank Limited, Rastriya Banijya Bank, and ADB/N. The bank chosen as lead bank is supposed to set up the lead bank office to formulate the annual plan, implement, monitor, review the progress and evaluation of the banking sector at all levels in order to increase the income and purchasing power of small farmers through priority sector credit.

In spite of its active operation for few years, Lead Bank Scheme could not take a great leap forward as it was dropped at the earlier stage of its take-off period. This gave a great setback in the flow of priority sector credit and for the coordination between banks, financial institutions and government departments in their activities to uplift the rural poor from poverty level.

5.5.6 Banking with the Poor

The Banking With the Poor (BWTP) was a network of some 30 national policy institutions; commercial banks and NGOs from nine countries – Australia, Bangladesh, India, Nepal, Pakistan, Philippines, Sri Lanka and Thailand. The objective of BWTP was to link microfinance with the financial system and to support the provision of inclusive financial services in Asia. It pursued its objective through capacity building, information sharing, policy dialogue, advocacy and research. Foundation for Development Cooperation (FDC) Australia initiated BWTP project. The objective of the project was to explore, demonstrate and publicize increase access to credit on sound commercial basis for the poor and to enhance the commercially sound linkage between formal financial sector and well managed NGO and SHG.

BWTP program was launched by Rastriya Banijya Bank (RBB) with Gundu Village Development Board, a local NGO of Bhaktapur in 1991 in Gundu VDC with an association with local SHG. Later, the program was extended to various parts of the country by RBB as a special poverty alleviation program. The loan amount of this program is Rs 15,000 per individual and Rs. 30,000 per household. The loan is provided on group guarantee without collateral. As of 1997, the program has been implemented in 22 branches of RBB through 72 associations of self-help group and have disbursed loan amounting to Rs. 46.79 million to 5,476 borrowers.

5.5.7 Poverty Alleviation Fund

Poverty Alleviation Fund (PAF) is an autonomous institution established under a separate Act-Poverty Alleviation Fund Ordinance 2004. The PAF has been established to address the poverty reduction strategy and is the third pillar of targeted program of the strategy of the tenth plan. The other two pillars are macro development and sustainable growth and social inclusion and good governance. The specific objective of PAF are: (i) reaching out to the poor, vulnerable, and socially excluded caste and gender (ii) plan and implement demand driven program to promote income generating activities and community infrastructure for the poorest and (iii) credit facility directly to community organizations on cost sharing basis to implement and manage their program by poor themselves.

PAF presents as a specially targeted program for ultra-poor community. With the intensity and extensiveness of the poverty level of the country, PAF needs to increase its coverage. More attention has to be taken to address social inclusion by gender, ethnicity and geographical remoteness of hill, mountain and Terai.

5.5.8 Cottage and Small Industries Project

Cottage and Small Industries (CSI-I) project was implemented with the World Bank assistance of US$ 6.5 million. The project started its operation in 1982 in three district of Kathmandu Valley and six districts in Gandaki Zone. The project had given an opportunity for commercial services to cottage and small industries by way of credit delivery and product and skill development. NRB is the apex body of the project and it provided 80 percent refinance facility from the project fund to NBL, RBB and ADB/N, which are the participating banks (PBs). The concept of the project is mainly project based lending. The provision of credit guarantee up to 75 percent was also given to the loan under this project. The target of disbursing the specified fund was fully achieved.

The CSI-II project with the IDA assistance of US$ 10 million was implemented in 1987. The field of operation of the project was extended to 27 districts. Because of non-recovery of the loan of CSI-I, the problem arose for the disbursement of fresh loan under CSI-II. Because of poor repayment of CSI-I, and CSI-II, its activities had to be dropped in 1992 prior to three years of its period. During the operation of CSI projects, the total loan disbursed for the project was of Rs. 364.41 million which helped to establish 5,000 export oriented cottage and small industries providing employment opportunity to 54,318 people (Mathema, 2008)

5.5.9 Third Livestock Development Project

Third Livestock Development Project (TLDP) was implemented on 1996 with financial assistance of Asian Development Bank Manila (ADB/M). The loan of SDR 12.55 million was provided under this project. The objective of TLDP was to improve nutrition, income and employment opportunities to the farmers and poor people in the project area, especially women through improving productivity of their livestock. There were 19 participating financial institutions which included two commercial banks, three developments banks, four rural bank replicators, eight cooperatives and two NGOs.

The project covered in 19 districts out of them, ten districts were selected from Western Development Region and nine selected from Far Western Development Region. The special features of the project were participatory approach, organizational leasing, process approach, poverty alleviation, women development and environmental issues. The major achievements of TLDP were found in the fields of forage development, dairy, meat, animal health and breeding, credit and institutional strengthening and organizational development.

5.5.10 Poverty Alleviation Project in Western Terai

Poverty Alleviation Project in Western Terai (PAPWT) was implemented in 1997 in eight districts of western Teri under joint agreement of GoN and IFAD. The fund of Rs. 131.49 million was made available from GoN to NRB for the implementation of the project. The targeted group of the project is deprived community and the objective is to contribute to uplift the economic and social conditions of such community and also to strengthen of the participating financial institution through microfinance. Under this project, NRB had disbursed all available funds to the participating five financial institutions. This project has contributed to 22 thousand families of Western Terai. The project was completed in 2006.

5.5.11 Community Ground Water Irrigation Sector Project

Community Ground Water Irrigation Sector Project (CGISP) was implemented in 1998 based on loan agreement between GoN and ADB/M. the objective of the project was to enhance agriculture productivity and thereby increase the income of small and marginal farmers. The participating financial institutions of the project were NBL, PuGBB, MGBB, Sahara Nepal Saving and Credit Cooperative and Krishak Upahar Saving and Credit Cooperative. The project was come to end in 2004/05 installing 6,365 shallow tube-wells with Rs. 157.5 million of credit facilities to the rural poor. By this project, 13,976 marginal farmers are benefited with irrigating 24,741 *Bighas* of land.

5.6 Apex Micro Finance Institutions

To finance the wholesale credit need, some institutions are established during 1990s to early 2000's. These wholesale financing institutions are also called Apex institution or refinance institutions. The main refinance institutions are Rural Self Reliance Fund (RSRF), Rural Micro Finance Development Corporation (RMDC), Sana Kishan Bikash Bank Limited (SKBB) and National Cooperative Development Banks (NCDB). Establishment of these institutions have made easy access to soft loan to MFIs for lending poor clients. A brief description of them is given below.

5.6.1 Rural Self Reliance Fund

Rural Self Reliance Fund (RSRF) is the first wholesale microfinance institute which started in 1991 by Government of Nepal and NRB. Government has contributed Rs. 40 million in different installment whereas NRB has offered Rs. 253.4 million total of Rs. 293.4 million to this Fund. NRB has been managed this fund since the time of its establishment. This fund is providing wholesale loan facilities through FINGOs and saving and Credit Cooperatives (SACCOs) to the rural poor people. To get the wholesale credit facility, SACCOS should be registered under the cooperative Society Act, 1992 and FINGOs should be registered under Society Registration Act, 1979. The Fund charges eight percent of interest rate with provision of return of 75 percent on timely repayment by these intermediaries.

By the end of mid –Jan. 2010, altogether 450 institutions (397 SACCOs and 53 FINGOs) are affiliated with this fund. This fund has served to 20 thousand households of 53 districts of the country. It has disbursed Rs. 296.7 million and collected Rs. 162.3 million with loan outstanding of Rs. 134.4 million. (NRB, 2010)

5.6.2 Rural Microfinance Development Center

The Rural Microfinance Development Centre (RMDC) was established through the initiative of the Nepal Rastra Bank (NRB), supported by the Asian Development Bank. It was registered in October 1998 under the Company Act 1996 with a mandate to operate as a development bank within the framework of the Development Bank Act 1995. Originally it was created for wholesale lending to five Grameen Bikas Banks (GBBs) and the two private rural microfinance development banks (CSD and Nirdhan), RMDC had expended its services as a whole-sale lender to microfinance institutions i.e. GBBs, MFDBs, rural cooperatives, and FINGOs. As of 2005/06, RMDC has disbursed of Rs. 1185.08 million to above mentioned institutions.

RMDC also provides support to MFIs for their institutional strengthening and capacity building. It has offered training to thousands of officials and MFIs staff and clients. It also provides on-site technical assistance. Sometimes, RMDC conducts training in business planning, microfinance operations, financial management and delinquency management. RMDC also organizes exposure visits to successful organizations occasionally.

RMDC is the implementing agency for the Rural Microfinance Project (RMP) funded through an ADB/M loan. Under the project, RMDC has received of assistance of SDR 14.2 million funds as a loan from ADB/M for on lending to poor households through retail MFIs. RMDC also plans to develop tools and methodologies for maintaining performance standards of MFIs and conducting performance monitoring and supervision of partner MFIs.

5.6.3 Sana Kisan Bikas Bank

The organizational development of Agriculture Development Bank to support small farmer has led to the establishment of Small Farmers Cooperatives Limited (SFCLs). During the course of time, SFCLs also felt the need of support for its development and also to build capacity to extend its activities in a better way. Sana Kisan Bikas Bank (SKBB) was established in 2002 to fulfill the need of an institution to provide wholesale credit to SFCLs. Its authorized capital is Rs 240 million; the issued and paid up capital is Rs 120 million and 105.78 million respectively. ADB/N is the major promoter of SKBB occupying 66 percent share capital; GoN shares 19 Percent of its equity. 21 SFCLs and other two commercial banks i.e. (NBL and Nabil Bank) are other promoters of this bank. As of 2005/06 the bank has provided its credit services to 103,880 households with total loan outstanding of Rs. 1,794.16 million.

5.6.4 National Cooperative Bank Limited

The National Cooperative Bank Limited (NCBL) was established in 2003 with authorized capital of Rs. 64 million, issuing capital of Rs. 32 million and paid-up capital of Rs. 16 million. The share of the Bank amounting to Rs 23.8 million is owned by the 7,000 cooperatives spread throughout the country. GoN also has provided Rs. 10 million for the establishment of the Bank. The share of NCBL has been categorized into four slabs i.e. A category, (10 to 500 number of shares) B category, (501 to 2500 numbers of shares), C category (2501 to 5000 number of share) and D category (5001 and above number of shares). The members of the NCBL will include 7000 cooperative societies and they will be cauterized as to the share they own. The aim of NBCL is to provide bulk loan to cooperatives to channel down the loan to rural general mass population to uplift their socio-economic condition.

5.7 Grameen Bank Replication in Nepal

Grameen Bank financial system, a deprived woman focused rural banking system, which provides credit without collateral, started in Nepal by an NGO called NIRDHAN in Rupandehi District of Nepal. Later on, this NGO transferred to microfinance development bank called Nirdhan Utthan Bank. It has been providing microfinance services to rural poor of Nepal. Besides this, other microfinance development Bank which is initiated by private sectors i.e., Swabalamban Bikas Bank (SBB), Chhimek Bikas Bank (CBB), DEPROSC Bikas Bank (DBB), Nerude Laghu Bitta Bikas Bank etc. are also using Grameen Bank Financial System. Now there are 18 microfinance development banks (NRB, 2010) which are solely or partially adopted GBFS (Annex 1). Brief descriptions of main MFDBs, which are adopting Grameen Bank methodology, are given below.

5.7.1 Nirdhan Utthan Bank Ltd.

Nirdhan Utthan Bank Ltd. (NUBL) is the product of the initiative of Nirdhan an NGO. NUBL registered as a company in November 1998 and in April 1999 NRB granted license to undertake banking activates under development bank Act 1996. NUBL started its operations from July 1999 after Nirdhan handed over its all micro-finance operations. Its vision is to be a bank with social conscience that enables poor to contribute equally to a prosperous, self-reliant rural society through self-employment and social awareness and finally help to reduce poverty in Nepal. The vision and mission of NUBL is to reach maximum number of poor households being financially viable by adopting proven delivery mechanism. It tends to a managed institution with high staff morality and to enhance women’s self-respect through social awareness, proper use and timely repayments of loan, regular saving and provision of micro fiancé services. NUBL has also chosen two types of model as a landing methodology. One is individual lending based on group solidarity without collateral based on Grameen Banking Model and the other is wholesale lending to self-reliant group based on village banking model.

The authorized capital of NUBL is Rs. 50 million, issued capital is Rs. 25 million and paid up capital is Rs. 27.44 million. Out of the total paid up capital, the promoters own 79.5 percent and general public has own 20.5 percent share.

NUBL has provided its services to 115,174 members of 22 districts. As of mid-July, 2009, the total loan outstanding of NUBL is Rs. 1,013 million and total deposit collection is Rs. 337 million (NRB, 2010).

5.7.2 Chhimek Bikas Bank Ltd.

Chhimek Bikas Bank (CBB) was registered in 2001 under Company Act 1997 and received license from NRB in January 2002 as per development Act 1996.

The vision of CBB is to help poor people approaching to be a prosperous, self-reliant rural society through self-employment, social awareness and reduction of poverty. With this vision, the objective of CBB is set to improve the socio economic condition of the poor, the landless, assets less and deprived rural women through micro finance services.

The authorized capital of CBB is Rs. 60 million, issued capital Rs 30 million and paid up capital Rs. 10 million. Out of paid up capital, 36 percent owned by Class A CBs, 12 percent by Neighborhood Society Service Center, 30 percent by public shareholders and 22 percent by others.

CBB has provided services to 93,047 members of 23 districts. As of mid-July, 2009, the total loan outstanding of CBB is Rs. 894 million and total saving collection is Rs. 416 million (NRB, 2010).

5.7.3 Deprosc Development Bank Ltd.

Deprosc Development Bank (DD Bank) is registered under Company Registration Act 1997 and got the license from NRB in 2001 under Development Bank Act 1996. This bank is promoted by an NGO called Development Project Service Center (DEPROSC), Agriculture Development Bank (ADB/N), Nabil Bank, Lumbini Finance and Leasing Company, CEAPRED.

The objectives of DDB bank is to provide microfinance services to the poor and backward women group, to provide microfinance services aiming poor and helpless population below poverty line from their income generating activities. DB Bank is also Grameen replicator. The authorized capital of Rs. 23.2 million and issued and paid-up capital is of Rs. 11.6 million.

DD Bank has provided its services to 43,168 members of 16 districts. As of mid-July, 2009, the total loan outstanding of DD Bank is Rs. 593 million and total deposit collection is Rs. 116 million (NRB, 2010).

5.7.4 Swabalamban Bikas Bank Ltd.

Swabalamban Bikas Bank Ltd (SB Bank) was registered under Companies Acts 1997, obtained license from NRB in 2002. SB Bank has been promoted by Center for Self help Development (CSD) and the overall assets and liabilities of CDS were taken over by SB Bank on January 14, 2002. The primary objectives of SB Bank is to provide micro finance services to the disadvantaged section of the rural women to uplift their socio-economic status and also to make maximum use of their existing skills and resources. The authorized capital of SB Bank is Rs. 24 million and issued and paid up capital is Rs. 10 million. Out of total paid up capital, 70 percent is with the institution and individual promoters and rest 30 percent is allocated for the general public. SB Bank has provided its services to 86,608 members of 17 districts. As of mid-July, 2009; the total loan outstanding of SB Bank is Rs. 670 million and total deposit collection is Rs. 139 million (NRB, 2010)

Besides above mentioned institutions, there are 18 MFDBs replicating Grameen Bank Financial systems in Nepal. List of MFDBs are provided in Annex K.

5.8 Conclusion

From the above discussion, it is clear that Government and private sector have tried to expand microfinance services nation-wide. They have developed microfinance related special schemes and programs for rural areas and marginalized population of Nepal. However, predominance of informal sector in rural Nepal is still strong. Causes may be many more, but formal sector still consider working in rural areas as financially non-viable and operationally cumbersome. Some of micro-credit institutions (GBB is one of them) are example of national endeavors in the development of rural areas. Their endeavors should mature into accountability and sustainability. Only a financially sustainable institution can go a long way in promoting rural development.

CHAPTER VI

GRAMEEN BANKING SYSTEM IN NEPAL

6.1 Introduction

Rural Credit Review Report (NRB, 1994) revealed that in 1991/92, only 20 percent people had able to get credit from formal sector. Rest 80 percent rural people had to be depended upon informal sources for credit. The Survey showed that there is a huge gap between demand and supply of rural credit in Nepal. The World Bank (2006) revealed that about 38 percent of Nepalese households have an outstanding loan exclusively from the informal sector, 16 percent from both the informal and formal sector, and 15 percent from only the formal sector (i.e. bank, finance company, financial NGOs or cooperative or microfinance or rural regional Grameen Bikas Bank). If we add previous two ratios; it showed that still about 54 percent people have depended upon informal sector to fulfill their credit demand.

Many efforts have been made to reduce poverty through rural credit. The Government and Nepal Rastra Bank (NRB) have taken initiation to introduce different types of credit project and program directly or indirectly to reduce poverty. Priority Sector Credit Program (PSCP), Small Farmer Development Program (SFDP), Deprived Sector Credit Program (DSCP), some donor based program and cooperative based programs are a few examples. But the outcome of these programs had not been achieved as expected. To fulfill the demand of rural credit, GoN had taken initiation to established Grameen Bikas Banks (GBBs), which has been established between 1992 to 1996 in five Development Regions. GBBs are the replication of Grameen Bank financial system developed by Prof. Muhammad Yunus in Bangladesh with the name of Grameen Bank (GB) Bangladesh. The brief description of GB has been given below.

6.1.1 Origin of Grameen Bank

Prof. Muhammad Yunus of Bangladesh, introduced a new dimension in banking system called Grameen Bank Financial System (GBFS) in 1978 as an action research project and later it was transformed into a bank i.e. Grameen Bank (GB) which is being very successful to deliver the financial services to rural people of Bangladesh. From the beginning of that model, GBFS is also being replicated worldwide as a poverty reduction tools. Realizing the need of rural credit, and watching the success of GB, the democratic government of Nepal (which was formed after collapse of Panchayat system in 1990) decided to establish regional level Grameen Bikas Banks (GBBs) replicating the Grameen Bank Financial System (GBFS) of Bangladesh.

Grameen Bank (GB) has its different methodology, which is almost reverse to conventional banking practices. It removes the need for collateral and creates a new banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Professor Muhammad Yunus, the founder of 'Grameen Bank' reasoned that if financial resources can be made available to the poor people on flexible terms and conditions, they could be bankable. Prof. Muhammad Yunus has strong determination towards the success of GB model. He has faith towards poorest that they could be a good banker although they have no collateral to put against loan. This is only possible with GB model. Prof. Muhammad Yunus with his strong determination states, "…these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

As of August 2010, it has 8.30 million borrowers, 97 percent of whom are women in 2,564 branches. GB provides services in 81,371 villages, covering more than 97 percent of the total villages in Bangladesh. Grameen Bank's positive impact on its poor and formerly poor borrowers has been documented in many independent studies carried out by external agencies including the World Bank, the International Food Research Policy Institute (IFPRI) and the Bangladesh Institute of Development Studies (GB, 2010).

6.1.2 Grameen Bank Philosophy

Prof. Muhammad Yunus has strong determination that credit facility should be taken as one of the fundamental human rights. Every individual possesses surviving skill, comparatively female are more closed to various problems and conscious to repay loans. Credit to them creates new economic probabilities. Realizing these aspects, GBBs work under some fundamental philosophy, which is listed here under:

a) Poverty is not a cause but it is an effect.

b) The groups guarantee and peer pressure is stronger than physical collateral.

c) Women are more closed to various problems and are more conscious to repay loan.

d) Credit facilities open new economic opportunities towards prosperity.

e) Charity and grant can make credit unproductive.

6.1.3 General features of Grameen Bank Financial System

Grameen Bank Financial System (GBFS) is different from the traditional banking system. It believes that poor are bankable (Yunus, 2003). This system provides loan without collateral with group guarantee rather physical collateral as in traditional banking systems. Some main features of Grameen Bank Financial System are as follows (Grameen Bank, 2007)

a) It promotes credit as a human right.

b) Its mission is to help poor families to overcome poverty. It is targeted to the poor, particularly poor women.

c) Most distinctive feature of Grameen credit is that it is not based on any collateral or legally enforceable contracts. It is based on 'trust', not on legal procedures and system

d) It is mainly offered for creating self-employment for income-generating activities and housing for the poor.

e) It was initiated as a challenge to the conventional banking, which rejected the poor by classifying them to be "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.

f) It provides financial service at the doorstep of the poor clients based on the principle that ' poor people are unable to go to the bank; rather bank should go to the doorstep of the poor people.

g) In order to obtain loans, a borrower must join in to group of borrowers.

h) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.

i) All loans are to be paid back in installments (weekly, or bi-weekly).

j) Simultaneously, more than one loan can be received by a borrower.

k) Loans are tied with compulsory savings and voluntary savings.

Grameen credit gives high priority on building social capital. It is promoted through formation of groups and centers, developing leadership quality through annual election of group and centre leaders.

