

Leading Microfinance Institution in Nepal:

Nirdhan Utthan Bank Limited with a Base of Field Study of Central Office, Bhairahawa

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Abstract

Microfinance is well known toolkit for the poverty alleviation and agricultural development of Nepal. The term of microfinance was not used in earlier part of the history of rural microfinance. It has been found used in Nepal only in the later 1990s though the rural credit in Nepal began in 1956 with the opening of Credit Cooperatives in Chitwan Valley to provide loans to the re-settlers coming from different part of the country. Microfinance Development Banks are started to increase from later 1990s to early 2000s. Among them, Nirdhan Utthan Bank Limited (NUBL) is also one of the significant microfinance institutions (MFIs). It has established in 1999 and it has 115,174 active clients now (July 2009). As NUBL was conversion of the NGO called NIRDHAN, it has become succeed to serve the poor people and it has become well known MFI today. Although it is successful to make participation of more poor people and repayment rate is also nearly 100%, it has been facing some problems such as some arguments between the staff and clients, demanding for the maximum size of loan beyond the bank's rule, borrowing money from several sources, etc. The field study taken this year (June–July, 2010) helped me to find out those problems and give the thoughts of solutions. Among them, the most important essence of the solution is good governance and relationship between the staffs and the clients of the bank.

Keywords: Microfinance Institutions (MFIs), Credit Cooperatives, NIRDHAN, ownership, participation, governance, good governance, act.

Methodology

In this paper, I have tried to write on Nirdhan Utthan Bank Limited (NUBL) as one of the leading microfinance institutions (MFIs) in Nepal. I have mainly written this paper based on my own field study which I did at June and July of this year (June–July, 2010) and try to create a clear picture of NUBL with having special focus on NUBL Central Office, and Bhairahawa Branch Office. I have taken interview of General Manager Mr. Prakash Raj Sharma for the detail information of the NUBL Central Office, and Bhairahawa Branch Manager Mr. Narayan Prasad Kharal about the overall activities of NUBL Branch Office. Moreover, I have observed some centers of the bank where the bank staffs and the clients deal with each other once a month. I have included the impressions of two Grameen Model centers "Anchalpur Kha" and "Durga Mandir" of Bhairahawa, Rupandehi District, and SRG Model center "Dhansarkuna" Telga Village Development Committee (VDC) of Banstari, Palpa District at the conclusion of this paper. In addition, the general information of NUBL is also collected from the relative researchers, managers and staffs from NUBL Head Office, Bhairahawa, and also references from the home page of NUBL.

1. Introduction

History of NUBL

Group-based banking was not a new concept in Nepal. The significant step was the poverty-oriented group based micro credit programs, first with the group-based Small Farmer Development Program (SFDP) administrated by the Agricultural Development Bank of Nepal (ADB¹), and Central Bank's initiated 5 Grameen Banks². The point of the establishment of NIRDHAN was related to the group-based banks. The structure of both SFDP and the government-initiated Grameen Bikash Banks accorded little attention to management issues in general, and prudential management issues in particular. Even though SFDP was found on sound principles, the faulty management structure bred inefficiency, corruption, high default rates, and elite capture of programs³.

The historical background of establishment of NUBL started in 1986 when Dr. Harihar Dev Pant, then senior officer with central bank of Nepal, visited Grameen Bank in Bangladesh and this visit inspired him to launch microfinance in Nepal. Shortly thereafter, NIRDHAN, "People without money" was created. In April, 1991, NIRDHAN registered as a tax-exempt NGO with Government of Nepal and with the Social Welfare Council of Nepal. NIRDHAN began its microfinance operation in March 1993, about two years after it was registered. In this period, it mobilized two significant grants to support its two-year pilot effort: a \$25,000 grant from the Asian and Pacific Development Center and a \$35,000 soft loan from the Grameen Trust. By July 1993, NIRDHAN, with a total staff of six, served 155 clients with an outstanding loan balance of \$8,750⁴. The pilot program was placed in the Siktohan Village Development Committee (VDC)⁵ situated in densely populated Terai plains⁶ of Nepal that approximated quite well the conditions in Bangladesh where the Grameen concept had flourished. So NIRDHAN strategically chose Siddharthanagar, a small town in western Nepal, for its headquarters⁷.

The founding of NIRDHAN, in contrast, was based on the management paradigm that there need not be any conflict between service provision to the needy and sound banking practices. The decision to replicate the Grameen Methodology was a corollary to this paradigm, buttressed by the fact that socio two-year economic conditions in southern Nepal, where NIRDHAN limits its operations, are quite similar to that in Bangladesh. Financial sustainability was accorded a central role in NIRDHAN's mission statement which would be discussed later on Nirdhan Utthan Bank's mission and goals section. It is no coincidence that NIRDHAN was established soon after parliamentary democracy was introduced in Nepal in 1990. It is doubtful whether a Nepali NGO working directly with the poor would have been allowed to do so under the previous Panchayat system⁸. NIRDHAN established the following operational goals:

1) ADBN is distinguished as commercial bank according to the Banks and Financial Institutions Act (BAFIA) 2006. BAFIA is act for the banks and financial institutions, and it is also one of the well-known acts for the microfinance institutions (MFIs). After becoming as commercial bank, the new name of ADBN is Agriculture Development Bank Limited (ADBL).

