ONGOING EVALUATION OF
SMALL FARMER DEVELOPMENT BANK

JUNE, 2014

Nepal Evaluation Society
Kathmandu
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FOREWORDS

The microfinance sector has indeed received worldwide attention in recent years, particularly amongst the poor and developing nations. Microfinance is the provision of affordable financial services at the door steps of the poor and disadvantaged for enhancing their productive capacity and income earning opportunities to alleviate poverty. Microfinance services include savings, credit, micro insurance, remittance and fund transfer. Participation of women, loans to the poor and disadvantaged groups against group guarantee, repayment of small installments on fortnightly or monthly basis are the major features of microfinance. Microfinance sector in Nepal has grown significantly in the last 20 years. Employment generation, improvement in health and education, women empowerment and improvement in the socio-economic growth in families living below the poverty line can be illustrated as the major impact of microfinance services in Nepal.

Different people have different views when it comes to the history of microfinance in Nepal. Some state, it first came to existence in the year 1975 as a Small Farmers Development Program (SFDP) implemented by the Agricultural Development Bank Ltd (ADBL). SFDP was a first integrated and pro-poor targeted program to provide microcredit for income generating activities at the doorsteps of poor communities. There are even those who hold views that it came into being after the political change in 1990, when Grameen Bank Model's was adopted in Nepal. Professionals in cooperative sector claim that the first cooperative in Nepal was established in 1956 to provide rural financial services.

With the expansion and gradual development of SFDP, the need was realized to institutionalize ADBL managed Sub Project offices (SPOs) with the active participation of the targeted people. In 1985/1986, the Institutional Development Program (IDP) of SFDP was initiated to make the program cost effective and sustainable by involving the beneficiaries themselves. The targeted farmers were organized in three-tiered organizational structure: Small Farmer Groups (SFGs) with 5-12 members at the grass-root level, inter-group at the Ward level with the representation of two or more groups and main committee with the representation of all inter-groups to form Small Farmer Cooperative Ltd (SFACLs) at the Village Development Committee (VDC) level. After the transformation of SPOs into SFACLs, small farmers took over the responsibilities of managing the SPOs independently. As of July 2013, 324 SFACLs are providing financial and non-financial services to about 300,000 families in fifty districts of Nepal.

Need for a separate apex level institution to parent growing number of SFACLs was realized to provide financial and non-financial services to SFACLs. Consequently, the Small Framer Development Bank (SFDB) was established in 2001 with the objective of strengthening and expanding SFACLs in the country and to provide financial and non-financial services to the poor and disadvantaged groups.

During the Bank's 12 years of operation, it has been actively involved in promotion and strengthening of sustainable SFACLs and uplifting the socio-economic condition of the poor farmers residing in the rural Nepal. Bank's efforts are concentrated to promote and institution building of SFACLs. We believe that unless people in the communities play an active role, development becomes a conventional supply-driven approach that has long proved impractical. Participation in planning, organizing, decision making and evaluation of services of SFACLs' has empowered small farmers. Empirical evidences from the field showed exemplary economic progresses in the lives of small farmers and marginalized people such as Mushahars, Chepangs, Rautes, Danuwars, Domes, Chamars, Dhobis, Tamanags, Kamis, Damais and others from the services of SFDB and SFACLs in the different part of the country. SFDB not only provides financial services but also provides social mobilization, training and capacity building programs.

SFACL's systemic approach has gained almost two decades of experiences in microfinance. Our experience on promotion and strengthening of SFACLs suggest that, Nepal's economic prosperity is possible only if agriculture activities are modernized and commercialized with the active and collective participation of small farmers organized under the umbrella of SFACL and aim of building prosperous Nepal can be realized through active involvement of the small farmers.

In a country like ours where a majority of people are small farmers, the country can't prosper as a whole without their economic, social and educational development. In the last twelve years, the bank has initiated many innovative programs such as institutionalization of sustainable grass-root level institutions, expansion of services through farmer to farmer replication program and business expansion program, networking of SFACLs, expanding microfinance services in hills and mountains, diversification of funding sources, credit for increasing meat production and self-employment for the socio-economic betterment of small farmers.

To document and share our experiences, evaluate the performance for future improvements, the bank realized that there was a need for the ongoing evaluation of the program, independently. I am sure that, the study will show the way forward for designing and delivering credit plus microfinance services for improving well-being of small farmers

I would like to extend my special thanks to Nepal Evaluation Society (NES) and the study team leader Dr Champak Prasad Pokharel and Mr. Shreehari Dhungana for their utmost professional dedication in accomplishing the present task.

I sincerely thank to Mr. Nav Raj Simkhada, Microfinance and Banking Operation Specialist for providing his support to the study team. His expertise and in-depth knowledge in the field of microfinance, cooperative and SFACLs has substantially contributed to prepare this report. Thank goes also to senior managers of SKBBL- Mr. Jhalendra Bhattarai and Anju Pathak, Managers Mr. Krishna Aryal, Mr. Siva Hari Aryal and Mr. Liladhar Dhital, and other staff of SFDB for their contribution in the ongoing evaluation work.

Jalan Kumar Sharma
Chief Executive Officer
Sana Kisan Bikas Bank Limited
June, 2014

PREFACE

Micro Finance has been recognized worldwide as an effective intervention mechanism for alleviating poverty in rural areas. Most of the farmers being small in Nepal and poverty being high, a publicly managed micro credit: Small Farmers Development Program (SFDP) was launched nationwide starting mid 1970's. As an innovative succession for increasing the access of micro credit to small farmers in a sustainable way, SFDPs were gradually converted into Small Farmers Cooperatives Limited (SFACLs) since 1990s.

The Government and Agriculture Development Bank created Small Farmer Development Bank-SFDB (Sana Kisan Bikash Bank Limited) in 2001 as an autonomous wholesale lender institution for grooming, parenting and providing credit resources to SFACLs. The program has already been implemented for more than a decade. For future improvements, SFDB realized that there was a need for the ongoing evaluation of the program, independently. Nepal Evaluation Society (NES) is thankful to SFDB for entrusting us such an important study. We feel that this study will be helpful to SFDB and other stakeholders in further improving the program.

NES would like to thank SFDB for providing all the co-operations the study team needed in completing the study. NES is also thankful to Mr. Khem B. Pathak, the chairman of SFDB, for his encouragement during the interaction program and Mr. Jalan Kumar Sharma, the Chief Executive Officer, for his various insights and excellent supports in carrying out this study.

We would like to impart special words of gratitude to the study team leader Dr. Champak Prasad Pokharel and Mr. Shreehari Dhungana for their utmost professional dedication in accomplishing the present task.

This study owes highly also to Mr. Jahlendra Bhatrai, Senior Manager and Mr. Nav Raj Simkhada, Microfinance and Banking Operation Specialist for various feedbacks, information supports from SFDB and the arrangements for various interaction programs. Likewise, special thanks are imparted also to Ms. Anju Pathak, Senior Manager, Mr. Krishna Prasad Lamichhane, Co-ordinator Livestock Credit, Mr. Siva Hari Adryal, Manager-HR Section and Mr. Liladhar Dhital, Manager -Account Section for helping the study team by promptly making MIS and other related information available. Besides, we would like to record appreciations to all the staff of SFACLs, and area offices for their effective co-operations during the study. Finally, we thank all others who have contributed in logistics and others in making this study successful.

NES is dedicated to flourishing evaluation culture in the country. We will be pleased to be a part of such efforts, also in future.

Subarna Lal Shrestha
(Secretary General)
Nepal Evaluation Society

ABBREVIATION

ADB	Asian Development Bank
ADBL	Agriculture Development Bank Ltd
AES	Animal Evaluation Sub-committee
AGM	Annual General Meeting
AO	Area Office
APROSC	Agricultural Projects Services Centre
Aus AID	Australian Agency for International Development
BAFIA	Bank and Financial Institutions Act
BoDs	Board of directors
CAR	Capital Adequacy Ratio
CBO	Community Based Organization
CBS	Central Bureau of Statistics
CBS	Central Bureau of Statistics Nepal
CDR	Central Development Region
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CGAP-IFAD	Consultative Group to Assist the Poor -International Fund for Agricultural Development
CGISP	Community Ground Water Irrigation Project
CICTAB	Center for International Cooperative Training in Agriculture Banking
CIDA	Canadian International Development Agency
CTEVT	Center for Technical Education and Vocational Training
CUMI	Credit Union Microfinance Innovation
DDC	District Development Committee
EDR	Eastern Development Region
EMBA.	Executive Master in Business Administration
FCGO	Financial Comptroller General's Office
FI	Financial Institution
FINGO	Financial Intermediary Non Government Organizations
FNCCI	Federation of Nepal Chambers of Commerce and Industries
FMDB	First Micro Finance Development Bank
FWDR	Far Western Development Region
GA	General Assembly
GDP	Gross Domestic Product
GIZ	German Development Cooperation
HDI	Human Development Index
IBP	Intensive Banking Program
IDP	Institutional Development Program
IGs	Inter-Groups
INGO	International Non Government Organization
IPO	Initial Public Offering
JICA	Japanese International Cooperation Agency
LLRF	Loan Loss Reserve Fund
LRSC	Land Reform Saving Corporation
MC	Main Committee
MCPW	Micro Credit Project for Women
MFDBs	Microfinance Development Banks
MFIs	Microfinance Institution
MIS	Management Information System
MLD	Ministry of Local Development

MoAC	Ministry of Agriculture and Cooperative
MWDR	Midwestern Development Region
MWDR	Mid Western Development Region
NAS	Nepal Accounting Standards
NCB	National cooperative Bank
NCBL	National Cooperative Bank Limited
NEAT	Nepal Economic, Agriculture, and Trade Activity
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Ltd
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
NGOs	Non Governmental Organizations
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission
NPL	Non Performing Loan
NRB	Nepal Rastra Bank
PACT	Project for Agriculture Commercialization and Trade
PAF	Poverty Alleviation Fund
PAPWET	Poverty Alleviation Project in Western Terai
PCRW	Production Credit for Rural Women
PEARLS	Protection, Effective Financial Structure, Asset Quality , Rates of Return and Costs, Liquidity, Signs of Growth
PEs	Public Enterprises
PIU	Personnel Information Unit
PRSP	Poverty Reduction Strategy Paper
PSL	Priority Sector Lending
RFSDCP	Finance Sector Development Cluster Program
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self-reliance Fund
RUFIN	Rural Finance Nepal
SAARC	South Asian Agreement for Regional Co-operation
SAE	Small Area Estimation
SAEP	Small Area Estimation of Poverty
SACCOS	Saving and Credit Credit Co-operatives Societies
SCC	Saving and Credit Cooperatives
SFACL	Small Farmers Agriculture Cooperatives Limited
SFDB	Small Farmer Development Bank
SFDP	Small Farmer Development Program
SFG	Small Farmer Groups
SKKB	Sana Kisan Bank
SPO	Sub Project Offices
SWOT	Strengths, Weaknesses, Opportunities and Threats
TA	Technical Assistance
TLDP	Third Livestock Development Project
UNDP	United Nations Development Program
USAID	U.S. Agency For International Development
USD	United States Dollar
VDC	Village Development Committee
WB	World Bank
WDR	Western development Region
WSFCLs	Women Small Farmers Cooperatives limited
WTO	World Trade Organization
YSEF	Youth Self Employment Fund
YSESF	Youth and Small Entrepreneurs Self-employment Fund

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EXECUTIVE SUMMARY

Out of the total population of 26.5 million (2011) in the country, 83% live in the rural area. Nearly three fourth of the Farmers of Nepal are small with 60 % of the families producing inadequate food to meet the family need. Ecologically, population in Mountain, Hills and Terai are 7%, 43% and 50%, respectively. Close to half (44%) of the districts in the country are facing food scarcity due to low productivity of land, problem of access (transportation), lack of irrigation facility and constraints to other inputs. Most of such districts (82%) fall in mountain and hilly regions. Recent survey (NLSS III, 2010/11) indicates that 25.2% people in Nepal, 15.5% in urban area and 27.4% in rural area are living below the poverty line. Similarly, poverty incidence rates in Mountains, Hills and Terai are 42.3%, 24.3% and 23.4%, respectively. Among development regions, poverty in Mid-western and Far-western regions are among the highest incidence rates, as high as 31.7% and 45.6%, respectively.

Major sources of household loan in rural area are still from relatives and moneylenders (69% in 2010/11, as per NLSS III). There are 76 MFIs licensed by Central Bank as of July 2012. Among them, microfinance directly targeted to poor families has been extended majorly by 23 MFIs. Excluding saving and credit co-operatives, about 34% of the households are covered by the Central Bank licensed MFIs. They have covered 59 districts, so far. Families covered are 1.84 million with about three fourth of them borrowing from Microfinance Institutions (MFIs). The savings collection of the MFIs has reached to Rs 4.5 billion by 2012. Disbursement of the loan stands at Rs 22.3 billion in a year. The market share of Small Farmer Development Bank (SFDB) is 13% of credit disbursement by MFIs. In addition to NRB licensed MFIs, there exist more than 11 thousands saving and credit co-operatives registered with Department of Cooperatives by 2012. However, their lending is not necessarily confined to small borrowers. Likewise, Bank and Financial Institutions being largely centered in urban areas or emerging urban towns, their contribution in household loan in rural area is expected to be less than 20% and the credit could go to any type of borrowers.

Public sector efforts in microfinance in Nepal dates back to mid 1950s starting with the Government support to cooperative movement. In a gradual move, Agriculture Development Bank Nepal (ADBN) was established in 1968 to address directly to the need of farm credits. Starting 1974, Nepal Rastra Bank (NRB) started directing Commercial Banks to lend some portion of their deposit in small sectors called priority sector. Starting with 5% in 1974, it was raised to 12% by 1989 with 3% to be lent in the deprived sector. Likewise, the Government initiated Small Farmer Development Program (SFDP) in 1975 through ADBN. Nepal Rastra Bank (NRB) – the central bank of Nepal also initiated Grameen Bank in early 1990s in the model of Grameen Bank System of Bangladesh. In 1991, the Government and NRB created a "Rural Self-reliance Fund" (RSRF) for providing wholesale credit to saving and Credit Cooperatives (SCCs) and NGOs working for deprived groups to generate employment and improve the economic status in rural areas. Multiple Complementary credit programs were also implemented under different projects in the decade of 1990s.

Private sector entry in microfinance started in early 1990's as Grameen Bank Replicator and has ever been growing under multiple modalities. MFIs have been using specific approaches to reduce transaction costs and deal with collateral issues, through group approach, learning by doing adoptions, wholesale lending to local institutions etc. Microfinance these days is seen as an effective weapon against poverty and hunger, and Nepal also considers microfinance program as one of the strategies to fight against poverty. The Government, the Central Bank, NGOs, MFIs (both public and private), Poverty Alleviation Fund (PAF), Banks (both private and public), Co-operatives (saving and credit and other cooperatives providing financial services), community based organizations and other private sector organizations are involved in microfinance sector. At present, SFDB is one of the players in this field.

The Governments and NRB have promoted MFIs such as Grameen Banks, SFDB, RMDC, RSRF and PAF. NRB through its monitory policy has directed commercial banks, development banks and finance companies for a mandatory allocation of fund in microfinance sector. The Central Bank's directive to financial institutions for channelizing their lending to deprived sector currently stands at 4 % of total lending for commercial banks, 3.5 % for development banks and 2.5 % for finance companies. In recent years, some large banks have also started exploring the possibility of entering into microfinance activities. Despite numerous financial institutions established in the last decade, repelling nature to go to rural areas to small holders due to high cost of operation has still been a major constraint.

ADBN (currently ADBL) implemented Small Farmer Development Program (SFDP) directly through Sub Project Offices (SPOs) in different parts of the country to provide financial and non-financial services to small and marginal farmers. SFDP had expanded to all 75 districts by 1988. However, they were not found sustainable due to high defaults rate and high cost of operations. Reforms were initiated with the technical support from GTZ since 1987. The SPOs were converted into 'Small Farmers Co-Operative Limited' (SFACLs), on a gradual basis. They were designed as a fully members owned and managed community based co-operatives and were registered under the Cooperative Act 1992. SFDB was established by ADBL in 2001/2 with the initial support from the Government to provide financial support to SFACLs.

SFDB Started lending to small farmers in agriculture, small trade and other small enterprises through SFACLs from fiscal year 2002/03. In its initial stage, it started operation from three Ilaka (Area) Offices. By now, it has established eight Area Offices (AOs) in different part of the country with five in Terai, one in inner Terai, and two in hills. AOs are more concentrated in eastern and central regions. Far western region and mountain belt do not have any office, yet. In a gradual move of SFDB, the number of SFACLs/MFIs served by it by mid July 2012 reached to 291 (along with 24 Cooperatives other than SFACLs) from 58 in 2002/03, with an annual growth rate of 19.6%. Least developed pockets, hills and mountain districts received less emphasis, with exception of Midwestern region that came into more attention in the last five years (2008-12). The strategy has shifted to increase the outreach in less developed hills and mountains starting from 2011 under the support of the Asian Development Bank's (ADB) Rural Finance Sector Development Cluster Program (RFSDCP) Sub Program -II (2011-14) that has laid target to provide microfinance services to additional 20,000 low income families of those areas.

SFDB has promoted group approach and has emphasized the involvement of women both in credit deliveries in the membership of SFACLs. Both the male and females are in the leadership position. SFDB promoted SFACLs and MFIs covered 49 districts and more than 370 VDCs by 2012. SFDB has started replicating women only SFACLs which are 73 by July 2012. Total farm families served by now have reached to 230 thousand. Outstanding credit has reached to Rs 2.676 billion. GIZ, Asian Development Bank and some other external partners have also contributed significantly in the overall growth of SFDB. The presence of SFDB was limited in hills and mountains till 2011/12. It considerably increased in 2012/13. Expanding service in such areas is a national need.

There have been multiple studies in the last two decades on SFACLs approach to microfinance in Nepal. The studies have found SFACLs as a viable approach for reaching to small farmers. RFSDCP Sub Program I (2005-10) support realized a need for restructuring SFACLs to promote them as a member managed sustainable financial institutions. Phase II (2011-14) project document of ADB noted that even after four decades of microfinance services, the poor and underprivileged families of the hills and mountains were still deprived of microfinance services.

The study Team has collected data from three sources i.e. (i) SFDB Head Office (ii) Secondary data from the published sources and, (iii) spot visit of some of the SFACLs and AOs. The progress track of SFACLs has been analyzed also against the counter factuals. Analysis is focused more to the aspects of effectiveness, relevancy, efficiency, rationality of decision making and suitability. The key parameters like loans and advances, revenue generation, cost and profit performances of SFDB as a whole and of AOs, loan loss provisions, resource mobilization, institutional aspects, and capacity buildings have received due attention in the analysis. The study also consulted all the external annual audit reports of SFDB for the period 2002-12.

Commercialization in agriculture and development of agro enterprise are enhanced after the liberalization in 1990s. High value horticulture crops have expanded fast at about 7 % a year over the last decade. Milk and meat is growing at medium rate, 3-4 % a year. These have expanded the potential for microfinance in both the fund flow and use of new knowledge in increasing production. Donor organizations have been very supportive in enhancing microfinance in the country. Monitory Policy 2013 has introduced additional facilitations for opening MFIs in the districts of less access of financial institutions.

Adjusting mission, vision, objectives and functions as demanded by time is a fundamental basis for dynamism of any institution. SFDB has adjusted them over time. However, a potential duplication of works with other institutions should also be a matter of policy concern in SFDB. It was reported that some SFACLs created by SFDB are borrowing also from other financial institutions. Reasons for borrowing from other sources need to be identified to stop the evaporation of the potential market, avoid likely duplication of the efforts with other public sector promoted wholesale lenders in MFIs and discourage the potential practice of unduly dragging the clients by others.

Outstanding loan of SFDB was Rs 2.67 billion in 2012. SFDB had outreached to 230 thousand members /families and 135 thousand borrowers by mid July 2012. ADB is a major source of funding for additional lending resources and capacity building for them. SFDB has been presently lending and promoting basically to SFACLs (constitutes 92% of the institutions promoted) and other co-operatives (8%). Total resource flow by SFDB to SFACLs has to be clear and reserved in principle to exceed at least some thresh hold proportion all the time to maintain a balance of being a promoter of SFACLs and the diversification of the portfolio by including also the non SFACLs. Otherwise, there will be some possibility of drifting the institution, in due course, from its very objective of creating and promoting SFACLs.

Keeping the management slim seems to be the direction adopted by SFDB, which also gets reflected in their staffing strength. However, excessive slimness seems to have over pressurized the staff to lead to compromise the monitoring part at the centre and the field level. There is inadequacy of staff and several current staff are temporary and are hired from externals sources. This should get immediate attention for the healthier growth of the institution. Staffing in view of departmentalization should also be initiated in the institution. Transfers of staff at the field level have occurred generally in about three to four years, implying a reasonable stability in the staff in the AOs.

SFDB had been somewhat slow in the past in developing sufficient IT facilities. With ADB supports under -RFSDCP-II (2011-14), they are improving. A certain percentage of profit should be continuously earmarked for the internal capacity enhancement and IT facility development in the offices. This will help in reducing the operating cost. Not having own building has also hindered the motivation for investment in the establishment of facilities.

SFDB has set up a separate MIS section. GIZ and ADB supports had been crucial to arrive at the present form of MIS system, grading of SFACLs and improving their reporting. The process for online linkage between SFDB and its AOs is planned under the current ADB TA. Online linkage between SFACLs and AOs has also been felt necessary to strengthen the reporting and monitoring system.

When SFDB was created in 2001/02, the paid up capital was of Rs 98.7 Million. By 2012, it increased to Rs 140 million. 231 SFACLs have entered as promoter owner of SFDB with their ownership of 55% by July 2012 (the equity will increase to 20 million after the IPO of 2013 and SFACLs ownership will be adjusted accordingly , as the general public share of 30% will be added in the capital). The Government's stake has already been divested.

Average rate of profit over 2002-12 stood at 9.5 %. As the average rate of inflation (GDP deflator) stands at about 8.2 % a year, SFDB has been already able to provide a positive real rate of interest of around 1.3% a year and speed of improvement in the later parts is much faster. The book value of the share of SFDB has been rising gradually. While it was Rs 150.4 per share (of a share of Rs 100) in 2003/4, it increased to Rs 349 in 2012 (it is Rs 515 in

2013 as per unaudited data) with an annual rate of growth of 11.1% per year in the current price during 2004-12. This rate is considerably higher than the market rate of interest. Also the preliminary financial performance data of SFDB for 2013 indicates that most of the parameters have moved favorably. Net worth per share, loan disbursement and collections, profit, total assets and SFACL creations indicated high growths.

The profit status indicates that SFDB has gone through three phases of growth over the time: consolidation phase, take off and current high growth phase. The consolidation phase had taken longer period up to six years. The average profit per share had increased gradually from 0.6 % per year (nominal) in first six years (2002-7) to 10 % per year in three years during year 7 to year 9, and 27.5% per year in last three years (2009/10 to -2011/12. The rate of profit in 2011/12 was high about 45% indicating a real rate of interest of 36 % after adjusting for the inflation of about 9% a year. However, this has to be interpreted cautiously as SFDB had not entered into IPO till 2012. The profit per share ballooned up in the later years also due to earning effect of the transferred reserves than actual increase in the internal capacity of SFDB. The high rate profit is likely to fall if the equity shares are over diluted through issues of bonus shares without enhancing the internal management capacity of SFDB.

Policy strictness towards more recovery of loan and frequent payment policy (monthly to three monthly) had led to faster increase in the recovery. However, the growth in credit in later period 2009-2012 had picked up faster compared to the growth rate in recovery, basically due to nature of medium term loan of meat portfolio introduced during the period. However, in recent years, there is a trend of gradual closeness of loan disbursement with loan outstanding indicating that the loan disbursed is kept-up at the on-going approved level either due to higher demand and/or to fill in the repayment gap through a new borrowing. For more clarity, the corresponding portfolio of the SFACLs lending to farmers should be analyzed, separately.

The core capital issue should get special attention not to let the over constrained situation emerged like in 2011. The current temporarily relaxed situation after entering into the IPO in 2013 should not get overlooked. The capital addition should be a regular policy, at least at a norm more than the rate of inflation plus the real rate of credit growth. Given the faster growth in the demand of credit from SFDB, there is a need for reducing external dependency and future stakes for funds availability. For that SFDB should look at increasing resources from within the internal structure and should lobby the Government to liberalize market options, accordingly. SFDB has recently extended its services also to other cooperatives (24 by 2012). Given the internally deeply rooted different structure of those co-operatives created with different framework, more cautious approach is suggested as credit flow to them could get easily politicized beyond the serving capacity and the risk tolerance range of SFDB

SFDB has mandated the AOs also to develop a separate balance sheet up to net income level (before bonus and taxes). This has promoted sustainability discipline in the AOs, facilitated the flow of vital information from the field level to the centre, and strengthened the internal monitoring. The balance sheet of the AOs indicates that they have all reached now to profit level. However, performance fluctuated considerably between positive and negative profit level, in case of some. The loss making years were related to either high loan loss provisions or high interest expenses.

From the point of view of autonomy in operation from the Government, SFDB can be influenced only in a limited extent (through ADBL) in the Board. However, a roundabout twist cannot be denied due to funding dependency on the Government under deprived sector lending, as SFDB cannot raise deposit and as most of its fund comes through the Government, either as direct lending or from donors' fund channeled through the Ministry of Finance. Strategy for getting out of dependency from the Government for funding source is important for the longer term health of the institution by arranging also own deposit sources.

The outstanding borrowing has started exceeding the outstanding lending from the middle of 2011 due to aggressive arrangement for credit fund through the Government. Possibly, an expectation got raised by sudden jump in demand for loan in 2011 and 2012. However, the strategy has also lead to high risk exposure to the rise in interest expenses compared to the earning. SFDB does not have a system of ongoing credit growth tracking and fund arrangement signaling to the management, in advance, like in modern banks and relies still on traditional approach of yearly budget driven practice. There is a need for providing training exposure to credit sector staff on such aspects.

By Design, SFDB has been the main centre for credit feeder, an advocate and promoter of SFACLs. SFDB lending is not subsidized except on the portfolio of special program subsidized by the Government. In the Government subsidized programs, SFDB and SFACLs lower the rates, accordingly. By 2013, SFDB has reached to 391 SFACLs/MFIs and has served 323 thousand members. SFACLs/ MFIs served in hills and mountains reached to 43% with a faster increase from 32% in 2012. Female members constitute about two third. SFACLs managers interacted in different occasions viewed that their funding needs were met reasonably, and dealing with a single institution had helped in smoothening operational modality of borrowing, repayment and lending. However, they felt that overall facilitations imparted were less optimal due to staff shortages in the AOs.

Portfolio record in SFDB indicates that by 2012, 73% of the credit flow was in general microfinance, 24 percent in animal husbandry and 3.1 % in youth self-employment. The loan overdue is low and collection is very high (more then 98%) in all the hills, mountains and Terai. SFACLs have remained very active in both borrowing from and repaying to SFDB. Out of 267 SFACLs in 2012, the numbers of SFACLs borrowing or with outstanding loan from SFDB were more than 87%. Those with overdue loan were 8% and the Interest receivables were only 1.5%.

Starting 2010, SFDB also implemented two programs of the Government (a) Meat Animal Production Program with an aim to curtail the national import of meat and (b) Youth and Small Entrepreneurs Self-employment Fund (YSESF) Program to promote employment among the youths. Within one and half years (July 2012), SFDB disbursed Rs 640 million in meet portfolio. Given the progress of the meat portfolio, the Government increased the total earmarked fund to Rs 1.5 billion in

2013. There is no overdue loan in the program. About 23000 families already benefitted by the middle of 2012/13. However, the progress in the Youth and Small Entrepreneurs Self-employment Fund (YSESF) is slow due to public sector policy constraints of conditionality.

SFDB has been very innovative in further developing SFACL model of microcredit inherited from ADBL. The institutional hierarchy structure designed follows a democratic approach and is largely similar to the framework adopted in the formation of Village Development Committee (Local Government) in rural areas of Nepal. It is getting popularity as an acceptable model, as the institution is managed by the farmers themselves. On persuasion aspects, however, some participating SFACLs express that the program is more aggressive in the quest of reducing the cost of forming and transferring the SFACL within a year. They recommend that it be made of two years. Currently, SFDB has taken a strategy of developing clusters of SFACLs to enhance access to microfinance and other services in a more cost effective way. The approach of mobilizing existing SFACLs in replicating similar institutions is also believed to enhance the efficiency and confidence in both the facilitator and newly created SFACLs.

SFDP has promoted livestock insurance program (Known as livestock security fund) at the co-operative level. It is a commendable work done by SFDB as one-fourth of the credits disbursed to co-operative members are in livestock, at present. Five percent of the evaluated price of an insured livestock is deposited as premium in a livestock insurance fund of a SFACL, and additional 5 percent is provided by the Government, as matching grant in the fund. The insurance covers up to 80% of the insured amount. By November 2012, about 60 thousand livestock population was insured.

SFDB has promoted also the women only SFACLs (WSFCLs) starting 2007/8. Such SFACLs are considered to be very helpful in the capacity building of women in rural areas. Within 5 years (by 2012 July), 73 women SFACLs were established. About a third of the WSFCLs created are in hills and nearly same proportion in mid and Far West. Currently, about 50 thousand women are involved in WSFCLs. This constitutes about 34 % of the total members in all SFACLs. The total credit flow to WSFCLs has reached to Rs 940.1 Million. They have also created internal resource of Rs 530.7 million.

SFDB was initially involved also in handling remittance business. Presently, this operation is fully transformed to SFACLs. Given the high flow of remittance in rural areas, SFDB should continue to encourage SFACLs in the remittance business as its flow through SFACLs will facilitate also in loan collection and in establishing closer relation with its members.

SFDB is expanding its microfinance services in selected hill and mountain districts with financial and technical support of ADB under Rural Finance Sector Development Cluster Program-II (RFSDCP-II). Three strategies have been adopted to expand microfinance services in the hills and mountains: (a) business expansion through capable SFACLs operating in the hills and mountains (b) replicating SFACL in the hills and mountains (c) expanding services through Savings and Credit Cooperatives (SCCs) and other MFIs. SFDB reformed the SFACLs under GIZ support starting 2001 till 2007 and ADB supports starting 2005. ADB support is still continued under RFSDCP-II till 2014. Starting 2008, SFDB has adopted a policy of grading SFACLs based on their economic conditions, performances and services provided and then intervenes them accordingly. Presently, SFDB has been reforming the SFACLs by mobilizing field trainers. SFDB restructured and strengthened 33 SFACLs in 2010/11; and additional 22 SFACLs in 2012.

There have been considerable efforts through various external supports for the capacity building of the internal staff of SFDB. More than 100 different training opportunities were made available to them. SFDB has also been organizing training and seminars for capacity development of SFACLs in different areas. In 2011/12, SFDB had organized 240 training and seminars from which about 8500 members from various SFACLs have benefitted. Trainings are organized mostly by outsourcing. Since SFDB is required to groom SFACLs, training remains high priority activity of SFDB. But, lack of own training facilities constrains it.

Complementary social development and community services are also equally important for successful utilization of microfinance. In 2011-12, SFDB provided cash assistance of Rs 5.0 million to SFACLs in implementing 162 different community development activities. The programs benefitted about 75 thousand families. Work done was equivalent to Rs 52.3 million with 85.1% of it being on community building and training hall constructions followed by 7.6% in convenient toilet constructions and rests the others. SFDB's contribution to total work done accounted 9.5% to 10%. The rest came from local participation, which is encouraging. Due to limited staff strength, the capacity of SFDB in imparting other community development supports to SFACLs is, however, majorly symbolic.

There has been a satisfactory progress of SFACLs. In current prices, the outstanding loan of SFACLs to the farmers has increased by about 27.8 % a year over the last four years and that of SFDB to SFACLs has increased by 16.7% a year. Likewise, the internal resource mobilization of SFACLs grew at 44.3% a year. Even after considering the rate of inflation of about 7-8 % a year, all the growths are highly impressive. Other major performance indexes of SFACLs such as group formation, membership drive, women SFACL creation, group saving, share capital generation, business and outreach expansion and increase in the proportion of profit making institution have all indicated high level performance. However, in 2011, about 13 % of the SFACLs had income exceeding expenditure only by 10%, implying that their profit level is likely to be less than the rate of inflation, leading to the erosion in the wealth of the investors. SFACLs not capable of generating profit 10 % to 12% higher than the rate of inflation in the developing countries like ours should undergo the system improvement, in general.

SFDB loan to SFACLs stood only about one third of their total outstanding loan and the expansion in credit by SFACLs has been much more than the fund injected by SFDB. Over indebtedness was not, however, the indication as the internal resource generation of SFACL was even faster than the increase in outstanding loan. This implied that SFDB loans to SFACLs have been helpful also to enhance internal resource formation of SFACLs and generation of saving by farmers. From policy perspective, this is important from the point of view of institutional sustainability of SFACLs.

Analysis of 213 SFACLs which completed three years in 2010/11 reflected that 87.6% of them were active with loan outstanding in SFDB and 93 % of those did not have any loan over due. Analysis reflected that 94.3% of SFACLs were in A/B grade ('B' being good with score 60% to less than 80% and 'A' very good with score more than 80%). The institutions had similar performance level in both hills and Terai, when analyzed, ecologically. By development regions, eastern region had 86 % of the institutions in A/B grade. The rest of the regions had 94% or more. If only 'A' graders which are categorized to be of very good level is considered as an acceptable target, still more than one third of the SFACLs have to undergo reforms. More of such reforms needed SFACLs fall in Terai.

The progress track of SFACLs against their counter factual in 2005/6 indicated that 93.7% of the institutions (30 % in hills and 45 % in Terai) which were at unsatisfactory level in 2005/6 had reached to very good or good level by 2011. There was no institution in poor (D) category any more. However, there were two institutions whose performance fell down from Grade A to B and C, respectively. Likewise, 13 institutions in grade B in 2005/ could not improve, though they did not fall down to grade C or grade D. Under Current grading system of SFACLs adopted by SFDB, some SFACLs which were in loss also appear under grade A and grade B by superseding the performance score of those who are in profit. There is a need for improving the current grading system. Though mostly in profit, about 15% SFACLs have weak financial and institutional health and some have high delinquency rate. Still about 4% SFACLs which already completed three years in 2011 were in total loss. SFDB had been slow in providing training and technical support to improve the efficiency of the weaker sections of the clients due to its institutional capacity constraint.

Given rising competition in the market, SFDB need to expand additional outreach. There could be four prong strategie that SFDB could play in expanding its lending market (i) deepening and expanding outreach in the current lending (ii) creating new SFACLs (iii) reforming other saving and credit co-operatives to fit to SFACLs (iv) expanding outreach to other MFIs. Challenge to SFDB in entering into non SFACLs MFIs is that it may lead to faster rise in the cost of operation in improving them and could also create undue competition with similar other public sector institutions. A wider involvement could also lead towards drifting away from the very objective of creating SFDB. If it embraces other MFIs, it should be for the purpose of deepening the outreach with the strategy of bringing them within SFACLs framework, in a time bound manner

Private sector commercial banks are opting to enter into micro credit sector through two prong approaches (a) raising deposit and providing credit also locally through own internal mobilization and (b) through subsidiary. Development banks may follow the suit. SFDB should be well alert of such potential threat in the market in accessing fund from commercial and development banks for expanding credit, in future. SFDB should develop a strategic approach for raising deposit also from the market by persuading NRB and the Government for the policy change.

Globalization may affect the financial sector of the country more intensely, in future. More competition may appear externally, through subsidiaries. As Nepal is a member of WTO, the Government may also get pressurized to liberalize the market by removing undue protection in credit sub-sector and remove preferential treatment to a particular institution. To combat such future threats, SFDB should always try to make it more competitive with least dependence on favors.

INTRODUCTION AND OBECTIVES OF THE STUDY

1.1 Country Status

1. Nepal is a least developed country with per capita income $742 in 2012. It is mainly agriculture economy. Contribution of Agriculture to GDP is 35% (2012). While two third (66%) of economically active population are engaged in agriculture sector, about 80% of total population are dependent on it. Likewise, almost two third industries are based on agriculture. Economic growth rate of the country was 4.6% in 2012, at basic price, and Agriculture and Non-Agriculture Sectors GDP growth rate were 4.9% and 4.3%, respectively. As industrial sector is small (7% share in GDP), and service sector is confined in urban areas, agriculture sector is pivotal in creating employment opportunity, poverty alleviation and accelerating economic growth of the country.

2. Nepal is a multi ethnic country with total population of 26.5 million in 2011 (excluding 1.9 million migrants working abroad, as laborers). Among them, 83% live in rural area. Administratively, there are 5 development regions (East, Central, West, Mid West and Far-west), 14 zones and 75 districts in the country. Use of zones is, however, rare for administrative purposes. There are 75 district development committees (DDCs), 58 municipalities and 3915 Village Development Committees (VDCs) as the local level political entities. Ecologically, the country constitutes three belts: Mountains, Hills and Terai (plain). Spatially, the country is mostly hilly with 55 districts and 2550 VDCs in Mountains and hilly regions. Population in Mountains, Hills and Terai are 7%, 43% and 50%, respectively. Close to half (44%) of the districts in the country are facing food scarcity due to low productivity of land, problem of access (transportation), lack of irrigation facility and constraints to other inputs. Among them, most of the districts (82%) and VDCs (63%) fall in mountains and hilly region of the country (CBS data base 2011).

3. Recent survey (NLSS III, 2010/11) indicates that 25.2% people in Nepal, 15.5% in urban area and 27.4% in rural area are living below the poverty line. As indicated in Table 1.1 and Annex Tables 1, 2 and 3, poverty incidence rates in Mountains, Hills and Terai regions were 42.3%, 24.3% and 23.4%, respectively. Among development regions, poverty in Mid-western and Far-western regions were among the highest incidence rates, as high as 31.7% and 45.6%, respectively. Other regions had the incidence within

Table1. 1 Some Socio Economic Status of Nepal

Ecological Belts	Total Number of Districts	Number of VDCs (Nepal)	Number of Munici-palities (Nepal)	Population, 2011 (Nepal) Million	Number of Household 2011 (Nepal) 000	Poverty Incidence Rate 20010/11(Nepal)	Number of District with Food Deficit in 2011 (Nepal)	Number of Least Developed District (Poorest one third dis-tricts in the country	Number of Least Developed one third District (based on HDI *	Number of Districts with Poor Population above 33.5% *
Mountains	16	543	2	1.78	364.1	42.27	10	9	10	14
Hills	39	2007	27	11.39	2534.4	24.32	17	11	10	34
Tarai	20	1365	29	13.32	2528.8	23.44	6	5	5	7
Grand Total	75	3915	58	26.49	5427.3	25.16 (Urban: 15.5%; Rural: 27.4%)	33	25	25	55

Source: Figures with stars (*) from Small Areas Survey, CBS, 2007. Others: Population Census 2011, and NLSS 2010/11

21% to 22%. Poverty gap is also the highest in Far-western development region (10.7%) followed by Mid-western (7.7%), Central (5%), Western (4.3%) and Eastern region (3.8%). Out of total poor 88.3% are in hills and mountains. Based on 28 socio-economic development indicators, Central Bureau of Statistics (CBS) has categorized 75 districts into three groups in 2003/4 in relative sense as most developed, intermediate and least developed districts with 25 districts in each group. In the group of least developed districts, 80% fall in Mountains and Hilly regions. Likewise, 68% fall in Mid-western and Far-western development regions. Due to low productivity in agriculture sector, farmers have low level of income and saving that lead to lack of resources for investment. Nearly three fourth of the Farmers of Nepal are small. They need financial support to increase productivity in agriculture and other social complementary support to improve overall lively hood and to alleviate their poverty at faster rate. Numbers of districts with poverty level more than 33.5% were 55 in 2004. High poverty and low Human Development Index (HDI) concentrated in Midwestern and Far-western regions and in hills and mountains.

4. Major sources of household loan in rural area are still from relatives and moneylenders (69% in 2010/11, as per NLSS III). Households are borrowing only 25% of total loan for business and farm management purpose. Remaining 75% loan is for consumption and other personal purposes. Excluding saving and credit co-operatives, about 34% of the households are currently covered by

Table 1.2 Growths of Financial Institutions in the Country, 2002-2012

Ecological Types of Financial Institutions	Mid –July								
	2000	2005	2006	2007	2008	2009	2010	2011	2012
Commercial Banks	13	17	18	20	25	26	27	31	32
Development Banks	7	26	28	38	58	63	79	87	88
Finance Companies	45	60	70	74	78	77	79	79	69
Micro-finance Development Banks	7	11	11	12	12	15	18	21	24
Saving & Credit Co-operatives (Limited Banking Activities)	19	20	19	17	16	16	15	16	16
NGOs (Financial Intermediaries)	7	47	47	47	46	45	45	38	36
Total	98	181	193	208	235	242	263	272	265

Source: Banking and Financial Statistics, Nepal Rastra Bank, July 2012

Microfinance Institutions (MFIs) (Thapa, Microfinance Summit, 2012). Bank and Financial Institutions being majorly centered in urban area or emerging urban towns, their contribution in household loan in rural area is expected to be less than 20%.