6.1.4 Policy and Procedures of GBBs

GBB provide banking facilities to the rural poor families. It does not include all people of the society. It follows some norms and standards while providing its services. The main policies procedures adopted by GBB are as follows.

a) GBB provides banking services and institutional credit to poor people (mostly women) of the society in priority basis.

b) GBB provides credit to the rural poor household, which owns less than one *Bigha* (0.6 hectare) of land in Terai and Ten *Ropani* (0.5 hectare) in hill area and who has income less than a US$ a day.

c) GBB has developed financial system through participatory approach for poverty alleviation.

d) It organizes the member into groups and provides credit on group liabilities without any physical collateral.

e) Five women constitute a group in their own persuasion and select a chair person among them, who leads the group.

f) 2 to 10 groups form a center of the village level and banking activities are performed in the center.

g) Loan is granted with the principle of 2+2+1 basis. It means, initially two women receive loan at first stage, after eight weeks, other two women are eligible to receive the loan if former two repay the installment regularly. The chairperson will get the loan after eight weeks of second two who received loan and repay installment all the four members regularly.

h) On the basis of credit discipline and loan utilization of the borrowers the credit disbursement yearly as first year maximum Rs. 15,000/- to Rs. 20,000/- second year Rs. 20,000/- to Rs. 30,000/- third and above years. Rs. 30,000/- to 40,000/- etc up to Rs. 60,000/- per year.

i) The general loan amount is increased every year up from Rs. 15,000/- starting to Rs. 60,000/- in a group guarantee basis and individual project loan can be disbursed up to Rs. 150,000/- against the physical collateral of members.

6.1.5 Strategy adopted by GBBs

GBBs have formulated their strategies before loan sanction to achieve their pre-determined objectives. Main strategies of GBBs are as follows.

a) **Compulsory Group Training (CGT):** A compulsory group Training of one week is offered to all recognized groups. During training period, the group members are familiarized with the philosophy, objectives, activities and procedures of GBB. They are also explained about their duties, rights and obligations. Those who don't know how to write the name and sign are also taught. If the group members don't pass the Group Recognition Test (GRT) in one week, the training period is extended till each member passes the test.

b) **Empowering Women:** Besides banking program and procedures, other social development activities i.e. literacy classes, awareness program, skill development, child immunization, health and sanitation, culture and superstitions are raised and discussed among members time to time.

c) **Credit without Collateral:** GBB provides credit to its members without collateral but with the group liabilities. There are many loan products i.e. General loan, (agriculture loan, business and service loan, small and cottage industry loan etc.) irrigation loan, bio-gas loan social activity loan etc., which GBB provides to its clients. In addition, GBB also provides project loan up to Rs. 150,000/- to its senior clients against collateral who are able to put. Credit is tied-up with savings. Each loan has to contribute five percent of loan amount to the group fund. Group members may borrow from this fund to meet their social or consumption needs.

d) **Weekly Repayment:** The loan repayment system is on weekly basis. The interest of general loan is about 20 percent decreasing basis (in the beginning it was 10 percent in flat basis) and repaid within 50 weeks of receiving loan. After completing the repayment on time, clients are eligible to get the further loan of high amount than previous.

e) **Personal and Group Savings:** Borrowers are obliged to deposit five percent of the credit amount in group-fund saving. Beside this, they could utilize this group fund for their emergency needs whenever they encounter problems. In additions, each member must deposit Rs. five or ten every week as their individual savings. Besides these, the borrowers are encouraged to save voluntarily in the bank. Many attractive schemes are provided to attract the voluntary savings.

f) **Group Lending Approach:** A group lending approach is adopted to disburse loans. A group consists of five members. They elect a chairperson among them. The lending methodology is 2+2+1. Firstly, two very poor members get the loan. Secondly, rest two gets the loan if all four member of that group repay installment regularly than only chair person get loan finally.

g) **Door-step Banking Services:** Another main strategy of GBBs is to provide servicers at the doorsteps. Bank should go to well-defined target group according to Grameen methodology. The entire banking activities and transactions take place at a 'center' located at the village level. A 'center' is a place where two to ten groups meet weekly. Group members are required to participate at such weekly center meetings. Failure to attend the meeting leads to penalty. Activities like group training, loan disbursement, collection of weekly installment; saving and loan demands, group discussions and social and community development activities take place at the center.

h) **Branch and Area Office:** A branch office is placed to administer 40-60 (1500 to 2500 members) centers and an area office for every 5-6 branch offices. An area office manage fund to the branch offices, and monitor and supervise the branch activities. Now a days, to reduce the cost, activities of area offices is changed and it also provides the function of branch office.

i) **Financial Discipline:** Discipline from top to bottom is strictly followed. Discipline will be measured as a part of evaluation of staff for their career prospects since beginning of their carrier. Group members have to attend compulsory regular meeting held once a week. Group makes a peer pressure to those who default bank rules and regulation.

6.1.6 Implementation Process and Methodology

GBB provides credit to the rural poor women (targeted group) who are holding less than one *Bigha* of land in Terai and *10 Ropanies* of land in hills of Nepal. Following steps are taken into consideration while providing banking services to the clients of GBBs.

a) Household survey
b) Mass motivation
c) Identification of target group
d) Organization of pre-group training
e) Formation of group and formation of center
f) Compulsory group training (CGT)
g) Organize group recognition test (GRT)
h) Loan proposal, Loan approval
i) Loan disbursement
j) Loan installment repayment (center meeting)
k) Monitoring and supervision of loan utilization and follow up.

6.1.7 Organizational Structure

All GBBs have fairly decentralized organizational structure (Figure 6.1). Head office, Area office, Branch office, Centers, Group and Members are the component of GBBs. Area offices and branch offices are located based on geographical areas. Banking transaction and other activities take place at the center located at the village level under each branch. Group members are required to participate at such weekly center meetings. Head office defines strategy of fund mobilization and expansion, defines operational policies on portfolio management, staff recruitment, training and compensation. Overall, GBBs head office, and branch offices via area offices have a two-way relationship. In the beginning, area office has responsibility to manage fund and monitor and supervise branch activities. But to minimize cost and to increase outreach, the area offices also transferred into major branch office, which perform supervision and follow up activities as well as banking activities also. Fig 6.1 depicts it more clearly.

Figure 6.1

Organization Structure of Grameen Bikas Banks

Source: Derived by researcher

6.2 Grameen Bikas Banks in Nepal

6.2.1 Establishment

Existing Grameen Bikas Banks came in to operation on that very date of receiving license form NRB. Initially, two GBBs were established in February 1992 in Eastern

Development Region and Far Western Development Region named Purwanchal Grameen Bikas Bank (PuGBB) and Sudur Paschimanchal Grameen Bikas Bank (SPGBB) respectively. These banks started banking operation in 1993. After two years, Paschimanchal Grameen Bikas Bank (PaGBB) and Madhya Paschimanchal Grameen Bikas Bank (MPGBB) were set up in April 1995. Finally, Madhyamanchal Grameen Bikas Bank (MGBB) was established in Central Development Region in July 1996 (Table 6.1). All GBBs are registered under Company Registration Act 1964 and operating Banking and Financial Intermediary Act (BAFIA) 2006. These GBBs falls under the class 'D' financial institutions in this Act.

Table 6.1

Grameen Bikas Banks, its Head office and Date of Establishment

S.N.	Grameen Bikas Banks	Operation Date	Head Office
1	Purwanchal Grameen Bikas Bank	1992/02/28	Biratnagar, Morang
2	Madhyamanchal Grameen Bikas Bank	1996/07/08	Janakpur, Dhanusha
3	Paschimanchal Grameen Bikas Bank	1995/04/01	Butwal, Rupandehi
4	Madhya Paschimanchal Grameen Bikas Bank	1995/04/01	Nepalgunj, Banke
5	Sudur Paschimanchal Grameen Bikas Bank	1992/02/28	Dhangadhi, Kailali

Source: NRB, Bank and Financial Institution Regulation Dept, 2009

6.2.2 Objectives

The main objective of GBBs is to create income opportunity through self-employment with the help of appropriate credit delivery mechanism to the rural poor women, but the specific objectives of GBBs are listed as follows

- To create income generating opportunities and self-employment through micro-credit activities to the poor people.
- To provide microfinance services to rural poor in the society.

- To uplift the socio-economic condition of the poor people through community based program.
- To increase social awareness providing community development programs (literacy, training, leadership development and other welfare activities) along with microfinance services.
- To develop regular saving habit of the poor people by providing easy saving products.
- To eliminate the exploitation of the poor by local moneylenders and landlords.
- To develop the banking habit and later on institutional credit facilities in order to strengthen the economic development.

6.2.3 Capital

The Authorized Capital of two GBBs (MGBB and PaGBB) is 200 million and authorized capital of rest three GBB is 120 million. Their paid up capital is 100 million of MGBB, 66 million of PaGBB, 60 million of PuGBB and MPGBB and 58.5 million of SPGBB. Previously, the majority of the share is owned by Nepal Rastra Bank with average of 66.67 percent and the share is participated by GoN with average of 9.9 percent of these banks. Similarly Commercial Banks (CBs) had owned its share of 22.21 percent and other financial institution with 1.27 percent. But with the privatization of most of these GBBs, the composition of share participation has changed.

It can be observed that in PuGBB and MGBB, NRB has reduced its share to zero percent from the previous 66.75 percent and 74 percent respectively. Similarly In case of PaGBB, NRB has reduced its share from 61 percent to 10 percent with a reduction by 51 percent divesting to Nirdhan Utthan Bank and members and staff of PaGBB. Finally, NRB has recently off loaded its total share (63.2 percent) of MPGBB to private company called 'People's Investment Company Ltd.' The recent share holding of GBBs is shown in Table 6.2.

Table 6.2

Share Structure, Ownership and Capital of GBBs, 2009

(Rs. in Thousands and other fig. in percent)

	PuGBB	**MGBB**	**PaGBB**	**MPGBB**	**SPGBB**
Total Capital Rs.	120,000	200,000	200,000	120,000	120,000
Paid up Capital Rs.	60,000	100,000	66,000	60,000	58,500
Share Structure in Percentage	100.00	100.00	100.00	100.00	100.00
Nepal Government	8.25	–	16.50	16.50	8.46
Nepal Rastra Bank	–	–	10.00	–	68.46
Nepal Bank Ltd.	5.00	3.00	5.00	5.00	5.13
Rastriya Banijya Bank	5.00	3.00	5.00	5.00	5.13
Nabil Bank Ltd.	5.00	-	-	5.00	2.56
Nepal Investment Bank	5.00	–	2.50	-	5.13
Nepal SBI Bank Ltd.	-	-	-	5.00	-
SC Bank	5.00	–	–	–	5.13
N B Bank	–	3.50	5.00	–	–
Himalayan Bank	–	–	5.00	–	-
Saving Insurance and Loan Security Corporation	–	0.70	–	0.33	–
ADB/N	–	3.00	–	–	–
Bank of Kathmandu	–	3.00	–	–	–
Nirdhan Utthan Bank	–	–	10.00	–	–
Member of GBB	22.78	–	39.67	–	–
Bank Staff	8.33	–	1.33	–	–
Public	0.69	30.00	–	–	–
HP Agrawal Group	34.95	–	–	–	–
Bandikapur Cooperative Ltd.	–	52.80	–	–	–
Annapurna Dev. Bank		1.00			
Peoples Investment Co. Ltd.	–	–	–	63.17	–

Source: Compiled by researcher, from GBB's publications

6.2.4 Outreach

GBBs have operated its financial activities in 1124 VDC in 49 districts of Nepal. GBBs have provided their services through 148 branches. There are 5531 centers all over the country from where banking activities take place. There are total 167 thousand members of GBBs, out of them about 150 thousands are active borrowers. Table 6.3 shows the outreach of GBB by mid-July 2009.

Table 6.3

Outreach of GBBs in Nepal, 2009

(Figures in Number)

S.N.	Particulars	PuGBB	MGBB	PaGBB	MPGBB	SPGBB	Total
1	No. of districts covered	6	15	14	6	8	49
2	No. of VDC covered	254	327	340	131	72	1124
3	No.of branch	30	43	31	24	20	148
4	No. of staffs	273	247	208	133	79	940
5	No. of centre	1420	1462	1261	799	589	5531
6	No. of groups	11607	8745	8635	4715	2950	36652
7	No. of members	53550	36204	43413	22603	11720	167490
8	No of borrowers	52585	34956	36258	15184	10999	149982

Source: NRB, Microfinance Dept. 2009

6.2.5 Operation

The Loan operation of five GBBs is presented the Table 6.4 below. Five GBBs has disbursed cumulative of Rs. 20843 million as loans and repaid cumulative of Rs. 18484 million with outstanding loan of Rs. 2361 million by the end of mid-July 2009. Table 6.4 depicts it more clearly.

Table 6.4

Grameen Bikas Banks, Loan Operation, 2009

(Rs. in Million)

S.N.	Particulars	PuGBB	MGBB	PaGBB	MPGBB	SPGBB	Total
1	General loan disbursed	6206	3591	5775	1444	965	17981
2	General loan repaid	5768	3312	5182	1280	882	16424
3	**General loan outstanding**	438	279	593	164	83	1557
4	Other loan disbursed	1729	454	9	537	289	3018
5	Other loan repaid	1257	284	6	445	222	2214
6	**Other loan outstanding**	472	170	3	92	67	804
7	Total loan disbursed	7935	4045	5784	1981	1254	20999
8	Total loan repaid	7025	3596	5188	1725	1104	18638
9	**Total loan outstanding**	910	449	596	256	150	2361

Source: NRB, Microfinance Dept. 2009

6.3 Structural Reform Program of GBBs

GBBs started to extend its branch office and disburse loan haphazardly since establishment. GBB did not prepare any business plan. Staff are appointed massively through political and individual approach without evaluating its need. Productivity of institution did not consider in its operation. Chief executives were appointed from NRB staff in each GBB. The loan disbursement was comparatively low as compared to staff and their benefits provided by GBBs. Consequently, the operating expenses increased day by day and out of five GBB, four of them (except PaGBB) lost their equity heavily. The equity loss of PuGBB and SPGBB was about cent-percent. In this situation, Nepal Rastra Bank implemented five years structural Reform Program in GBBs in 2001 (Pradhan, 2003).

Needs of Structural Reform Program

a) Weak financial conditions of GBBs.

b) Increasing operating losses.

c) Over staffing

d) Weak management

e) Lack of professionalism

f) Heterogeneous salary and facilities among GBBs

Objectives of Structural Reform Program

The objectives of 'Structural Reform Programs' were as follows:

a) To make on the position of break even situation to Grameen Bikas Banks which were operating in loss from its establishment,

b) To make sustainable and profitable Microfinance institutions,

c) To bring homogeneity of services and facilities of all GBBs,

d) To develop professionalism on all GBBs,

e) To bear accumulated loss of all four GBBs of Rs. 162.8 million. This loss amount (up to 2000/01) was paid by NRB and GoN (70 percent by NRB and 30 percent by GoN).

To fulfill the objectives indicated above, NRB formulated 15 points action plan for restructuring GBBs. They were as follows.

a) **Accumulated loss Provision:** The total accumulated loss of all GBBs up to mid July 2001 is born by NRB and GoN in the proportion of 70 and 30 percent.

b) **Privatize PaGBB:** Out of 61 percent share of NRB, 51 percent share is to divest to private sector.

c) **Productivity Norms:** To bring all GBB in break-even situation, the productivity norms to be implemented within five years from 2001 mid July as base year.

d) **Golden Handshake Program:** SPGBB had been bearing regular losses from scratch. On the basis of the loss situation and limited area coverage, it is seemed over staffing there. To improve the productivity, golden handshake program to be conducted in SPGBB and the total amount will be borne by NRB and GoN.

- **e) RMDC Involvement:** The Rural Microfinance Development Center (RMDC) is to provide wholesale loan and training to GBB staffs after bearing accumulated loss to improve productivity.
- **f) Merge GBBs:** SPGBB and MPGBB to be merged.
- **g) Expert in Board:** Micro credit expert to be included in Board of Director of GBB.
- **h) Professional CEO:** The chief executive officers to be appointed from free competition to develop professionalism.
- **i) Business Plan:** All GBBs have to formulate business plan and should operate under that plan. RMDC will help for business plan formulation.
- **j) Target Groups:** Poor and ultra poor will be the target groups of GBBs.
- **k) Viability:** Branch should be expanded under viability plan and productivity norms.
- **l) Discipline:** Discipline and business culture is to be developed in staff.
- **m) Provision:** Provision to be managed for doubtful and bad loans.
- **n) Regular Supervision:** Regular supervision mechanism (in every three month) should be developed to monitor the reform program.
- **o) High Level Committee:** A high level committee chaired by Dy. Governor of NRB to be formulated to make decision, follow-up and execute all aspects regarding GBBs.

6. 4 Privatization of GBBs

Nepal Rastra Bank and GoN are main promoters of GBBs. NRB has owned 61 percent to 74 percent shares in GBBs' equity. Similarly, GoN has owned up to 16.5 percent and in average of 9.9 percent in their equity. In the beginning, most of the board members along with chairperson were represented by NRB. Similarly, chief executive officers of GBBs also appointed from NRB officers. In the beginning of their operation, performance of GBBs was not satisfactory. Although, in the beginning, repayment rate of these GBBs were quite high (around 98 percent), this phenomenon could not last long. The symptoms of poor performance indicators i.e. high operating costs, low productivity, over staffing etc came into existence while in operation. By the end of mid-July 2001, these banks incurred of 16.3 million of its capital erosion. PuGBB and SPGBB lost their more than 90 percent equity. NRB study committee (2001) also recommended privatizing GBB after crossing break-even situation. Holding the bulk amount of share being a supervisory and regulatory authority is also questionable to NRB.

According to recommendation of NRB study in 2001, structural reform process started in GBBs. In that course, privatization of PaGBB started. In this context, out of 61 percent share of NRB, 51 percent is divested to bank clients, staffs and Nirdhan Utthan Bank in 2002. Similarly, in PuGBB, NRB had owned 66.75 percent in the beginning. Later, in 2003/04 it divested 31.80 percent of its share to general people and clients of the PuGBB. After three years, the rest 34.95 percent share of NRB was sold to HP Agrawal and Companies. In the same way, NRB also divested its 74 percent of share of MGBB to Jyoti Multipurpose Cooperative Limited Banepa, Kavre in 2007/08. Finally, NRB divested its share from MPGBB also. It sold its 66 percent share of MPGBB to People Investment Company Limited in 2009. In this way, out of five, NRB divested its share from four GBBs and now NRB has only owned 10 percent share of PaGBB and 68.46 percent share in SPGBB.

Enhancing Access to financial services (EAFS, 2008/12) project is a joint undertaking of Nepal Rastra Bank and United Nations Development Program (UNDP) and United Nations Capital Development Fund (UNCDF). The motto of this project is to promote inclusive finance in Nepal with the aim of enhancing access to financial services in remote locations, rural areas and to the unreached people through financial services providers especially microfinance Institutions (MFIs). The objective of the project is to provide access to sustainable financial services to additional 330,000 poor households and to facilitate the linkage of 10,000 existing saving and credit groups (SCGs) with within the project Period 2012. EAFS intends to achieve these objectives mainly through approaches.

a) Assistance for strategic partnership through which grants and technical supports will be provided to MFIs for scaling up outreach and adopting innovations and strengthening the capacity of the microfinance institutions.

b) Assistance for small-scale project which is designed to support experimentations in expanding the frontiers of financial services in Nepal.

After comprehensive exercise and analysis of 38 backward districts based upon ranking of HDI/CBS, they have been selected as a priority districts for the projects intervention.

The project consists of five closely interrelated components. Out of them, the main component is *Microfinance Legal and Regulatory Framework reform*. The project has supported the drafting of a national microfinance policy/strategy, review and reform of the existing microfinance legal and regulatory framework and strengthening of the microfinance regulator. The next component of the project is *restructuring plan for the Regional Rural Development Banks.* In this component, the project is aimed to improve the performance of the GBBs, while keeping them focused on their original mandate to serve low-income households. To fulfill the targeted component, this project aims to audit and rating of all the five GBBs to assess their current financial performance and their strengths and weaknesses. This project also tries to evaluate the privatization of GBBs. The evaluation will assess both the current financial performance of the privatized GBBs as well as their current focus on their original mandate. It also make a reform plan for the all GBBs (for those that have been privatized, the reform plan will take into account their new status) to ensure a better financial performance and their continued focus on low-income households.

CHAPTER VII

COMPERATIVE ANALYSIS OF FINANCIAL SUSTAINABILITY OF GBBs IN NEPAL

7.1 Introduction

In this chapter, data will be presented and analyzed both quantitatively and qualitatively. Data will be analyzed by using financial and statistical indicators. Mainly the study focuses upon three performance indicators of financial sustainability of GBBs. Those are: (i) Outreach (ii) Financial and Operational Performance (iii) Institutional Development. These indicators enable to assess the most important factors affecting their institution's sustainability and efficiency. All the related indicators under this study have been calculated using information from financial statements and portfolio statements of related GBBs.

