

# Strategic Plan

(2007/08-2009/10)

**For**

**Sustainable Access to Microfinance Services  
for the Poor in Nepal**

**Center for Micro Finance (CMF)**

Kathmandu, Nepal

July 2007

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## Acronyms

ADRA	Adventist Development and Relief Agency
BDSSM	Business Development Services for Sustainable Microfinance
CECI	Canadian Centre for International Studies and Cooperation
CMF	Center for Micro Finance
CCA	Canadian Cooperative Association
CCS	Catalyst and Consultancy Services
CBaT	Capacity Building and Training
CBOs	Community Based Organizations
CIDA	Canadian International Development Agency
CGAP	Consultative Group to Assist the Poor
DLGSP	Decentralized Local governance Support Program
DB	Development Bank
FINGO	Financial Intermediary NGO
GO	Government Organization
GB	Grameen Bank
GTZ	German Agency for Technical Cooperation
INGO	International Non- Governmental Organization
IFRS	International Financial Reporting Standards
IDS	International Development Studies
ILO	International Labor Organization
KMMS	Knowledge Management for Microfinance Service
MEDEP	Micro Enterprise Development Program
MDG	Millennium Development Goals
MF	Microfinance
MRC	Microfinance Resource Center
MFS	Microfinance Service
MIS	Management Information System
MSAL	Migrant's Saving and Alternative Investment
MFDB	Microfinance Development Bank
MFTI	Microfinance Training Institute
NEFSCUN	Nepal Federation of Saving & Credit Co-operative Union
NCDB	National Cooperative Development Board
NRB	Nepal Rastra Bank
NMFI	Network for Microfinance Institutions
PAMS	Policy Advocacy on Microfinance Sector
PACT	Private Agencies Collaborating Together
RaS	Research and Studies
RUPP	Rural Urban Partnership Project
REDP	Rural Energy Development Project
SFCL	Small Farmers Cooperative Limited
SFDP	Small Farmers Development Program
SCC	Saving and Credit Cooperative
SCUS	Save the Children US
SDC	Swiss Agency for Development Cooperation
SNV	Netherlands Development Organization
TOT	Training of Trainers
TRPAP	Tourism for Rural Poverty Alleviation Program

TA	Technical Assistance
UN	United Nation
UNDP	United National Development Program
USAID	United States Agency for International Development
UNIFEM	United National Development Fund for Women
WTSS	Women Technical Support Service
WE	World Education
WEAL	World Education Australiya

# Executive Summary

This strategy reflects CMF's vision for responding to the challenge in microfinance sector development in Nepal, as well as changing focuses and resources in the Center for Microfinance. The strategy responds to the improving effectiveness and efficiency of service delivery system of MFIs. The institutional success of any organization depends upon doing the right thing (effective) and doing things rightly (efficient), which are the key aspects for CMF too. The key for doing things right and doing the right thing depends internal strength and weakness and external aspects like opportunities and threats. This strategic plan is the outcome of the Shared Visioning Workshop of CMF held on November 21, 2006. The workshop analyzed and revised CMF's Vision, Mission, Goal, Objectives, and Core Strategic Areas based on the identified strength, weaknesses, opportunity and threats of the organization. This strategic plan is designed as per the guidelines given by the workshop. Resource constraints and sectoral issues over the coming years have forced the CMF to reevaluate priorities, create greater efficiencies within the program and restructure management and technical expertise to take full advantage of the available resources. The strategy focuses on seven key areas: Capacity Building and Training (CBaT), Knowledge Management for Microfinance Services (KMMS), Research and Studies (RaS), Policy Advocacy on Microfinance Sector (PAMS), Business Development Services for Sustainable Microfinance (BDSMS), Catalyst and Consultancy Services (CaCS), and Network for MFIs (NMFIs).

***Needs of strategic planning:*** The microfinance service providers are expanding in terms of numbers and out reach in Nepal. In the context of rapid expansion of microfinance sector, CMF has to address the new issues, and challenges emerging from expansion in the existing environment in general, and microfinance training and research markets in particular. The organizational mandate of the CMF is to strengthen and promote MFIs serving the poor and excluded groups in Nepal. CMF Board has already approved its vision and mission statements. It needs to orient its activities to attain them through the formulation and implementation of a Strategic Plan.

## Situation Analysis

***Global Situation:*** Let us all do our utmost to empower the poor and to ensure that poor people around the world have access to wide range of financial services-Kofi Annan Secretary General of United Nations.<sup>1</sup> World leaders are committed to achieve the Millennium Development Goals (MDGs) particularly the one of cutting poverty in half by 2015 per country. UNDP coordinates efforts to achieve these results at national and world levels. With a low economic growth rate, a high demographic growth rate, and a very high number of dependants per worker ratio, and 10 years long conflict, Nepal has slipped behind other countries in this region in term of social and economic progress and ranks 138<sup>th</sup> in terms of human development. There is great hope on microfinance's important role in poverty reduction. Now a day, it is commonly perceived that microfinance's integration into the global financial sector would help contribute to poverty reduction and economic development.