2) Government initiated five Grameen Banks (it is called Grameen Bikash Bank in Nepal) are established in the period between 1992 and 1997. Nepal is divided into five development regions and each region has one Grameen Bikash Bank as Regional Rural Development Bank (RRDB).

3) The government-initiated Grameen Bikash Banks were to suffer a similar fate from the end of 1990s.

4) According to the interview of General Manager of NUBL in Central Office, Siddharthanagar, Bhairahawa.

5) A Village Development Committee (VDC) is the lowest political jurisdiction in Nepal.

6) Terai Region is situated in the southern part of Nepal. Nepal is geographically divided into three ecological zones, the high mountains and Himalays in the north, the hills and small mountains in the middle and the Terai (plains) in the south. Terai Region owned the 19% of area of the country. The total area of Nepal is 147,181 square kilometer.

7) This is the central office of NUBL, Siddharthanagar, Bhairahawa, where I have done field study this time. There are regional and branch office in the same building of the central office in Bhairahawa.

8) According to the interview of General Manager of NUBL in Central Office, Siddharthanagar, Bhairahawa.

- Reach a maximum number of poor households with potential financial viability by adopting a proven delivery mechanism,
- Develop a well-managed institution with high staff morale,
- Enhance women’s self-respect through social awareness, regular saving, and the proper use of loans to expand income-generating activities.

NIRDHAN obtained a limited banking license from the Central Bank of Nepal in 1994. Under its limited banking license, NIRDHAN (NGO) was permitted to mobilize voluntary savings only from its members and clients. By 1995, the last year of pilot testing, NIRDHAN covered 25 VDCs in two districts, serving 1,486 members⁹⁾. Between 1995 and 1998, NIRDHAN scaled up beyond its pilot phase, covering 118 VDCs in four districts¹⁰⁾. Expansion was partly funded by concessional loans NIRDHAN obtained from commercial banks in Nepal. The erstwhile regulation requiring regular commercial banks to invest at least 12 percent of their loan portfolio into priority sectors designated by the government, has been a critical source of funds for NIRDHAN.

However, NIRDHAN, as an NGO has limited resources and capacity to satisfy unmet demand of poor people in different part of the country. In November 1998, Nirdhan Utthan Bank Limited (NUBL), “the bank for upliftment of the Poor”, was registered as a company. In April 1999, the Central Bank granted a license for NUBL to undertake banking activities under the Development Bank Act of 1996. In July 1999, NIRDHAN NGO transferred all microfinance operations to Nirdhan Utthan Bank Limited (NUBL). NIRDHAN (NGO) promoted NUBL for the following strategic reasons:

- Development Banks are supervised and regulated by the Central Bank, which will enforce banking standards;
- The Bank can lend to a wider range of clients, including micro entrepreneurs graduated out of the bank’s regular clientele. Furthermore, a bank can accept collateral for potentially larger and diverse loan products;
- As a bank, NUBL will have access to wide range of funding including commercial one to satisfy growing needs of potential clients.
- As a development bank, NUBL can eventually accept term deposits from the general public.
- NIRDHAN’s experience was that access to loans from commercial banks would improve after incorporation as a development bank. Generally, commercial banks were hesitant to lend to NGOs even at commercial rates.

As the microfinance operations are transferred to NUBL, NIRDHAN (NGO) continued working in plus activities like entrepreneurship training, primary health care services and vocational training mostly to NUBL clients.

However, the license to operate as a development bank came with the conditionalities. A number of these had direct implications on scaling-up:

- NUBL is required to seek permission from the central bank for establishing any new branch.
- NUBL cannot extend services in a manner that competes with other Grameen banks.
- NUBL is required to notify the central bank of new banking technology it introduces.
- NUBL is required the central bank’s permission to acquire foreign loans or accept investments from foreign sources.

Mission and Goals

Nirdhan Utthan Bank’s vision is to be a bank with social conscience that enables poor to contribute equally to a prosperous, self-reliant rural society through self-employment and social awareness and also help to reduce the poverty. With these visions, NUBL has the mission “to extend financial services and social awareness to the poor in under-served

⁹⁾ *Ibid.*

¹⁰⁾ *Ibid.*



Source: NUBL Central Office.

Figure 1 Map of Nepal

and un-served areas of Nepal in a sustainable manner". The goals of NUBL are as follows:

- Reach a maximum number of poor households with potential and financial viability by adopting proven delivery mechanism
- Develop a well-managed institution with high staff morality.
- Enhance women's self-respect through social awareness, proper use and on-time repayments of loans, regular savings and provision of related microfinance services.

Target Groups

NUBL carefully targets its services to a selected group of poor women. NUBL recruits new clients who fit the following targeting criteria for its group based financial services:

- Own less than 0.25 hectares of irrigated land or less than 0.5 hectares of un-irrigated land per five person family.
- House must not have brick or cement walls/ceiling (pucca house).
- Permanent residence of area.
- No family members employed in the formal sector.
- No current loans from other financial service providers.
- A per capita income of less than NRs. 30,395.