5. Financial sector has grown fast in the country in the last decade (9% annual growth in number of institutions, Table 1.2). The financial system has reached to the deposit of more than Rs 1077 billion and lending of more than Rs 794 by mid July 2012. The share of microfinance institutions licensed by central bank is 0.5 % in the deposit and 2.2 % in lending. Due to high demand of loan followed by low savings in rural areas, microfinance sector lending is more than 4 times its deposit and thus, needs specific supports from policy level for making funds available for them. There were 1036 branches of financial institutions in the country in 2012 and among them, 837 (81%) were in SFDB program districts (Annex Tables 4 and 5).

1.2 Importance of Micro Finance and Institutional Innovation in the Country

6. Microfinance is conceptually meant to help improve the productive capacity, income earning opportunities and livelihood of weaker section of the society by focusing to alleviate poverty through provisioning of financial access to enhance their potential capacity.

7. There exists high indebtedness in rural area due to high demand for credit for farming and consumption, high interest rate of moneylender, use of larger part of loan in consumption, low level of input and output in agriculture, low level of income, lack of knowledge in mobilization of savings and lack of enough financial and technical support from other external sources. In this context, micro-finance providers can play vital role in saving mobilization, income generation, portfolio management, raising productivity in agriculture and the income of farmers. They can contribute

to relief the poor from indebtedness and alleviate poverty by providing them financial, technical and other capacity building supports.

8. Public sector efforts in microfinance in Nepal dates back to mid fifties starting with the government support to cooperative movement and establishment of Co-operative department in 1953. The credit co-operatives were initiated for assisting Rapti Resettlement program in 1956. However, there was no institutional set-up in the country to provide agriculture credit. Co-operative Act was first promulgated in 1959. The government took initiative also in creating co-operatives. The government formally laid its formal institutional presence for agriculture credit delivery in 1963, with the establishment of a Co-operative Bank. The major role of the bank was to provide credit to the co-operatives created by the government. There was also another move during the same period though Land Reform Program. The program was executed in 1964 and a Land Reform Saving Corporation (LRSC) was also established to provide additional credit in agriculture by collecting deposits from the farmers from each ward of VDCs. Later in 1968, the Co-operative Bank was dissolved by establishing Agriculture Development Bank. Likewise, in 1973, LRSC was also merged with Agriculture Development Bank.[1]

9. The Nepal Rastra Bank (NRB) initiated Small Sector Lending in 1974 by directing commercial banks (CBs) to invest 5% of their deposit in Small Sector. This was named as 'Priority Sector Lending' (PSL). There was realization that the general framework of agriculture credit was unable to trickle down to poorest of the poor farmers while there were more than three fourth of the farmers are small and about half of the farmers in the country had holding of less than half hectare. Poverty line was closer to 50%. To address the credit access to poorest of the poor farmers, Small Farmer Development Program (SFDP) was initiated in 1975 through Agriculture Development Bank. In addition, NRB also initiated "Intensive Banking Program" (IBP) in 1981 to enhance Priority Sector Lending (PSL). The investment requirements by Commercial Banks (CBs) in PSL were consecutively raised to 12% of their total deposit by 1989. Additionally, CBs were directed to provide 3% of their deposit to deprived sector from the 12% earmarked for them under PSL requirement. Loans under PSL were to be provided to agriculture, cottage industries and services.

10. In 1991, the government and NRB created a "Rural Self-Reliance Fund" (RSRF) for providing wholesale credit to Saving and Credit Cooperatives (SCCs) and NGOs working for deprived groups in generating employment and improving economic status in rural areas. A complementary program: Production Credit for Rural Women (PCRW) was also implemented since 1981/82, targeting only women through Women Development Division of Ministry of Local Development (MLD). Donor funds were also mobilized for them through

1 Information drawn from 'Various Publications'

NRB and Public Sector Banks. There were also other micro credit programs consecutively implemented to support farmers with similar arrangements under other ministries. Major such programs were: Micro Credit Project for Women (MCPW), Third Livestock Development Project (TLDP), Poverty Alleviation Project in Western Terai (PAPWET) and Community Ground Water Irrigation Project (CGISP). These complementary micro credit moves continued for about two decades till the end of 1990s.

11. Private sector entry in microfinance formally started in early 1990's as Grameen Bank replicators in micro finance. Microfinance sector has expanded significantly over the last decade in the country with the increase in remittance income, commercialization of agriculture, government policy and program initiatives, expansion of cooperatives, and involvement of personally dedicated people through private sector approach. There is increase in both demand and supply interplays in the sector, at present.

12. Compared to past, microfinance and micro enterprise development have received more attention from the last decade. As poor are not attractive to general banking due to high transaction cost and collateral issues, microfinance institutions (MFIs) has come as an innovative initiative to address the problems. MIFIs have been using specific approaches to reduce transaction costs and deal with collateral issues through group formation, learning by doing adoptions, wholesale lending to local institutions, etc. Microfinance these days is seen also as an effective weapon against poverty and hunger in the poor countries like Nepal.

13. The government, Central Bank, NGOs, MFIs (both public and private), Poverty Alleviation Fund (PAF), Banks (both private and publicly promoted), co-operatives (saving and credit and other cooperatives providing financial services), voluntary organizations and other private sector organizations are involved in microfinance sector of Nepal, at present. Governments promoted MFIs are: Grameen Banks, Small Farmer Development Bank (SFDB), Rural Microfinance Development Centre (RMDC) and Poverty Alleviation Fund (PAF). SFDB was initiated in 2001. Central Bank has been playing important role in making the fund available for microfinance from commercial and development banks and finance companies by issuing directives of mandatory allocation of fund in microfinance sector. In recent years, some large banks have also started exploring the possibility of entering into microfinance. However, data on actual access to microfinance is scanty. There are 76 MFIs licensed by Central Bank (including co-operatives and NGOs) licensed by central banks which it monitors (Banking and financial statistics, 2012). In addition, there existed more than 11 thousands (detail later) saving and credit co-operatives registered with Department of Cooperatives[2]. Despite of

2 *The reached to more than 12 thousand d by 2013 (Karobar Daily, Dec 26, 2013)*

numerous financial institutions established in the last decade, repelling nature to go to rural areas to small holders due to high cost of operation has also been a major constraint.

1.3 Small Farmer Development Bank (SFDB)

1.3.1 Snapshot history of creating SFDB to promote SFACLs approach to microfinance

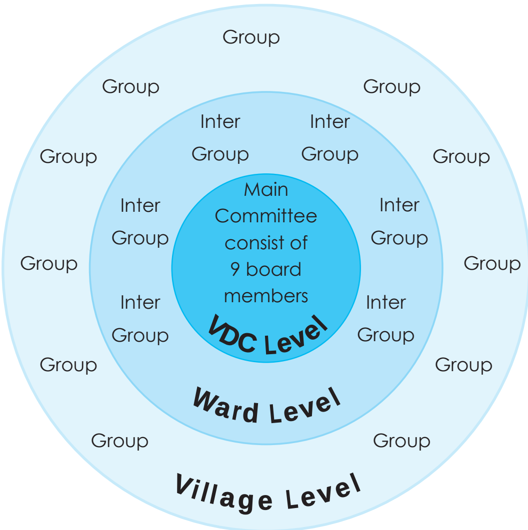
14. Small Farmer Development Program (SFDP) initiated through Agriculture Development Bank Ltd (ADBL) in 1975 had expanded to all 75 districts by 1996[3]. SFDP was the first integrated and targeted program to provide microcredit for income generating activities along with a saving program at grass root level to poor farmers. Small and marginal farmers were organized into groups of 5–12 individuals to borrow from ADBL on the group guarantee. The ADBL implemented SFDP directly through Sub Project Offices (SPO) in different locations to provide financial and non-financial service to small and marginal farmers. The number of groups and SPOs increased rapidly reaching 452 by 1990 and covered to 652 Village Development Committees (VDCs). However, performance of SFDP had already started declining from mid 1980s due to (i) high overhead cost (ii) ineffective portfolio management because of lack of competent staff in the field (iii) deliberate default and (iv) low recovery rates.

15. Reforms need was realized in the program to create a self managed sustainable mechanism. In 1986, ADBL initiated the Institutional Development Program (IDP) with the assistance of German Development Cooperation (GIZ) to transform SPOs into Small Farmers Cooperatives Limited (SFACLs). IDP determined some eligible criteria for SPOs to transform into SFACLs. SPOs were required to improve their performance in interest arrears (to less than 15%), overdue loan against the total loan (below 10%), and loan repayment rate (more than 70%) to get transformed from SPOs into SFACLs. Since1993, local level SPOs meeting the criteria were converted to SFACLs, on a gradual basis. They were registered under the Cooperative Act and were designed as fully members managed community based co-operative institutions for microfinance with three-tiered organizational structure (i) Small Farmer Groups (SFG) at the grass root level (5-12 members) (ii) Inter-Groups (IGs) at the ward level (having two or more SFGs) to supervise and coordinate activities of SFGs and (iii) Main Committee (MC) as a board of directors (BoDs) of SFACLs at the VDC level (Chart 1). Chairpersons of all IGs are the member of BoDs of SFACLs and the board or General Assembly elects its chair person.

16. Need for a separate institution to parent SFACLs was also realized. Consequently, the Small Farmer Development Bank (SFDB) was established in 2001 with a

3 *Evaluation and Impact Assessment of Third Small Farmer Development Project 1997, APROSC/ADB (Team Leader : Champak Pokharel)*

Chart 1



vision to provide wholesale credit along with the technical support services to the Small Farmers Cooperatives Ltd (SFACLs) and other similar MFIs. The bank is owned largely by SFACLs and similar rural MFIs. The bank is incorporated as a "D" class bank under the Company Act 1996 and is licensed from Nepal Rastra Bank (NRB) in March 2002, under the Bank and Financial Institutions Act (BAFIA) 2006. Currently, this bank has started providing wholesale credit also to other cooperatives and Microfinance institutions (MFIs) in order to expedite access to microfinance services for the low income people, especially living in hills and mountains of the country.

1.3.2 Operation Scale at Present

17. SFDB Started lending through SFACLs to small farmer in agriculture, small trade and other activities from fiscal year 2002/03. In its initial stage, it started its operation from three Ilaka (area) offices - Birtamod (Jhapa), Ratnanagar (Chitawan) and Butwal (Rupandehi) with head office in Kathmandu. By now, it has established eight Ilaka offices in different part of the country[4]. Among them, five are in Terai, one in inner Terai, and two in hills. There is no office in Mountains Region. In gradual move of SFDB, the number of SFACL/MFI served by it by mid July 2012 has reached to 291 (along with 24 other cooperatives other than

4 *The Area Offices at present are in Birtamod (Jhapa), Itahari (Sunsari), Jankpur (Dhanusa), Hetauda (Makawanpur) Butwal (Rpandehi), Nepalgang (Banke), Pokhara (Kaski) and Gajuri (Dhading).*

5 *There are 24 other MFIs served in the official record of SFDB, but one of them is found to have done no transaction yet with SFDB, as per their account record.*

SFACLs)[5], with an annual growth rate of 21.4%, as compared to 58 SFACLs in 2002/03 (detail later). Status indication of 2013 based provisional data will be discussed, separately later.

18. By 2012, the bank had the paid up capital of Rs 140 million with the authorized capital of Rs 240 million, and issued capital of Rs 200 million. The size of the bank has been gradually increasing. Additional SFACLs have also entered as a promoter of the Bank. The number of share holding SFACLs had reached to 231 by June 2012 with their ownership of 55% in the bank. It was understood that SFACLs wanted to buy more in the later period. But, as the total allocable share to the promoter already reached to the legal ceiling of 70 % of paid –up capital, the bank had stopped the sales of shares to SFACLs.

19. The bank promotes group approach and emphasizes the involvement of women in credit deliveries and in the membership of SFACLs. Both males and females are in the leadership of the institutions promoted. The banks promoted SFACLs and MFIs covered 43 districts and more than 371 VDCs. SFDB has created also women only SFACLs which reached to 73 by July 2012. Total farm families served by now have reached to 230 thousand. Outstanding credit has reached to Rs 2.676 billion. GIZ, Asian Development Bank (ADB) and some other external partners have also contributed significantly in the overall growth of SFDB. The presence of the bank is very limited in hills and mountains and expanding service in such areas is a national need, at present.

1.3.3 Rational of the Study

20. The activities of the bank are generally known to rural farmers, various organizations, donors and policy makers. However, there is no succinct document available that reflects independent views on the existing performance status of the bank. While there is a need for evaluation of the program at larger scale, limitation of the internal resource does not permit study of such scale. The bank proposed that the study at the current stage be carried out to evaluate the ongoing track by using the secondary data available in the bank management, as the bank has been receiving various types of data related to their performance in their MIS system and regular monitoring reports.

21. There is also a need for developing a national framework of sustainable approach of MFIs development by SFDB for enhancing their capability so that the services could be expanded also in remote areas. The bank has been experienced both strengths and weaknesses in the journey for over a decade. It is now time that the relevant aspects of the track of the bank be evaluated independently to visualize strength and weaknesses and trace out possible reform measures.

1.3.4 Previous Studies on SFDB

22. Even if there is no independent study available on SFDB, there are some general reviews done by donors for funding purpose. In addtion, SFDB has been conduting regualr external audits (statutory) through registered chartered accountants. Remarks by reviews and audit reports are broadly satisfactory.

These are explained further under performance evaluation section of this study, later.

1.3.5 Previous Studies on SFACLs

23. There have been multiple studies in the last two decades on SFACLs approach to microfinance in Nepal[6]. The studies have found SFACLs as a viable approach for reaching to small farmers. The study on SFACL performance by GIZ and SFDB by using the data of 2005/6 for 145 SFACLs throughout Nepal included a comprehensive institutional and financial assessment. Their major findings were that the SFACL system produced viable microfinance institutions all over Nepal with some correctable limitations. Operating expenses stood low as 3.8% (which has further gone down to 2% by July, 2013) of performing loan portfolio among the SFACLs. Dependency on external funds varied inversely with better performing SFACLs with a signal towards a potentially sustainable system. However, by that year, overall portfolio quality had only slightly improved and had not reached to satisfactory level. Only 40 % of SFACLs (ranked as Grade A and B)[7] were operationally and financially fully sustainable with sufficient loan loss provisions. Among the better performers, regular group meetings and participation by them in governance were key success factors. Standardization of loan procedures had positively affected business performance and women were the best members/clients. However, the board members, staff and largest borrowers had to be the role models as a critical aspect of success. Shortcomings included weakness in product pricing by SFACLs. By-laws were not fully reflected in the management practice, most of the Account and Supervision Committees were non functional and documentation in SFACLs were poor. The study also indicated that the financial performance of SFACLs had improved fast within a year following the evaluation. Possibly, there was a demonstration effect with the thinking that the performance may get systematically tracked, thereafter (view of current evaluator).

24. In addition to assessing overall improvement track of SFACLs through SFDB interventions, the above study also made the following important remarks on SFDB's role in persuading SFACLs

(i) ADBL had introduced loan loss reserves system in SFACLs

Though the Nepal's Cooperative Act did not required to classify loans by default and make provision for loan losses at prescribed time intervals, SFDB with technical support from GTZ had introduced annual loan loss provisioning (reserve) as per PEARLS rating system. The assessment had found that loan

6 *(1) Purusottam Shrestha, Financial Performance of Small Farmer Co-operative Nepal; 2010 (2) Wehnert U and R. Sakya 'Are small farmer Cooperative Ltd Viable Micro Finance Organizations , RUFIN/GTZ, 2001, (3) APROSC, 1997 'Evaluation and Impact assessment on Third Small Farmer Development Project' (study led by Champak Pokharel); (4) GIZ, Sana Kisan Bikas Bank Ltd Nepal: Rural Finance Nepal Working Paper series No 4: Are Small Farmer Co-Operative Limited an Effective Vehicle to Reach to the Rural Poor ? and (5) RUFIN/ZIZ, Working Paper NO.7: Rural Finance in Nepal: A Broader Analyses, 2007.*

7 *Ranking is discussed in detail in different section.*

loss provisions were made in 91 percent SFACLs. The remaining 9% were mostly newly established SFACLs, which were in the process of introducing loan loss provision, then. A loan loss provision provides microfinance institutions a capacity to absorb loan losses if such fund is set aside. Accumulated loan losses have to be deducted from accumulated loan loss reserve fund (LLRF) to reflect a more realistic picture of the SFACL's safety net. Among 91 % of the SFACLs which had created LLRF, 70 percent of them had a positive LLRF, i.e. they either had not accumulated any losses or the loan loss reserve fund exceeded the accumulated losses in their balance sheet. Introducing loan loss provision was remarked to be one of the important initiatives by SFDB in streamlining SFACLs.

(ii) Dependency on external funds by SFACLs is declining

SFACLs were found 100% dependent on ADBL loans when they started their operations. Encouragement to SFACLs to creating own internal fund and reduce extent of dependency were other commendable works by SFDB and the supporting stakeholders. Evaluation of SFACLs (2006) indicated that Anandvan, Shankarnager and Uttarganga SFACLs had already generated internal resources amounting to more than 100 percent of their outstanding loan balance. The SFACL Salang case study presented in Microfinance Summit 2013 in Kathmandu[8] indicated similar evidence from the SFACLs. Average dependency on borrowings from SFDB was decreasing in recent years. GIZ study indicated that the ratio of borrowing from SFDB outstanding loans had declined to 68.8 percent in the fiscal year 2005/2006 compared to 77.5 percent in 2001/2002. This ratio had declined to 43 percent and 60 percent for Grade A and B SFACLs' (representing about 40% of the SFACLs in 2006) respectively in the fiscal year 2005/06. The ratio has declined further in subsequent years due to SFACLs' restructuring plan implemented under RFSDCP-I and II (Simkhada. N.R., 2010)[9]. The finding of the current study will be discussed later.

1.3.6 Observation by RFSDCP Sub Program I-II and GIZ Support Documents

25. Rural Finance Sector Development Cluster Program (RFSDCP) Sub Program I (2005-10) and GIZ support realized a need for restructuring SFACLs for their sustainable development. Phase II (2011-14) project document of ADB noted that even after four decades of microfinance services, the poor and underprivileged families of the hills and mountains were still deprived of MFI services. It emphasized that the expansion of microfinance services in the hills and mountains would be important element of the second restructuring plan of SFDB. Likewise, restructuring and improvement in management of SFDB, improvements of management information system (MIS) of SFDB, and portfolio audit of SFACLs to strengthen their institutional portfolio management quality have been emphasized (Detail under external support).

8 *Chamapak Pokharel and Nav Raj Simkhada, ' A case study of Small Farmer Co-operative Limited, Salang' Feb 2013, presented at Micro Finance Summit, Feb 2013, Kathmandu Nepal.*

9 *Simkhada. N.R. (2010) Guidelines of Restructuring of SFACLs*

1.4 Objectives, Scope, Output and Methodology of the Study

1.4.1 Objective and scope of the Study

26. Following are the objective and the scope of the study.

Objective

To carry out the status evaluation of the bank over the last 11 years by utilizing the existing database at the central office of SFDB

Scope of the study

- Review and analyze the overall reported performance data of the borrowers from the central level data base of SFDB
- Review the current policies of the government and identify constrains
- Design and analyze the data and produce status evaluation report
- Work closely and interactively with SFDB in the analysis of the information so as to orient the related subordinates in the bank in assembling data and analysis

Expected Outputs

- Expected output of the study is the 'Ongoing Evaluation Report of SFDB' based on the central level data base of SFDB and available other relevant documents

1.4.2 Collection of Data

27. The study Team has collected data from three sources (i) SFDB Head Office (ii) Secondary data from the published sources of other institutions basically Central Bureau of Statistics (CBS), Ministry of Cooperative and Poverty Alleviation (MoCPA), Economic Survey, and (iii) spot visit of some SFACLs and Ilaka offices. Data obtained from different sources were entered in computer and grouped according to development regions, ecological belts, zones, districts and socio economic status of districts. Similarly, to select the best performing and less performing SFACLs, 213 SFACLs (out of 250 SFACL in 2067/68) were selected, based on the criteria of continuously available data for all indicators that were in use by the bank to monitor their performance. Due to availability of partial information for the year 2068/69 and lack of computerized information for the years before 2065/66, those earlier years have not been used for evaluation and ranking of the SFACLs by this study.

28. To rank the SFACL, all 14 performance indicators used by the bank have been used. The indicators are in three sets A, B and C. A constitutes 12 indicators, and Set B and C have one indicator each. All indicators are measured in percentage against total number in the respective sub category of indicator. Set A indicators consists of 1. Group activeness, 2.Member growth, 3.Women participation, 4. Internal resource mobilization, 5. Interest payment rate to SFDB. 6. Percentage of monthly interest payer borrowers to SFACL, 7. Loan loss provision against overdue loan 8. Growth of Net Asset, 9. Operational Self Sufficiency, 10. Liquidity, 11. Share Investment in SFDB, and 12. Financial Self Sufficiency. These indicators are given 5% weight each with total 60% in this set. Set B consists of the Ratio of Institutional Capital/External Loan (indicator no 13) with the weight of 10%. Set C consists of Loan Collection Rate (indicator no 14)

with the weight of 30%. Based on them, composite weighted indexes of each set of indicators and over all indicators have been calculated by assigning related weights. SFACLs are then ranked as per the composite index. This will also open up the ranking of SFACLs, instead of grading only within slabs as practiced by the bank at present.

29. The progress track of SFACLs has also been analyzed by looking also at the counter factual. For that, the same set of SFACLs which were graded in 2005/6 are also picked up and compared with their status in 2012. They have been looked at two dimensions (a) the general status of what happened and (b) what progress was made by the specific institutions in a particular set. In other words, it would explore the answer to the questions like (a) would the institutions once in better status continue to perform generally the same way, also in future?, and (b) are the institutions in other categories progressing satisfactorily, now?. Exploration to those will have vital policy connotation. This will also answer the question whether those in grade A also need to be placed on continuous stronger monitoring.

1.4.3 Approach to Analysis

30. Analysis has been carried out interactively with the key in-charge of the planning and supervision sections. Data analyzed and results received were discussed with management periodically, so as to arrive at the right identification of the issues and possible solutions. Data analysis tools and approaches were also discussed closely with the associated staff. In addition, case study of some successful SFACL (Salang) was also reviewed and learning incorporated in the report. Management was regularly consulted including interaction with major officials. In the process of improving the report, findings were presented and discussed in large interactive groups attended key personnel, the chairman, CEO, consultants, Senior Managers related to the institution and the representative of SFACLs Federation. Information available for base line and progresses were used to the best possible. Analysis is focused more to the aspects of effectiveness, relevancy, efficiency, rationality of decision making and suitability in the context of key parameters like loans and advances, revenue, cost and profit performances of the bank as a whole and Area Offices, loan loss provisions, fund mobilization, institutional aspects, capacity buildings and others.

1.4.4 Use of SFDB and SFACL Data, and the Sampling

31. Related information are based on the regular public disclosures by the bank as per NRB Directives, external audit reports, discussion with officials and own observation by the evaluator team. The study is comprehensive to the best of the data available in the system. Balance sheet, financial performance and over all other performance data as reflected in all the Audit Reports and MIS of SFDB in conformity with the published Annual Reports, since the creation of SFDB, are consulted. However, data for 2013 from MIS has been used separately only for analyzing the indicative recent progress compared to 2012, as both

the Audit Report and Annual Report for that year are still on finalization process. Basic compliances of the regulatory frameworks remarked by the audit reports are also consulted. Likewise, performance of all the SFACLS and Ilaka offices are analyzed based on their regular reporting to SFDB and MIS system. So, this study generally includes data from entire population, unless stated for some specific purpose. In case of SFACLs, the reporting of 2008-2011 is used, as previous years' data and the data for 2012 were not available in MIS system. SFACLs data for 2012 were in the process of coming during the analysis of this study. Required information was collected by the specialists also being stationed in SFDB (head office) for some days to consult the official records.

32. Some SFACLs and some Ilaka offices were also visited as sample cases for general acquaintance of the ongoing practices and problems at the field level. The team leader participated and presented two papers (case study of Salang and Co-ordination among various actors) in a three day Microfinance Summit 2012 held in Kathmandu. There had been opportunity to interact with large number of microfinance workers including SFACLs management and other co-operatives. That helped in concretizing the understanding of the situation. This study has benefitted also from other feedbacks from various discussions in the microfinance summit.

1.4.5 Limitations of the Study

33. This study relies on the accuracy of record of the financial and other information prevailed in the MIS system of SFDB, its audits reports, and other background data prevailing in the bank system. It assumes that they meet the standard of data quality and consistency as they follow standard format approved by the Central Bank. Individual survey of SFACLs, opinion survey and employees' satisfaction surveys were not done as they were out of the scope of the current study. Spot visits of some SFACLs and Ilaka offices were limited to few due to resource constraint in the study.

INSTITUTIONAL DEVELOPMENT AND POLICY DRIVE IN MICROFINANCE

2.1 Growth in Microfinance User Subsectors of the Economy

34. Agriculture being the back bone of the economic development and poverty alleviation in the agrarian country like Nepal, base of microfinance lies in it. Understanding of the sector is important while designing MFI policies and mobilization of actors. Commercialization move in agriculture and agro enterprise sector are enhanced due to open policies and emerging market forces starting the liberalization in 1990s. High value agriculture crops have expanded fast at about 7 % over the last decade (vegetable 6.8 %, citrus 9.9 %, orange 8.5 %, Banana 9.5%, poultry sector at 9%). Milk and meat are growing at medium rate, 3-4 % a year. This indicates that private sector investment (by farmers) in those sectors have increased considerably. The growth in processed food products, however, has increased only at the rate of 3.7 percent a year, over the last decade (2001-10) indicating a gap between production and processing in overall agriculture sector.

35. The role of micro credit has been and will be further important for the access to inputs, commercialization of production, improving food security, development of market by organizing farmers and initiating agro processing of smaller scales by grooming and promoting small entrepreneurs. At the same time, it can also help in increasing inputs base to medium and larger scale agro industries. Such effects of micro credits in cash crops, milk, meat and other food processing industries are already emerging. With commercialization expanding, it is clear that the scale of micro credit eligibility including in deprived sector needs regular revisit and availability of funds needs to be expanded gradually. Data of microfinance banks and co-operatives reflects that rural sector has also been growing as the generator of saving in the places where agriculture is getting commercialized. Likewise, fast growing remittance sector has opened up both the opportunity of the mobilization and utilization of fund in productive sector in rural areas. While funds from remittance will be available in rural sector, the returnee laborers from abroad also come with new knowledge and skills.

2.2 Presence of Development Agencies at the Work Level

36. Institutional extension of development organization of Nepal is reasonably good. Central level development

organizations have line agencies in most of the districts. Even a remote district like Kalikot has eight district level agencies including agriculture/livestock extension, education, health and population, women children and social welfare, industry, physical infrastructure/drinking water and local development. Including also the directly implemented central level programs and NGO activities, there are additional multiple projects in several components. Thus, there exists good prospect at the field level for co-ordination and co-operation in facilitating the social sector and income generating activities carried out by SFACLs/MFIs.

37. Presently, most of the development ministries are involved in some form of poverty reduction program in one or other way. Employment generation targeted at poor by Ministry of Industry, promoting micro irrigation, group shallow tube well and small irrigation by Ministry of Irrigation, promotion of rural co-operatives by Ministry of Cooperative and Poverty Alleviation, community forestry program implemented by Ministry of Forestry, women development and social welfare programs implemented by Ministry Women Children and Social Welfare, targeted scholarship to children of deprived group implemented by Ministry of Education, empowerment and income generating activities and Karnali development program implemented by Ministry of Local Development, rural health program implemented by Ministry of Health, rural drinking water and rural access road implemented by Ministry of Physical Planning etc are some examples.

38. Donor organizations have also been very helpful in enhancing microfinance in the country. Support by ADB in promoting SFDB and RMDC, Aus AID in capacity building to RMDC, WB in Poverty Alleviation Fund, and GIZ in promoting SFACLs are major examples. Some supports are still continued. Supports from international development agencies have been very helpful in enhancing both the resource base and capacity building of microfinance sector. Recent support by USAID through NEAT program in extending branches of MFIs and training are also worth mentioning. Microfinance regulators have provided legal framework and facilitated the MFIs /co-operatives to mobilize and utilize the available local level resources.

2.3 Private Sector, NGOs and Voluntary Organizations

39. Private sector like FNCCI has been active for last few years also in promoting agro business through commercial alliance in partnership with DDC and Co-operatives. CNI and FNCCI have been more active in marketing studies and policy advice to government also in agriculture sector. Agro Enterprise center of FNCCI has been a good source of market information of national and neighboring market for important agriculture products. It has implemented various programs in partnership with government, local government and the donors. Private sector has started taking part in providing training to producing semiskilled manpower also in agriculture through Center for Technical Education and Vocational Training (CTEVT). Private sector has entered also in microfinance

and enterprise development, as stated earlier.

40. There have been already more than 35 thousand NGOs registered in Social welfare council by 2012. Those registered at District Office may add to another one third number to this. Even remote district like Dolpa has more than 70 NGOs active, now. Some year back there were only a few organizations available to work with. They have played important roles in mobilizing communities, creation of Self Help Groups (SHG) and building awareness which have been helpful in group formation by various MFIs. NGOs have played also pivotal role in educating rural women. They have been helpful also in promoting the culture of savings and repayment. The roles of NGOs have been critical in persuasion, extension and adoption of new tools in agriculture and commercial agriculture development to improve the livelihood of the people by promoting their self-development and creating the working base of MFIs. There are also CBOs and civil societies of different kind in various districts. INGO presence is also there. Pressure from Civil Society groups of different kinds has contributed significantly in the policy for pro-poor development, inclusive development, concessions to specific groups and inputs, increasing women participation in agriculture, land ownership to women, creation of women group in extension, initiation of open discussions on issues through participation by deprived groups and women, etc. These are good environment for receiving co-operation and coordination in the areas of mutual interest in rural areas. Use of voluntary organizations, government agencies and private sector institutions are important in facilitating MFIs. However, a mechanism has to be developed by the bank for engaging them formally in the social mobilizations and social works of SFACLs. A networking with potential service providers will be helpful for that.

41. Shortages of energy, labor use issues and security problems have hindered the agro enterprise development, considerably. Small farms are also affected indirectly as the demand for their product for processing gets constrained. Farm level production and processing are currently constrained also due to lack of effective system of insurance for crops and livestock, thereby constraining the larger scale farming. Likewise, problem for agriculture land utilization has constrained commercial venture due to lack of adequately strong contractual law and constraint in agro-industrial development due to weak labor policy. Shortage of semiskilled labor is also a serious problem for agro enterprise development. Urban markets have been more competitive and quality awareness is increasing in consumers. There is quality issue which MF sector also has to confront in competing with both the internal and international suppliers of the products. For example, powder milk, meat and vegetables from external market compete in the domestic market. Selling products in the market is not easy without assurance of quality and supply. This demands facilitation in MF sector both for increasing production and quality improvement.

2.4 Government's Major Policy Drive and Institutions Evolved In Microfinance[10]

2.4.1 Policy drives

42. Though the micro credit provision dates back to 1950s with the establishment of credit co-operatives; Priority Sector Lending Directives of 1974 issued to Commercial Banks by Nepal Rastra Bank to divert at least 5% of their total deposit to small sectors in agriculture, industry and services forms an initiation of a formal Microfinance Policy in Nepal. The directives on the percentages and regulatory measures have varied over the years with roles vested on different entities. In Nepal, Micro-finance institutions are regulated by various laws related to the Central Bank (Nepal Rastra Bank), the acts related to credit provider institutions established under separate acts, the Co-operative Act, Company Act and Financial Intermediary Act. The financial Intermediaries Act 1998 was promulgated to regulate the financial intermediaries NGOs (FINGOs) in microfinance activities. This legalized also the operation and activities of NGOs as microfinance operators. In 2004, the government introduced the Banks and Financial Institutions Ordinance (Act in 2006) with a provision of licensing and recognizing microfinance banks as class 'D' banks. As microfinance sector has expanded fast in the recent decade, a separate Act is on the process of promulgation to create an independent body to supervising and regulating microfinance sector.

43. Since Tenth Plan/PRSP 2002-7, the government formally outlined the roles of private sector, NGO and Civil society as partners on development process. Policy envisages private sector to be a major vehicle for economic growth and associated investment in line with competitive market drive by remaining within the regulatory framework and moral conduct towards society. The later plans have continued the policy. Promotion of microfinance including co-operatives, production of inputs and management through public, private and cooperative partnership and establishing of commercial agricultural farms are the emphasis in the current plan. NRB Directives, 2003 provided freedom to Microfinance Development Banks (MFDBs) to fix and apply interest rates of their own. To ensure fund for deprived sector lending, directives has been issued to the banks and financial institutions to lend at least some specified proportion in deprived sector, as stated earlier.

44. Government has also established multiple sources of funds and institutions to facilitate microfinance sector (discussed next). Private sector MFIs are also emerging under Microfinance policy. The directly earmarked and major poverty targeted programs have been implemented separately. They work together with MFIs, CBOs and

10 *Drawn from the contribution by Dr C. P. Pokharel in Micro Finance Summit, ' Need for co-ordination and Co-operation Among Government, Poverty Reeducation Program, Voluntary Organizations, Development Agencies, and Micro-finance 'Feb 14 , 2012/Nepal*

NGOs based on local strength and relevance. While, Microfinance Policy 1998 and deregulation of interest rate led to faster expansion of microfinance sectors licensed by central bank, the saving and credit co-operatives were also promoted from the co-operative sector. However, these institutions are not allowed to receive saving and lend to non members.

45. Funding available from bank and financial institutions under Deprived Sector Lending Directives has been a major source of funding, now. Some assistance has also been provided by donor communities. Central bank directives to channel lending to deprived sector currently stands at 4 % of total lending for commercial banks, 3.5 % for Development Banks and 2.5 % of finance companies (Monitory Policy 2012, Central Bank). The banks have been providing wholesale lending to MFIs to fulfill their requirement. Some are seeking approval to go for direct lending through subsidiaries or through direct lending from their own branches. The outstanding deprived sector credit of commercial banks by the end of mid July 2012 reached to Rs. 24.2 billion. The deprived sector lending ratio stood at 3.8 percent in that year with the improvement from 3.6 % last year. By 2012, total resource that has to go to deprived sector as per the Government Policy exceeded Rs 30 billion a year.

2.4. 2 Evolution of microfinance institutions

46. Initiation of Grameen banks in early 1990's, policy allowing to operate NGOs in financial lending and promoting rural saving, implementation of the Microfinance Policy (1998), and deregulation of interest rate to be charged by MFIs through NRB directives 2003 have led to faster expansion of Microfinance sector in the country. By July 2012, microfinance development banks licensed under central bank has reached to 23. There are 5 Grameen banks, 14 Grameen Bank replicators operating in the private sector as Microfinance Development Banks and four wholesale lenders to Micro-Finance Institutions (RSRF, RMDC and SFDB in public sector and First Microfinance Bank in private sector (explained later). In addition, there are 43 FINGOs licensed under central bank and co-operatives, licensed and not licensed under Central Bank, which also provide financing in rural areas (described next). Excluding co-operatives, the deposit collection, outstanding loans and investments of MFIs have reached to Rs 4.5 billion, Rs. 16.68 billion and Rs 1.85 billion, respectively by mid July 2012. Yearly disbursement of the loan stands at Rs 22.3 billion a year (Banking and Financial Statistics of Nepal). The registered MFIs have covered 65 districts, so far.

47. **(i) Small Farmer Development Bank Limited (Sana Kisan Bank Limited):** Small Farmer Development Bank (SFDB) in English is a whole sale lender (second-tier) microfinance bank established in 2001 to promote and provide financing and technical support to SFACLs. It has now expanded its lending activities also to some other cooperatives. As of mid July 2012, the total wholesale lending to 267 SFACLs and 24 other cooperatives stood

at Rs 2.68 billion. Yearly loan disbursement was in tune of Rs 2.67 billion. SFDB has outreach to 230 thousand members / families and 135 thousand borrowers by mid July 2012. ADB is a major source of funding for additional lending resources and capacity building of SFACLs.

48. **(ii) Rural Microfinance Development Centre Ltd. (RMDC):** RMDC is a wholesale lender to microfinance organizations. It commenced its lending operation in January 2000. It also provides institutional capacity building supports to partner MFIs and provides other supports in promotion and development of microfinance sector in the country. The institutional loan of RMDC as of July, 2011 was in tune of 2.2 Billion. ADB is a major source of funding for additional lending resources.

49. **(iii) Rural Self-Reliance Fund (RSRF):** It was established in 1990 with the capital injection by the government and Central bank for providing wholesale credit to government and non-government organizations for microfinance activities. Loan disbursement under this program has reached to Rs 862 million by mid March 2012, through 548 organizations covering 31 thousand household in 57 districts.

50. **(iv) Youth Self-Employment Fund:** The Fund was established in 2008/09 for providing vocational training and collateral-free periodic loans up to Rs 200 thousand at concessional interest rate to generate self-employment of youths, deprived groups including victims, disabled and injured during conflicts as the focus target group of the fund. Banks and Financial Institutions are required to deposit one third of mandated credit flow to the deprived sector as a loan to this fund at 5% rate of interest. This assures a regular fund flow for the program. The program focuses its credit in high value agriculture and commercial farming, rickshaws in cities and markets, carts service, plumbing service, repair and maintenance of electronic goods. Loans are provided also to the people with traditional skills such as Kami, Damai, Sarki, Dhimal, Rajbamshi etc. In providing loan, the MFIs should fulfil three criteria (i) the portfolio should be among the listed ones by the government (ii) the borrowers should have received training from Youth Self Employment Fund (YSEF) and (iii) it should be collateral free. Though it came with a popular campaign, the progress of this fund is too slow for various reasons like securing the repayment from borrowers, availability of adequately trained individuals (as YSEF could not train adequate number of individual due to their own management constraint) and co-lateral issues. MFIs could not lend more than Rs 100 thousand (currently raised to 150 thousand) without collateral, as per central bank regulation (a policy contradiction among the government organization themselves). Out of Rs. 2.69 billion to be disbursed to banks and financial institutions for the self-employment credit operation under this program, only less than 30% had been released as of mid March, 2012.

51. **(v) Poverty Alleviation Fund:** Poverty Alleviation Fund (PAF) established in 2003 has remained active with the objective of providing support to the inclusive development and targeted programs

to deprived class of people living below poverty line in income generating activities and social uplifting. The Fund has been working in collaboration with local bodies; NGOs, community organizations, and private sector to get facilitation and cooperation in social mobilization and income generating activities. The disbursement under this program, at present, stands in tune of Rs 2 billion a year with Rs 1.5 billion a year, in income generating programs and social intermediation. Fund's programs are being implemented in 55 districts. 600 thousand targeted households have been benefited from PAF program by mid July 2012.

52. **vi) First Rural Microfinance Development Bank (In Private Sector):** The bank was created for whole sale lending to MFIs in private sector in Jan 2010. Its capital is Rs 100.0 million. Promoters include also four private sector banks. The bank has already reached the outstanding credit of Rs 450 million by mid July, 2012. The fund supplied is through borrowing from private sector.

53. **(vii) Co-operatives:** There are 16 Saving & Credit Co-operatives with limited banking operations under the licensing of Central Bank and 11.6 thousand saving and credit co-operatives (SACCOS) registered with and monitored by Department Co-operative by July, 2012. Their share capital has reached to Rs 14.1 billion with 1.5 million memberships. However, they can lend to any of their members, without being confined to only poor. Only, a small part of the total lending is believed to have gone to deprived groups. Loans flown without collateral are expected to be less than 10%. In addition to saving and credit co-operatives, other cooperatives are also providing financial services. There are two whole sale lenders to co-operatives (excluding SFDB lending to SFACLs) (1) Nepal Federation of Savings and Credit Cooperative Unions Ltd (NEFSCUN) and (2) National cooperative Bank (NCB). NEFSCUN came into existence since 1993. It has 51 District unions with 1,607 Members and has coverage in 70 districts. It accepts deposits from the member co-ops and provides wholesale lending and inter- co-operatives lending to the members. Credit Union Microfinance Innovation (CUMI) program implemented since 2001 by NEFSCUN has covered 188 Saving and Credit Co-operatives Societies (SACCOS) from 25 districts and more than 92 thousand women members are involved in the program. Their saving mobilization at present stands at Rs 0.6 billon. Main objective of the program is to provide affordable financial service to the poor. It has been providing the services of micro savings, micro credit, micro insurance and other support services to the low income poor, micro entrepreneurs, women and disadvantage group in rural area to uplift their socio economics condition.

54. **(viii) National Cooperative Bank Limited (NCBL):** The bank was established in 2003 as an umbrella institution and wholesale lender for banking and financial services for co-operatives. It is licensed by the Central Bank for limited banking operations and stands as the only bank in the co-operative sector in the country.

