ADB

Project Completion Report

Project Number: 29237
Loan Number: 1650
October 2008

Nepal: Rural Microfinance Project

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – Nepalese rupees (NRe/NRs)

		At Appraisal	At Project Completion
		30 June 1998	30 June 2007
NRe1.00	=	$0.0157	$0.0153
$1.00	=	NRs63.40	NRs65.00

ABBREVIATIONS

ADB	Asian Development Bank
APP	Agriculture Perspective Plan
BME	benefit and monitoring evaluation
CSD	Centre for Self-help Development
EIRR	economic internal rate of return
FIRR	financial internal rate of return
FNV	financial net present value
GB	Grameen Bank
MIS	management and information system
NGO	non-governmental organization
NRB	Nepal Rastra Bank
PCR	project completion report
PPTA	project preparatory technical assistance
RMDC	Rural Microfinance Development Centre Limited
RMP	Rural Microfinance Project
RRP	Report and Recommendation of the President
SDR	special drawing rights

NOTES

(i) The fiscal year (FY) of the Government and its agencies ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2006 ends on 15 July 2006.

(ii) In this report, "$" refers to US dollars.

Vice President	X. Zhao, Vice-President, Operations Group 1
Director General	K. Senga, South Asia Department
Director	B. Hitchcock, Nepal Resident Mission (NRM), South Asia Department
Team leader	R. Tuladhar, Sr. Programs Officer, NRM

CONTENTS

BASIC DATA

A. Loan Identification

1.	Country	Nepal
2.	Loan Number	1650-NEP
3.	Program Title	Rural Microfinance Project
4.	Borrower	The Government of Nepal
5.	Executing Agencies	Nepal Rastra Bank Rural Microfinance Development Centre
6.	Amount of Loan	SDR 14,201,000
7.	Program Completion Report Number	1074

B. Loan Data

1.	Appraisal	
	– Date Started	10 June 1998
	– Date Completed	23 June 1998
2.	Loan Negotiations	
	– Date Started	5 November 1998
	– Date Completed	6 November 1998
3.	Date of Board Approval	8 December 1998
4.	Date of Loan Agreement	21 February 1999
5.	Date of Loan Effectiveness	
	– In Loan Agreement	22 May 1999
	– Actual	20 May 1999
	– Number of Extensions	None
6.	Closing Date	
	– In Loan Agreement	30 June 2005
	– Actual	15 August 2007
	– Number of Extensions	One
7.	Terms of Loan	
	– Interest Rate	1% Service Charge
	– Maturity (number of years)	40
	– Grace Period (number of years)	10
8.	Terms of Relending (if any)	Not Applicable
	– Interest Rate	
	– Maturity (number of years)	
	– Grace Period (number of years)	
	– Second-Step Borrower	

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
20 October 1999	15 August 2007	94 months
Effective Date	**Original Closing Date**	**Time Interval**
20 May 1999	30 June 2005	73 months

b. Amount ($ million)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Credit Line - Microenterprises	16.500	17.058		17.058	17.058	0.000
Credit Line - Vehicle and Equipment	0.100	0.003		0.003	0.003	0.000
Institutional Strengthening - Vehicles	0.070	0.064		0.064	0.064	0.000
Institutional Strengthening – Equipment	0.070	0.067		0.067	0.067	0.000
Institutional Strengthening – Survey and Studies	0.060	0.003		0.003	0.003	0.000
Institutional Strengthening – Training	1.600	0.583		0.583	0.583	0.000
Institutional Strengthening – Consulting Services	1.000	0.021		0.021	0.021	0.000
Service Charge	0.400	0.360		0.360	0.360	0.000
Unallocated	0.200	0.000		0.000	0.000	0.000
Total ($)	20.000	18.159	2.500	18.159	18.159	0.000
Total (SDR equivalent)	14.201	12.509	1.692	12.509	12.509	0.000

Source: Asian Development Bank records.

10. Local Costs (Financed)
    - Amount ($ million) 15.55
    - Percent of Local Costs 91.4%
    - Percent of Total Cost 52.0%

C. Program Data

1. Program Cost ($ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	3.6	2.6
Local Currency Cost	27.0	27.5
Total	**30.6**	**30.1**

Source: Asian Development Bank records.

2. Financing Plan ($ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	5.0	5.0
ADB Financed	19.6	17.8
Commercial Banks	0.8	0.8
Implementing Agencies	1.7	2.6
Beneficiaries	3.1	3.5
Total	30.2	29.7

IDC Costs		
Borrower Financed	0.0	0.0
ADB Financed	0.4	0.4
Other External Financing	0.0	0.0
Total	30.6	30.1

ADB = Asian Development Bank, IDC = interest during construction

Source: Asian Development Bank records.

3. Cost Breakdown by Program Component ($ million)

Component	Appraisal Estimate	Actual
Part A: Rural Finance	23.30	21.83
Part B. Institutional Strengthening		
1. Strengthening of RMDC	2.76	2.62
2. Strengthening of Implementing Agencies	1.99	1.08
3. Support to executing agency	0.26	0.05
Subtotal (B)	**5.01**	**3.75**
Part C: Group Formation and Strengthening	1.05	3.37
Subtotal	**6.06**	**7.12**
Total Base Cost	**29.36**	**28.95**
Physical Contingency	0.46	0.45
Price Contingency	0.37	0.36
Service charge	0.36	0.35
Total Project Cost	**30.55**	**30.12**

RMDC = Rural Microfinance Development Limited

Source: Asian Development Bank records.

4. Project Schedule

Item	Appraisal Estimate	Actual
Date of Contract with Consultants	Not Applicable	Not Applicable
Completion of Engineering Designs	Not Applicable	Not Applicable
Civil Works Contract		
Date of Award	Not Applicable	Not Applicable
Completion of Work	Not Applicable	Not Applicable
Equipment and Supplies	June 2000	30 June 2008
Dates		
First Procurement	January 1999	19 June 2000
Last Procurement	June 2000	28 June 2007
Completion of Equipment Installation	Not Applicable	Not Applicable
Start of Operations		
Completion of Tests and Commissioning	Not Applicable	Not Applicable
Beginning of Start-Up	Not Applicable	Not Applicable
Other Milestones		
Loan Savings Cancellation date: 5 October 2006		5 October 2006
Loan Reallocation		11 April 2007
Extension of Loan Closing Date		2 February 2005

5. Program Performance Report Ratings

	Ratings	
Implementation Period	**Development Objectives**	**Implementation Progress**
From 30 Dec 1998 to 31 Dec 1999	Satisfactory	Satisfactory
From 1 Jan 2000 to 30 Nov 2000	Satisfactory	Satisfactory
From 1 Dec 2000 to 30 Aug 2001	Partial Satisfactory	Partial Satisfactory
From 1 Sep 2001 to 29 Feb 2002	Satisfactory	Satisfactory

From 1 Mar 2002 to 30 June 2003	Satisfactory	Highly Satisfactory
From 1 Jul 2003 to 31 Dec 2003	Satisfactory	Satisfactory
From 1 Jan 2004 to 29 Feb 2004	Satisfactory	Satisfactory
From 1 Mar 2004 to 30 Aug 2004	Satisfactory	Highly Satisfactory
From 1 Sep 2004 to 31 Dec 2004	Satisfactory	Satisfactory
From 1 Jan 2005 to 31 Dec 2005	Satisfactory	Satisfactory
From 1 Jan 2006 to 31 Dec 2006	Satisfactory	Satisfactory
From 1 Jan 2007 to 30 Jun 2007	Satisfactory	Satisfactory

Source: Asian Development Bank records.

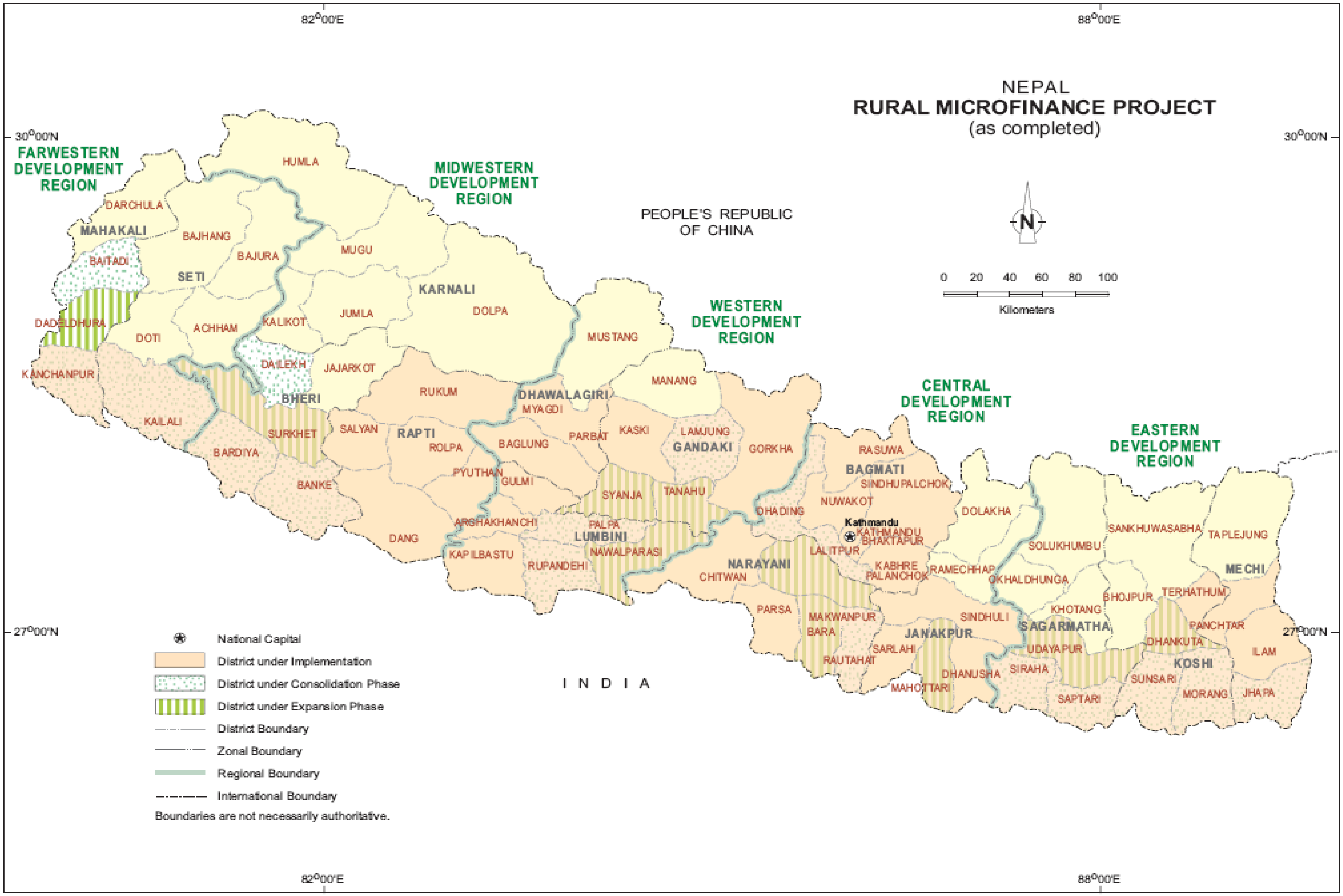
D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members[a]
Appraisal Mission	10–23 Jun 1998	1	14	a
Inception Mission	24 Nov–02 Dec 1999	3	39	a
Review 1	27 Nov–01 Dec 2000	1	5	a
Review 2	03–1 Sep 2001	3	9	a, b, c
Review 3	03–08 Dec 2001	1	6	a
Review 4	19–29 Mar 2002	1	11	a
Review 5	16–27 Jun 2003	2	24	a, d
Mid-Term Review	29 Mar–12 April 2004	1	15	d
Review 6	01–09 Dec 2005	1	9	d
Review 7	23–03 Mar 2006	1	10	d
Review 8	12–5 Dec 2006	2	8	c, e, f
Review 9	29 May–6 Jun 2007	3	24	f, g, h
Project Completion Review[b]	11–20 Jun 2008			f

[a] a – senior financial economist (mission leader), b – senior program/project implementation specialist, c – senior programs officer (mission leader), d – rural microfinance specialist, e – finance specialist, f – economics officer (mission leader), g – assistant disbursement analyst, h – assistant project analyst

[b] The Project Completion Report was prepared by Shyamal Shrestha, economics officer, Nepal Resident Mission with the aid of Nara Hari Dhakal, staff consultant (microfinance specialist).

Source: Back-to-office reports of the Asian Development Bank.