While these criteria have remained intact, a new individual-based service that does not use these criteria was developed and introduced from 2000. This will be described in Products and Services section.

Program Area and Lending Methodology

The current market area of NUBL is the 25 districts of Nepal. They are: Panchthar, Ilam, Jhapa, Morang, Sunsari, Dhankuta, Sarlahi, Rautahat, Bara, Parsa, Makawanpur, Chitawan, Tanahu, Kaski, Syanja, Palpa, Nawalparasi, Rupandehi, Kapilbastu, Piuthan, Dang, Banke, Bardia, Kailali and Dadeldhura. Most of these districts are in Terai Region so it is clear that NUBL is concentrating its activity in Terai. Some districts like Syangja, Palpa, Tanahu, Panchthar and Dhankuta are in Hill Area¹¹⁾. In the map of Nepal, the dark-colored districts are the areas where NUBL serves microfinance.

11) The middle ecological zone with owning 56% of total area of Nepal.

**Table 1 Comparison of Scale of Operation
(Mid July 2009–Mid June 2010)**(Amount in '000 NRs.¹²⁾)

	Mid July 2009	Mid June 2010
Number of Branches	66	75
Number of Area Offices	5	5
Number of Active Clients	115,174	125,064
Number of Districts Covered	22	25
Number of Village Development Committee Covered	673	717
Amount Disbursed NRs.	6,919	8,528
Amount Repaid NRs.	5,800	7,152
Loan Outstanding (Gross) NRs.	1,119	1,376
Total Saving NRs.	337	393
Total Staff	386	378

Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

Generally, NUBL follows the Grameen Model which is ideal for the plain area, but recently NUBL has applied some new methodology of lending in Hill Areas because it is difficult to commute the house of every group member in those areas due to difficulty of access. NUBL has applied three types of lending methodology and they are:

1. Individual lending based on group solidarity and without collateral (Grameen Banking Model)
2. Wholesale lending to Self-Reliant Group (SRG Model)
3. Collateral lending for member and non-member

Scale of Operation

NUBL has enjoyed vast progress in its operation after becoming microfinance development bank. As of July 2006, the authorized capital of NUBL is NRs. 50 million, issued capital is NRs. 25 million and paid-up capital is NRs. 27.44 million. Out of total paid-up capital, the promoters own 79.5 percent and the general public own 20.5 percent¹³⁾. By mid June 2010, there is remarkable growth in capital as authorized capital is NRs. 200 million, issued capital is also NRs. 200 million, and paid-up capital is NRs. 110 million¹⁴⁾.

I have shown here just duration of one year to look briefly at NUBL's operation and outreach. Here is the comparison of mid July 2009 and mid June 2010. The progress of NUBL is Table 1.

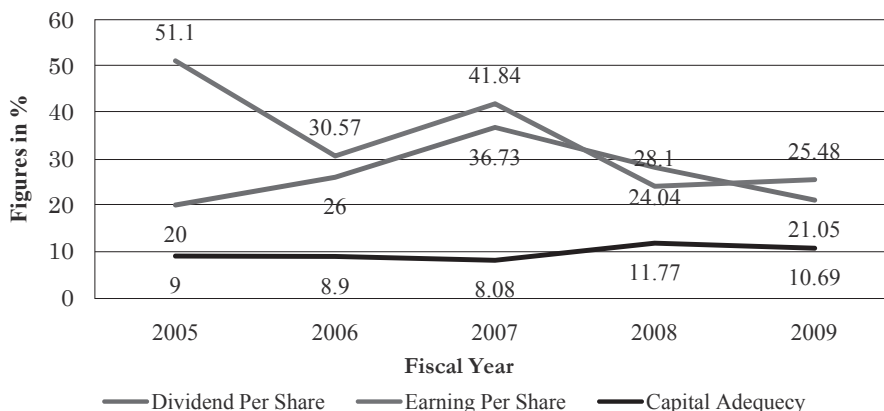
In addition to Table 1, Figure 2 shows the performance of NUBL. There is clear description of dividend per share, earning per share and capital adequacy from Figure 2. Dividend per share and earning per share are increasing in 2007, and gradually decreasing after that. Earning per share is nearly flat after 2008. Moreover, there is slight increase in capital adequacy after 2007.

Figure 3 depicts the growth trend of NUBL in number of clients. This figure is the comparative analysis from year

12) Nepalese Rupee (NRs.) is currency of Nepal. \$1 is equivalent to NRs.70.57 (Rate of 22 October, 2010).