By Dec 2011, it reached to the capital of Rs 210.3 million, deposit of Rs 1.85 billion and lending of Rs 1.2 billion. By objective, it can lend to any types of co-operative

55. **(ix) Informal Sectors:** Money Lenders, Traders, Relatives, Dhukuti, Guthi etc, are traditional sources. Their role in microfinance is still dominant and the government has not been able to bring them under its regular preview.

56. **(Xi) Other Microfinance Related Service Providers:** Government's Development Ministries, UNDP, GIZ, JICA, PLAN, PACT, CIDA etc. are providing microfinance service to rural area through Government programs, partner organizations, community organizations and local bodies.

2.5 Monitory Policy 2013

57. The policy has (i) directed to increase allocation by banks and finance companies (stated earlier), (ii) provisioned for interest free fund to open MFIs in the districts with less accessed by FIs, (iii) increased the limit of micro credit to Rs 150 to individual members of a group (without collateral) and up to Rs 400 thousand per individual (with collateral) and (iv) made provision for accounting the loans disbursed as resource mobilization (i.e. can be counted as deposit mobilization) if it fall under a specified category funded under the term loans of three of more years from the government or foreign sources.

58. Though the prevailing structure of microfinance framework developed by the Government is broad, its micro credit policy is, however, somewhat dwindling. While about half of the farm families under poverty line are yet to be covered by micro finance, political interventions in past in favor of rebates than faster additional coverage has hindered the formation of smooth operational policy in microfinance. SFDB being a government supported institution also suffers, as it has limitations in insulating from the policy impact and thus, faces credit recovery risk from undue expectations generated in the borrowers. "In year (2008/09), the government announced waiver of loans to the small farmer borrowers from SFDB up to Rs. 30,000. The overdue loans which amounted about 10% of outstanding in December 2008 came down to 0% after the government replenished the waived loans in July 2009. But, this has created a serious problem in the clients' 'psychology. They would wait for such waiver from the government in the future, as well. It would pose a great difficulty to collect the loans in the future. Therefore, the SKBBL is to devise and enforce a mechanism that would put down the aspirations of the ultimate clients for loan waiver" (Shrestha)[11].

11 *Shanker Man Shrestha, State of Micro Finance in Nepal' Prepared for Institute of Microfinance (InM) as part of the project on State of Microfinance in SAARC Countries, 2009.*

ORGANIZATIONAL ASPECT of SFDB

3.1 Presence of Vision, Mission, Objectives, and Identified Functions

59. Vision, mission and objectives are considered to be fundamental for a clear track and privatization in the working culture of the institution. Envisaged prime focus of the bank establishment was to work as whole sale lender, basically focused to microfinance co-operatives managed by small farmers and other MFIs. The Bank has designed its Mission, vision, objectives, core values and major works to be done to achieve the objectives in its official document so as to guide its strategy and operations. They are as follows

60. Vision, Mission, Objectives, Core Values and Major Functions Identified to meet the objectives are as follows.

Vision: To get established as a lead and financially viable microfinance wholesale bank largely owned by SFACLs and similar rural MFIs, to substantially improve the quality of life of the rural poor

Mission: The bank's core business is the wholesale lending to SFACLs and other similar rural MFIs advocate for and cooperate with other partner organizations for strengthening and capacity building of those institutions.

Core Values

- Be guided with the concept of commercial viability and maintaining financial capability
- Be apolitical in work approach
- Be committed to services to rural poor
- Provide client oriented qualitative services
- Maintain transparency in policy and activities

Objectives:

i. To provide wholesale, refinance and periodic credit facilities in rural areas to SFACLs and other similar MFIs working in poverty alleviation

ii. To monitor, inspect and supervise client MFIs' activities based on Central Bank regulations and provide necessary directives

iii. To develop, expand, promote and strengthen the micro enterprises and rural financial market, provide technical assistance and help in making available necessary trainings

iv. To provide necessary help for institutional strengthening and human capacity building of client MFI institutions

v. To enhance income and employment opportunity of people through microfinance institutions by helping in the activities related to poverty alleviation.

vi. To provide institutional investment and financial intermediary services through healthy competition by consolidating scattered capital in the country

Functions

1. Carry out wholesale lending and refinancing of short and medium term to SFACLs and other similar MFIs (participant institutions) working in poverty alleviation
2. Mobilize the resources received from Nepal government and donor organization/ institutions and help participant institutions in implementing social and community works.
3. Provide financial assistance to develop the organizational and financial capability of participating institutions
4. Provide regular advisory services and other technical assistance to strengthen the participant institutions
5. Carry out or cause to carry out inspection, monitoring, and evaluation of financial and overall activities of participant institutions.
6. Persuade, encourage, and assist in replicating the prevailing SFACLs in the places lacking MFI services
7. Adopt/make adopt necessary strategies to promote financial self-viability and sustainability of the participant institutions
8. Implement successful concept and modality of rural finance in partnership with SFACLs and other similar institutions
9. Collect deposit by remaining within the purview of the conditions set up by Nepal Rastra Bank and reduce gradually the dependency on external resources.
10. Remain in the intuitional discipline by adopting the financial indicators in line with central bank directives

3.2 Adjustment with Time

61. Adjusting mission, vision, objectives and functions with the change in time is a fundamental basis for dynamism for an institutional development and promotion of cliental relation of an organization in tune with change in market movement, state priorities and learning. SFDB has adjusted them over time (Table 3.1) by adding, removing, further emphasizing or subsiding. Objective (1) was adjusted in 2011/12 also to include refinance need. Objective (3) was adjusted by adding the role of providing technical assistance and training since 2007/8. By realizing the capacity constraint of SFDB during implementation, the role was changed to providing merely the help from 2009/10 by making the role softer. Likewise, the objective of helping to implement social and community programs in rural areas through member SFACLs were added during 2007/8-8/9. It was removed thereafter, as SFDB realized itself only a weak helper in the process due to staff constraint and its weak or no presence at the district level. From 2009/10, objective of providing institutional investment and financial intermediary services through healthy competition by consolidating scattered capital in the country has been added. Function specified calls for collecting also deposit for reducing external dependency, which is not in line with the current authorization by the Central Bank to accept deposit from non members. On the other hand, the co-operative directive does not allow SFACLs to deposit funds in the institutions other than co-operative banks, which means that SFACLs cannot deposit fund in SFDB though it is also the owner of SFDB. These are gray areas.

62. Initially, the bank had only the objective statements when it was initiated in 2001/2. The additional concepts and

Table 3.1 Updating the Objectives of the Bank with the Change in Time and Learning

	Objective as of Establishment (2001/2-2006/7)[12]	Objectives 2007/8-8/9	Objectives 2009/10-11/12	Remarks
1	To provide wholesale credit and refinance facilities in rural areas to SFACLs and other similar MFIs working in poverty alleviation	To provide wholesale credit and refinance facilities in rural areas to SFACLs and other similar MFIs working in poverty alleviation	To provide wholesale, refinance and periodic credit facilities in rural areas to SFACLs and other similar MFIs working in poverty alleviation	Periodic, added in 2011/12
2	To monitor, inspect and supervise client MFIs' activities based on Central Bank regulations and provide necessary directives.	To monitor, inspect and supervise client MFIs' activities based on Central Bank regulations and provide necessary directives.	To monitor, inspect and supervise client MFIs' activities based on Central Bank regulations and provide necessary directives.	No change
3	To develop, expand, promote and strengthen the micro enterprise and rural financial market.	To develop, expand, promote and strengthen the micro enterprise and rural financial market and provide technical assistance and make available necessary trainings	To develop, expand, promote and strengthen the micro enterprise and rural financial market and provide technical assistance and help in making available necessary trainings	Providing technical assistance and make available necessary training added in 2007/8 but the role made less committal from 2009 by converting the role only as providing help.
4	To provide necessary help for institutional strengthening and human capacity building of client MFI institutions	To provide necessary help for institutional strengthening and human capacity building of client MFI institutions	To provide necessary help for institutional strengthening and human capacity building of client MFI institutions	No change
5	To enhance income and employment opportunity of people through the institutions to help the activities related to poverty alleviation.	To enhance income and employment opportunity of people through the institutions to help the activities related to poverty alleviation.	To enhance income and employment opportunity of people through the institutions to help the activities related to poverty alleviation.	No change
6		Help implement social and community programs in rural areas through member SFACLs	Removed	Added the bullet of helping in social and community program during 2007/8-7/9 and removed thereafter.
7			Provide institutional investment and financial intermediary services through healthy competition by consolidating scattered capital in the country	Added from 2009/10

Source: Respective annual reports of the SFDB

12 *Extracted from various Annual Reports of SFDB since 2001/2 to 2012.*

functions have evolved gradually with learning of the operations and changing market context. It added its functions to translate the objectives since 2003/4, vision and mission, and core values since 2007/8. Mission was clubbed with identity since 2010 and advocacy role was also realized. Some objectives were also added. The bank has gradually been advancing its peripheral roles to establishing itself as a parenting organization of SFACLs and similar MFIs in future and a sustainable self-reliant institution in due course. This can be signified as institutional dynamism of SFDB.

63. As it stands in 2012, mission emphasizes the areas of financing of credit, advocacy, and support to capacity buildings by working together with the farmers. Objectives are focused to providing credit, monitoring, providing technical assistance, supporting in institutional strengthening and capacity building, attracting the government and donors resources for social mobilization and community development activities, undertaking replication programs to serve in underserved and not served areas through inclusive approach, core values of commercial viability and capability, apolitical discipline, services committed to rural poor, qualitative of service and overall transparency.

64. Functions further elaborates the roles with emphasis to promotion of co-operative framework, commitment for financial sustainability, the compliance of standard regulations (of Central Bank), adoption of standard indicator system, and activities to be performed by remaining within the framework of objectives and core values. Likewise, collecting deposit and playing the role of the intermediary bank has also been envisaged, though it is still an unauthorized gray area, as stated earlier. Given the added functions, a potential duplication of works with other institutions should also be a matter of policy caution in steering SFDB, so that it does not get drifted from it basic objectives of creating and prompting farmer managed MFIs.

65. While the founding of the bank originally was meant for creating, promoting and lending to the SFACLs; Vision and Mission statements do not necessarily emphasize only the SFACLs, and it has extended the scope further to incorporate also other similar MFIs, demarcation criteria for which is not yet clarified in the bank. For example, does the word 'Similar MFI' imply the other saving and credit cooperatives only, or any MFIs working for poor? Similarly, the decision criterion for judging the other co-operatives to be similar to SFACLs for lending and supports by the bank is not clear from implementation perspective. Keeping this as a gray area creates risk on the bank of getting drifted from the track in linger term. It has to be noted also that all the co-operatives working in credit and saving are not necessarily confined to poverty alleviation to qualify to be said as MFI, as they can lend to any members, while SFACLs are meant to work exclusively by being focused to poverty alleviation. Likewise, it was reported that that some SFACLs created by SFDB have borrowed also from other sources. Reasons for borrowing also from other sources need

to be explored. Though crucial, this type of analysis does not seem to have been carried out by the bank. Some official say that SFDB can not influence the client co-operatives as they are legally free to borrow from anywhere. The important issue is not legally influencing some institution, but a right persuasion to stop the evaporation of the potential market, avoid likely duplication of the efforts with other public sector promoted wholesale lenders in MFIs and discourage the potential practice of unduly dragging the clients by others.

66. SFDB has been presently lending and promoting basically SFACLs (constitutes 92% of the institutions promoted) and other co-operatives (8%). Total resource flow by SFDB to SFACLs has to be clear and reserved in principle to exceed at least some thresh hold all the time to maintain a balance of being a promoter of SFACLs and the diversification of the portfolio by including also the non SFACLs. Else, there will be some risk of drifting the institution away, in due course, from its very objective of creating and promoting SFACLs. Such drift could be caused by a possible political play, on one hand and compromise with the difficult task of grooming new SFACLs, on the other.

3.3 Organizational Structure of SFDB

67. The bank establisher share holders were (i) Government of Nepal (20.3%), (ii) Agriculture development Bank (70.9%) (iii) Nepal Bank (5.1%) (iv) Nabil Bank (2%) and (v) 21 SFACLs (1.7%). The government has divested its share fully to SFACLs. SFDB is now chaired by a SFACLs chair person (i.e. from private sector). Currently, SFDB organizational structure consists of the Board of directors of seven (though they are authorized to have five to nine members by regulation) and small number of staff. Keeping the management slim seems to be the direction taken by SFDB, which also gets reflected in their staffing strength. However, excessive slimness seems to have over pressurized the staff to lead to compromise the monitoring part at the centre and field level.

68. General Assembly (GA) is the highest body of the bank, which elects the Board of Directors (BoD) and gives final approval to policy to be adopted by the bank. BoD holds operational and policy related decision-making authority under the policy framework approved by GA. Chief Executive Officer (CEO) is under the board. His presence is as chartered for a private limited company and as per BAFIA for D-Class financial institution. The board also has company secretary who assists the board and also the CEO. The CEO manages the day-to-day administration and management of the bank. Under CEO there are two sections (i) Program Section and (iii) Service section. The activities of the bank have been perceived under 11 thematic areas by major work characterizes of the institution. The thematic areas cover 35 different types of program/activities. An officer in charge of a section[13] could be looking after also multiple sub-activates.

13 *There is no entity named as department up to this time, though the organization structure has been mentioned this way in the recent reports.*

69. Under the CEO, there are also eight Area Offices (detail under areas offices) that lend, facilitate and monitor the SFACLs in their area. They report directly to CEO. SFDB has also provisioned for a legal advisor under the CEO. There is also an Audit committee which reports directly to the board and is responsible for carrying out internal auditing and to facilitating the external auditing process. There are10 officer level staff (including CEO, legal advisor and Company secretary) in SFDB head office, who are assisted by 11 non officers. The bank has presented a more comprehensive organizational chart in its annual report. The thematic structure includes important areas like M and E, PIU, Management Information System (MIS), human resource management, planning, research, risk management and audit. Departmentalization is also indicated in the organizational chart. However, actual organizational set-up at present is only a subset of the organizational chart presented in their Annual Report (2012). Though crucial, departmentalization is not yet initiated in the institution.

70. Largely as the descendent organization of ADBL in lending to small farmers, SFDB inherits also a rural credit management experience of SFDP including the group formation approach initiated by SFDP in mid 70's. The Chief executive, so far, and some of the staff were previous employees of ADBL. SFDB is not a Grameen bank replicator and has adopted own system of grass root level intervention.

3.4 Staff Strength of the Bank

3.4.1 Overall

71. In total, 87 staffs are engaged in the organization, at present. About two fifth (39%) are from external source (Table 3.2). The institution is also in considerable shortage of skilled staff of its own as it has adopted conservative approach in the staff deployment. The officer level staffs who are taking care of different sections are only seven in number in the head office. An officer looks after more than one thematic area. Someone is looking after three areas, as well. Though external support of TA is considerable, potential to transform the knowledge is constrained due to lack of adequate staff of SFDB' own, a matter needing immediate attention of the management. Detail of the staff structure is given in Annex Tables 34 to 37.

72. Among the staff recruited by SFDB from its own source, about 38 % are temporary

Table 3.2 Number of Staff Working in SFDB as Of 2012 Under Own Source and on External Support

Financial Support	Institutional Source of Staff	Permanent	Full time Consultant	Contract	Deputation	Temporary	Grand Total	Share %
From SFDB	ADBL				1		1	1.1
	SFACL				4		4	4.6
	SFDB	30		13		5	48	55.2
	Total	30		13	5	5	53	
From ADB (external)	SFDB		4			30	34[a]	39.1
Both	Total	30	4	13	5	35	87	100

Note: [a] SFDB pays 10 % of the ADB sector expenses including salary liability of the SFDB staff supported by ADB.

Table 3.3 Staff by Tenure and Specialization at SFDB

Staff	Total	Permanent	Contract or temporary	Specialization
Officer	16	11	5 (31%)	Diverse but low attention to agriculture sector, its prime objective[14]
Non officer	30	19	13 (43%)	
Total	48	30	18 (37.5%)	

Note: [a] SFDB

or under contract (Table 3.3). Including externally supported ones, two third of the staff strength is of temporary nature. Engaging internal staff as temporary for a longer period could ultimately affect their work motivation. As SFDB portfolio is expanding at fast rate, internal staff strength has to be addressed accordingly, for the healthier growth of the entire institution.

73. Educational background of the officer level staff recruited by SFDB from its source is broadly diverse and is beneficial to the organization as it deals with diverse society and portfolio. While considerable portion of portfolio is on agriculture and it promotes small farmer agriculture co-operatives, there is only one agriculture specialist among the staff in the organization. This limits the communications and understanding of the priorities of SFACLs in policy drives by the bank. There is a need for due attention in human resource development plan.

3.4.2 Area Office (Ilaka Office)

74. Staffing at Area Offices is 27 in total. Mostly they are staffed by one officer, two to three assistant and one helper. Their main functions are accounting, financial analysis of SFACLs, loan investment, collection of loan, monitoring and feed backs, facilitation to community works in program areas and providing orientations to SFACLs. After providing the feedback to SFACLs, the office has to follow up also the compliance of them by the related SFACLs. Official staff also get invited in the AGM of SFACLs, attending which also consume substantial time. For example, Area Office Gajuri, one of the most frequently visited place from head quarter, look after 30 SFACLs with the staff strength of one officer and one assistant (helper not counted) This confers (given the duties to be carried out mentioned above) that they are overloaded with works and have hardly enough time for adequate supervision, and follow-up after the loans are disbursed.

75. Staffing pattern developed in the initial phase of the branch is found still continued in almost half of them, despite much increase in business volume. The ratios of staff to number of SFACLs and the staff to business volume differ significantly across the Area Offices with the indication that human resource management needs to be seriously reviewed by the bank (Table 3.4). Some Area Office visited indicated that there is no system of over time payment while they are overloaded and have to stay

14 *Of the 16 officer level staff, 13 are with Master degree and 3 with Bachelor's. Master degree subjects include business administration (3)business studies (3) economics (3) Social science - public administration (one), Rural development (one), sociology (one). Officers with Bachelor level degree (3) include: agriculture (one), Computer science (one), and education (one).*

Table 3.4: Area Offices, Coverage of SFACLs (Number) and Outstanding Loan Volume per staff

Area Office	SFACLS										2012				Regional Location
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	staff No	Outstanding loan Rs million	Loan Volume Rs million/staff	No of SFACLs / staff	
Birtamod	10	13	14	16	16	16	19	23	23	25	2	170.66	85.3	12.5	Eastern Terai
Butawal	17	27	32	33	35	35	35	35	35	40	4	676.31	169.1	10.0	Western Terai
Gajuri	0	0	2	4	21	21	21	22	26	33	3	297.98	99.3	11.0	Central Hills
Hetauda	8	11	14	14	26	26	26	29	34	37	4	506.65	126.7	9.3	Central Inner Terai
Itahari	10	12	14	16	19	19	19	19	19	20	4	158.01	39.5	5.0	Eastern Terai
Janakpur	13	15	18	26	47	47	47	47	47	51	3	320.07	106.7	17.0	Central Terai
Nepalgunj	0	12	12	19	38	38	39	39	47	53	4	337.26	84.3	13.3	Mid western Terai
Pokhara	0	4	8	11	17	17	17	17	17	24	3	183.90	61.3	8.0	Western Hills

Source: Analysis of SFDB data base

extra office hours, quite often. Transfer is generally in about three to four years, implying a reasonable stability in the staff in the Area Offices.

76. Area Offices are more concentrated in eastern and central regions (Table 3.4). Likewise, Terai has more concentration of offices than in hills and inner Terai. Far western region and Mountains do not have any office, yet. By default, the regions with main concentration of offices get more attention. Consequently, SFDB has poor coverage in mountains and hills (more under SFACLs analysis), and has thus, long way to go to cover micro finance, adequately.

3.4.3 Organizational Backstopping and Training Facilities in SFDB

77. All the 8 offices and head office are in rental premises. The head office has just a room for small gathering at its office (capacity of about 20 for training and about 30 for general gathering. The building is also equipped with computing, printing, copying and multimedia facilities. All the sections and operational staff have computer and fulltime internet facilities at the office. Field offices are also similarly equipped. The bank had been slow in past in developing IT facilities. Following ADB project ADB-RFSDCP-II (2011-14), they were increased and improved. However, they are still up to medium range only, if viewed from the set-up arrangement of the facilities. Not having own building has also hindered the motivation for investment in the establishment of facilities. Transportation facilities in the head office are also moderate. The bank is trying to connect its Area Offices through web. However, so far, information is transferred by e-mails. Online communication work is going on.

78. While bank has to run a lot of training, there is no training section and no trainers, as such. There are 8 field trainers

hired from ADB resource, but their job is to work as stimulator and technical support provider to improve the poor performing SFACLs than providing training. Some training is outsourced to SFACLs' Federation and some training/ orientation is organized through Area Offices in rental premises. Since SFDB is required to groom SFACLs, training should always remain high priority activity of the bank. But, lack of own training facilities constrains it.

79. It was seen that most the training are provided by SFDB officers themselves. Use of outside resource persons in the trainings seems to be very limited with the psychological feeling that the knowledge of SFACLs system is low in the outside experts. Though it is partly correct, this also possesses constraints to the opportunity of providing theoretical exposure in the SFACLs workers. The training part should have a right balance of both the work approach and theoretical exposure. Since the training capacity within the institution is very limited, the fact that it has organized/coordinated 200 training/ seminar a year, as documented in the annual report, poses a serious quality concern. Actual evaluation of training is not available and is beyond the scope of the current study.

80. Some SFACLs visited indicted that time availability for the feedback and interaction with SFDB staff in the Area Office was limited due to weak staff strength in SFDB and that there were very limited roles played by them in establishing co-ordination with district and central offices of other organizations in facilitating community work activities of SFACLs. However, as SFACLs are legally independent, they could also establish direct contact with the related organization, on their own.

3.4.4 Training Opportunity Provided to the Staff of SFDB.

81. Own capacity building of the staff is equally important for the bank. There has been considerable effort through various external supports for the capacity building of the staff. Several training opportunities were provided to SFDB staff though donor support mobilization and also through co-ordination with the national institutions within the country. There had been more than 100 different training opportunities made available to SFDB staff over the period of 2001-2012 and most of the training involved multiple participants from SFDB. During 2001-11, GIZ provided exposure visit to SFDB staff in Germany, Indonesia, and Sri-Lanka, in the earlier stage. It also provided trainers training for formulating business plan, and supported one staff of SFDB for studying EMBA. From Dec 2005 to Dec 2010, Center for International Cooperative Training in Agriculture Banking (CICTAB) provided SFDB staff the opportunity to participate in 44 different training. Likewise, in the last two and half years (15 July 2010 to 20 November 2012), SFDB staff participated in 55 different trainings in different area. As ample training opportunities were available to the staff of SFDB office, there is hardly any staff found in SFDB who has not received multiple training exposures. However, most of the training courses attended were for very short periods, less than a week. While some training /exposure visits attended were in Asian countries, most of them were within Nepal.

FINANCIAL PERFORMANCE of SFDB

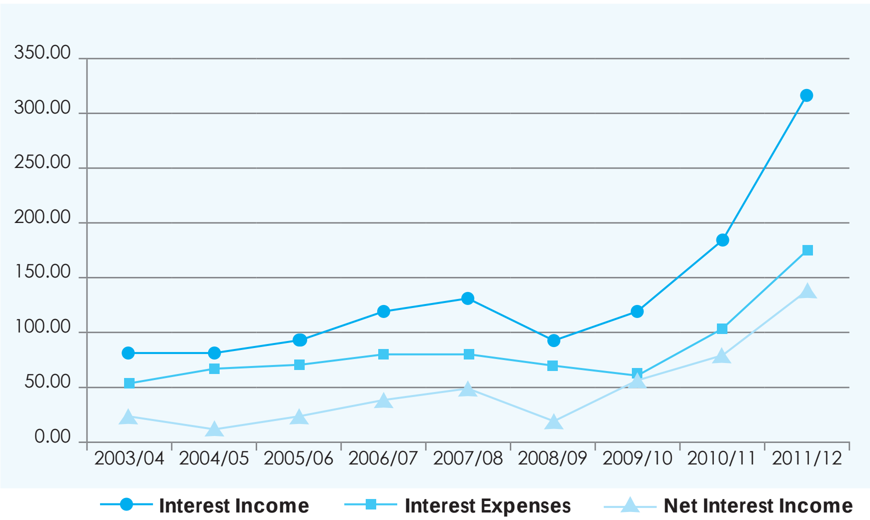
4.1 Growth in Interest Income and Expenses

82. Growth in interest income and expenses are fundamental simple indexes that tell how the bank is performing in general. The data over last 9 years indicate that the interest income, expenses and net interest income have been growing with a gradual trend, if the special years of government subsidy (2008-2010) that created undue expectation in the borrowers about the possibility of further waiver on unpaid amount are excluded. (Chart 2)[15].

4.2 Profit Status

83. The Bank had come under operation from mid March 2002 (B.S 2058-11-27) with about 4 months in operation in the fiscal year 2001/2. Average rate of profit over 2002-12 (since the start of the bank) stood at 9.5 %. As the average rate of inflation (GDP deflator) stands at about 8.2 % a year, the bank has been already able to provide a positive real rate of interest of around 1.3% a year and speed of improvement is much faster. The profit status indicates that the bank has gone through three phases of growth over

Chart 2: Simple Trend of Interest Income and Interest Expenses (Rs million)

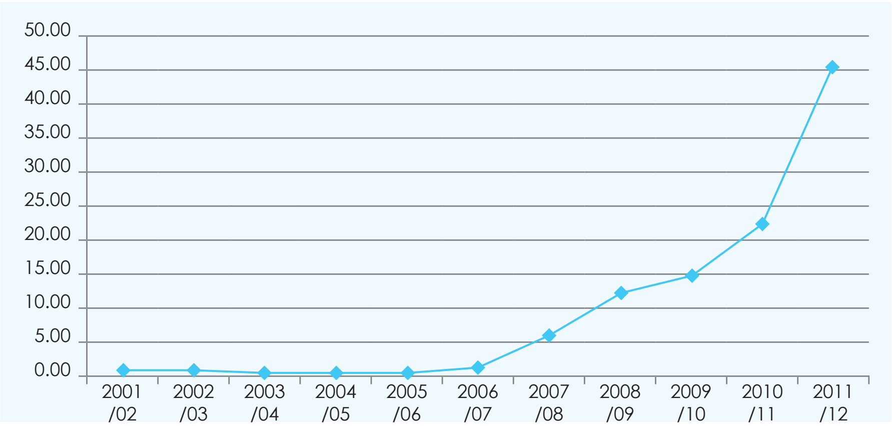


Source of Basic Data: Audit Reports of SFDB

15 *Loan waiver was, however, targeted to help cleansing overdue loan mostly from SFDP era that was handed over from ADBL to SFDP. Following the waiver, the recovery rate had improved significantly.*

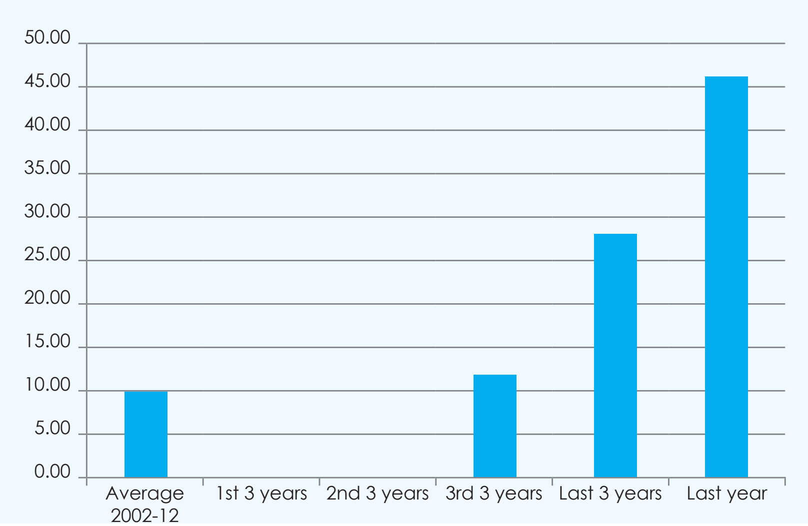
the past: consolidation phase, take off and current high growth phase. The consolidation phase had taken longer period up to six years, though it started picking up faster later. The average profit per share had increased gradually from 0.6 % per year (nominal) in first six years (2002-7) to 10 % per year in three years during year 7 to year 9, and 27.5% per year in last three years, 2009 to 2012. The rate of profit in 2011/12 was high about 45% indicating a real rate of interest of 36 % after adjusting for the inflation of about 9% a year for that year (Charts 3 and 4).

Chart 3: Yearly profit per share



Source of Basic Data: Audit Reports of SFDB

Chart 4: Average rate of profit per share



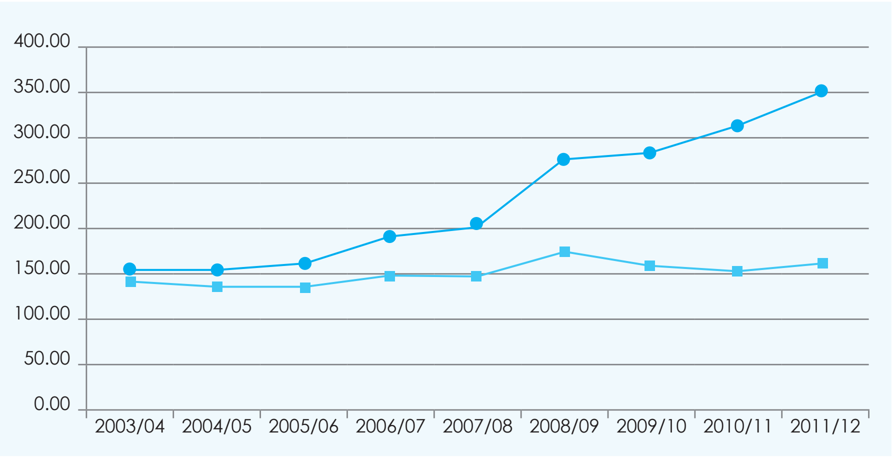
Source of Basic Data: Audit Reports of SFDB

84. There has to be a caution in interpreting the rate of profit of the bank. The bank had not entered to IPO up to 2012 and had not distributed dividend or bonus share to the share holders for over more than a decade (since its establishment; except 5% dividend provided in fiscal year 2009/2010). The regulatory frame work does not allow the distribution of dividend or bonus without entering into IPO. As all the distributable profits were transferred to reserve fund without much increase in equity, the profit per share ballooned up also due to earning effect of the reserves. In fact, the return was stagnated over the first 6 years of its establishment. That picked up only in the second half. The bank has entered into IPO from 2012/13. The high rate of profit is likely to fall at faster rate if the equity is over diluted through aggressive issue of bonus shares without enhancing the internal management capacity of the bank.

4.3 Book Value of the Share

85. The book value of the share of a bank is defined as the total net worth per share. A trend of growth in it is one of the strong indicators that measure the change in overall economic health of a bank, over a period. This indicator accommodates wealth created in the bank in terms of both the accumulation of financial and nonfinancial assets. For a healthy growth of a bank, it has to attain some reasonable positive growth in real terms, at least to compensate the rate of inflation plus the general opportunity of capital in alternate investment. Generally, it should be above the rate of inflation by about additional 10 to12 % a year, in developing countries. The book value of the share of SFDB has been rising gradually. While it was Rs 150.4 per share (of a share of Rs 100) in 2003/4, it increased to 349 in 2012, with an annual rate of growth of 11.1% per year in the

Chart 5: Book Value of Share at Real Price of 2001/2 and Real Price



Source of Basic Data: Audit Reports of SFDB

Table: 4.1 Book Value of Share at Real Price of 2001/2 and Current Price

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	Growth % /Year
Equity added (Rs million)	98.71	6.43	0.61	3.70	3.22	7.18	3.27	0.00	5.66	0.00	11.21	Total 140
Book Value at Current Price	na	na	150.4	154.3	161.5	189.9	199.2	275.7	281.7	309.4	349.0	Annual growth 11.09 %
Book value at Real Price (2001/2)	na	na	140.3	135.9	133.0	145.7	144.9	172.7	157.0	152.8	158.0	Annual growth 1.49 %
Value converter to current price (index)*	2.21	2.03	1.79	1.60	1.38	1.30	1.21	1.14	1.07	1.03	1.00	
Current value of equity added (Rs million)	218.0	13.0	1.1	5.9	4.4	9.4	4.0	0.0	6.1	0.0	11.2	Total 273.1

**Current value converter (compound factor at the rate of inflation)*

Source of Basic Data: Audit Reports of SFDB

current price during 2004-12 (Table 4.1, Chart 5). This rate is considerably higher than the business market rate of interest, if the money were to be put in the commercial banks in fixed deposit. However, the analysis from the investor's point of view would appear somewhat different. The initial equity of 2001 and the equity added over the years up to 2012 compounded against the rate of inflation accounts to about Rs 273 as against the book value of Rs 349, indicating a growth in real value of the share by about 28% over the period, with a real growth of only 2.5 % a year. Thus, the overall growth performance of the wealth of the bank should be considered only moderate at present. It is expected to pick-up fast in future as it is revealed from the current rate of profit.

4.4 Growth of Loan Disbursement, Collection and Outstanding

86. Growth of loan disbursement increased at high rate of 52 % a year at current price within 2003 to 2012. The corresponding growth in loan collection had picked up even faster leading to relative fall in outstanding loan (Chart 6, Table 4.2, and detail for 2009-12 by development regions and ecological belts in Annex Table 6). Policy strictness towards more recovery of loan and frequent payment policy (monthly to three monthly) and restructuring of SFDB and poor performing SFACLs under ADB/RFSDCP-I and II[16] had led to faster increase in the recovery. However, the growth in credit in later period 2009-012 had picked up faster compared to the growth rate in collection, basically due to nature of medium term loan of meat portfolio, introduced during the period. It is seen that there is a trend of gradual closeness of loan disbursement with loan outstanding; implying that the loan disbursed is kept-up at the on-going approved level. This also means that there is adequate demand for loan by SFACLs. It may also imply that an adoption of the loan collection approach through frequent repayment policy in later periods may have led SFACLs to go for new borrowing to manage the part of repayment gap.

87. There appeared serious bumps in the credit disbursement /collection trend over the period 2008/9 to 2010/11, specifically due to political interference in the interest and credit, as stated earlier. The then government announced a principle and accumulated interest waver up to Rs 30 thousand and interest waiver on the loan up to Rs100 thousand for small farmers in 2009/10. The rumor of such waver was going out even prior to that year and farmers were pressurizing that to happen for which they erupted violence in some areas. Some SFACLs offices (around 20) were vandalized and/ or burnt and some left for district head quarters for their operations. The announcement of the government had multiple effects (1) loan disbursement

16 *The restructuring focused mainly to (i) strict lending criteria to SFACLs (ii) support to formulate business planning of SFACLs focusing on raising internal resources of SFACLs hence enhancing feeling of ownership (iii) restructuring of poor performing SFACLs (iv) frequent loan collection (V) Improved MIS (VI) diversification of portfolio (vii) hiring CEO and other permanent professional staff from market rather than operating bank by temporarily deputed CEO and staff from ADBL*

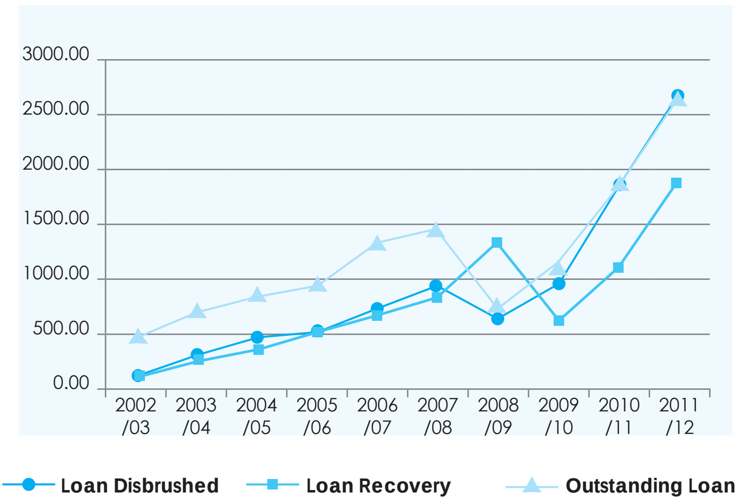
was decreased in the same year due to disruption in number of SFACLs (2) principle and accumulated interest of farmers up to Rs 30 thousand were paid by the government directly which increased the repayment to SFDB on the name of the corresponding SFACLs leading to higher recovery of SFDB, (iii) farmers thought that such waver will come again either under the same government or even if the government is changed (a new election with a potential of further populist approach was expected by people). This created high rise in (a) demand for holding smaller credits by avoiding repayment and (b) getting rid of the previous larger borrowings. The supply side also got affected leading to sudden fall in credit disbursement, rise in collection and, and subsequent sudden rise in credit disbursement again (when the additional expectation was felt to be unrealizable). The bumps in growth are represented in Table, 4.2 and Chart 6.

Table 4.2: Growth of Loan Disbursement, Collection and Outstanding (Rs Million), 2003-12

Loan	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
Disbursement	107.1	290.7	441.7	506.1	697.5	912.3	634.9	955.8	1870.9	2673.8
Collection	92.1	261.8	380.0	541.7	657.3	846.4	1327.6	592.4	1109.5	1875.9
Outstanding	474.9	702.4	860.1	959.8	1327.0	1445.4	752.7	1116.1	1877.4	2676.6
Non Performing %		6.52	5.74	2.16	4.00	5.37	1.85	1.40	2.49	1.07

Source : Various Annual Reports of SFDB

Chart 6: Trend of Loan Disbursed, Recovery and Outstanding



Source of Basic Data: Audit Reports of SFDB

88. The real annual growth in credit disbursement, collection and outstanding during 2003-12 grew at a high rate of 40.3%, 41.6% and 16.67%, respectively (Table 4.3). Whether the repayment required at the collection time actually matches with the real earning in the portfolio managed by SFACLs is not clear and will not be known unless the corresponding portfolio of the SFACLs lending to farmers are analyzed, separately. The risk is that, the credit deterioration might be occurring inside SFACLs which could be easily masked, temporarily and may lead to sudden outburst of low quality lending (as in previous lending under SFDP). However, SFDB seems to be already alert of this problem. It initiated Portfolio Audit of SFACLs with technical and financial support of ADB under RFSDCP to find out the real picture at farmers' level. The finding of the study was not out till July, 2012. At the same time, SFDB has also been tracking regularly the profit performance and other complementary indicators of SFACLs. Since SFACLs cannot book the income in its income and repayment account unless the cash is realized, such risk is partly reduced.

4.5 Loan Quality

89. Though the central bank has accepted NPL within 5% for the financial institutions, international practice for a good stand is about 1 to 3% (for example, a ratio exceeding 10 % would mean a high threat to solvency as the sunk in asset will exceed the potential net return). Central bank of Nepal has issued directives of making mandatory loan loss provisions of 1% for any standing loan with no default. In case of defaults, the penalty lies within 12.5% to 100 %. A provision of 100 % will have to be made for loans defaulting for more than a year period.