NEPAL
RURAL MICROFINANCE PROJECT
(as completed)
82°00'E
88°00'E
30°00'N
27°00'N
FARWESTERN DEVELOPMENT REGION
MIDWESTERN DEVELOPMENT REGION
WESTERN DEVELOPMENT REGION
CENTRAL DEVELOPMENT REGION
EASTERN DEVELOPMENT REGION
PEOPLE'S REPUBLIC OF CHINA
I N D I A
N
0 20 40 60 80 100
Kilometers
MAHAKALI
SETI
KARNALI
BHERI
RAPTI
DHAWALAGIRI
GANDAKI
LUMBINI
NARAYANI
BAGMATI
JANAKPUR
SAGARMATHA
KOSHI
MECHI
DARCHULA
BAITADI
DADELDHURA
KANCHANPUR
KAILALI
DOTI
BAJHANG
BAJURA
ACHHAM
HUMLA
MUGU
KALIKOT
JUMLA
DOLPA
DAILEKH
JAJARKOT
SURKHET
BARDIYA
BANKE
SALYAN
RUKUM
ROLPA
DANG
PYUTHAN
MUSTANG
MANANG
MYAGDI
BAGLUNG
PARBAT
KASKI
LAMJUNG
GORKHA
GULMI
SYANJA
TANAHU
ARGHAKHANCHI
PALPA
KAPILBASTU
RUPANDEHI
NAWALPARASI
CHITWAN
DHADING
RASUWA
SINDHUPALCHOK
NUWAKOT
Kathmandu
KATHMANDU
BHAKTAPUR
LALITPUR
KABHRE PALANCHOK
MAKWANPUR
PARSA
BARA
RAUTAHAT
SARLAHI
MAHOTTARI
DHANUSHA
SINDHULI
DOLAKHA
RAMECHHAP
OKHALDHUNGA
SOLUKHUMBU
KHOTANG
UDAYAPUR
SIRAHA
SAPTARI
BHOJPUR
SANKHUWASABHA
TERHATHUM
DHANKUTA
SUNSARI
MORANG
TAPLEJUNG
PANCHTAR
ILAM
JHAPA
National Capital
District under Implementation
District under Consolidation Phase
District under Expansion Phase
District Boundary
Zonal Boundary
Regional Boundary
International Boundary
Boundaries are not necessarily authoritative.
08-2894 EG

I. PROJECT DESCRIPTION

1. Microfinance[1] has become one of the most effective poverty reduction strategies over the last few decades. It is regarded as a mechanism to enhance the poor's access to affordable and reliable credit. Nepal has developed many institutions to provide financial services, which is evident in the growth of various financial institutions and the design and implementation of programs to support financial sector development. The microfinance sector in Nepal has developed alongside growth in the financial sector.

2. In 1997, the Government of Nepal requested the Asian Development Bank (ADB) to finance a project targeting the rural poor with financial and technical services under the Government's Agricultural Perspective Plan (APP) and other planned reforms in the rural finance sector. The Rural Microfinance Project was prepared under technical assistance supported by ADB. The primary objective of the Project was to improve the socioeconomic status of women and increase employment opportunities by improving women's access to financial services and microenterprise development through the provision of a revolving line of credit to finance viable farm and off-farm economic activities. The Project was targeted at households living below the poverty line, with at least 75% to 80% of beneficiaries representing poor rural women. The Project also supported a program for assessing and identifying local investment opportunities for women, mobilizing women and improving their skills and capabilities, supporting women's access to markets, and providing improved financial services through institutional strengthening.

3. The scope of the Project included: (i) the provision of a revolving line of credit to support rural microenterprises and agricultural activities, (ii) institutional strengthening of the executing and implementing agencies for Project implementation, and (iii) group formation and strengthening of sub-borrowers and beneficiaries. The activities financed were: (i) agriculture, including livestock, vegetable production, and marketing; (ii) manufacturing, including agricultural tools and equipment, food processing, and handicrafts; and (iii) services, including retail shops and numerous trading activities.

4. The anticipated output targets at appraisal were: (i) the disbursement of $20.2 million for about 448,000 loans to microenterprises and mobilization of $2 million of savings; (ii) access for 270,000 poor clients to financial services vis-à-vis Grameen Bank branches, financial non-governmental organizations, and savings and credit cooperatives; (iii) establishment of the Rural Microfinance Development Centre Limited (RMDC) as a sustainable and autonomous institutional mechanism for domestic resource mobilization and microenterprise financing; (iv) restructuring of the existing five Grameen Bank branches and transfer of their shares from the central bank—Nepal Rastra Bank (NRB)—to private ownership; (v) establishment and full operationalization of 58 new branches of Grameen Banks and their replicators; (vi) increase in the capacity of financial non-governmental organizations and savings and credit cooperatives providing supporting services; (vii) establishment of 54 financial intermediation offices; (viii) provision of training to NRB and RMDC staff; procurement of vehicles and equipment, and improvement of monitoring and supervision of implementing agencies; (viii) support to implementing agencies in social mobilization activities; and (ix) implementation of social and skills training programs.

5. The Project was designed to support a program for strengthening the institutional and financial capabilities of NRB, RMDC, and partner implementation agencies; and for strengthening group formation of beneficiaries. NRB was the executing agency and RMDC was the principal implementing agency for the Project.

[1] Microfinance refers to the provision of financial services to low income clients, including the self-employed. Generally, financial services include savings and credit, insurance, money transfer, and leasing services.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

6. The Project's overall design and formulation was consistent with the Government's poverty reduction strategy, reflected in the Ninth Five–Year Plan (FY1998–FY2003), which accorded high priority to enhancing access to financial services for agricultural and microenterprise activities to reduce rural poverty. The Project's objective was consistent with ADB's operational strategy in Nepal. While broad measures to deliver project benefits to small and marginal farmers were incorporated into the project design, specific means were developed during implementation. The main strength of the project design was its focus on a process approach and sustainability of the implementing agencies (i.e., microfinance institutions) to enhance access to financial services for poor rural women.

7. The Project was formulated with the full involvement of NRB to establish RMDC as an apex, second-tier microfinance institution. Policy dialogue with the Government focused on defining the specific roles of RMDC in promoting rural microfinance services and the need to develop alternative mechanisms for the delivery of microfinance to Grameen Banks, their replicators and other financial intermediaries. The fundamental design features of the Project included: (i) the costs of funds to the implementing agencies were not to be subsidized; (ii) institutional support, including training, would be provided to the implementing agencies to promote financial viability; (iii) savings were to be mobilized to enable rural households to hold near liquid assets in a safe, accessible, and profitable manner; and (iv) the delivery system of the executing agency would be made effective and efficient with support from the Project and RMDC, which is partly owned by commercial banks commercial banks and governed by an autonomous board. This would provide expanded microfinance and technical support to the implementing agencies.

8. The Project design identified seven major microfinance institutions—including five Grameen Bank branches and their replicators, namely the Centre for Self-help Development (CSD), and Nirdhan—as implementing agencies, but they were not exclusively used due to various reasons. The Grameen Bank branches were not interested in borrowing from RMDC since they were borrowing funds from commercial banks at a lower interest rate. The CSD and Nirdhan were motivated to borrow funds only at the prevailing market rate (6.0% per annum), which was much lower than the on-lending interest rate of 9.75% per annum (covering a required spread at not less than 3.75%) established in the Report and Recommendation of the President (RRP). Other implementing agencies were not eligible for financing during the initial years of the Project. Due to these constraints, RMDC promoted new institutions and commenced training and capacity-building programs to support new implementing agencies while strengthening the institutional capacities of existing implementing agencies.

9. No major changes to the project components or implementation methods agreed upon during appraisal occurred. However, minor changes were made regarding the eligibility criteria for selecting implementing agencies for lending to increase the number of implementing agencies without affecting the targeted segment. Some modifications were also made in the implementation methods to increase the effectiveness of project activities.[2] Regarding the selection of implementing agencies, RMDC prioritized the commitment of the executive committee members and management.

---

[2] In the eligibility criteria, the requirement of the minimum institutional experience of an implementing agency was lowered from 3years to 1 year; the requirement of minimum net worth was lowered from NRs250,000 to NRs100,000; financial resources from NRs500,000 to NRs250,000; and the minimum number of active borrowers from 100 to 50.

10. RMDC followed the organizational structure recommended in the RRP and the Loan Agreement, but made minor changes. RMDC's Microfinance Department conducted monitoring and supervisory functions instead of the Institutional and Social Development Department. The latter was solely responsible for organizing and monitoring training programs, creating a database of implementing agencies, publishing newsletters, and preparing reports.

11. The 26 districts specified as the project area were found to be impractical due to design problems at the project preparatory technical assistance (PPTA) stage.[3] As the majority of the implementing agencies were operating in more than one of the Project's district, it was very difficult to maintain separate project accounts by district. Also, with respect to the fungibility of funds, ADB and the Government agreed on 24 May 2002 to allow RMDC to extend project activities from 26 to 57 districts.

B. Project Outputs

12. The project completion review (PCR) Mission assessed the Project's immediate objectives against appraisal targets and found that the Project achieved its immediate objectives (Appendixes 1 and 2). All physical targets were achieved. Of the 58 partner implementing agencies, 45 were established with RMDC's support. At appraisal, coverage for 270,000 sub-borrowers was envisaged. The Project actually reached about 400,000 through 58 implementing agencies, which extended about 1,200,000 sub-loans to microenterprises as compared to the appraisal target of 448,000 loans. This achievement was possible due to the implementing agencies' strong commitment to social mobilization and the encouraging responses from sub-borrowers.

13. Over 364,378 sub-borrowers (against the targeted 270,000) participated in different capacity-building programs (trainings, workshops, and exposure visits) through the financial and technical support of the Project. Such programs played a key role in motivating sub-borrowers (mainly women) to participate in economic development initiatives and they clearly indicated the value of the capacity-building support received during the project period. Sub-borrowers were organized into groups that collectively mobilized over $21 million as compared to a target of $2 million. During the project period, RMDC made a total loan disbursement of $36.4 million against the appraisal target of about $20.2 million.

14. The outputs of project components are described as follows:

1. Rural Microfinance for Agriculture and Microenterprise Activities

15. A line of credit was provided on an annual incremental basis to RMDC, which on-lent to the implementing agencies, for financing the requirements of individual sub-borrowers for farm and non-farm income-generating activities. RMDC established a revolving fund, known as the Rural Microfinance Development Fund totaling about $20.2 million (including $16.5 million equivalent of ADB financing) to on-lend to the implementing agencies. As of 15 January 2008, RMDC made a total loan disbursement of $36.4 million, of which $17.5 million was recovered, leaving an outstanding loan balance of $18.9 million. The loan was sufficient to disburse about 1,200,000 sub-loans to about 400,000 existing and new sub-borrowers from 58 implementing agencies. Sub-loans were normally extended for terms of up to one year. The average size of the sub-loans was about NRs2,975. RMDC's loan recovery rate on sub-loans provided to the implementing agencies was 100% as of 31 December 2007.

[3] During the first three years of the consolidation phase, 16 districts were focused upon: Baitadi, Kailali, Kanchanpur, Banke, Bardiya, Dailekh, Lamjung, Palpa, Rupendehi, Dhading, Rautahat, Jhapa, Morang, Saptari, Siraha and Sunsari. The proposed 10 districts to be focused upon n the remaining expansion phase were: Dadeldhura, Surkhet, Nawalparasi, Syangja, Tanahu, Bara, Mahottari, Makawanpur, Dhankuta and Udayapur.

16. For effective and efficient financing of the implementing agencies, RMDC designed detailed lending policies and procedures for microfinance lending institutions. As per these guidelines, RMDC appraised an applicant institution in terms of its governance, management, financial and loan portfolio status, institutional capacities, human resources, program areas, and potential implementation limitations. If the institution met the eligibility criteria (Appendix 3) or ensured that it would employ the necessary means for implementing microfinance programs efficiently and effectively, the institution would receive an offer letter with conditions. After accepting the conditions and requirements from RMDC, a partner microfinance institution would enter into a legal agreement with RMDC. Thereafter, the institution signed the loan deeds and agreement that would prompt RMDC to release a loan in installments. After the release of each loan installment, RMDC monitored and supervised the implementing agencies. The loan term for a first-time borrower was 2 years, which could be increased to 3–5 years in subsequent loans.

2. Institutional Strengthening

17. The Project strengthened NRB, RMDC, and the implementing agencies through management improvement, board composition and operating procedures, monitoring and supervision, loan delivery and recovery, and training for staff at all operational levels.

18. RMDC organized on-site skills development programs, class-room based training programs, and study visit programs for strengthening institutional capacities and developing human resources within the implementing agencies. The programs were conducted on various required subjects such as accounting, financial analysis and delinquency management, business planning, microfinance principles and practices, group dynamics, credit management, management information systems, and participatory rural appraisal. RMDC conducted these programs through its own trained staff and through outsourcing. For developing and installing appropriate operating systems and practices, RMDC hired “bare foot bankers” as consultants,[4] who visited the new implementing agencies and aided their staff in installing appropriate operating systems and procedures and in conducting different activities including pre-group trainings and regular center meetings. A total of 10,140 staff of the implementing agencies participated in different capacity-building programs through the technical and financial support of the Project. Forty five out of the 58 partner implementing agencies were newly-established entities. Thus, RMDC also fulfilled the role of an “incubation center” for the newly-established implementing agencies.[5]

3. Group Formation and Strengthening

19. During project design, it was determined that all new potential sub-borrowers would receive training using the courses developed by the individual implementing agencies. Where these trainings were not available, new courses would be developed with the assistance of RMDC and the consultants on topics such as social awareness, empowerment of women, women's economic participation, and basic bookkeeping and accounting. Hence, group formation and strengthening was conducted by the partner implementing agencies.

20. RMDC facilitated the assessment of client training needs by designing appropriate methodologies and techniques and conducting training programs in an efficient and effective manner. The training programs can be broadly placed into two categories: (i) group strengthening and (ii) income-generating and skills development.

---

[4] “Bare foot bankers” are the highly-skilled and -experienced staff of implementing agencies who had been involved in the microfinance sector for a number of years.

[5] “Incubation centers” support capacity building of the incipient implementing agencies, especially financial non-governmental organizations and savings and credit cooperatives, which possess limited capacity to grow into competent and viable implementing agencies.