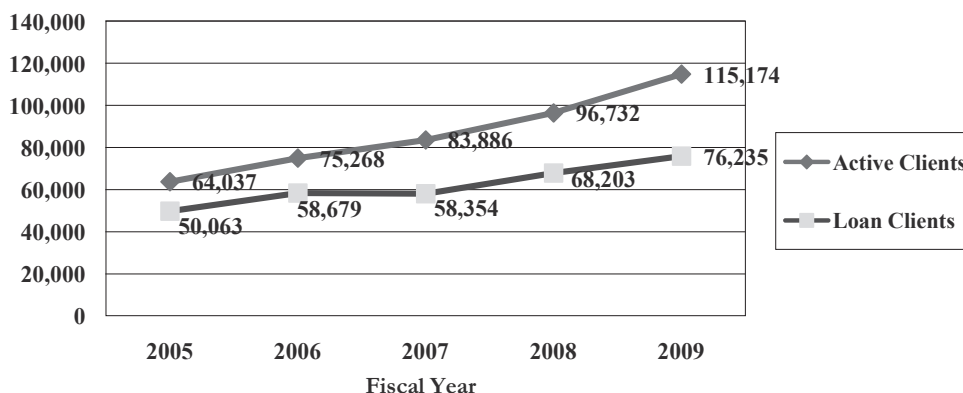
13) Mathema, Vijaya Ram (2008).

14) NUBL Central Office, Siddharthanagar.



Compiled by the author, with the reference of annual reports of NUBL.

Figure 2 Performance



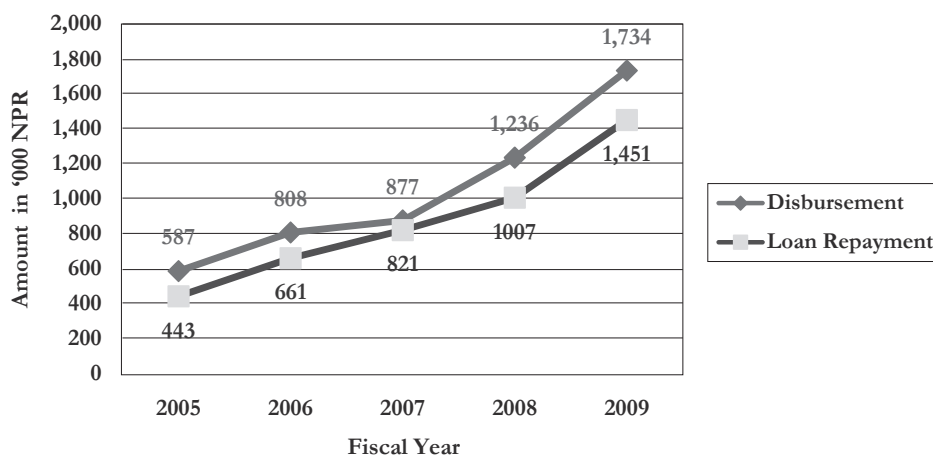
Compiled by the author, with the reference of annual reports of NUBL.

Figure 3 Growth Trend of Clients

2005 to 2009. In Figure 3, the numbers of active clients and loan clients have increased 64,037 and 50,063 of 2005 to 115,174 and 76,235 of 2009 respectively.

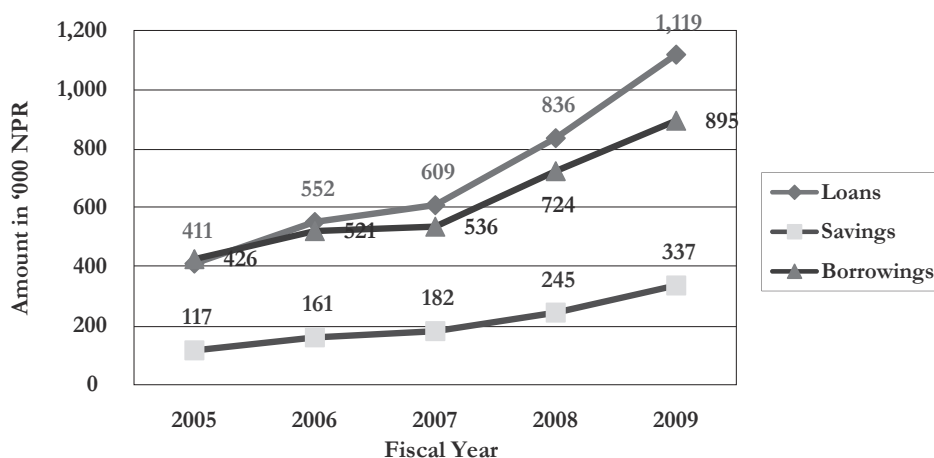
Figure 4 describes the growth trend in loan disbursement and repayment from 2005 to 2009. The amount of loan disbursement has risen rapidly from 2008. The amount of disbursement is NRs. 1,236,000 compare to NRs. 877,000 in 2007. Furthermore, the amount of disbursement has risen to NRs. 1,734,000 in 2009. Similarly, the amount of loan repayment has also increased as NRs. 1,007,000 in 2008, and up to NRs. 1,451,000 in 2009.

In Figure 5, there is the description of growth trend in loans, savings and borrowings from 2005 to 2009. The growth of loans is higher than the growth of borrowings and savings especially from 2007. The reason of lacking fund is clear through Figure 5. Even the growth pace of borrowings is getting faster from 2007, it is hard to follow up the



Compiled by the author, with the reference of annual reports of NUBL.