90. The bank has categorized its loan by type of their merit (Bad to Good) as per central bank directives. Detail data for the bank with the analysis for quality of loan is, however, available only for last three years. Improvement in loan quality had been gradual over the years from 6.5 % NPL in 2004 to 1.1% by 2012 (Chart 7 and Annex 24). The percentage of good loan without any overdue had reached to 97 % in 2010 and 99% in 2012 (Table 4.4). The total loan loss provision stood at 2.42 %. The good loan percentage is very high and encouraging. Central Bank

Table 4.3: Real Growth of SFDB Loan Disbursement, Collection and Outstanding Over 2003-12 and Last Three Years*

	Annual Growth % (2003-12)		Annual Growth % Last three Years (2009-12)	
	Nominal	Real	Nominal	Real
Loan Disbursement	51.7	40.3	63.1	44.7
Loan Collection	53.3	41.6	33.6	25.5
Loan Outstanding	26.7	16.7	53.0	32.1

** Average of yearly growth taken*

Source : Various Annual Reports of SFDB has recently changed the provisioning policy. Even as per that, the status of loan loss provisions changes only by 0.2 % point[17]

Table 4.4: Loan Category by Their Performance Quality

Type of Loan	2011-12		2009/10	
	Total	% of loan	Total	% of loan
A.Good Loan and types				
i) Without overdue (requiring loan loss provision of 1%)	2647.44	98.93	1082.27	96.97
(ii) With Over Due Up to 3 months requiring loan loss provision of 1%)	1.56	0.06	0.47	0.04
B. Non-performing loan *				
Rescheduled /restructures (requiring loan loss provision of 12.5%)	0.00	0.00	19.00	1.70
Poor quality Loan (3 to 6 months Overdue requiring loan loss provision of 25%)	0.00	0.00	0.00	0.00
Doubtful Loan (6 to 12 Months Overdue requiring loan loss provision of 50%)	8.62	0.32	1.26	0.11
Bad Loan (Overdue More than a Year requiring loan loss provision of 100%)	18.54	0.69	13.10	1.17
Total Loan Amount	2676.16	100.00	1116.10	100.00
Total Loan Loss Provision as per above norms	**50.88**	**1.90**	**26.95**	**2.42**

[a] *This categorization is based on Central Bank directives;* [b] *NPL in 2003/4 was 6.52 %.*

Source: SFDB Audit Reports and the MIS Data Base

17 *Loan Quality and Non-performing Loans of SFDB (Rs. Million) as per Recent Provisioning Policy of Central Bank*

Type of Loan	2011-12	
	Total	% of loan
A.Good Loan and types		
Without overdue (requiring loan loss provision of 1%)	2647.44	98.93
B. Non-performing loan *		
Bad Loan (Overdue Loan requiring loan loss provision of 100%)	28.72	1.07
Total Loan Amount	2676.16	100.00
Total Loan Loss Provision as per above norms	**55.91**	**2.09**

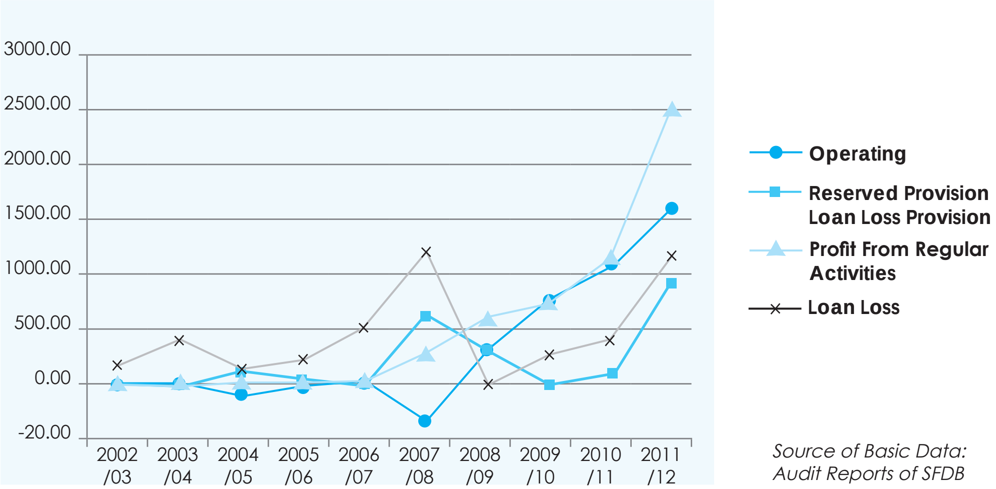
91. When SFACLs were handed over by ADBL to SFDB, the required credit recovery was to be 95%. But, in practice, some institutions with recovery rate even less than 90% were said to be handed over by applying softer approach during the internal adjustments. The NPL of the loans in 2003/4 (8 years ago), for example, was 6.52% of the total loan. Central Bank Directive allowed a NPL to be within 5%. SFDB gradually reformed the credit management leading to gradual fall in NPL close to 1% by 2012 (chart 7). However, this did not necessary imply a comfortable situation also at farmers front. There could still be cases where, SFDB is seemingly safe in short run but some SFACLs not. There is no detail evaluation study of SFACLs after 2005/6. The situation was claimed to be reasonably comfortable at that time, however. SFACL Salang case study by Pokharel and Simkhada (2012) had indicated by referring to farmers' interview during the case study that some farmers had to take loan in additional portfolio just to repay the old loan due to short repayment schedule applied in credit (though the result cannot be generalized as the farmers they interviewed were only six during their visit in the site).

92. There also a bump in the NPL (Chart 7) during 2007and 2008 due to the expectation of waver of the loan in 2007-8. Another similar expectation may have been created also during 2010/11. The finance minister who had announced the waver under Maoist government had become the Prime Minister in the later period. This indicates that small farmers' expectation on loan and interest subsidy gets highly sensitive with the change in the government and SFDB credit management falls to a considerable sensitive zone when there is political instability. In this context, maintaining apolitical stand is crucial in managing an institution like SFDB, which the bank has been rightly following through as its core value, at present.

Chart 7: Non-Performing Loan as % of Total Loan to SFACLs

Source: Various Annual Reports

Chart 8: Trend of Operating Profit and Loan Loss Provision of the Bank (Rs Million)



Source of Basic Data: Audit Reports of SFDB

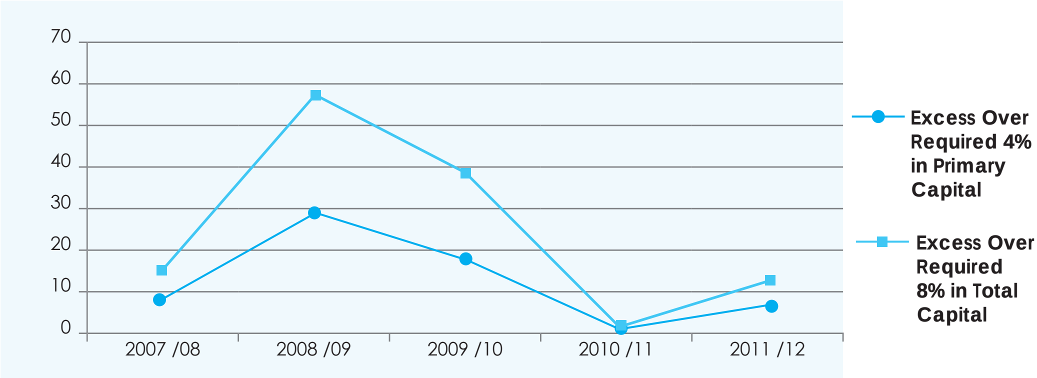
4.6 Effect of Reverse Loan Loss Provision on Profit Performance

93. As seen from Chart 8, the reversed fund from loan loss provision has played a significant role in recent years in the profit performance of the bank by offsetting significant part of the current year loan loss provision. Even a large negative operating profit in 2008 was covered by reverse of loan loss provisions. While, it gives additional pus to increase profit performance of a current year, it also masks the reality of the profit performance of the same year. This partly indicates also a due emphasis put by bank on collection of overdue loans, soon after it occurs, a reflection that the management system is responsive to signal sensing. There can be a significant learning also from this that the branch reporting system should separate between profit without reverse loan loss provision and with reverse loan loss provision to know the exact situation in the field in the year just completed.

4.7 Capital Adequacy

94. Microfinance Development Bank (MFDB) can mobilize financial resources up to 30 times of its core capital made of paid up equity plus disclosed free reserves subject to Capital Adequacy Ratio (CAR) of 9 percent. Such financial resources include group savings, special savings and borrowings. But SFDB is not allowed to raise deposit and such limit applies to it on borrowing. Audit reports indicated the capital adequacy is getting narrower in recent year even if it has met the requirement. There are significant bumps in the capital adequacy as shown in Chart 9 and Table 4.5. In 2010/11 it has reached to critical stage and the bank had increased the capital to cope with the situation. By 2012, the paid up capital of SFDB (ordinary share) was Rs 140 million. The bank entered into IPO in early 2013 by issuing 30% of the share capital to public. The paid up capital has consequently increased to Rs 200 million. This may relax the capital adequacy issue for next two to three years.

Chart 9: Capital Adequacy Based on Risk Weighted Assest (RWA); Exess in %



Source of Data: Audit Reports of the Respective Years

95. The core capital issue should get special attention not to let the over constrained situation emerge like in 2011. The temporarily relaxed situation should not get overlooked and capital addition should be a regular policy, at least at a norm more than rate of inflation plus real rate of credit growth. The institution has already reached to a borrowing of Rs 3207 million (23 times) by 2012 and the growth of browning has been increasing at the rate of more than Rs one billion a year, in recent period (year 2010/11). Likewise, the credit delivery in 2012 has reached to Rs 2.7 billion a year with about a growth of around Rs one billion a year. Should SFDB core capital remain low, it will limit the future expansion of the bank activities. On the other hand, there is also a need for reducing its dependency in foreign and government resources for the sustainability of the business of the bank. There is also a risk of future squeeze in the availability of deprived sector funds as the commercial banks are exploring the ways to initiate own subsidiaries, or entering into direct lending through possible avenues. Given

Table 4.5: Total Asset, Credit Disbursement and Capital Adequacy Based on RWA (Risk Weighted Asset)

	2007/8	2008/09	2009/10	2010/11	2011/12
Risk Weighted Primary capital %	14.85	36.37	28.7	8.32	13.99
Risk Weighted Total capital %	16.21	37.16	25.59	9.18	14.86
Excess Over Required 8% in Total Capital %	8.21	29.16	17.59	1.18	6.86
Excess Over Required 4% in Primary Capital %	6.85	28.37	20.7	0.32	5.99
Risk Weighted Primary Capital (Rs million)	245.3	339.5	362.4	183.4	436.2
Risk Weighted Total capital (Rs Million)	267.8	346.8	373.7	202.4	463.4
Credit Disbursement (Rs million)	912.3	634.9	955.8	1870.9	2673.8
Outstanding Credit (Rs million)	1445.4	752.7	1116.1	1877.5	2676.2
Total Asset (Rs million)	1584.0	1137.3	1310.4	2699.7	3948.3

Source: Various Annual Reports and MIS of SFDB.

the faster growth in the demand of smaller credit from the bank, and other future stakes for funds, SFDB should look at potential sources to increase resources from within the internal structure. For that, the government also may need to liberalize market options for micro credit wholesale lender banks within some set standard.

4.8 Operational Efficiency, Effectiveness and Sustainability Track of the Bank

96. High administrative expenses are a general concern in the banking sector. The staff expenses in operating expenses, contribution of credit delivery to total profit, operating expenses to total asset, profit generating capacity of assets built up, cost of fund as against interest earned in lending and spread between deposit and lending, and financial self-sufficiency are some other good indicators of efficiency and sustainability in operating the bank. As the bank is lending to the small farmers, profit and interest spread should also have a right balance to have sustainability of the institution and within a reasonable limit of acceptance for a good cliental relationship with the farmers and SFACLs. While low interest rate threatens to the sustainability of SFDB, high interest rate may lead to diversion of SFACLs towards co-operative bank and other wholesale financing institutions. The respective indicators and trend of operating profit of the bank is shown in Table 4.6. Details are given in balance sheet and profit loss account of SFDB and Area Offices in Annex Tables 19 to 23.

97. The efficiency indicators in Table 4.6 are moving gradually in favorable direction, in a continued basis. The table indicates that the ratio of total operating expenses to total asset is falling. Profit per outstanding loan and percentage contribution of total income on profit has been growing gradually also through the reduction on average interest paid on borrowing compared to the lending. These indicate gradual improvement in asset creation and management effectiveness. Though the improvements are expected to be significantly facilitated also by the government policy of deprived fund with an implicit market subsidy, the ability of the bank management to enter into national priority portfolio (for example, meat production, livestock insurance, promotion of vegetable cultivation etc) with internal adjustment has also contributed to it. Such portfolios are quick yielding with high profit. The farmers as rational individuals are interested to pay a bit higher interest if the loans on more profitable ventures are promptly available locally than getting them much delayed, at lower interest. In this context, SFACLs also become ready to pay higher interest on borrowing if they are available quickly with less hassles. This is revealed also from the fact that rise in profit per unit asset of the bank has occurred basically through an increase in interest spread over last four years, during which the above mentioned portfolios were promoted faster bay the bank. The spread in microcredit is expected to be much higher (about 7%) compared to general commercial

lending, basically due to high operating cost of more facilitation services of different kinds needed for the clients of micro credits. However, in SFDB it has been able to maintain it lower around 4 to 5 %.

98. The bank has not been able to reduce the staff expenses as a part of total operating expenses. It had rather a tendency to increase. It was understood that that certain part of the salary (15%) of the consultants supported by donors were born by the bank, which led to increase in the cost of personnel expenses in previous years. This approach should be seriously discouraged, as it may establish a trend of rising operating expenses as the consulting fees is fixed by donors, in which the bank management will have little or no says, in practice. The bank should look towards developing own staff strength. Consultancy driven approach cannot be sustainable in long run, though they may have tremendous benefit in a case by case basis to transfer knowledge to internal staff. The management however, has already taken steps towards it which has led to fall in personal expense to operating expenses in later years

99. The bank had also been slow in computerizing SFDB due to lack of resources. This had also increased operating cost. ADB TA is now active in developing IT in the bank, which will help in reducing operating expenditure in future. In fact the bank has been making a good profit. A certain percentage of it should be continually earmarked for the internal capacity enhancement and IT facility development in the office. Taking a broad hearted view for the investment in such facilities will pay well.

Table 4.6: Prime Efficiency Indicators of SFDB

Parameters (as %)	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Personnel expenses /Total operating expenses	7.04	7.9	8.9	8.1	8.22	12.36	14.71	9.19	7.86
Total Profit /Loan outstanding	0.07	0.06	0.05	0.08	0.49	2.01	1.71	1.55	2.37
Total operating expenses /total asset	7.48	7.75	8.3	7.73	7.98	7.86	7.13	5.31	6.46
Total profit /total asset	0.06	0.05	0.04	0.04	0.41	1.33	1.45	1.08	1.61
Profit/total income	0.63	0.56	0.49	0.93	5.29	13.33	15.41	15.59	19.88
Average interest on borrowings and deposits	8.74	8.89	8.47	7.09	6.47	7.35	7.84	6.56	6.2
Interest income/lending	11.75	9.39	9.88	9.08	9.21	9.19	11.1	10.59	11.53
Weighted average interest spread	3.49	1.26	1.64	2.36	2.44	1.84	3.17	4.03	5.33
% of Nonperforming loan	6.52	5.74	2.16	4.00	5.37	1.85	1.40	2.49	1.07
Total Personnel	Na	na	na	44	50	49	48	47	48

Source of Data: Audit Reports of the Respective Years

4.9 Market Strength of SFDB

100. There are 76 MFIs licensed by Central Bank as of July 2012. There are four wholesale lenders to MFIs (excluding co-operative bank and federation for saving and credit co-operative which provide lending to their own member co-operatives)[18]. SFDB is one of them. Others whole sale lenders to MFIs are Rural Self-Reliance Fund -RSRF, Rural Microfinance Development Centre Ltd. –RMDC and First Microfinance Bank. The deposit collection of MFIs (licensed by central bank) has reached Rs 4.5 billion. Yearly disbursement of the loan stands at Rs 22.3 billion a year[19].

101. The registered MFIs have covered 59 districts, so far. Families covered are 1.84 million and borrowing members are about 74%[20]. The market share of SFDB in the micro credit sector has now reached to about 13% of the credit disbursement (Table 4.7). SFDB has been able to attract due attention of policy level, donors and intellectuals by virtue of its separate modality of expanding microfinance in rural area through own home grown co-operative approach. This has been helpful in expanding its market, gradually. However, it has recently extended its wing somewhat beyond the trajectory by lending also to some other credit and saving cooperatives, 24 by 2012 (SFACLs being 267), with a hope of converting them to SFACLs equivalent. The bank management seems to have taken a mild risk, as it has provided only Rs 44.9 million to other 24 co-operatives, so far. This stands as 1.7 % 0f the total loan flow (outstanding) of SFDB. Average loan outstanding per such co-operatives stood at one fifth of the average loan outstanding per SFACLs (Annex 21 for detail).

102. Being a new venture, reform effect SFDB involvement in other types of co-operatives is yet to be known, though the management feedback is positive. Given the internally deeply rooted different structure of those co-operatives created with different framework, the expectation could be hard one to be realized without adequate capacity building in them and thus, needs careful scrutiny before it expands, too far. SFDB has started lending also to other partner co-operatives as per ADB-RFSDCP-II covenants of capacity building for other partner co-operatives. It could be considered at this stage as an innovative exercise of market creation and diversification of business portfolio. However, SFDB management should be careful by expanding it only within a tolerable framework of taking stakes in a stepwise caution approach. While inclusion of other co-operatives could expand market, credit flow to them could get easily politicized beyond the serving capacity and the risk tolerance range of SFDB

18 *National co-operative Bank, and Nepal Federation of Saving and Credit Co-operatives are also there for whole sale lending to member cooperatives.*

19 *Banking and Financial Statistics of Nepal, Nepal Rastra Bank, 2012*

20 *G. B Thapa , State of Microfinance : Social Responsibility and Sustainability, Power point Presented in Micro Finance Summit , Kathmandu, Feb 2012*

Table 4.7: Market Strengths of SFDB (2012 Mid. July)

	Yearly Disbursement	Deposit	District Covered	Families covered by MFIs	Borrowing members*
Total MFI	Rs 22.3 Billion	Rs 4.5 Billion	59	1.84 million[a]	1.0million[b]
SFDB	Rs 2.67 Billion	0[c]	46	230 Thousand	135 thousand
Share	12.0 %	0	70.7% 0f total covered	13%	13.5%

Source: Central Bank, Microfinance summit data 2012, and SFDB

[a] Including microfinance cooperatives (excludes other SACCOs, SCGs/ SHGs and Village Banking Groups, which are not necessarily limited to poverty groups). It will have 3.53 million clients/members including all SACCOs (excludes SCGs/ SHGs and Village Banking Groups) as per Microfinance Summit 2012, Kathmandu.

[b] Average 0f SFDB (74%) and SFACL (58%)

[c] The saving from SFDB promoted SFACLs stands at Rs 987.2 million by 2012. This is not included as deposit for SFDB as they do not enter in SFDB account.

4.10 Performance of Area Offices

4.10.1 Loan Distribution by Area Offices

103. In terms of the total loan outstanding, Area Office Butawal in western Terai is the largest with almost one fourth of the total share followed by Hetauda in central inner Terai (20%). Area Offices Janakpur, Gajuri, and Nepalganj have the share of about 11 % to 12 %. The rest are small with the share of around 6% (Table 4.8, detail in Annex Table 7). Gajuri is picking–up faster in the recent years, as commercial agriculture is picking up faster in the hilly areas along Kathmandu- Chitwan high highway of the country. Despite Area Offices, the Head office also mobilizes some lending, which is less than 1%, in total.

Table 4.8 Percentage Loan Distribution (Outstanding) by Area Offices

	Loan Distribution In %										Total loan (Rs million)
	Head Office	Butawal	Hetauda	Birtamod	Itahari	Janakpur	Gajuri	Pokhara	Nepalgunj	Total	
2009/10	0.40	29.89	20.21	3.90	6.09	15.79	5.64	7.19	10.87	100	1116.1
2010/11	0.40	25.37	21.19	6.23	6.17	12.46	8.18	7.48	12.53	100	1877.5
2011/12	0.95	25.27	18.93	6.38	5.90	11.96	11.13	6.87	12.60	100	2676.2

Source: SFDB MIS

4.10.2 Profit Performance of the Area Offices

104. SFDB started also tracking the profit loss status of all the Ilaka (Area) Offices starting 2009/10 to monitor their financial performance, separately. SFDB has set up an accounting system with a separate balance sheet up to net income level (before bonus and taxes). This has promoted sustainability discipline in the area offices, facilitated the flow of vital information from the field level to the centre, and strengthened the internal monitoring (detail of balance sheet, income –expenditure and profit status of the Area Offices in Annex Tables 20, 22 and 23). Detail inspection of the balance sheet figures of the Area Offices by this study indicates that they have all reached now to profit level (Table 4.9). However, performance fluctuates considerably between positive and negative profit level in case of some. Birtamod and Pokhara were in negative net income in 2011 and Birtamod and Janakpur were in similar situation 2009/10. The loss making years were related to high loan loss provision in case of Pokhara in 2010/11 and Janakpur in 2009/10. Birtamod had been in loss due to high interest expenses in both years 2009/10 and 2010/11.

105. Even if this study encountered some Area Offices making loses in some years, audit reports have remained silent on their profit loss positions, to this detail. Possible causes of negative profit performance of some Area Offices in some years due to sudden increase in high loan loss provisions were multiple like (i) principle installment due for more than three terms (ii) Interest due for more than three months (iii) blocking of more fund in working capital but not using and not renewing that on time, by SFACLs (iv) Blocking of more fund by Area Offices without having ability to lend them or (v) similar others. The bank should develop a system of exact cause tracing indicators and adopt reform measure accordingly to avoid such bumps in performance of the related Area Offices, in future. This will strengthen monitoring. For that current indicator system may need to be improved.

Table 4.9 Net Income by Area Office (before bonus and taxes) in 2010-2012 Rs '100 thousand'

	Head Office	Butawal	Hetauda	Birtamod	Itahari	Janakpur	Gajuri	Pokhara	Nepalgunj	Total
2009/10	167.7	63.2	40.3	-11.5	4.9	-8.9	15.3	7.5	26.2	304.7
2010/11	307.3	87.1	52.7	-30.0	32.5	17.4	11.4	-43.0	27.1	462.5
2011/12	570.0	107.4	134.6	19.7	26.1	44.1	38.1	29.4	31.3	1000.7
Contribution in SFDB net income 2012 (%)	57.0	10.7	13.5	2.0	2.6	4.4	3.8	2.9	3.1	100.0
Staff Number		4	4	2	4	3	3	3	4	
Office Start Year Start Year	2001/2	2002/3	2002/3	2002/3	2002/3	2002/3	2004/5	2003/4	2003/4	

Source Basic Data: SFDB MIS

Table 4.10 Nonperforming Loan by Area Office, as Percentage of Total Loan

	Head Office	Butawal	Hetauda	Birtamod	Itahari	Janakpur	Gajuri	Pokhara	Nepalgunj	Total
2010/11	0.0	1.1	0.5	4.3	2.2	11.0	0.0	3.4	0.6	2.5
2011/12	0.0	0.9	0.0	1.2	1.1	3.0	0.0	2.5	0.9	1.1

Source of Basic Data: Balance Sheet of Area Offices

4.10.3 Quality of loan by Area Offices

106. Nonperforming loan by Area Office indicates that the branches have reduced non performing loan considerably in 2012 compare to 2011. In 2012, the percentage of non-performing loan is generally low in all Area Offices (Table 4.10; Annex Table 24)

4.11 Management Information System (MIS)

107. SFDB has set up a separate MIS section. It had computerized the annual report publications from the very beginning. SFDP developed the MIS system gradually by mobilizing multiple supports basically from GIZ from the early stage to 2010 and ADB from 2005 onwards. Development of MIS system for grading of SFACL occurred during 2005-7. It was a remarkable work in data development system of SFDB under the support by GIZ and SFDB, even if the technical terminology 'MIS' was not used, then. Central bank system of reporting made SFDB keep vital lending and collection related data for meeting the mandatory disclosure of profit /loss status of the bank, every quarter. GIZ assistance had also been utilized on this. Under ADB support of RFSDCP-I Phase I (2005-10), data collection system further improved, considerably. Software purchases were facilitated by the support which created demand for the data from the field level. This joint exercise by SFDB, GIZ and ADB had been crucial to arrive at the present structural form of MIS system adopted by the Bank in grading SFACLs and improving its reporting.

108. SFDB being a licensed institution under Central Bank, it has developed data collection system and used software to meet its own need as well as the reporting need of the Central Bank. Thus, its MIS system is geared towards to achieving data requirement standard for the evaluation of the mandated indicators by Central Bank for financial institutions and additional more also from the point of view of monitoring SFACLs by SFDB itself (detail on SFACLs monitoring system later). SFACLs have also developed their MIS system to supply requested data by SFDB as well as to the co-operative system that they have to comply with. Consequently, internal data system of SFACLs has much improved compared to other saving and credit co-operative counter parts, as indicated by the experts based on experience of other non SFACL co-operatives and data system seen in a SFDB promoted SFACL (Salang)[21].

109. SFDB has mandated also the Area Offices to develop data system to create separate balance sheet of profit

21 *SFACL Salang Case Study by Pokharel and Simkhada, at Micro Finance Summit, Kathmandu, 2012*

loss account and also get reporting from SFACLs, as required for SFDB. This has led to the development of good data system and monitoring framework also in the Area Offices. This is good approach and needs further enhancement. In SFACLs, SFDB has helped in MIS development for (i) what they are required to report to co-operative division (ii) a standard PEARLS system to meet SFDB's own monitoring framework developed and (iii) the other indicators needed as per the Directives by Central Bank for limited transaction co-operatives licensed by them. For that, SFDB has provided also the training related to different aspects of reporting required by Area Offices and the SFACLs. This has helped in reforming also the accounting standard of SFACLs. Area Offices are also playing significant role in this process. However, SFDB has not been able to establish online linkages with the Area Offices, yet.

110. The state of data base generation has been progressing gradually, as revealed from the progress report over the years and the status of the availability of various data from within the MIS during the course of this evaluation study. For information transfer, SFACLs reports to specific Area Offices and the areas offices report to central office of SFDB, in Kathmandu. So far, soft copy transfer by e-mail has been the major source of data feeding. Online connection is overly limited by the load shedding in the country. ADB has been strengthening MIS system of SFDB in the current TA (ADB-RFSDCP-II). The process for online linkage between SFDB and its Area Offices is planned under the TA by applying also the alternative means. Online linkage between SFACLs and Area Offices has also been felt necessary to strengthen the monitoring system.

4.12 A Move Towards Autonomy

111. Functional autonomy to financial institutions from direct government influence has been a matter of prime concerns for sometime in Nepal due to dwindling experience of most of the government controlled Public Enterprises (PEs). In case of SFDB, the government had one fifth stakes (20.3%), initially. However, it could have indirectly a functional majority in the board together with ADBL as the government had more than 50% share in ADBL and ADBL owned 31.5 % stake in SFDB. From 2011, the government presence in SFDB got fully divested to none. Likewise, the share holding by the SFACLs increased fast from 1.7% in 2002 to 55.5 % by 2012, to have majority of the share (Table 4.11 and Annex Table 25). There is no government representation in the board, at present (Table 4.12).

112. To talk form from the point of view of autonomy in operation from the Government, SFDB be influenced only in a limited extent through ADBL in the board. However, a roundabout twist cannot be denied due to funding dependency on the government, as SFDB cannot raise deposit and most of its fund comes through government, either as direct lending or through donors' fund mobilized through MOF. Strategy for getting out of over dependency on the government funding is important for the longer term health of the institution. SFDB should eye on strategic moving

Table 4.11: Current Composition of the Share

	2001/02 (Rs Million)	%	2006/07 (Rs Million)	%	2011/12 (Rs Million)	%
Ownership Pattern (no foreign ownership)	98.7	100.0	119.9	100.0	140.0	100.0
1. Government of Nepal, Ministry of Finance	20.0	20.3	20.0	16.7	0.0	0.0
2. Institution under "Class A" Licenses	77.0	78.0	77.0	64.2	62.3	44.5
3. Agricultural Development Bank Ltd.	70.0	70.9	70.0	58.4	44.1	31.5
4. Nepal Bank Ltd.	5.0	5.1	5.0	4.2	12.1	8.7
5. Nabil Bank Ltd.	2.0	2.0	2.0	1.7	6.1	4.3
6. Small Farmers Cooperative Ltd	1.7	1.7	22.9	19.1	77.7	55.5
7. General Public	0.0	0.0	0.0	0.0	0.0	0.0
Total	98.7	100.0	119.9	100.0	140.0	100.0

Source: Basic data: SFDB MIS

Table 4.12: Current Composition of the Board

Institution	ADBL	SFACL	NABIL	Independent Expert	Remark
Membership	2	3	1	1	Chairmanship with SFACL

Source: Basic data: SFDB MIS

towards getting access to the direct public deposit and SFACLs deposit for its sustainable and smooth growth.

4.13 SFDB as an Implementer of Special Credit Program for Poverty Alleviation

113. SFDB has been working as one of the prime development program support investment bank of the Government in microfinance in rural areas through SFACL approach. It is playing significant roles in (a) expanding microcredit program in rural areas through SFACLs, (b) establishing local microfinance institutions, and (c) strengthening them by mobilizing national and international efforts and (d) implementing specific rural credit portfolio of the government has been its major achievement track, so far. In addition to promoting SFACLs approach, the bank has been implementing (a) meat production, animal husbandry and youth employment programs of the government, (b) RFSDCP II of ADB, and (c) micro credit program under the support by various donors. The meat sector animal husbandry program and the youth employment program are interest subsidized. The progress tracks of the bank on them are reportedly satisfactory.

4.14 Mobilization of Fund and Dependency on External Fund

114. The managerial efficiency of a bank depends on the ability of mobilizing both the internal (equity) as well as external fund and utilizing them effectively. While, profit performance has already been discussed, analysis of the fund mobilization is next.

4.14.1 Credit Fund Management

115. Equity capital of the bank is small at Rs 140 million and reserve accumulated, so

far, is Rs 348.95 million accounting both to about 12 % of total asset. Being largely a borrowed fund dependent organization by structure, the outstanding borrowing stands at about 81% of the total asset, in which the borrowing from the Government and inter banking/financial institutional contribute to about 40% each (Table 4.13 and Chart 10). Foreign borrowing is nil[22]. Borrowing from central bank is negligible as 0.3%. The outstanding borrowing has started exceeding the outstanding lending from middle of 2011 basically due to aggressive arrangement for credit fund through government. Possibly, an expectation got raised by sudden jump in demand for loan in 2011 and 2012 (Chart 10). However, the strategy may lead to high risk exposure to rise in interest expenses compared to the earning.

116. SFDB does not have a system of carrying out ex-ante signal processing exercise on matching of resource availability and demand for fund for a prudent financial management. It relies still on traditional approach of yearly budget driven practice. Business plan formulation and quarterly updating for advance planning of the next credit portfolio is week. There is a need for providing training exposure to credit sector staff on such aspects. However, SFDB has started good efforts in expanding credit in view of market strength signal led portfolios, as revealed from its involvement in meat production for which both the import and domestic price are increasing faster. SFDB mobilized fund from the government for such purpose, so far, is about Rs 1.6 billion.

4.14.2 Capacity Building

117. The donor fund supports, mainly form ADB and GIZ, are mostly for capacity building like training, scholarship, replication SFACL, and internal strengthening of the institution, since the inception of the bank. GIZ support was for 2001-07 and ADB support has continued from 2004 to 2014 in two phases. WB support in 2003 was as a

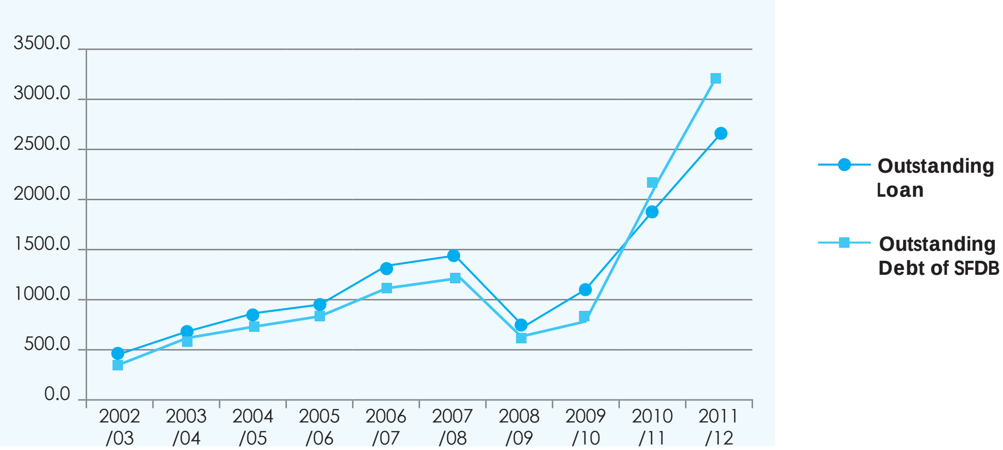
Table 4.13: Composition of Assets in SFDB and Share of Borrowing (Rs Million)

Total Asset	3948.3	100.0
Paid Up Share Capital	140	3.5
Reserve	348.5	8.8
Borrowing	3207.4	81.2
Borrowing from government	1575	39.9
Borrowing Central Bank	10.4	0.3
Inter banking and Financial institutions	1622	41.1
Foreign and Institutions	0	0.0
Other Liabilities (mostly related to personnel and payment to parties)	252.3	6.4
Total	140.0	100.0

Source of Basic Data: SFDB Balance Sheet

22 There is USD 50,000 as revolving fund from WB

Chart 10: Trend of Lending and Outstanding Debt of SFDB (Rs Million)



Source of Basic Data: SFDB Balance Sheet

revolving fund to replicate SFACL (which is still continued due to the nature of the fund). Currently active donor support is from ADB RFSDCP-II ($2.91 Million) over 2011-14 for the internal strengthening of the institution including IT, data base strengthening, and expanding SFACLs in Hills. Government has also provided grant to SFDB equivalent to Rs 100 million earlier for the capacity building and expansion of SFACLs. Next support of Rs 50 million is on pipeline for 2013-14 (Table 4.14).

118. The supports received, so far, have been reasonably impressive in strengthening SFDB, as revealed from database creation, progress on SFACL replication, facilitation of SFACLs and continued improvement in publications (for example, annual report, case study, contribution on national seminars through written papers by staff, initiation of publication of enterprise development brochure, exposure of SCLs in media, visits of high profile dignitaries, are some examples). However, the tempo of improvement picking up only in the later half. There is need for continued support basically to enhance further the quality of supports to SFACLs, information analysis and adequate tracking of SFACLs portfolios to enhance business and at the same time get insulated from future risk exposures. (training facilities provided discussed already).

4.15 External Audit and Regulatory Compliance by the Bank

119. The study consulted all the external annual audit reports 2002-12, which are submitted by SFDB to AGM. SFDB has made them public by including in their annual reports. Audits were done every year by using a duly chartered account as per Central bank directives. There does not seem to be any significant noncompliance notes any year. The audits reports have remarked the following[25]

25 *External Audit Report of SFDB for Fiscal year ending 15 July 2012 and earlier Issues), Prepared and submitted to AGM of SFDB.*

Table 4.14: Fund Mobilization (2001 to July 15, 2012) for Credit Fund and Capacity Building

Funding source	Expenditure Period	Expected expenditure	Actual expenditure
I. Donor Fund and Purpose			
GIZ (Mainly equipment support, capacity building of SDB, Developing grading of SFACLs, capacity Building of SFACL, studies)	2001-2007	Mostly Direct Payment by GTZ	Mostly direct payment by GTZ
CGAP[23]/WB (Revolving fund to replicate SFACL)	2003 (continued to date)	USD 50,000	Revolving fund (second phase is ongoing).
ADB (SFDB financial and operational review)	2004-2005	Directly by ADB	
ADB-RFSDCP-I[24] (TA for restructuring of SFACLs, Procurement of Hardware, Software and Training to SFDB staff and SFACLs)	2005-2010	USD 300,000	USD 280,535; USD 1= Rs 70
ADB-RFSDCP-II (Mainly Internal strengthening of the institution and management, data base strengthening, introducing online MIS, and expanding microfinance in Hills)	2011-2014	USD 2,911,300	USD 1,786,271
II. Government Fund			
Meat production loan	2010-ongoing	Rs 1.5 billion	Rs 1.5 billion
Youth Self Employment Fund (YSEF)	2010-2011	Rs 90 million	Rs 95 million
Grant fund to replicate SFACL	2007-2012	Rs 47.5 million	Rs 47.5 million
Grant fund (for training, social mobilization, community development, and Community managed livestock scheme)	2007-2012	Rs 54 million	Rs 56 million
III. Government Fund Committed for Future			
Committed Pipeline Funding source	Expenditure Period	Expected expenditure	Expected output
Meat production loan	2013-2014	Rs 500 million	5000 families will receive credit
Grant fund for replication of SFACLs	2013-2014	Rs 23.5 million	Replication of 40 SFACLs; Capacity building of 20 co-ops
Grant fund (for implementation of training, social mobilization and community development)	2013-2014	Rs 27.1 million	Training events-140; Social mobilization and community development-200 activities
Community managed livestock scheme loan	2013-2014	Rs 14.5 million	10,000 families with livestock loan

Source: SFDB

23 *'Consultative Group to Assist the Poor' is a wing of World Bank dedicated to promote microfinance*

24 *'Rural Finance Sector Development Cluster Program-I*

- the bank has been following the account keeping to meet the requirement of Central Bank Directed formats to comply with them, Banking and Financial Institution Act (BAFIA) 2006, Nepal Accounting Standards (NAS) and company Act 2006 except that the posting of interest income in the balance sheet is based on the actual cash realization as per Central bank directives than on accrual basis, as per NAS.
- the detail account keepings at Area Offices are also found to be adequate for auditing
- the bank has classified loans as per central bank directives and has adequately provisioned for loan losses (1% of loan initially up to first three-months of defaults and at increasing rate thereafter) for mitigation the potential risk as per central bank directive[26]
- write of process has also been applied as per Central bank Directive
- to the best of the understanding of the Auditor, the board of directors, any director of the bank or any personnel of the bank has not done any misappropriations – financial, nonfinancial or other kinds, including or crossover of directives of Central Bank.

120. As reflected in audit reports, the bank has allocated the net profit after overall operations (i.e. prior to bonus and taxes as follows

a. Tax Compliance of the Government

- Currently it stands at 30% of the Net profit.

b. As per Central Bank Directives

- General Reserve Fund: 20 percent of the profit is allocated to this account every year
- Primary Capital Fund: In this fund (a) the Bank has been setting aside debt relief fund separately (initially 7% of the SFACL loan transferred by ADBL to SFDB and 14 % from April 2005 as agreed between SFDB and ADBL). Accumulation in this fund has reached to Rs 103.66 million by 2012. (b) Capital grant fund made available to the institution has reached to Rs 8.62 Million by 2012.[27]

c. Conflict Affected SFACL Rehab Fund (Matching fund with donor assistance)[28] :

- The bank has been allocating 3% of its profit to that account staring 2003/4.

d. Bank's Own Regulation for Strengthening SFACL

- The bank sets aside 10 % of the profit for strengthening SFACL, so that it can have regular fund for institutional strengthening. Bank uses it to support training, equipments and other social activities of SFACLs as sole or complementary matching fund with other donors.

e. Other Deduction (as per Banking regulation and internal provisions of the Bank)

- Staff bonus provision and other approved facilities.

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26 The rate stood at 1% initially, up to first three months of defaults, 12% for rescheduled loans, 25 % for the defaults of 3- 6 months, 75 % for the defaults of 6 -12 months and 100% thereafter.

27 As per central bank directives of 2012, the bank has started showing (i) capital grant fund and (ii) debt relief fund under Primary Capital

28 Assistance from RUFIN/GTZ

ROLES PLAYED BY SFDB TO PROMOTE SFACLs

5.1 Snap-Shot of SFDB in Relation to SFACLs

121. By Design, SFDB has been the main centre for credit feeder, an advocate and promoter of for SFACLs. By 2012 it has reached to 291 co-operatives/MFIs and has served 230 thousand members. About 40% of its services are in hills and mountains. Female members constitute about two third. Snap shot of their presence in relation to SFACLs is shown in Table 5.1. Both SFACLs and SFDB being the descendant of the ADBL, an operational convenience seems to have been established between them. SFACLs borrowed majorly from SFDB, to date. SFDB arranges the required funding to SFLs based on the performance quality of portfolio and overall health of a related SFACL. Likewise, it also co-ordinates with various offices to facilitate SFACLs in social activities. SFACLs mangers interacted in different occasions including in micro summit of 2012 viewed that their funding needs were reasonably met, and dealing with a single institution had helped in smoothening operational modality of borrowing, repayment and lending. However, they felt that the overall facilitations imparted were less optimal due to staff shortages in the Area Offices. SFACLs had been taking co-operation from the central district and local level organizations in the field of agriculture, social and community works, also on their single efforts. Management wise, SFACLs have maintained their own independence in decision makings, so far as the relation with SFDB is concerned.

Table 5.1: Snapshot of SFDB in Relation to SFACLs at a Glance (July 2012)[29]

S.N	Particulars	Unit	Quantity / Amount
1	District Coverage	No	43
2	Area Offices serving and monitoring SFACLs	No	8
4	Small Farmer Cooperatives Ltd.	No	267
5	Other Cooperatives/ MFIs	No	24
6	Total Partner Cooperatives/ MFIs	No	291
7	Total Members Served	No '000	230.2
8	Female Member %	%	66%
9	Member in the hills districts	No '000	71.6
	Member in the mountains districts	No '000	24.3
10	Outstanding loan to SFACLs	NPR Billion	2.68

Source of Basic Data: SFDB

29 TAs of December 2012, numbers of SFACLs have reached 278 and total partner co-operative MFIs has reached to 316. These institutions are providing services to 252 thousand poor and underprivileged. Outstanding loan has reached to 2.95 billion.

5.2 Financial Services

122. SFDB had been providing whole sale lending to SFACLs at 11.75% interest per year. Towards the end of 2012, it was reduced to 10.75%. The cost of deposit in receiving fund at competitive market rate was around the same, in most of the SFACLs. This lending practice of SFDB is a sustainable market based framework. The lending is not subsidized except on the portfolio of special program under government subsidy. If the government comes-up with a subsidized program, SFDB and SFACLs lower the rate, accordingly. The usual formula applied for handling charge by SFDB and SFACLs, in such case, is 4% margin for both SFDB and SFACLs. For example, in the meat production portfolio, government has initiated a subsidized credit with the aim of substituting import of meat and meat animals. SFDB has worked as credit facilitator to it and SFACLs. Government lends to SFDB at 1% interest rate per year and SFDB lends it to SFACL at 5% per year. The SFACL in turn lends the farmer at 9% per year. The additional 4% is to cover the handling cost, risk aspects and some profit to SFDB and SFACLs. If SFDB does not pay the loan on time to the government, the rate applied to it automatically becomes 5 % per year. SFDB applies the same rule to defaulter SFACLs. If defaults by SFACLs rise, SFDB will incur losses, accordingly. Following are the major loans and related services imparted by SFDB to SFACLs.