7.2 Outreach

Outreach is defined as GBB's ability to provide high quality financial services to a large number of clients. It is also known as scale of outreach. The main objective of GBBs is to accomplish financial services to deprived people along with being sustainable institution itself. Therefore depth of outreach is also calculated to know in what extent, GBBs is providing its services to deprived people. Outreach indicators measure the scale of services and the characteristics of the client group. These indicators enable institutions to assess whether GBBs are reaching the population they have targeted at the scale they intend. In this study, outreach indicator measures the scale of GBB's financial services and the degree to which these services reach low-income household and particularly female clients.

Achieving outreach objectives over the long term requires sustainable and efficient GBBs. Therefore, financial viability is directly related to the outreach of GBBs. Donor and subsidized funding is not desirable or reliable over long term. GBBs must be able to cover their full costs with their revenue. To reach as many clients as possible has double objectives. First, to meet their objective reaching the poor people to reduce poverty and second to be financially viable reducing the cost by delivering its products to large numbers of people.

The depth of outreach is proxy by average loan size or average loan size as a percentage of GDP per capita. The main outreach indicators are: (i) scale of outreach (ii) scale of lending services (iii) scale of saving services (iv) outreach to women and (v) outreach to low income clients

7.2.1 Scale of Outreach

7.2.1.1 Number of Members

All individuals enrolled to GBBs are members of GBBs. All the new members not eligible for loans, active clients with outstanding loans, established members in between loans, or members who simply chose to save are members of GBBs. The scale of outreach covers all of such clients of GBBs. Increase in members are good sign of its outreach. Every member generates income to GBBs either as sever or loan client. An increasing trend is positive.

Table 7.1

Growth of Members in GBBs

	2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	45490	45194	56564	56134	53550
Percentage Change		-0.7	25.2	-0.8	-4.6
MGBB	40128	42602	43843	42345	36204
Percentage Change		6.2	2.9	-3.4	-14.5
PaGBB	40821	42451	35895	39051	43413
Percentage Change		4.0	-15.4	8.8	11.2
MPGBB	18190	18072	18405	20300	22603
Percentage Change		-0.6	1.8	10.3	11.3
SPGBB	19358	19567	19957	12172	11720
Percentage Change		1.1	2.0	-39.0	-3.7

Source: Related GBBs

Among GBBs; PuGBB, MGBB and SPGBB have negative trend of growth of its members in recent years. In PuGBB, it was increase to 25.2 percent in 2006/07 and reached to 56,564 members but it started to decrease and came to 53,550 members in 2008/09. The second largest member holder GBB is PaGBB. It has got 43413 members followed by MGBB having 36,204 members. MPGBB and SPGBB have least members among all. MPGBB has 22,603 members where as SPGBB has only 11,720 members. The growth trend of PuGBB, MGBB and SPGBB has declined in 2008/09. The outreach of members and its growth is shown in Table 7.1.

7.2.1.2 Number of Staff

Total number of staff and number of field staff are also included to calculate outreach indicator. The field staff are key persons who generate income for GBBs. Therefore, the number of field staff and its productivity directly affects the viability of GBBs.

Table 7.2

Total Staffs and Field Staffs of GBBs

(Number and % Change)

		2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	**Total Staff**	306	298	292	276	271
	Field Staff	158	151	141	130	140
	Percent of F.S.	51.6	50.7	48.3	47.1	51.7
MGBB	**Total Staff**	248	248	235	250	247
	Field Staff	162	162	161	160	160
	Percent of F.S.	65.3	65.3	68.5	64.0	64.8
PaGBB	**Total Staff**	221	216	214	211	207
	Field Staff	116	111	111	115	119
	Percent of F.S.	52.5	51.4	51.9	54.5	57.5
MPGBB	**Total Staff**	133	133	133	128	128
	Field Staff	71	71	71	71	71
	Percent of F.S.	53.4	53.4	53.4	55.5	55.5
SPGBB	**Total Staff**	114	112	79	78	79
	Field Staff	77	77	39	38	38
	Percent of F.S.	67.5	68.8	49.4	48.7	48.1

Source: Annex F-J

PuGBB has highest number of staffs. It has 271 staffs out of them, 51.7 percent are field staffs. MGBB, PaGBB, MPGBB and SPGBB have 247, 207, 128 and 79 staffs out of them, 64.8 percent, 57.5 percent, 55.5 percent and 48.1 percent are field staffs respectively in 2008/09. Field staffs are the productive personal of GBBs. The less the percent of field staff tends to low productivity of GBBs. According to PLAN model, this ratio should be more than 75 percent. The details of staffs are shown in Table 7.2.

7.2.1.3 Outstanding Portfolio

Outstanding portfolio refers to the total current value of loans not paid on a specific date. Outstanding portfolio is a standard measure of the size of lending services. In general, an increasing portfolio is a positive trend if it is caused by growth in the number of loans outstanding or growth in the loan size of existing clients. Although the portfolio if a new program should grow, the actual size and growth rate of the portfolio cannot be judged without reference to many other factors such as the income level of clients and the local economy. For example, all else being equal, programs reaching to lower income clients will have smaller loan sizes and therefore a smaller outstanding portfolio than programs reaching higher income clients.

Table 7.3

Outstanding Loan of GBBs and Growth Rates

(Rs. in Thousand and percent Change)

	2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	523515	594135	722818	797707	910115
Percent Change		13.5	21.7	10.4	14.1
MGBB	285452	317624	348496	379095	449033
Percent Change		11.3	9.7	8.8	18.4
PaGBB	385423	430753	442186	506259	596639
Percent Change		11.8	2.7	14.5	17.9
MPGBB	137999	166398	198452	218418	255635
Percent Change		20.6	19.3	10.1	17.0
SPGBB	125366	127140	136644	149964	149467
Percent Change		1.4	7.5	9.7	-0.3

Source: Based upon Various Reports of GBBs.

Table 7.3 shows that the increase of loan outstanding is 14.1 whereas such increments of MGBB, PaGBB and MPGBB are 18.4 percent, 17.9 percent and 17.0 percent respectively. But, in SPGBB, the loan outstanding is decreased by 0.3 percent which indicates threat to its financial viability.

7.2.2 Scale of Saving Services

Scale of saving indicator includes Number of savers, total savings and average balance of GBBs.

7.2.2.1 Number of Savers

It refers the numbers of members who participate in savings programs of GBBs. GBBs by establishment, begins with a compulsory savings requirement to establish financial discipline and to constitute a fund that can be used to cover loan arrears. Therefore, all GBB members are savers too. GBBs are not allowed to collect savings from ordinary persons, who are not members of GBB. As GBB maturing, they are creating a variety of voluntary savings products that tend to attract more new members to stimulate savings.

7.2.2.2 Total Savings

Total savings refers to the total current value of savings on a specific date. Total savings is a standard measure of the scale of savings services. Although, total savings of a new program should grow, the actual size and growth rate of total savings cannot be judged without reference to many other factors such as income level of clients, age of the program, and state of the local economy. In particular, all else being equal, programs reaching to lower income level clients will be likely to save less in absolute terms and therefore will be likely to have less total savings than programs reaching higher income clients.

Table 7.4

Total Savings and Rate of Growth of Savings of GBBs

(Rs. in Thousand and % Change)

PuGBB	151855	158033	170771	189199	185166
Growth Rate		4.1	8.1	10.8	-2.1
MGBB	97211	109624	119304	133505	142087
Growth Rate		12.8	8.8	11.9	6.4
PaGBB	85828	92985	99407	114866	162175
Growth Rate		8.3	6.9	15.6	41.2
MPGBB	44343	45961	52782	90840	114679
Growth Rate		3.6	14.8	72.1	26.2
SPGBB	40109	37091	36554	40213	44606
Growth Rate		-7.5	-1.4	10.0	10.9
Total Saving	419346	443694	478818	568623	648713
Growth Rate		5.8	7.9	18.8	14.1

Source: Based upon Various Reports of GBBs.

In GBBs, PuGBB has collected the largest saving amount of Rs. 189,199 thousand in 2007/08 but it decreased by 2.1 percent in 2008/09. The lowest savers among GBBs is SPGBB, its saving amount is only Rs. 44, 606 thousand in 2008/09. PaGBB has increased its saving amount by 41.2 percent followed by MPGBB with 26.2 percent and MGBB by 6.4 percent in 2008/09. The low saving amount is the proxy of low-income level. It indicates that PuGBB has more well of clients as compared to other GBBs. The SPGBB has saved least amount of all. The total saving amount and its growth is shown in Table 7.4.

7.2.2.3 Average Saving Balance

Average savings balance refers to a program's total savings divided by the number of individual savers. Where savings are voluntary, a positive trend would be an increase in the average savings balance. Given the same client group and voluntary savings policies, a higher average savings balance indicates a programs greater comparative success at mobilizing savings. The lower the average saving balance, the poor the effectiveness of GBBs in saving collection.

Table 7.5

Average Saving Balance of GBBs

(Amount in Rs.)

	2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	3338	3497	3019	3370	3458
MGBB	2423	2573	2721	3153	3925
PaGBB	2103	2190	2769	2941	3736
MPGBB	2438	2543	2868	4475	5074
SPGBB	2072	1896	1832	3304	3806

Source: Annex F-J

In GBBs, MPGBB has the highest average saving balance of about Rs. five thousand followed by MGBB, SPGBB, PaGBB and PuGBB respectively with around three and half thousand in average. It indicates as compared to loan mobilization, PuGBB has not given much attention to the saving collection among GBBs. The average saving balance of five GBBs is shown in Table 7.5.

7.2.3 Outreach to Low Income Clients

Poor rural people are the target groups of GBBs. GBBs are intended to serve rural poor people. It should be clear that which group they are focusing their services (absolute poor or average poor) should be recognized with the indicators. Mainly two indicators i.e. average loan size and average loan size per capita GNP are taken in to consideration to assess outreach to low income clients.

7.2.3.1 Average Loan Size

Average loan size refers to the average size of loans currently outstanding. Average loan size is often used as for client's income level. It can legitimately be compared either to the average loan size of the same program over time or of other programs operating in the same economic environment in the same country. For this purpose, smaller average loan size indicates lower income clients. GBBs usually aim to alleviate poverty through the provision of financial services. Increase in average loan size may indicate achievement of this aim as client enterprises grow and require larger loans. Alternatively, such an increase may indicate a 'drift' upward towards serving a higher income segment of the population.

Table 7.6

Average Loan Size of GBBs

(Amount in Rs.)

	2005/06	2006/07	2007/08	2008/09
PuGBB	10156	12477	12452	14957
MGBB	10643	10781	10386	14787
PaGBB	13824	17543	20174	24240
MPGBB	10279	18170	14186	20858
SPGBB	4805	5917	7993	8347

Source: Annex F-J

The highest average loan size goes to PaGBB with its amount more than Rs. 24 thousand followed by around more than Rs. 20 thousand with MPGBB. PuGBB and MGBB have its average loan size around Rs.15 thousand whereas SPGBB has lowest average loan size of around 8 thousand per borrower in 2008/09. The average loan size of GBBs is shown in Table 7.6.

7.2.3.2 Average Loan Size per Capita GNP

GNP is the broadest measure of national income. Per capita GNP provides a measure of national income for each citizen. Average loan size can be compared to this figure to provide cross-national comparisons of GBBs relative outreach to lower income populations. A lower figure for this ratio indicates that a program is reaching a relatively lower income segment of the population.

Table 7.7

Average Loan Size per Capita GNP

	2005/06	2006/07	2007/08	2008/09
PuGBB	0.40	0.45	0.41	0.41
MGBB	0.42	0.39	0.34	0.41
PaGBB	0.54	0.63	0.66	0.67
MPGBB	0.40	0.65	0.47	0.57
SPGBB	0.19	0.21	0.26	0.23

Source: Annex F-J

The Table 7.7 shows that SPGBB has lowest average loan size per capita GNP ranging from 19 percent to 26 percent. PuGBB and MGBB have the ratio about 40 to 45 percent. But PaGBB and MPGBB have the range between 40 to 67 percent. These figures show that other four GBBs serving more well of people as compared to SPGBB.

7.2.3.3 Outreach to the Women

Number of women clients is commonly used to measure outreach to women. Most MFIs aim to achieve at least 50% outreach to women. GBBs have indentified women as an underserved and disadvantaged group who are particularly likely to channel additional income to children's needs. Hence, GBBs have exclusively targeted their services to them. But in recent years GBBs are making their groups with men also. Therefore, in the total clients of GBBs few percent are male member.

Table 7.8

Percent of Women Members as Compared to Men

(Figures in percent)

	2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	100	98	87	90	80
MGBB	100	100	100	100	100
PaGBB	100	100	100	98	95
MPGBB	100	100	100	100	92
SPGBB	100	100	85	86	85

Source: Mix Market, 2010

In GBBs, there were 100 percent female members from its establishment till 2004/05. In 2005/06, PuGBB introduced male member also. SPGBB also started to provide membership to male in next year. Up to 2008/09 all GBBs except MGBB, provide credit to male members. The percent of female borrowers as compared to male is shown in Table 7.8.

7.3 Financial and Operational Performance

Close scrutiny of profitability and sustainability indicators is instrumental to assess GBBs sustainability. Conceptually, sustainability requires that GBBs must cover all transaction costs (loan losses, financial costs, administrative costs etc.) with income. Typical financial and operational performance indicators are financial performance ratios, operational performance ratios and portfolio quality ratios that provide extent at which GBBs are making best use of resources and providing services at least cost.

7.3.1 Financial Sustainability Ratios

Financial performance is assessed analyzing income, expenses and self-sufficiency level of GBBs. Performing assets constitute most important asset used by GBB for generating income. In view of stock (asset) and flow concept (income and expenses) prevailing on

GBB's financial statement, concept of average performing asset (APA) has been used which can be calculated taking sum of bank deposits, investments and performing portfolio (exclusive of reserve) of two periods and dividing by two to obtain an average. The APA of five GBBs is shown in Table 7.9 below.

Table 7.9

Average Performing Assets of GBBs and Growth Rate

(Rs. in Thousand and growth rate in percent)

	2005/06	2006/07	2007/08	2008/09
PuGBB	563590	649221	708814	852031
Growth Rate		15.2	9.2	20.2
MGBB	499366	599596	732092	888717
Growth Rate		20.1	22.1	21.4
PaGBB	587643	582710	594112	689663
Growth Rate		-0.8	2.0	16.1
MPGBB	431545	738546	931953	925856
Growth Rate		71.1	26.2	-0.7
SPGBB	335921	427957	460040	342906
Growth Rate		27.4	7.5	-25.5

Source: Annex A-E

MPGBB has the highest APA of Rs. 925,856 thousand followed by MGBB with 888,717 thousand and with PuGBB of 852,031 thousand as compared to PaGBB of Rs. 689,663 thousand and SPGBB with 342,906 thousand in 2008/09. The growth rate of APA of PuGBB is 15.2 percent, 9.2 percent and 20.2 percent in 2006/07, 2007/08 and 2008/09 respectively. The growth rate of MGBB is 20.1, 22.1 and 21.4 in the same period. PaGBB has 0.8 percent decrease in 2006/07 but increased by 2.0 percent next year and 16.2 percent in 2008/09. In MPGBB, the ratio has decreased by 0.7 percent in 2008/09. This ratio has also decreased in SPGBB by 25.5 percent in 2008/09. The detail of APA is given in Table 7.9.

7.3.1.1 Return on Average Performing Assets

Return on average performing assets ratio, the main indicator to analyze GBB's income which measures financial productivity of credit services and investment activities computed dividing financial income by APA. An increasing return on this ratio is a positive trend. An explicit assumption is that non-performing loans are written off in a disciplined manner when it is determined that their collection is doubtful or that year-end statements have been properly adjusted. We use average performing assets instead of total assets because productivity depends upon performing assets. The idle fund or unused assets do not help for profit. Table 7.10 highlights the return on APA of five GBBs.

Table 7.10

Return on APA of GBBs

(Figures in percent)

	2005/06	2006/07	2007/08	2008/09
PuGBB	13.3	12.7	15.7	16.9
MGBB	10.9	14.5	12.7	12.2
PaGBB	12.6	14.5	15.5	16.2
MPGBB	10.8	10.3	9.7	10.5
SPGBB	10.2	9.2	9.0	10.1

Source: Annex A-E

The Table 7.10 indicates that PuGBB and PaGBB have used its asset effectively as compared to other GBBs with ROA of more than 16 percent in 2008/09. MGBB has the rate of 12.2 percent where MPGBB and SPGBB have the rate just above 10 percent only in 2008/09. It indicates that only PuGBB and PaGBB have utilized their assets efficiently as compared to other GBBs. In table 7.9, MPGBB has the highest performing assets but its return is only 10.5 percent, which yield low profit in spite of high assets. SPGBB has the lowest rate of return on APA. The increasing trend is positive.

7.3.1.2 Financial Cost Ratio

The financial cost ratio shows the average cost of fund of GBBs. Financial costs are interest and fees, which GBBs incur by borrowing fund. It is derived by dividing financial cost by APA. The financial cost ratio is affected by changes in cost of fund. It is sensitive to a number of factors such as changes between debts and net worth, between commercial and concessional loans, and in size of the loan portfolio being financed. The ratio with decreasing trend is positive.

Table 7.11

Financial Cost Ratios of GBBs

(Figures in percent)

	2005/06	2006/07	2007/08	2008/09
PuGBB	4.9	4.8	4.9	5.2
MGBB	4.6	5.2	5.5	6.5
PaGBB	4.3	4.1	3.9	4.6
MPGBB	5.3	5.9	5.7	6.5
SPGBB	6.6	6.4	6.5	7.7

Source: Annex A-E

The financial cost of GBBs varies from 4.6 percent to 7.7 percent in 2008/09. PaGBB is getting funds in average of 4.6 percent of its APA where as PuGBB is paying 5.2 percent. MGBB and MPGBB are paying 6.5 percent of its APA as financial cost where as SPGBB is paying 7.7 percent for its fund in 2008/09 as shown in Table 7.11 above.

In 2007/08, PaGBB was getting funds in 3.9 percent whereas SPGBB was paying 6.5 percent. The cost for fund is high in MPGBB also. It is paying 5.3 percent to 6.5 percent within 2005/06 to 2008/09. The cost of fund is also high for MGBB also. It is paying 4.6 percent to 6.5 percent in between 2005/06 to 2008/09. Similarly, MPGBB is paying 5.3 to 6.5 percent between 2005/06 to 2008/09. SPGBB is paying the highest rate for the fund cost more than six and half percent within this period.

7.3.1.3 Operating Cost Ratio

Operating Cost Ratio is defined as operating cost of program i.e. sum of salary and benefits, administrative cost and other costs divided by average performing assets. If performing assets are primarily loan funds, this ratio shows how much the organization must spent on all operating costs to keep a unit of money loaned out for one year's time. If an organization selects an efficient methodology and employs highly productive staffs, the operating cost ratio will drop, resulting to more sustainable organization. A decreasing trend is positive.

Table 7.12

Operating Cost Ratio of GBBs

(Figures in percent)

	2005/06	2006/07	2007/08	2008/09
PuGBB	7.9	8.1	12.1	10.0
MGBB	13.0	12.7	15.4	15.8
PaGBB	11.5	10.2	11.8	12.1
MPGBB	16.3	16.5	16.4	16.7
SPGBB	21.1	20.2	14.8	17.1

Source: Annex A-E

Table 7.12 highlights that operating costs varies from bank to bank in GBBs. In PuGBB its operating costs is low as compared to other GBBs. In 2008/09, it has managed its cost in 10 percent of its performing assets. PaGBB is another effective bank that spent about 12.1 percent as operating costs. Similarly MGBB and MPGBB spend 15.8 and 16.7 percent as their operating costs. Finally SPGBB seems highly expensive, as operating costs more than 17 percent in 2008/09 and such costs was 20.2 percent in 2006/07 and 21.1 percent in 2005/06.

7.3.1.4 Loan Loss Provision Ratio

The Loan Loss Provision Ratio is defined as the loan loss provision for a given period divided by the Average Performing Assets. The ratio indicates provisioning requirements on the loan portfolio for the current period. If standard reserve practices are followed, a decreasing trend in this ratio is positive development.

Table 7.13

Loan Loss Provision Ratio of GBBs

(Figures in percent)

	2005/06	2006/07	2007/08	2008/09
PuGBB	1.0	0.3	0.0	0.0
MGBB	0.1	4.7	0.2	0.3
PaGBB	2.4	3.0	2.3	1.6
MPGBB	0.0	0.4	0.5	0.4
SPGBB	0.0	0.0	0.9	4.4

Source: Annex A-E

GBBs have not made provision in consistence manner for its risk assets. PuGBB has not made provision in 2007/08 and 2008/09. Similarly, MPGBB has not made such provision and SPGBB also has not made provision in 2005/06 and 2006/07. MGBB and PaGBB made huge rate of provision in 2006/07 with 4.7 % and 3.0 % respectively.

7.3.1.5 Imputed Cost of Capital Ratio

The imputed cost of capital is the cost of maintaining purchasing power of institution's net worth. In this study the researcher has taken only paid-up capital (some GBBs have negative equity if so, it miss-leads the result) Inflation erodes the value of an institution's equity and quasi-equity. It is therefore necessary for the institution to earn a surplus to keep pace with inflation. The imputed cost of capital qualifies the impact of inflation on an institution's net worth. A decreasing trend is positive development.