21. As of 30 June 2007, RMDC's partner implementing agencies organized 12,585 training programs to train 364,378 sub-borrowers. The implementing agencies and potential sub-borrowers identified most of the skills development training needs and organized those trainings, which were critical to increasing the credit absorptive capacity of the sub-borrowers and building their sense of ownership with partner implementing agencies.

C. Project Costs

22. At appraisal, the total project cost was estimated at $30.6 million ($3.6 million in foreign exchange costs and $27.0 million equivalent in local currency costs). ADB was to provide a loan of $20 million, with the remaining to be borne by the borrowers, including the Government ($5.0 million equivalent), commercial banks ($0.8 million equivalent), implementing agencies ($1.7 million equivalent), beneficiaries ($3.1 million equivalent), and interest during construction costs ($0.4 million equivalent). The actual project cost amounted to about $30.1 million, comprising (i) an ADB loan of $17.8 million (ii) the Government's counterpart contribution of $5.0 million, (iii) commercial banks ($0.8 million), (iv) the contribution of implementing agencies in loan disbursement to the ultimate borrowers amounting to $2.6 million, (v) beneficiaries ($3.5 million), and (vi) interest during construction costs ($0.4 million).

23. Expenditure by components was about $21.83 million on rural finance, $3.75 million on institutional strengthening, and $3.37 million on group formation and strengthening. In addition, there was a physical contingency of $0.45 million, price contingency of $0.36 million, and a service charge of $0.35 million. Thus, the actual total expenditure was $30.12 million (Appendix 4).

D. Disbursements

24. The loan amount at appraisal was special drawing rights (SDR) 14.201 million equivalent, of which SDR12.509 million was disbursed and SDR1.692 million was cancelled. As provided in the Loan Agreement, two imprest accounts (one for credit and one for non-credit programs) were opened with NRB for the withdrawal of funds under the Project. The initial ceiling of the imprest accounts was $250,000 each, which was increased to $750,000 to meet the disbursement requirements. RMDC withdrew funds from the imprest account for making different project expenditures. After each withdrawal, RMDC submitted a withdrawal application to ADB for approval. In turn, ADB approved these applications and informed the Government and RMDC. ADB regularly replenished the imprest account for on-time withdrawal of funds by RMDC. The imprest accounts were fully liquidated on 18 July 2007. The statement of expenditure procedure was used. Due to the small amount of individual expenditures under the Project, the imprest accounts and statement of expenditure procedure were very useful and provided significant support for smooth project implementation. The loan account closed on 30 June 2007. Appendix 5 provides annual and quarterly loan disbursements.

25. RMDC used the entire allocated funds for lending to implementing agencies. However, its disbursement to implementing agencies was slow in the initial years of the Project due to a number of reasons, including: (i) RMDC's interest rate on loans to implementing agencies was higher than the market rate, (ii) a very low loan limit for financing implementing agencies, and (iii) a limited number of eligible implementing agencies for lending in the market.

26. RMDC disbursed loans to the beneficiaries through implementing agencies comprising microfinance development banks, financial non-governmental organizations, and savings and credit cooperatives. At the outset, RMDC approached the seven microfinance institutions (five regional Grameen Bank branches, Nirdhan, and CSD) that were identified during the project appraisal period as implementing agencies. However, of the seven implementing agencies identified in the RRP, all five Grameen Bank branches were either ineligible for lending or uninterested in borrowing funds from RMDC. The two microfinance institutions that did borrow loan funds from RMDC during the Project's first year—Nirdhan and CSD—did so hesitantly because

they were obtaining adequate funds from commercial banks at a lower interest rate. By the midpoint of the Project, two Grameen Bank branches (western and central) had borrowed a small amount of funds from RMDC only once because they were also obtaining funds from commercial banks at a lower interest rate. In response, RMDC adopted a strategy to identify and develop new implementing agencies for the disbursement of its funds.

27. As per the RRP, RMDC had to disburse loans to implementing agencies at an interest rate of 9.75% per annum to keep at least a 3.75% spread over the 6.0% interest rate charged by the Government. Since the prevailing market rates of the microfinance wholesale funds were around 5.0% to 6.0% per annum, the implementing agencies did not approach RMDC. After continual requests by RMDC, the Government reduced its interest rate from 6.0% to 4.0% per annum in 2001, which enabled RMDC to disburse loans at an interest rate of 6.5% to the implementing agencies that had previously been borrowing from commercial banks. This led RMDC to lend with the lower spread of 2.50% as compared to the 3.75% spread prescribed in the RRP.

28. Due to the limited number of implementing agencies, commercial banks reduced their interest rate to around 4.0% to 5.0% per annum, which was even lower than that of RMDC (6.5%). This once again prohibited the large implementing agencies from borrowing from RMDC and RMDC requested that the Government conduct another review of the interest rate. In November 2004, RMDC's annual re-lending rate was reduced from 6.5% to 5.0%, which enabled it to disburse loan funds to implementing agencies on a larger scale. For their part, the implementing agencies could also expand their outreach to a larger number of clients belonging to poor families.

29. The loan ceiling set by the Project was NRs40 million, which was quite low for the major implementing agencies. At the request of RMDC, the Government increased the loan ceiling to NRs80 million in November 2004 and again to NRs160 million in September 2006, enabling RMDC to disburse funds at the desired level.

30. With these amendments to the on-lending interest rate and loan ceiling, and a series of capacity-building initiatives for the partner implementing agencies, RMDC was able to disburse the loan as planned. The disbursement methods used under the Project were appropriate because RMDC was able to disburse the entire amount, given strong demand from the implementing agencies.

E. Project Schedule

31. The Project was originally envisaged to be implemented over 6 years with an estimated completion date of 30 June 2005. However, due to the limited number of capable implementing agencies, poor security situation, unsuitable project conditions, and unfavorable policy environment in the initial period, all of the project funds were not utilized in the pre-determined period contained in the project agreement. Recognizing the situation and the causes of the delay, ADB extended the project period to 30 June 2007. The original and actual project implementation schedule is provided in Appendix 6.

F. Implementation Arrangements

32. Project implementation, including the management of the Rural Microfinance Fund, was the responsibility of RMDC, which reached sub-borrowers through Grameen Bank branches, Grameen Bank replicators such as Nirdhan and CSD, microfinance development banks, financial non-governmental organizations, and savings and credit cooperatives. The RMDC board comprises seven directors representing the owners of RMDC. A consortium of 13 commercial banks and NRB are the major shareholder of RMDC. The consortium has purchased 65% of RMDC's total paid-up capital, or about NRs51.8 million out of a total of NRs80 million. NRB and other entities purchased the remaining 35% of shares equivalent to NRs28.2 million. Each commercial bank comprising the consortium purchased an equal amount of shares in RMDC for

about NRs5.2 million each. The five commercial bank members on the consortium's board of directors are nominated on a rotational basis. The two Government-owned commercial banks (Nepal Bank Ltd. and Rastriya Banijya Bank) do not have representatives on the board simultaneously. The board's chairperson is elected from among the board members, to whom he or she reports. The board appoints a chief executive officer who works with the board to appoint RMDC staff and is responsible for daily operations. The board secretary is responsible for legal and corporate matters. The organizational structure of the RMDC comprises four departments: (i) microfinance services, (ii) funds management, (iii) audit and supervision, and (iv) institutional and social development. In December 2007, RMDC had a total of 21 staff.

33. As the chief implementing agency, RMDC delivered the revolving line of credit and provided institutional strengthening and technical support services to partner implementing agencies. It also assisted NRB and ADB with the supervision and monitoring of a part of the microfinance sector through standardized reporting and monitoring systems, and in providing operational guidance. RMDC undertook the role of guiding and developing the microfinance sub-sector through the provision of financial and management systems and procedures, training and capacity building, and supervising and monitoring the performance of institutions involved in microcredit lending. RMDC also functions as the overall coordinator for the microfinance sub-sector, both for the provision of funds and to balance demand and supply requirements, and continues to be a major source of institutional support and capacity building by acting as a clearinghouse for information on the microfinance sub-sector. RMDC also acts as a link between NRB and microfinance institutions, with the former serving as an effective regulatory and supervisory body.

34. The implementing agencies were selected according to a set of agreed upon criteria. In the initial stage of the Project, RMDC faced difficulties in finding implementing agencies that met the standard criteria.[6] Therefore, some changes were made to the eligibility criteria of implementing agencies for lending, and some modifications were made to the implementation methods in order to implement project activities in an effective manner.[7] RMDC selected 58 implementing agencies, comprising six development banks, 2 Grameen Bank branches, 4 microfinance development banks, 23 financial non-governmental organizations, and 23 savings and credit cooperatives. The implementing agencies were required to (i) maintain an annual recovery rate of at least 98%; (ii) comply fully with the terms and conditions for repayment of all loans received from RMDC; (iii) comply with training requirements for employees and beneficiaries; (iv) increase outreach by each branch in every year; (v) demonstrate that cost recovery and sustainability were being achieved; (vi) submit accurate, timely, and standardized reports, including financial statements, as required by RMDC; and (vii) comply with NRB regulatory requirements and the auditing requirements of RMDC and the Project. The final condition required the implementing agencies to classify loans and institute loan write-off procedures acceptable to RMDC. The implementing agencies that were unable to comply with all of the requirements were liable, at the discretion of RMDC, to repay the outstanding loan balance within six months of formal notice.

G. Conditions and Covenants

35. The loan was declared effective on 22 May 1999, following fulfillment of the loan effectiveness conditions. Audited project accounts and the auditor's report were submitted to ADB on time and in accordance with sound auditing standards.

---

[6] Those criteria include: (i) registration by NRB as a financial intermediary, (ii) possessing three years of experience in microcredit with a demonstrated ability to mobilize poor households and savings so that the total savings balance of all households is at least 20% of the outstanding loan, (iii) a loan recovery rate of at least 90%, (iv) institutional management capacity, (v) in-house training capabilities for staff, and (vi) ability to report microcredit-related financial and operational information.

[7] Refer to para. 48 in the RRP for the changes on implementation agency eligibility criteria.

36. Of the 25 loan covenants, 19 were fully complied with and 6 were partly complied with (i.e. fully complied with following amendments).[8] Information on the loan covenants is included in Appendix 7.

37. Amendments to the six loan covenants that were partly complied with included: (i) the upper limit in the imprest account was increased to $750,000 from $250,000; (ii) the project area was increased to 51 districts (out of a total of 75 districts in the country) from 26 districts; (iii) RMDC's on-lending interest rate was reviewed periodically so as to make it competitive for RMDC to operate in the financial market; (iv) total financing under a financing agreement was raised to NRs160 million from NRs40 million; (v) the feasibility of merging all of NRB's microfinance operations under RMDC did not occur due to RMDC's organizational limitations, differences in operation modalities across programs, and NRB's reluctance towards merging; and (vi) RMDC's responsibility for project benefit monitoring and evaluation was compromised from the outset due to the failure of the project design to foresee delays in selecting viable implementing agencies, prevalence of high interest rates that lowered credit off-take, low loan ceilings, and lack of proper recognition of the importance of establishing a benefit monitoring and evaluation system. However, RMDC did conduct a study towards the end of the Project to assess the impact of microfinance services on the clients of its partner microfinance institutions.

38. One of the loan covenants required that during the first year of project implementation the Government would delegate the responsibilities of providing ADB with a report on the feasibility of merging all of NRB's microfinance operations under RMDC, preparing an action plan on such a merger over the following six months, and implementing the resulting action plan pursuant to a timetable. This covenant has not been complied with. NRB has been attempting to transform its microfinance operations into an autonomous wholesale-lending financial institution instead of merging these operations with RMDC. The National Microfinance Policy, 2008[9] envisages the establishment of a separate agency under the supervision of NRB to regulate, supervise, and monitor microfinance providers instead of supporting capacity building within RMDC as a national wholesale fund manager for microfinance.

39. Another covenant requires the Government to pledge to take the necessary steps to strengthen two of the five Grameen Bank branches so as to facilitate the sale of the Borrower's and NRB's shares in these Grameen Bank branches to the private sector during project implementation. As far as implementation is concerned, such restructuring occurred in three Grameen Bank branches (eastern, central, and western) through divestment of NRB shares, while two Grameen Bank branches (mid-western and far-western) have yet to be restructured. The Government, with the support of NRB, is exploring ways to divest its shares in the remaining two Grameen Bank branches. Due to the very poor financial health of the Grameen Bank branches, RMDC could not on-lend to them as envisaged in the original project design.

H. Related Technical Assistance

40. There was no technical assistance associated with the Project.

I. Consultant Recruitment and Procurement

41. Provisions existed for international consultants (30 person-months) and domestic consultants (86 person-months) to implement various components and activities. However, RMDC implemented all major activities of the Project successfully through its own professional and

---

[8] Covenants that are "fully complied with amendments" refer to those that could be implemented only after certain amendments. They could not be implemented as originally formulated due to unforeseen constraints encountered during project implementation.

[9] The National Microfinance Policy was issued by the Government in July 2008 with an aim to improve the access of the poor and women to microfinance services.

experienced staff. Towards the end of the Project, RMDC used a small portion of the consultancy budget to (i) prepare a road map for computerization in RMDC and in its partner microfinance institutions, (ii) develop software for RMDC, and (iii) conduct a study on the impact of microfinance on clients.