Figure 4 Growth Trend: Loan Disbursement and Repayment



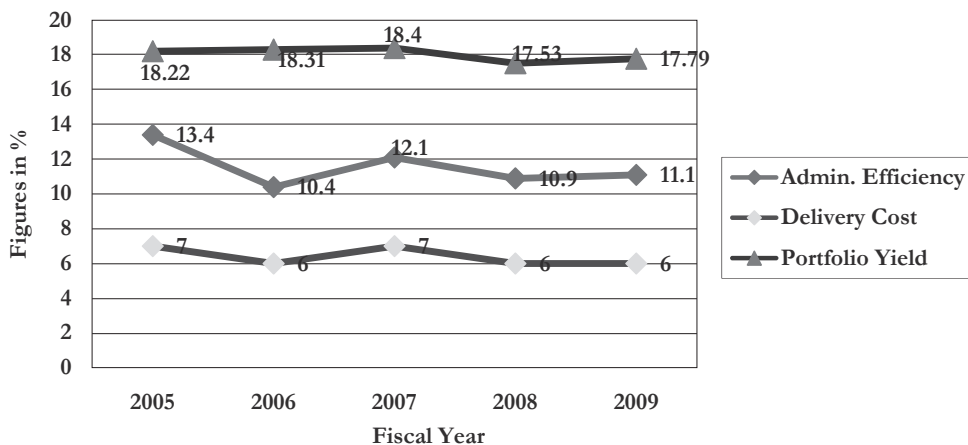
Compiled by the author, with the reference of annual reports of NUBL.

Figure 5 Growth Trend: Loans, Savings and Borrowings

growth of loans because the growth pace of savings is comparatively slow. So Figure 5 depicts that, NUBL needs funds from the outsider as well as need to expand the savings.

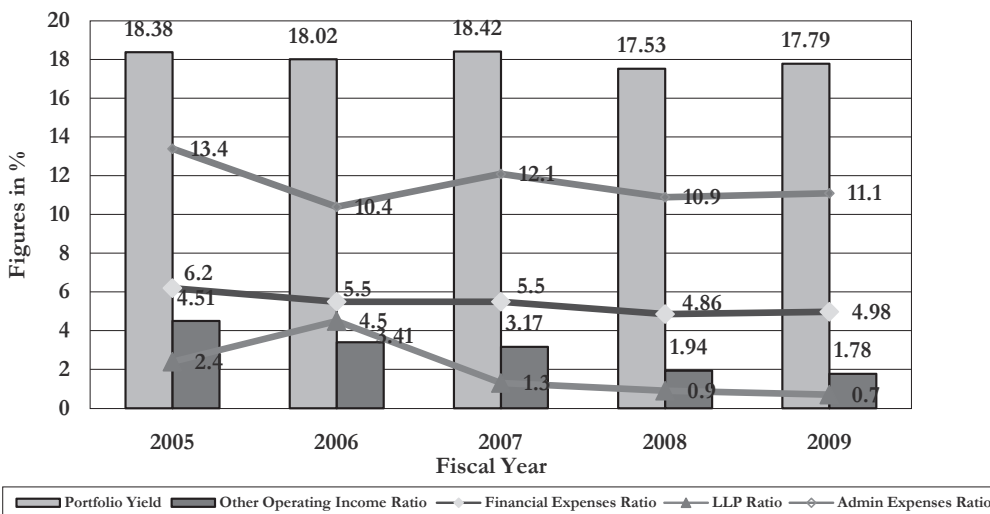
Figure 6 describes the efficiency of NUBL from 2005 to 2009. There is no vast change on delivery cost, administration efficiency and portfolio yield. The delivery cost has decreased slightly from 18.4% of 2007 to 17.53% of 2008, but administration efficiency and portfolio yield have also decreased from 12.1% to 10.9%, and 7% to 6% in the year 2007 to 2008 respectively. Figure 6 shows the correlation among delivery cost, administration efficiency and portfolio yield.

Figure 7 depicts the figures of operating expenses and income ratio of the year 2005 to 2009. At the income sector,



Compiled by the author, with the reference of annual reports of NUBL.

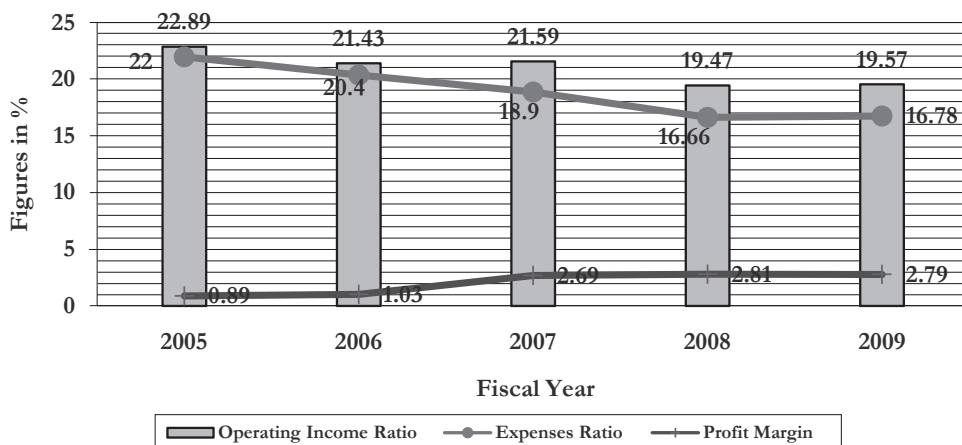
Figure 6 Efficiency



Compiled by the author, with the reference of annual reports of NUBL.