Table 7.14

Imputed Cost of Capital Ratio of GBBs

(Figures in percent)

ICCR	2005/06	2006/07	2007/08	2008/09
PuGBB	5.6	5.3	5.1	5.1
MGBB	5.9	2.6	6.0	5.4
PaGBB	6.0	5.6	5.7	5.8
MPGBB	7.1	6.1	5.8	4.6
SPGBB	6.9	6.5	6.7	4.9

Source: Annex A-E

In GBBs, the ICC ratios vary from 2.6 percent to 7.1 percent. It means 2.6 percent to 7.1 percent of their APA should allocate to cover the alternative cost of capital to maintain the value of equity from inflation. In 2008/ 09, such ratio is highest in PaGBB with 5.8 percent and least in PuGBB of 5.1 percent. The detail of ICC ratio is shown in Table 7.14.

7.3.1.6 Operating Self-sufficiency Ratio (OSS)

Operating self-sufficiency (OSS) is computed by dividing financial income by sum of financial cost, operating costs and loan loss provision. It indicates whether GBB is earning enough revenue to cover its transaction costs. An increasing trend in this ratio is a positive development, indicating that the institution's operations are increasingly self-sustaining. In other word, operational sufficiency is a function of income versus cost of generating that income. If the ratio is below 100 percent that means that institution is in operating losses and above 100 percent indicates that the institution is running in operating profit.

Table 7.15

Operational Self-sufficiency (OSS) Ratio of GBBs

(Figures in percent)

OSS	2005/06	2006/07	2007/08	2008/09
PuGBB	100.1	102.2	100.8	113.7
MGBB	101.5	74.7	113.6	106.8
PaGBB	96.2	104.7	109.4	110.4
MPGBB	116.8	105.5	106.0	100.9
SPGBB	115.5	47.9	91.8	61.5

Source: Annex A-E

The Table 7.15 clearly shows that in 2008/09, the OSS of PuGBB is 113.7 percent whereas OSS of PaGBB is 110.4 percent. MGBB and MPGBB have this ratio is 106.8 percent ant and 100.9 percent. But SPGBB has 61.5 percent that ratio. It means, all GBBs except SPGBB are running in operating profits. The OSS ratio of PaGBB in 2005/06 was 96.2 percent. It means PaGBB was in operating loss in that year. Similarly, in 2006/07, OSS ratio of MGBB was74.7 percent, which indicates MGBB, was in operating loss that year. Similarly, SPGBB is running in losses since 2006/07 to till date. The OSS ratios of GBBs are shown in Table 7.15.

7.3.1.7 Financial Self-sufficiency Ratio (FSS)

Financial self-sufficiency ratio is defined as financial income divided by sum of financial cost, operating cost, loan loss provision and imputed cost of capital. In other words, it is a stage when an organization covers all operating cost plus cost to maintain value of capital against inflation and compensation of subsidized capital with its own internally generated income or funds. A 100 percent FSS ratio is necessary for the organization to financially sustainable. If so that institution can provide financial services over long run without being reliant on donor funds by maintaining its net worth at present value.

Table 7.16

Financial Self Sufficiency Ratio of GBBs

(Figures in percent)

FSS	2005/06	2006/07	2007/08	2008/09
PuGBB	70.8	72.6	78.1	86.7
MGBB	68.1	66.1	78.1	76.5
PaGBB	67.9	77.5	80.4	80.8
MPGBB	71.1	65.5	65.5	70.2
SPGBB	73.0	30.2	57.0	48.2

Source: Annex A-E

In the Table 7.16, no one has crossed 100 percent FSS ratio, but PuGBB and PaGBB are in better position as compared to other GBBs. The FSS ratio of PuGBB is 86.7 percent whereas; PaGBB has 80.8 percent in 2008/09. Similarly, MGBB and MPGBB have the ratio 76.5 percent and 70.2 percent in 2008/09. But SPGBB has only 48.2 percent of FSS in 2008/09.

7.3.2 Portfolio Quality Indicators

GBBs are essentially credit-driven institutions. Loan portfolio is by far the largest asset managed by them and if it is not managed well, un-recovered loans may be an institution's largest expense. Therefore good portfolio management is the basic feature of solid and sustainable Grameen Bikas Banks. Bad portfolio quality saps energy of an institution as staff attention need to divert to loan recovery that lead to escalate cost with additional effort, while income begins to fall as a result of missed interest payments. Members tend to look for signals form institutions on how serious it is about timely loan repayment. The wrong signals can create messages that spread rapidly among clientele. Thus it is very important to monitor repayment performance closely.

Management must focus on portfolio quality from the beginning to the end of credit operations. The systems and procedures to monitor portfolio quality must be in place to ensure that it does not begin to deteriorate without swift action by the institutions. The main portfolio quality ratios are portfolio in arrears ratio and reserve ratio.

7.3.2.1 Portfolio in Arrears Ratio

The portfolio in arrears helps the organization to monitor loan repayment and risk of default. It considers only the value of the past due payment. In other words, this ratio is defined as the past due amount divided by the loan outstanding. A decreasing trend is a positive development because low percentage means the bank's repayment rate is better. High percentage of this ratio shows that the bank's prepayment rate is gradually down so that bank has to bear extra operating costs.

Table 7.17

Portfolio in Arrear >30 days and >90 days of GBBs

(Figures in percent)

		2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	PAR>30days	5.46	19.54	14.39	10.46	7.41
	PAR>90 days	5.46	19.54	13.84	10.46	7.41
MGBB	PAR>30days	8.35	8.10	6.53	14.54	10.58
	PAR>90 days	8.35	8.10	6.53	14.54	10.58
PaGBB	PAR>30days	20.00	15.59	11.16	12.57	10.49
	PAR>90 days	20.00	14.67	9.13	10.86	9.69
MPGBB	PAR>30days	23.30	25.10	23.46	34.05	20.29
	PAR>90 days	23.30	24.20	22.11	33.20	19.52
SPGBB	PAR>30days	33.33	33.44	26.79	33.65	41.89
	PAR>90 days	33.33	33.44	16.73	33.65	41.89

Source: Mix Market, 2010

In PuGBB PAR >30 days and >90 days increased in 2005/06 by 19.54 percent as compared with 5.46 percent in previous year. But the rate decreased to 7.41 percent in

2008/09. In case of MGBB, the PAR ratio varies from 8.35 in 2005/06, rose to 14.54 in 2007/09 but declined to 10.58 percent in 2000/09. In PaGBB the PAR rate declined from 20 percent in 2005/06 to 10.49 in 2008/09. But the arrear rate of MPGBB and SPGBB is worst of all. In MPGBB the rate is greater than 20 percent and reached up to 34.05 percent in 2007/08, whereas the PAR rate of SPGBB varies from 26.73 to 41.89 percent.

7.3.2.2 Reserve Ratio

The reserve for loan loss provision refers to the amount provided for in each year to cover future losses on the loan portfolio. It is important to mention that it is more appropriate with this ratio to use the current outstanding. In some organization, they practice to treat loan loss provisions very well. But the case in GBB is reverse. There is no sincere provision for the risk of their bad loan. If provision made sincerely, a decreasing trend is a positive development for institution.

Table 7.18

Loan Loss Provision of GBBs

(Rs in Thousand)

	2004/05	2005/06	2006/07	2007/08	2008/09
PuGBB	8,135	5,777	1,735	241	0
MGBB	356	272	28150	1177	2563
PaGBB	4437	14313	17401	13869	11164
MPGBB	0	0	3238	4242	3560
SPGBB	0	0	0	4309	15096

Source: Annex A-E

The reserve for loan loss provision of GBB is not consistent as shown in Table 7.17. In PuGBB has made provision up to 2007/08 but in 2008/09, there is no provision made. Similarly, MPGBB and SPGBB have not made provision for two and three years since 2004/05. MGBB made huge provision in 2006/07 of Rs. 28,150 thousand and next year it made Rs. 1,177 thousand and Rs. 2,563 thousand respectively. Only PaGBB seems consistent in this manner. This bank has made regular provision from beginning to till date. It has made loan loss provision of Rs.4,437 thousand in 2004/05 and Rs. 14,313 thousand, Rs.17,401 thousand, Rs.13,869 thousand, and Rs. 11,164 thousand in the preceding years.

The reserve ratio is defined as the possible loan loss provision to average loan and advances. In 2006/07 the ration of MGBB was 9.4 percent. Similarly in 2008/09, SPGBB has around 14 percent reserve ratio. The reserve ratio of GBBs is shown in Table 7.19 below.

Table 7.19

Reserve Ratio of GBBs

(Figure in percent)

RR	2005/06	2006/07	2007/08	2008/09
PuGBB	1.1	0.3	0.0	0.0
MGBB	0.1	9.4	0.4	0.7
PaGBB	3.8	4.4	3.3	2.3
MPGBB	0.0	2.1	2.4	1.8
SPGBB	0.0	0.0	3.9	13.9

Source: Annex A-E

7.3.3 Efficiency Indicators

Efficiency ratios measure the cost of providing services (loans) to generate revenue. These ratios affect the number of clients reached with services as well as the institution's financial viability.

7.3.3.1 Loans per Field Staff Ratio

This ratio is simply the number of good loans outstanding divided by number of field staffs. In indicates the productivity of key staff in a credit program. Productive microfinance programs may have loans per field staff ratios of two to three hundred. In this context, only PuGBB and PaGBB have fall in that range that have 255 and 238 loans per field staff. MGBB and MPGBB have almost equal to 192 and 193 loans per field staff. But the field staff of SPGBB has got only 162 numbers of loans. Table 7.20 clarifies it more.

Table 7.20

Number of Good Loans Outstanding per Field Staff

GBBs	No of Loans
PuGBB	255
MGBB	192
PaGBB	238
MPGBB	193
SPGBB	162

Source: NRB, 2009

7.3.3.2 Average Loan Portfolio per Field Staff

This ratio is defined as the total loan outstanding divided by the total number of field staff. It indicates the productivity of field staff. In combination with lower staff cost, this ratio is a key indicator of financial viability. The portfolio per field staff ratio monitors the financial productivity of field staff, which is an important factor. Increasing average loan per field staff is positive indicator for GBBs.

Table 7.21

Average Loan Portfolio per Field Staff

(Rs. in Thousand)

	2004/05	2005/06	2006/07	2007/08	2008/09	Average
PuGBB	3313	3935	5126	6136	9227	5458
MGBB	1762	1961	2165	2369	2806	2211
PaGBB	3323	3881	3984	4402	5014	4128
MPGBB	1944	2344	2795	3076	3600	2752
SPGBB	1628	1651	3504	3946	3933	2560

Source: Annex F-J

The Table 7.20 shows that average loan per field staff is highest with PuGBB an average of Rs 5,458 thousand followed by PaGBB of Rs 4,128 thousand. MPGBB has this ratio of Rs 2,752 thousand whereas SPGBB has this ratio of Rs. 2,560 thousand. But MGBB has this ratio of Rs 2,211 thousand only. This is the main symptom of overstaffing.

7.3.3.3 Member Retention Rate

Repeat members are considered as an asset in microfinance program. Member retention rate is considered to be a ratio for accessing the quality of work of the program. This ratio is defined as number of repeated members during a given period divided by number of members of previous period. The inverse of member retention is dropouts of members. An increasing trend of member retention is positive.

Table 7.22

Member Retention Rate of GBBs

(Figures in percent)

	2005/06	2006/07	2007/08	2008/09	Average
PuGBB	(1.0)	20.0	(1.0)	(5.0)	4.0
MGBB	6.0	3.0	(4.0)	(17.0)	(2.0)
PaGBB	4.0	(18.0)	8.0	10.0	2.0
MPGBB	(1.0)	2.0	9.0	10.0	6.0
SPGBB	1.0	2.0	(64.0)	(4.0)	(12.0)

Source: Annex F-J

In PuGBB, the member retention rate is fluctuating. In 2006/07 it increased to 20 percent from one percentage decreasing in previous year. It again decreased to 1 percent and five percent in preceding years with average of four percent increment within five years. MGBB is facing 17 percent of outflow of its members in 2008/09 with an average of two percent decrease of its members within five years as shown in Table 7.22

In PaGBB, in spite of 18 percent dropout in 2006/07, this bank has retained its members from that point to 2008/09 and incensement of 2 percent in average. MPGBB has done better in this context. It has mentioned of six percent of increment between 2005/06 and 2008/09. But SPGBB has lost its members by 12 percent in average between 2005/06 and 2008/09.

7.4 Institutional Development of GBBs

Institutional development is the capacity of institution to increase its outreach and financial and operational performance in sustained manner. Weak institution cannot extend its services for long run. The precise capacity needed to achieve its objective will vary from case to case. However, one can identify areas requiring core capacity common to all microfinance institutions. Specifically, following sectors of GBBs have been considered to evaluate the institutional development. They are: (i) Governance and organizational structure (ii) Human resource (iii) Management system (iv) Service and service delivery (v) Resources.

7.4.1 Governance and Organizational Structure

7.4.1.1 Mission Statement

GBBs have been established in Nepal with the aim to provide financial services to the rural poor people to uplift the socioeconomic condition of them. Only welfare approach had been taken in the past. But, later on, institutional approach has been applied along with privatization of GBBs. They have clear mission and objectives defined. The mission of GBBs is to provide sustained financial service to rural poor being self sustained. The main objective of the GBBs is to create income opportunity through self-employment with the help of appropriate credit delivery mechanism to the rural poor women, but the specific objectives of GBBs are listed as follows.

- To create income generating opportunities with self-employment through micro-credit activities to the poor people.
- To provide microfinance services to the rural poor in the society.
- To uplift the socio-economic condition of the poor people through community based program.

- To increase social awareness providing community development programs (literacy, training, leadership development and other welfare activities) along with microfinance services.
- To develop regular saving habit of the poor people by providing easy saving products.
- To eliminate the exploitation of the poor by the local moneylenders and landlords.
- To develop the banking habit and later on institutional credit facilities in order to strengthen the economic development.

The poor and marginal poor people (having up to 1 *Bigha* of land in Terai and 15 *Ropani* in Hills and Mountain) may be the clients of GBBs. Mainly Women are its members. Since three or four years ago these bank started to provide male membership also. The details of mission, objectives and procedures of GBBs have already been given in chapter six in this dissertation.

7.4.1.2 Business Plan

A business plan is clearly established quantitative targets; a defined strategy for service delivery; a financing plan leading to financial sustainability; and identified actions for institutional strengthening. During the field survey, researcher has taken interview with all CEOs of GBBs. It is informed that GBBs except SPGBB have prepared their business plan for short term and medium term (one year and five years). PuGBB , PaGBB and MPGBB has prepared action plan to implement the business plan they prepared. But SPGBB has not prepared any business plan for their financial activities.

7.4.1.3 Legal Capacity and Governance

All GBBs have established under Company Registration Act and working with Banking and Financial Intermediary Act (BAFIA) 2006. But the governance of GBBs is weak. There is lack of professionalism in GBBs. Out of five GBBs, there is only one GBB (PuGBB) that has appointed its board member from professional expert list of NRB as indicated in BAFIA (2006). Rest four GBBs have not appointed such professional expert in their board as indicated in BAFIA. The role and responsibilities of CEOs has not been clearly defined in all GBBs. Out of five GBBs, the CEOs of only two GBBs (PuGBB and PaGBB) have got the defined roles and responsibility from board of directors. In rest three GBBs; the responsibility of CEOs has not been clearly defined. Three CEOs (in MGBB, MPGBB and SPGBB) out of five GBBs were working as acting CEOs.

7.4.1.4 Capital and Ownership Structure

The Authorized Capital of two GBBs (MGBB and PaGBB) is 200 million and rest three GBBs have this capital of Rs. 120 million. But their paid up capital is 100 million of MGBB, 66 million of PaGBB, 60 million of PuGBB and MPGBB and 58.5 million of SPGBB. Previously, the majority of the share is owned by Nepal Rastra Bank with average of 66.67 percent GoN has owned an average of 9.9 percent of these banks. Similarly Commercial Banks (CBs) has owned its share of 22.21 percent and other financial institution with 1.27 percent. But with the privatization of most of these GBBs, the composition of share capital has changed.

It can be observed that in PuGBB and MGBB, NRB has reduced its shared to zero percent from the previous 66.75 percent and 74 percent respectively. Similarly In case of PaGBB NRB has been reduced its share from 61 percent to 10 percent. In MPGBB NRB has recently off loaded its all shares to private company. Now NRB has lions' share participation in SPGBB only holding 68.46 percent.

7.4.1.5 Organizational Structure

An organizational chart defines departments with well-specified, discrete functions and roles, and accountabilities for each tied to the achievement of the business plan. It also defines the procedure of their departmental coordination and decision-making.

Each GBB has developed its organizational chart constituting their departmental function and linkage. The Board of Director is the apex body of GBBs. There is a head office in each GBBs. They have fairly decentralized organizational structure divided into area and branch offices based on geographical areas. The responsibility of area office is to monitor the branch office activities and manage funds to branch office. Now the concept of area office has been change. it began to operate as main branch office monitoring branches as well as providing banking services as other ordinary branch offices. Banking transactions and all other activities take place at a center located at the village level under each branch. A 'center' is a place where two to ten groups meet every week. Group members are required to participate at such weekly (bi weekly) center meeting. Activities such as compulsory group training, loan disbursement, collection of weekly installments, savings and loan demand, group discussion on loan applications and group recommendations etc. take place at the center. A branch office is placed to administer almost 50 centers and an area office to administer five six branch offices.

Head office defines strategy on fund mobilization and expansion, defines operational policies on portfolio management, recruitment of staff, staff training and compensation. These rules are not fulfilled through a master plan, but rather strategic control is built through business plans.

7.4.1.6 Board and Executive Director

There is 5-6 members' board of directors in each GBBs which is the main executive body. PuGBB and SPGBB have five-member board of director where as rest three have 6 members board. They are represented as the ratio of equity share they owned. The details of board of directors of each GBB are explained in chapter six.

This board delegates some of its power to CEO to manage daily activities of GBBs. The interview taken with CEO indicated that there is still lack of adequate power delegation from the board. Only two GBBs (PuGBB and PaGBB) appointed their CEOs from open competition as microfinance professional. In rest three GBBs, CEOs are working in acting basis. The power delegation in GBBs seems weak. The interview taken from CEOs showed that three out of five CEOs of GBBs have got the full authority to perform their daily work, while two CEOs have not got adequate power to perform their daily activities. So far as the concern of salary and benefits GBBs have not able to satisfy their staff.

7.4.2 Human Resources

In the initial phase of GBB establishment, a huge staffs were recruited without calculating need assessment. Although, branches were opened and duties to staffs are assigned, the expansion of branches and utilizations of human resources could not be matched. In the mean time, a decade long civil war also affected GBB's expansion. Many operating branches were closed and financial activities were reduced to limited areas which further increased overstaffing massively. Staffs of GBB are less motivated. The ratio of field staff to total staffs is comparatively low. The efficiency of aged staffs is decreasing while new and energetic staffs have not been appointed because already there is overstaffing. GBB has provided limited training services and exposure activities to their staffs, which is not sufficient in present context.

7.4.3 Information Management

Management Information system in GBBs is week. In most of the branches, computers have not been used. Where used, only data compilation and report generation are prepared. Fully computerization seems to be far away in GBBs. Two-way communication have been made between head office and branch via area (or regional) office or directly also. GBBs send their outreach reports as well as other financial reports to NRB in every three month. Mostly branch reports are prepared manually and sent through courier or by office staff to the head office.

7.4.4 Financial Planning, Monitoring and Evaluation

Planning is necessary for any kind of activities. Without planning goal cannot be achieved properly and in time. In microfinance institutions, financial planning and program planning is essential. All GBBs have to prepare business plan for their action.

PuGBB, MGBB, and PaGBB have prepared three years plan as well as five years plan for their program and financial activities. MPGBB and SPGBB have set short term plan only.

PuGBB has set out a five years financial forecasting model and it has set guidelines for pricing and other policy setting. PuGBB has also planned to transfer from microfinance institution to full-fledged commercial bank within three years to come.

Similarly, MGBB has also set out one year business plan, and five year institutional plan to transform MGBB from microfinance institution to national-wide development bank within five years. It has raised its paid-up capital to 100 million.

Similarly, PaGBB has set out financial and operational plan for its outstanding portfolio, new product and services, and area of outreach. In has also set institutional plan to transform from microfinance institution to national wide commercial bank within three years.

MPGBB has also adopted short-term business plan for its annual activities to improve its delivery services to adopt new program regarding its sustainability. It has also set out there years plan to increase its strength and to increase its paid up capital to 100 million to transform national-wide microfinance development bank in near future.

SPGBB is little bit weak to formulate plan and to implement it. This bank is trying to make short term plan to increase the productivity of the bank. SPGBB has formulate three years plan to increase the productivity and efficiency of staff, automation of branches, deposit mobilization, and delinquency management.