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<sup>1</sup> Source: United Nations.2006. *Building Inclusive Financial Sectors for Development*. New York: United Nations.

**Country Situation:** More than 31% of the Nepal's population lives in extreme poverty. Sound and inclusive microfinance markets are important for reduction of poverty in Nepal. The available studies indicate that informal financial system remains dominant but the microfinance sector has undergone many changes as witnessed at the world level. Indeed, the sector has experienced growth of microfinance institutions (MFIs) and significant progress in terms of clientele, outreach, savings and credit management. Currently, Grameen Bank replicators and Microfinance Development Banks are providing microfinance services to 353,715 rural poor women across 47 districts through 12,100 self-managed centers and 73,120 groups<sup>2</sup>; 2,672 Savings and Credit Cooperatives and Credit Unions provide services to 310,771 clients in 72 districts<sup>3</sup>; Small Farmers Cooperative Limited (SFCL) and Small Farmers Development Program (SFDP) are providing financial services to 247,000 clients<sup>4</sup>; and 47 Financial Intermediary NGOs are providing financial services to a further 103,000 predominately poor people<sup>5</sup>. A total outreach of seven UNDP supported Projects (DLGSP, RUPP, MEDEP, REDP, MGEP, PCP, and TRPAP) is about 1,033,956 (male: 510,676 and female: 523,280) through 39,229 self-help groups<sup>6</sup>. Similarly, Rural Water Supply & Sanitation Fund Development Board promoted 1260 Women Technical Support Service (WTSS) Group is providing their 63,000 members with access to microfinance services. This shows that a total of 2,048,742 of the rural population have access to microfinance services in Nepal, which contributes 8.09% of the total population<sup>7</sup> and 26.1% of those is living below the poverty line<sup>8</sup>, of which 1,233,058 are women, representing 9.73% of all Nepalese women<sup>9</sup>. Data shows that the majority of microfinance service recipients are women. Nevertheless, the women led MFIs are approximately 500 saving & credit cooperatives. The women of Dalit and excluded group have no access to governance of MFIs. Despite the significant progress in terms of clients, savings and credit, the microfinance sector in the country is facing difficulties related mainly to the portfolio quality deterioration and reaching services in hills. The MFIs alone cannot move forward towards expansion, consolidation and development.

**Legal Framework:** Various laws regulate microfinance institutions. These are: Nepal Rastra Bank Act (2002), Cooperative Act (1972), Bank and Financial Institution Act (2006), Social Welfare Act (1991), Company Act (2063), Financial Intermediary Act (1998) and Insurance Act. NRB issued regulations for the development banks, which are engaged in micro-finance, as a guideline to develop MFIs activities. In addition, the MFIs are compelled to operate the services in a situation of scattered clientele, poor infrastructure facilities, controlled policies and legal and regulatory framework, difficulties in specific economic activities, the mismanagement, the uncontrolled growth

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<sup>2</sup> Source: NRB, Mid-July, 2006

<sup>3</sup> National Cooperative Development Board, 2006

<sup>4</sup> NRB, Mid-July, 2006

<sup>5</sup> Compiled by CMF, 2006

<sup>6</sup> Re-alignment of micro-credit in UNDP supported Projects NEP/06/010, 2007

<sup>7</sup> Total population about 25,296,537 as of 2005 Projection ( Informal Sector Research and Study Center: 2004)

<sup>8</sup> 31% of total population ( NLSS:2003/04)

<sup>9</sup>( NIDI, CMF: 2006)

and poor governance. To be self-regulated, MFIs need capacity building, training, and technical assistance from the promoting and supporting organizations.

## **The Vision, Mission, Goal, Objectives and Comparative advantages of CMF**

***Vision:*** Sustainable access to microfinance services for the poor

***Mission:*** Promote and strengthen MF services through capacity building, training, knowledge management, research, policy lobbying, consultancy and networking with mutual trust and cooperation among service receivers, practitioners and stakeholders

***Goal 1:*** Strengthen MFIs that serve the poor, particularly women and excluded groups

***Goal 2:*** Enhance service delivery capacity of development partners that promote the microfinance sector

***Objectives:*** The objectives of the CMF are to:

- build institutional capacity of MFIs for providing their clients with prompt access to microfinance services;
- provide knowledge management services to the microfinance practitioners and institutions;
- undertake research & studies on microfinance and related development issues;
- promote policy advocacy in creating conducive environment for microfinance;
- raise awareness about sustainable microfinance;
- provide support services to development partners in delivering microfinance services; and
- Establish national / international network among MF promoting partners.

***The Comparative Advantages of CMF:*** CMF's organizational vision encompasses the evolution of the microfinance sector including capacity building, training, research, networking, development services particularly to its countrywide network positioning and possess the following comparative advantages and added value.