42. The major equipment and vehicles purchased with project funds were two four-wheel vehicles (one car and one jeep), two motorcycles, 20 computers, and three printers. These were procured in different years following ADB guidelines and RMDC's financial policies and norms. The car and jeep were purchased through a reputed supplier in Kathmandu. The other equipment (motorcycles, computers) were purchased locally through a common process of selecting the most appropriate equipment based on the quotations received from different suppliers in Kathmandu and in accordance with ADB's procurement guidelines (Appendix 8).

J. Performance of Consultants, Contractors, and Suppliers

43. Only goods were procured under this Project and, in general, the performance of the suppliers was quite satisfactory. These goods were procured using ADB's standard procurement guidelines and RMDC's financial policies and norms. Of the different consultants engaged under the Project, consultants were used for a management and information system (MIS) needs assessment and a review of the impact of microfinance services on clients of RMDC's partner organizations. RMDC rated the quality of services of the consultants to be satisfactory.

K. Performance of the Borrower and the Executing Agency

44. The performance of the Borrower and the executing agency in carrying out responsibilities assigned to them was satisfactory. The Project was categorized as a core project by the Government throughout its implementation. The assessment of the executing agency's capacity at appraisal was reasonably accurate. The start-up actions, including the establishment of the RMDC and recruitment of staff in RMDC, were satisfactory. Decisions were generally made on time. The executing agency was committed to the Project, which contributed to resolution of implementation issues such as revision of on-lending interest rate, raising loan ceilings for the implementing agencies, and extending the geographical coverage of the Project. Based on indicators prepared jointly by the Borrower and ADB, the project management team received the best performance award in 2001, 2002, 2004, and 2005. Building upon its satisfactory performance during the Project, RMDC has fully sustained its activities following the Project's completion. This clearly implies that the Borrower's and executing agency's performance was satisfactory.

45. The Borrower's contribution (grant) to the revolving fund amounted to NRs269.2 million as compared to the provision of NRs251.6 million under Section 4.06 of the Subsidiary Loan and Grant Agreement.

L. Performance of the Asian Development Bank

46. Overall, ADB's performance was satisfactory. ADB fielded 12 missions (including appraisal, inception, and mid-term review). Although each mission provided a time-bound action plan that could be readily monitored, there was no oversight with regard to benefit monitoring and evaluation until the issue was raised during the 29 May–6 June 2007 mission. ADB was flexible and agreed to a number of adjustments to overcome problems in view of changing circumstances in aspects such as revising the on-lending interest rate, raising loan ceilings to the implementing agencies, and extending the geographical coverage of the Project. ADB agreed to a two-year extension of the loan closing date to allow for the completion of activities delayed by the conflict and other factors beyond the executing agency's control. ADB provided adequate staff time for missions and field visits.

III. EVALUATION OF PERFORMANCE

A. Relevance

47. The Project's design, formulation, and implementation were consistent with the Government's and ADB's poverty reduction strategy at the time of approval, coinciding with Nepal's Ninth Five-Year Plan (FY1997–FY2002); and during implementation, coinciding with the Tenth Five-Year Plan (FY2002–FY2007). Current Government and ADB strategies continue to support the development of the microfinance sector, given its potential for income generation and poverty reduction, by promoting both self- and wage-employment. Institutional and management arrangements were well-designed, although they required some adjustments and the preparation of guidelines during project implementation. ADB's country strategy and program (2005–2009)[10] outputs were logical and supportive of the Project's purpose and goal. This condition remained valid at the time of project appraisal and completion. Considering the demand of the implementing agencies for the services extended by the Project, it is quite clear that the outputs, purposes, and goal of the Project remain relevant. The most important contribution of the Project lies in its support for the emergence, growth, and development of RMDC as a wholesale lending agency in Nepal's microfinance sector.

B. Efficiency in Achieving Outcome

48. All intended outcomes were achieved effectively. The Project provided access to rural microfinance, primarily to poor women, which enabled them to pursue microenterprise activities, and generate self-employment and income. Therefore, the Project is likely to attain its outcomes of improving the socioeconomic status of poor rural women and create employment opportunities by improving their access to financial services and promoting microenterprise development.

49. The Project was effective in delivering its intended outputs and purposes, although it had to be extended by two years to fully meet its objectives. The Project's indirect benefits included the social and economic empowerment of the poor, disadvantaged communities, and women through the formation and strengthening of savings and credit groups and their federation into a center; and improvement in the capacity and financial positions of partner organizations. At appraisal, it was estimated that the Project's key quantifiable benefits would be (i) an increase in annual per capita income of beneficiaries from $86 to about $200, (ii) creation of about 270,000 jobs in microenterprises (about 80% for women), and (iii) increased access to loans for about 270,000 beneficiaries through about 448,000 loans. It is estimated that the per capita monthly household income of project beneficiaries rose from $61 to $228, on average.[11] The Project disbursed about 1,200,000 sub-loans to about 400,000 beneficiaries through 58 implementing agencies.

C. Efficiency in Achieving Outputs and Purposes

50. Overall, the Project is assessed as efficient. The Project was efficient in achieving its outputs and purpose on the basis of financial and economic analyses undertaken for a sample of agricultural and income-generating activities for which sub-borrowers received microfinance. The analyses adopted the same methodology used at appraisal (Appendix 9). As in appraisal, detailed analysis was restricted to those microenterprises that involved multi-year investments and returns, or those in which income and expenditure could be formatted in such a way as to reflect a multi-year approach. The financial internal rate of return (FIRR) and financial net present values (FNPV), computed at a 12% discount rate, produced an FIRR ranging from 36% to 96% and an FNPV ranging from about NRs30,124 to NRs130,518. The appraisal targets ranged between 26% and 76% for FIRR, and from about NRs2,900 to NRs20,700 for FNPV. The FIRR for all

[10] ADB. 2004. Country Strategy and Program (2005-2009). Manila: Asian Development Bank.

[11] RMDC. 2008. Impact of Microfinance Services on the Clients of RMDC's Partner Organisations. Kathmandu: Rural Microfinance Development Centre Limited.

microenterprises exceeded the financial opportunity cost of capital, assumed to be the same as the sub-borrowers interest rate, which demonstrated the financial viability of the microenterprises. Less-detailed analysis for the other microenterprises similarly indicated that most microenterprises were highly profitable and in many cases recovered more than the investment cost in one production cycle. Since most of the microenterprises examined were family-based and operated, and operating costs were typically low, the resulting returns on investment were very high. The high repayment records achieved by partner implementing agencies are evidence of the sub-borrowers' willingness to pay when services are provided in a timely and efficient manner.

51. Sustainability of the implementing agencies and their branches will depend on cost efficiency, lending interest rate, cost of funds, loan size, and loan recovery. Financial viability analysis of the partner implementing agencies and their branches revealed that all sample implementing agencies achieved financial sustainability within two years and their branches within one year. Field visits by the PCR Mission revealed that increased and reliable access to loans and trainings for the group members enabled the implementing agencies to rapidly expand new branches, enhance outreach, and break even financially in their operations during the first year of operation in some cases.

52. Economic analyses were undertaken for the same microenterprises reviewed in the financial analyses. The economic cost of labor was estimated using a shadow wage rate of 0.8, which reflected the lack of alternative employment opportunities for the beneficiaries. All of the crop and livestock enterprises examined were economically viable, with economic internal rate of returns (EIRRs) ranging from a low of 26% for high-value crops to a high of 57% for dairy buffalo farming and goat raising. The EIRRs obtained by the PCR Mission were slightly higher than the EIRRs obtained during appraisal. This high rate of return stems from the beneficiaries primarily being poor women living in food-deficit areas where an incremental increase in production could find a ready local market and face low transport costs. Sensitivity analysis showed that all representative agricultural microenterprises were economically viable despite increases in costs and decreases in benefits. Pig breeding and high-value crop activities were the most sensitive to variations in benefits and costs.

53. A substantial level of non-quantifiable benefits has accrued from project implementation, some of which are directly related to microenterprises and others that are only indirectly related. Sub-borrowers have benefited from establishing microenterprises, which provided them self-employment and income-generating opportunities. The Project also enabled the implementing agencies to extend benefits to poor rural women.

54. The most important outcome of the Project lies in developing RMDC as an operationally and financially self-sufficient institution in Nepal’s microfinance sector. RMDC has demonstrated the ability to continue its operations and expand outreach. The increasing number of implementing agencies and the loan size have provided RMDC with increased interest income from loans. This has contributed positively by enabling RMDC to emerge as an efficient and sustainable wholesale institution in Nepal’s microfinance sector.

D. Preliminary Assessment of Sustainability

55. The Project is likely to be sustainable. However, sustainability will depend on the institutional strengthening of the implementing agencies and group formation of beneficiaries, although demand from beneficiaries for financial services is likely to grow further. The Project enhanced the institutional capacity of the partner implementing agencies through capacity-building measures. Financial analysis conducted using the balance sheets and income statements of the partner implementing agencies revealed that they were operationally and financially self-sufficient (Appendix 9: Attachment 3). The portfolio at risk is less than 5% among all of the implementing

agencies surveyed.[12] Further, RMDC is confident that with effective implementation of the strategic and operational plan, it can develop itself into a fully sustainable wholesale organization and contribute to poverty reduction in Nepal. Under favorable regulations and within a collaborative environment, there is no reason that RMDC's goal should not be achieved. An enabling operating environment is a key condition for RMDC to achieve its mission and goals.

56. Most of the microenterprises operated by women under this Project were family owned and managed, which allowed for scale and technology upgrading. Therefore, there are strong indications that these enterprises are sustainable.

57. There is high demand from the clients of partner implementing agencies for the financial services extended under the Project. Different income-generating activities and microenterprises managed by beneficiaries and receiving financial support from the Project have a high return on investment and are financially viable.

E. Environmental, Socio-cultural and Other Impacts

58. At appraisal, the Project was classified as a Category B project[13] and an initial environmental examination was undertaken. The small scale sub-projects undertaken by women beneficiaries had no effect on the environment. Women beneficiaries were encouraged through training to use sound environment practices, including selection of crop mixture to generate cash income and improve soil fertility, proper feeding, and management of livestock to reduce deforestation.

59. Women beneficiaries acquired social and personal benefits from group formation. In these groups, intense networking and support created positive spillovers, including increased self-confidence, community involvement, and improved social relations. As women were able to accumulate savings, they had control over loan withdrawals. Women's access to microfinance services strengthened their influence over economic and household decisions and provided them with greater freedom to invest in activities that improved their own well being as well as that of their respective household.[14]

60. The Project built social capital by requiring women's groups and cooperative members to follow a set of carefully constructed rules that promoted mutual assistance and accountability, including writing by-laws, electing office bearers, and reviewing loan proposals.[15]

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

61. The Project is rated as successful based on the review of its relevance, efficacy, efficiency, sustainability, and impact (Appendix 10). The Project contributed significantly towards the promotion and development of the microfinance sector in Nepal. The Project was implemented as

---

[12] Of the 12 implementing agencies surveyed, Nerude Laghugbitta Bikas Bank Limited, Morang and Sawalamban Bikas Bank, Kathmandu are microfinance development banks; Jeevan Bikas Samaj, Morang; Forum for Rural Women Ardency Development, Sunsari; Manushi, Kathmandu; Centre for Self-Help Development, Kathmandu; Mahila Uthan Kendra, Lalitpur; Shreejana Bikas Kendra, Kaski; National Educational and Social Development Organization, Parbat; Chartare Yuba Club, Baglung; and Dhaulagiri Community Resource Development Centre, Baglung are financial non-governmental organizations; and Sahara Nepal Saving and Credit Cooperative Ltd. Jhapa; is a SCC.

[13] Category B projects refer to those that could have some adverse environmental impacts, but of lesser degree or significance than those in category A. An initial environmental examination is required to determine whether significant environmental impacts warranting an environmental impact assessment are likely.

[14] An observation noted during the PCR Mission's field visits.

[15] This relates to writing of rules and regulations on loan operation, financial management, accounting, human resource management, etc.

conceived, although there were some modifications during implementation. The Project's completion date was extended by two years to fully achieve its objectives. The Project's was highly effective in providing income, employment opportunities, and social empowerment to poor households and women. The capacity of RMDC and partner implementing agencies to enhance access to microfinance services by the poor and disadvantaged groups increased considerably. The institutional capacity of the partner implementing agencies also increased. The impact of the Project on the livelihood of rural women is expected to be much higher during the remaining economic life of the Project, as incremental benefits from investments in capacity building at local levels increase in the medium and long term.

62. The Project was successful in creating institutional infrastructure, promoting professionalism, and establishing best practices in Nepal's microfinance sector.

63. The Project established RMDC as a microfinance organization, providing wholesale funds to retailing microfinance institutions for on-lending to the poor. Before the establishment of RMDC, small and new microfinance institutions had very limited access to funds for on-lending to their clients. As a result of the Project, new and potential future implementing agencies have easy access to funds as well as technical support from RMDC.

B. Lessons

64. As a general rule, project design should be based on a preliminary detailed assessment of the situation, involve all key stakeholders (including grassroots organizations), and adopt participatory approaches.

65. RMDC is a unique institution that focuses on capacity building to create operationally and financially self-sufficient microfinance institutions, in addition to the establishment and expansion of credit lines.[16] As a result, many of RMDC's implementing agencies are among the most economically viable microfinance institutions and those few that are considered creditworthy by commercial banks. The expansion of financial transactions with such implementing agencies on a selective basis enabled RMDC to maintain 100% on-time loan repayment, even amidst a decade-long conflict and political turmoil. This has been attributable to RMDC attaining operational and financial self-sufficiency in its operations.