A Monitoring and evaluation system is not soundly developed in GBBs. Although, they have formulated one year, or multiyear business as well as institutional development plan, monitoring and evaluation aspects are very weak there. PuGBB has done some effective work in this regard. PuGBB has appointed two chartered accountants to evaluate their restructuring program. Similarly, PaGBB has formed a committee to monitor and evaluate planning and to make its function more effective.

7.4.5 Products and Delivery

Primary reason for the existence of GBBs and their basis for generation of revenue lies at delivery of financial products extended to low income clients. GBBs products include mainly savings and loans and occasionally Remittance and insurance.

Saving products: GBBs operate mainly two types of saving products 'compulsory savings' and 'voluntary savings'. Compulsory savings is the composition of compulsory group fund savings, which is paid five percent of the loan received and Rs. five in weekly. On the other hand voluntary savings are the amount, which is deposited by clients, as they like. There is no compulsion in this savings. They can save and draw their money whenever they intend.

Loan Products: GBBs follow group-lending approach and systematic delivery system in women community. All banking transaction takes place openly and publicly at weekly centre meetings. The loan is disbursed adhering to 2+2+1 method. Initially, only two members receive loans. After eight weeks, additional two members get loans, after assuring that if first two members are able to pay back their weekly installments regularly. Finally, chairperson receives a loan after sixteen weeks from the date of the first loan disbursement. The sources of lending fund are mainly equity capital, group fund and borrowing form NRB and commercial banks.

The size of the loan was small in starting phase. The loan size was Rs. 5,000/- only but the loan limit increased gradually and now that limit reached up to Rs. 60,000/- in a group guarantee. Another loan product is individual project loan, in which borrowers can get loan showing her viable project collateral or other physical collateral. They can get up to Rs. 150,000/- in this heading.

7.4.6 Delinquency Management

Generally, the loan portfolio of MFI is its largest asset. The loan portfolio enables MFI to provide credit to borrowers and earn revenue. Therefore, it is necessary to manage the portfolio in such a way that limit delinquency amount and ultimately controls loan default.

Delinquent loans play a critical role in a micro-finance institution's cost structure, revenue and cash flow management. Additional efforts to decrease delinquency usually mean additional costs for closer monitoring, more frequent visit to borrowers, more extensive analyses of the portfolio. The more time, effort and resources that are put into controlling delinquency, the less time is available for the organization to reach new borrowers and expand services or outreach.

The portfolio in arrear > 30 days in PuGBB is 7 percent. It indicates that almost 7 percent of total loan outstanding has not been received. The ratio in MGBB is 11 percent, whereas in PuGBB, the ratio is 10 percent. The condition of MPGBB is comparatively bad which is almost 20 percent of its loan portfolio. In SPGBB, the ratio is almost 42 percent. It shows that the recovery condition of SPGBB is worst of all.

To reduce the delinquent loan, special program such as motivation of field staffs, regular follow-up over clients, group pressure, refinance loan for unsuccessful program, rescheduling of loan time extension and legal action have been adopted by GBBs to manage delinquency.

7.5 Conclusion

This chapter includes the outcome of the research. The collected data are analyzed with financial as well as statistical tools. Tables have been interpreted accordingly. The findings are also explained. Data have been presented in parts under relevant sections. Analysis of data not only includes the actual calculation but also the final result. This chapter gives an idea regarding the status of GBBs and the coverage of objectives point to point.

CHAPTER VIII

STAFF AND CLIENTS' PERCEPTION OF GBBs

8.1 Staff's Perception

8.1.1 Introduction

To make the study more realistic, the researcher has conducted a field survey to get the first hand data from its immediate stakeholders i.e. staffs and clients. Staffs have the vital role to carry out the GBBs to its goals. Now a days, the concept of human resources management has been changed and termed as human capital management. Human resource itself is a capital of organization and should use properly.

8.1.2 Staff Recruitment

Human resources take especially significant role in GBBs as they undertake all the activities that generate income. GBBs have developed detailed and well structured selection and recruitment process for human resource. GBB recruit staff as per their need. The newly recruited staff learn Grameen Bank's philosophy, rules and procedures, center mobilization, credit discipline, financial management and accounting during training period. At the time of establishment, GBBs recruited huge staff without assessing their need and without Human Resource (HR) Plan. Such carelessness is still hindering GBBs as overstaffing.

8.1.3 Job Description

Mainly there are two types of functions to be performed in GBBs i.e. core function and supporting function. The field staff performs core function, which is directly related to income generating activities of GBBs, where as other staffs are supporting staffs for that core function. GBB has provided job description to their staff about the duties and responsibilities to be performed by them. The survey showed that about 8 percent staffs have not been assigned any job description to them. About 92 percent staff have got the job description as shown in Table 8.1

Table 8.1

Job Description to Staffs of GBBs

	No of Respondents	Percentage
Yes	37	92.5
No	3	7.5
Total	40	100

Source: Field Survey, 2008

8.1.4 Evaluation and Compensation

Although, all GBBs have developed method of internal evaluation of their staffs, high official of GBB claims that performance and experiences are the main component for staff evaluation. Promotions are made according to performance and experience. But the internal evaluation of staff is not so satisfactory to the general staffs. Only 10 percent respondents show their view for work performance as basis of evaluation. About 40 percent show the work performance and experience both as the basis of evaluation. Other 15 percent showed their view as evaluation without any basis and final 35 percent expressed nepotism is the basis for evaluation as explained in Table 8.2

Table 8.2

Basis of Staff Evaluation of GBBs

	No. of Respondents	Percentage
Work Performance	4	10
Experience	0	0
Both	16	40
without any Basis	6	15
Nepotism	14	35
Total	40	100

Source: Field Survey, 2008

Similarly, the salary and benefit system of GBBs are almost same among five GBBs. After the direction of High Level Coordination Committee for GBBs, the salary among five GBBs remained same. The present salary is not sufficient to almost all the staff. Only 15 percent staffs are satisfied with present salary and benefit rest 85 percent are unsatisfied with the remuneration provided by GBBs (Table 8.3).

Table 8.3

Sufficiency of Present Remuneration of GBBs

	No. of Respondents	Percentage
Yes	6	15
No	34	85
Total	40	100

Source: Field Survey, 2008

There is discrimination for field allowances among GBBs. PuGBB, MGBB and PaGBB (60%) have provided field allowances to the field staffs where MPGBB and SPGBB (40%) have not provided any field allowances except salary to the field staffs as shown in Table 8.4 below.

Table 8.4

Availability of Field Allowances of GBBs

	No. of Respondents	Percentage
Available	24	60
Not available	16	40
Total	40	100

Source: Field Survey, 2008

8.1.5 Staff Development

Although staff development systems are established and operational in GBBs, but the extent HR development is very low. Only 43 percent staffs have got chance to attend training and rest 57 percent have not got that chance to attend any training or seminars at all (Table 8.5).

Table 8.5

Training to GBB Staffs

	No. of Respondents	Percentage
Yes	17	43
No	23	57
Total	40	100

Source: Field Survey, 2008

In this way, over all HR management of GBB seems to very poor. The condition of human resource management from field survey also supports the fact. Only 2.5 percent respondents remarked very good. About 27.5 percent respondents are in favor of good HR management. Some 17.5 percent are in favor of not proper and 15 percent of them are in favor of not good at all as shown in Table 8.6.

Table 8.6

HR Management of GBBs

	No. of Respondents	Percentage
Very Good	1	2.5
Good	11	27.5
Normal	15	37.5
Not Proper	7	17.5
Not Good at All	6	15.0
Total	40	100.0

Source: Field Survey, 2008

8.1.6 Management Information System

GBBs have basic information system to ensure two way data flow from clients to branch office to area office to head office and back. The system is very simple, manual, not professionally designed and prone to errors. Recording at field level comprises of client's passbooks and a loan register that are consolidated, generally with a significant time lag. Accounting is very basic in nature and annual financial statements are prepared several months after the end of accounting period. There is low use of computers. Most of the branches have no computers, some of them, if they had; they use it for consolidation of data and report preparation mainly.

GBBs prepare branch wise statements of financial and operational highlights and consolidated financial statement every month. Although GBBs generate outreach and loan outstanding indicators, they do not generate portfolio quality and ageing of delinquent portfolio. Therefore, GBBs have not created any information on delinquent portfolio and aging, nor have made enough provisioning as per NRB's directives.

The field survey revealed that 82.5 percent reporting are regular, whereas 2.5 percent reporting are irregular. Similarly, 12.5 percent reported occasionally whereas 2.5 percent seemed never reported. The details of GBBs reporting is shown in Table 8.7

Table 8.7

Reporting in GBBs

	No. of Respondents	**Percentage**
Regular	33	82.5
Irregular	1	2.5
Occassional	5	12.5
Never Reporting	1	2.5
Total	40	100

Source: Field Survey, 2008

Use of computers is very poor in GBB Branches. About 70 percent branch office have not used computer yet. They are performing their business and keeping accounting manually. 30 percent branches are few computerized. The use of computer in a branch and its percent are shown in Table 8.8 below.

Table 8.8

Use of Computers in GBBs

	No. of Respondents	Percentage
all computerized	0	0
Few computerized	12	30
Not at all	28	70
Total	40	100

Source: Field Survey, 2008

8.1.7 Auditing and Internal control

Each GBB has internal control division to evaluate extent to which their operations are conducted according to the operations manual, particularly with respect to financial management and internal control. Besides being a detective process, GBBs' audit also functions as a corrective means. Internal control division prepares confidential visit and audit schedule. Duration of audit is about a week per branch during which the team stays at branch and collect information through both formal and informal channels. In all GBBs, internal audit process in clearly laid out in the operational manual and incorporates checks for both process and financial compliance.

Table 8.9

Regularity of Internal Audit in GBBs

	No. of Respondents	Percentage
Yes	37	92.5
No	3	7.5
Total	40	100

Source: Field Survey, 2008

Table 8.9 showed that mostly the internal audit is regular in GBBs. About 92.5 percent respondents say that auditing in GBB is regular but only 7.5 says it is irregular in GBBs.

Table 8.10

Effectiveness of Internal Audit in GBBs

	No. of Respondents	**Percentage**
Very effective	4	10
Effective	23	57.5
Less effective	13	32.5
Not effective at all	0	0
Total	40	100

Source: Field Survey, 2008

The effectiveness of internal audit is mixed response. Ten percent respondents showed that it is highly effective, where 57.5 percent viewed it is effective and 32.5 percent put view that it is less effective as shown in Table 8.10.

Table 8.11

Implementation of Audit Reports in GBBs

	No. of Respondents	Percentage
Fully	29	72.5
Partially	10	25.0
Not implementated at all	1	2.5
Total	40	100

Source: Field Survey, 2008

The survey revealed that the implementation of Internal Audit is mixed. 72.5 percent staffs argued that they have fully implemented the comments of auditors and 25 percent staff accepted that they have partially implemented it. Some 2.5 percent staff think that they have not implementation the comment report of internal audit at all.

8.2 Client's Perception

The sustainability of a credit program ultimately depends on the viability of its borrowers. This can be judged in terms of their economic and social welfare, their loan repayment performance and whether or not they drop out of the program.

The dropout rate, as a measure of client's viability, indicates whether members have benefitted from program participation. The perceived costs and benefits of program participation influence dropout rates and loan repayment behavior as well.

As to expand financial services to large people is challenging, in the same way to retain the borrower of GBBs for long run is also more challenging. It depends upon the quality of products and method of delivery of those products.

To determine the perception of clients some aspects of saving services, loan services, use of loan, repayment rate, loan utilization, and interest rates have been questioned to clients. Their response in this area is explained below.

8.2.1 Importance of Savings

The clients are interested in savings services provided by GBBs. six percent expressed the saving is very important, whereas 69 percent of them graded as important, while 25 percent showed that the saving products of GBBs are less important as shown in Table 8.12

Table 8.12

Importance of Savings

	No. of Respondents	Percentage
Very Important	5	6
Importance	55	69
Less Important	20	25
Total	80	100

Source: Field Survey, 2008

8.2.2 Favorable Savings

There are mainly two types of saving products provided to borrower i.e. compulsory savings and voluntary savings. About 38 percent clients liked compulsory saving most. Other 25 percent borrowers chose voluntary saving is important. Other 38 percent liked both types of saving services. The types of saving services, number of respondents and percentage is shown in Table 8.13.

Table 8.13

Favorable Savings of GBBs

Saving Type	No. of Respondents	Percentage
Compulsory	30	38
Voluntary	20	25
both	30	38
Total	80	100

Source: Field Survey, 2008

8.2.4 Repeat of Loans

Loan repetition is a proxy of borrower's viability. The larger the loan repetition, the greater the borrowers interest towards the program. The maximum repetition of the loan of GBB clients is 8^{th} time. It means 15 percent borrowers received loan up to 8^{th} time. Similarly 13 percent borrowers receive loan 6^{th} time. Similarly 11 percent borrowers took loan up to 12^{th} time. About 10 percent borrowers received loan up to 15^{th} time. The borrowers who received 1^{st}, 2^{nd}, $3^{rd,}$ 4^{th} and 5^{th} times are 4 percent, 5 percent, 6 percent and 6 percent respectively. Table 8.14 highlights the rollover of loans of GBBs.

Table 8.14

Rollover of Loans in GBBs

Frequency	No. of Respondents	Percentage
1^{st}	3	4
2^{nd}	4	5
3^{rd}	5	6
4^{th}	4	5
5^{th}	5	6
6^{th}	10	13
7^{th}	7	9
8^{th}	12	15
9^{th}	7	9
10^{th}	4	5
11^{th}	0	0
12^{th}	9	11
13^{th}	1	1
14^{th}	1	1
15^{th}	8	10
Total	80	100

Source: Field Survey, 2008

8.2.5 Repayment in GBBs

Repayment is also the proxy of borrower's viability. If borrowers are able to make regular repayment of their loan installment, it is good sign because the clients are able to earn enough profit from his/her project and are being able to make debt servicing regularly. The Data revealed that 61 percent borrowers are able to repay loan in time, where as 39 percent are not able to make repayment in time. It shows that the delinquency rate of loan is high in GBBs which is shown in Table 8.15

Table 8.15

Timely Loan Recovery in GBBs

	No. of Respondents	Percentage
Yes	49	61
No	31	39
Total	80	100

Source: Field Survey, 2008

8.2.6 Satisfaction form Upper Limit of Loan

GBB is providing a general loan on group guarantee basis to its borrowers. The upper limit of such loan is Rs. 60 thousand. Similarly GBB also providing Project loan up to 150 thousand with physical collateral. It was asked to GBB clients that whether they are satisfied with the upper limit of general loan. The result was almost reverse. Only ten percent were satisfied with the upper limit of Rs. 60 thousand, other 90 percent were not satisfied with the upper limit of the loan as shown in Table 8.16

Table 8.16

Satisfaction of Upper Limit of Loan in GBBs

	No. of Respondents	Percentage
Yes	8	10
No	72	90
Total	80	100

Source: Field Survey, 2008

8.2.7 Borrowing from Other MFIs

There is high competition in the microfinance market. Along with GBBs, there are other microfinance development banks, saving and credit cooperatives, FINGOs and other locally managed Self-help groups which are providing same types of loans and savings products to the local people.

The survey revealed that almost half of the GBB clients are also taking loans from other institutions similar to GBBs and next half clients are dependent upon GBBs only for their required loan fulfillment. It is the symptom of deviation of borrower from GBBs. The number of clients and ratios are shown in Table 8.17 below.

Table 8.17

Borrowings from Other MFIs

	No. of Respondents	Percentage
Yes	39	49
No	41	51
Total	80	100

Source: Field Survey, 2008

8.2.8 Reasons for Borrowing from other MIFs

Almost 50 percent of the GBBs borrowers have taken loan form institutions other than GBBs. Its threatening symptom for borrower's viability of GBB as well as challenges for financial sustainability of GBBs. Researcher wants to know about the causes that attracted borrowers of GBB to other MFIs. The data showed that 19 percent respondents found low interest rate in next MFI as compared to GBBs. Other 44 percent respondents felt loan process is easy in other MFIs than GBBs. there. Other six percent respondents attracted with friendly behavior of staffs of other MFI and rest 31 percent respondents hesitated to indentify the causes. The reasons for borrowings from other MFIs are presented in Table 8.18.

Table 8.18

Reasons for Borrowings from other MFIs

Reason for Borrowing	No. of Respondents	Percentage
Low Interest	15	19
Easy to Get Loan	35	44
Friendly Behave	5	6
Others	25	31
Total	80	100

Source: Field Survey, 2008

8.3 Conclusion

GBB is not only commercial institution rather it is social institutions also. It should give attention to the needs of their clients and should focus on the special needs of their beneficiaries more sharply because client's viability is associated with institutional and financial viability of GBBs. On the other hand human resource is the capital of organization. A rational use of human resource needs special capacity of the organization. That cannot be learnt by birth. HR management is a skill, which can be developed in the time course. Proper utilization of human capita ultimately leads to MFI to be financially viable in the long run.

CHAPTER IX

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND SUGGESTIONS

9.1 Major Findings

Grameen Bikas Banks are fairly young organizations having age of 16 to 19 years in operations. They have opened new avenue for microfinance activities. They have expended outreach of the microfinance services to low income women significantly, but their sustainability remained questionable always. This evaluating study of GBBs indicates that it is still challenging for GBBs to provide financial services to the poor people in sustained manner for long run. The major findings about outreach, operational and financial sustainability and Institutional Development of five GBBs are categorically described as follows.

9.1.1 Purwanchal Grameen Bikas Bank (PuGBB)

a) **Outreach:** The growth of members of PuGBB is decreasing in recent years, but the volume of loan outstanding is increasing remarkably in 2008/09 with 14.1 percent as compared to previous year. The total savings balance has decreased in recent years. The average saving balance is very low as compared to other GBBs. Though it has focused its activities to more poor people as compared to other GBBs.

b) **Financial and Operational Performance**: The financial and operational performance is said to be normal of PuGBB and comparatively better than other GBBs. The growth of APA is increasing in recent year. Return on APA is almost 17 percent, which is highest of all GBBs. It has managed its average fund cost efficiently around 5.2 percent recent year. Its operating cost is also low. PuGBB is operating in lowest cost as compared to other GBBs, but its loan loss provision is irregular. The OSS ratio of PuGBB is 113.7 percent, which indicates that it has generated revenue more than the cost to generate that revenue. It means PuGBB is running in operating profit but the FSS ratio of PuGBB is 86.7 percent. Although this is the highest of all, but is not sufficient to get at least opportunity cost of equity and covering the value of its equity reduced by inflation.

c) **Institutional Development**: PuGBB has clearly stated its mission and objectives and moving forward to achieve its goal. It has provided banking services in six districts of Eastern Development Region. This bank has prepared long term as well as short term business plan. The bank has changed its ownership structure. NRB has divested its share to private sector. A private company HP Agrawal Group is the major share holder of this bank, which occupies 34.9 percent of its total paid-up capital. Members of this bank hold 22.78 percent share of this bank. This bank has recently restructured its department.

9.1.2 Madhyamanchal Grameen Bikas Bank (MGBB)

a) **Outreach:** The member growth rate of MGBB is decreasing in recent year. In 2007/08 it decreased by 3.4 percent and again decreased by 14.5 percent in 2008/09. The ratio of field staff to total staff is 64.8 percent, which is highest of all GBBs. The loan outstanding of MGBB is increasing in recent years. It has reached Rs 449,033 thousand in 2008/09. The total saving amount is also increasing in decreasing rate. The total saving amount of MGBB is 142,087 thousand which is greater than MPGBB and SPGBB but less than PuGBB and PaGBB. The average saving balance of MGBB was Rs. 3,925 in 2008/09. The average loan size per capita GNP of MGBB is 41 percent which is equal to PuGBB, which is less than PaGBB and MPGBB but greater than SPGBB. MGBB has provided its service to women only. There is no male members in this GBB till now.

b) **Financial and Operational Performance:** The average performing assets of MGBB is increasing more than 20 percent in recent years. The return on APA is about 12 percent in recent years which is less than PuGBB and PaGBB but greater than MPGBB and SPGBB. It has manage its fund with 5.5 percent to 6.5 percent in 2007/08 and next year which is little bit expensive as compared to PuGBB and PaGBB. Operating costs of MGBB is very high i.e. 15.8 percent in 2008/09 as compared to 10 percent in PuGBB and about 12 percent of PaGBB.

c) **Institutional Development:** MGBB has provided microfinance services to 15 districts of Central Development Region of Nepal. To provide the microfinance services to the rural poor people of Central Development Region being self-sustainable is the main objective of this bank. It has developed business plan to perform its financial activities according to the mission and objectives of MGBB. In recent years, the ownership of MGBB has been changed. NRB has divested its 74 percent share to Jyoti Multipurpose Cooperative Limited in 2008. Next year, this cooperative sold its whole shares to Bandikapur Multipurpose Cooperative Ltd and other few MFIs also. Now, Bandikapur Multipurpose Cooperative holds 52.8 percent of its paid-up capital. MGBB has six members board of directors. All members represent from Bandikapur Multipurpose cooperative (Recently NRB has taken over MGBB's management, dissolved the Board of director and constituted a three members team of NRB officers controlled overall management of this bank for some period).