- CMF's presence on the ground and its local knowledge for capacity building, research and network;
- Neutrality and flexibility of CMF's interventions;
- Constant field presence and a proximity reinforced by various national programs for the last six years;
- Recognized expertise in the promotion of microfinance services, policy lobbying and knowledge management;
- The only resource center in Nepal with more than 1500 publications on microfinance;
- Specialized in microfinance training and research;
- Close partnership with CCA, Ford Foundation, CECI, World Education Nepal-USAID, WEAL, ADRA, UNIFEM, UNDP, Save the Children US, CIDA, MIX, CGAP, NRB, NEFSCUN, NCDB and Government Authority;
- Direct partnership with 80 MFIs covering more than 39 districts;

- Providing more than 3,093 clients with training and capacity building services as of December 2006 ( male:395 and female:2,698)
- Providing more than 790 technical assistances to MFIs;
- Facilitating to provide more than 34,000 women with access to microfinance services
- Networking among 175 informal members
- Experience in leading more than 20 research projects
- Secretariat of UN Year of Microcredit 2005

## **Strategies for Sustainable Access to Microfinance Services for the Poor**

***Capacity Building and Training (CBaT):*** MF training programs are modified replications of the training program in Boulder, USA. CMF conducts four series of trainings on the "Principle and Management of MFIs", "Business Planning of MFIs", "Delinquency Management & Interest Rate Settings", and "Social Intermediation in MFIs" as well as trainings for specific projects. CMF has designed more than 21 training manuals related to capacity building of MFIs. Similarly, with the support of Ford Foundation, it is working to build capacity of 30 MFIs through technical assistance, training and social intermediation. CMF also provides capacity building and training services to MFIs promoted by various development agencies. CMF's rich experience in capacity building and training could be an instrumental in addressing this need of MFIs across the country. Capacity building and training is the major strength of CMF that could be utilized to meet a high demand of various MFIs through improving CMF's existing capacity building and training system. More than 2,900 MFIs particularly 346 women led MFIs, and 17,457 MFI's work forces needs capacity building and training at different level and in different discipline. The objectives of this strategy are to build capacity of selected MFIs specially serving the poor women and excluded groups; promote training of trainers (TOT) courses to MF trainers and TA providers; conduct intensive training at South Asian levels for MFS players; and encourage peer learning through exposure and retreats.

### Expected outcome

- Built capacity of selected 160 MFIs specially serving the poor women and excluded groups;
- Promoted 12 training of trainers (TOT) courses to MF trainers and TA providers at South Asia level;
- Developed 360 Trainer for MFS players; and
- Trained 800 MF practitioners and professionals are providing effective services
- Encouraged peer learning

***Knowledge Management for Microfinance Services (KMMS):*** A high turnover of microfinance professionals in different development organizations results in a loss of institutional memory. Institutional memory loss can be partially prevented by retaining experienced professionals by offering them sufficient remuneration. From an organizational point of view, knowledge management cannot be divorced from human resource management. Harvesting knowledge from the field must be systematic. A policy that calls for review of past learning and application of relevant inputs in new projects

would make knowledge management more meaningful. This strategy facilitates documentation of researches, communication and information dissemination on MF issues, promotion of best practices and other MF related studies, updating and mapping of MFIs, mapping of knowledge, maintenance of rosters, documentation of case studies, tacit knowledge recording and management of MIS knowledge and resource center. Currently it has 1500 research reports and books related to microfinance, MF Directory (Nepal), CDs, audio visual materials, training manuals, case studies, wall posters, and occasional papers. It also offers internship to new learners in the microfinance sector and develops human resources with reward and recognition. The major strategic objectives are to: bank updated knowledge data of microfinance sector; provide knowledge access to MFIs, learners and practitioners; establish a sustainable Microfinance Resource Center (MRC); and Promote best practices, practitioners and professionals.

#### Expected outcome

- Updated knowledge data of microfinance sector is readily available
- MF learners and practitioners will have a permanent access to knowledge resources
- Best practices would be applied all over the country
- Developed academic human resources in microfinance

***Research and Studies (RaS):*** Since microfinance is a young sector, CMF plans to conduct research and studies in this area. Many regard microfinance as an important tool for poverty alleviation. Evaluation of anti-poverty effect of microfinance remains a challenge; and this in turn hinders cross-regional impact studies on microfinance. To determine whether microfinance programs/ MFIs have achieved their desired results, it is crucial to assess the social and economic impact of microfinance. Therefore, impact assessment, research and study have become a necessity for microfinance stakeholders. CMF provides a wide range of expertise services in developing hill models, comparative study of best practices, analysis of cost effectiveness of microfinance programs, identifying training needs of MFIs, developing appropriate microfinance model for excluded groups, study on women's empowerment achieved through microfinance, MF related policies and their critical review. CMF plans to undertake more research projects that analyze microfinance issues such as impact assessment on access to financial services; contract and product designs; constraints to household productivity; combination of micro finance and other development interventions; evidence of credit constraints; cost and profitability of micro finance institutions (MFIs); impact of MFI policies and strategy; client behavior and psychology with respect to financial services; economics of micro-enterprises; and effect of regulations. This strategy aims to provide solutions to key issues of microfinance sector; evaluate the impact of microfinance services delivered by MFIs; undertake action research in developing innovative models; Link indigenous MF knowledge to innovations.