66. RMDC's transparent lending policies and procedures, and the diverse nature of technical support were effective in establishing the following for its partner implementing agencies: good governance and professional management, appropriate operating systems and procedures, skilled and disciplined human resources, effective monitoring and supervision systems, audit and internal control systems, and effective management information systems.

67. The staff recruitment process and human resource management are important for successful operations. RMDC has a distinctive working culture. Its staff are well-educated, dedicated and committed in their job, and well-prepared and updated. They frequently conducted field visits to implementing agencies and are well acquainted with ground realities.

68. The concept of bare foot bankers is innovative. The provision of technical support by the bare foot bankers and other facilitators from strong implementing agencies to new and weak implementing agencies (especially the financial non-governmental organizations) has been quite effective in building the capacities of the new and weak implementing agencies.

[16] Most apex or second-tier organizations focus on providing credit lines to partners while RMDC provides both a credit line and capacity building support to its partners.

69. Tailor-made and pre-defined capacity-building packages are seldom effective. RMDC did not follow a pre-established structure nor did it offer standard courses, but instead designed courses based on the training needs of the implementing agencies' staff. RMDC assessed the demands of partner implementing agencies at the beginning of each year and complemented them with suggestions from its staff members who possess extensive knowledge of all partners. RMDC was successful in meeting all training needs through the training of trainers.

70. Properly designed training programs for the sub-borrowers contributed towards business expansion and increased the sense of ownership among the implementing agencies. Capacity-building support to the ultimate borrowers, through training on group strengthening and an income-generating skills development program, provided clients the opportunity to discuss the program with the implementing agencies' staff, clearly understand operational strategies and policies, and increase their ownership of them. This enabled the beneficiaries to make on-time loan repayments and ensured productive use of the borrowed money.

71. A careful assessment of the knowledge and skills of women beneficiaries would be useful to identify their need and capacity for saving scare resources. Training and any assistance should be demand driven.

72. The Project confirms that women's access to microfinance services strengthens their influence over economic household decisions and provides them with greater freedom to invest in income-generating activities that raise their well being and that of their respective household as a whole. Women's empowerment can be achieved through social mobilization and capacity building in the process of group formation.

73. Financial and institutional development support is critical at the early stages of any microfinance institution.

C. Recommendations

1. Project Related

74. RMDC was successful in supporting the emergence and growth of partner implementing agencies while attaining operating and financial self sufficiency. It faced demand to loan funds from partner implementing agencies. The Government should devise a mechanism such that RMDC would have a perpetual source of funds to loan to finance its expanded operation. A successor Project to RMP is deemed necessary in the future.

75. RMDC's institutional development support to partner implementing agencies and capacity building support to the implementing agencies' clients (sub-borrowers) has been effective and appreciated by the implementing agencies for the value of the services received. Since most implementing agencies require capacity building support on a regular basis, this support should be continued either by RMDC or another agency. The Government should devise a mechanism such that RMDC can continue its training and capacity-building activities to strengthen and expand the client base after project completion.

76. RMDC has not been able to extend lending to the Grameen Bank branches as originally envisaged. Reforms vis-à-vis divestment, re-capitalization, liquidation, and other measures, are essential for making Grameen Bank branches eligible for borrowing from RMDC and significantly expanding the outreach of microfinance services to the rural poor.

77. It was determined necessary to review the divestment experiences of the western, central, and eastern Grameen Bank branches and explore ways to divest its share in the remaining two Grameen Bank branches.

78. A comprehensive MIS can play a critical role in increasing the efficiency of daily activities and lowering the operational costs of implementing agencies. The work started by RMDC on MIS should continue.

79. The executive agency and implementing agencies should collect baseline data and establish a benefit monitoring and evaluation system before beginning a project. Independent and timely monitoring systems—with appropriate procedures to provide feedback and ensure actions based on benefit monitoring and evaluation findings—are necessary. Each review mission should assess whether the system is operating effectively and the executive agency and implementing agencies are using information for periodic progress reports.

2. General

80. The Government has issued a National Microfinance Policy 2008, which envisages formulating a separate institution under the direct supervision of NRB in order to regulate, supervise, and monitor and evaluate microfinance services by making providers self-disciplined and managing the necessary institutional and legal provisions needed for sustainable and simplified microfinance services. The ensuing legislation under the new policy should ensure creation of a conducive environment for microfinance institutions to operate efficiently and effectively, and to expand their outreach to the poor and disadvantaged throughout the country.

81. Access to financial services in Nepal is largely concentrated in the Terai[17] and accessible hill districts with virtually no services available in inaccessible hills and mountains areas. RMDC's partner implementing agencies and their operations are not an exception. Product and service delivery methodologies, limited physical infrastructure, and scattered settlements have compelled these implementing agencies to confine their operations to the Terai and accessible hill districts. There is also a need to invest in innovative product and service delivery methodologies, and to improve basic physical infrastructure to expand the frontier of microfinance services to previously-inaccessible hill and mountain areas.

82. The use of modern technology in the Nepalese microfinance industry is at an early stage. There is a need for using modern information technology to enhance the efficiency of microfinance operations. Consistent with the expansion of telecommunication facilities, Nepal’s microfinance sector should benefit from rapidly-evolving communication technologies. The possibility of introducing such technologies in Nepal’s microfinance sector should be extensively explored.

[17] Lowlands in the southern part of the country.

PROJECT FRAMEWORK

Design summary	Performance Indicators/Targets	Assessment After Completion	Remarks
1.0 Sector Goal 1.1 Empower women, improve their socioeconomic status, create employment, and reduce rural poverty	About 80% of project beneficiaries will be poor rural women; the number of poor rural women in the project area will decrease from the current level of 25% to 20% by the end of the Project.	100% of project beneficiaries are poor rural women and their incomes have been increased from \$61 to \$212 per month, on average	Information in National Living Standards Survey (1995/96 and 2003/04) where poverty incidence fell from 42% to 31%
1.2 Develop a sustainable rural microfinance system that is more responsive to the needs of the rural poor, specifically women	Performance of microfinance system will be improved, with a better focus and improved and unified policies and strategies	Performance of microfinance system improved greatly with the establishment and operation of RMDC	
2.0 Objectives **2.1** Primary: improvement of the status of women. Secondary: poverty reduction	Increase annual per capita income of beneficiaries from \$86 to about \$200 by the end of the Project Create about 270,000 jobs in microenterprises (about 80% of the jobs for women) Increase access to loans for about 270,000 beneficiaries through about 448,000 loans by the end of the Project	Monthly income per capita of beneficiaries increased from \$61 to about \$212, on average, by the end of the Project About 400,000 jobs created in women-managed microenterprise (most of the employed were women) Increased access to loans for about 400,000 beneficiaries through about 1,200,000 loans by the end of the Project	
3.0 Project Components **3.1 Rural Finance for Agriculture and Microenterprise Activities** Provide investment credit and savings services	About \$20.2 million are disbursed through about 448,000 loans to microenterprises; about \$2 million in savings are mobilized 270,000 poor clients access financial services, and establish financial track records with a Grameen Bank (GB), non-governmental organization (NGO), or cooperative	About \$36.4 million was disbursed through about 1200,000 loans to microenterprises; about \$21 million in savings were mobilized 400,000 poor clients accessed financial services and establish financial track record with a GB, NGO, or cooperative.	

Design summary	Performance Indicators/Targets	Assessment After Completion	Remarks
3.2 Institutional Strengthening a. Sustainable mechanism for domestic resource mobilization and channeling of funds to the chief implementing agency is established and operational	A sustainable and autonomous institutional mechanism for domestic resource mobilization and banking of funds to finance micro enterprises is created and fully operational, the Rural Microfinance Development Centre (RMDC)	A sustainable and autonomous apex institutional mechanism (RMDC) created and fully operational	
b. Grameen Bank branches are profitable and institutionally- and financially-sustainable.	Five existing Grameen Bank branches restructured and shares are transformed from Nepal Rastra Bank (NRB) to private ownership	Eastern, central, and western Grameen Bank branches restructured and shares are transformed from NRB to private ownership.	Restructuring of mid-western and far-western Grameen Bank branches remains to be completed
	About 58 new branches established and fully operational	145 branches are currently operational	
c. NGOs and cooperatives are providing financial services in a profitable and sustainable manner	Capacity of participating NGOs and cooperatives providing supporting services is increased; an institutional mechanism to coordinate activities and support small NGOs and local groups is developed and fully operational; 54 financial intermediation offices are established and operational.	Capacity of 23 participating financial non-governmental organizations and 24 savings and credit cooperatives providing supporting services increased; an institutional mechanism to coordinate activities and support small NGOs and local groups developed and fully operational	
d. Implementation assistance and institutional strengthening are provided to NRB and RMDC	Training is provided to NRB and RMDC staff; vehicles and equipment are procured; monitoring and supervision of implementing agencies is improved.	Training provided to 5 NRB and 16 RMDC staff; vehicles and equipment are procured and monitoring and supervision of implementing agencies improved	
3.3 Group Formation and Strengthening Implement social development program	All implementing agencies are supported in social mobilization and women-related social activities.	All implementing agencies (13 microfinance development banks, 23 financial non-governmental organizations and 24 savings and credit cooperatives) are supported in social mobilization and women-related social activities.	

Design summary	Performance Indicators/Targets	Assessment After Completion	Remarks
4.0 Activities **4.1 Provide Credit** Create imprest account and make funds available to participating financial institutions **4.2 Strengthening Institutions** **a Expand Access of Rural Financial Intermediaries to Financial Resources** i. Refine operation mechanisms for channeling of funds to priority sector with private investors	 Inputs $20.2 million revolving loan fund Consultancy inputs (total of 30 person-months international and 86 person-months domestic)	 $20.2 million revolving loan fund created RMDC succeeded in implementing all major activities of the Project successfully through its own professional and experienced staff	
ii. Private investors pay up share capital and form board of RMDC	NRs80 million paid up by private providers	NRs59.2 million paid up by private providers (commercial banks, development banks, and other institutions, and they also form board of RMDC)	The commercial banks are: Rastriya Banijya Bank, Nepal Bank Ltd., Himalayan Bank Ltd., Standard and Chartered Bank Nepal Ltd., Nepal Bangladesh Bank Ltd., Nabil Bank Ltd., Nepal SBI Bank Ltd., Nepal Credit and Commercial Bank Ltd., Nepal Investment Bank Ltd., Everest Bank Ltd., Nepal Industrial and Commercial Bank Ltd., Bank of Kathmandu Ltd., Lumbini Bank Ltd.; Development Banks are: five GBBs, and other agencies are: Deposit Insurance and Credit Guarantee Corporation and Nirdhan (an NGO)

Design summary	Performance Indicators/Targets	Assessment After Completion	Remarks
iii. Contract staff managing funds and coordinating Project activities including institutional development, training, and social development	Adequate budget allocation	Allocation of adequate budget made to operate RMDC as a professional institution	
iv. Provide facilities and procure vehicles and equipment for management, monitoring, and coordinating other project activities (institutional development and training)	Credit line provided for vehicles and equipment: 262 motorcycles, 750 bicycles, and 13 computer sets.	Credit line was not provided for vehicles and equipment for any implementing agencies.	Implementing agencies were reluctant to borrow for the purchase of vehicles and equipments
v. Review and improve creation of required supportive legislation (cooperative law, law on mutual savings societies, NRB Act, etc.)	Consultancy inputs	Required supportive legislation (such as cooperative law, development bank act, financial intermediary act, NRB Act, etc.) were reviewed and consolidated into the Bank and Financial Institutions Act 2061.	This activity was not implemented under the Project, but was implemented under separate initiatives
b Provide transparency, restructure and transfer shares of existing GB branches to private ownership			
Develop mechanisms for privatizing Grameen Bank branches and agree with the Government, NRB, and other current stakeholders on implementation arrangements and schedule	Consultancy inputs. Paid-up capital is provided by commercial banks, NGOs, borrowers, and other shareholders	Mechanism to privatize Grameen Bank branches developed and three Grameen Bank branches (eastern, central and western) were privatized	This activity was not implemented under the Project but was implemented under separate initiatives
c Increase access of rural poor to financial services			
i. Develop and agree with stakeholders concerning corporate plans for all Grameen Bank branches and other potential participating financial intermediaries.	Consultancy inputs	All Grameen Bank Branches and other potential participating financial intermediaries have prepared corporate plan to increase access to financial services for the poor.	
ii. Agree with the Government on interest regime in the short, medium, and long term	Appraisal, inception, and review missions	NRB and the Government agreed on interest regime in the short, medium, and long term	
iii. Develop and contract training programs including training manuals	Consultancy inputs	Developed training programs, including training manuals using RMDC's own professional and experienced staff	
iv. Implement corporate plans to Grameen Bank branches, including training and staff expansion, social mobilization, savings mobilization, provision of investment credit to reach economic viability of all Grameen Bank branches in the third year, and provision of credit for vehicles and equipment		RMDC, implementing agencies, and executing agencies	

Design summary	Performance Indicators/Targets	Assessment After Completion	Remarks
d Improve Institutional Capacity of NRB			
i. Strengthen the Development Finance Department of NRB.	Systems development for supervision and regulation of microfinance institutions	Systems has been developed for regular supervision and regulation of microfinance institutions	
ii. Appoint additional NRB staff.	Two second class officers, 4 third class officers, 4 head assistants and 2 computer operators	NRB did not recruit the new staff and instead responsibility was assigned to existing staff on project management	
iii. Provide training.	Training in regions for 6 officers	Training in regions for 11 officers	
4.3 Group Formation and Strengthening			
Conduct survey on social development needs in support of expansion of rural financial markets	Adequate budget allocated for contracting of local NGOs to undertake surveys	Over 20 training-of-trainers organized for implementing agencies' staff to enable them undertake surveys	
b Develop detailed social development plans in operational areas of participating NGOs, including cooperation agreements with financial intermediaries servicing respective operational areas under the Project	Consultancy inputs.	RMDC's own professional and experienced staff assisted implementing agencies to develop detailed social development plans in their operational areas	
c Support social development activities of participating NGOs, including training on social and gender awareness to 270,000 clients, skills training to 2,700 clients, and literacy training for 4,000 clients	Funds allocated to support client training.	0.4 million SDR allocated to support client training as a support to social development activity of clients of the partner microfinance institutions	

GB = Grameen Bank, NGO = non-governmental organization, NRB = Nepal Rastra Bank, RMDC = Rural Microfinance Development Center
Source: Asian Development Bank.