5.2.1 Focus of Wholesale loan received by SFACLs by ecological belts

123. Field visits, interactions with SFACLs and staff of Area Office visited reveal that investment of whole sale loan received by SFACLs under microfinance from SFDB are focused more in income generating activities such as commercial crops in agricultures including vegetable production, animal husbandry, milk and meat production, trading of agricultural products, and various microenterprises of local market potentials. The bank has been supplying the credit to SFACLs and 24 other partner cooperatives by mobilizing its share capital, reserve funds, loans from other banks and financial institutions, and the resources provided by the Government of Nepal. The loans performances by ecological belts of MFIs are as shown below (Table 5.2). More details by regions, ecological belts and area offices are given in Annex 6 to 13. Generally, the loan overdue is low and collection is very high in all belts, contrary to general feeling that the accessibility in hills may lead to higher loan over due.

5.2.2 Activeness of SFACLs Portfolio and Promotion of Special Credit Programs

124. SFACLs have remained very active in both borrowing from and repaying to SFDB. Out of 267 SFACLs in 2012, the numbers of SFACLs borrowing from SFDB were 87% in 2012, which is a very high participation rate. Those with outstanding loan were 89%. SFACLs with overdue loan were 8%, while those with interest receivable due were low as 1.5%. (Table 5.3).

Table 5.2 Transaction Between SFDB and SFACL 2009/10-2011/12 by Ecological Belts (Rs Million)

Fiscal Years	Ecological Belts	Disburse-ment (Rs million)	Principal Collection (Rs million)	Interest Collection (Rs million)	Outstanding Loan Up to End of Fiscal Year (Rs million)	Loan Collection Rates %	Overdue Loan as % of Outstanding Loan	Receivable Interest as % of Total Outstanding Loan
2009 /10	Mountains	0.70	0.53	0.04	0.45	100.0	0.0	0.00
	Hills	21.48	12.56	2.15	22.93	99.7	0.1	0.12
	Tarai	73.40	46.12	8.61	88.23	99.1	0.5	0.13
	Total	95.58	59.21	10.80	111.61	99.2	0.4	0.13
2010 /11	Mountains	1.05	0.75	0.06	0.75	100.0	0.0	0.00
	Hills	44.21	21.64	3.46	45.50	97.4	1.4	0.07
	Tarai	141.83	88.56	12.30	141.50	97.5	1.8	0.01
	Total	187.09	110.95	15.82	187.75	97.5	1.7	0.02
2011 /12	Mountains	2.76	0.98	0.20	2.53	100.0	0.0	0.00
	Hills	68.55	45.66	6.44	68.34	98.7	0.9	0.15
	Tarai	196.06	140.87	19.63	196.75	98.6	1.2	0.03
	Total	267.38	187.51	26.26	267.62	98.6	1.1	0.06

Source: SFDB MIS

Table 5.3: Number of SFACL as per Disbursement, Outstanding Loan, Overdue Loan and Receivable Interest*

Description	2009/10	% of SFACLs	2010/11	% of SFACLs	2011/12	% of SFACLs
Loan Disbursement to Number of SFACLs**	161	72.2	192	81.4	232	86.9
Number of SFACLs with Outstanding Loan	189	84.8	210	89	237	88.8
Number of SFACLs with Overdue Loan*	3	1.3	27	11.4	21	7.9
Number of SFACLs with Receivable Interest	3	1.3	2	0.8	4	1.5
No of SFACLs	224	100	236	100	267	100

**Does not include other MFIs; ** implies overdue by any number of days.*

Source: SFDB MIS

125. SFDB loan portfolio outstanding in SFACLs are categorised as (i) general micro finance, (ii) meat production (iii) youth and small entrepreneur self-employment credit program. Portfolio classification in SFDB record indicates that by 2012, 73% of the credit flow is in general microfinance, 24 percent in animal husbandry and 3.1 % in youth self-employment (Table 5.4). In case of specific programs (category ii and iii), the participating SFACLs are required to lend only in the specified activities by SFDB.

126. (i) General Micro Finance: As shown in table 5.4, 73% of the credit flow was in general microfinance by 2012. Detail sub classification by portfolio is not yet tracked by SFDB. However, the bank has already realized that portfolio tracking of SFACLs is important. On-site portfolio

Tables 5.4 Credit Program of SFDB to SFACL by Portfolio (Rs 000)

Particular	Disbursement				Loan Collection Rate				Overdue loan as % of Outstanding Loan			
	Microfinance General	Animal Husbandry for meat Production	Self Employment	Total	Microfinance General	Animal Husbandry for meat Production	Self Employment	Total	Microfinance General	Animal Husbandry for meat Production	Self Employment	Total
2011/12	1951162	641911	80700	2673773	98.38	100.00	100.00	98.61	1.68	0.00	0.00	1.07
Share	73.0	24.0	3.1	100								

Source of basic data: SFDB MIS

audit of 34 SFACLs and off-site portfolio audit of all SFACLs have already been initiated under the current TA of ADB. Initiation of reporting of credit status by major portfolios by them is equally important.

127. (ii) Meat Production Program: In view fast rising meat imports, the government initiated a meat production credit as an ongoing program to SFACLs through SFDB, starting March 2010. Rupees one billion was allocated initially with some subsidy element under a soft loan (at interest rate of 9%). The government implemented also the 'Livestock Credit Procedures' 2010. Within one and half years (July 2012), SFDB disbursed Rs 640 million. Given the progress of the program and demand for credit, total earmarked fund was increased to Rs 1.5 billion in 2013. There is no overdue loan in the program. While 18000 families were to be benefitted by the program in 2012/13, about 23000 families were already benefitted by the middle of 2012/13. Being encouraged by the program, the government already committed an additional allocation of Rs 500 million for fiscal year 2013/14.

128. The animal husbandry for meat production is expected to reduce the import of meat and meat animal. The credit portfolio is directed towards excelling in a single portfolio – either of goats, pigs, buffaloes or fattening of young calves of buffaloes. Net growth in national meat production over the last two years compared to preceding two years in the promoted portfolio by the bank was 0.7 % in goat, 1.7% in pigs and none in buffaloes (Table 5.5). Though the exact impact of SFDB meat production credit in that national growth of meat is not known, there is indication of positive impact as seen from the information on animals sold by the participant farmers (Table 5.6). Based on ongoing investment and previous trend, the program has estimated a potential sale of 87 thousand animals in 2013/14, which may be worth more than Rs 1. 3 billion. The overall credit performance of the portfolio has remained satisfactory.

Table 5.5: Growth in National Meat production (%)

	2007/8-2009/10	2009/10-20011/12	Net increase (% point)
Goats	3.4	4.1	0.7
Buffs	3.5	3.1	-0.4
Pigs	1.8	3.5	1.7

Source: Economic Survey, 2012/13, Ministry of Finance

Table 5.6 Animal s sold by Participant farmers in SFLCLs 2010/11 and 2011/12

	Number of livestock sold from 2011 Dasain onward to Dasain of 2012		Number of livestock sold in Dasain of 2010/11		Remark
	Numbers of livestock Sold	Estimated values	Numbers of livestock Sold	Estimated values	
Goats	15932	Rs 240 million	15603	Rs 115 million	Livestock in rural areas are sold mostly during Dasain, the main festi-val of Nepal
Pigs	6943				
Meat buffs	2355				
Total	25230				

Source: SFDB Progress Report 2012

129. **(iii) Youth and Small Entrepreneur Self-employment Credit Program:** By Coordinating with the Government of Nepal, the Ministry of Finance and Youth and Small Entrepreneurs Self-employment Fund (YSESF), SFDB has started a self-employment credit program for the unemployed, Dalits, women, Indigenous, marginalized, poor and small farmers. Its objectives are to encourage these communities towards agriculture, in traditional skill based enterprises, improve skills, abilities and capacities to initiate small enterprises and services, to help in investments and to create opportunities for jobs within the country. SFDB promoted portfolio under YSESF are self-employment and income generating enterprises like agriculture, floriculture, animal husbandry, poultry farming, micro enterprises, small groceries, small pharmacies, vet shops, fertilizers, seed centres and service enterprises. SFDB had entered into an agreement with the fund for Rs one Billion in 2010 March. This fund is also interest subsidized at ex-post stage of last instalment of full debt repayment by refunding 60% of the interest paid on the loan by the participant, if instalments are paid on timely basis. The loan is provided to the participants at 12 % rate of interest by SFACLs. But after refund, the effective annual interest rate will fall to less than 5%.

130. The credit is delivered through identified SFACLs and amount of credit is up to Rs 200 thousand (About $2500) per individual. The bank disbursed Rs 90 million (against the negotiated fund of Rs one billion) by Mid July 2012, which the government already reimbursed. By then, the program was extended in 18

districts to 647 entrepreneurs of 49 SFACLs. The program is reported to have created 759 employment (which accounts to about $ 1350 per employment creation). The bank has already paid back Rs 30 million to the fund by mid 2012. Since the bank does not have a system of tracking portfolio for the credit, it is not clear in which portfolio, the credits are actually flown. The progress in the program is too slow. It is due to public sector policy constraints than the management related to the bank, or SFACLs, as described in 2.4 regarding the conditionality. The program had come as a popular campaign without preparing adequate framework. However, the bank management seems to have yielded to the government policy more during negotiation than it would have been practical in reality, possibly to cash other supports than being more critical to the constraint of YSESF program (a syndrome of compulsion of dependency on the government fund).

5.2.3 Farmer to Farmer SFACL Replication Program and Gradual Innovation

131. SFACL replication program was initiated in 1998 from Chhatre Deurali SFACLs of Dhading district, when the SFDP management program was with ADBL. Initially, Capable and matured SFACLs were given responsibility to replicate SFACL modality in neighbouring villages under institutional contract. The idea was to minimize cost of institutional development at grassroots level through successful SFACLs. Under the program, new SFACLs were created, groomed, and handed over to the neighbouring village within five years. Each replicator SFACL was expected to persuade the rural community and provides microfinance services, training and technical support in social mobilization, capacity building, and financial/ accounting management to the rural poor (mostly women) in order to encourage and facilitate them to register a new MFI in the form of SFACL. The framework was refined and hand over period was reduced gradually to three years by 2002 (the establishment year of SFDB). Later it got further reduce to one year by 2010/2011.

132. SFDB gave continuity to the program in view of the increasing demand for SFACL model in rural areas. It introduced a new framework of 'Revolving Fund Approach' starting 2003 by utilizing the prize fund of $50 thousand received from CGAP-IFAD (the revolving fund is still continues). Government of Nepal also realized the importance of SFACL replication approach and started providing grant to SFDB. Being encouraged from the government's recognition of the improved SFACL replication modality, SFDB further refined the system of 'Facilitator Model' starting 2008. Under this model, the participating SFACL would require to deploy a replicator from its institution, who would facilitate the creation of a SFACL in a new VDC within two years' period and hand that over to the neighbouring community. In a gradual improvement to date, the number of SFACLs to be facilitated and handed has been increased to two per facilitator per year, simultaneously. Management fee is of Rs 200 thousand is provided to the facilitator institution with a larger share to

be paid as incentive by the institution to the facilitator. By 2012 July, 129 SFACLs were created from replication program. 46 of them were handed over to the respective communities and remaining 83 were in the process of being handed over. SFDB implemented 136 replication programs. 45 of them have already been transferred as SFACLs, by Dec 2012. In 2011/12, 40 SFACLs were created and same was the target for 2012/13.

133. SFDB has been very innovative in further developing SFACL model of microcredit inherited from ADBL. The institutional hierarchy structure designed follows a democratic approach and is largely similar to the framework adopted in the formation of Village Development Committee (Local government) in rural areas of Nepal. The approach is distinct from Grameen bank framework. It is getting popularity as an acceptable model, as the institution is managed by the farmers themselves. On persuasion aspects however, some participating SFACLs express that the program is more aggressive in the quest of reducing the cost of formation and transfer the SFACL and should be reviewed. As per them, appropriate normal period for grooming and handover of the potential SFACL would have to be of two years, instead of one year. Currently, SFDB has taken a strategy of developing clusters of SFACLs to enhance access to microfinance and other services in a more cost effective way. Approach of mobilizing existing SFACLs in replicating similar institutions is also believed to enhance the efficiency and confidence in both the facilitator and target SFACLs.

5.2.4 Introduction of Livestock Insurance Program

134. Livestock insurance system is rare in Nepal. Starting such program at co-operative level is a commendable work done by SFDB. One-fourth of the credits disbursed to co-operative members are in livestock, at present. Animal husbandry is risky but also a profitable business. Risk exposure also affects bank's portfolio performance adversely, if it is not managed well. To protect small farmers from financial stress with accidental loss of animals, a livestock insurance program was implemented in 188 out of 267 SFACLs, by 2012.

135. Farmers themselves are put in the management front in operating the livestock insurance. It is operated as a community livestock insurance program, with SFACLs themselves insuring animals and managing them. Animal Evaluation Sub-committee (AES) is created at SFACL level. It evaluates schemes, fixes the premium and administers the overall livestock insurance program. The government is also facilitating the program. Five percent of the evaluated price of an insured livestock is deposited as premium in a livestock insurance fund of a SFACL, and additional 5 percent is provided by the government as matching grant in the fund through SFDB. SFDB plays as a backup organization for the access of the fund to SFACLs and also monitors the use. The fund pays for rural livestock health workers, livestock health office and emerging insurance claims. The insurance covers up to 80% of the insured amount. SFDB provides animal health worker's training to the

selected member/personnel of SFACLs to execute the program. It also facilitates the delivery of the insurance grant from the government to SFACLs. The effectiveness of the program has been impressive as revealed from the fact that about 37.3 thousand farmers have already participated in the program, 58.8 thousand livestock population is insured, SFDB has already transferred Rs 50.03 million to the fund from the government side and the insurance fund built-up has reached to Rs 117.0 million by Nov 2012. The bank has also prepared and implemented 'Livestock Insurance Operation Directives, 2012'.

5.2.5 Promotion of Women Only SFACLs

136. The bank has promoted also the women only SFACLs (WSFCLs) starting 2007/8. Such SFACLs are considered to be very helpful in the capacity building of women in rural areas. Within 5 years (By 2012 July), 73 women SFACLs have been established. In recent years, the growth in WSFCLs has picked up fast with the growth rate of more than 60% a year. As more male counter parts are leaving the country for labour employment abroad, creating WSFCLs has been a need (inherent pressure) for the healthy growth of SFACLs. About a third of the WSFCLs created are in hills and nearly same proportion in mid and Far West. Currently, about 50 thousand women are involved in WSFCLs. This constitutes about 34 % of the total members in all SFACLs. The total credit flow to WSFCLs has reached to Rs 940.1 Million. They have also created internal resource of Rs 530.7 million (Table 5.7).

Table 5.7: Numbers of Women only SFACLs (November 2012)

Region	Ecological Belt	SFACLs	Member	Loan outstanding	Internal Resource
		Number	Number	Rs Million	Rs Million
Eastern Region	Hills	3	1794	7.2	6.7
	Terai	12	7493	133.4	78.4
Central Region	Hills	13	9367	131.2	60.3
	Terai	8	7300	206.6	103.0
Western Region	Hills	3	2408	44.2	28.5
	Terai	10	7004	220.6	133.7
Midwestern Region	Hills	6	3518	56.3	47.1
	Terai	12	6166	58.7	37.4
Farwestern Region	Terai	6	4721	83.1	41.6
Women Only SFA-CLs	Hills	25	17087	238.8	142.7
	Terai	48	32684	702.4	394.1
	Total	73	49771	941.3	536.8

Source of Basic Data: SFDB MIS

5.2.6 Remittance Services

137. In recent years, the number of people seeking employment overseas has increased. The bank has also introduced remittance services. As of April 2012, the bank and associated cooperatives have processed 7035 remittance transactions amounting to Rs 283 million. However, the remittance income of the bank in 2009/10 was only Rs 96.2 thousand and it increased only marginally to Rs 113.4 thousand in 2010/11, not attractive enough as perceived by SFDB. Also, SFDB did not have an expertise and adequate institutional framework to handle it. Consequently, in view of small income against the time consumed and difficulties in handling other obligatory requirement of remittance received at local level, SFDB left entire remittance handling business to SFACLs to do their own way, starting 2011/12. As a result, only Rs 33.4 thousand remittance commission was collected by SFDB in that year, from the residual business. What impact the exit move by SFDB would have in the remittance business and loan recovery at SFACLs level is yet to be known. However, given the high flow of remittance in rural areas, SFDB should continue to encourage SFACLs in the remittance business as its flow through SFACLs will facilitate also in loan collection and in establishing closer relation with its members.

5.2.7 Special Move to Extend Microfinance Services in the Hills and Mountains

138. SFDB is expanding its microfinance services in selected hills and mountains districts with financial and technical support of ADB under Rural Finance Sector Development Cluster Program-II (RFSDCP-II). Three strategies have been adopted to expand microfinance services in the hills and mountains: (a) business expansion through capable SFACLs operating in the hills and mountains (b) SFACL replication (c) Expanding services through Savings and Credit Cooperatives (SCCs) and other MFIs.

5.2.8 Restructuring the SFACLs

139. The bank has reformed the SFACLs under GIZ support starting 2001 till 2007 and ADB supports starting 2005. ADB support is still continued under RFSDCP-II. Currently, the SFACLs have been restructured also by mobilizing field trainers and more emphasis is laid in improving the low performing SFACLs. 33 SFACLs were improved in 2010/11, 22 SFACLs in 2012. To identify the SFACLs needing considerations to intensive improvements, the bank has adopted a policy of grading SFACLs based on their economic condition, performance and services provided by the institution and then intervene accordingly (further discussion grading under monitoring framework of SFACLs).

5.3 Major Non-financial Services Supports Provided by SFDB

5.3.1. Capacity Development Program through Training and Seminars

140. The bank has been organizing training and seminars for capacity development of SFACL. It has organized training/ exposure on multiple aspects like financial management, account keeping,

Table 5.8 Training, Observation, Interactions and Seminars Organized/ Facilitated by SFDB in 2011/12

SN		Number	Male	Female	Total
1	SFACL operation and management training	3	58	56	114
2	Yearly progress review seminar	1	2	14	16
3	Motivation training for internal capital growth	1	75	3	78
4	Observation tour of various SFACLs	5	1	37	38
5	SFACL replication and handover program	14	5	90	95
6	Meat purpose livestock rearing review program	7	137	390	527
7	Livestock raring and self-employment credit orientation program	9	107	301	408
8	Replication, program operation and management training /seminar	44	983	267	1250
9	Program and budget preparation workshops of SFACLs	9	78	208	286
10	Account training	10	114	177	291
11	Formulation of terms of reference of consultants	1	0	5	5
12	Training on business plan preparation	1	0	1	1
13	Training on livestock insurance	129	3213	2088	5301
14	Interaction program of SCLs	2	1	15	16
15	Training of rural animal health workers	3	6	69	75
16	Training to SFACLS representatives in adopting modern technology in agriculture.	1	17	23	40
	Total	**240**	**4797**	**3744**	**8541**

Source: SFDB progress report 2012

business planning, business/ outreach expansion, livestock insurance, livestock health workers' training, replication training, monitoring and evaluation, skill enhancement of members etc. In 2011/12, the bank had organized 240 training and seminars from which about 8500 members from various SFACLs have benefitted (Table 5.8). In livestock insurance, the government provides grant to SFDB for the training needed. The trainings are organized by using multiple mechanisms including outsourcing like:

(i) Training by SFDB itself

(ii) Co-ordinating with Small Farmer Co-operative Federation and

(iii) Co-ordinating with other training organizations (basically in portfolio related to technical matters).

5.3.2. Business Expansion Facilitation Support

141. With technical and financial support from GTZ, bank has piloted business expansion approach, with a built in incentive system. Numbers of SFACL implemented business expansion approach successfully. They were awarded computers, as incentive.

5.3.3. Community Development Activities

142. Complementary social development and community services are also equally important for successful utilization of microfinance, as it improves overall

productivity of credit portfolio. This has been realized also in other countries which have implemented micro finance, successfully. In 2011-12, SFDB had provided cash assistance of Rs 5.0 million to SFACLs 162 in implementing different community development activities (Table 5.9). They included training, social programs on education, health, drinking water, environmental conservation, maternal and infant welfare scheme, community development programs, construction of culverts, small bridges, roads, schools and community buildings, irrigation facilities, reforestation etc. SFACLs implemented those programs by utilizing voluntary labor of communities, internal financial resources of SFACLs, and financial as well as in-kind assistance from the government, SFDB, and other organizations. The programs benefitted about 75 thousand families. Work done was equivalent to Rs 52.3 million with 85.1% of it being on community building and training hall constructions followed by 7.6% in convenient toilet constructions and rests the others. SFDB has been helping by providing some direct cash assistance, dissemination of information sources, advices to SFACLs during meetings and the supports in training activities. SFDB has provided financial support also for constructing training hall and to expand agricultural road in some SFACLs area. However, SFDB contribution to total work done accounted only

Table 5.9: Social Activities Supported by SFDB in 2011/12

Name of Program	Program Number	Families Benefitted	Total Expenditure (Rs 000) Female Total		
			Grant from Bank	Local Contribution	Total
Rural drinking water	20	1314	466	594	1060
Convenient toilet	34	6081	828	3161	3989
Agriculture road	7	5369	145	267	412
Agriculture tools purchase/distribution					
Canal/irrigation program	3	580	60	290	350
Culvert construction	11	3454	240	301	541
Plantation	1	1225	27	38	65
Livestock breed improvement	8	2330	202	130	332
Community building and training hall construction	49	47757	2438	42064	44502
Improved vegetable cultivation and seed distribution	6	2519	105	165	270
Vaccination to livestock	1	109	35	20	55
Furniture purchase /distribution	6	1742	105	201	306
Rural mini gathering facility construction	8	1654	185	236	421
Skill development program	1	30	30	30	60
Total	162	75256	4983	47588	52571

Source: Annul Report 2012, SFDB

9.5 10%. The rest came from local participation, which is encouraging. Due to limited staff strength, the capacity of SFDB in imparting other community development supports to SFACLs is majorly symbolic.

5.4. Framework for Monitoring of SFACLs and Reporting

143. Monitoring of SFACLs is done by both the Division Cooperative Office and SFDB. Hence they undergo relatively more intensive monitoring compared to other saving and credit co-operative counterparts. By statute of co-operative, SFACLs are required to report to Division Cooperative Office by following national norms specified for Cooperatives. SFACLs also report to SFDB to satisfy their additional requirements. The reporting to SFDB majorly includes the current financial progress, membership, portfolio growth, portfolio quality and management related aspects and other reform measure taken based on the supervision feed backs from Area Office of SFDB and Division Co-operative Office at the district level. SFDB together with GIZ developed a comprehensive grading system for SFACLs in 2005/6 and piloted them to grade the then 145 SFACLs. Findings being satisfactory; it was implanted in the system to grade all SFACLs performances, starting 2008/9. Reforms were designed accordingly. In the current grading system, 15 criteria (Table 5.10) are applied with different weight with more emphasis on loan collection (30%) followed capital adequacy (10%) and others the rest. Grading allocated were A to D with mapping of Very good to Poor. Grade A was given to the ranking for 'very good' with score of more than 80%, Grade 'B' to Good with score between 60-80%, grade 'C' to satisfactory with score between 40 to 60% and grade 'D' to poor with the score less than 40%. Further detail and findings are discussed in the next section under 'Review of SFACLs'.

5.5 Study and Publications

144. The Bank has created website, published annual reports, and audit reports, and some introductory booklets to orient the farmers on goat and piggery farming for meat. It has also introduced two monthly publications of Small Farmer Bulletin. However, the attention of the bank has not yet gone to prepare and publish modules of financial cost benefit analysis of potential schemes and approach to get engaged in the business, which would help promote the business of the bank and the SFACLs by encouraging farmers to investment.

Table 5.10 Framework for Grading SFACLs Applied by SFDB

Performance Indicators	Full Marks (Weight)	Values/Marks					
		D	C		B		A
Set A: 5 Marks each		0	1	2	3	4	5
Group Activeness	5	<75%	<80%	<85%	<90%	<95%	>95%
Member Growth Rates	5	<3%	<5%	<7%	<8%	<10%	>10%
Women Participation Rates	5	<40%	<50%	<65%	<80%	<90%	>90%
Internal Source Formation	5	<20%	<35%	<50%	<65%	<80%	>80%
Interest Recovery Rate (SFDB-SFACL)	5	<90%	<92%	<94%	<96%	<98%	>98%
Percentage of SFACL Members Repaying Monthly Interest	5	<50%	<60%	<70%	<80%	<90%	>90%
Loan loss Provisioning	5	<35%	<50%	<65%	<80%	<95%	>95%
Growth Rate of Net Asset	5	< 2%	< 3%	< 4%	< 5%	< 6%	>6%
Operational Self Sufficiency	5	<100%	<105%	<110%	<115%	<120%	>120%
Liquidity	5	<2%	<3%	<4%	<5%	<6%	>6%
Share Investment in SFDB	5	<1%	<1.5%	<2%	<2.5%	<3%	>3%
Financial Self Sufficiency	5	<85%	<90%	<95%	<100%	<105%	>105%
Total A	60						
Set B: 10 Marks		0	2	4	6	8	10
Ratio of Institutional Capital to External Loan	10	<2%	<4%	<6%	<8%	<10%	>10%
Total B	10						
Set C: 30 Marks		0	5	10	15	20	30
Loan Collection Rate	30	<55%	<65%	<75%	<85%	<95%	>95%
Total C	30						
Grand Total	100	<19	19-47		47-76		76-100
Grade		D	C		B		A

Source: SFDB

REVIEW of SFACLs as MAJOR PERFORMANCE OUTCOME of SFDB

6.1 Growth and Distribution of SFACLs by Development Status of Districts

145. The numbers of SFACLs/ other co-operatives covered have grown from 58 to 291 (Table 6.1). The inclusion of other co-operatives is a more recent attempt with only a small number 24, so far. The number of SFACLs grew at the rate of 5% a year within 2008 to 2012. Between, 2007-9 there had been no addition. The presence of SFACLs compared with development status of districts based on CBS classification reveals that the creation of SFACLs is lowest (13%) in first one third least developed districts. In the rest, they are about two fifths each (detail in Annex Tables 14 to18). Correlation between SFACLs created and the Ilaka (sub regions within a districts)[30] poverty shows a very weak negative relation (0.09%) confirming similar result. This reveals that the effort of SFACLs creation by SFDB has not received additional attention to least developed pockets, districts and regions compared to other areas (Table 6.1).

Table 6.1 SFACLs Creation Efforts and Growth by Development Status of Districts

District Group as per CBS Ranking	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	% served	VDC Covered 2012	Municipality Covered 2012
A-Most Developed	38	60	71	80	96	96	99	104	107	122		151	1
B-Intermediate	14	26	31	41	68	69	69	73	83	96		134	2
C-Least Developed	6	8	12	20	55	55	55	56	60	73		86	
Total	58	94	114	139	219	220	224	234	251	291		371	3
SFACLs	58	94	114	141	219		219	223	236	267		313	1+
Other MFI							5	10	15	24		57	3

+ This was a VDC when SFACL was created there. Now it is a municipality.

30 *The government has divided each district in to nine Ilaka for service delivery and political representation at local level. Central Bureau of Statistics has estimated poverty index up to Ilaka level of each district.*

6.2 Ecological and Regional Distribution of Institutions Served

146. The central region and Terai had received more attention in the creation of SFACLs, since the start (Table 6.2). Generally, more developed and accessible districts have received more attentions because of market convenience and connectivity, which are important in managing the risk for the bank's overall financial health by balancing SFACLs creation in both the difficult and convenient locations. Midwestern region came into additional attention in the last five years (2008-12). However, hills and mountains areas did not received much attention, in the past. Currently, RFSDCP Sub Program-II (2011-14) of ADB has reemphasized to extend microfinance services in hills and mountains with target to provide microfinance services to additional 20,000 low income families.

6.3 Broad Performance of SFACL

147. There has been a satisfactory progress of SFACLs (Table 6.3). They are under continued reform process since 2001 (with assistance from GIZ during 2001-11 and ADB since 2005) as stated earlier. In current prices, the outstanding loan of SFACLs to the farmers has increased by about 27.8 % a year over the last four years and that of SFDB to SFACLs has increased by 16.7% a year (details in Annex Table 32 and 33). Likewise, the internal resource mobilization SFACLs grew at 44.3% a year. Even after considering the rate of inflation of about 7-8 % a year, all the growths are highly impressive. Other major performance indexes of SFACLs such as group formation, membership drive, women SFACL creation, group saving, share capital generation, business and outreach expansion and progress in the proportion of profit making

Table 6.2 Number of SFACL/MFI in SFDB Program District by Ecological Belts and Development Regions 2012

Development Regions	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Growth rate	VDC Coverage 2068/69	Municipality Coverage 2068/69
Nepal	58	94	114	141	219	220	224	234	251	291	7.3	371	3
Development Regions													
Eastern	26	31	34	38	52	52	55	59	59	66	6.1	77	1
Central	15	20	28	40	77	78	78	84	93	107	8.6	143	2
Western	17	31	40	44	52	52	52	52	52	64	5.3	88	
Mid Western	0	12	12	19	30	30	31	31	37	43	9.4	48	
Far Western	0	0	0	0	8	8	8	8	10	10	5.7	15	
Ecological Belts													
Mountains	0	0	0	0	0	0	0	2	2	9		23	1
Hills	6	14	23	33	59	60	60	63	70	84	8.9	108	1
Tarai	52	80	91	108	160	160	164	169	179	198	5.5	240	1

Source: SFDB MIS

Table 6.3 Fundamental Indicators of SFACLs Progress

	Unit	2002/03	2005/06	2007/08	2008/09	2009/10	2010/11	2011/12
Number of SFACL/MFIs	Nos	58	141	220	224	234	251	291
(Other MFIs)	Nos	0	0	0	5	10	15	24
Number of Women SFACL	Nos			22	22	26	42	73
Number of Groups	Nos (000)	5.74	13.32	22.3	23.31	24.41	28.42	32.36
Number of Members	Nos (000)	38.3	85.7	139.4	146.0	159.8	189.9	230.2
Female Member (%)	%	41	48	52	54	59	63	66
Group Saving	Rs. Million	35.0	113.5	244.2	306.1	530.5	827.2	987.2
Share Capital	Rs. Million	8.7	29.5	86.8	132.1	260.9	453.0	624.6
Total Internal Resource	Rs. Million	151.6	433.0	909.3	1281.6	1903.1	2992.9	3949.9
Outstanding Loan of SFACLs to Farmers	Rs. Million	657.1	1434.5	2448.1	2332.9	3355.1	4981.6	6568.7
Outstanding Loan of SFDB to SFACLs/MFIs	Rs. Million	474.9	959.8	1445.4	752.7	1116.1	1877.5	2676.2
Number of SFACLs on profit[a]			98[b] out of 145 67.6%)	NA	172 out of 213 (80.8)	191 out of 213 (89.6%)	205 out 0f 213 (96.2%)	NA

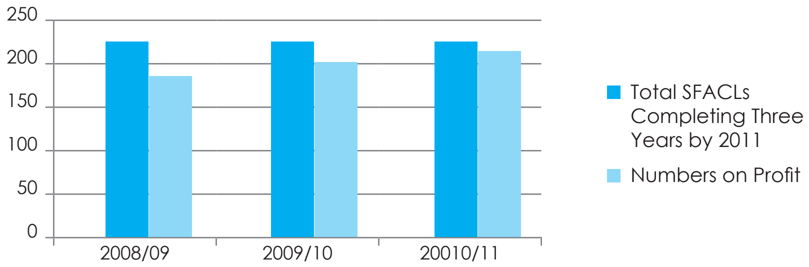
[a] Among 213 SFACLs that completed three years by 2011; [b] assumed to be on profit based on graded as Good / Very Good by GIZ study 2005/6

institutions have all indicated high level performance.

6.4 Profit Performance

148. While SFACLs restructuring was a continued process under SFDP since 2001, classification of SFACLs and grading were done in 2005/6, following an intensive study by GIZ and SFDB. The institutions which were in profit in 2005/6 were about two third. They belonged to 'Good and Very Good' classification. The current assessment reveals that the SFACLs promoted by SFDB which have completed at least three years in 2011 have mostly (96.2%) reached to profit level (Chart 11, Annex Table 31), indicating a satisfactory track of improvement in them. However, about 13 % of the SFACLs have income exceeding expenditure only by about by 10%, implying that their dividend distribution is likely to be less than the rate of inflation (Table 6.4), leading to erosion in the wealth of investors. SFACLs which are not capable of generating the profit at least 10% to 12% (opportunity cost of capital in real terms in developing countries) higher than the rate of inflation should consider the system improvement, in general.

Chart 11: SFACLs Completing Three Years and on Profit



Source: Study Analysis based on SFACL Grading File of SFDB

Table 6.4 Number of SFACLs -2010/11 by Grades and Range of the Ratio of Income to Expenditure

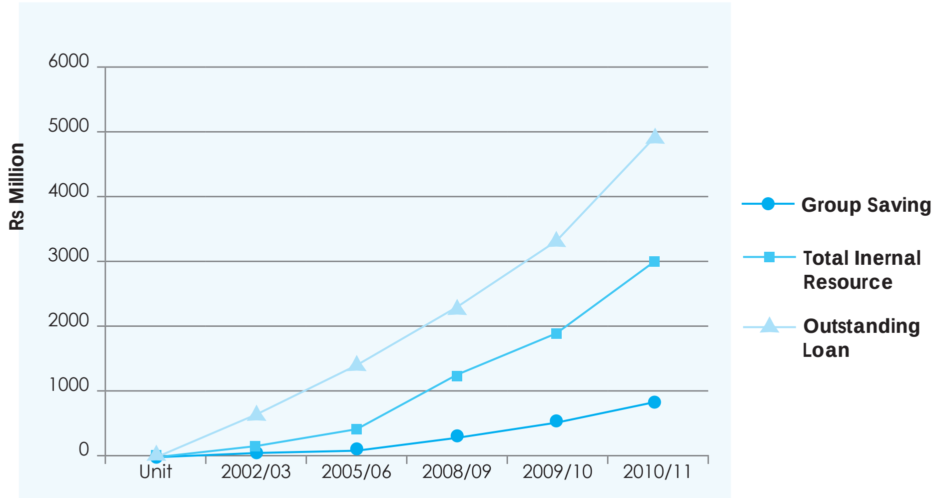
Ratio of Income to Expenditure %	Grade 2010/11				
	A	B	C	Grand Total	%
Less than 100	1		7	8	3.8
100-105	4	6		10	4.7
105-110	5	4		9	4.2
110-115	4	6		10	4.7
115-120	7	6		13	6.1
120-125	12	5		17	8.0
125-130	20	3	1	24	11.3
130-135	10	3		13	6.1
135-140	17	1		18	8.5
140-145	11	3		14	6.6
145-150	8	1		9	4.2
150-200	34	11	1	46	21.7
200-250	3	7	1	11	5.2
250-1300	3	6	1	10	4.7
Grand Total	139	62	11	212	100.0

Source: Study Analysis based on SFDB MIS data

6.5 Indebtedness and Internal Resource Generation

149. The faster rise in outstanding loan has however been possible due to faster injection of loan by SFBD to SFACLs, though it has not been the only source as is seen from Table 6.3 above. The data reflect that the SFDB's outstanding loan to SFACLs stood at only Rs 2.8 billion (about one third) as against Rs 6.7 billion outstanding loan by SFACLs to their members indicating that the expansion in credit by SFACLs has been much more than the fund injected by SFDB. Over indebtedness was not, thus, the indication as the internal resource generation of SFACL was even faster than the increase in outstanding loan (Chart 12, Table 6.5). This implied that SFDB loans to SFACLs had been helpful also to enhance internal resource formation of SFACLs and generation of saving by farmers. This is important from the point of view of institutional sustainability of SFCLs.

Chart 12: Institutional Resource Creation by SFACLs



Source of Basic Data: SFDB

Table 6.5 Outstanding Loan by SFACLs to Farmers versus Internal Fund plus SFDB Fund

	Unit	2002 /03	2005 /06	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12
A. Total Internal Fund (Group saving, share capital, +internal resource)	Rs million	195.3	576	1240.3	1719.8	2694.5	4273.1	5561.7
B. Out Standing Loan From SFDB to SFACLs	Rs million	474.9	959.8	1445.4	752.7	1116.1	1877.5	2676.2
A+B	Rs million	670.2	1535.8	2685.7	2472.5	3810.6	6150.6	8237.9
Out Standing Loan From SFACLs to Farmers	Rs million	657.1	1434.5	2448.1	2332.9	3355.1	4981.6	6568.7

Source: Study Analysis based on SFDB MIS data

6.6 Improvement Track of SFACLs

150. Those who had completed at least three years were selected and grade analysis was carried out. Such institutions were 213 in 2010/11. Among them, 87.6% of SFACLs were active with loan outstanding in SFDB and 93 % of those did not have any loan over due. Analysis reflected that 94.3% of SFACLs were in A/B grade category. Likewise, the institutions had similar performance level in both hills and Terai, when analyzed, ecologically. By development regions, eastern region had 86 % of the institutions in A/B grade. The rest of the regions had 94% or more (Table 6.6 and Annex Table 26 and 30 for detail). If only A graders which are categorized to be of very good level are considered as the acceptable target, still more than one third of the SFACLs have to undergo reforms. More of such reforms needed SFACLs falls in Tarai.

151. While considering both A and B type SFACLs together, performance in reforming of SFACLs by Area Offices are close, in general. If they are looked at separately, Hetauda is best performer in both category A and B together or A. If only grade A is considered, performance of Hetauda is the best followed by Pokhara and Gajuri. Terai Area Offices are among less performers (Table 6.7 and Annex Table 27 and 29 for detail).

152. The progress track of SFACLs against the counter factual in 2005/6 and the current status have both been assessed and compared in Table 6.8 (Detail in Annex Table 28). In 2005/6, number of SFACLs which were in grade A and B were one fourth. The rest were not satisfactory. Such institutions were about 30 % in hills and 45 % in Terai. They were restructured under ADB assistance from 2009 onwards and gradually improved. In 2012, the

Table 6.6 Number of SFACLs by Development Regions and Grade in 2010/11

Development Regions	A	B	C	D	Grade Total[a]	% in A/B category	% in Category A
Eastern	26	18	6	1	51	86.2	51.5
Central	56	19	2		77	97.4	72.7
Mid Western	19	8	1		28	96.4	67.9
Far Western	4	3			7	100	57.1
Western	34	14	2		50	96	68.0
Total	139	62	11	1	213	94.3	65.2
Hills	40	13	3		56	94.6	71.4
Tarai	99	49	8	1	157	94.2	63.1

[a] Total SFACLs were 236 in 2011. But, those for which the comparison was possible with at least three years' performance were 213.

Source: Study Analysis based on SFDB MIS data

Table 6.7: Performance of SFACLs by Area Office

Number of SFACLs by Area Office and Grade in 2010/11							
Ilaka Office	A	B	C	D	Grand Total	% of A or B Grades	% of Grade A
Birtamod	8	5	2		15	86.6	53.3
Butawal	21	12			33	100	63.6
Gajuri	16	5			21	100	76.2
Hetauda	23	3			26	100	88.4
Itahari	10	8			18	94.8	52.6
Janakpur	25	16	6		47	87.2	53.2
Nepalgunj	23	11	1		35	97.3	65.7
Pokhara	13	2	2		17	88.3	76.5
Grand Total	139	62	11		212	94.4	65.2

Source: Study analysis based on SFDB MIS data of grading files

same set of SFACLs picked-up for the analysis reflected that, 93.7% of them had reached to very good or good level. There was no institution in poor (D) category. However, there were two institutions whose performance fell down from Grade A to B and C, respectively. Likewise, 13 institutions in grade B in 2005/ could not improve, though they did not fall down to grade C or grade D.

Table 6.8 Number of SFACLs by Grade (a comparison with counter factual)

		Grade Status of Those in 2010/11		
Grade Of SFACLs	Status 2005/06	A	B	C
A	20	18	1	1
B	38	25	13	
C	40	24	14	2
D	47	24	17	6
Grand Total	145	91	45	9

Source: Study analysis based on SFDB MIS data of grading files

6.7 Issues in Grading System in Application

153. As limiting cases, there is some issue in SFACLs grading system that has been applied in SFDB. Some institutions which were in loss also appear under grade A and grade B by superseding the performance record of those who are in profit. This is due to the fact that weight assigned to profit is very low as 10%. While the previous attempt of restructuring SFACLs were understandably focused more to track improvement fundamentals, it is time that they be reformed and corrected to focus to reflect the return reality, more. Table 6.9 shows the problem in the current system by analyzing the real case of SFACLs. While assigning grade 'B' be could tolerable in short run, in view of satisfactory movement in the reform track in other indicators identified by the system (which will eventually lead to profit), it is not reasonable to make the loss makers appear in grade 'A', at least.