#### Expected outcome

- Provided solutions to key issues of microfinance sector;
- Recommendation made by 6 impact evaluations adopted by the policy makers and practitioners;

- An action research recommended an innovative model; and
- Linked indigenous MF knowledge to innovations

***Policy Advocacy for Microfinance Sector (PAMS):*** The policies and regulations of microfinance incorporate a number of elements. These include government policies, donor agency policies, the regulatory environment that applies to MFIs, and the legal provisions for microfinance activities. The pessimists focus narrowly on micro credit rather than considering the wider scope of microfinance, credit, deposit, money transfer, insurance, market information and network services. Government regulation on MFIs should only complement their self-regulation. Self-regulation is considered ever more important for spontaneous development of MFIs along healthy lines. Therefore, CMF plans to lead policy advocacy to inform, shape and sustain MF response by reviewing MF sector policy, enabling self-regulation framework for MFIs, holding consultations with stakeholders, disseminating best practices to influence policy, and mobilizing press and media on policy barriers to MF sector. This strategy aims to create MFIs mission friendly policy environment; promote self-regulation practices among policy makers and MFIs; lobby for standard accounting, auditing, and reporting system; create enabling environment for market discipline.

#### Expected outcome

- MFIs mission friendly policy environment is in place
- Increased Self-regulation practices among policy makers and MFIs
- Built consensus for standard accounting, auditing, and reporting system
- Created enabling environment for market discipline

***Business Development Services for Sustainable Microfinance (BDSSM):*** BDSSM refers to the purely technical services for the entrepreneurs. Technical services are provided from the start (production) to market phase. BDSSM includes business development services to micro entrepreneurs through MFIs to ensure that the return on micro investment made by the clients is profitable. Some MFIs ignore this credit plus approach but CMF encourages all MFIs to provide both financial services and business development services to their clients to increase their productivity and enable them to utilize financial services repeatedly. BDSSM develops micro-entrepreneur by giving technical input and linking them with concerned stakeholders. This strategy links a wide range of business development services to MFIs and MF organizations through technical assistance, market research, and enterprise development for sustainable microfinance. The specific objectives of this strategic component are to: provide systematic guidelines for entrepreneurs' business promotion; develop adaptive business model for MFI clients; support in enhancing product quality and competitive pricing; and help to analyze local market.

#### Expected outcome

- A systematic guidelines for entrepreneurs' business promotion is in place
- Developed adaptive business model for MFI clients
- Enhanced product quality and competitive pricing
- Increased practices of analyzing local market

***Catalyst and Consultancy Services (CaCS):*** CMF plans to provide catalyst services to MFIs to promote the core strategic areas of CMF -- micro insurance, remittance access, rating services and other new products. It offers specialized consulting services to the government, non-government, and international organizations in these areas. CMF has an extensive international network of selected associate consultants in and out of the country i.e. WEAL, Planet Finance and CCA. This strategy aims to: assist MFIs, I/NGOs, GOs, and their partners as per their demands; improve access of poorest of the poor households to financial services; build MFIs financially and institutionally sustainable; increase financial resources of CMF.

Expected outcome

- CMF's consultancy service recipient MFIs, I/NGOs, GOs, and their partners are providing effective and efficient microfinance services
- Improved access of poorest of the poor households to financial services;
- Built MFIs financially and operationally sustainable;
- Increased demand for rating services
- Increased migrant's saving and alternative investment (MSAI)
- Increased financial resources of CMF

***Network for MFIs (NMFIs):*** Microfinance Development Banks (MFDBs) have formed their network. Nepal Federation of Savings and Credit Union (NEFSCUN) serves as the network of credit cooperatives, but are confined to over 400 cooperatives. There is limited data available on all these MFIs. Information on outreach, portfolio quality, productivity and efficiency of these MFIs is not available in published form. CMF has been playing a minor role in informal network by sharing data and providing technical assistance services. In 2003 and 2007, CMF published a directory of MFIs, which contains data of 1,848 MFIs and 2,900 respectively including MFDBs, FINGOs and a number of cooperatives. So far, this is the only comprehensive data on MFIs available in Nepal. Available audit reports did not report quality of the portfolio and other industry indicators; this shows that auditors are not familiar with CGAP guidelines on auditing MFIs. The network facilitation services will help MFIs to prepare data according to industry norms, update the directory and share their learning with all stakeholders. As an informal network administrator, CMF will also provide technical assistance to network members not only for preparing data according to industry norms, but also for improving MFIs' performance in areas that are found weak. This strategy of working as informal Network for MFIs (NMFIs) will help develop expertise and create demand for other strategic components 3.1.1-3.1.6. This strategy aims to: develop forum for Practitioners and Professionals; increase transparency among MFIs; enhance MF market expertise and knowledge; and promote access to quality financial services for the MFIs clients.