9.1.3 Paschimanchal Grameen Bikas Bank (PaGBB)

a) **Outreach:** PaGBB has provided its services to 43,413 members. There is positive trend in its membership increment. In 2007/08, the rate of increment was 8.8 percent while in 2008/09 the rate was 11.2 percent. PaGBB has 207 staffs out of them 57.5 percent are field staff in 2008/09.

The loan outstanding of PaGBB is increasing gradually. In 2006/07 the growth rate of loan outstanding was 2.7 percent and it reached to 17.9 percent in 2008/09 with loan outstanding of Rs. 596,639 thousand which is second highest among GBBs. PaGBB has collected saving of Rs. 162,175 thousand in 2008/09. The growth of saving is gradually increasing. The average saving balance of PaGBB is Rs. 2,103 thousand to Rs. 3,736 thousand between 2004/05 and 2008/09. Average loan size of PaGBB is Rs. 24240, which is highest of all GBBs. The average loan size per capita GNP ratio is 67 percent. It indicates that the services of PaGBB is mostly go to comparatively well-off people as compared to other GBBs. PaGBB has started to provide loan to male members also since 2007/08. Now 95 percent of its borrowers are female and rest 5 percent are male borrowers.

b) **Financial and Operational Performance:** Average Performing Assets of PaGBB is increasing by 16.1 percent in 2008/09 and reached to Rs. 689,663 thousand. The return on APA is better in PaGBB. It is about 16.2 percent, which is little bit lower than PuGBB but higher than MGBB, MPGBB and SPGBB. PaGBB has managed its cost of fund more efficiently than other GBBs. It has collected its loanable fund in the cost of 4.6 percent, which is lowest of all. Its operating cost is 12.1 percent of APA, which is second lowest cost among GBBs. The loan loss provision ratio of this bank varies from 2.4 percent in 2004/05 to 1.6 percent in 2008/09.

c) **Institutional Development:** PaGBB has provided microfinance services to 14 districts of Western Development Region. This bank has one head office 9 regional offices, 31 branch offices, and 7 contact offices. PaGBB has covered 352 VDC with total members of 43,413. Out of total members, there are 36,258 borrowers. Nepal Government has owned 16.5 percent share of PaGBB while NRB has owned only 10 percent. The major shareholders of this bank are the members of PaGBB. They have owned

39.67 percent of its paid-up capital. PaGBB has six members board of directors electing two ladies from members of PaGBB.

9.1.4 Madhya Paschimanchal Grameen Bikas Bank

a) **Outreach:** There were 22,630 members in 2008/09. The growth of members is increasing every year except 2005/06. MPGBB has 128 staffs out of them, 55.5 percent are field staffs. The volume of loan outstanding is continuously increasing and reached Rs. 255,635 thousand in 2008/09. This bank has collected Rs. 114,679 thousand as savings from its members with average saving balance of Rs. 5,074 which is highest of all. Average loan size of MPGBB is Rs. 20,858 which is lower than PaGBB but higher than other GBBs with average loan size per capita ratio of 57 percent. It indicates that its activities are concentrated not to the very poor rather above poor. MPGBB has started to provide loan to male borrowers since 2008/09. The ratio of female to male borrowers is 92 percent in 2008/09.

b) **Financial and Operational Performance:** The average performing assets of MPGBB has decreased from Rs. 931,953 thousand to Rs. 925,856 thousand in 2008/09. The bank has weak returns on performing assets. The Return on APA is 10.5 percent, which is very low as compared to 16.9 percent of PuGBB, 16.2 percent of PaGBB and 12.2 percent of MGBB. This bank has not able to manage fund in low cost. Its financial cost ratio is 6.5 percent, which is higher as compared to other two GBBs (PuGBB and PaGBB). In self-sufficiency ratio, the OSS is decreasing continuously from 2005/06 of 116.8 percent to 100.9 percent in 2008/09. The profitability condition of GBB is decreasing day by day. Although MPGBB is making running in operating profit, the profit margin is decreasing day to day from 2005/06 to 2008/09. The FSS ratio of this bank is 70.2 percent in 2008/09, which is in decreasing trend since 2004/05. MPGBB has not able to cover its cost of capital as well as value of purchasing power eroded by inflation. Financial sustainability of MPGBB is being far away. Portfolio quality of MPGBB is weak. The PAR>30 days of MPGBB in 2008/09, is 20.29 percent and PAR>90 days is 19.52 percent which is higher than PuGBB, MGBB and PaGBB. MPGBB has not serious enough to make provision for loan loss. In 2004/05 and 2005/06, this bank has not made any provision for its risk loan. This bank has weak level of efficiency of staff. The number of loans per field staff is 193 which is only higher than SPGBB but lower than other GBBs. Average loan per field staff is Rs. 2,752 thousand which is also lower than PuGBB and PaGBB, but higher than MGBB and SPGBB. The member retention rate has improved in this bank. The member retention rate is 10 percent in 2008/09 and 9 percent in 2007/08 with an average increment of 6 percent between 2005/06 and 2008/09.

c) **Institutional Development:** MPGBB been provided microfinance services in six district of Mid-western Development Region. This bank has one head office, four regional offices and 20 branch offices. It has covered 131 VDCs of this region. NRB, the main shareholder of this bank, has divested its share to private company named 'People's Investment Company' last year. Therefore the ownership structure has changed. Except People investment Company, GoN has owned 16.5 percent of its share and rest by other commercial banks. There is six members board of directors of MPGBB. But in the board, there is not professional expert appointed as per NRB Regulation.

9.1.5 Sudur Paschimanchal Grameen Bikas Bank (SPGBB)

a) **Outreach:** The growth rate of members of SPGBB is in decreasing trend. In 2007/08 it decreased by 39 percent and in 2008/09 it also decreased by 3.7 percent and reached 11,702. There is 79 staff in this bank out of this 38 are field staffs being 48.1 percent. The loan outstanding of SPGBB is increasing marginally but in 2008/09 it decreased by 0.3 percent and reached Rs 149,467 thousand, which is the lowest loan outstanding of all GBBs. The total saving amount of this bank is Rs 44,606 thousand which is the lowest of all. The average saving balance is Rs. 3806, which is higher than PuGBB and MGBB and lower than MPGBB. The average loan size of SPGBB is Rs. 8346, which is the lowest of all, and average loan size to per capita GNP is only 23 percent, which is lowest of all. It indicates that SPGBB has focused its program to the poorest members as compared to other GBBs.

b) **Financial and Operational Performance:** The Average Performing Asset (APA) of SPGBB has decreased by 25.5 percent in 2008/09 and reached Rs. 342,906 thousand. The return on APA of SPGBB is 10.1 percent in 2008/09, which is lowest of all. The financial cost ratio of SPGBB is highest of all. The trend is also increasing every year. Operation cost ratio of SPGBB is also highest of all. In 2005/06 that ratio was 21.1 percent. It indicates that SPGBB is not able to manage its fund in low cost. The cost per unit of money lent is 26 paisa in SPGBB. The operational self-sufficiency ratio (OSS) of SPGBB is worst of all. Although in 2005/06 the ratio was 115.5 percent but this was not due to its revenue generation rather due to written back of loan loss provision. All years except 2005/06, SPGBB is in losses. Only in 2005/06, the OSS ratio crosses the 100 percent. The OSS of SPGBB in 2008/09 is only 61.5 percent. In indicates that its revenue can cover only 61.5 percent of its costs. Similarly the FSS ratio of SPGBB is 48.2 percent. The portfolio quality of SPGBB is also worst of all. The PAR >30 days and > 90 days of SPGBB is 41.89 percent. It indicates that almost 42 percent of its loan is bad loan. The ratio is increasing every year. The loan loss provision in SPGBB started from 2007/08, before that, no provision has been made in SPGBB. The efficiency ratios are also weak in SPGBB. The number of loans per field staff is lowest of all i.e. 162. The average loan per staff is Rs. 2560 thousand which is lowest than other three GBBs. The member retention rate is almost reverse in this bank. In every year member outflow is greater than inflow. In 2007/08, the member retention rate of this bank decreased by 64 percent whereas the rate further decreased to 4 percent in the following year. The average member retention rate of this bank is decreasing by 12 percent.

c) **Institutional Development:** SPGBB has operating its microfinance services to eight district of Far Western Development Region. It has one head office, three area offices and 20 branch offices. It has provided microfinance services in to 72 VDC of this region. All GBBs except SPGBB have been privatized partially or fully but this bank has not yet. NRB has owned 68.46 percent share where as GoN has owned 8.46 percent. Rest of the share have owned by five commercial banks. SPGBB has five members board of directors constituting three members from NRB and rest of the two from others.

9.1. 6 Perception of Staffs and Borrowers

The primary data analysis gathered some information towards the perception of staff and borrows. The major findings of that analysis are described as follows.

9.1.6.1 Perception of Staffs

a) About 50 percent staffs believe that the evaluation of staff is performance based in GBBs where as other 50 percent think that the basis of staff evaluation is not performance based rather based upon nepotism or haphazardly.

b) About 15 percent staffs are satisfied with present salaries. Rest 85 percent are not satisfied with present salaries provided by GBBs.

c) Some 60 percent staffs are getting field allowance when they go to field. Rest 40 percent do not get any allowances while going to field. Three GBBs (PuGBB, MGBB and PaGBB) provide field allowances while going to the field and other two are not paying any field allowance to their staff.

d) Only 43 percent staff have got the chance to participate in any kind of training or seminars. Rest 57 percent have not got the chance for any king of training and seminars for their skill development.

e) About 82.5 percent staffs report regularly to their seniors but 17.5 percent do not report regularly.

f) About 30 percent branch offices have at least one computer in their branch but 70 percent branch offices are operating without computers.

9.1.6.2 Perception of Borrowers

a) About 6 percent of total borrowers referred saving services provided by GBBs, very important. Other 69 percent showed that it is important only and rest 25 percent felt it less important.

b) About 38 percent of the total borrowers preferred compulsory savings product of GBBs. Other 25 percent preferred voluntary saving more. Whereas 38 percent prefered both savings services of GBBs.

c) More than 60 percent borrowers who were able to repay their loans regularly but about 40 percent were not able to repay loan on time.

d) About 10 percent borrowers are satisfied with current upper limit of Rs 60, 000/- but 90 percent borrowers felt that that the loan limit is not enough for them.

e) About 49 percent GBB borrowers are taking loans from other MFIs also and rest 51 percent are solely depending upon GBB only.

f) Almost half of the GBB clients are borrowing from other MFI also. Out of them 15 percent are attracting due to low interest rates. Some 44 percent found that there is easy methodology to get loans. Other 6 percent found friendly atmosphere to get loans. Rest 31 percent motivated by other factors.

9.2 Conclusion

The researcher has arrived at the conclusion that all GBBs are not in the position that they are financially self-sufficient. It means that have not earned enough profit to be self-dependent. All GBBs are facing almost same types of problems. The major problems of GBBs they are facing listed as follows.

a) **Poor Outreach:** The main problems of GBBs are their poor outreach. By the end of mid-July 2009, these banks have served to almost 150 thousand poor families all over the country. These Banks have delivered their services to only 49 districts. Out of almost 4000 VDCs, GBBs have provided financial services to only 1124 VDCs in Nepal. Most of the hilly districts are deprived from GBB's services. The microfinance summit 2010 estimated that Nepal's microfinance institutions have delivered microfinance services to about 1.5 million people. It indicates that GBBs share only 10 percent of total microfinance outreach. Access to Financial Services in Nepal (2006) showed that about 20 percent of Nepalese people have not got any financial services and other 28 percent have depended upon only informal sector to fulfill their financial need. Hence the outreach of GBBs is very poor as compared to its need. Geographical condition, lack of fund, high competition, lengthy process as compared to informal market, lack of publicity, weak management, lack of innovative products, staff's careless, lack of market are the major obstacles of outreach of GBBs. Without expanding outreach, GBBs can't earn more profit which ultimately hinders the sustainability.

b) **Sluggish Growth:** Although GBB intervention started in Nepal since 1992. After 18 years of its establishment, their growth is very slow. In the beginning of its establishment, branch expansion was made rapidly without any viability study. GBBs activities were considered as supply led approach. By 2000, all GBBs except PaGBB born heavy losses. Therefore, in 2001 NRB and GoN conducted a five-year restructuring program for GBBs. In this program, re-capitalization of four of the five banks (equivalent to Rs. 163 million) was taken place. In this regard, the amount of Rs. 163 millions re-injected to four GBBs of five GBBs (except PaGBB). After that, most of these banks stopped to expand bank branches, rather started to merge branches. On the other side, the Growth of GBBs stopped due to a decade long civil war. Availability of the fund, high competition, weak performance of staffs unfavorable political situation are the main causes of sluggish growth.

c) **Complicated Geo-political Environment:** Grameen Bikas Banks are perceived particularly vulnerable in the insurgency time. As a result, their operations have been badly affected. These banks have experienced frequent thefts of cash, physical threat to their employees, and damages to their properties. To mitigate risks, GBBs had developed a number of strategies, including minimizing cash transfers and disbursing loans immediately after collecting repayments. On the other hand unhealthy unionism activities also affected the GBBs activities towards its sustainability. It is very difficult to operate banking activities in high hills and mountains as compared to Terai.

d) **Weak Technical Capacity:** Grameen Bikas Banks suffer from limited capacity in key technical areas such as accounting and auditing, strategic planning, financial analysis, and human resource management. This weak technical capacity clearly slows their growth capacity. Most of the GBB branches have lack of professionally trained staff in technical areas, weak internal control systems, inadequate management information system, and low capacity for product development.

e) **Lack of Commercial Orientation:** Lack of commercial orientation and slow professionalization of GBBs have hampered profitability. Many people still think that GBB's activities are charitable activities as other donor funded NGOs. In addition, they tend to have weak governance structure due to mix ownership (government, commercial banks and private sectors). This structure often hinders decision-making process. Therefore, GBBs have undermined towards commercial orientation.

f) **Low Profitability:** All GBBs are characterized by low profitability. In 2005, just two (PuGBB and PaGBB) out of five GBBs recorded profits that year. In 2008/09 all four GBBs (PuGBB, MGBB, PaGBB and MPGBB) recorded nominal profit. But in real term all GBBs have not crossed Financial Sustainability Ratio (FSS) above hundred. PuGBB records 86.7%, MGBB 76.5%, PaGBB 80.8 % MPGBB 70.2 % and SPGBB records 48.2 %. These data shows that all GBBs are bearing real losses.

g) **Poor Governance and Supervision:** Most of GBBs have poor Governance. Before Privatization, all five GBBs had very pitiable governance condition. The Chairman of the Board used to appoint among the special class officer from Nepal Rastra Bank and other two members out of five also appointed from NRB directors. Some board members were appointed from government officers and some from commercial banks. The executive director was used to be appointed from second-class officer from NRB. Therefore, In the past, these banks have lack of professional board of directors. Now the conditions have little bit improved in privatized GBBs except SPGBBs who has not privatized yet. Nepal Rastra Bank is the regulatory and supervisory body. NRB is using compliance based supervisions system in GBBs. No risk based supervision policy has been applied yet.

h) **Other Problems:** Besides above problems, GBBs are facing other problems also. Some of them are lack of capacity build up activities to clients and staff, lack of marketing, migration, small loan size, lack of regular follow-up, lack of attractive loan and saving products, lack of sufficient funds, lack of publicity, lack of insurance policy, high competition, general strike and road obstacles, low loan limit, etc.

9.3 Suggestions

From the major findings listed above, the researcher has arrived to the conclusion that GBBs have the capacity to serve more people in the days to come but at the same time they should be financially sustainable for long run. The Grameen model itself is not defective. But the implementation aspects of this model vary from GBB to GBB. Although there is competition in microfinance market and many MFIs are emerging to provide financial services to the poor, GBBs have to adopt special outreach expansion programs, strengthen financial and operational performance with developing their institutional strength to sustainability. The researcher has made some suggestions for financial sustainability of GBBs, which are categorically listed below.

9.3.1 Suggestions to PuGBB

a) PuGBB has to grow its membership, which is decreasing every year recently. There is greater number of supporting staff as compared to field staff. The ratio of field staff to supporting staff is almost fifty-fifty. Attention should be given to manage this ratio more than 75 percent.

b) PuGBB has to improve its savings collection, which is decreasing in recent years. To increase volume of savings as well as its numbers, attractive saving package should be launched for fund management; internal sources need to be prioritized.

c) PuGBB should make provision for its risk asset. Its provision pattern is irregular.

d) PuGBB is not serious about its cost of capital and impact on it of inflation. While calculating profitability FSS ratio should be mentioned in their financial statement, which is not mentioned till now.

e) The portfolio quality is still weak in PuGBB. The portfolio in arear greater than 30 Days (PAR>30 days) should be below five percent but that ratio is still more than seven percent. It can be reduced through regular monitoring of loan utilization.

f) Although there is scope to expand outreach in Eastern Development Region, PuGBB has extended its services only in four Districts of Terai. The single hill branch of Beltar of Udayapur district has been closed and further loan investment is stopped. Whereas, there is scope of member expansion in hills where there is low competition between MFIs. So PuGBB should try to expand its services to other hill districts of this region.

9.3.2 Suggestions to MGBB

a) The high dropout rate may create serious problems to MGBB. That should be stopped through portfolio management i.e. increase of loan amount, prompt banking services along with insurance schemes by MGBBs. The composition between field staffs to total staffs should be increased. The ratio should cross above 75 percent.

b) MGBB is providing microfinance services to female clients only. All other four GBBs have started to provide loan to male also. Therefore, to expand outreach membership to the male should be introduced.

c) The return on APA is low in MGBB but the average cost of fund is increasing. Similarly operating cost is very much high. Therefore, it is urgent that the cost reduction programs to be implemented immediately. Regular and required provision is to be made to cover its risk assets. OSS level of MGBB is below average. Similarly FSS level is also further below average which is only 76.5 percent. Therefore cost of capital and impact of inflation have not been considered while operating banking activities. Examining FSS ratio has not mentioned in this bank. It is necessary to use this ratio while analyzing financial activities.

d) To improve the portfolio quality, MGBB has to monitor its loan assets. The PAR >30 days is more than double as compared to PLAN standard. Immediate action should be taken to reduce the ratio below five percent.

e) The number of loans per field staff is only 192, which are very low as compared to PLAN Model that should cross 250. It is necessary to search new area of loan investment.

f) The action plan should be formed to monitor the financial activities. The internal control should be strengthening.

g) No microfinance expert has been appointed in the board; therefore professional expert should be appointed immediately.

9.3.3 Suggestions to PaGBB

a) The ratio of field staff to total staff is low as compared to general standard. Therefore, productive staff should be increased and supportive staff to be reduced. Male membership need to be increased.

b) The operating costs of PaGBB are comparatively high. That should be reduced.

c) The FSS ratio is only 80.8 percent, which indicates it is unable to cover unseen cost like cost of capital and inflation cost on its equity.

d) PaGBB has to reduce its loan quality, which is below standard. Prevailing PAR >30 days to be reduced below five percent now it is almost 10 percent of its total loan outstanding which should be brought down.

e) The loan per field staff seems to be below standard. It should cross 250. Now the ratio is only 128.

f) Nepal Rastra Bank, being regulatory and supervisory authority, should be free from share holding of PaGBB. It would be better if NRB takes off its share from PaGBB and provides to other professional MFIs.

g) There is no board member from NRB expert list of professionals in PaGBB. Therefore, professional expert should be appointed in the board of director.

9.3.4 Suggestions to MPGBB

a) The productive staffs of MPGBB are low as compared to total staff. The ratio of field staffs to total staffs to be increased up to 75 percent.

b) The bank has to increase the number of male members.

c) The return on APA is low in MPGBB. It is only 10.5 percent. That should be increased.

d) The fund cost is almost six and half percent in MPGBB. This is higher as compared to other GBB. That cost should be reduced.

e) MPGBB has just become able to cover current cost with current revenue. The OSS ratio is 100.9 percent. But the FSS ratio is around 70 percent which is far low. The bank has not considered about the opportunity cost of capital and impact of inflation on its equity. The regular decreasing trend in OSS and FSS may harm to the financial health of MPGBB. Strong measures to be taken to improve OSS and FSS ratio.

f) The portfolio quality of MPGBB is not satisfactory. The rate of default loan is increasing every year and little bit improved in 2008/09. The PAR>30 days reached more than 33 percent in 2007/08. One third of its asset is transferred to bad assets. Therefore strong measures to be implemented to improve the portfolio quality of MPGBB.

g) MPGBB seems reluctant while making provision for its risk assets. NRB has directed to make provision of one percent for good loan, 12.5 percent for rescheduled loans, 25 percent for substandard loans, 50 percent for its doubtful loan, and 100 percent for bad loans. But MPGBB has not made any provisions for above explained loans in 2004/05 and 2005/06 at all.

h) The number of loan per field staff is 193 which is very low than average standard of 250 recommended by PLAN model.

i) No professional expert has been appointed on the board of directors as per the rule of NRB. It should be implemented immediately.

