



NEPAL RASTRA BANK

Microfinance: Regulatory Aspects, Issues and Challenges





Recent Development of Micro Finance in the World





Nepal Rastra Bank's Role to promote Micro Finance Services

- Obligatory credit to small sector BS 2031, 5 percent of total deposit
- Small sector credit redefined as priority sector credit. Expanded to 7 percent of total Deposit
- Expanded further to 10 percent and 12 percent in 2042 and 2047 respectively. Penalised in case noncompliance
- Deprived sector credit included under the priority sector credit in FY 2048/49
- Priority sector credit programme scrapped in 2063 but deprived sector credit was and is going on

- SFDP by ADB
- SSL
- Priority sector lending
- GBBs
- Deprived sector lending
- Cooperatives
- MFIs
- Incentivised banks and MFIs to go to rural part of the country

Programme/Project based

- SFCP
- CGISP
- TLDP
- PAPWT
- MCPW
- PCRW
- IBP
- MEDEP/MEDPA
- RISMP
- UNNATI
- SEDRA
- RSRF



Regulatory Framework for Micro Finance Institutions in Nepal

■ Source of regulation/Legal set up

- NRB Act,
- Banks and Financial Institutions Act,
- Financial Intermediary act,
- Cooperative Act,
- Company Act
- International best practices etc.

■ Micro Finance lending Institutions:

- MFIs ; wholesale and retail,
- FINGOs, being transform to MFI
- Cooperatives,
- Direct lending by the Banks;
- Regulation : Regulation to MFIs , Regulation to FINGO
- Regulation Cooperative bank

■ Lending Modalities:

Grameen, Cooperative, SFCL, SHG, Community Organization model, Village bank model, Wholesale lending model

■ Products :

Micro-credit, micro-saving, micro-insurance and micro level remit transactions

■ Lending Range:

Individual, group member and Micro enterprise.





MFI expansion

Major Indicators (MFIs only)

Rs. In Lakh

Description	2015 mid July	2016 mid July	2017 mid July	2018 mid July	Expansion in percentage 2017/2018
No of MFIs	38	42	53	65	22.64
Paid up capital	39873	54254	77398	111825	44.48
Total Capital	61473	86737	159940	212636	32.95
Credit outstanding	549155	772329	1074630	1459515	35.82
Deposit	157755	240953	343963	495488	44.05
Branches	1116	1378	1899	2,450	29.02
No of clients	1548767	1898891	2338618	28,56,859	22.16
No of borrowers	1080878	1296303	1573739	18,53,586	17.78
Employees	5749	7077	8905	11,557	29.78
Borrowing	383944	524314	668790	79,34,06	18.63
Coverage Districts	75 (all)	75 (all)	75 (all)	77 (all)	-