Expected outcome

- Developed permanent forum for Practitioners and Professionals
- Increased transparency among 80 MFIs and reported to MIX Market;
- Enhanced MF market know-how and knowledge
- Promoted access to quality financial services for the MFIs clients

# Organizational Management Strategy

***Policy Management:*** Policy Management plays a central role in all organisations. Without the commitment of policy management, the strategy can never be achieved. The policy management strategy is a top down approach complemented by bottom up elements. The proposed strategies are translated in concrete goals. The policy management strategy is based on the present and future needs and expectations of stakeholders and clients. The policy of CMF is managed with flexible, gender sensitive and humanitarian approaches based on information from performance measurement, research, learning and external related activities.

***Administrative and Human Resource Management:*** CMF's administrative and human resource management strategy is guided by the philosophy of skill development and motivation as the major instrument for enhancing productivity. It has set its objective to enhance the CMF's service productivity and efficiency through proper development and effective utilization of human resource. The major objectives of the strategy are to: develop and manage human resource for attaining the objectives of the CMF; and deliver effective and efficient services to CMF clients and partners.

***Financial Management:*** Financial management includes financial operations like budgeting, investing, accounting and auditing. There is a need to develop a credible financial management system that complies with the international standards. CMF has initiated the concept of regular and program budgeting. Internal audit system should ensure financial and managerial discipline and accountability through effective internal control mechanism. The financial management strategy has been developed to address these issues. The major objectives of the strategy are to: ensure efficient, transparent, accountable and modern financial management system; and enhance financial discipline and add value to the CMF's operations.

***Program Management:*** Program management includes project implementation, project cycle management, program formulation based on the strategies, monitoring and evaluation, performance management, tracking result and identifying needs, project personnel policy formulation, fund rising, resource allocation, proposal writing and proposed idea selling, project marketing, communication and coordination with development partners, and reporting to funding agency. CMF has initiated the concept of annual program formulation integrating all the projects. It needs to further strengthen its program implementing system and develop automated and integrated program information system. The program management strategy has been developed to increase program effectiveness and efficiency.

# Part 1

## Introduction

### 1.1 Introduction

This strategy reflects CMF's vision for responding to the challenge in microfinance sector development in Nepal, as well as changing focuses and resources in the Center for Microfinance. The strategy responds to the improving effectiveness and efficiency of service delivery system of MFIs. The institutional success of any organization depends upon doing the right thing (effective) and doing things rightly (efficient), which are the key aspects for CMF too. The key for doing things right and doing the right thing depends internal strength and weakness and external aspects like opportunities and threats. This strategic plan is the outcome of the Shared Visioning Workshop of CMF held on November 21, 2006. The workshop analyzed and revised CMF's Vision, Mission, Goal, Objectives, and Core Strategic Areas based on the identified strength, weaknesses, opportunity and threats of the organization. This strategic plan is designed as per the guidelines given by the workshop. Resource constraints and sectoral issues over the coming years have forced the CMF to reevaluate priorities, create greater efficiencies within the program and restructure management and technical expertise to take full advantage of the available resources. The strategy focuses on seven key areas: Capacity Building and Training (**CBaT**), Knowledge Management for Microfinance Services (**KMMS**), Research and Studies (**RaS**), Policy Advocacy on Microfinance Sector (**PAMS**), Business Development Services for Sustainable Microfinance (**BDSMS**), Catalyst and Consultancy Services (**CaCS**), and Network for MFIs (**NMFIs**).

The strategy provides firm commitment to help develop microfinance sector in cooperation with development partners and stakeholders. It is worthwhile to define microfinance to specify the strategic focuses. "Microfinance is the supply of loans, savings, and other basic financial services to the poor." (CGAP). This strategic plan is focused in realizing these requirements into practice through the implementation of the proposed strategies with wider stakeholders' participation and networking. The strategy is targeting selected MFIs in creating a world of sustainable access to microfinance for the poor. A microfinance institution (MFI) is defined as an organization that provides microfinance services, ranging from small non-profit organizations to large commercial banks. CGAP broadly defines MFI as any organization—credit union, downscaled commercial bank, financial NGO, or credit cooperative that provides financial services for the poor. Nevertheless, the plan focuses mainly those MFIs, which are servicing the poor and providing access to financial services for the women and excluded groups.