ACHIEVEMENT OF IMMEDIATE OBJECTIVES (DECEMBER 2007)

No.	Components	Immediate Objectives (%)	Weight of Project Components based on Loan Allocation
A.	Rural Finance for Agriculture and Microenterprise Activities	100	79
B.	Institutional Strengthening	80	17
	▪ Expand access of rural financial intermediaries to financial resources	100	5
	▪ Provide transparency, restructure and transfer of existing Grameen Bank branches to private ownership	40	4
	▪ Increase access of the rural poor to financial services	100	4
	▪ Improve institutional capacity of Nepal Rastra Bank	80	4
C.	Group Formation and Strengthening	100	4
	Overall Status	97	100

Source: RMDC 2007. *Borrower's Project Completion Report for the Rural Microfinance Project, Kathmandu, PCR Mission, May 2008*

RURAL MICROFINACE DEVELOPMENT CENTER'S ELIGIBILITY CRITERIA FOR LENDING

Institutions willing to borrow credit should fulfill the following requirements:

(i) Registered under an appropriate act and received a license for microfinance operations;

(ii) Minimum of one year experience in operating microfinance activities;

(iii) Savings balance of at least 5% of the loan outstanding in the 1st year, 10% in the 2nd year, 15% in the 3rd year, 20% in the 4th year, and onwards;

(iv) Attained a minimum of 90% loan recovery rate;

(v) Committed and dynamic executive committee;

(vi) Active and professional management;

(vii) Appropriate management information system;

(viii) Appropriate business plans;

(ix) Modern accounting system;

(x) Appropriate policies and procedures for implementing and monitoring its credit program;

(xi) At least 25% active borrowers;

(xii) At least 25% female borrowers;

(xiii) Minimum financial resources of NRs250,000;

(xiv) Minimum net worth of NRs100,000;

(xv) A trend towards self-sufficiency as per the last three year's financial positions; and

(xvi) Audited in time.

ACTUAL PROJECT DISBURSEMENT BY CATEGORY
($)

Category	Description	1999	2000	2001	2002	2003	2004	2005	2006	2007
01A	Credit Line - Microenterprises	229,575	229,575	1,338,330	2,792,802	3,832,854	5,630,435	9,203,493	15,566,525	17,058,189
01B	Credit Line - Vehicle and Equipment	0	0	0	0	0	0	968	2,970	2,970
02A	Institutional Strengthening - Vehicles	0	63,255	63,255	63,255	63,255	63,255	63,255	63,255	63,884
02B	Institutional Strengthening – Equipment	6,078	52,708	56,924	56,924	58,980	58,980	61,789	62,450	67,507
02C	Institutional Strengthening - Survey and Studies	0	0	0	0	0	0	0	0	2,663
02D	Institutional Strengthening - Training	14,348	47,092	73,461	92,457	135,588	164,050	255,746	408,342	582,865
02E	Institutional Strengthening - Consulting Services	0	116	116	116	116	116	116	1,277	21,374
03	Service Charge	0	2,442	6,389	20,984	54,724	101,256	174,854	279,878	360,180
	Total	**250,001**	**395,188**	**1,538,475**	**3,026,538**	**4,145,517**	**6,018,092**	**9,760,221**	**16,384,697**	**18,159,632**

Note: The total disbursement amount indicated above corresponds to the cumulative at the end of each year.
Source: Loan Financial Information System, Asian Development Bank.

CONTRACT AWARDS AND DISBURSEMENTS (ANNUAL AND QUARTERLY)
($ million)

Year	Quarter	Contract Awards		Disbursements	
		Projected	**Actual**	**Projected**	**Actual**
1999	I	0.00	0.00	0.00	0.00
	II	0.00	0.00	0.00	0.00
	III	0.00	0.00	0.00	0.00
	IV	0.00	0.00	0.25	0.25
	Subtotal	**0.00**	**0.00**	**0.25**	**0.25**
2000	I	0.20	0.00	0.20	0.00
	II	1.00	0.09	1.00	0.00
	III	0.80	0.00	0.80	0.09
	IV	0.80	0.06	0.80	0.06
	Subtotal	**2.80**	**0.15**	**2.80**	**0.15**
2001	I	0.00	0.00	0.00	0.00
	II	0.50	0.01	0.50	0.01
	III	0.50	0.63	0.50	0.50
	IV	0.50	0.00	0.50	0.63
	Subtotal	**1.50**	**0.64**	**1.50**	**1.14**
2002	I	0.00	0.00	0.00	0.00
	II	0.50	0.38	1.00	0.38
	III	0.50	0.29	1.00	0.12
	IV	1.00	0.80	1.00	0.98
	Subtotal	**2.00**	**1.48**	**3.00**	**1.49**
2003	I	0.62	0.25	0.41	0.25
	II	0.65	0.16	0.58	0.18
	III	0.66	0.16	0.51	0.04
	IV	0.67	0.52	0.57	0.66
	Subtotal	**2.60**	**1.09**	**2.07**	**1.12**
2004	I	0.47	0.22	0.41	0.22
	II	0.47	0.41	0.41	0.43
	III	0.46	0.10	0.44	0.10
	IV	0.47	1.10	0.43	1.13
	Subtotal	**1.86**	**1.83**	**1.70**	**1.87**
2005	I	0.68	1.28	0.60	1.28
	II	0.71	1.07	0.63	1.11
	III	0.82	1.12	0.70	0.91
	IV	0.98	0.20	0.88	0.45
	Subtotal	**3.20**	**3.67**	**2.80**	**3.74**
2006	I	0.89	0.92	0.87	0.86
	II	1.02	1.15	1.02	1.25
	III	1.13	1.56	1.11	1.00
	IV	1.30	2.89	1.28	3.51
	Subtotal	**4.34**	**6.52**	**4.28**	**6.62**
2007	I	0.50	1.98	0.50	1.44
	II	0.50	0.07	0.50	0.08
	III	0.00	0.39	0.00	0.25
	IV	0.00	0.00	0.00	0.00
	Subtotal	**1.00**	**2.44**	**1.00**	**1.77**
	Total[a]	**19.29**	**17.80**	**19.40**	**18.16**

[a] Actual disbursements do not sum precisely because of rounding off of annual disbursement figures.
Source: Loan Financial Information System

ORIGINAL AND ACTUAL IMPLEMENTATION SCHEDULE

	Activity	Fiscal Year																																	
		1999				2000				2001				2002				2003				2004				2005				2006				2007	
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
A.	**Rural Finance for Agriculture and Microenterprise Activities**																																		
	RMDC review and approve IA plans																																		
	RMDC credit disbursement to implementing agencies																																		
	IA credit disbursement to subborrowers																																		
B.	**Institutional Strengthening**																																		
1.	**RMDC**																																		
	Complete staff appointments																																		
	Vehicle and equipment procurement																																		
	Mobilize consultants																																		
	Consulting services provided																																		
	Prepare staff training plans for RMDC and implementing agencies																																		
	Prepare technical training plans																																		
	Train staff																																		
	Establish BME																																		
	Implement BME																																		
	Monitoring and evaluation of implementing agencies and beneficiaries																																		
2.	**Implementing Agencies**																																		
	a. Strengthening headquarters offices																																		
	Procure and disburse vehicles and equipment																																		
	Install BME																																		
	Implement BME																																		
	Train existing staff																																		

	Prepare annual and medium term plans
	Assist to privatize Grameen Bank
	b. Strengthening existing branches
	Procure and disburse vehicles & equipments
	Refresher training existing staff
	Appoint incremental staff
	Basic training incremental staff
	Establish computerized facilities
	c. Establish new branches
	Appoint new staff
	Basic training new staff
	Establish new branches
	Procure vehicles and equipment
	Established computerized facilities
	d. Subborrower activities
	Group mobilization
	Group training (social awareness)
	Skill development training
3.	**executing agency**
	Vehicle and equipment procurement
	Staff training
	Routine reporting
	Prepare midterm review
	Prepare project completion report

C.	**Group Formation and Strengthening**
	Detailed needs analysis and planning
	Consultancy inputs
	Training

IA = implementing agency; BME = benefit monitoring and evaluation; RMDC = Rural Microfinance Development Centre.

Original
Core Project Activities
Intermittent/ongoing activities

Actual
Core Project Activities
Intermittent/ongoing activities

Source: ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for the Rural Microfinance Project*. Manila

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenants	Reference in Loan Agreement	Status of Compliance
The Borrower shall cause the NRB and RMDC to carry-out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and business practices.	Section 4.01 (a)	Fully complied
The Borrower shall perform or cause to be performed, and cause NRB and RMDC and each IA to perform, all obligations set forth in this Loan Agreement and Financing Agreements, to the extent that they are applicable to the Borrower, NRB, RMDC and such IA.	Section 4.01 (b)	Fully complied
The Borrower shall make available to NRB and RMDC, promptly as needed, and on terms and conditions acceptable to the Bank, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for carrying out the Project and for the operation and maintenance of the Project facilities.	Section 4.02	Fully compiled
The Borrower shall ensure that the activities of its departments and agencies, including for this purpose NRB with respect to carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Fully complied
The Borrower, acting through NRB, shall furnish or cause RMDC to furnish, as appropriate, to the Bank all such reports and information as the Bank shall reasonably request concerning (i) the loan and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods, services, and other items of expenditures financed out of the proceeds of the Loan; (iii) the Project; (iv) the administration, operations and financial conditions of DFD, RMDC or each of the implementing agencies, to the extent relevant to the Project, and any other agencies of the Borrower responsible for carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purpose of the Loan.	Section 4.04	Fully complied
The Borrower shall enable the Bank's representatives to inspect the Project, any subproject, the goods financed out of the proceeds of the Loan, and any relevant records and documents maintained by NRB, RMDC or the implementing agencies.	Section 4.05	Fully complied
The Borrower shall take all action which shall be necessary on its part to enable NRB and RMDC to perform their obligations under the Project Agreement, and shall not permit any action which would interfere with the performance of such obligations.	Section 4.06	Fully complied
The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.	Section 4.07 (a)	Fully complied
No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended or waived without the prior concurrence of the Bank.	Section 4.07 (b)	Fully complied
It is the mutual intention of the Borrower and the Bank that no other external debt owed a creditor other than the Bank shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the borrower undertakes (i) that, except as the Bank may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will jpso facto equally and ratable secure the payment of the principal of, and service charge and any other charge on, the Loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect.	Section 4.08 (a)	Fully complied
No withdrawals from the Local Account shall be made in respect of any local taxes.	Schedule 3 para 2	Fully complied

Covenants	Reference in Loan Agreement	Status of Compliance
The Borrower shall establish immediately after the effective date an Imprest Account at NRB to expedite disbursement of the Loan. The Imprest Account shall be established, managed and replenished and liquidated in accordance with the "Loan Disbursement Handbook" dated June 1996, as amended from time to time (the Handbook), and detailed arrangements agreed upon between the Borrower and the Bank. The initial amount to be deposited into the Imprest Account shall not exceed the equivalent of $250,000 or any other amount as may be agreed upon between the Borrower and the Bank.	Schedule 3, para 8(a)	Fully complied
The Borrower shall deposit into the account(s) for the Rural Microfinance Development Fund the equivalent of SDR 2,627,000 as the Borrower's counterpart fund.	Schedule 3, para 8(c)	Fully complied
The Borrower shall ensure that its shareholding in RMDC does not exceed 49%, and that the majority of the members of the Board of Directors of RMDC shall always be from the private sector. However, of the directors appointed by the Commercial Bank shareholders, directors representing Nepal Bank Limited and Rastriya Banijya Bank shall not serve on RMDC's Board of Directors simultaneously.	Schedule 6, para 2(a)	Fully complied
RMDC shall and accredit implementing agencies to participate in the Project in accordance with the following criteria and such other criteria as may be agreed by the Borrower and the Bank: each IA shall demonstrate (i) registration by NRB as a financial intermediary; (ii) at least three years of experience in a microcredit with a proven ability to mobilize households with low per capita income and savings so that the savings balance of all such households is at least 20% of that IA's outstanding loans; (iii) a loan recovery rate of at least 90%; (iv) an appropriate institutional management capacity; (v) an appropriate in-house training capacity for staff; and (vi) an appropriate ability to report microcredit related financial and operation information.	Schedule 6, para 3 (a)	Partly complied. Though Grameen Bank Branches were identified as a main partner of RMDC, but they could not meet these criteria and become its reliable clients.
To continue participation in the Project, each IA shall be required to (i) maintain an annual recovery rate of at least 98%, (ii) comply fully with the terms and conditions for repayment of all loans received from RMDC; (iii) comply with training requirements for employees and beneficiaries; (iv) annually increase outreach of each of its branches; (v) demonstrate that cost recovery and sustainability is being achieved; (vi) submit accurate, timely and standardized reports, including financial statements, as required by RMDC; and (vii) comply with NRB regulatory requirements and auditing requirements of RMDC and the Project, including a requirement that the implementing agencies classify loans and institute loan written-off procedures acceptable to RMDC.	Schedule 6, para 3 (b)	Fully complied
The Project area shall consist of 26 districts, 14 in the Tarai and 12 in the hills.	Schedule 6, para 4	Partly complied; the Project area was subsequently extended to 51 districts
RMDC shall on-lend the proceeds of the Subsidiary Loan Agreement to implementing agencies at a rate covering its required spread, which is currently estimated at not less than 3.75% and not less than the locally prevailing rate on one year term deposits and above the rate generally paid on rural sub-borrower's savings.	Schedule 6, para 6 (b)	Partly complied. The spread was reviewed and made competitive for RMDC lowering from 3.75% to 2.5% and later to 3%.