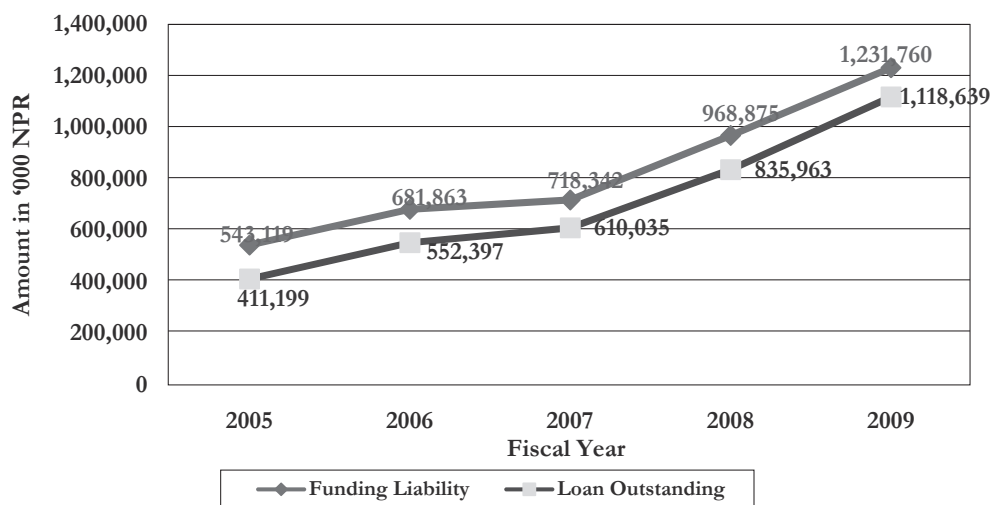
Figure 7 Operating Expenses and Operating Income Ratio

ratio of portfolio yield is nearly constant between 17 to 18%, but the other operating income ratio is decreasing from 2006 to 2007, 3.41% to 1.3%. On the other hand, the administration expense ratio is slightly increasing from 2006. However, NUBL has succeeded to maintain the financial expense ratio and control the loan loss provision (LLP) ratio. LLP ratio has decreased to 0.7% in 2009 of 4.5% in 2006 which has helped to balance the gradual increasing in administration and financial expense.



Compiled by the author, with the reference of annual reports of NUBL.

Figure 8 Profit Margin



Compiled by the author, with the reference of annual reports of NUBL.

Figure 9 Funding Liability and Its Use in Portfolio

Figure 8 describes the profit margin by analyzing operating income ratio and expenses ratio from 2005 to 2009. It is clear that there is correlation between expenses ratio and profit margin. If expenses ratio decrease, profit margin increase. It can be said according to every year's objective change between expenses ratio and profit margin from the year 2005 to 2009. Although, the operating income ratio is decreasing from 2007.

Figure 9 depicts the funding liability and its use in portfolio from the year 2005 to 2009. The funding liability is increasing, but the outstanding loan is also increasing. It is NRs. 1,118,639,000 in 2009. This will cause the lack of fund.

Table 2 Loan Products

Products	Maximum Limit NRs.	Loan Period
General Loan	60,000	Up to 2 Year
Fertilizer Loan	10,000	1 Year
Seasonal Business Loan	10,000	6 Months
Irrigation Loan	5,000	2 Year
Tubewell/Pit Latrine Loan	8,000	2 Year
Homestead Purchase (Ghaderi Loan)	100,000	2 Year
House Construction Loan	150,000	Up to 6 Year
House Repair Loan	20,000	2 Year
Micro-enterprises Loan	150,000	Up to 3 Year
Energy Loan	150,000	Up to 5 Year
Foreign Employment Loan	100,000	Up to 3 Year
Education Loan	50,000	Up to 3 Year
Emergency Loan	10,000	2 Year

Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

Table 3 Saving Products

Products	Source
Compulsory Saving	1.5% of group based loan disbursed
Saving	NRs. 20 per center meeting
Personal Saving	Open to group based client as well as remittance client

Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

Products and Services

NUBL uses the group and solidarity based lending approach developed by the Grameen Bank of Bangladesh. NUBL charges 10% to 20% interest rate on declining basis¹⁵⁾ and provides the loan and saving services explained in Table 2.