9.3.5 Suggestion to SPGBB

a) SPGBB has negative growth rate of its members. To be financially viable it should be positive. The number of borrowers should be increased. Along with decrease in members, the outstanding portfolio is also declining day by day. It is not a healthy sign for financial viability of SPGBB. The members and volume of loan disbursement should be increased.

b) The financial cost is highest in SPGBB. It expenses 26 paisa to make loan of one Rupee which is higher than double of other GBBs. Although SPGBB charges 20 percent of interest rate and 1.5 percent service tax to its loan, but the return on performing assets is only 10 percent. To improve the condition, the cost reduction policy is to be implemented immediately.

c) Every year SPGBB is making losses and the loss amount is increasing day by day. To get rid of these problems, SPGBB should increase revenue by making its operating cost low.

d) SPGBB is facing the problems of decreasing rate of borrowers and decreasing the volume of loan outstanding, on the other hand it has the poorest portfolio quality also. Almost half of its loan is bad loan. It should to be reduced below 5 percent. The bank should make regular provision to cover its all risked loan portfolio as NRB regulation.

e) SPGBB has less efficient field staff. The number of loan per field staff is 162 only. That ratio should be more than 250, which is general standard prescribed by PLAN.

f) The dropout of members is huge in SPGBB. In 2007/08, the rate was 64 percent which is out of imagine for general MFIs. Therefore to control dropout, effective measure should be adopted immediately.

g) Nepal Rastra Bank has owned 68.46 percent share of SPGBB. Being regulatory and supervisory body of bank and financial institutions, NRB should divest its share to other MFIs.

h) There is no professional expert on its board of directors, although NRB has directed to appoint at least one professional expert in board of director. It is necessary to appoint professional expert in its board.

9.4 Other Suggestions

a) Although, except SPGBB, four GBBs have achieved operational self-sufficiency level but none of them have achieved financial self-sufficiency. The condition of SPGBB is worst of all. PuGBB, PaGBB and MGBB have prospects for attaining viability and self-sustainability while MPGBB is struggling to achieve it. But its viability and sustainability is doubtful. The revenue generated by GBBs is not able to cover all the transaction costs (administrative cost, financial cost, loan losses and imputed cost of capital). So, they are not in the position of earning real profit for long run which could help them to be financially viable. Hence, GBBs should operate their programs more efficiently.

b) The staff efficiency of PuGBB and PaGBB are better in comparison to other GBBs. In other GBBs the efficiency seems to be very low. Most of all GBBs are centered to merge their branches. Overstaffing problem seems in all GBBs. Therefore GBBs must utilize the capacity of their human resources because there is huge demand of credit in rural areas.

c) Unnecessary administrative and other expenditures should be curtailed.

d) GBBs have not formulated opportunity profile for their expansion towards financial viability for the organization themselves. Such profile is needed to determine such as, expansion of outreach, increasing profitability and portfolio management and human resource development.

e) The productivity of the staffs of GBBs is low. A better way to increase the productivity of staff would be to relate their salary and allowances directly with their performance.

f) In GBBs, huge numbers of staffs are appointed in starting phase. Almost of them are frustrated towards their work and are demanding more salary and benefits. The efficiency of staffs is decreasing day by day. No new energetic staffs are appointed in regular basis. There is no HR planning in GBBs. Therefore the restructuring in human resource system is necessary in GBBs. The overstaffing problem could be managed either by voluntary retirement system (VRS) or providing sufficient duty for them. VRS system helps to off load the overstaffing problems as well as opens window to intake energetic and capable young staff in GBBs.

g) The present tiny group based lending of small size has been proved to be very costly because they have high administrative expenses resulting low efficiency. Usually large loan size increases portfolio efficiency. On the other hand, their borrowers are also demanding higher amount of loan. There is high competition in the microfinance market in urban or easily accessible areas. Therefore, the present loan size should be considered to increase in size otherwise dropout rate of borrowers may increase further.

h) Reporting of GBBs are often below standard. The reporting inaccuracies are more serious in GBBs. They should improve the reporting system as per international microfinance standard like PLAN or CGAP standard.

i) GBBs have reached a level of operation that requires strong management information system. Use of latest management information software as well as other innovative banking technologies can contribute to a reduction in administrative costs, an increase in staff productivity and improve credibility of accounting system. Use of new accounting technology may be strongly beneficial for GBBs. GBBs should use new technology to improve outreach, efficiency and client satisfaction, which are becoming requirements of viability and sustainability in an increasing competitive microfinance sector.

j) In order to improve performance, GBBs must set international set of standards to measure performance i.e.(i) return on APA, (ii) ratios like financial cost and operating cost to APA, (iii) OSS and FSS (iv) portfolio quality ratios (like PAR>30 days) etc. It is necessary for GBBs to initiate a system to evaluate their performance based on these standards and institutionalize for improving their performance.

k) Dependency reduces the efficiency of GBBs as well as efficiency of clients also. Sometimes Government Policy are hindering microfinance market. In the annual budget of FY 2007/08, GoN declared loan forgiveness policy in ADB/N, RBB and NBL up to Rs 30,000/- but such provision had not been implemented in GBBs. As a result, GBBs clients stopped their repayment and demanded to imply the same loan forgiveness policy in GBBs also. Still the effect of that policy is hampering in the repayment system of GBBs. Before introducing such policies, their impact should be seriously evaluated.

l) Portfolio quality of all GBB is below than standard level. It is more serious in MPGBB and worst in SPGBB. Thus effective loan recovery plans to be prepared and should be implemented to recover risked loan.

m) The human resource development initiatives are very weak in GBBs. The management training on the subjects of important management functions like targeting program, credit discipline, financial control, cash flow management and planning, monitoring and evaluation should be provided in regular basis. On the other hand the training related to area selection, mass motivation, monitoring and follow-up of disbursed loan etc should be provided for field staffs in need based approach.

n) The focus should be given on the institutional development of GBBs. The remaining share of NRB and Government should be divested to professional MFIs. Because impact of privatization seemed to be positive towards financial viability of GBBs.

o) Professionalism is still poor in GBBs. There is not professional expert appointed in its board of directors in spite of the direction given by NRB. Only PuGBB has followed that regulation. Therefore, all GBBs should appoint professional microfinance expert to their board of director.

p) Short, medium and long term planning should be formulated in each GBB. On the other hand effective action plan should be formulated.

q) A national level microfinance training institution should be established by Government/NRB to provide different types of training and HR development activities.

r) Besides above, regular follow-up of clients, close member group formation, increase loan limit, reduce political intervention, product diversity with commercial approach will improve the profitability of GBBs which led to their financial sustainability.

s) All GBBs are following Grameen Bank Financial System of Bangladesh. The nature, methodology, model and level of clients are almost same. All GBBs are facing same problems like weak portfolio quality, low repayment, high administration and financial costs, low productivity and weak institutional development. Therefore, the merge of five regional GBBs to the single and strong Grameen Bikas Bank of Nepal would be the another alternative so as to reduce its operational cost, to increase outreach, strengthening institutionalization, to attract strong investors, to development professionalism and finally being financially self-sufficient institution like Grameen Bank Bangladesh. If five GBBs merge to single GBB then there would be ability of being strong and professional board members, qualified and dynamic management, wide outreach, new energetic staff strong and national wide banking network which can lead

GBB as a vibrant MFI that can serve millions of poor people being self sustainable institution itself.

Although, GBBs have been providing microfinance services for more than 15 years in Nepal but their sustainability is still questionable. The study based on the financial sustainability of GBBs, has provided some suggestions, which are stated above. If these suggestions are implemented, GBBs in Nepal may be able to serve for longer period in sustainable fashion.

9.5 Scope for Further Research

Sustainability of Grameen Bikas Banks can be studied from various angles besides financial aspect. Further studies may be undertaken from economic viability, borrower's viability or institutional viability point of view. Researcher, therefore, is very much in favor of further research on sustainability to prove MFIs, as a means to address the issue of poverty.

ANNEX A

Profitability and Sustainability Indicators	PuGBB				
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Total Performing Assets	493,962	633,219	665,224	752,405	951,658
average performing assets (APA)		563590	649221	708814	852031
Financial Income	75,380	75166	82,178	111,614	143,625
Interest Expenses	26770	27560	30844	35010	44427
Total Assets	629563	748675	771441	844376	1032960
FCR (IE/ALO)		4.9%	4.8%	4.9%	5.2%
Average Total Assets		689119	760058	807908.5	938668
PAR>30 days (PAR)	5.46%	19.54%	14.39%	10.46%	7.41%
PAR>90 days (PAR)	5.46%	19.54%	13.84%	10.46%	7.41%
Financial Cost Ratio with APA		4.9%	4.8%	4.9%	5.2%
Net Profit/Loss	543	70	1,848	992	19012
Provision for Staff Bonus	246	167	184	172	2790
Total Financial Income	789	237	2,032	1,164	21,802
Return on Average Performing Assets		13.34%	12.66%	15.75%	16.86%
Loan and Advances	498,073	563,115	691,912	771,651	886,417
Average Loan outstanding		530594	627513.5	731781.5	829034
GNI per Capita	23365	25482	27806	30465	36290
Average Loan Outstanding/GNI	0	20.82	22.57	24.02	22.84
Staff Expenses	33,605	35,575	42,658	80,327	73810
Other Oper. Expenses	6,146	6,088	8,409	8,088	8806
Total Operating Income	39,751	41,663	51,067	88,415	82,616
Operating cost		0.079	0.081	0.121	0.100
Operating cost with APA		7.39%	7.87%	12.47%	9.70%
operating cost ratio OCR		0.074	0.079	0.125	0.097
Average totoal equity	60,000	60,000	60,000	60,000	60,000
Fixed Assets	2,987	2,834	2,642	2,548	6,913
Average fixed assets		2910.5	2738	2595	4730.5
Inflation	0.045	0.08	0.067	0.077	0.132
Borrowings	363,157	472,175	504,909	532,221	687,892
average borrowing		417666	488542	518565	610056.5
Market Interest Rate of Com. banks	0.108	0.108	0.108	0.110	0.110
Actual rate of borrowing	0.051	0.043	0.045	0.049	0.051
Imputed cost of capital	2700	31533	34147	36297	43255
Imputed cost of capital Ratio		5.6%	5.3%	5.1%	5.1%
Total Income	77,116	76,466	85,678	125,561	157,727
Total Expneses	76573	76396	83830	124569	138715
OSS	100.7%	100.1%	102.2%	100.8%	113.7%
FSS		70.8%	72.6%	78.1%	86.7%
Possible Loss Provision	8,135	5,777	1,735	241	0
Loan and Advances	498073	563115	691912	771651	886417
Average Loan and Advances		530594	627513.5	731781.5	829034
Reserve Ratio		1.1%	0.3%	0.0%	0.0%
Loan Loss Provision Ratio		1.03%	0.27%	0.03%	0.00%

ANNEX B

Profitability and Sustainability Indicators	**MGBB**				
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Total Performing Assets	429,429	569,304	629,888	834,297	943,138
average performing assets (APA)		499366	599596	732092	888717
Financial Income	51021	54677	86978	92914	108303
Interest Expenses	21787	22798	55042	40496	57873
Total Assets	458553	593507	680387	882217	1001172
FCR (IE/ALO)		4.6%	9.2%	5.5%	6.5%
Average Total Assets		526030	636947	781302	941694.5
PAR>30 days (PAR)	8.35%	8.10%	6.53%	14.54%	10.58%
PAR>90 days (PAR)	8.35%	8.10%	6.53%	14.54%	10.58%
Financial Cost Ratio with APA		4.6%	9.2%	5.5%	6.5%
Net Profit/Loss	3086	871	-30631	13049	8273
Provision for Staff Bonus	278	87	0	1741	853
Total Financial Income	3,364	958	-30,631	14,790	9,126
Return on Average Performing Assets		10.95%	14.51%	12.69%	12.19%
Loan and Advances	264720	296619	299341	330285	418410
Average Loan outstanding		280669.5	297980	314813	374347.5
GNI per Capita	23365	25482	27806	30465	36290
Average Loan Outstanding/GNI	0	11.01	10.72	10.33	10.32
Staff Expenses	24225	29459	31982	38686	47623
Other Oper. Expenses	6713	6959	5878	9807	11506
Total Operating Income	30,938	36,418	37,860	48,493	59,129
Operating cost		0.130	0.127	0.154	0.158
Operating cost with APA		7.29%	6.31%	6.62%	6.65%
operating cost ratio OCR		0.073	0.063	0.066	0.067
Average totoal equity	60000	60000	60000	70000	100,000
Fixed Assets	2099	1702	1317	1767	1698
Average fixed assets		1900.5	1509.5	1542	1732.5
Inflation	0.045	0.08	0.067	0.077	0.132
Borrowings	316769	432162	535473	707135	780306
average borrowing		374465.5	483817.5	621304	743720.5
Market Interest Rate of Com. banks	0.108	0.108	0.108	0.110	0.110
Actual rate of borrowing	0.053	0.042	0.083	0.048	0.063
Imputed cost of capital	2700	29249	15659	43662	48120
Imputed cost of capital Ratio		5.9%	2.6%	6.0%	5.4%
Total Income	56,445	60,446	90,421	109,314	129,373
Total Expneses	53359	59575	121052	96265	121100
OSS	105.8%	101.5%	74.7%	113.6%	106.8%
FSS		68.1%	66.1%	78.1%	76.5%
Possible Loss Provision	356	272	28150	1177	2563
Loan and Advances	264720	296619	299341	330285	418410
Average Loan and Advances		280669.5	297980	314813	374347.5
Reserve Ratio		0.1%	9.4%	0.4%	0.7%
Loan Loss Provision Ratio		0.05%	4.69%	0.16%	0.29%

ANNEX C

Profitability and Sustainability Indicators	**PaGBB**				
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Total Performing Assets	594,405	580,880	584,540	603,684	775,641
average performing assets (APA)		587643	582710	594112	689663
Financial Income	69949	74221	84668	91993	111632
Interest Expenses	26594	25238	23996	23424	32023
Total Assets	675200	645731	629991	661896	838648
FCR (IE/ALO)		4.3%	4.1%	3.9%	4.6%
Average Total Assets		660465.5	637861	645943.5	750272
PAR>30 days (PAR)	20.00%	15.59%	11.16%	12.57%	10.49%
PAR>90 days (PAR)	20.00%	14.67%	9.13%	10.86%	9.69%
Financial Cost Ratio with APA		4.3%	4.1%	3.9%	4.6%
Net Profit/Loss	4509	-3245	4369	8829	11430
Provision for Staff Bonus	1013	0	1375	1431	1659
Total Financial Income	5,522	-3,245	5,744	10,260	13,089
Return on Average Performing Assets		12.63%	14.53%	15.48%	16.19%
Loan and Advances	355168	390590	393351	451283	536825
Average Loan outstanding		372879	391970.5	422317	494054
GNI per Capita	23365	25482	27806	30465	36290
Average Loan Outstanding/GNI	0	14.63	14.10	13.86	13.61
Staff Expenses	24108	33765	30865	39401	47575
Other Oper. Expenses	8827	9174	9271	10372	12290
Total Operating Income	32,935	42,939	40,136	49,773	59,865
Operating cost		0.115	0.102	0.118	0.121
Operating cost with APA		7.31%	6.89%	8.38%	8.68%
operating cost ratio OCR		0.073	0.069	0.084	0.087
Average totoal equity	60000	60000	60000	60000	66000
Fixed Assets	2077	3174	3928	3934	4356
Average fixed assets		2625.5	3551	3931	4145
Inflation	0.045	0.08	0.067	0.077	0.132
Borrowings	500333	467449	434945	433111	549613
average borrowing		483891	451197	434028	491362
Market Interest Rate of Com. banks	0.108	0.108	0.108	0.110	0.110
Actual rate of borrowing	0.045	0.044	0.044	0.042	0.045
Imputed cost of capital	2700	35226	32461	33928	40203
Imputed cost of capital Ratio		6.0%	5.6%	5.7%	5.8%
Total Income	74,098	81,330	96,661	102,841	121,298
Total Expneses	69589	84575	92292	94012	109868
OSS	106.5%	96.2%	104.7%	109.4%	110.4%
FSS		67.9%	77.5%	80.4%	80.8%
Possible Loss Provision	4437	14313	17401	13869	11164
Loan and Advances	355168	390590	393351	451283	536825
Average Loan and Advances		372879	391970.5	422317	494054
Reserve Ratio		3.8%	4.4%	3.3%	2.3%
Loan Loss Provision Ratio		2.44%	2.99%	2.33%	1.62%

ANNEX D

Profitability and Sustainability Indicators	MPGBB				
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Total Performing Assets	286,305	576,784	900,307	963,600	888,112
average performing assets (APA)		431545	738546	931953	925856
Financial Income	26071	46643	76184	90676	96830
Interest Expenses	8190	23069	43941	53351	60251
Total Assets	335389	619779	949960	1038557	942364
FCR (IE/ALO)		5.3%	5.9%	5.7%	6.5%
Average Total Assets		477584	784869.5	994258.5	990460.5
PAR>30 days (PAR)	23.30%	25.10%	23.46%	34.05%	20.29%
PAR>90 days (PAR)	23.30%	24.20%	22.11%	33.20%	19.52%
Financial Cost Ratio with APA		5.3%	5.9%	5.7%	6.5%
Net Profit/Loss	3042	7984	4074	5230	872
Provision for Staff Bonus	0	887	408	523	53
Total Financial Income	3,042	8,871	4,482	5,753	925
Return on Average Performing Assets		10.81%	10.32%	9.73%	10.46%
Loan and Advances	141296	146275	166371	186155	219309
Average Loan outstanding		143785.5	156323	176263	202732
GNI per Capita	23365	25482	27806	30465	36290
Average Loan Outstanding/GNI	0	5.64	5.62	5.79	5.59
Staff Expenses	12566	19542	21490	24256	27500
Other Oper. Expenses	3535	3909	4332	4650	6417
Total Operating Income	16,101	23,451	25,822	28,906	33,917
Operating cost		0.163	0.165	0.164	0.167
Operating cost with APA		5.43%	3.50%	3.10%	3.66%
operating cost ratio OCR		0.054	0.035	0.031	0.037
Average totoal equity	60000	60000	60000	60000	60000
Fixed Assets	4396	4277	4303	4166	4221
Average fixed assets		4336.5	4290	4234.5	4193.5
Inflation	0.045	0.08	0.067	0.077	0.132
Borrowings	223943	536019	846439	905469	772427
average borrowing		379981	691229	875954	838948
Market Interest Rate of Com. banks	0.108	0.108	0.108	0.110	0.110
Actual rate of borrowing	0.030	0.039	0.048	0.054	0.068
Imputed cost of capital	2700	30521	44869	53777	42670
Imputed cost of capital Ratio		7.1%	6.1%	5.8%	4.6%
Total Income	27,333	55,391	77,483	92,252	98,653
Total Expneses	24291	47407	73409	87022	97781
OSS	112.5%	116.8%	105.5%	106.0%	100.9%
FSS		71.1%	65.5%	65.5%	70.2%
Possible Loss Provision	0	0	3238	4242	3560
Loan and Advances	141296	146275	166371	186155	219309
Average Loan and Advances		143785.5	156323	176263	202732
Reserve Ratio		0.0%	2.1%	2.4%	1.8%
Loan Loss Provision Ratio		0.00%	0.44%	0.46%	0.38%

ANNEX E

Profitability and Sustainability Indicators	SPGBB				
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Total Performing Assets	269,400	402,443	453,471	466,609	219,202
average performing assets (APA)		335921	427957	460040	342906
Financial Income	26328	34312	39378	41328	34670
Interest Expenses	15563	22043	27326	29740	26520
Total Assets	301167	438103	489190	513180	269522
FCR (IE/ALO)		6.6%	6.4%	6.5%	7.7%
Average Total Assets		369635	463646.5	501185	391351
PAR>30 days (PAR)	33.33%	33.44%	26.79%	33.65%	41.89%
PAR>90 days (PAR)	33.33%	33.44%	26.73%	33.65%	41.89%
Financial Cost Ratio with APA		6.6%	6.4%	6.5%	7.7%
Net Profit/Loss	-1552	6210	-24505	-4109	-23150
Provision for Staff Bonus	0	0	0	0	0
Total Financial Income	-1,552	6,210	-24,505	-4,109	-23,150
Return on Average Performing Assets		10.21%	9.20%	8.98%	10.11%
Loan and Advances	79251	91172	103525	115947	101481
Average Loan outstanding		85211.5	97348.5	109736	108714
GNI per Capita	23365	25482	27806	30465	36290
Average Loan Outstanding/GNI	0	3.34	3.50	3.60	3.00
Staff Expenses	13594	15020	16738	13184	15483
Other Oper. Expenses	2977	2989	2966	3088	3075
Total Operating Income	16,571	18,009	19,704	16,272	18,558
Operating cost		0.211	0.202	0.148	0.171
Operating cost with APA		5.36%	4.60%	3.54%	5.41%
operating cost ratio OCR		0.054	0.046	0.035	0.054
Average totoal equity	58500	58500	58500	58500	58500
Fixed Assets	2023	1856	2896	2525	2224
Average fixed assets		1939.5	2376	2710.5	2374.5
Inflation	0.045	0.08	0.067	0.077	0.132
Borrowings	264653	396047	478391	493809	265153
average borrowing		330350	437219	486100	379481
Market Interest Rate of Com. banks	0.108	0.108	0.108	0.110	0.110
Actual rate of borrowing	0.051	0.051	0.053	0.056	0.086
Imputed cost of capital	2633	23281	27626	30776	16662
Imputed cost of capital Ratio		6.9%	6.5%	6.7%	4.9%
Total Income	30,582	46,262	22,525	46,212	37,024
Total Expneses	32134	40052	47030	50321	60174
OSS	95.2%	115.5%	47.9%	91.8%	61.5%
FSS		73.0%	30.2%	57.0%	48.2%
Possible Loss Provision	0	0	0	4309	15096
Loan and Advances	79251	91172	103525	115947	101481
Average Loan and Advances		85211.5	97348.5	109736	108714
Reserve Ratio		0.0%	0.0%	3.9%	13.9%
Loan Loss Provision Ratio		0.00%	0.00%	0.94%	4.40%