154. For a reform, we suggest that profit be given high weight of 20 % and evaluation mark on no profit be assigned zero, so that such institution cannot receive the grade of 80 % or more, by design. Likewise, the grade point on share investment in SFDB by SFACL be scrapped, as they are no more applicable in the current situation of SFDB (their additional investment is already stopped two years ago and preferential treatment in the sale of shares to SFACLs under share allotment effort of SFDB may not be possible, in future). It could be reintroduced, it becomes applicable. We suggest also reducing the marks on loan collection rate to 20% from 30%, as low loan collection will automatically penalize also the profit performance. Two more additional slabs have been proposed, as the previous slabs were too broad. The internal distribution of marking procedure previously applied has been kept intact. The Suggested marks and weights for the current application are shown in Table

6.9 Number of SFACLS by Grade and Profit Loss Status

Profit/Loss Status	Grade	2008/09	2009/10	2010/11
Profit	A	91	112	138
	B	70	68	62
	C	8	10	4
	D	1		
	NA	1		
	Total	171	190	204
Loss	A	1	1	1
	B	21	3	
	C	11	15	7
	D	3	2	
	Total	36	21	8
Neither Profit nor Loss	A	1		
NA	NA	4	1	
Grand Total		**212**	**212**	**212**

NA: not applicable because of missing data

Source: Study analysis based on SFDB MIS data of grading files

Table 6.10: Suggested Reform in the Current Grading System

	Full marks		Value Marks					
	Weight		F	E	D	C	B	A
	Old	New	0	1	2	3	4	5
10 indicators except profit and investment in SFDB	50	50	0	10	20	30	40	50
Operational and financial self sufficiency	5	20	0	4	8	12	16	20
Institutional capital	10	10	0	2	4	6	8	10
Loan collection rate	30	20	0	4	8	12	16	20
Total	100	100	0	20	40	60	80	100
Interpretation				Very poor (0-19) poor	Poor (20-39)	Fair (40-59)	Good (60-80)	Very good (80-100)

6.10. The framework designed earlier has been adjusted only slightly to give higher weight to profit performance.

155. The result of applying the proposed grades is shown in Table 6.11. Previously, the numbers of SFACLs with no profit had appeared under Grade 'A' and in 2008/9, more than 10 % SFACLs who made loss had appeared under Grade B (Good). It is seen that in the new framework, no institution without profit appears as grade A SFACLs. Likewise, those with grade B has been reduced to very minimum to less than 1% (a considerable improvement). We also suggest that composite index of ranking of SFACLs based on the weights assigned to different indicators be developed in future, so as to reflect the performance position of each SFACLs, accordingly, on continues scale of marking. The proposed reform could be subject to refinement by SFDB through further exercise. The adjusted new weight and marking system have been presented, just as tips. Working on details is beyond the scope of the current study and requires multidisciplinary interactive process.

Table 6.11 Number of SFACL by Grade and Profit/Loss Status under Proposed Weighting System

Profit/Loss Status	Grade	2008/09	2009/10	2010/11
Profit	A	85	123	147
	B	69	50	49
	C	13	14	7
	D	3	3	1
	NA	1		
	Total	171	190	204
Loss	B	2	1	1
	C	20	4	1
	D	7	12	5
	E	7	4	1
	Total	36	21	8
Neither Profit nor Loss	B	1		
NA	NA	4	1	
Grand Total		**212**	**212**	**212**

Source: Exercise in the Study

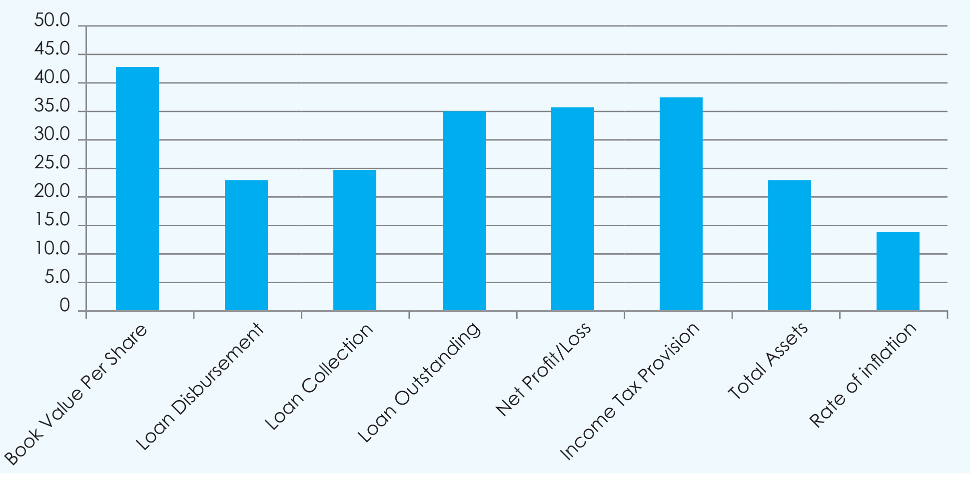
PERFORMANCE DIRECTION IN 2013

156. Unaudited financial data for 2013 were published in the public papers as per Central bank's reporting requirement. Likewise, other data for some important parameters for 2013 are also available in the current SFDB MIS system. However, they are under cross checking, refinement and finalization to feed to the progress report of the bank to be published and submitted in its next General Assembly. This study has picked up preliminary data of some important parameters from there to reflect the direction of the bank in the most recent year 2013. The data analysis of this section should, thus, be considered as majorly indicative.

7.1 Key Financial Parameters of the Bank

157. Financial Performance data for the bank in 2013 indicates (Chart 13 and Table 7.2) that most of the parameters had favorable direction of movement. Net worth per share, loan disbursement and collectors, profit, total assets and others have indicated high growths. Likewise loan loss provision and non performing loans have also declined fast, particularly due to ongoing restructuring and close follow-up to B, C and D grade institutions under current ADB Project. Faster decline in loan loss provision compared to previous year and increase in credit disbursement by almost one fourth had led to faster growth in operating profit. This led to a sudden jump also in other indicators including the book net worth and net profit in 2013. The bank's contribution to national treasury in term of tax paid also increased by more than 38%. Current operation support by ADB TA assists also in the staff expenses. Aggressive growth in lending without

Chart 13: Percentate Growth from 2012 to 2013



Source: Basic Data from SFDB MIS for the Bank's Performance increasing the management capacity of the bank internally should, however, be a matter of concern and the Bank management should arrange for own capacity building before the ADB project completes. ADB also should consider this aspect before it is too late, so that the project achievement does not weather away after the completion of the project.

7.2 Profit Loss Status of Area Offices

158. Table 7.1 indicates that none of the area offices went in losses. However, the growth in net income declined in three out of eight area office. In one, there was no growth. Net surplus in Birtamod fell down closer to breakeven status.

7.3 Performance of SFACLs

159. Data of SFACLs files of SFDB indicate that, in 2013, the bank aggressively increased SFACLs and other MFIs (Table 7.3, chart 14). Particularly, the SFACLs addition in the hills and mountains has increased fast in 2012/13. ADB-RFSDCP-II (2011-14) emphasis to increase the outreach in hills and mountains has contributed to the faster expansion of SFACLs and other MFIs in those regions. Sharing of the information of the current evaluation through interactive process starting second quarter of 2012 may also have partly contributed to the faster shift though the adoption of the additional learning.

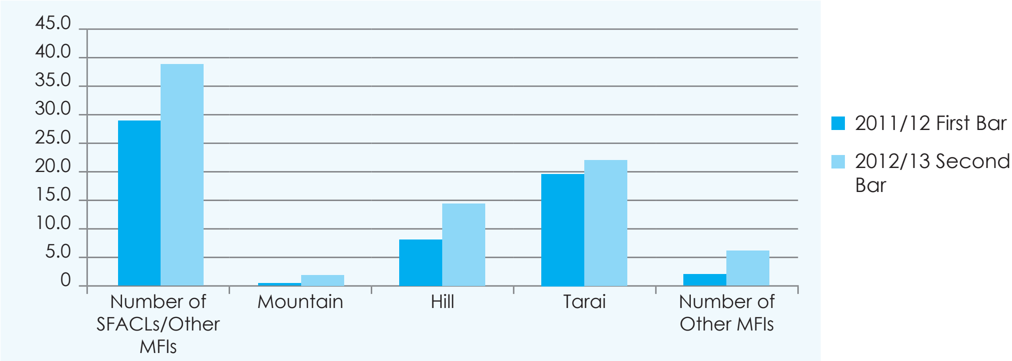
Table 7.1 Comparative Operating Profit by Area Offices (Rs Million) in 2012 and 2013

Head Office		Butawal		Hetauda		Birtamod		Itahari	
2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
57.0	80.7	10.7	9.7	13.5	11.9	2.0	0.4	2.6	2.6
Growth 41.5 %		Growth (9.3 %)		Growth (11.9%)		Growth (80 %)		Growth 0 %	
Janakpur		**Gajuri**		**Pokhara**		**Nepalgunj**		**Total**	
2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
4.4	14.9	3.8	5.5	2.9	3.1	3.1	8.2	100.8	137.0
Growth 238.6%		Growth 44.7 %		Growth 6.9 %		Growth 164.5%		Growth 35.6 %	

[a] *The profit before taxes and staff bonus*

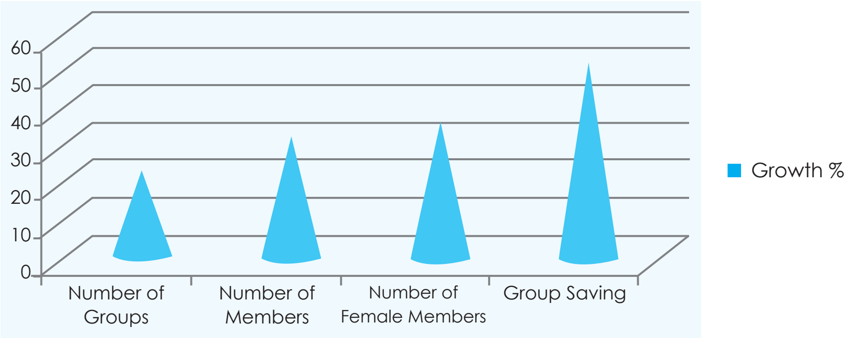
Source: From SFDB MIS related to Area Offices

Chart 14: SFACL/MFIs in 2012 and 2013



Source: Basic data From SFDB MIS for SFACLs and MFI

Chart 15: Growth From 2012 to 2013

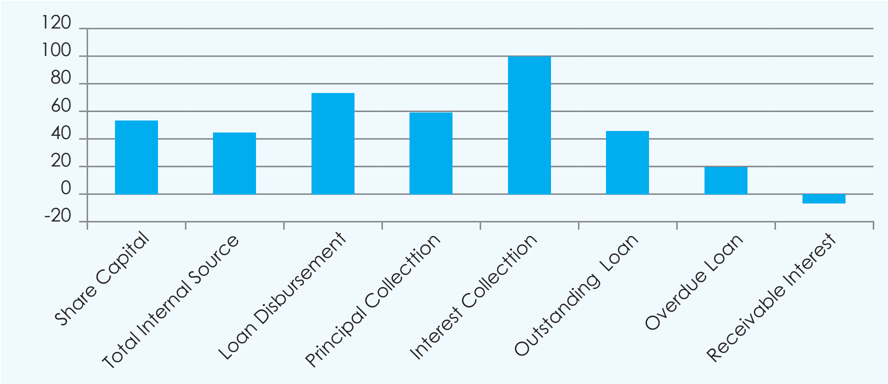


Source: Basic data From SFDB MIS

160. In 2013, memberships in SFACLs increased by 32.1% and group formations increased by 22.8% (Chart: 15, Table 7.3). These are fundamental base for credit disbursement, collection and income improvement in rural areas. Likewise, group saving has increased by 52%. The SFACLs have also been increasing the female members aggressively, at present. The growth was 36 % in 2013. Given the males counterpart going to foreign countries jobs as laborers at increasingly higher, the emphasis to the women group formation is a welcome move. As the availability of male labor gradually declining in rural area due to lack of job creation and inadequate income in the family. Enterprises developed by women may also help retain the male counterpart returnees from foreign job in the rural areas, in future. No research is available on such impact, however.

161. Internal resource mobilization, loan disbursement, loan collection and share capital of SFACLs have all increased at higher (Chart: 16 and Table: 7.3). For example, in 2013, the loan disbursement grew by 74%, the share capital grew by 56% and total internal source including credit grew by 44%. Likewise, outstanding loan grew by 47%. With the help of SFDB, the SFACLs are increasing not only the disbursement but also the internal resource as is seen from the status that share capital, internal resource including deposit and outstanding loan are all increasing almost in par. Presently the share capital to outstanding loan of SFACLs to the members stands at 10.1%, an improvement over 9.5 % in 2012. However, it is still tight given the regulatory minimum threshold of credit to share capital ratio of 10%.

Chart 16: Credit Source, Disbursemnt and Related Parameters of SFACLs Growth from 2012 to 2013 (%)



Source: Basic data From SFDB MIS

Table 7.2 Key Financial Parameters of SFDB in 2012 and 2013

Particulars	2011/12	2012/13	% Growth
Book Value of Net Worth Per Share (Rs)	349.0	499.0	43.0
Loan Disbursement (Rs million)	2673.8	3309.1	23.8
Loan Collection (Rs million)	1875.1	2352.6	25.5
Loan Outstanding	2676.2	3632.7	35.7
Weighted Capital Adequacy ratio %	14.9	13.8	-7.4
Operating Profit Before Loan Loss Provision (Rs million)	110.7	139.5	26.0
Provision for Loan Losses (Rs million)	46.9	10.6	-77.4
Operating Profit (Rs million)	63.8	128.9	106.6**
Reversed from Loan Loss Provision	36.24	6.23	-0.82
Profit from Regular Activities	100.07	137.02	36.2
Net Profit/Loss (Rs million)	63.4	86.4	36.3
Non Performing Loan to Total loan (%)	1.07	0.65	-39.3
Income Tax Provision (Rs million)	27.6	38.2	38.4
Share of SFACLs in total capital %	55.5	54.4	-2.0
Total Assets (Rs million)	3948.31	4894.09	24.0
Rate of inflation%*	8.3	9.5	

**Approach paper to Thirteenth Plan (2014-16); National Planning commission ** Sudden rise in profit due to fast decline in loss provision*

Source: From SFDB MIS data

Table 7.3 Performance of SFACLs/ Other MFIs in 2012 and 13

Description	2011/12	2012/13	% Growth
Number of SFACLs/Other MFIs	291	391	34.4
Mountains	9	22	144.4
Hills	84	149	75.0
Tarai	198	220	12.1
Number of Other MFIs	24	67	179.2
Number of SFACLs	267	324	21.3
Number of Groups (000)	32.4	41.0	22.8
Number of Members (000)	230.2	323.3	40.4
Number of Female Members (000)	150.0	218.2	36.3
Group Saving (Rs million)	987.2	1941.5	52.1
Share Capital (Rs million)	624.6	1048.8	55.7
Total Internal Resources of SFACLs/Other MFIs (Rs million)	3953.9.	6527.3	45.3
Loan Disbursement by SFACLs/Other MFIs to Members (Rs million)	5015.8	10314.5	73.7
Principal Collection from Members (Rs million	3780.8	37417.8	59.1
Interest Collection from Members (Rs million	720.6	1377.8	102.0
Outstanding Loan of Members (Rs million	6568.6	10442.2	46.5
Overdue Loan of Members of SFACLs/Other MFIs (Rs million	142.4	167.0	19.0
Receivable Interest from Members (Rs million	72.5	61.7	-7.8

Note: Internal Data related to other MFIs are not under regular reporting to SFDB.

Source: From SFDB MIS related to SFACLs

FUTURE CHALLENGES OF SFDB AND RECOMMENDAITONS

8.1 Cliental Base of SFDB and Challenges

162. Clients of SFDB include mostly SFACLs. Though mostly in profit, about 15 % of the SFACLs have weak financial and institutional health and some have high delinquency rate. Still about 4% SFACLs which already completed three years in 2011 were in total loss. Due to its institutional capacity constraint, SFDB had been slow in providing training and technical support to improve the efficiency of the weaker sections of the clients. ADB-RFSDCP II (2011-14) has provided technical and financial support to improve institutional capability of SFDB and SFACLs.

163. Given rising competition in the market, SFDB need to expand additional outreach. There could be four prong strategies that SFDB could play for that (i) deepening and expanding outreach in the current lending (ii) creating new SFACLs (iii) embracing and reforming other saving and credit co-operatives to fit to SFACLs and (iv) expanding outreach to other MFIs. Challenge to SFDB in entering into non SFACLs MFIs is that it will lead to faster rise in the cost of operation and would create undue competition with similar other public sector institutions. A wider involvement could also lead towards drifting away from the very objective of creating SFDB as an institution for strengthening and promoting SFACLs approach. In long run, this may lead to evaporation of the rational of SFDB as an organization itself from the macro policy perspective. A track has to be carefully streamlined by SFDB to maintain its basic role of serving rural poor through the medium of creating self managed SFACLs type MFIs by itself, which it has been promoting in rural areas. If it embraces other MFIs directly, it should be for the purpose of deepening the outreach with the strategy of bringing them within SFACLs framework, in a time bound manner

8.2 Status of Prime Stress Factors of the Bank

164. The prime stress factors of a bank can be multi dimensional and managing them at convenient level is important for the bank's sustainability. Broadly, they have been visualized here as (i) internal management factors (ii) in-country influence factors (iv) globalization pressure

8.2.1 Internal management factors

165. Internal management factors are basically related to volume of business expansion given the internal institutional resources such as personnel, specialists, IT facilities, mobility and responses of businesses to the ongoing management framework. They are influenced also by market competition. The parameters tracked below (Table 8.1) indicate that those are generally favorable as loan collection, overdue, and profits are impressive. However, fast increasing cliental growth, over burdening to staff, bumps in loan delivery, and bumps in asset creation due to over dependency in eternal exogenous fund (mostly dependent on donors' and government's moods) are important factors of due attention from management perspective. The staff strength of 6 years ago has not changed. The work is being done by hiring consultant and temporary staff which currently constitutes almost half of the total staff strength. Most of them are either temporary or the consultants who will opt to get trained there and leave the organization, when some opportunity arises. The institution has not been able to be dynamic enough in this aspect. This has led to more risk exposures to the bank. While consultants are important, over dependency on them should be avoided.

166. Since the office cadres are limited, even the possibility of transfer of knowledge by consultants hired gets constrained at present. Likewise, IT development in the institution is slow and had waited longer for the external source (ADB TA II of 2011), despite the fact that SFDB had already started generating good profit, in past. Bank management has to take a broader view of investing also from internal resource in prime aspects, instead of over focusing on current profit and the external assistance, even for ordinary things like computerization.

167. Not to get trapped into the limitation of future operation because of capital

8.1 Table Status of Stress Related Factors in SFDB

Particular	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Business Clients Growth (Total Number of SFACL/MFI handled)	219	219	223	233	250	291
Loan overdue%	3.86	6.07	0	0.37	1.7	1.07
Personnel (number)	48	50	49	48	47	48
Loan Collection Rate	85.2	86.9	99.9	99.2	97.5	98.61
Total profit (Rs 000)	1122	7147	15164	19040	29070	63390
Growth in loan delivery	28.5	23.9	-40.1	34.0	73.4	31.0
Growth in asset %	33.2	3.0	-28.2	15.2	106.0	46.2
Operational Capability%	102	126	124	132	118	139
Outstanding Loan Per Staff (000)	27647	28908	15361	23252	39114	55753
Outstanding loan Per staff in real terms	27647	27390.8	12536.9	16890.1	25171.3	32893

Source of Basic Data: SFDB MIS and various progress reports adequacy constraints like in past, SFDB should mobilize its internal capital resource generation in tune with its fast rise in lending. The recent entry in the IPO (initial Public Offering) has facilitated to release the constraint, in short term. For a sustainable approach, policy towards capital addition alternatives should get continued attention, in future. While injecting capital directly by share holders can also be an alternative, promoters may not always have a capacity or interest to increase their stake by adding capital. To be more pragmatic, generating capital through plough back approach of bonus share along with cash dividend should also get due attention. However, over dilution of shares from within the revenue generated is also not desirable to keep the rate of profit at an attractive level. Increasing capital by mobilizing the current enthusiasm of SFACLs could also be a complementary approach. For that persuading other promoter share holders will be needed. Dilution of shares by transferring additional stakes to public, though an alternative may not generally be pragmatic in view of sustainable management of the institution.

168. Private sector commercial banks are opting to enter into the micro credit sector through two prong approaches (a) raising deposit and providing credit through own internal arrangement and (b) through subsidiary. Development banks may follow the suit. From this, SFDB should be well alert of the potential threat in the market in accessing fund from commercial and development banks for expanding credit portfolio, in future. In view of this, the wholesale bank like SFDB should think of raising public/ institutional deposit, at least from the client MFIs. The Government and the central bank should also think of policy reform in this direction. A policy lobbying should be done by SFDB management on this. Allowing SFDB to raise deposit will reduce indirect funding burden on the government, and will also enhance credit services in deprived sector, faster.

8.2.2 In Country Influence Factors

169. Subsidiary opening by large banks on single ownership, mutual ownership or initiating own agent managed framework of whole sale lending to deprived sector is a possibility. Some large institutions have already shown interest in this direction. Nepalese legal frameworks being weak, a sudden move in this direction by the banks and also a sudden policy changes may come up. Should direct lending though own agents or subsidiary lending come in deprived sector aggressively, the current policy earmarked fund availability to institutions like SFDB may be heavily constrained.

8.2.3 Globalization Pressure

170. Globalization may also affect the financial sector management of the country due to a pressure to remove over protection in the credit market. Basically more competition may appear also externally, through subsidiaries. As Nepal is a member of WTO, it has to abide by agreed norms. In such situation, preferential treatment by the government to any institution may get shadowed leading to a sustainability threat to the institutions that cannot adjust with the wave. For example, given

the reduction in poverty in the country at faster rate due to remittance, the value of the support to the deprived sector from the policy perspective may evaporate quicker in Nepal, even from international perspective. This will reduce the priority of national and international funding to institution like SFDB. Should this happen, SFDB may encounter significant stress, if it cannot generate its own resources through own cliental relationship, in a sustainable basis. SFDB seems to have visualized this threat as it has already adopted a track of welcoming the entry of the SFACLs, as promoter. This should be further encouraged. Over reliance in government owned institutions and on the funding from the potential competitors should be decreased.

8.3 Strengths, Weaknesses, Opportunities and Threats (SWOT) of the Bank

8.3.1 Strengths

171. Major areas of strength of the bank are the following.

i. Further enhancement of a separate innovative institutional approach to microcredit initiated by the then ADBL

ii. Design of the institutional development as co-opearative based, participatory and democratic; a sound base for the sustainable development of the institution

iii. Empowerment of SFACLs in implementing programs through various supports including training, institutional strengthening and funding

iv. Fast rising profit track

v. Attraction of government and external donors on SFDB approach to SFACLs for promoting MFIs

vi. Low operating cost of 3% in SFACLs (operating cost in MFIs is generally 6-7%)

vii. Relatively lower interest rate to farmers within a range of 12-16% (in micro credit, interest rates are around 20% in the country in the private sector owned institutions or co-operatives other than SFACLs)

viii. Effective replication program

ix. Implementation of social work programs by SFACLs through SFDBs' facilitations

x. Increasing IT strength in SFACLs (More than 50 % of the SFLs are computerized)

xi. Increased credibility and attraction of SFDB at policy level due to implementation of special priority programs of the government such as priority commodity promotion (meat production) and poverty focused special program (youth Self Employment Program)

xii. Majority shareholding by SFACLs (Presently it has reached to 55 %).

xiii. Morale boost up through activities like honoring contributor personalities and sector actors, best performing staff, Area Offices, and SFACLs (This has also helped SFDB to make more friends and supporters).

8.3.2 Weaknesses

172. Major areas of weaknesses of the bank appear the following.

i. The manpower setup lagging behind the fast growing SFACLs

ii. Slow adoption of IT technology (Recently, ADB support has been mobilized).

iii. Weak monitoring, supervision and guidance due to weak staff strength and lack of internal departmentalization

iv. Lack of regular source of assured fund due to excessive dependency on the government

v. Affected by financial market movement, but a constraint in relying on its own fund management

vi. Need to compete in the lending market with private sector

vii. Market constraints the dynamism in the organization (as it cannot accept the deposit)

viii. Need to compete in the market but has to honor also the prescription of the government (due to dependency on government fund or donor funds mobilized through government)

8.3.3 Opportunities

173. Major areas of opportunities of the bank are the following

i. high potential of expanding micro credit in the country

ii. good backing to the institution by public sector

iii. fast growing SFACLs and opportunity to mobilization for the benefit of SFDB

iv. increasing credibility of the institution, nationally and internationally

v. high public belief (as reflected from the high demand for the shares during IPO)

vi. potential for increasing capital from within and also from outside due to strong financial position

8.3.4 Threats

174. Major areas of threats of the bank are the following

i. prone to politicization cliental base as co-operatives are politicized in the country, in general

ii. prone to politicization in the SFDB board as majority board members are represented from SFACLs. effect on the credit delivery and collection due to populist approach of the government, occasionally

iii. fast rising internal competition in the micro credit market

iv. potential external competition due to globalization

v. possibility of the misuse of the institution due to over dependency on the government and donors for the funding, if the chief executive officer is professionally weak or politically motivated

8.3.5 Major Recommendations

175. While various recommendations are found in respective chapters in the report, major recommendations are listed below.

- Use of voluntary organizations, government agencies and private sector institutions are important in facilitating MFIs. Developing a mechanism by the bank for engaging them networking with potential service providers will be helpful.
- For reducing external dependency, SFDB should lobby for a potential

deposit mobilization. It should initiate the steps at least from its member SFACLs

- A policy of demarcation may be needed for accepting and retaining a client member, else a cross play by the SFACLs or the competitors may gradually enterer in the bank business by drifting the bank objectives of creating and prompting farmer managed MFIs. Some SFACLs have borrowed also from other sources. Reasons for going other sources need to be explored to reduce the potential evaporation of clients.
- To maintain the status of SFDB as promoter and lender to SFACLs, proportion of total resource flow by SFDB to them has to be clear and reserved to exceed at least some thresh hold proportion. Else, there will be some risk of drifting away SFDB from it very objective.
- Departmentalization is not yet initiated in SFDB and it is time to start. Likewise, SFDB activities are heavily dependent on external staff support. SFDB must give priority to develop own staff strength. Larger share of portfolio being on agriculture, reprioritizing future recruitments accordingly would strengthen the bank's monitoring and portfolio creation.
- SFDB has poor coverage in mountains and hills and needs a shift in increasing outreach there in a sustainable way.
- Lack of own training facilities does not permit SFDB for effective facilitation of SFACLs and training. SFDB should opt for it.
- For a sustainable credit management, SFDB should conduct periodic study on matching of repayment actually required by SFACLs with the earning in the portfolio managed by them.
- Small farmers' expectation on loan and interest subsidy gets highly sensitive with the change in the government. The management has to be overly cautious of populist programs, cliental selection influence and maintaining apolitical stand by establishing a transparent parameter of decision making.
- The core capital issue should get special attention not to let the over constrained situation. The temporarily relaxed situation should not get overlooked and capital addition should be a regular policy, at least at more than inflation plus real rate of credit growth norm.
- SFDB had been slow in computerizing. A certain percentage of profit should be continually earmarked for the internal capacity enhancement and IT facility development in the office.
- SFDB has recently extended its services also to other type of co-operatives. Given the internally deeply rooted different structure of those co-operatives created under different framework, more cautious approach is suggested as credit flow to them could get easily politicized beyond the serving capacity and the risk tolerance range of SFDB
- Monitoring strength of the bank should be considerably strengthened with adequate staff, subject matter

specialists and IT facilities. Initiation of reporting of credit status by major portfolios by SFACLs is important. While the process for online linkage between SFDB and its Area Offices is planned under ADB TA. Online linkage between SFACLs and Area Offices has also been felt necessary to strengthen the monitoring system. This should be the immediate next step.

- The outstanding borrowing has started exceeding the outstanding lending in SFDB from middle of 2011 basically due to aggressive arrangement for credit fund with the expectation of fast rise in demand for lending. Strategy should be designed also to avoid the idle fund in the system to minimize risk of undue rise in interest expenses.
- Some participating SFACLs express that the current program of replicating SFACL is more aggressive in the quest of reducing the cost should be reviewed. As per them, appropriate normal period would have to be of two years, instead of one year.
- The Bank should prepare and publish modules of financial cost benefit analysis of potential schemes and approach to get engaged in the business. This would help promote the business of the bank and the SFACLs by encouraging farmers to start enterprises.
- Hills and mountains should receive more attention in expanding SFACLs. Aligning with the poverty and profitability in a balanced way with a financial viability should be the strategy. The target rate of profit should be at least 8- 10 percent higher than the rate of inflation to cover the longer term opportunity cost of capital in developing countries like Nepal.
- About 13 % of the SFACLs had income exceeding expenditure only by about by 10%, implying that their dividend distribution is likely to be less than the rate of inflation leading to erosion in the wealth of the investors. SFACLs not capable of generating profit 10 % to 12% higher than the rate of inflation should undergo the system improvement, in general.
- If only the A graders which are categorized as very good SFACLs is considered satisfactory, still more than one third SFACLs have to undergo reforms. More of such SFACLs fall in Terai.
- Under Current grading system of SFACLs followed by SFDB, some SFACLs which were in loss also appear under grade A and grade B by superseding the performance record of those who are in profit. There is a need for improving the current grading system.
- Given rising competition in the market, SFDB need to expand additional outreach. SFDB could play four prong strategies for this (i) deepening and expanding outreach in the current lending (ii) creating new SFACLs (iii) embracing and reforming other saving and credit co-operatives to fit to SFACLs and (iv) expanding outreach to other MFIs. A balanced approach is recommended based on location specific viability analysis.
- Challenge to SFDB in entering into non SFACLs type MFIs is that it could lead

to faster rise in the cost of operation in streamlining them and could create also an undue competition with similar other public sector institutions. A wider involvement could also mean drifting away from the very objective of creating SFDB. If it embraces other MFIs, it should be for the purpose of deepening the outreach with the strategy of bringing them within SFACLs framework, in a time bound manner.

- Given the entry of the bank into IPO from 2012/13, the distribution of dividend and bonus are to start soon. An alert is made that the rate of profit is likely to fall at faster rate if the equity is over diluted through aggressive issue of bonus shares without enhancing the internal management capacity, fading gradually the image of the bank.
- SFDB was initially involved in handling remittance business. Presently, this operation is fully transformed to SFACLs. Given the high flow of remittance in rural areas, SFDB should continue to encourage SFACLs in the remittance business as its flow through SFACLs. will facilitate also in loan collection and in establishing closer relation with its members.
- Private sector commercial banks are opting to enter into the micro credit sector through won internal arrangement or through subsidiaries. Development banks may follow the suit. From this, SFDB should be well alert of the potential threat in the market for expanding credit, in future. SFDB should develop a strategic approach for raising deposit also from the market by persuading NRB and the government for the policy change.

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Annex Table 1: Village Development Committees (VDCs), Municipalities, Population and Households in SFDB Program Districts

Particulars	Number of SFDB Programme Districts (2012)	Number of VDCs in SFDB Programme Districts (2012)	Number of Municipalities in SFDB Programme Districts (2012)	Population in SFDB Programme Districts (2011)
By Ecologocal Belts				
Mountains	3	148	1	517655
Hills	20	1096	16	5656223
Terai	20	1365	29	13318705
By Development Regions				
Eastern	7	473	12	4425905
Central	14	977	14	6641124
Western	14	836	12	4906775
Mid Western	6	262	5	2291822
Far Western	2	61	3	1226957
Overall	43	2609	46	19492583

Source: Basic data from SFDB MIS and CBS

Annex Table 2: Socio Economic Status in SFDB Prgram Districts by Area Office and the Country

Area Offices	Total Number of Districts	Number of VDCs	Number of Municipalities	Population, 2011	Number of Households 2011	Number of Districts with Food Deficit in 2011	Number of Least Developed Districts *	Number of Least Developed Districts based on HDI **	Number of Districts with Poor Population above 33.5% ***
Head Office	2	130	1	474355	112376	1		1	2
Birtamod	2	95	4	1102904	249054				1
Butawal	6	405	5	2834612	555077		1		5
Gajuri	4	216	4	1038775	223564	3	1	2	4
Hetauda	5	355	6	2975908	529428	2	1	1	1
Itahari	2	114	4	1728857	376404	1			
Janakpur	6	540	7	3746230	688026	5	1	3	1
Nepalgunj	8	323	8	3518779	686145	1	1	3	8
Pokhara	8	431	7	2072163	506451	1			6
Sub Total	43	2609	46	19492583	3926525	14	5	10	28
Non SFDB Districts	32	1306	12	7001921	1500777	19	18	15	27
Total Nepal	75	3915	58	26494504	5427302	33	25	25	55

** Based on Socio-Economic Ranking by CBS*

*** Based on Nepal Human Development Report 2004, United Nation*

****Based on Small Area Estimation of Poverty (SAEP), CBS, 2006/07*

Source: Basic data from SFDB MIS and CBS

Annex Table 3: Some Socio Economic Status of the Vicinity Districts of SFDB Area Offices

Area Offices	Total Number of Districts	Number of VDCs	Number of Municipalities	Population, 2011	Number of Households 2011	Number of Districts with Food Deficit in 2011	Number of Least Developed Districts *	Number of Least Developed Districts based on HDI **	Number of Districts with Poor Population above 33.5% ***
Head Office	2	130	1	474355	112376	1		1	2
Birtamod	4	186	4	1422182	316759	1			3
Butawal	6	405	5	2834612	555077		1		5
Gajuri	7	330	9	3555798	838341	6	1	2	4
Hetauda	5	355	6	2975908	529428	2	1	1	1
Itahari	6	277	6	2335047	510178	1			4
Janakpur	11	814	8	4705250	888468	6	5	3	6
Nepalgunj	24	958	12	6099199	1165390	14	17	18	24
Pokhara	10	460	7	2092153	511285	2			6
Total Nepal	75	3915	58	26494504	5427302	32	25	25	55

** Based on Socio-Economic Ranking by CBS*

*** Based on Nepal Human Development Report 2004, United Nation*

****Based on Small Area Estimation of Poverty (SAEP), CBS, 2006/07*

Source: Basic data from SFDB MIS and CBS

Annex Table 4: Number of Bank Branches, Finance Companies and Cooperatives by SFDB Program Districts, Ecological Belts and Development Regions, 2012

Type of Districts	Area	Number of Commercial Bank Branches (Mid-Jan 2012)	Number of Finance Companies (Mid-Jan 2012)	Number of Development Banks (Mid-Jan 2012)	Total Number of Cooperatives 2068	Agriculture Related Cooperatives	Agriculture Cooperatives	Consumer Cooperatives	Multipurpose Cooperatives	Saving and Credit Cooperatives	Other Cooperatives*
SFDB Programme Districts	Nepal	1498	25	70	15600	4987	3079	982	2780	6014	837
Other Districts		767	54	18	7701	867	533	357	1295	4983	199
	Ecological Belts										
SFDB Programme Districts	Mountains	47	0	2	1163	353	174	80	114	551	65
	Hills	516	8	33	6297	2130	1186	373	1273	2241	280
	Terai	935	17	35	8140	2504	1719	529	1393	3222	492
	Total	1498	25	70	15600	4987	3079	982	2780	6014	837
Other Districts	Mountains	50	0	1	858	162	145	131	241	299	25
	Hills	717	54	17	6843	705	388	226	1054	4684	174
	Terai										
	Total	767	54	18	7701	867	533	357	1295	4983	199
	Development Regions										
SFDB Programme Districts	Eastern	304	4	5	3271	1137	822	207	458	1315	154
	Central	446	9	23	6108	2098	1062	389	917	2399	305
	Western	529	10	30	4159	1067	652	283	1014	1639	156
	Mid Western	144	1	9	1601	577	468	99	298	569	58
	Far Western	75	1	3	461	108	75	4	93	92	164
	Total	1498	25	70	15600	4987	3079	982	2780	6014	837
Other Districts	Eastern	59	0	3	795	189	98	59	213	277	57
	Central	642	54	15	5284	382	183	64	623	4130	85
	Western	6	0	0	36	8	8	10	1	17	0
	Mid Western	28	0	0	847	228	206	141	198	253	27
	Far Western	32	0	0	739	60	38	83	260	306	30
	Total	767	54	18	7701	867	533	357	1295	4983	199
Grand Total		2265	79	88	23301	5854	3612	1339	4075	10997	1036

**Health, Electricity, Communication and Others*

Source: Basic data from NRB, Department of Co-operatives and SFDB

Annex Table 5: Number of Bank Branches, Finance Companies and Cooperatives by Area Offices, 2012

Type of Districts	Area	Number of Commercial Bank Branches (Mid-Jan 2012)	Number of Finance Companies (Mid-Jan 2012)	Number of Development Banks (Mid-Jan 2012)	Total Number of Cooperatives 2068	Agriculture Related Cooperatives	Agriculture Cooperatives	Consumer Cooperatives	Multipurpose Cooperatives	Saving and Credit Cooperatives	Other Cooperatives*
SFDB Programmed Districts	Birtamod	90	0	2	1110	669	434	10	134	255	42
	Butawal	245	5	15	1873	528	373	59	457	761	68
	Gajuri	95	1	11	1739	639	287	36	335	631	98
	Head Office	43	0	2	1088	331	153	79	93	523	62
	Hetauda	246	7	8	1992	682	375	94	371	787	58
	Itahari	164	2	3	1174	201	146	15	151	731	76
	Janakpur	112	3	2	2276	713	489	362	291	787	123
	Nepalgunj	219	2	12	2062	685	543	103	391	661	222
	Pokhara	284	5	15	2286	539	279	224	557	878	88
	Total	1498	25	70	15600	4987	3079	982	2780	6014	837
Other Districts		767	54	18	7701	867	533	357	1295	4983	199
Grand Total		2265	79	88	23301	5854	3612	1339	4075	10997	1036

**Health, Electricity, Communication and Others*

Source: Basic data from NRB, Department of Co-operatives and SFDB

Annex Table 6: Transaction Between SFDB and SFACLs in the Country by Development Regions and Ecological Belts and the Loan Recovery Status, 2009/10-2011/12

In Thousand Rupees

Fiscal Years	Area	Disbursement	Principal Collection	Interest Collection	Outstanding Loan Up to End of Fiscal Year	Over Due Loan	Receivable Interest	Rebate	Loan Collection Rate	Overdue Loan as % of Outstanding Loan	Receivable Interest as % of Outstanding Loan
2009/10	Nepal	955779	592134	108037	1116096	4114	1453		99.2	0.4	0.13
2010/11		1870928	1109544	158196	1877479	31948	468		97.5	1.7	0.02
2011/12		2673773	1875093	262574	2676159	28718	1510	43712	98.6	1.1	0.06
	Development Regions										
2009/10	Eastern	118651	80792	14944	152446	3642	931		95.4	2.4	0.61
	Central	369440	229667	40946	428495	0	0		100.0	0.0	0.00
	Western	366084	219643	40686	413831	0	253		99.9	0.0	0.06
	Mid Western	81204	50951	8027	86641	472	269		98.8	0.5	0.31
	Far Western	20400	11081	3434	34683	0	0		100.0	0.0	0.00
	Total	955779	592134	108037	1116096	4114	1453		99.2	0.4	0.13
2010/11	Eastern	274022	142558	22612	283909	6203	133		96.3	2.2	0.05
	Central	751601	438430	60241	741665	19517	0		96.2	2.6	0.00
	Western	591302	388522	56626	616611	5765	335		98.6	0.9	0.05
	Mid Western	188972	106127	13452	169493	463	0		99.6	0.3	0.00
	Far Western	65031	33907	5265	65801	0	0		100.0	0.0	0.00
	Total	1870928	1109544	158196	1877479	31948	468		97.5	1.7	0.02
2011/12	Eastern	372802	251790	39071	404921	7899	434	5166	97.2	2.0	0.11
	Central	1127957	795864	105048	1073760	5605	0	26780	99.4	0.5	0.00
	Western	880810	637202	87622	860220	12064	992	7321	98.2	1.4	0.12
	Mid Western	212005	140405	21389	241090	615	49	3226	99.6	0.3	0.02
	Far Western	80199	49832	9444	96169	2535	35	1218	95.8	2.6	0.04
	Total	2673773	1875093	262574	2676159	28718	1510	43712	98.6	1.1	0.06
	Ecological Belts										
2009/10	Mountain	7000	5250	426	4500	0	0		100.0	0.0	0.00
	Hill	214788	125636	21486	229274	126	269		99.7	0.1	0.12
	Terai	733991	461248	86125	882322	3988	1184		99.1	0.5	0.13
	Total	955779	592134	108037	1116096	4114	1453		99.2	0.4	0.13
2010/11	Mountain	10500	7500	631	7500	0	0		100.0	0.0	0.00
	Hill	442149	216414	34584	455013	6430	335		97.4	1.4	0.07
	Terai	1418279	885630	122981	1414966	25518	133		97.5	1.8	0.01
	Total	1870928	1109544	158196	1877479	31948	468		97.5	1.7	0.02
2011/12	Mountain	27600	9800	1957	25300	0	0	511.5	100.0	0.0	0.00
	Hill	685526	456622	64352.6	683406	6024	992	8429.01	98.7	0.9	0.15
	Terai	1960647	1408671	196265	1967453	22694	518	34771.1	98.6	1.2	0.03
	Total	2673773	1875093	262574	2676159	28718	1510	43711.6	98.6	1.1	0.06