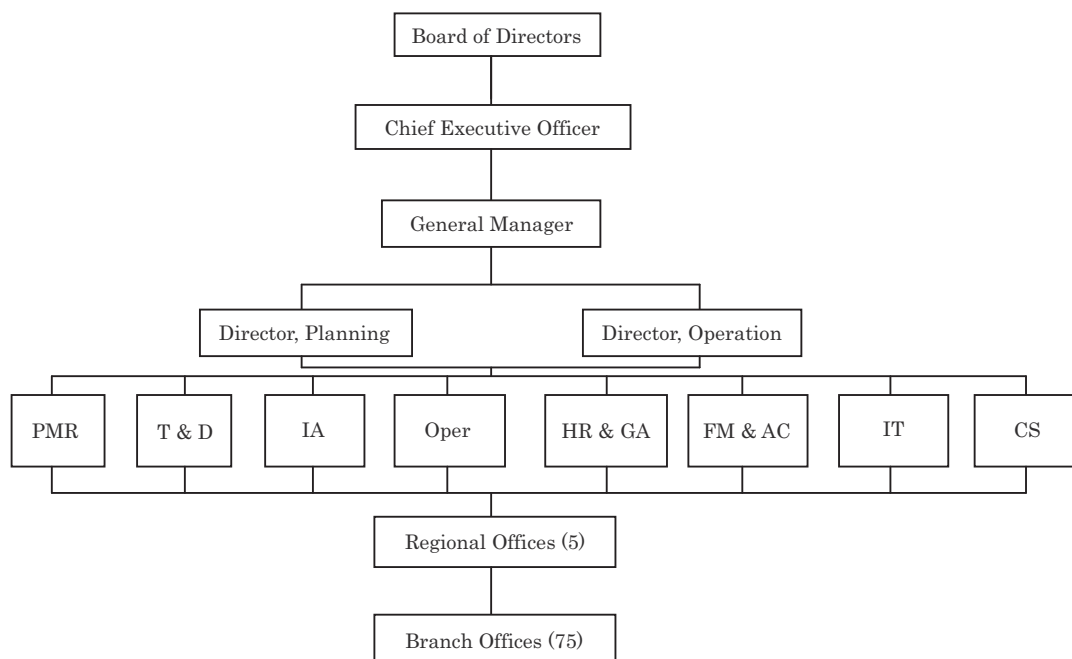
Except the Loan, NUBL provides some saving services by charging 6% interest rate on client savings. Those services are described in Table 3.

2. Organizational Structure

Management Structure

NUBL has a three-level structure of branch offices, regional office and the central office. Branch offices are the frontline for client relations and service. Include loan officers, one accountant, and one branch manager. The branch manager supervises all activities and staff and reports to area manager. Regional offices manage between 7 to 20

¹⁵⁾ It is the system of subtracting paid loan and interest in every installment, and the loan and interest left to pay would be calculated by that paid amount.



Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

Figure 10 Organizational Chart

branch offices, and are responsible for fund transfers to branch offices, internal control, verifying client loan utilization, compiling reports and accounts for each branch, supervising branch budgeting, and testing client groups/centers for poverty targeting. As Figure 10 describes, it has 8 departments at central office which include:

1. Planning, Monitoring and Research
2. Training and Development
3. Internal Audit
4. Operation
5. Human Resource Management and General Administration
6. Fund Management and Account
7. Information Technology
8. Customer Service

The General Manager is responsible for day-to-day operations and work closely with Chief Executive Officer. The CEO sets vision and strategy and reviews operations carefully. Except for the direct interaction between branch-level staff and clients, there is no explicit representation of the clients at any management level. It is envisaged, however, that once shares of NUBL are sold to clients, they will be directly represented on the board of directors. In addition, there are two managers who take overall responsibility of Planning and Operation. They monitors the activities of all departments.

An eight-member board of directors that includes eminent Nepalese bankers, a former governor of Nepal’s central bank, and a representative of the Grameen Trust governs NUBL. Inside the board of directors, one member is observer

Table 4 Board of Directors

Dr. Harihar Dev Pant (Founding Chairman of NIRDHAN, NGO)	Chairman
Prof. H.I. Latifee (Managing Director, Grameen Trust, Bangladesh)	Director
Mr. Shushil Joshi (General Manager, Himalayan Bank Limited)	Director
Dr. Fatta Bahadur K.C.(Professor, Tribhuvan University,Nepal Public Director)	Director
Mr. Top Bahadur Rayamajhi (Independent Contractor — Public Director)	Director
Mr. Balkrishna Subedi (Indendent Director)	Director
Mr. Pradip Kumar Pradhan (Deputy General Manager, Everest Bank Limited)	Director
Ms. Nina Thapa (Senior Credit Analyst, Nabil Bank Limited)	Observer

Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

Table 5 Ownership of NUBL

Shareholders	Share percentage
NIRDHAN (The Parent NGO)	15.85%
Himalayan Bank Limited	12.14%
Napal Arab Bank Limited	13.84%
Everest Bank Limited	12.14%
Grameen Trust, Bangladesh	5.16%
Private Sector Individuals	10.87%
Clients and Public, including staffs	30%

Source: NUBL, Central Office, Siddharthanagar, Rupandehi (Nepal).

from the commercial bank (Nabil Bank Ltd.). Dr. Pant, founder and chief executive officer, also sits on the board. The number of board members is expected to grow as shares are sold to the public and NUBL clients. There are public members in board currently.

According to the data of mid July 2009, NUBL's Board of Directors is composed of eight members explained in Table 4.

Legal Structure

NIRDHAN (NGO) was initially launched as a non-government organization, Nirdhan Utthan Bank Limited (NUBL), was later registered in November 1998 with the Company Registrar with the recommendation of Nepal Rastra Bank (NRB), Nepal's Central Bank. In April 1999, NUBL received a license from NRB to undertake banking activities under the Development Bank Act 1996. In July 1999, NIRDHAN (NGO) transferred all microfinance activities, including overall infrastructure, staff, loan portfolio and most assets, to NUBL.