Covenants	Reference in Loan Agreement	Status of Compliance
RMDC shall on-lend loan proceeds to IAs for an initial term of 18 months with quarterly payments of interest for the purchase of service vehicles and equipment and for the purpose of providing loans to beneficiaries. Subject to satisfactory performance, such initial term may be extended for five years with quarterly repayments of interest and annual repayments of principle.	Schedule 6, para 6 (d)	Fully complied
The total financing outstanding at anytime under Financing Agreements to an IA shall not exceed NRs40 million.	Schedule 6, para 7 (a)	Partly complied; subsequently raised to NRs80 million and NRs160 million
Each Sub-loan shall not exceed an amount of NRs70,000	Schedule 6, para 11(b)	Fully complied
Each IA shall, in selecting, organizing and mobilizing Sub-borrowers, follow a group approach for poor households requiring regular saving by members prior to gaining access to Sub-loans. Such saving shall include a contribution by sub-borrowers of at least 5% of their sub-loan to a group fund.	Schedule 6, para 11(f)	Fully complied
NRB shall permit each Commercial Bank shareholders in RMDC to lend to implementing agencies through RMDC a portion of its Deprived Sector lending funds.	Schedule 6, para 13(b)	Fully complied
During the first year of Project implementation, the Borrower shall provide the Bank with a report concerning the feasibility of merging all of NRB's microfinance operations under RMDC. Such report shall include recommendations to implement an action plan concerning such a merger over the following six months. Upon agreement of the Bank, the Borrower shall implement the resulting action plan pursuant to timetable to be agreed upon by the Borrower and the Bank.	Schedule 6, para 17	Partly complied; Instead of merging all microfinance operation of the NRB within RMDC, NRB is trying to create a separate Microfinance Development Fund that will eventually compete with RMDC operation.
Acting through its Institutional and Social Development Department, RMDC shall, within one year of the effective date, appoint at least five experienced field officers as program officers, based in Kathmandu, to supervise and provide technical support to implementing agencies by means of regular visits to the Project area. RMDC shall be responsible for monitoring Project implementation and evaluation of Project benefits. RMDC shall supply information necessary for monitoring funds provided to RMDC under the Subsidiary Loan Agreement.	Schedule 6, para 19(a)	Partly complied; Instead of working with Institutional and Social Development Department, RMDC involved its Microfinance Department and bare foot bankers to provide supervision and technical support to implementing agencies. Such support is being provided to 62 implementing agencies at least twice a year.

VEHICLES AND EQUIPMENT PROCURED

Table 8.1: List of Vehicles Procured

No.	Vehicle Type	Vehicle Brand	Purchase Year	Placement
1.	Jeep	Toyota	2000	RMDC office
2.	Car	Nissan	2000	RMDC office
3.	Motorcycle	Hero Honda (Splendor)	2000	RMDC office
4.	Motorcycle	Hero Honda (Splendor Plus)	2007	RMDC office

RMDC = Rural Microfinance Development Centre Limited.
Source: RMDC.

Table 8.2: Equipment and Related Items Procured
(number of items)

No.	Equipment Type	Equipment Brand	Quantity	Placement
1.	Computer with Multimedia	P III 450 MHz	1	RMDC office
2.	Computer	P III 450 MHz	3	RMDC office
3.	Computer with Multimedia	P III 500 MHz	3	RMDC office
4.	Computer	P III 500 MHz	1	RMDC office
5.	Computer with Multimedia	Compaq P III	1	RMDC office
6.	Computer	HP Compaq (Dx 2700 P4/3.2 Ghg)	1	RMDC office
7.	Laptop	Acer	1	RMDC office
8.	Laptop	Acer	1	RMDC office
9.	Printer	HP Laser Jet	1	RMDC office
10.	Printer	Espon	1	RMDC office
11.	Printer	Canon (LBP 3 & 60)	1	RMDC office
12.	UPS	Smart	1	RMDC office
13.	UPS with 40 P/H Battery		1	RMDC office
14.	Battery for APC UPS		1	RMDC office
15.	Battery for UPS	12V-17 AH	1	RMDC office
16.	Network Accessories		1	RMDC office
17.	Telephone Set	Panasonic	3	RMDC office
18.	CDMA Phone	NTC	1	RMDC office
19.	Exchange System	Panasonic KXT 308	11	RMDC office
20.	Fax Machine	Panasonic	1	RMDC office
21.	Air Conditioner	National	8	RMDC office
22.	Cheque Writer		1	RMDC office
23.	Photocopy Machine	Minolta	1	RMDC office
24.	Multimedia Projector	Espon	1	RMDC office
25.	Overhead Projector		1	RMDC office
26.	Generator		1	RMDC office
27.	Vacuum Cleaner	Hitachi	1	RMDC office
28.	Camera	Nikon	1	RMDC office
29.	Camera	Sony Digital 5.1	1	RMDC office
30.	Camera	Sony Digital DSC7.1	1	RMDC office
31.	Mobile	Sony	1	RMDC office
32.	Volt Guard		2	RMDC office

Source: RMDC.

FINANCIAL AND ECONOMIC ANALYSIS

A. Background

1. The Report and Recommendation of the President (RRP: NEP 29237) included the financial and economic analysis of indicative sub-borrower investments to be financed by the Project to ensure that there was potential to generate sufficient income for sub-borrowers and allow them to repay their loans in a timely manner. In addition, the RRP also included the financial analysis of a new implementing agency branch to ensure that the proposed expansion of implementing agency branches would be financially sustainable over the longer term.

2. The RRP did not conduct an economic analysis of the overall Project due to two reasons: (i) an economic analysis is not usually required for projects where the primary objective is the improvement of the status of women and the secondary objective is poverty reduction, and (ii) the process approach used for such microenterprise credit projects preludes any accurate assessment of the number of each type of microenterprise to be funded until the project is being implemented. As a result, any assessment of the likely benefits and results would only be conjecture. Nevertheless, the RRP computed the economic benefits of indicative microenterprises and provided an indication of the overall economic viability of the Project.

3. Consistent to the RRP, financial and economic analysis has been performed for the sub-borrower investment financed by the Project as well as financial analysis of the selected branch office of the implementing agency and selected microfinance institutions.

B. Sub-Borrower Level Analysis

4. Small income-generating activities and microenterprises were promoted by the partner organizations through the provision of microcredit services to women beneficiaries. Women were the main target beneficiaries and they have obtained credit services from branches of the Grameen Bank, microfinance development banks, financial non-governmental organizations, and savings and credit cooperatives, and used these services for initiating income-generating activities.

C. Selection of Sub-projects

5. The RRP computed the cash flow analysis of selected microenterprises (Refer to Attachment 1) and the list of these activities is presented in Table A9.1.

Table A9.1: List of Selected Microenterprises with Cash Flow Analysis in the RRP

Item	Sector/Sub-sector	Type of microenterprises
A	Agriculture	• Dairy buffalo • Poultry • Goat • Fresh vegetables

B	Manufacturing	• Dhunia (quilt making) • Liu making • Knitting • Weaving • Bamboo basket • Pottery • Agricultural tools/equipments • Silver craft • Tailoring • Biscuits • Pickles
C	Services/Trading	• Retail shop • Tea shop • Fruit shop • Beetel nut shop • Photo studio • Rickshaw pulling • Fishing • Shoe repairing • Bicycle repairing • Radio/watch repairing • Hair dressing • Buffalo-cart rental • Food grain trading • Vegetable trading • Vegetable seed trading • Oil trading • Bullock trading

Source: RRP: NEP 29237

6. The project completion report (PCR) Mission attempted to verify the different sub-projects managed by the women borrowers with financial support from microfinance institutions. The PCR Mission uncovered that most of the activities outlined in Table A9.1 were not managed by sub-borrowers under the financial support received from the microfinance institutions. Table A9.2 provides the list of key income-generating activities and microenterprises managed by the sub-borrowers under the financial support received from the microfinance institutions.

Table A9.2: List of Income-generating Activities and Microenterprises Managed by Sub-borrowers

Item	Sector/Sub-sector	Type of Income Generating Activities / Microenterprises
A	Agriculture	• Dairy buffalo • Dairy cattle • Poultry • Goat • Piggery • Heifer raising • Summer and winter vegetables • High value crops
B	Manufacturing	• Sweater knitting • Agricultural tools/equipments • Tailoring • Bag making
C	Services/Trading	• Retail shop • Tea shop/small restaurant • Fruit shop • Beetel nut shop • Rickshaw pulling • Shoe repairing • Bicycle repairing • Hair dressing • Buffalo-cart rental • Food grain trading • Vegetable trading • Agro-vet shop • Oil trading

Source: Field Survey of the PCR Mission (2008)

7. Besides launching the income-generating activities and microenterprises included in Table A9.2, some women clients used lump-sum for asset creation such as land purchase, land use transfer (e.g., providing money to the land owner and using the land until the money was returned), and house repair and roof improvement, while repaying the loan from other household cash flow.

8. As discussed, in order to prepare the representative enterprise model as well as different forecast for financial and economic analysis, the PCR Mission conducted a field survey in project districts in the eastern region (Sunsari, Morang, Jhapa and Ilam), central region (Kathmandu, Lalitpur and Kavre) and western region (Kaski, Parbat and Baglung) to observe, among other items, the current state of operations of income-generating activities undertaken by women clients using the financial services obtained from the microfinance institutions and gathering information on the economics of their operation and management. More importantly, information was gathered on investment (loan and equity) structure, operating costs, and returns of various enterprises managed by women clients to test their sensitivity. A brief economic analysis is also attempted based on financial analysis.

D. Ex-post Financial Models

9. To analyze financial viability, enterprises being managed by women sub-borrowers were studied through on-site observation and an inquiry on their initial investment cost, annual operating (fixed and variable) costs, gross revenue, price, market, year of establishment, expansion over time, problems encountered, technical support (basic and advanced training) received, and vision for future expansion, among other factors. The collected information gathered was used to prepare a typical investment model for each of these enterprises covering aspects such as investment, operating cost, revenue, and financial flows. An ex-post financial model was compared with various secondary sources including the Department of Cottage and Village Industries, commercial banks, and recent PCRs of ADB-financed projects such as Loan 1461-NEP: Third Livestock Development and Loan 1450-NEP: Rural Infrastructure Development Project.

10. A financial model was prepared for those microenterprises with multi-year investments and returns. Most of these were agricultural (including livestock), which accounted for majority of loans provided under the Project, including dairy cattle, buffaloes, goats, pigs, and high-value crops (vegetables and fruits).Tables 1 to 7 in Attachment 2 contain the representative financial model for seven agricultural-based micro-enterprises promoted with the financial support provided by the Project. These models are consistent with the project appraisal document.

11. Other microenterprise activities presented in Table A9.2 include manufacturing, services, and trading that mainly have short-term production cycles. Their financing requirements were analyzed on an annual cash flow basis. Tables 1 and 2 in Attachment 1 contain the cash flow analysis of these microenterprise activities.

E. Underlying Assumptions for Financial and Economic Analysis

12. The followings were the underlying assumptions for conducting the financial analysis of different income-generating activities and enterprises promoted under the Project:

- As in the appraisal document, the life of the enterprise has been assumed to be 11 years.

- Sub-project related costs and benefits are measured as incremental values defined as benefits and costs with the Project less benefits and costs without the Project, wherever applicable considering resource-use opportunities.

- Analysis has been conducted in constant FY2007 prices. For valuing sub-project related inputs and outputs, an annual inflation rate of 5% has been assumed to the 2006–2007 prices.

13. There are three sub-project related cost: investment cost, annual fixed cost, and annual variable costs.

- Investment cost: Three main sources of funds are used for investment in sub-projects: loans from Grameen Bank branches, microfinance development banks, financial non-governmental organizations, and savings and credit

- cooperatives; equity from women clients using their group savings or other accumulated savings and technical support costs (social preparation and training costs). The sum of the costs under these three sources is assumed to be the total investment cost.
- Annual fixed cost: Annual fixed costs include the interest cost, depreciation of fixed assets, insurance premium (livestock only), and salary of indirect labor, among other examples.
- Annual variable cost: Annual variable cost includes cost for raw materials, direct labor, utilities, communication, and marketing, among other examples.