Source: Basic data from SFDB MIS

Annex Table 7: Transaction Between SFDB and SFACLs by Area Offices and Loan Recovery Status, 2009/10-2011/12

In Thousand Rupees

Fiscal Years	Area offices	Disbursement	Principal Collection	Interest Collection	Outstanding Loan Up to End of Fiscal Year	Over Due Loan	Receivable Interest	Rebate	Loan Collection Rate	Overdue Loan as % of Outstanding Loan	Receivable Interest as % of Total Out-standing Loan
2009/10	Head Office	7000	5250	426	4500	0	0		100.0	0.0	0.00
	Birtamod	31366	15396	4277	43560	0	0		100.0	0.0	0.00
	Butawal	273474	172504	33842	333589	0	253		99.9	0.0	0.08
	Gajuri	44076	31442	6373	62994	0	0		100.0	0.0	0.00
	Hetauda	213010	125795	20982	225586	0	0		100.0	0.0	0.00
	Itahari	63535	48588	6481	68020	3642	931		92.3	5.4	1.37
	Janakpur	129104	83988	17351	176281	0	0		100.0	0.0	0.00
	Nepalgunj	101604	62032	11461	121324	472	269		99.0	0.4	0.22
	Pokhara	92610	47139	6844	80242	0	0		100.0	0.0	0.00
	Total	955779	592134	108037	1116096	4114	1453		99.2	0.4	0.13
2010/11	Head Office	10500	7500	631	7500	0	0		100.0	0.0	0.00
	Birtamod	112130	38771	6706	116918	794	133		98.0	0.7	0.11
	Butawal	460462	317793	45113	476258	0	0		100.0	0.0	0.00
	Gajuri	154200	63687	10280	153507	0	0		100.0	0.0	0.00
	Hetauda	415098	242875	31559	397809	0	0		100.0	0.0	0.00
	Itahari	119060	71174	10621	115905	2532	0		97.0	2.2	0.00
	Janakpur	214635	156981	23056	233935	22394	0		88.9	9.6	0.00
	Nepalgunj	254003	140034	18717	235294	463	0		99.7	0.2	0.00
	Pokhara	130840	70729	11513	140353	5765	335		93.1	4.1	0.24
	Total	1870928	1109544	158196	1877479	31948	468		97.5	1.7	0.02
2011/12	Head Office	27600	9800	1957	25300	0	0	512	100.0	0.0	0.00
	Birtamod	127061	73319	15388	170660	1989	434	2572	97.3	1.2	0.25
	Butawal	667709	467652	68548	676315	7546	0	5656	98.6	1.1	0.00
	Gajuri	282596	138125	24741	297979	0	0	3975	100.0	0.0	0.00
	Hetauda	513815	404972	53382	506652	0	0	20231	100.0	0.0	0.00
	Itahari	148966	106856	16208	158015	1785	0	1778	98.6	1.1	0.00
	Janakpur	400721	314582	32443	320074	9730	0	2879	97.3	3.0	0.00
	Nepalgunj	292204	190237	30833	337259	3150	84	4444	98.6	0.9	0.02
	Pokhara	213101	169550	19074	183905	4518	992	1665	97.2	2.5	0.54
	Total	2673773	1875093	262574	2676159	28718	1510	43712	98.6	1.1	0.06

Source: Basic data from SFDB MIS

Annex Table 8: Programwise Transaction Between SFDB and SFACLs in the Country by Development Regions and Ecological Belts, and the Loan Recovery Status, 2011/12

In Thousand Rupees

Programs / Area	Micro Finance Credit Programs	Animal Hus-bandry Credit Program	Self Employment Credit Programs	Total	Micro Finance Credit Programs	Animal Hus-bandry Credit Programs	Self Employment Credit Programs	Total	Micro Finance Credit Programs	Animal Hus-bandry Credit Programs	Self Employment Credit Programs	Total
	Disbursement				Principal Collection				Interest Collection			
Nepal	1951162	641911	80700	2673773	1637986	216486	20621	1875093	196001	59803	6771	262574
Development Regions												
Eastern	245196	122496	5110	372802	206002	43268	2520	251790	26227	11702	1142	39071
Central	823606	281411	22940	1127957	686802	104059	5003	795864	78009	25507	1532	105048
Western	676278	161852	42680	880810	578013	48521	10668	637202	71297	13103	3222	87622
Mid Western	156732	51823	3450	212005	124317	15213	875	140405	14257	6816	316	21389
Far Western	49350	24329	6520	80199	42852	5425	1555	49832	6210	2675	559	9444
Ecological Belts												
Mountain	17600	10000	0	27600	6050	3750	0	9800	802	1155	0	1957
Hill	474487	179355	31684	685526	381306	66350	8965	456622	45079	17069	2205	64353
Terai	1459075	452556	49016	1960647	1250629	146386	11656	1408671	150120	41579	4566	196265
	Outstanding Loan Up to End of Fiscal Year				Over Due Loan				Receivable Interest			
Nepal	1713927	886894	75339	2676159	28718	0	0	28718	1510	0	0	1510
Development Regions												
Eastern	229946	163785	11190	404921	7899	0	0	7899	434	0	0	434
Central	677367	378456	17937	1073760	5605	0	0	5605	0	0	0	0
Western	619156	205092	35972	860220	12064	0	0	12064	992	0	0	992
Mid Western	137908	99107	4075	241090	615	0	0	615	49	0	0	49
Far Western	49550	40454	6165	96169	2535	0	0	2535	35	0	0	35
Ecological Belts												
Mountain	14050	11250	0	25300	0	0	0	0	0	0	0	0
Hill	404602	254586	24219	683406	6024	0	0	6024	992	0	0	992
Terai	1295275	621058	51120	1967453	22694	0	0	22694	518	0	0	518
	Rebate				Loan Collection Rate				Overdue loan as % of Outstanding Loan			
Nepal	3210	25818	0	43712	98	100	100	99	2	0	0.0	1.1
Development Regions												
Eastern	344	4822	0	5166	96.5	100.0	100.0	97.2	3.4	0.0	0.0	2.0
Central	1169	10967	0	26780	99.3	100.0	100.0	99.4	0.8	0.0	0.0	0.5
Western	1432	5889	0	7321	98.0	100.0	100.0	98.2	1.9	0.0	0.0	1.4
Mid Western	226	2961	0	3226	99.5	100.0	100.0	99.6	0.4	0.0	0.0	0.3
Far Western	39	1179	0	1218	95.0	100.0	100.0	95.8	5.1	0.0	0.0	2.6
Total	3210	25818	0	43712	98.4	100.0	100.0	98.6	1.7	0.0	0.0	1.1
Ecological Belts												
Mountain	7	505	0	512	100.0	100.0		100.0	0.0	0.0		0.0
Hill	889	7540	0	8429	98.4	100.0	100.0	98.7	1.5	0.0	0.0	0.9
Terai	2314	17773	0	34771	98.4	100.0	100.0	98.6	1.8	0.0	0.0	1.2

Source: Basic data from SFDB MIS

Annex Table 9: Programwise Transaction Between SFDB and SFACLs by Area Offices, and Loan Recovery Status, 2011/12

In Thousand Rupees

Area offices / Programs	Micro Finance Credit Programs	Animal Husbandry Credit Programme	Self Employment Credit Programme	Total	Micro Finance Credit Programs	Animal Husbandry Credit Programme	Self Employment Credit Programme	Total	Micro Finance Credit Programs	Animal Husbandry Credit Programs	Self Employment Credit Programme	Total
	Disbursement				Principal Collection				Interest Collection			
Head Office	17600	10000	0	27600	6050	3750	0	9800	802	1155	0	1957
Birtamod	89161	37400	500	127061	57242	14217	1860	73319	9171	5520	697	15388
Butawal	504208	137915	25586	667709	425337	36542	5773	467652	56470	9996	2082	68548
Gajuri	165802	107054	9740	282596	104297	31593	2235	138125	15878	8239	624	24741
Hetauda	434028	66587	13200	513815	364028	38176	2768	404972	41905	10569	908	53382
Itahari	97927	46429	4610	148966	89497	16699	660	106856	11708	4055	445	16208
Janakpur	264284	136437	0	400721	271690	42892	0	314582	24773	7671	0	32443
Nepalgunj	206082	76152	9970	292204	167169	20638	2430	190237	20467	9491	875	30833
Pokhara	172070	23937	17094	213101	152676	11979	4895	169550	14827	3107	1140	19074
Total	1951162	641911	80700	2673773	1637986	216486	20621	1875093	196001	59803	6771	262574
Area Offices	Outstanding Loan by Fiscal Year End				Over Due Loan				Receivable Interest			
Head Office	14050	11250	0	25300	0	0	0	0	0	0	0	0
Birtamod	96337	67983	6340	170660	1989	0	0	1989	434	0	0	434
Butawal	488695	163847	23773	676315	7546	0	0	7546	0	0	0	0
Gajuri	155578	134896	7505	297979	0	0	0	0	0	0	0	0
Hetauda	369309	126911	10432	506652	0	0	0	0	0	0	0	0
Itahari	94415	58750	4850	158015	1785	0	0	1785	0	0	0	0
Janakpur	177624	142451	0	320074	9730	0	0	9730	0	0	0	0
Nepalgunj	187458	139561	10240	337259	3150	0	0	3150	84	0	0	84
Pokhara	130461	41245	12199	183905	4518	0	0	4518	992	0	0	992
Total	1713927	886894	75339	2676159	28718	0	0	28718	1510	0	0	1510
Area Offices	Rebate				Loan Collection Rate				Overdue loan as % of Outstanding Loan			
Head Office	7	505	0	512	100.0	100.0		100.0	0.0	0.0		0.0
Birtamod	163	2409	0	2572	96.5	100.0	100.0	97.3	2.1	0.0	0.0	1.2
Butawal	1138	4518	0	5656	98.5	100.0	100.0	98.6	1.5	0.0	0.0	1.1
Gajuri	324	3651	0	3975	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0
Hetauda	838	4748	0	20231	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0
Itahari	181	1597	0	1778	98.3	100.0	100.0	98.6	1.9	0.0	0.0	1.1
Janakpur	0	2879	0	2879	96.8	100.0		97.3	5.5	0.0		3.0
Nepalgunj	265	4140	0	4444	98.3	100.0	100.0	98.6	1.7	0.0	0.0	0.9
Pokhara	294	1371	0	1665	96.8	100.0	100.0	97.2	3.5	0.0	0.0	2.5
Total	3210	25818	0	43712	98.4	100.0	100.0	98.6	1.7	0.0	0.0	1.1

Source: Basic data from SFDB MIS

Annex Table 10: Transaction between SFDB and SFACLs by Type of Cooperatives, Development Regions, Ecological Belts, and The Loan Recovery Status, 2009/10-2011/12

In Thousand Rupees

Fiscal Years	Area	Disbursement		Principal Collection		Interest Collection		Outstanding Loan Up to End of Fiscal Year		Over Due Loan		Receivable Interest		Rebate	
		SFACLs	Other Cooperatives	SFACLs	Other Cooperatives	SFACLs	Other Cooperatives	SFACLs	Other Cooperatives	SFACLs	Other Cooperatives	SFACLs	Other Cooperatives	SFACLs	Other Cooperatives
	Development Regions														
2009/10	Eastern	110051	8600	74797	5995	14391	553	145717	6729	3642	0	931	0	0	0
	Central	360440	9000	224092	5575	40369	577	422320	6175	0	0	0	0	0	0
	Western	366084	0	219643	0	40686	0	413831	0	0	0	253	0	0	0
	Mid Western	81204	0	50451	500	8004	23	86641	0	472	0	269	0	0	0
	Far Western	20400	0	11081	0	3434	0	34683	0	0	0	0	0	0	0
	Total	938179	17600	580064	12070	106884	1153	1103192	12904	4114	0	1453	0	0	0
2010/11	Eastern	256922	17100	131510	11048	21741	871	271125	12784	6203	0	133	0	0	0
	Central	730401	21200	423503	14927	59040	1201	729217	12448	19517	0	0	0	0	0
	Western	591302	0	388522	0	56626	0	616611	0	5765	0	335	0	0	0
	Mid Western	187972	1000	105377	750	13380	72	169243	250	463	0	0	0	0	0
	Far Western	65031	0	33907	0	5265	0	65801	0	0	0	0	0	0	0
	Total	1831628	39300	1082819	26725	156052	2144	1851997	25482	31948	0	468	0	0	0
2011/12	Eastern	370302	2500	243458	8332	37869.4	1202	397970.8	6950	7899	0	434	0	4993.3	173
	Central	1084587	43370	775204.9	20659	101785	3263	1038601	35159	5605	0	0	0	25717	1063.5
	Western	877310	3500	636452	750	87488	134	857470	2750	12064	0	992	0	7318	3
	Mid Western	212005	0	140155	250	21387	2	241090	0	615	0	49	0	3226	0
	Far Western	80199	0	49832	0	9444	0	96169	0	2535	0	35	0	1218	0
	Total	2624403	49370	1845102	29991	257973	4601	2631300	44859	28718	0	1510	0	42472	1239.5
Ecological Belts															
2009/10	Mountains	0	7000	0	5250	0	426	0	4500	0	0	0	0	0	0
	Hills	214288	500	125511	125	21462	24	228899	375	126	0	269	0	0	0
	Terai	723891	10100	454553	6695	85422	703	874293	8029	3988	0	1184	0	0	0
	Total	938179	17600	580064	12070	106884	1153	1103192	12904	4114	0	1453	0	0	0
2010/11	Mountains	0	10500	0	7500	0	631	0	7500	0	0	0	0	0	0
	Hills	439649	2500	214939	1475	34415	169	453613	1400	6430	0	335	0	0	0
	Terai	1391979	26300	867880	17750	121637	1344	1398384	16582	25518	0	133	0	0	0
	Total	1831628	39300	1082819	26725	156052	2144	1851997	25482	31948	0	468	0	0	0
2011/12	Mountains	0	27600	0	9800	0	1957	0	25300	0	0	0	0	0	512
	Hills	679026	6500	452972	3650	63899	454	679156	4250	6024	0	992	0	8418	11
	Terai	1945377	15270	1392130	16541	194075	2190	1952144	15309	22694	0	518	0	34054	717
	Total	2624403	49370	1845102	29991	257973	4601	2631300	44859	28718	0	1510	0	42472	1240

Source: Basic data from SFDB MIS

Annex Table 11: Transaction between SFDB and SFACLs by Type of Cooperatives and Area Offices, and The Loan Recovery Status, 2009/10-2011/12

In Thousand Rupees

Fiscal Years	Area Office	Disbursement		Principal Collection		Interest Collection		Outstanding Loan Up to End of Fiscal Year		Over Due Loan		Receiv-able Interest		Rebate	
		SFACL	Other Coops	SFACL	Other Coops	SFACL	Other Coops	SFACL	Other Coops	SFACL	Other Coops	SFACL	Other Coops	SFACL	Other Coops
2009/10	Head Office	0	7000	0	5250	0	426	0	4500	0	0	0	0	0	0
	Birtamod	22766	8600	9401	5995	3724	553	36831	6729	0	0	0	0	0	0
	Butawal	273474	0	172504	0	33842	0	333589	0	0	0	253	0	0	0
	Gajuri	43576	500	31317	125	6349	24	62619	375	0	0	0	0	0	0
	Hetauda	211510	1500	125595	200	20855	127	224286	1300	0	0	0	0	0	0
	Itahari	63535	0	48588	0	6481	0	68020	0	3642	0	931	0	0	0
	Janakpur	129104	0	83988	0	17351	0	176281	0	0	0	0	0	0	0
	Nepalgunj	101604	0	61532	500	11438	23	121324	0	472	0	269	0	0	0
	Pokhara	92610	0	47139	0	6844	0	80242	0	0	0	0	0	0	0
	Total	938179	17600	580064	12070	106884	1153	1103192	12904	4114	0	1453	0	0	0
2010/11	Head Office	0	10500	0	7500	0	631	0	7500	0	0	0	0	0	0
	Birtamod	95030	17100	27723	11048	5835	871	104134	12784	794	0	133	0	0	0
	Butawal	460462	0	317793	0	45113	0	476258	0	0	0	0	0	0	0
	Gajuri	153200	1000	62962	725	10203	77	152857	650	0	0	0	0	0	0
	Hetauda	405398	9700	236173	6702	31066	493	393511	4298	0	0	0	0	0	0
	Itahari	119060	0	71174	0	10621	0	115905	0	2532	0	0	0	0	0
	Janakpur	214635	0	156981	0	23056	0	233935	0	22394	0	0	0	0	0
	Nepalgunj	253003	1000	139284	750	18645	72	235044	250	463	0	0	0	0	0
	Pokhara	130840	0	70729	0	11513	0	140353	0	5765	0	335	0	0	0
	Total	1831628	39300	1082819	26725	156052	2144	1851997	25482	31948	0	468	0	0	0
2011/12	Head Office	0	27600	0	9800	0	1957	0	25300	0	0	0	0	0	511.5
	Birtamod	124561	2500	64987	8332	14186	1202	163710	6950	1989	0	434	0	2399	173
	Butawal	667709	0	467652	0	68548	0	676315	0	7546	0	0	0	5656	0
	Gajuri	282596	0	137475	650	24690	51	297979	0	0	0	0	0	3974	1
	Hetauda	498045	15770	394763	10209	52127	1255	496793	9859	0	0	0	0	19680	551
	Itahari	148966	0	106856	0	16208	0	158015	0	1785	0	0	0	1778	0
	Janakpur	400721	0	314582	0	32443.29	0	320074.36	0	9730	0	0	0	2879	0
	Nepalgunj	292204	0	189987	250	30831	2	337259	0	3150	0	84	0	4444	0
	Pokhara	209601	3500	168800	750	18940	134	181155	2750	4518	0	992	0	1662	3
	Total	2624403	49370	1845102	29991	257973.29	4601	2631300.4	44859	28718	0	1510	0	42472	1239.5

Source: Basic data from SFDB MIS

Annex Table 12 : Number of SFACLs/Other Cooperatives by Loan Disbursement, Outstanding, Overdue and Recoverable Interest

Description	2009/10		2010/11		2011/12	
	SFACLs & Other MFIs	SFA-CLs	SFACLs & Other MFIs	SFA-CLs	SFACLs & Other MFIs	SFA-CLs
Loan Disbursement to Number of SFACLs	169	161	204	192	247	232
Number of SFACLs with Outstanding Loan	197	189	222	210	254	237
Number of SFACLs with Overdue Loan	3	3	27	27	21	21
Number of SFACLs with Receivable Interest	3	3	2	2	4	4
Total*	233	223	250	236	290	267
As % of Total Number of SFACLs/Other Cooperatives						
Loan Disbursement to Number of SFACLs	72.5	72.2	81.6	81.4	85.2	86.9
Number of SFACLs with Outstanding Loan	84.5	84.8	88.8	89.0	87.6	88.8
Number of SFACLs with Overdue Loan	1.3	1.3	10.8	11.4	7.2	7.9
Number of SFACLs with Receivable Interest	1.3	1.3	0.8	0.8	1.4	1.5
Total Number of SFACLs/MFI	100.0	100.0	100.0	100.0	100.0	100.0

** Excluding one other MFI which was not under transaction with SFDB by 2011/12*

Source: Basic data from SFDB MIS

Annex Table13: Number of SFACLs/Other Cooperatives with Loan Disbursed, Outstanding, Overdue, and Interest Receivable by Development Regions, Ecological Belts and Area Offices, 2008/09-2011/12

Particular	With Loan Disbursed			With Outstanding Loan			With Overdue Loan			With Receivable Interest		
Area / Year	2009 /10	2010 /11	2011 /12	2009 /10	2010 /11	2011 /12	2009 /10	2010 /11	2011 /12	2009 /10	2010 /11	2011 /12
Nepal	169	204	247	197	222	254	3	27	21	3	2	4
Development Regions												
Eastern	32	39	49	43	49	55	1	10	5	1	1	1
Central	59	75	94	73	81	93	0	14	6	0	0	0
Western	48	48	61	49	49	62	0	2	5	1	1	1
Mid Western	24	33	34	26	34	35	2	1	3	1	0	1
Far Western	6	9	9	6	9	9	0	0	2	0	0	1
Ecological Belts												
Mountain	2	2	7	2	2	7	0	0	0	0	0	0
Hill	41	54	71	51	58	72	1	4	3	1	1	1
Terai	126	148	169	144	162	175	2	23	18	2	1	3
Area Offices												
Head Office	2	2	7	2	2	7	0	0	0	0	0	0
Birtamod	11	17	19	15	19	22	0	1	1	0	1	1
Butawal	33	33	39	34	33	39	0	0	4	1	0	0
Gajuri	10	19	24	15	19	24	0	0	0	0	0	0
Hetauda	27	31	36	28	32	35	0	0	0	0	0	0
Itahari	13	14	16	16	18	18	1	3	2	1	0	0
Janakpur	28	31	41	40	40	42	0	20	8	0	0	0
Nepalgunj	30	42	43	32	43	44	2	1	5	1	0	2
Pokhara	15	15	22	15	16	23	0	2	1	0	1	1

Source: Basic data from SFDB MIS

Annex Table 14: Number of Cooperatives by Type, Development Regions and Ecological Belts, 2008/09-2011/12

Fiscal Years	Area	SFACLs	Other Cooperative	Grand Total
2008/09	Nepal	219	5	224
2009/10		223	11	234
2010/11		236	15	251
2011/12		267	24	291
Development Regions*				
2009/10	Eastern	54	5	59
	Central	79	5	84
	Western	52	0	52
	Mid Western	30	1	31
	Far Western	8	0	8
	Total	223	11	234
2010/11	Eastern	54	5	59
	Central	85	8	93
	Western	52	0	52
	Mid Western	35	2	37
	Far Western	10	0	10
	Total	236	15	251
2011/12	Eastern	61	5	66
	Central	94	14	108
	Western	61	3	64
	Mid Western	41	2	43
	Far Western	10	0	10
	Total	267	24	291
Ecological Belts*				
2009/10	Mountain	0	2	2
	Hill	61	2	63
	Terai	162	7	169
	Total	223	11	234
2010/11	Mountain	0	2	2
	Hill	67	3	70
	Terai	169	10	179
	Total	236	15	251
2011/12	Mountain	2	7	9
	Hill	77	7	84
	Terai	188	10	198
	Total	267	24	291

Note: Breakdown by type of cooperatives were available only were available only after 2009/10

Source: Basic data from SFDB MIS

Annex Table 15 Number of Cooperatives by Type and Area Office, 2009/10-2011-12

Fiscal Years	Area Offices	SFACL s	Other Cooperatives	Total
2009/10	Head Office	0	2	2
	Birtamod	18	5	23
	Butawal	35	0	35
	Gajuri	21	2	23
	Hetauda	28	1	29
	Itahari	19	0	19
	Janakpur	47	0	47
	Nepalgunj	38	1	39
	Pokhara	17	0	17
	Total	223	11	234
2010/11	Head Office	0	2	2
	Birtamod	18	5	23
	Butawal	35	0	35
	Gajuri	25	2	27
	Hetauda	30	4	34
	Itahari	19	0	19
	Janakpur	47	0	47
	Nepalgunj	45	2	47
	Pokhara	17	0	17
	Total	236	15	251
2011/12	Head Office	0	7	7
	Birtamod	20	5	25
	Butawal	40	0	40
	Gajuri	31	3	34
	Hetauda	33	4	37
	Itahari	20	0	20
	Janakpur	51	0	51
	Nepalgunj	51	2	53
	Pokhara	21	3	24
	Total	267	24	291

Source: Basic data from SFDB MIS

Annex Table 16: Number of SFACL/Other Cooperatives in SFDB Programme Districts by Development Regions, Ecological Belts and Area Offices

Area	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	VDC Coverage 2011/12	Municipal-ity Coverage 2011/12
Nepal	58	94	114	139	219	220	224	234	251	291	371	3
Development Regions												
Eastern	26	31	34	38	52	52	55	59	59	66	77	1
Central	15	20	28	38	77	78	78	84	93	108	143	2
Western	17	31	40	44	52	52	52	52	52	64	88	
Mid Western	0	12	12	19	30	30	31	31	37	43	48	
Far Western	0	0	0	0	8	8	8	8	10	10	15	
Ecological Belts												
Mountains	0	0	0	0	0	0	0	2	2	9	23	1
Hills	6	14	23	31	59	60	60	63	70	84	108	1
Terai	52	80	91	108	160	160	164	169	179	198	240	1
Grand Total	58	94	114	139	219	220	224	234	251	291	371	3
Area Office (as per 2011/12)												
Head Office	0	0	0	0	0	0	0	2	2	7	21	1
Birtamod	10	13	14	16	16	16	19	23	23	25	33	1
Butawal	17	27	32	33	35	35	35	35	35	40	50	
Gajuri	0	0	2	4	21	22	22	23	27	34	35	
Hetauda	8	11	14	14	26	26	26	29	34	37	50	1
Itahari	10	12	14	16	19	19	19	19	19	20	21	
Janakpur	13	15	18	26	47	47	47	47	47	51	60	
Nepalgunj	0	12	12	19	38	38	39	39	47	53	63	
Pokhara	0	4	8	11	17	17	17	17	17	24	38	

Source: Basic data from SFDB MIS

Annex Table 17: Distribution of SFACLs/Other Cooperatives in District according to Food Availability Status 2011

Food Availability Status 2011	2009/10	20010/11	20011/12	VDC Coverage 2011/12	Municipality Coverage 2011/12
Food Deficit Districts	79	84	100	123	2
Food Surplus Districts	155	167	191	248	1
Grand Total	234	251	291	371	3

Source: Basic data from SFDB MIS and Ministry of Agriculture, Statistical Information on Nepalese Agriculture 2011

Annex Table 18: Distribution of SFACLs/Other Cooperatives in District according to Socio economic Development, HDI and Poverty Incidence

Particular	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	VDC Coverage 2011/12	Municipality Coverage 2011/12
All SFACLs/Other Cooperatives	58	94	114	139	219	220	224	234	251	291	371	3
Distribution of SFACLs in District according to CBS Ranking (Based on Socio economic Development Indicators 2003/04)*												
A-Most Developed	28	50	58	65	91	91	95	102	109	121	160	2
B-Intermediate	22	32	42	56	95	96	96	99	109	132	164	1
C-Least Developed	8	12	14	18	33	33	33	33	33	38	47	
Distribution of SFACLs/Other Cooperatives in District based on HDI-2004*												
A-Most Developed	38	60	71	80	96	96	99	104	107	122	151	1
B-Intermediate	14	26	31	39	68	68	69	73	83	96	134	2
C-Least Developed	6	8	12	20	55	56	56	57	61	73	86	
Distribution of SFACLs/Other Cooperatives (Based on SAE of Poverty 2006/07) in Districts with Poor Population above and Below 33.5%												
Poor Population Above 33.5% of Total Population**	14	34	43	53	97	98	99	104	117	148	196	2
Poor Population Below 33.5% of Total Population	44	60	71	86	122	122	125	130	134	143	175	1

**Total 75 Districts has been divided into three equal parts and grouped from A to C*

***33.5% represents national poverty level based on SAE of poverty*

Sources: Basic data from SFDB MIS; CBS, Socio economic Development Indicators 2003/04 and Small Area Estimation (SAE) of Poverty 2006-07; UNDP, Nepal Human Development Report 2004

Annex Table 19: SFDB Balance Sheet, 2001/02 - 2011/12

In Thousand Rupees

Description	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12
Capital and Liabilities											
Paid Up Capital	98712	105138	105746	109450	112675	119859	123130	123130	128788	128788	140000
Reserve and Funds	135	43552	75752	82518	99229	105119	122172	216321	234036	269674	348534
Other Liabilities	0	2251	3933	3776	3711	117978	107856	139643	107814	145529	252037
Deposit Liabilities	0	2794	10096	13458	19011	32292	0	0	-	-	0
Borrowings	0	424441	639678	751262	835550	1131083	1230838	647412	836722	2155092	3207448
Bills Payables	0	41026	44332	62327	81863	28510	0	0	-	-	0
Inter-Branch Account	0	0	149	456	225	0	0	0	0	0	0
Profit b/f	540	879	1231	1553	1867	2619	0	0	0	0	0
Current Liabilities	374	0	0	0	0	0	0	0	0	0	0
Capital Subsidy	241	0	0	0	0	0	0	0	0	0	0
Debenture and Bonds	0	0	0	0	0	0	0	0	-	-	0
Proposed Cash Dividend Payables	0	0	0	0	0	0	0	6481	-	0	0
Income Tax Liabilities	0	0	0	0	0	0	0	4307	3060	657	290
Total Capital and Liabilities	100002	620082	880917	1024800	1154130	1537460	1583996	1137293	1310420	2699740	3948310
Assets											
Cash Balance	0	5	283	193	1831	506	2124	523	428	1200	1632
Bank Balance	10870	32914	38445	24628	48763	45593	0	0	0	0	0
Balance at Nepal Rastra Bank	0	0	0	0	0	0	0	0	4500	12000	15000
Balance at other Bank and Financial Institution	0	0	0	0	0	0	56928	54749	37785	71838	189579
Investments	87000	62005	77028	72065	72148	82341	97051	97046	117020	127010	140547
Loan Advances and Bills Purchase	0	476474	706912	864133	959792	1327043	1369085	731422	1083562	1832248	2620253
Other Assets	0	44765	53939	59413	67860	78778	16040	25224	8901	21052	37630
Fixed Assets	1684	3815	4193	4260	3641	3112	2683	2226	2185	9986	8954
Stationary and Others	243	67	100	99	95	0	0	0	0	0	0
Inter Branch Account	0	13	0	0	0	87	0	0	0	0	0
Loss b/f	0	0	0	0	0	0	0	0	0	0	0
Pre Operating Expenses	33	25	16	8	0	0	0	0	0	0	0
Tax Paid	171	0	0	0	0	0	0	0	0	0	0
Money at Call and Short Notice	0	0	0	0	0	0	40085	226103	56040	624406	934716
Non Banking Assets	0	0	0	0	0	0	0	0	-	-	0
Total Assets	100002	620082	880917	1024800	1154130	1537460	1583996	1137293	1310420	2699740	3948310

Source: Basic data from SFDB Annual Reports

Annex Table 20: Balance Sheet by Area Offices, 2008/09 -2011/12

In Rupees Million

Particulars		Assets									Capital and Liabilities										
Area Offices	Years	Bank Balance	Cash Balance	Fixed Assets	Inter Branch Account	Investments	Loan Disbursed	Loss b/f	Other Assets	Total Assets	Authorized Share Capital	Issued Share Capital	Paid Up Capital	Bills Payables	Borrowings	Deposit Liabilities /Client Security Fund	Inter-Branch Account	Other Liabilities	Profit b/f	Reserve and Funds	Total Capital and Liabilities
Head Office	2008/09	85.1	0.1	1.6	400.2	97.0	5.8	0.0	3.2	592.8	0	0	123.1	6.1	209.5	0.3	0.0	23.4	27.4	203.1	592.8
	2009/10	64.0	0.1	1.4	469.4	117.0	4.5	0.0	8.0	664.4	240	150	128.8	1.8	279.7	0.4	0.0	10.0	40.4	203.4	664.4
	2010/11	622.6	0.1	6.5	1212.8	127.0	7.5	0.0	23.6	2000.1	0	0	128.8	6.6	1574.1	0.5	0.0	6.8	68.0	215.4	2000.1
	2011/12	958.3	0.1	5.4	2086.7	140.0	25.3	0.0	46.8	3262.7	0	0	140.0	23.3	2702.4	1.8	0.0	11.6	139.8	243.7	3262.7
Butawal	2008/09	9.2	0.1	0.1	0.0	0.0	232.6	0.0	1.8	243.8	0	0	0.0	4.0	130.3	9.1	92.5	7.4	0.0	0.5	243.8
	2009/10	5.2	0.0	0.1	0.0	0.0	333.6	0.0	1.5	340.4	240	150	0.0	2.2	142.4	17.5	168.6	9.1	0.0	0.6	340.4
	2010/11	23.4	0.0	0.5	0.0	0.0	476.3	0.0	1.4	501.6	0	0	0.0	0.6	138.8	25.9	325.8	9.8	0.0	0.6	501.6
	2011/12	45.5	0.9	0.5	0.0	0.0	676.3	0.0	2.9	726.1	0	0	0.0	2.2	123.1	38.9	547.1	14.2	0.0	0.6	726.1
Hetauda	2008/09	1.7	0.0	0.1	0.0	0.0	138.4	0.0	0.0	140.2	0	0	0.0	6.2	85.5	11.3	35.7	1.5	0.0	0.0	140.2
	2009/10	4.7	0.0	0.1	0.0	0.0	225.6	0.0	1.1	231.5	240	150	0.0	0.5	96.8	19.6	110.9	2.6	0.0	1.1	231.5
	2010/11	11.3	0.0	0.5	0.0	0.0	397.8	0.0	1.1	410.6	0.0	0.0	0.0	1.3	86.0	24.5	292.8	5.0	0.0	1.1	410.6
	2011/12	15.1	0.0	0.4	0.0	0.0	506.7	0.0	2.6	524.8	0.0	0.0	0.0	1.9	73.8	31.0	411.9	5.1	0.0	1.1	524.8
Birtamod	2008/09	10.6	0.1	0.1	0.0	0.0	27.6	0.0	0.4	38.8	0.0	0.0	0.0	17.6	6.8	3.3	5.8	5.3	0.0	0.1	38.8
	2009/10	6.2	0.0	0.1	0.0	0.0	43.6	0.0	0.2	50.0	0.0	0.0	0.0	0.9	19.7	5.3	19.2	4.9	0.0	0.0	50.0
	2010/11	11.6	0.0	0.3	0.0	0.0	116.9	0.0	0.3	129.1	0.0	0.0	0.0	1.0	29.7	7.7	85.3	5.5	0.0	0.0	129.1
	2011/12	16.0	0.0	0.4	0.0	0.0	170.7	0.0	0.6	187.7	0.0	0.0	0.0	0.3	32.6	13.4	137.3	4.1	0.0	0.0	187.7
Itahari	2008/09	2.9	0.1	0.1	0.0	0.0	53.1	0.0	2.0	58.2	0.0	0.0	0.0	4.6	36.9	4.2	6.5	6.0	0.0	0.0	58.2
	2009/10	5.1	0.0	0.1	0.0	0.0	68.0	0.0	1.3	74.6	0.0	0.0	0.0	0.5	45.5	6.2	16.4	5.9	0.0	0.0	74.6
	2010/11	6.6	0.4	0.4	0.0	0.0	115.9	0.0	0.0	123.3	0.0	0.0	0.0	0.5	51.9	9.4	57.9	3.7	0.0	0.0	123.3
	2011/12	19.3	0.0	0.5	0.0	0.0	158.0	0.0	1.3	179.1	0.0	0.0	0.0	1.6	50.4	15.7	108.0	3.3	0.0	0.0	179.1
Janakpur	2008/09	9.6	0.0	0.1	20.1	0.0	131.2	0.0	0.2	161.1	0.0	0.0	0.0	8.6	138.9	12.3	0.0	1.3	0.0	0.0	161.1
	2009/10	6.1	0.0	0.1	0.0	0.0	176.3	0.0	0.0	182.6	240	150	0.0	4.3	129.0	11.0	36.1	2.1	0.0	0.0	182.6
	2010/11	15.5	0.0	0.5	0.0	0.0	233.9	0.0	0.0	249.9	0	0	0.0	4.5	129.2	12.8	94.2	9.3	0.0	0.0	249.9
	2011/12	29.6	0.5	0.5	0.0	0.0	320.1	0.0	1.3	351.9	0	0	0.0	4.1	97.3	24.1	213.5	12.8	0.0	0.0	351.9
Gajuri	2008/09	2.4	0.0	0.2	0.0	0.0	131.5	0.0	4.0	138.1	0	0	0.0	0.0	105.7	1.8	17.4	7.5	0.0	0.0	132.4
	2009/10	3.9	0.1	0.1	0.0	0.0	63.0	0.0	0.2	67.3	240	150	0.0	1.4	44.8	5.6	14.6	0.9	0.0	0.0	67.3
	2010/11	3.3	0.0	0.4	0.0	0.0	153.5	0.0	0.8	158.0	0	0	0.0	1.9	44.7	9.9	99.9	1.5	0.0	0.0	158.0
	2011/12	10.9	0.0	0.5	0.0	0.0	298.0	0.0	2.1	311.4	0	0	0.0	2.0	45.3	25.8	234.8	3.0	0.0	0.6	311.4
Pokhara	2008/09	3.1	0.1	0.1	0.0	0.0	34.8	0.0	0.0	38.1	0	0	0.0	9.4	19.3	3.3	4.2	1.9	0.0	0.0	38.1
	2009/10	0.7	0.2	0.2	0.0	0.0	80.2	0.0	0.5	81.9	240	150	0.0	0.4	25.0	8.5	46.2	1.8	0.0	0.0	81.9
	2010/11	5.2	0.6	0.4	0.0	0.0	140.4	0.0	0.9	147.5	0	0	0.0	0.9	36.0	8.5	95.0	7.1	0.0	0.0	147.5
	2011/12	22.0	0.2	0.4	0.0	0.5	183.9	0.0	3.9	210.9	0	0	0.0	3.5	25.0	13.1	161.6	7.3	0.0	0.4	210.9
Nepalgunj	2008/09	7.2	0.0	0.1	0.0	0.0	81.8	0.0	11.7	100.7	0	0	0.0	8.6	59.3	6.1	22.6	3.9	0.0	0.3	100.7
	2009/10	2.3	0.0	0.1	0.0	0.0	121.3	0.0	2.6	126.4	240	150	0.0	3.1	53.8	9.5	57.3	2.1	0.0	0.6	126.4
	2010/11	8.9	0.0	0.5	0.0	0.0	235.3	0.0	5.8	250.4	0	0	0.0	1.9	64.9	13.9	162.8	3.6	0.0	3.2	250.4
	2011/12	22.7	0.0	0.4	0.0	0.0	337.3	0.0	4.9	365.2	0	0	0.0	4.3	57.5	22.0	272.7	6.6	0.0	2.2	365.2
Total	2008/09	131.7	0.5	2.4	420.2	97.0	836.6	0.0	23.3	1511.9	240	120	123.1	65.1	792.2	51.7	184.7	58.2	27.4	204.0	1506.2
	2009/10	98.3	0.4	2.2	469.4	117.0	1116.1	0.0	15.5	1819.0	1680	1050	128.8	15.1	836.7	83.7	469.3	39.4	40.4	205.6	1819.0
	2010/11	708.2	1.2	10.0	1212.8	127.0	1877.5	0.0	33.8	3970.5	0	0	128.8	19.2	2155.1	113.2	1213.6	52.3	68.0	220.3	3970.5
	2011/12	1139.3	1.6	9.0	2086.7	140.5	2676.2	0.0	66.4	6119.7	0.0	0.0	140.0	43.3	3207.4	185.7	2086.8	68.1	139.8	248.5	6119.7

Source: Basic data from SFDB Account

Annex Table 21: SFDB Profit/ Loss Account,2001/02 - 2011/12

In Thousand Rupees

	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12
Particulars	**2058 /59**	**2059 /60**	**2060 /61**	**2061 /62**	**2062 /63**	**2063 /64**	**2064 /65**	**2065 /66**	**2066 /67**	**2067 /68**	**2068 /69**
Interest Income	2498	30930	83064	81130	94816	120446	132269	93647	121555	185054	317170
Interest Expenses	0	17305	56787	67951	72389	82429	82592	72454	61376	104578	175592
Net Interest Income	2498	13625	26277	13179	22426	38017	49676	21193	60179	80476	141578
Commission and Discount	0	0	0	4	0	17	2744	7522	1550	113	116
Other Operating Income	6	1	39	60	28	161	80	273	427	1239	1519
Exchange Fluctuation Income	0	0	0	0	0	0	0	0	-	-	0
Total Operating Income	2504	13626	26316	13243	22454	38195	52501	28988	62156	81829	143213
Staff Expenses	588	2754	4637	6258	8503	9653	11382	11055	13735	13169	20050
Other Operating Expenses	923	2769	4466	5229	6028	6117	5684	5933	7032	9715	12419
Exchange Fluctuation Loss	0	0	0	0	0	0	0	0	0	0	0
Operating Profit before Possible Loss Provision	993	8103	17213	1756	7923	22425	35436	12000	41389	58946	110744
Provision for Losses	0	7275	16366	5254	8852	20623	48348	0	11255	15869	46916
Operating Profit	993	828	847	-3498	-930	1802	-12912	12000	30134	43077	63827
Non-Operating Income/Loss	0	0	0	0	0	0	0	0	0	0	0
Reversed from Loan Loss Provision	0	0	0	4272	1691	0	24417	12330	0	3174	36240
Profit from Regular Activities	993	828	847	774	761	1802	11505	24330	30134	46251	100067
Income/Expenses from Extra Activities	0	0	0	0	0	0	-27	0	0	0	0
Net Profit after all Activities	993	828	847	774	761	1802	11478	24330	30134	46251	100067
Provision for Staff Bonus	0	83	85	77	76	164	1043	2212	2739	4205	9097
Income Tax Provision	319	239	237	216	216	516	3287	6954	8355	12976	27580
• This year	319	239	237	216	216	516	3287	5441	8696	12979	27871
• Up to Last Year	0	0	0	0	0	0	0	1548	0	0	0
• Deferred Tax Income/Expense	0	0	0	0	0	0	0	-35	-342	-3	-291
Net Profit/Loss	675	506	525	481	469	1122	7148	15164	19040	29070	63390