ANNEX F

Outreach and other Information	PuGBB					
	2004/05	2005/06	2006/07	2007/08	2008/09	Average
No. of centre	1383	1398	1427	1434	1420	1412
No of groups	11361	11489	11728	11793	11607	11596
No. of members	45490	45194	56564	56134	53550	51386
Net no. of members		-296	11370	-430	-2584	2015
No of borrowers	43098	41753	54279	54236	52585	49190
Total loan disbursed	5215967	5640022	6317253	6992617	7779147	6389001
Net loan disbursed		424055	677231	675364	786530	640795
Total loan repaid	4692452	5045887	5594435	6194910	6487422	5603021
Total loan outstanding	523515	594135	722818	797707	1291725	785980
Personal saving balance	30352	36661	51687	69663	76634	52999
group fund balance	121503	121372	119084	116657	104637	116651
Other Savings	0	0	0	2879	3895	1355
Total Savings	151855	158033	170771	189199	185166	171005
Average Savings	3338	3497	3019	3370	3458	3328
Staffs	306	298	292	276	271	289
No. of field staff	158	151	141	130	140	144
Ratio of field staff to total staff	51.6%	50.7%	48.3%	47.1%	51.7%	49.9%
No.Of Branch	36	40	43	39	30	38
VDC covered	251	259	254	258	254	255
Districts covered	9	9	9	9	6	8
Average No. per centre	33	32	40	39	38	36
Average members per field staff	288	299	401	432	383	357
Average loan portofolio per field staff	3313	3935	5126	6136	9227	5458
Average loan per borrower	12147	14230	13317	14708	24565	15978
Average loan size	0	10156	12477	12452	14957	13027
GNP	23365	25482	27806	30465	36290	36290
Average loan size to GNP	0%	40%	45%	41%	41%	36%
Net member retention rate	0%	-1%	20%	-1%	-5%	4%
Percentage of saving on loan portfolio	29%	27%	24%	24%	14%	22%
Average saving balance	3.338	3.497	3.019	3.370	3.458	3.328
Average Borrowers per field staff	273	277	385	417	376	342
Center per field staff	9	9	10	11	10	10
Members per centre	33	32	40	39	38	36

ANNEX G

Outreach and other Information	MGBB					
	2004/05	2005/06	2006/07	2007/08	2008/09	Average
No. of centre	1329	1361	1381	1477	1462	1402
No of groups	8156	9226	9471	9495	8745	9019
No. of members	40128	42602	43843	42345	36204	41024
Net no. of members		2474	1241	-1498	-6141	-981
No of borrowers	38645	42058	42858	41110	34956	39925
Total loan disbursed	2191940	2639548	3101581	3528536	4045420	3101405
Net loan disbursed		447608	462033	426955	516884	463370
Total loan repaid	1906488	2321924	2753086	3149441	3596387	2745465
Total loan outstanding	285452	317624	348496	379095	449033	355940
Personal saving balance	10264	10586	11002	12421	14104	11675
group fund balance	86947	99038	108302	121084	116278	106330
Other Savings	0	0	0	0	11705	2341
Total Savings	97211	109624	119304	133505	142087	120346
Average Savings	2423	2573	2721	3153	3925	2934
Staffs	248	248	235	250	247	246
No. of field staff	162	162	161	160	160	161
Ratio of field staff to total staff	65.3%	65.3%	68.5%	64.0%	64.8%	65.6%
No.Of Branch	28	28	28	43	43	34
VDC covered	293	300	306	323	327	310
Districts covered	14	14	14	14	15	14
Average No. per centre	30	31	32	29	25	29
Average members per field staff	248	263	272	265	226	255
Average loan portofolio per field staff	1762	1961	2165	2369	2806	2211
Average loan per borrower	7387	7552	8131	9221	12846	8915
Average loan size	0	10643	10781	10386	14787	11606
GNP	23365	25482	27806	30465	36290	36290
Average loan size to GNP	0%	42%	39%	34%	41%	32%
Net member retention rate	0%	6%	3%	-4%	-17%	-2%
Percentage of saving on loan portfolio	34%	35%	34%	35%	32%	34%
Average saving balance	2.423	2.573	2.721	3.153	3.925	2.934
Average Borrowers per field staff	239	260	266	257	218	248
Center per field staff	8	8	9	9	9	9
Members per centre	30	31	32	29	25	29

ANNEX H

Outreach and other Information	PAGBB					
	2004/05	2005/06	2006/07	2007/08	2008/09	Average
No. of centre	1154	1170	1160	1228	1261	1195
No of groups	8199	8414	8187	8362	8635	8359
No. of members	40821	42451	35895	39051	43413	40326
Net no. of members		1630	-6556	3156	4362	648
No of borrowers	39646	41097	34952	35148	36258	37420
Total loan disbursed	3014763	3582908	4196087	4905166	5784045	4296594
Net loan disbursed		568145	613179	709079	878879	692321
Total loan repaid	2629340	3152155	3753901	4398907	5187406	3824342
Total loan outstanding	385423	430753	442186	506259	596639	472252
Personal saving balance	4901	4928	5674	18611	42995	15422
group fund balance	80927	88057	93733	96255	107737	93342
Other Savings	0	0	0	0	11443	2289
Total Savings	85828	92985	99407	114866	162175	111052
Average Savings	2103	2190	2769	2941	3736	2754
Staffs	221	216	214	211	207	214
No. of field staff	116	111	111	115	119	114
Ratio of field staff to total staff	52.5%	51.4%	51.9%	54.5%	57.5%	53.5%
No.Of Branch	35	35	35	40	40	37
VDC covered	276	278	280	320	340	299
Districts covered	13	12	12	14	14	13
Average No. per centre	35	36	31	32	34	34
Average members per field staff	352	382	323	340	365	353
Average loan portofolio per field staff	3323	3881	3984	4402	5014	4128
Average loan per borrower	9722	10481	12651	14404	16455	12620
Average loan size	0	13824	17543	20174	24240	18501
GNP	23365	25482	27806	30465	36290	36290
Average loan size to GNP	0%	54%	63%	66%	67%	51%
Net member retention rate	0%	4%	-18%	8%	10%	2%
Percentage of saving on loan portfolio	22%	22%	22%	23%	27%	24%
Average saving balance	2.103	2.190	2.769	2.941	3.736	2.754
Average Borrowers per field staff	342	370	315	306	305	327
Center per field staff	10	11	10	11	11	10
Members per centre	35	36	31	32	34	34

ANNEX I

Outreach and other Information	MPGBB					
	2004/05	2005/06	2006/07	2007/08	2008/09	Average
No. of centre	554	590	630	700	799	655
No of groups	3638	3736	3928	4227	4715	4049
No. of members	18190	18072	18405	20300	22603	19514
Net no. of members		-118	333	1895	2303	1103
No of borrowers	12342	12492	14260	14101	15184	13676
Total loan disbursed	1076964	1205372	1464482	1664525	1981226	1478514
Net loan disbursed		128408	259110	200043	316701	226066
Total loan repaid	938965	1038974	1266030	1446107	1725591	1283133
Total loan outstanding	137999	166398	198452	218418	255635	195380
Personal saving balance	4559	6471	9023	10914	65245	19242
group fund balance	39784	39490	43759	54389	14355	38355
Other Savings	0	0	0	25537	35079	12123
Total Savings	44343	45961	52782	90840	114679	69721
Average Savings	2438	2543	2868	4475	5074	3573
Staffs	133	133	133	128	128	131
No. of field staff	71	71	71	71	71	71
Ratio of field staff to total staff	53.4%	53.4%	53.4%	55.5%	55.5%	54.2%
No.Of Branch	22	22	23	23	24	23
VDC covered	106	108	114	119	131	116
Districts covered	4	5	5	5	6	5
Average No. per centre	33	31	29	29	28	30
Average members per field staff	256	255	259	286	318	275
Average loan portofolio per field staff	1944	2344	2795	3076	3600	2752
Average loan per borrower	11181	13320	13917	15490	16836	14287
Average loan size	0	10279	18170	14186	20858	16530
GNP	23365	25482	27806	30465	36290	36290
Average loan size to GNP	0%	40%	65%	47%	57%	46%
Net member retention rate	0%	-1%	2%	9%	10%	6%
Percentage of saving on loan portfolio	32%	28%	27%	42%	45%	36%
Average saving balance	2.438	2.543	2.868	4.475	5.074	3.573
Average Borrowers per field staff	174	176	201	199	214	193
Center per field staff	8	8	9	10	11	9
Members per centre	33	31	29	29	28	30

ANNEX J

Outreach and other Information	SPGBB					
	2004/05	2005/06	2006/07	2007/08	2008/09	Average
No. of centre	614	527	625	602	589	591
No of groups	3499	3538	3546	2976	2950	3302
No. of members	19358	19567	19957	12172	11720	16555
Net no. of members		209	390	-7785	-452	-1910
No of borrowers	12142	11855	13485	8955	9205	11128
Total loan disbursed	968322	1025291	1105079	1176654	1253489	1105767
Net loan disbursed		56969	79788	71575	76835	71292
Total loan repaid	842956	898151	968435	1026690	1104022	968051
Total loan outstanding	125366	127140	136644	149964	149467	137716
Personal saving balance	2453	3958	6148	10078	12717	7071
group fund balance	37656	33133	30406	30135	30247	32315
Other Savings	0	0	0	0	1642	328
Total Savings	40109	37091	36554	40213	44606	39715
Average Savings	2072	1896	1832	3304	3806	2399
Staffs	114	112	79	78	79	92
No. of field staff	77	77	39	38	38	54
Ratio of field staff to total staff	67.5%	68.8%	49.4%	48.7%	48.1%	58%
No.Of Branch	21	17	17	20	20	19
VDC covered	79	93	93	72	72	82
Districts covered	5	7	8	8	8	7
Average No. per centre	32	37	32	20	20	28
Average members per field staff	251	254	512	320	308	308
Average loan portofolio per field staff	1628	1651	3504	3946	3933	2560
Average loan per borrower	10325	10725	10133	16746	16238	12375
Average loan size	0	4805	5917	7993	8347	6406
GNP	23365	25482	27806	30465	36290	36290
Average loan size to GNP	0%	19%	21%	26%	23%	18%
Net member retention rate	0%	1%	2%	-64%	-4%	-12%
Percentage of saving on loan portfolio	32%	29%	27%	27%	30%	29%
Average saving balance	2.072	1.896	1.832	3.304	3.806	2.399
Average Borrowers per field staff	158	154	346	236	242	207
Center per field staff	8	7	16	16	16	11
Members per centre	32	37	32	20	20	28

ANNEX K

Class 'D' Institutions Licensed by NRB to provide Microfinance Related Services.

Grameen Bikas Banks

1. Purbanchal Grameen Bikas Bank, Biratnagar.
2. Madhymanchal Grameen Bikas Bank, Janakpur.
3. Pashimanchal Grameen Bikas Bank, Butwal.
4. Madhya Pashimanchal Grameen Bikas Bank, Nepalganj.
5. Sudur Pashimanchal Grameen Bikas Bank, Dhanghadhi.

Microfinance Development Banks

6. Nirdhan Utthan Bank Ltd., Siddharthanagar, Rupendehi.
7. Deprosc Development Bank Ltd.,Ratnanagar, Chitwan.
8. Chhimek Development Banks Ltd.,Hetauda, Makawanpur.
9. Swabalamban Laghu Bitta Bikas Banks Ltd.,Janakpur, Dhanusha.
10. Nerude Laghu Bitta Bikas Bank Ltd., Biratnagar, Morang.
11. Naya Nepal Laghu Bitta Bikas Bank Ltd., Dhulikhel, Kavre.
12. Mithila Laghu Bitta Bikas Banks Ltd, Dhalkebar, Dhanusha.
13. Summit Microfinance Development Bank Ltd, Anarmani, Jhapa.
14. Swarojgar Laghu Bitta Bikas Bank Ltd., Banepa, Kavre.
15. First Microfinance Development Bank Ltd. Gyaneswor, Kathmandu.
16. Nagbeli microfinance Development Bank Ltd.,Anarmani, Jhapa.
17. Kalika Microcredit Development Bank Ltd., Walling, Syanjha.
18. Mirmire Microfinance Development Bank Ltd., Banepa, Kavre.
19. Janautthan Samudaika Microfinance Development Bank Ltd., Butwal Rupandehi.

Wholesale MFDBs

20. Rural Microfinance Development Centre, Kathmandu.
21. Sana Kisan Bikas Bank Ltd., Kathmandu.

ANNEX L

Name of Cooperatives licensed from Nepal Rastra Bank, for Limited banking transactions.

1. Navajiwan Cooperative Ltd, Dhangadhi Kailali
2. Sagun Cooperative, Chetrapati, Kathmandu
3. Nepal Financial Cooperative Ldt. New Baneswor
4. The Sahara Loan, Saving and Investment Cooperative, Sarlahi, Malangawa.
5. Bindabasini Saving and Credit Cooperative Kavre
6. Mahila Cooperaive Ltd, Teku
7. Nepal Multipurpose Cooperative Ltd, Prithibinagar, Jhapa
8. Cooperative Financial Development Organization, Nepalgunj, Banke
9. Manakamana Cooperative Ltd, Banepa, Kavre
10. Bheri Cooperative Ltd., Nepalgunj, Banke
11. Biku Saving and Credit Cooperative Ltd, Gaidakot, Nawalparasi
12. Kisan Multipurpose Coopeative Ltd, Lamki, Kailali
13. Himalaya Cooperative Ltd, Old Baneswor, Kathmandu
14. Star Multipurpose Saving And Credit Cooperative Ltd, Biratnagar
15. Upkar Saving Fund and Credit Cooperative Ltd, Waling Syanjha
16. Rastriya Sahakari Bank Ltd., Baneshwar, Kathmandu.

ANNEX M

Sustainability of GGBs in Nepal: A Financial Perspective

(Structure Questions for Interview to CEO of GBBs)

1. What are the objectives of GBBs?
2. What are the major problems facing by GBBs?
3. What are the interest rate structures? Are they sufficient to cover the cost?
4. Are this GBB financially viable?
5. What are the main hurdles of GBBs to be financially viable?
6. How is the condition of delinquency of loans? What are the measures adopted to reduce delinquency?
7. What are the problems of outreach? What do you think to expand the outreach?
8. What are the strategies to increase the efficiency of the staff?
9. What is your plan to make GBB operationally and financially viable?
10. What are the problems of loan disbursement?
11. What are the problems of saving collection?
12. What are the difference between in the problems facing GBBs in Hills and Terai?
13. How is the Staff Motivation? What are the measures adopted to develop human resources?
14. What is the condition of overall management?
15. How is the internal control system of GBB?
16. How the GBB is being funded? What are the problems of fund collection?
17. What is the condition of dropout of members? What are the plan to control it?
18. Any recommendations for sustainability of GBB.

ANNEX N

Sustainability of GGBs in Nepal: A Financial Perspective

(Questionnaire for Clients of GBBs)

General Information

1. Name:-------------------------
2. Address------------------------
3. GBB Branch---------------------------
4. Education------------------------------
5. Land Holdings---------------------------
6. Family Members-------------------------
7. Profession-------------------------------
8. Involvement in GBBs----------------Yrs.

Please tick (√) in Right answer.

1. What is your Occupation before GBB involvement?

   Agriculture b) Business c) Service d) Others
2. What is your Occupation after GBB involvement?

Agriculture b) Business c) Service d) Others

3. Have you provided employment for others from GBB funded project?

   Yes b) No
4. Are you running your project successfully?

   Yes b) No
5. What do you feel about importance of GBB's saving products?

   Very Important b) Important c) Less important
6. What type of saving product do you prefer?

   Compulsory Savings b) Voluntary savings c) Both
7. Do you save regularly in voluntary savings?

   Yes b) No

8. How many times did u get loan from GBB?

   Rs-------------------------

9. How much is your domestic Consumption of your received loan?
   a) 0-20 %   b) 21-40%   c) 41-60   d) 60 above
10. Is there any problems to receive the loan?

    a) Yes   b) No

11. Are you able to repay installment regularly?

    a) Yes   b) No

12. Have you taken loan From other MFIs?

    a) Yes   b) No

13. If so What is the causes from taking loan ?

    a) Low interest rate   b) Easy process   c) Well-behave c) Others causes

14. What is your satisfaction level of GBB services?

a) Very satisfied   b) Satisfied   c) Unsatisfied

15. What do you feel about the interest rates of GBB?

    a) High   b) Moderate   c) Low

16. Are you satisfied with the upper limit of GBB's general loan?

    a) Yes   b) No

17. If not, how much is your expectation?
    Rs.---------------------------
18. Any suggestions for GBB's viability

ANNEX O

Sustainability of GBBs in Nepal: A Financial Perspective

(Questionnaire for GBBs Field Staffs and Branch Manager)

Name:-------------------------------------

Designation----------------------------

Branch-----------------------------------

Qualification----------------------------

Experience--------------------------------

Served Centers----------------------------

Please tick (√) in Right answer.

1. In average, who many centers are full centers?

   a) 0-20 b) 21-40 c) 41-60 d) 60 above

2. Supervision of loan disbursed project

   a) Regular b) Occasional c) Never

3. Effectiveness of Project Supervision

   a) Very Effective b) Effective c) Less effective

4. Participation in Training or Seminar

   a) Yes b) No

5. Sufficiency of present remuneration

   a) Yes b) No

6. Do you receive field allowances while going to field?

   a) Yes b) No

7. Do You convey your problem to upper level regularly?

   a)Yes b) No

8. Do they take seriousness about the problems you indicate?

   a) Yes b) No

9. What is the dropout rate ?
   a) 0-10 b) 11-20 c) 21-30 d) 30 above
10. What is your rating for success of GBBs in Loan disbursement
11. What is your rating for success of GBBs in Repayment of Loan?
   a) Highly successful b) Successful c) Average d) Low c) Very few
12. What is your rating for success of GBBs in Repayment of Loan?
   a) Highly successful b) Successful c) Average d) Low c) Very few
13. Where do you feel comfortable to work as a GBB staff?
   a) In Local Area b) Out of Local Area
14. Availability of financial resources for loan Investment
   a) Highly Sufficient b) Sufficient c) Average d) Less Sufficient e) Not sufficient
15. What is your rating for success of GBBs in Repayment of Loan?
   a) Highly successful b) Successful c) Average d) Low c) Very few
16. Is this branch going to be financially sustainable?
   a) Yes b) No
17. What is your rating about branch operation?
   a) Very satisfactory b) Satisfactory c) Less satisfactory
18. Use of Computers in the office
   a) All Computerized b) Semi Computerized c) Few Computerized d) Not at all.
19. Regularity of Reporting
   a) Regular b) Irregular c) Occasional d) Never
20. Has Job description been provided?
   a) Yes b) No
21. Is there regular Internal Audit?
   a) Yes b) No

22. In what extent internal audit effective?
    a) Very effective b) Effective c) Normal d)Less effective e) Not effective at all.
23. Implementation of Internal Audit Report
    a) Fully b) Partially c) Not at all
24. Condition of Daily Bank Operation
    a) Very Good b) Good c) Normal d) Not proper e) haphazardly
25. Accounting Standard
    a) Very Good b) Good c) Normal d) Not proper e) haphazardly
26. Staff meeging
    a) Regular b) Irregular c) Occassional d) Never
27. Applicability of Loan disbursement Procedurre?
    a) Very Good b) Good c) Normal d) Not Proper e) Not good at all
28. Human Resource Management
    a) Very Good b) Good c) Normal d) Not Proper e) Not good at all
29. Power Decentralization
    a) Very Good b) Good c) Normal d) Not Proper e) Not good at all
30. Basis of Staff Evaluation
    a) Work performance b) Experience c) Both d) Without any basis e) Nepotism
31. Scope of Financial sustainability
    a) Very Good b) Good c) Normal d) Little hope e) Not good at all.
32. Please provide suggestions for financial sustainability of GBBs.

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