## **1.2 Need for Strategic Planning**

The microfinance service providers are expanding in terms of numbers and out reach in Nepal. In the context of rapid expansion of microfinance sector, CMF has to address the new issues, and challenges emerging from expansion in the existing environment in general, and microfinance training and research markets in particular. It has to cope with these new changes rapidly and strategically and use its human, materials and financial resources optimally and in cost-effective manner. The organizational mandate of the CMF is to strengthen and promote MFIs serving the poor and excluded groups in Nepal. In order to be capable and efficient in accomplishing the organizational goals and objectives of CMF, it needs to follow the strategic management principles and formulate a dynamic Strategic Plan that can be implemented in a medium-term of three years. CMF Board has already approved its vision and mission statements. It has to orient its activities to attain them through the formulation and implementation of a Strategic Plan.

# Part 2

## Situation Analysis

### 2.1 Global situation

Inclusive financial sectors can go a long way toward breaking the vicious circle of poverty. Let us all do our utmost to empower the poor and to ensure that poor people around the world have access to wide range of financial services-Kofi Annan Secretary General of United Nations.<sup>10</sup> World leaders are committed to achieve the Millennium Development Goals (MDGs) particularly the one of cutting poverty in half by 2015 per country. UNDP coordinates efforts to achieve these results at national and world levels. With a low economic growth rate, a high demographic growth rate, and a very high number of dependants per worker ratio, and 10 years long conflict, Nepal has slipped behind other countries in this region in term of social and economic progress and ranks 138<sup>th</sup> in terms of human development. After the Nobel Prize award to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development from below, the world realized that lasting peace, human development, political democracy, and human rights could not be achieved unless the vast majority of the poor finds ways to break out of poverty. Micro-credit has proved to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions.

Although there has been a strong growth of microfinance institutions (MFIs) all over the world during the past decade - with 41 million poor served in more than 65 countries, the available statistics attest that the demand for microfinance services remains largely unmet. Indeed, global demand is estimated between 400 and 500 million households and we are still far from the objective of the Micro Credit Summit campaign launched in 1997 and aiming at reaching 100 million of the poorest families in 2005. The repartition is unequal from one continent to another. In Asia, 9.3% of the poorest families have been reached but only 6% in Latin America and in Africa<sup>11</sup>.

There is great hope on microfinance's important role in poverty reduction. The Consultative Group to Assist the Poor (CGAP), a donors' consortium to which UNDP and UNCDF belong, has demonstrated that microfinance contributes to the achievement of the Millennium Development Goals (MDGs) as defined in 2000 by the United Nations (UN), particularly poverty reduction in half by 2015. Indeed, for poor people and low-income households, access to sustainable financial services constitutes a means to meet many other needs such as health, education, employment, economic opportunity, nutrition, women's independence and social security. Now a day, it is commonly

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<sup>10</sup> Source: United Nations.2006. *Building Inclusive Financial Sectors for Development*. New York: United Nations.

<sup>11</sup> Source: UNDP-UNCDF .2004. *Building Inclusive Financial Sectors in Africa*, unpublished report, UNDP

perceived that microfinance's integration into the global financial sector would help contribute to poverty reduction and economic development.

## 2.2 Country Situation

More than 31% of the Nepal's population lives in extreme poverty. Sound and inclusive microfinance markets are important for reduction of poverty in Nepal. The available studies indicate that informal financial system remains dominant but the microfinance sector has undergone many changes as witnessed at the world level. Indeed, the sector has experienced growth of microfinance institutions (MFIs) and significant progress in terms of clientele, outreach, savings and credit management. The number and outreach of microfinance institutions<sup>12</sup> in Nepal has increased greatly over the last 12 years. Currently, Grameen Bank replicators and Microfinance Development Banks are providing microfinance services to 353,715 rural poor women across 47 districts through 12,100 self-managed centers and 73,120 groups<sup>13</sup>; 2,672 Savings and Credit Cooperatives and Credit Unions provide services to 310,771 clients in 72 districts<sup>14</sup>; Small Farmers Cooperative Limited (SFCL) and Small Farmers Development Program (SFDP) are providing financial services to 247,000 clients<sup>15</sup>; and 47 Financial Intermediary NGOs are providing financial services to a further 103,000 predominately poor people<sup>16</sup>. A total outreach of seven UNDP supported Projects (DLGSP, RUPP, MEDEP, REDP, MGEP, PCP, and TRPAP) is about 1,033,956 (male: 510,676 and female: 523,280) through 39,229 self-help groups<sup>17</sup>. Similarly, Rural Water Supply & Sanitation Fund Development Board promoted 1260 Women Technical Support Service (WTSS) Group is providing their 63,000 members with access to microfinance services. This shows that a total of 2,048,742 of the rural population have access to microfinance services in Nepal, which contributes 8.09% of the total population<sup>18</sup> and 26.1% of those is living below the poverty line<sup>19</sup>, of which 1,233,058 are women, representing 9.73% of all Nepalese women<sup>20</sup>. These MFIs have created employment opportunity for about male 6,121 and female 11, 276 work forces. With 73.9% of those below the poverty line without access to formal financial services, there clearly remains a long way to go.