Source: Basic data from SFDB Annual Reports

Annex Table 22: Profit-Loss Account by Area Offices, 2009/10 - 2011/12

																	In Million Rupees							
Area Offices	Particulars	1. Interest Income	2. Interest Expenses	3. Net Interest Income	4. Commission and Discount	5. Other Operating Income	6. Exchange Fluctuation Income	7. Total Operating Income	8. Staff Expenses	9. Other Operating Expenses	10. Exchange Fluctuation Loss	11. Operating Profit before Possible Loss Provision	12. Provision for Losses	13. Operating Profit	14. Non-Operating Income/Loss	15. Reversed from Loan Loss Provision	16. Profit from Regular Activities	17. Income/Expenses from Extra Activities	18. Net Profit after all Activities	19. Provision for Staff Bonus	20. Income Tax Provision	21. • This year	22. • Up to Last Year	23. Net Profit/Loss
Head Office	2009/10	29.6	14.4	15.2	0.0	14.3	0	29.5	7.2	4.8	0.0	17.5	0.8	16.7	0.0	0.0	16.8	0.0	16.8	0.0	0.0	0.0	0	16.8
	2010/11	56.2	38.9	17.3	0.0	26.7	0	44.1	6.4	6.9	0.0	30.8	0.0	30.7	0.0	0.0	30.7	0.0	30.7	0.0	0.0	0.0	0	30.7
	2011/12	105.2	80.5	24.7	0.0	54.1	0	78.9	12.5	9.2	0.0	57.2	0.2	57.0	0.0	0.0	57.0	0.0	57.0	0.0	0.0	0.0	0	57.0
Butawal	2009/10	33.2	22.9	10.3	0.0	0.0	0	10.3	1.1	0.4	0.0	8.9	2.6	6.3	0.0	0.0	6.3	0.0	6.3	0.0	0.0	0.0	0	6.3
	2010/11	45.3	34.2	11.1	0.0	0.1	0	11.2	1.0	0.4	0.0	9.7	1.3	8.4	0.0	0.3	8.7	0.0	8.7	0.0	0.0	0.0	0	8.7
	2011/12	68.5	52.2	16.3	0.0	0.4	0	16.7	1.1	0.5	0.0	15.1	15.8	-0.6	0.0	11.4	10.7	0.0	10.7	0.0	0.0	0.0	0	10.7
Hetauda	2009/10	21.0	14.6	6.4	0.0	0.0	0	6.5	1.0	0.3	0.0	5.1	1.4	3.7	0.0	0.0	3.7	0.0	3.7	0.0	0.0	0.0	0	3.7
	2010/11	31.6	23.1	8.5	0.0	0.3	0	8.8	1.0	0.4	0.0	7.5	2.2	5.3	0.0	0.0	5.3	0.0	5.3	0.0	0.0	0.0	0	5.3
	2011/12	53.4	38.9	14.5	0.0	0.5	0	15.0	1.1	0.4	0.0	13.5	0.8	12.7	0.0	0.8	13.5	0.0	13.5	0.0	0.0	0.0	0	13.5
Birtamod	2009/10	4.3	4.9	-0.6	0.0	0.0	0	-0.6	0.7	0.2	0.0	-1.5	0.1	-1.6	0.0	0.5	-1.1	0.0	-1.1	0.0	0.0	0.0	0	-1.1
	2010/11	6.7	8.5	-1.8	0.0	0.0	0	-1.8	0.6	0.3	0.0	-2.6	0.7	-3.3	0.0	0.3	-3.0	0.0	-3.0	0.0	0.0	0.0	0	-3.0
	2011/12	15.4	14.4	1.0	0.0	0.1	0	1.1	0.5	0.3	0.0	0.3	0.6	-0.2	0.0	2.2	2.0	0.0	2.0	0.0	0.0	0.0	0	2.0
Itahari	2009/10	6.5	5.1	1.4	0.0	0.0	0	1.4	1.0	0.3	0.0	0.1	0.7	-0.6	0.0	1.1	0.5	0.0	0.5	0.0	0.0	0.0	0	0.5
	2010/11	10.6	7.5	3.1	0.0	0.1	0	3.3	1.0	0.4	0.0	1.9	0.0	1.9	0.0	1.3	3.2	0.0	3.2	0.0	0.0	0.0	0	3.2
	2011/12	16.2	12.6	3.6	0.0	0.1	0	3.6	1.0	0.4	0.0	2.3	0.4	1.9	0.0	0.7	2.6	0.0	2.6	0.0	0.0	0.0	0	2.6
Janakpur	2009/10	17.5	12.7	4.8	0.0	0.0	0	4.8	0.7	0.3	0.0	3.8	4.7	-0.9	0.0	0.0	-0.9	0.0	-0.9	0.0	0.0	0.0	0	-0.9
	2010/11	23.1	17.0	6.1	0.0	0.2	0	6.3	0.8	0.4	0.0	5.1	4.6	0.5	0.0	1.3	1.7	0.0	1.7	0.0	0.0	0.0	0	1.7
	2011/12	32.4	23.4	9.1	0.1	0.4	0	9.5	1.1	0.5	0.0	7.9	27.0	-19.1	0.0	23.5	4.4	0.0	4.4	0.0	0.0	0.0	0	4.4
Gajuri	2009/10	6.9	4.3	2.6	0.0	0.1	0	2.7	0.6	0.2	0.0	1.9	0.4	1.5	0.0	0.0	1.5	0.0	1.5	0.0	0.0	0.0	0	1.5
	2010/11	10.3	7.7	2.6	0.0	0.1	0	2.7	0.6	0.3	0.0	1.8	0.7	1.1	0.0	0.0	1.1	0.0	1.1	0.0	0.0	0.0	0	1.1
	2011/12	24.7	18.5	6.3	0.0	0.2	0	6.5	0.8	0.4	0.0	5.3	1.5	3.8	0.0	0.0	3.8	0.0	3.8	0.0	0.0	0.0	0	3.8
Pokhara	2009/10	6.8	4.8	2.1	0.0	0.1	0	2.2	0.7	0.3	0.0	1.2	0.5	0.8	0.0	0.0	0.8	0.0	0.8	0.0	0.0	0.0	0	0.8
	2010/11	11.6	9.6	2.0	0.0	0.1	0	2.1	0.8	0.3	0.0	1.0	5.3	-4.3	0.0	0.0	-4.3	0.0	-4.3	0.0	0.0	0.0	0	-4.3
	2011/12	19.1	14.7	4.3	0.0	0.2	0	4.5	1.0	0.4	0.0	3.1	0.4	2.7	0.0	0.2	2.9	0.0	2.9	0.0	0.0	0.0	0	2.9
Nepalgunj	2009/10	11.5	7.6	3.9	1.5	0.1	0	5.4	0.8	0.3	0.0	4.3	1.7	2.6	0.0	0.0	2.6	0.0	2.6	0.0	0.0	0.0	0	2.6
	2010/11	18.7	13.7	5.0	0.0	0.1	0	5.2	1.0	0.4	0.0	3.8	1.1	2.7	0.0	0.0	2.7	0.0	2.7	0.0	0.0	0.0	0	2.7
	2011/12	30.8	23.7	7.1	0.0	0.2	0	7.3	1.0	0.3	0.0	6.0	3.3	2.7	0.0	0.4	3.1	0.0	3.1	0.0	0.0	0.0	0	3.1

Source: Basic data from SFDB Account

Annex Table 23: Income and Expenditure by Area Offices, 2009/10 - 2011/12

In Million Rupees

Area Offices	Fiscal Year /Particulars	Income					Expenditure					
		Interest Income	Commission and Discount	Other Operating Income	Loan Loss Provision Recovered	Total Income	1. Interest Expenses	2. Staff Expenses	3. Other Operating Expenses	O/w Daily & Traveling Allowance	4. loan Loss Provision	Total Expenditure
Head Office	2009/10	29.59	0.00	14.29	0.02	43.91	14.43	7.18	4.78	0.35	0.75	27.14
	2010/11	56.23	0.02	26.74	0.02	83.01	38.92	6.39	6.92	0.21	0.05	52.28
	2011/12	105.21	0.02	54.11	0.00	159.34	80.47	12.50	9.19	0.37	0.18	102.34
Butawal	2009/10	33.16	0.01	0.00	0.00	33.17	22.86	1.06	0.36	0.04	2.57	26.85
	2010/11	45.35	0.01	0.07	0.28	45.71	34.23	1.02	0.44	0.07	1.30	37.00
	2011/12	68.54	0.00	0.39	11.38	80.31	52.20	1.12	0.48	0.06	15.76	69.56
Hetauda	2009/10	20.98	0.01	0.04	0.00	21.04	14.57	1.03	0.31	0.04	1.43	17.01
	2010/11	31.56	0.02	0.34	0.00	31.91	23.09	1.00	0.36	0.06	2.19	26.64
	2011/12	53.38	0.00	0.52	0.79	54.70	38.88	1.09	0.42	0.06	0.85	41.24
Birtamod	2009/10	4.30	0.01	0.02	0.47	4.80	4.92	0.70	0.21	0.01	0.12	5.95
	2010/11	6.71	0.01	0.02	0.26	7.00	8.51	0.58	0.26	0.02	0.66	10.01
	2011/12	15.39	0.00	0.09	2.21	17.69	14.38	0.46	0.32	0.03	0.57	15.73
Itahari	2009/10	6.48	0.01	0.00	1.07	7.56	5.07	0.99	0.29	0.02	0.71	7.08
	2010/11	10.62	0.03	0.12	1.33	12.10	7.50	1.00	0.35	0.02	0.00	8.85
	2011/12	16.21	0.01	0.06	0.75	17.03	12.64	0.95	0.39	0.02	0.43	14.42
Janakpur	2009/10	17.53	0.01	0.01	0.00	17.55	12.74	0.70	0.34	0.04	4.67	18.44
	2010/11	23.06	0.00	0.19	1.28	24.53	17.00	0.83	0.37	0.04	4.60	22.79
	2011/12	32.44	0.08	0.38	23.47	56.38	23.38	1.12	0.46	0.05	27.01	51.97
Gajuri	2009/10	6.91	0.01	0.08	0.00	7.00	4.33	0.57	0.19	0.02	0.38	5.47
	2010/11	10.28	0.00	0.11	0.00	10.40	7.69	0.60	0.31	0.05	0.65	9.25
	2011/12	24.74	0.00	0.21	0.04	24.98	18.47	0.79	0.43	0.05	1.48	21.17
Pokhara	2009/10	6.84	0.01	0.10	0.00	6.96	4.77	0.70	0.28	0.03	0.45	6.20
	2010/11	11.59	0.01	0.08	0.00	11.68	9.57	0.75	0.33	0.04	5.32	15.97
	2011/12	19.07	0.00	0.17	0.25	19.49	14.73	1.02	0.37	0.04	0.44	16.55
Nepalgunj	2009/10	11.46	1.47	0.08	0.00	13.01	7.59	0.80	0.27	0.03	1.73	10.40
	2010/11	18.72	0.02	0.12	0.00	18.85	13.67	1.00	0.37	0.06	1.10	16.14
	2011/12	30.83	0.00	0.18	0.45	31.47	23.72	0.99	0.34	0.02	3.29	28.34
Total	2009/10	137.26	1.55	14.63	1.57	155.01	91.29	13.74	7.03	0.57	12.82	124.54
	2010/11	214.11	0.11	27.79	3.17	245.18	160.18	13.17	9.71	0.57	15.87	198.93
	2011/12	365.82	0.12	56.12	39.33	461.38	278.86	20.05	12.40	0.68	49.29	360.60

Source: Basic data from SFDB Account

Annex Table 24: Total Loan and Loan Loss Provision Amount by Type of Loan and Area Offices

In Million Rupees

Area Offices	Type of Loan								Loan Loss Provision					
	Description	Total Loan	Good Loan	Good Loan: Over Due Up to 3 months	Good Loan: Re-scheduled	Pass Loan: Overdue of 3 to 6 months	Doubtful Loan: Overdue of 6 to 12 Months	Bad Loan : Over-due More than a Year	Good Loan (1%)	Over Due Loan Up to 3 Months (1%)	Good Loan: Re-scheduled (12.5%)	Pass Loan: 3 to 6 months Overdue (25%)	Doubtful Loan: 6 to 12 Months Overdue (50%)	Bad Loan (100%)
Head office	2009/10	4.5	4.5											
	2010/11	7.5	7.5						0.8					
	2011/12	25.3	25.3						0.3	0.0	0.0	0.0	0.0	0.0
Birtamod	2009/10	43.6	37.4	0.0	1.8	0.0	0.0	4.3	0.4	0.0	0.2	0.0	0.0	4.3
	2010/11	116.9	111.9	0.0	1.0	0.0	0.0	4.1	1.1	0.0	0.1	0.0	0.0	4.1
	2011/12	170.7	168.7	0.0	0.0	0.0	0.0	2.0	1.7	0.0	0.0	0.0	0.0	2.0
Butawal	2009/10	333.6	324.9	0.0	3.5	0.0	0.0	5.1	3.2	0.0	0.4	0.0	0.0	5.1
	2010/11	476.3	471.1	0.0	0.0	0.0	0.0	5.1	4.7	0.0	0.0	0.0	0.0	5.1
	2011/12	676.3	668.8	1.6	0.0	0.0	6.0	0.0	6.7	1.6	0.0	0.0	6.0	0.0
Gajuri	2009/10	63.0	60.8	0.0	2.2	0.0	0.0	0.0	0.6	0.0	0.3	0.0	0.0	0.0
	2010/11	153.5	153.5	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0
	2011/12	298.0	298.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0
Hetauda	2009/10	225.6	223.0	0.0	2.6	0.0	0.0	0.0	2.3	0.0	0.3	0.0	0.0	0.0
	2010/11	397.8	395.7	0.0	0.0	0.0	2.1	0.0	4.0	0.0	0.0	0.0	1.1	0.0
	2011/12	506.7	506.7	0.0	0.0	0.0	0.0	0.0	5.1	0.0	0.0	0.0	0.0	0.0
Itahari	2009/10	68.0	58.2	0.0	6.2	0.0	0.0	3.6	0.6	0.0	0.8	0.0	0.0	3.6
	2010/11	115.9	113.4	0.0	0.0	0.0	0.0	2.5	1.1	0.0	0.0	0.0	0.0	2.5
	2011/12	158.0	156.2	0.0	0.0	0.0	0.0	1.8	1.6	0.0	0.0	0.0	0.0	1.8
Janakpur	2009/10	176.3	173.6	0.0	2.7	0.0	0.0	0.0	1.7	0.0	0.3	0.0	0.0	0.0
	2010/11	233.9	192.0	16.2	19.5	0.5	2.2	3.6	1.9	0.2	2.4	0.1	1.1	3.6
	2011/12	320.1	310.3	0.0	0.0	0.0	0.0	9.7	3.1	0.0	0.0	0.0	0.0	9.7
Nepalgunj	2009/10	121.3	119.6	0.5	0.0	0.0	1.3	0.0	1.2	0.0	0.0	0.0	0.6	0.0
	2010/11	235.3	233.7	0.1	0.0	0.1	0.3	1.1	2.3	0.0	0.0	0.0	0.2	1.1
	2011/12	337.3	334.1	0.0	0.0	0.0	2.6	0.5	3.3	0.0	0.0	0.0	2.6	0.5
Pokhara	2009/10	80.2	80.2	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
	2010/11	140.4	134.6	1.0	0.0	0.0	0.0	4.8	1.3	0.0	0.0	0.0	0.0	4.8
	2011/12	183.9	179.4	0.0	0.0	0.0	0.0	4.5	1.8	0.0	0.0	0.0	0.0	4.5
Total	2009/10	1116.1	1082.3	0.5	19.0	0.0	1.3	13.1	10.8	0.0	2.4	0.0	0.6	13.1
	2010/11	1877.5	1813.4	17.3	20.5	0.5	4.6	21.2	18.8	0.2	2.6	0.1	2.3	21.2
	2011/12	2676.2	2647.4	1.6	0.0	0.0	8.6	18.5	26.5	1.6	0.0	0.0	8.6	18.5

Source: Basic data from SFDB Account

Annex Table25: Share Ownership Structure of SFDB 2001/02 - 2011/12

In Thousand Rupees

Share Ownership Descrip-tions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2001/02 %	2010/11 %	2011/12 %
1. Domestic Ownership	98712	105138	105746	109450	112675	119859	123130	123130	128788	128788	140000	100	100	100
1.1 Government of Nepal, Ministry of Finance	20000	20000	20000	20000	20000	20000	20000	20000	20000	-	0	20	-	0
Institution under "Class A" Licenses	77000	77000	77000	77000	77000	77000	77000	51053	51053	51053	62266	78	40	44
Agricultural Development Bank Ltd.	70000	70000	70000	70000	70000	70000	70000	44053	44053	44053	44053	71	34	31
Nepal Bank Ltd.	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	12142	5	4	9
Nabil Bank Ltd.	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	6071	2	2	4
Institution under other Licenses category	0	0	0	0	0	0	0	-	-	-	0	0	-	0
Small Farmers Co-Operatives Ltd.	1712	8138	8746	12450	15675	22859	26130	52076	57734	77734	77734	2	60	56
General Public	0	0	0	0	0	0	0	-	-	-	0	0	-	0
Other	0	0	0	0	0	0	0	-	-	-	0	0	-	0
Foreign Ownership	0	0	0	0	0	0	0	-	-	-	0	0	-	0
Total	98712	105138	105746	109450	112675	119859	123130	123130	128788	128788	140000	100	100	100

Source: Basic data from SFDB Annual Reports

Annex Table 26: Number of SFACLs by Grade, Development Regions and Ecological Belts, 2005/06 and 2010/11

Area	Grade 2005/06	Grade 2010/11			
		A	B	C	Grand Total
Nepal	A	18	1	1	20
	B	25	13		38
	C	24	14	2	40
	D	24	17	6	47
	Total	91	45	9	145
Development Regions					
Eastern	A	1	1	1	3
	B	5			5
	C	5	4		9
	D	8	6	4	18
	Total	19	11	5	35
Central	A	5			5
	B	5	4		9
	C	6	1	1	8
	D	5	5	1	11
	Total	21	10	2	33
Western	A	8			8
	B	10	7		17
	C	8	4	1	13
	D	3	3		6
	Total	29	14	1	44
Mid Western	A	2			2
	B	5	1		6
	C	4	4		8
	D	7	2	1	10
	Total	18	7	1	26
Far Western	A	2			2
	B		1		1
	C	1	1		2
	D	1	1		2
	Total	4	3		7
Ecological Belts					
Hill	A	4			4
	B	7	1		8
	C	11	3	1	15
	D	8	6	1	15
	Total	30	10	2	42
Terai	A	14	1	1	16
	B	18	12		30
	C	13	11	1	25
	D	16	11	5	32
	Total	61	35	7	103

Source: Basic data from SFDB MIS and Account

Annex Table 27: Number of SFACLs by Grade Area Office, 2005/06 and 2010/11

Area	Grade 2005/06	Grade 2010/11			
		A	B	C	Grand Total
Birtamod	A	1		1	2
	C	1	2		3
	D	5	1	1	7
	Total	7	3	2	12
Butawal	A	7			7
	B	8	7		15
	C	4	4		8
	D		1		1
	Total	19	12		31
Gajuri	A	2			2
	B	2			2
	C	4	1		5
	D	4	4		8
	Total	12	5		17
Hetauda	B	1			1
	Total	1			1
Itahari	A		1		1
	B	2			2
	C	2	1		3
	D	3	5		8
	Total	7	7		14
Janakpur	A	3			3
	B	5	4		9
	C	4	1	1	6
	D	1	1	4	6
	Total	13	6	5	24
Nepalgunj	A	4			4
	B	5	2		7
	C	5	5		10
	D	8	3	1	12
	Total	22	10	1	33
Pokhara	A	1			1
	B	2			2
	C	4		1	5
	D	3	2		5
	Total	10	2	1	13
Grand Total		91	45	9	145

Source: Basic data from SFDB MIS and Account

Annex Table 28: Grade Comparison of the Same Set of SFACLs in 2005/06 and 2010/11

Grade 2005/06	Grade 2010/11			Grand Total
	A	B	C	
A				
Aanandaban	1			1
Balubari			1	1
Digambarpur	1			1
Geta	1			1
Karahiya	1			1
Kumarwarti	1			1
Kumpur	1			1
Maharanijhoda	1			1
Makar	1			1
Motipur (Morang)		1		1
Nakatajhijh	1			1
Salang	1			1
Sarangkot	1			1
Saudiyar	1			1
Semalar	1			1
Shankarnagar	1			1
Shantipur	1			1
Tikuligadh	1			1
Tribhuwanbasti	1			1
Uttarganga	1			1
A Total	18	1	1	20
B				
Argyauli	1			1
Badagaun		1		1
Bagdaha		1		1
Bairgiya Banchauri		1		1
Bisnupur Pra. Ma.	1			1
Budhi		1		1
Daunnedevi		1		1
Deudakala	1			1
Devadaha	1			1
Dudharakchhe	1			1
Fedikhola	1			1
Gaidakot (Gulmi)	1			1
Gangoliya	1			1
Gonaha		1		1
Hariharpur (Dhanusa)	1			1
Kalleri	1			1
Kamdi	1			1
Kumroj	1			1
Latikoili	1			1
Madhbaliya	1			1
Mahadevpuri		1		1
Mahendranagar (Sunsari)	1			1
Malakheti		1		1
Mithileswornikas		1		1
Narayansthan	1			1
PadariyaTharutol	1			1
Panchanagar		1		1
Parroha	1			1
Patigaun	1			1
Raghunathpur (Dhanusa)	1			1
Ramnagar (Nawalparasi)		1		1
Saljhundi		1		1
Salyantar	1			1
Sanashree	1			1
Singyahi Maidan		1		1
Sundarpur (Udayapur)	1			1
Taratal	1			1
Tribenisusta	1			1
B Total	25	13		38

Grade 2005/06	Grade 2010/11			Grand Total
	A	B	C	
C				
Bajung	1			1
Bakalauri		1		1
Banjariya		1		1
Barakulpur	1			1
Chainpur (Dhading)	1			1
Chhatredyaurali		1		1
Chisapani	1			1
Darsing Dahathum	1			1
Deuri (Saptari)		1		1
Dhorfirdi	1			1
Goganpani (Dhading)	1			1
Jabdi	1			1
Kerbani		1		1
Kewalpur	1			1
Khanchikot	1			1
Khilji	1			1
Khudunabari		1		1
Lekhfarsa		1		1
Mahabhara		1		1
Maheshpur (Jhapa)	1			1
Manpur Mainapokhar	1			1
Motipur (Kapilbastu)		1		1
Narapani	1			1
Neulapur		1		1
Odraha	1			1
Padanaha	1			1
Panchkanya (Sunsari)	1			1
Pidari	1			1
Puraini		1		1
Ramgopalpur			1	1
Ravi Opi	1			1
Rayapur (Saptari)	1			1
Satakhani		1		1
Shreepur (Kailali)		1		1
Sivapur	1			1
Suda	1			1
Sundarbazar	1			1
Sundarpur (Morang)	1			1
Tangram			1	1
Tilakpur		1		1
C Total	24	14	2	40

Grade 2005/06	Grade 2010/11			Grand Total
	A	B	C	
D				
Babiyabirta	1			1
Bahundangi			1	1
Baijanathpur		1		1
Baireni		1		1
Bakdhauwa			1	1
Bangesal	1			1
Beganas 9 Lekhanath	1			1
Bhakunde		1		1
Bhumesthan		1		1
Boniya	1			1
Chhitaha		1		1
D.Govindapur	1			1
Daijee		1		1
Dhanauri	1			1
Dharampur	1			1
Dhola	1			1
Dhussa	1			1
Ghailadubba	1			1
Halkhori			1	1
Hariharpur (Saptari)			1	1
Haripurwa		1		1
Jeewanpur	**1**			**1**
Jhorahat		1		1
Juropani	1			1
Kalika (Bardiya)	1			1
Kanchanapur (Banke)		1		1
Kapurkot			1	1
Laxmipur (Dang)	1			1
Laxmipur (Siraha) Pra. Ma			1	1
Letang		1		1
Madhuwan		1		1
Maidi		1		1
Majhphant Mallaj		1		1
Malwar		1		1
Manakamana	1			1
Mrigauliya	1			1
Naubasta	1			1
Paiyunpata	1			1
Pakali	1			1
Panchgachhi	1			1
Pathariya	1			1
Prithivinagar		1		1
Rampur		1		1
Satbariya	1			1
Sunaulabazar	1			1
Thakre		1		1
Urahari	1			1
D Total	24	17	6	47
Grand Total	91	45	9	145

Source: Basic data from SFDB MIS and Account

Annex Table 29: Number of SFACLs by Grade within Development Regions, Ecological Belts and Area Offices, 2010/11

Area	A	B	C	Grand Total
Nepal	139	62	11	212
Development Regions				
Eastern	26	18	6	50
Central	56	19	2	77
Mid Western	19	8	1	28
Far Western	4	3		7
Western	34	14	2	50
Ecological Belts				
Hills	40	13	3	56
Terai	99	49	8	156
Grand Total	139	62	11	212
Area Offices				
Birtamod	8	5	2	15
Butawal	21	12		33
Gajuri	16	5		21
Hetauda	23	3		26
Itahari	10	8		18
Janakpur	25	16	6	47
Nepalgunj	23	11	1	35
Pokhara	13	2	2	17
Grand Total	139	62	11	212

Source: Basic Data From SFDB MIS and Account

Annex Table 30: Marks Received by SFACLs and Their Grades Based on 14 Performance Indicators, 2010/11

Grade A	
SFACLs	Marks
Saudiyar	99
Baigundhura	97
Bhandara	97
Nirmalpokhari	97
Shantipur	97
Raghunathpur (Dhanusa)	96
Sundarpur (Morang)	96
Uttarganga	96
Darsing Dahathum	95
Gourishankar	95
Manahari	95
Sarangkot	95
Sivapur	95
Sunaulabazar	95
Bharatpur	94
Dumarwana	94
Geta	94
Juropani	94
Khairahani	94
Kumpur	94
Majhthana	94
Manaharwa	94
PadariyaTharutol	94
Sundarbazar	94
Sundarpur (Udayapur)	94
Bastipur (Siraha)	93
D.Govindapur	93
Madhyeharsahi	93
Narayansthan	93
Salang	93
Urahari	93
Aanandaban	92
Deudakala	92
Dharampur	92
Digambarpur	92
Haripur (Sarlahi)	92
Inarwasira	92
Jiling	92
Mahendranagar (Sunsari)	92
Taratal	92
Birendranagar	91
Dhanauri	91
Fattepur	91
Pakali	91
Patigaun	91
Tribhuwanbasti	91
Belbari	90
Kathar	90
Laxmipur (Dang)	90
Maharanijhoda	90
Ramgha	90
Argyauli	89
Babiyabirta	89
Bajrabarahi	89
Dhanusadham	89
Fedikhola	89

Grade A	
SFACLs	Marks
Ghailadubba	89
Jeewanpur	89
Jethrahiya	89
Makar	89
Manpur Mainapokhar	89
Mrigauliya	89
Odraha	89
Panchkanya (Sunsari)	89
Sakhuwa Mahen-dranagar	89
Shankarnagar	89
ShreeAntu	89
Bachhyauli	88
Bisnupur Pra. Ma.	88
Chainpur (Dhading)	88
Dulari	88
Jyamrung	88
Kalika (Bardiya)	88
Paiyunpata	88
Shankarpur (Sarlahi)	88
Kewalpur	87
Latikoili	87
Manakamana	87
Narapani	87
Piple	87
Satbariya	87
Bageswari (Nuwakot)	86
Kalleri	86
Khadawa Bangai	86
Madhbaliya	86
Barakulpur	85
Bhangaha (Saptari)	85
Dhorfirdi	85
Dudharakchhe	85
Hariharpur (Dhanusa)	85
Khanchikot	85
Kumarwarti	85
Panchgachhi	85
Suda	85
Sukranagar	85
Bhodaha	84
Dhola	84
Parroha	84
Semalar	84
Tribenisusta	84
Bajung	83
Boniya	83
Fulgama	83
Karahiya	83
Meghauli	83
Pidari	83
Salyantar	83
Nakatajhijh	82
Santapur (Matiaun)	82

Grade A	
SFACLs	Marks
Bangesal	81
Dhussa	81
Jahada	81
Devadaha	80
Goganpani (Dhading)	80
Padanaha	80
Rangapur (Rautahat)	80
Sakhuwa Dham-aura	80
Anaikot	79
Bhaktipur	79
Jabdi	79
Chisapani	78
Darechok	78
Kanakpur	78
Pathariya	78
Sanashree	78
Siddha	78
Gaidakot (Gulmi)	77
Haraiya	77
Kamdi	77
Naubasta	77
Rayapur (Saptari)	77
Shreegaun	77
Beganas 9 Lekhanath	76
Bhagawanpur (Siraha)	76
Gangoliya	76
Khilji	76
Kumroj	76
Ravi Opi	76
Tikuligadh	76

Grade B	
SFACLs	Marks
Khudunabari	75
Malwar	75
Motipur (Kapilbastu)	75
Pipra Rajbara	75
Bisanpur	74
Deuri (Saptari)	74
Gonaha	74
Laxmipur (Sarlahi) Ko	74
Lekhfarsa	74
Puspalpur	74
Rampur	74
Satakhani	74
Shreepur (Kailali)	74
Etaharwakatti	73
Mahadevpuri	73
Mithileswornikas	73
Siswa Beihi	73
Madhuwan	72
Malakheti	72
Prithivinagar	72
Bairgiya Banchauri	71
Chhatredyaurali	71
Ramnagar (Nawalparasi)	71
Singyahi Maidan	71
Badagaun	70
Dhirapur	70
Haripurwa	70
Neulapur	70
Saljhundi	70
Thakre	70
Bhumesthan	69
Jitpur	69
Majhphant Mallaj	69
Puraini	69
Tilakpur	69
Bhakunde	68
Chhitaha	68
Daunnedevi	68
Letang	68
Maidi	68
Pato	68
Bakalauri	67
Budhi	67
Baijanathpur	66
Mahanaur	66
Chhinnamasta	65
Mahabhara	65
Udayapur Dhurmi	65
Panchanagar	64
Jhorahat	60
Lakhantari	57
Nichuta	57
Daijee	56
Kanchanapur (Banke)	56
Banjariya	55
Noukailawa	53

Grade B	
SFACLs	Marks
Baireni	52
Motipur (Morang)	52
Ramghat	52
Kerbani	49
Bagdaha	47
Samalbung	47

Grade C	
SFACLs	Marks
Tangram	45
Mehelkuna	44
Balubari	42
Halkhori	42
Laxmipur (Siraha) Pra. Ma	38
Ramgopalpur	38
Pakuwa	33
Bakdhauwa	30
Bahundangi	27
Terahota	23
Hariharpur (Saptari)	20

Source: Basic data from SFDB MIS and Account

Annex Table 31: Profit/Loss Status of 217 SFACLs in 2010 and 229 SFACLs in 2011 by Development Regions, Ecological Belts and Area Offices* (Amount in Rupees Thousand)

Fiscal Year	Area	Profit		Loss		% SFACLs in loss
		Number of SFACLs	Profit Amount	Number of SFACLs	Loss Amount	
2009/10	Nepal	196	139160	21	-12503	10.7
2010/11		220	219710	9	-4189	4.1
Development Regions						
2009/10	Eastern	34	16356	17	-11077	50.0
	Central	75	51141	3	-1302	4.0
	Western	50	53219			0.0
	Mid Western	29	13897	1	-124	3.4
	Far Western	8	4547			0.0
	Total	196	139160	21	-12503	10.7
2010/11	Eastern	48	38045	4	-1661	8.3
	Central	85	96836			0.0
	Western	48	58819	2	-1448	4.2
	Mid Western	31	18278	2	-897	6.5
	Far Western	8	7732	1	-183	12.5
	Total	220	219710	9	-4189	4.1
Ecological Belts						
2009/10	Hills	53	30746	5	-2028	9.4
	Terai	143	108414	16	-10475	11.2
	Total	196	139160	21	-12503	10.7
2010/11	Hills	62	48991	3	-1462	4.8
	Terai	158	170719	6	-2727	3.8
	Total	220	219710	9	-4189	4.1
Area Offices						
2009/10	Birtamod	10	4524	6	-4170	60.0
	Butawal	33	42580			0.0
	Gajuri	18	12074	2	-1029	11.1
	Hetauda	28	28436			0.0
	Itahari	13	7810	5	-4272	38.5
	Janakpur	40	14653	7	-2908	17.5
	Nepalgunj	37	18444	1	-124	2.7
	Pokhara	17	10639			0.0
	Total	196	139160	21	-12503	10.7
2010/11	Birtamod	17	10029			0.0
	Butawal	33	42580			0.0
	Gajuri	26	19382			0.0
	Hetauda	29	39264			0.0
	Itahari	18	21176			0.0
	Janakpur	43	45030	4	-1661	9.3
	Nepalgunj	39	26010	3	-1080	7.7
	Pokhara	15	16239	2	-1448	13.3
	Total	220	219710	9	-4189	4.1

** Based on the SFACLs for which Total Income and Total Expenditure data were available for those Years*

Source: Basic data from SFDB MIS and Account

Annex Table 32: Loan Disbursement Per SFACL/Other Cooperative by Ecological Belts, 2011/12

In Thousand Rupees

Ecological Belts	All SFACLs/Other Cooperatives			SFACLs			Other Cooperatives		
	Average	Max	Min	Average	Max	Min	Average	Max	Min
Mountains	3943	12000	500				3943	12000	500
Hills	9655	42910	500	10135	42910	500	1625	3000	500
Terai	11601	54100	200	11790	54100	200	3818	6000	770
Total	10825	54100	200	11312	54100	200	3291	12000	500

Source: Basic data from SFDB MIS and Account

Annex Table 33: Loan Disbursement Per Member by SFACLs/Other Cooperatives by Ecological Belts

In Thousand Rupees

Ecological Belts	Fiscal Year	SFACLs			Other Cooperatives			All SFACL/Other Cooperatives		
		Bank Source	Institutional Source	Total	Bank Source	Institutional Source	Total	Bank Source	Institutional Source	Total
Mountains	2009/10				5000	197502	202502	5000	197502	202502
	2010/11				8025	924691	893036	8025	924691	893036
Hills	2002/03	19601	4226	23827				19601	4226	23827
	2003/04	32696	15749	48445				32696	15749	48445
	2004/05	52597	31685	84282				52597	31685	84282
	2005/06	83712	43466	127178				83712	43466	127178
	2006/07	167984	87241	255225				167984	87241	255225
	2007/08	188430	123567	311997				188430	123567	311997
	2008/09	134569	157930	292029				134569	157930	292029
	2009/10	222160	352675	556649				222160	352675	556649
	2010/11	424353	434026	858379	1500	30838	32338	425853	464864	890717
Terai	2002/03	192814	92637	285451				192814	92637	285451
	2003/04	325410	135581	460991				325410	135581	460991
	2004/05	426190	175546	601736				426190	175546	601736
	2005/06	452738	251936	704674				452738	251936	704674
	2006/07	580380	396704	977084				580380	396704	977084
	2007/08	679026	537357	1216433				679026	537357	1216433
	2008/09	613988	859294	1473282	10137	4777	14914	624125	864071	1488196
	2009/10	926249	1296544	2222793	5560	67596	73156	931809	1364140	2295949
	2010/11	1460678	1709067	3169745	19299	232217	251516	1479977	1941284	3421261
Total	2002/03	212415	96863	309278				212415	96863	309278
	2003/04	358106	151330	509436				358106	151330	509436
	2004/05	478787	207231	686018				478787	207231	686018
	2005/06	536450	295402	831852				536450	295402	831852
	2006/07	748364	483945	1232309				748364	483945	1232309
	2007/08	867456	660924	1528430				867456	660924	1528430
	2008/09	748557	1017224	1765311	10137	4777	14914	758694	1022001	1780225
	2009/10	1148409	1649219	2779442	10560	265098	275658	1158969	1914317	3055100
	2010/11	1885031	2143093	4028124	28824	1187746	1176890	1913855	3330839	5205014

Source: Basic data from SFDB MIS

Annex Table 34: Staff of SFDB by Level and Area Offices, 2012

Respective Area Office	Officer	Non-officer	Total
Head Office	10	11	21
Birtamod		2	2
Butawal		4	4
Gajuri	1	2	3
Hetauda	1	3	4
Itahari	1	3	4
Janakpur	1	2	3
Nepalgunj	1	3	4
Pokhara	1	2	3
Total	16	32	48

Source: Basic data from SFDB Administration

Annex Table 35: Officer Level Staff of SFDB by Level of Education Completed and Subject Area, 2012

Education Level Completed	Major Subject	Officer
Bachelor	Agriculture	1
	Computer Science	1
	Education	1
	Total	3
Master	Business Administration	3
	Business Administration and Science	1
	Business Studies	3
	Economics	3
	Public Administration	1
	Rural Development	1
	Sociology	1
	Total	13
Grand Total		16

Source: Basic data from SFDB Administration

Annex Table 36: Staff of SFDB by Level, Status and Area Office, 2012

Area Offices	Status	Officer	Non-officer	Grand Total
Head Office	Permanent	5	10	15
	Contract	4	1	5
	Temporary	1		1
	Total	10	11	21
Birtamod	Permanent		1	1
	Contract		1	1
	Total		2	2
Butawal	Permanent		2	2
	Contract		1	1
	Temporary		1	1
	Total		4	4
Gajuri	Permanent	1	1	2
	Contract		1	1
	Total	1	2	3
Hetauda	Permanent	1	2	3
	Contract		1	1
	Total	1	3	4
Itahari	Permanent	1	1	2
	Contract		1	1
	Temporary		1	1
	Total	1	3	4
Janakpur	Permanent	1		1
	Contract		1	1
	Temporary		1	1
	Total	1	2	3
Nepalgunj	Permanent	1	1	2
	Contract		1	1
	Temporary		1	1
	Total	1	3	4
Pokhara	Permanent	1	1	2
	Contract		1	1
	Total	1	2	3
Grand Total		16	32	48

Source: Basic data from SFDB Administration

Annex Table 37: Staff Working in SFDB by Financial Source

Financial Responsibility	Status	Area Office	Officer	Non-officer	Grand Total	Remark
SFDB	Permanent	Head Office	5	10	15	
		Birtamod		1	1	
		Butawal		2	2	
		Gajuri	1	1	2	
		Hetauda	1	2	3	
		Itahari	1	1	2	
		Janakpur	1		1	
		Nepalgunj	1	1	2	
		Pokhara	1	1	2	
		Total	11	19	30	
	Contract	Head Office	4	1	5	
		Birtamod		1	1	
		Butawal		1	1	
		Gajuri		1	1	
		Hetauda		1	1	
		Itahari		1	1	
		Janakpur		1	1	
		Nepalgunj		1	1	
		Pokhara		1	1	
		Total	4	9	13	
	on Deputa-tion	Butawal	1	1	2	From ADBL
		Itahari		1	1	From SFACL
		Janakpur		1	1	From SFACL
		Pokhara		1	1	From SFACL
		Total	1	4	5	From SFACL
	Temporary	Head Office	1		1	
		Butawal		1	1	
		Itahari		1	1	
		Janakpur		1	1	
		Nepalgunj		1	1	
		Total	1	4	5	
ADB	Full time	Head Office	4		4	
		Total	4		4	
	Temporary	Head Office		3	3	
		Birtamod		3	3	
		Butawal		1	1	
		Butawal/Pokhara		1	1	
		Head Office/Gajuri		2	2	
		Hetauda/Butawal		1	1	
		Hetauda/Gajuri		2	2	
		Hetauda/Janakpur		1	1	
		Hetauda/Pokhara		1	1	
		Itahari		2	2	
		Itahari/Birtamod		1	1	
		Janakpur		3	3	
		Nepalgunj		7	7	
		Pokhara		2	2	
		Total		30	30	
Grand Total			21	66	87	Including deputed

Source: Basic data from SFDB Administration