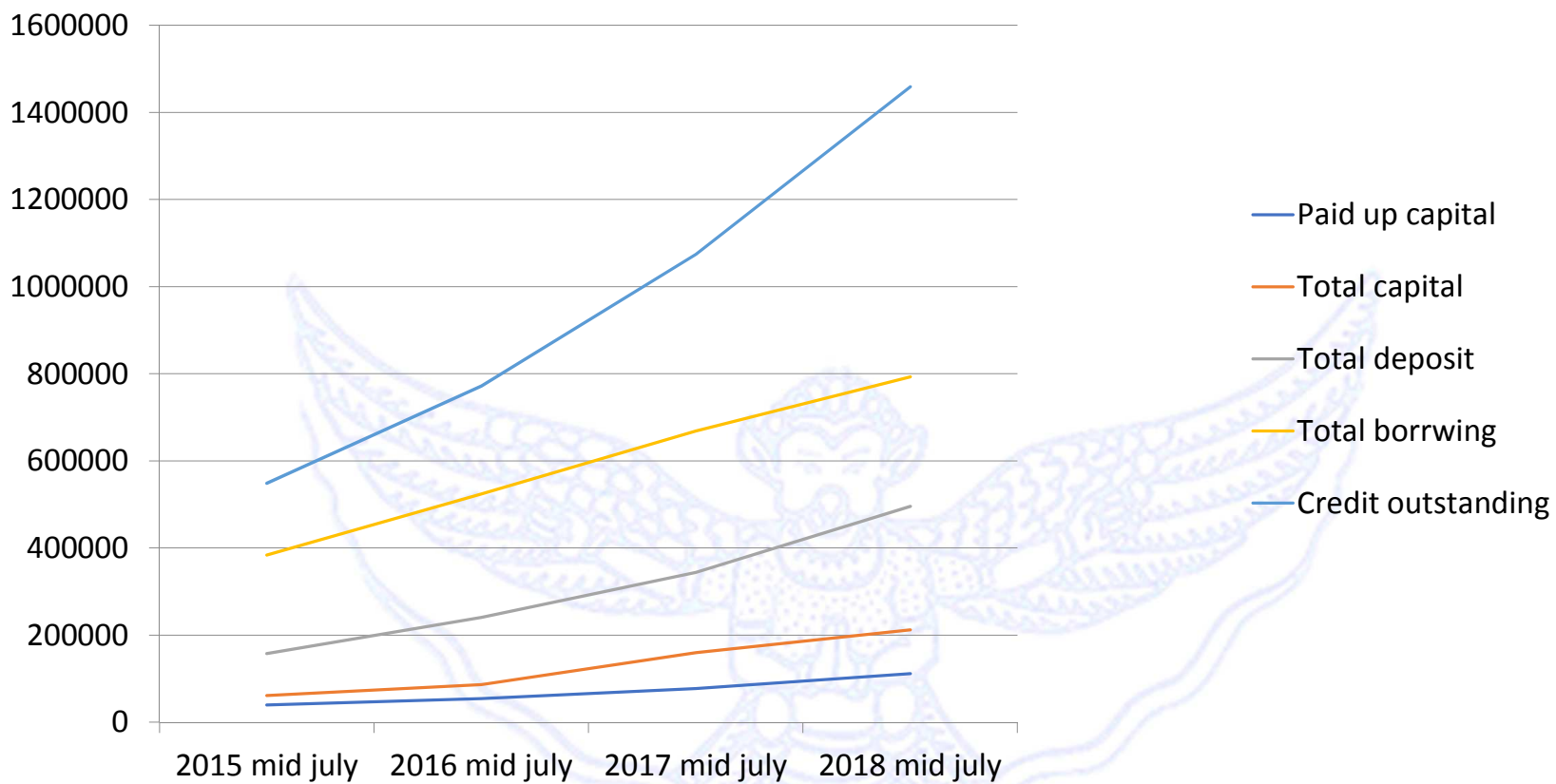
MFI's expansion *cont....*

Financial Indicator in percentage

S.No	Indicators	NRB directives	2073 Ashad	2074 Ashad	2075 Ashad
1	Core capital / risk weighted assets	4	12.91	13	12.65
2	Capital fund/ risk weighted assets	8	13.86	13.99	13.69
3	NPL	Below 5	0.86	0.72	0.94
4	Lone loss provision/ total loan (Rs in lakh)		1,35,21	1,69,61	2,39,17
5	Credit as percentage of Deposit and borrowing ratio	Minimum 100 %t of borrowings	100.92	105.12	106.35
6	Liquid assets/ Total deposit and borrowing	Minimum 2.5	29.33	13.42	13.22
7	Financial Resources /core capital (Times)	30 times	11.30	7.54	7.75
8	Collateralized lone/ total loan	33.33 % maximum	9.27	9.73	11.48
9	Operating profit Rs. In Lakh		4,37,64	5,36,99	5,75,67
10	Net Profit in Rs. In Lakh		2,93,00	3,57,93	3,90,55



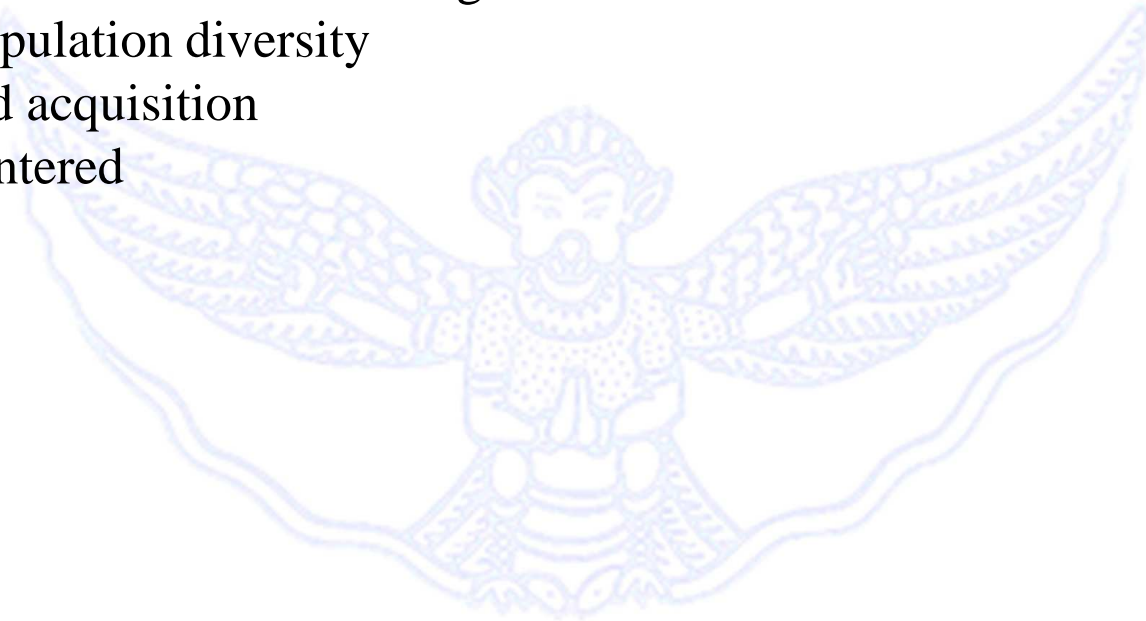
MFIs expansion *cont....*





Issues of MFI Industry

- Welfarist approach
- Interest rate caps, base rate and spread
- Over dependence on banking system
- Cost of outreach
- Barriers for conventional banking
- Uneven population diversity
- Merger and acquisition
- Women centered





Challenges of MFI Industry



- Encroachment of tough competition
- Resource constraint, saving borrowing and debenture - 30 times of CC
- Duplication and multiple borrowing
- FINGOs as promoter share holder of MFIs
- Staff retention
- Financial sustainability, outreach to the poor and stakeholder welfare
- City based, deviated from the ultra poor, centered to rich people
- Insufficient insurance facility
- Lack of credit information; reluctant, unable, weak enforcement
- Weak governance
- KYC – may understand as banking hassles
- Incompatibilities with modern IT system and technology
- Institutional capacity building
- Coercive method to get back money