Data shows that the majority of microfinance service recipients are women. Nevertheless, the women led MFIs are approximately 500 saving & credit cooperatives. The women of Dalit and excluded group have no access to governance of MFIs. Moreover, MFIs have no data on how many of their clients are from the Dalit, Ethnic, Indigenous and other communities.

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<sup>12</sup> 11 Micro Finance Development Banks (MFDBs), of which 2 whole sale lending, 5 Grameen Banks and 4 private

<sup>13</sup> Source: NRB, Mid-July, 2006

<sup>14</sup> National Cooperative Development Board, 2006

<sup>15</sup> NRB, Mid-July, 2006

<sup>16</sup> Compiled by CMF, 2006

<sup>17</sup> Re-alignment of micro-credit in UNDP supported Projects NEP/06/010, 2007

<sup>18</sup> Total population about 25,296,537 as of 2005 Projection ( Informal Sector Research and Study Center: 2004)

<sup>19</sup> 31% of total population ( NLSS:2003/04)

<sup>20</sup>( NIDI, CMF: 2006)

Despite the significant progress in terms of clients, savings and credit, the microfinance sector in the country is facing difficulties related mainly to the portfolio quality deterioration and reaching services in hills. These difficulties often come from weaknesses in the managing capacity, management information system, accounting skills, the internal supervision, the human resources quality, and a high cost in microfinance service delivery in the hills. This situation can heavily influence the sustainability of the sector. Most of MFIs in Nepal can be classified in the start-up or expansion phase as per their outstanding characteristics. They still have a long way to go to consolidation and development phase. The MFIs alone cannot move forward towards expansion, consolidation and development. They need support, promotion, technical assistance and conducive environment.

Given that context, CMF alone cannot address these issues without the cooperation of all the stakeholders promoting and developing this sector so that the microfinance sector can better contribute to economic development. In that view, the key players' should consider microfinance as a development tool for poverty reduction. If we all would be able to implement this strategy, a sustainable access to microfinance services for the poor is possible in the future.

### **2.3 Legal Framework**

Various laws regulate microfinance institutions. These are: Nepal Rastra Bank Act (2002), Cooperative Act (1972), Bank and Financial Institution Act (2006), Social Welfare Act (1991), Company Act (2063), Financial Intermediary Act (1998) and Insurance Act. It appears to be over regulated but in reality, the situation is just the opposite. There is some difficulty to regulate all microfinance institutions because there are many MFIs established under different acts doing micro-finance activities. There is no separate policy for microfinance sector. The ultimate responsibility to develop, regulate, monitor and supervise is of NRB. NRB issued regulations for the development banks, which are engaged in micro-finance, as a guideline to develop MFIs activities. In addition, the MFIs are compelled to operate the services in a situation of scattered clientele, poor infrastructure facilities, controlled policies and legal and regulatory framework, difficulties in specific economic activities, the mismanagement, the uncontrolled growth and poor governance. Nevertheless, the MFIs should be able to function under the self-regulation with social values and ethics. To be self-regulated, MFIs need capacity building, training, and technical assistance from the promoting and supporting organizations.

## **2.4 The vision, mission, Goal, Objectives and comparative advantages of CMF**

Center for Microfinance (CMF) was established in July 2000 to strengthen the capacity of microfinance institutions and enable them to provide savings, credit and other financial services to the poorest-of-the-poor families, especially women. CMF runs a wide range of programs designed to meet the emerging needs of microfinance institutions. To promote the microfinance sector, CMF engages in training, technical assistance, consultancy services, research, knowledge management, publication and documentation, dissemination of best practices and networking in partnership with national and international organizations. CMF's Articles of Association 13 (f) states that the surplus earned by the organization shall not be distributed as dividends to the shareholders. Rather, such profits shall be deployed for the development of microfinance sector and poverty alleviation programs and CMF shall remain a **not-for-profit** organization.

Originally, CMF was a project implemented by Canadian Centre for International Studies and Cooperation (CECI) funded by USAID and Ford Foundation. CMF is now an autonomous, privately owned Nepali organization that works to strengthen MF sector in Nepal and in the region.

### **2.3.1 Vision**

Sustainable access to microfinance services for the poor

### **2.3.2 Mission**

Promote and strengthen MF services through capacity building, training, knowledge management, research, policy lobbying, consultancy and networking with mutual trust and cooperation among service receivers, practitioners and stakeholders

### **2.3.3 Goals**

**Goal 1:** Strengthen MFIs that serve the poor, particularly women and excluded groups

**Goal 2:** Enhance service delivery capacity of development partners that promote the microfinance sector

### **2.3.4 Objectives**

The objectives of the CMF are to:

- build institutional capacity of MFIs for providing their clients with prompt access to microfinance services;
- provide knowledge management services to the microfinance practitioners and institutions;
- undertake research & studies on microfinance and related development issues;
- promote policy advocacy in creating conducive environment for microfinance;
- raise awareness about sustainable microfinance;

- provide support services to development partners in delivering microfinance services; and
- Establish national / international network among MF promoting partners.