14. The benefits of sub-projects included both direct and indirect benefits. Total Project benefits are defined as the sum of values of incremental return, taking into account whether women sub-borrowers have foregone other economic opportunities by involving themselves in enterprises.

- All production costs and returns have been estimated as incremental values from the with-project and without-project accounts. Farm gate prices prevailing in FY2007 were used to value all costs and returns.

- A 12% discount rate was used to obtain the present value of costs and returns to ensure consistency with the appraisal report.

- A financing model of enterprises was designed to produce net cash flows before and after debt services and measures of project worth.

- Three measures of project worth (FIRR, Benefit Cost Ratio [BCR], and NPV] were computed using discounted net benefits rate of 12%.

- Sensitivity analysis was carried out assuming a 10% reduction in benefits and 10% increase in costs (the 10% decrease in benefits and 10% increase in costs are the most commonly used rates for sensitivity analysis, both nationally and internationally).

F. Economic Analysis

15. An economic model was prepared for those agricultural microenterprises with multi-year investments and returns. Financial prices (and values) were adjusted as follows in order to derive economic prices (and values):

- The economic value of the cost of materials cost was obtained by applying a standard conversion factor of 0.9.[18] Unskilled labor was shadow priced as explained below.

- No firm estimates of the shadow wage rate are available for Nepal. Most appraisal reports prepared by donors such as the World Bank and ADB assume a SWR of about 80% of market wage rate.[19] An 80% shadow wage

[18] In this PCR, all economic values were converted to border priced equivalent by using a SCF of 0.9. Most analysts consistently assume this value of SCF for Nepal.

[19] Theoretically, SWR can range from 0% and 100% of market wage rate, depending upon opportunity cost of labor.

- rate is assumed in the PCR for three main reasons: (i) there is no firm estimate of the shadow wage rate available, (ii) it is highly unlikely that labor has an opportunity value of zero in Nepal and (iii) it is same as the shadow wage rate assumed by major donors and facilitates comparison of this result with donors' results.

- The economic price of these commodities (e.g., fruits, live animals, and eggs.) is derived using a standard conversion factor of 0.9.

- Traded inputs and outputs were valued at their farm gate parity prices. The prices for FY2007 are available in the recent PCRs of Loans 1450-NEP and 1461-NEP. For non-traded inputs and outputs, an SCF of 0.9 was applied to financial prices to obtain their economic prices.

- A 12% discount rate was assumed for calculating the present value of economic costs and returns. This rate was consistently used in all major appraisal reports, and its use in the PCR will ensure greater comparability of the results with those in similar reports.

16. Using the above assumptions, economic analysis was conducted for all seven agriculture based microenterprises managed by women clients. Tables 8 to 15 in Attachment 2 presents economic analysis results of the seven sub-projects promoted under the Project.

G. Sub-loans

17. Sub-loan provided under the Project covered about 58% of fixed assets and working capital for the 1 to 3 months needed to start a sub-project. Women sub-borrowers contributed about 42% of the fixed assets and working capital (in cash or in kind) for the rest of the project period. Sub-borrowers have to repay the principal over a period of one year with bi-weekly or monthly installments, and with an annual interest rate of 24%. No grace period is provided except for the few loans to enterprises.

H. Cost and revenue

18. Observation of enterprises managed by sub-borrowers revealed that the investment cycle of a sub-project ranges from less than one year (summer and winter vegetables) to over 10 years (high value crops and livestock production) depending on the nature of activities. Investments have been made for both fixed and working capital. In many cases, gradual increases of sale, relevant increases in raw material costs, and a less flexible change in salaries and overheads costs for an initial 2 to 3 years was observed. Most sub-borrowers have been able to expand their enterprise gradually over time.

I. Sub-projects

19. As in appraisal, sub-projects financed under the Project were grouped into three categories: agriculture, manufacturing, and services and trading.

1. Agricultural sub-projects

20. Most of the sub-projects and loans disbursed under the Project are related to agricultural activities involving the production of livestock, small scale vegetables, horticulture, and cash crops. The share of agricultural activities was lower because of the limited access of women to productive land and their relative ease of entry into other activities such as livestock because of low technology requirements.

21. Livestock production typically included: (i) buffaloes for milk and calf production, (ii) cattle for milk production, (iii) goat production, (iv) pig breeding, (v) poultry production, and (v) buffalo and cow heifers for fattening and breeding. Agriculture production was primarily for summer and winter vegetable farming, as well as cultivation of high-value crops (banana) in 0.05–0.3 hectares of land.

22. Initial investments were highest for buffaloes, ranging between NRs15,000 and NRs30,000, and lowest for vegetables ranging between NRs5,000 andNRs10,000, because the former requires the purchase of buffaloes, while the latter simply requires the purchase of fertilizers and seeds. After skills and vocational trainings, women borrowed for these activities because the skills and initial cost requirements were relatively low. These were mainly family-managed enterprises. In most cases, the livestock (cow, buffalo, and heifer) purchased was insured and often regarded as a security for loan. Most of the livestock and agricultural production activities attained operational viability.

2. Manufacturing

23. Manufacturing constitutes a very small share (less than 2%) of the total number of women clients and loan disbursed. The main manufacturing activities promoted by the sub-borrowers include agriculture tools and equipment, tailoring, pickle making, bag making, and sweater knitting, the most popular manufacturing activities among women sub-borrowers in rural Nepal. The Initial investment required to manage these activities was relatively high, ranging between NRs10,000 and NRs50,000.

3. Services and Trading

24. Loans for services and trading accounted for 15% to 20% of women clients. Retail shop, tea shop, fruit shop, beetle nut shop, rickshaw pulling, shoe repairing, bicycle repairing, hair dressing, buffalo-cart rental, food grain trading, vegetable trading, oil trading, and bullock trading were the main services and trading business started by women through credit financing. These activities require large start-up investments ranging from between NRs30,000 and NRs100,000. These activities are mostly labor intensive, suitable for women, and require about once to six persons to operate and manage the business. These businesses contributed to creating jobs and generating income among poor women. Over 95% of the small businesses surveyed were profitable.

J. Financial Analysis Results

25. Under identified conditions, almost all sub-projects were financially attractive. The estimated average net annual revenues ranged from NRs8,000 for vegetable farming in one *katha* of land (equivalent to about 0.034 hectares) to NRs130,518 in poultry farming (Attachment 2: Table 30). Even after debt servicing, the revenue of all

the enterprises was positive. The average revenue in cottage industries and microenterprises was particularly high compared to agriculture based microenterprises and these activities have had a significant impact on women's social and economic status considering their prevailing poverty level.

26. Among the agriculture based microenterprises, FIRRs range from 30% in high-value crops to 96% in goat farming (Attachment 2: Table 30). The benefit cost ratios are also favorable at around 1:1 for all agricultural activities. Most of the sub-projects are still financially viable under unfavorable conditions of decreased sales and cost increases of 10%, although most of these activities were vulnerable to decline in production and ultimately sale. The results indicate attractive returns to women clients from agriculture-based microenterprises on their total cost (loan and equity). Non-agriculture based microenterprises were also financially attractive.

K. Economic Analysis Results

27. The EIRRs of individual agricultural-based microenterprises were calculated based on financial models and a given set of assumptions discussed above. The EIRRs of the agriculture based microenterprises ranged from 26% and 57% (Attachment 2: Table 31), which suggests that these sub-projects are economically justifiable. The low EIRRs in some sub-projects may be acceptable because the computation did not include other non-quantifiable benefits or secondary benefits, including training or alternative employment opportunities resulting from the sub-projects.

L. Sensitivity Analysis

28. Sensitivity analysis of the sub-projects on agriculture and livestock enterprises promoted under the Project was conducted under two scenarios: a 10% increase in annual operating costs and a 10% decrease in benefits. Sensitivity analysis results under the first scenario (10% increase in annual operating costs) is presented in Attachment 2: Table 16 to Table 22 and the results of the second scenario (10% decrease in benefits) are presented in Attachment 2: Table 23 to Table 29. The summary of the results of the sensitivity analysis is provided in Tables 30-31. The tables indicates that pig-breeding is the activity most sensitive to an increase in costs and decrease in benefits, poultry farming is the least sensitive to a 10% decrease of benefits, and goat raising is the least sensitive to a 10% increase in operating costs.

M. Financial Sustainability of Implementing Agencies

29. The analysis of the overall financial sustainability of Grameen Bank branches, microfinance development banks, financial non-governmental organizations, and savings and credit cooperatives were based on the analysis of their audited financial statements (Attachment 3). In addition, the financial sustainability of some selected branches of microfinance development banks and financial non-governmental organizations was analyzed using financial statements provided by the concerned branch offices. All the branches visited by the Mission were sustainable and the basic features of these branches included the following:

- Over a period of three years, the implementing agencies mobilized an average of 2,000 members per branch.

- Mobilization of the membership starts after the second month of branch office operations with a smaller number of staff (2–3), and gradually increasing as the number of staff and operations expand.
- Each group members saved at least NRs10 every 15 days, or NRs30 every month. They also participate in other savings schemes (child, old age, pension, festival, education).
- The average loan size for the first year sub-borrowers is NRs5,000 and increases by NRs5,000 annually to reach an average of NRs15,000 within a ceiling of NRs30,000.
- The interest rate on lending is 24% and the loan recovery rate is over 98%.
- The inflation rate ranged between 6% and 7% per year.

30. The sample microfinance development banks, financial non-governmental organizations, and savings and credit cooperatives have achieved operating self-sufficiency and financial self-sufficiency while the Grameen Bank branches have yet to achieve either. The Mission observed that most branches achieve operating self-sufficiency on or before the second year and financial self-sufficiency on or before the third year of operation.

N. Efficiency, Efficacy, and Sustainability of RMDC

31. RMDC's efficiency, efficacy, and sustainability partly depend upon the financial performance of the implementing agencies. RMDC chooses its partners according to their performance, keeps them under strict controls, and continuously trains them to improve their financial management. Consequently, over 95% of the implementing agencies have reached a very satisfactory level of performance. The operational self-sufficiency of most of the implementing agencies was over 120% for FY 2007.

32. RMDC has been making a profit since the first year of operation and has increased its profits every year since then, demonstrating cost control and efficiency. Table A9.3 contains some performance indicators calculated for the FY 2005/06 and 2006/07.

Table A9.3: RMDC's Performance in FY 2005/06 and 2006/07

S.N.	Indicators	Unit	Financial Performance	
			2005/06	2006/07
1	Return on performing assets	%	5.00	4.97
2	Financial cost ratio	%	1.52	1.42
3	Administrative cost ratio	%	0.94	0.61
4	Loan loss provision ratio	%	0.69	1.52
5	Imputed cost of capital ratio	%	1.27	1.94
6	Operating self-sufficiency	%	158.82	139.88
7	Financial self-sufficiency	%	113.23	90.52
8	Return on assets	%	1.85	1.41
9	Return on equity	%	15.60	11.10
10	Reserve ratio	%	3.39	2.47

Source: RMDC's income statement and balance sheet (2004/05, 2005/06 and 2006/07) in Table 1 of Attachment 4.

33. With regards to most of these indicators, RMDC's overall performance appears to be satisfactory. Despite the excellent repayment rate of the implementing agencies,

RMDC has been increasing its loan loss reserve over time. In addition to reducing the amount of profits subject to taxation, this provision benefits RMDC's fallback position and reputation. All of these factors demonstrate the efficiency, efficacy, and sustainability of RMDC operations. RMDC has demonstrated prospects for increased efficiency, efficacy, and sustainability in the future.

O. Employment Creation and Net Financial Income

34. Over 400,000 poor women have received financial services from the Project and were able to raise their income levels. The increased incomes of most women sub-borrowers are sustainable and have been instrumental to improving their social status. The Project' achievement was increased due to the Government's continued effort to reform laws that hinder the economic and social development of women.

35. The Project has fostered entrepreneurial sprit among targeted groups of poor women and landless and marginal farm households through improved access to credit and related financial services; training and capacity building through grassroots-level group formation of socially homogenous, gender specific groups; leadership development and technical training; and skill development.

36. The microenterprises managed by the women have generated both part-time and full-time employment. There are instances when a new job was created by a typical microenterprise supported through financial services under the Project.

OVERALL ASSESSMENT

Criteria used in determining the overall assessment are relevance, efficacy and efficiency, sustainability, institutional development and other impacts.

No.	Criterion	Assessment	Ratings (0-3)	Weight (%)	Weighted rating
A	Outcome Assessment				
1	Relevance	Relevant	2.3	20%	0.46
2	Efficacy	Highly efficacious	2.6	25%	0.65
3	Efficiency	Efficient	2.0	20%	0.4
B	Sustainability	Likely	2.0	20%	0.4
C	Institutional Development and Other Impacts	Satisfactory	2.2	15%	0.3
D	Overall Assessment			100%	2.2

Note:
1. To be classified as highly successful, the overall weighted average (OWA) must be more than 2.5 and none of the five criteria can have a score less than 2; otherwise, the rating would be downgraded by one level.
2. To be classified as successful, the OWA must be 1.6-2.5 and none of the criterion can have a score less than 1; otherwise, the rating would be downgraded by one level.
3. To be classified as partly successful, the OWA must be 0.6-1.6 and number of criteria receiving ratings of less then 1 should not exceed two, otherwise, the lowest rating would be given.
4. To be classified as unsuccessful, OWA should be less than 0.8.