Ownership

Now Nirdhan's ownership is distributed to several parties. Registered as a development bank, NUBL's authorized capital is NRs. 200 million, issued capital is NRs. 100 million, and paid up capital is NRs. 100 million, as on mid July 2009. Shareholders and their share as of mid July 2009 are shown in Table 5. While shares of Regional Rural Development Banks, another family of Grameen replication, are more owned (87.5%) by the government and government-owned banks, all shareholders of NUBL are from the private sector. High percentage of ownership is spared

for their clients. Whether this uniqueness has affected its performance or not is ambiguous but it may make differences in the attitude to solve problems or responding to the market.

Strategic Alliances with NUBL

NUBL has established strategic alliances with the following international and national organizations:

- Grameen Trust, Bangladesh
- Save The Children Federation, USA
- Plan International
- Centre for Micro-Finance (CMF)
- Nepal Micro-Finance Banks (NMBA)
- The Rural Micro-Finance Development Centre (RMDC)
- MIX Market
- The Consultative group of assist the poorest (CGAP)
- The International Labor Organization (ILO)
- Mercy Corps

3. Conclusion, Challenges and Recommendation

By watching the Bhairahawa Branch Office and its two centers “Anchalpur Kha” and “Durga Mandir”, I have noticed that NUBL has successfully reached to the poor households though some of their clients are not in the category. The largest group of the clients is so-called the active poor engaging in small business and small scale farming. NUBL’s services are most suitable to their needs. It has applicable loan size according the socio-economic condition of poor. Most clients have never been benefited from the government lending programs which is mainly targeting farmers with own land and provide loans based on the size of land¹⁶.

NUBL generally collect the repayment weekly as the feature of Grameen Model, but there are some problems with that. The client who use loan in agriculture or agriculture-base microenterprises, it is hard to get the profit within one week, creates difficulty in repayment in one week. In other hand, bank has also limited staffs to operate with the clients with weekly meeting. So NUBL in Bhairahawa Branch has applied monthly center meeting from 2008 by which the bank can manage the services with limit number of staffs. Monthly meeting seems to be more effective in hill area after observing the SRG Model center “Dhansarkuna” Telga Village Development Committee (VDC) of Banstari, Palpa District. In hill area, it is really hard to gather weekly for the repayment so monthly repayment system is more appropriate there.

Furthermore, NUBL has contributed in mobilizing the savings. The average of personal savings has grown but yet less than one third of average annual income¹⁷. The farmers who have got the service of NUBL have changed and they have more cash income comparing before getting service from NUBL.

Except these, NUBL is also facing some problems of running as MFI. The most severe problem is the political instability of the country. So it faced major problems with Maoist insurgency, with some branches looted and pressure put on clients not to repay their loans¹⁸. In result, NUBL has taken security measures such as reducing the movements of cash, introducing payment slip transactions and requesting clients to go to the branch office for cash transactions. This is the reason why the staffs are not going door to door of the clients. Instead, they set the place for the monthly

16) Mariko Okamoto, Nepal Institute of Development Studies (2008).

17) *Ibid.*

18) Khanal (2004).

center meeting one of the clients' places where all the groups can be for their monthly repayment and new application for the period completed clients.

The cost of providing financial services special to the low-income group is still quite high. Increasing the number of clients covered by one unit of staff can be improved to some extent but it also raises the risk with less monitoring by the staff. Therefore, the expansion of the average loan size is an alternative way, and recent achievement of NUBL's positive net profit was brought mainly by this policy¹⁹⁾. Even the clients are limited in small business and small farming in the same operation level, expansion of loan size as well as repeat of taking loans in long term is not expected so much. Observing their earning capacity, it is most likely that they will take loans several times until obtaining a housing loan and losing the motive to have new loans²⁰⁾. This may put the bank's investment in risk, as well as worsen the socio-economic condition of the client too. For this, income-generating activities would be important. The bank can introduce some income-generating trainings if it gets the support from national or international donors.

Another facing problem is about the lack of fund inside the bank. The number of NUBL's clients of is increasing these days so the bank has also managed its fund for the smooth services among the clients. For that, the bank needs to attract the clients in savings also, and target the wider range of poor households to get the remedy of lacking the fund. For this, NUBL need to attract the ordinary clients also to secure the enough fund from them by providing the service of savings although it is on the contrary of the real mission of microfinance. As the outstanding loan is also increasing, NUBL need to apply new techniques to collect those outstanding loans such as taking collateral, exemption of interest rate if the repayment is on time, etc. Furthermore, NUBL also try its best to attract the foreign donors as well as commercial banks to prepare for the enough fund to provide the microfinance service to the needed poor. Governance is important matter to expand NUBL's service. The government should apply the policy of serving the deprived sector through commercial banks, and also need to raise the ratio of existed priority sector lending by which microfinance institutions (MFIs) like NUBL can get enough operating fund. Hence, good governance is inevitable essence for microfinance sector too, by providing appropriate policy and environment to enhance MFIs' financial activities.

References

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