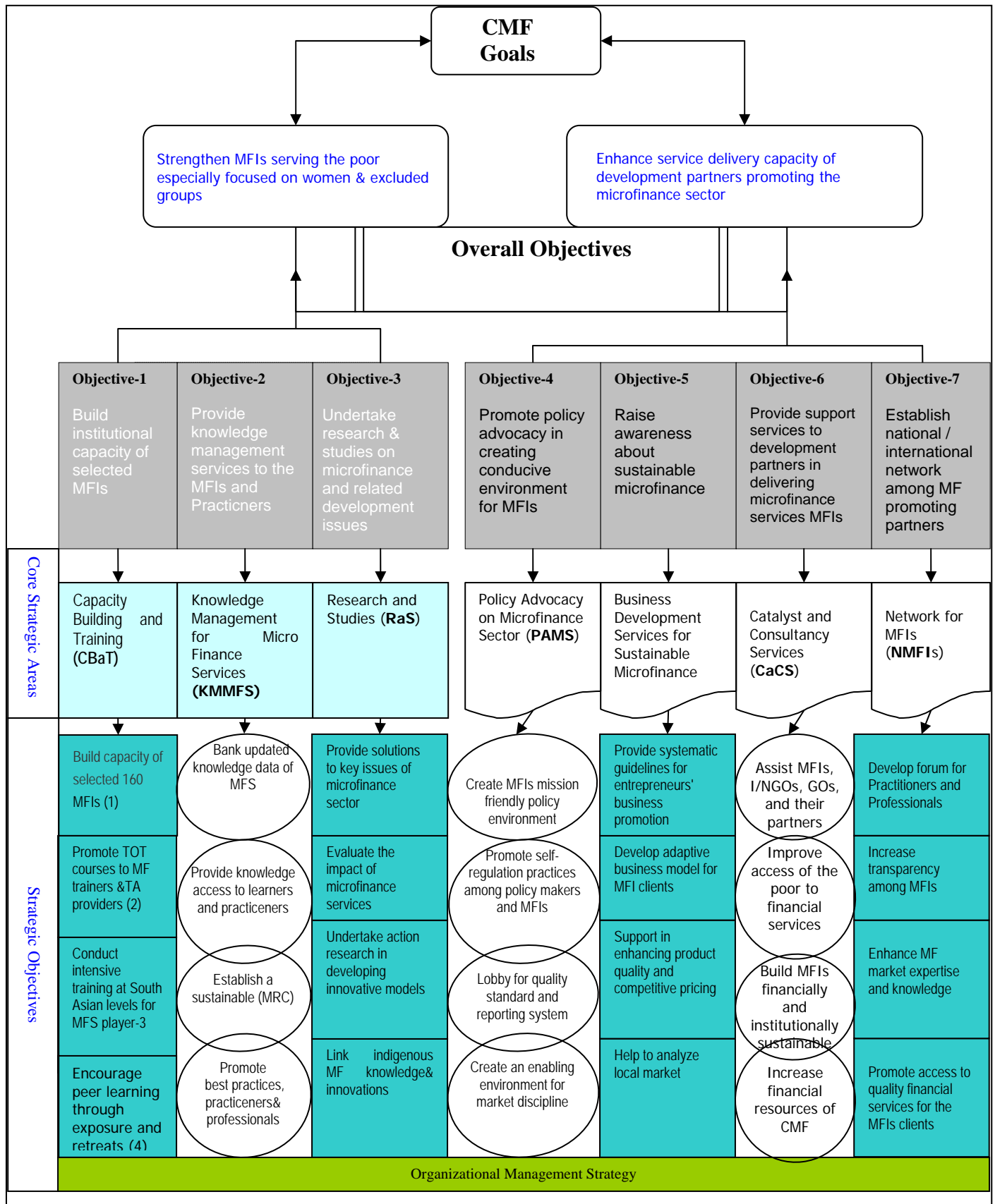
### **2.3.5 The Comparative Advantages of CMF**

CMF's organizational vision encompasses the evolution of the microfinance sector including capacity building, training, research, networking , development services particularly to its countrywide network positioning and possess the following comparative advantages and added value.

- CMF's presence on the ground and its local knowledge for capacity building, research and network;
- Neutrality and flexibility of CMF's interventions;
- Constant field presence and a proximity reinforced by various national programs for the last six years;
- Recognized expertise in the promotion of microfinance services, policy lobbying and knowledge management;
- The only resource center in Nepal with more than 1500 publications on microfinance;
- Specialized in microfinance training and research;
- Close partnership with CCA, Ford Foundation, CECI, World Education Nepal-USAID, WEAL, ADRA, UNIFEM, UNDP, Save the Children US, CIDA, MIX , CGAP, NRB, NEFSCUN, NCDB and Government Authority;
- Direct partnership with 80 MFIs covering more than 39 districts;
- Providing more than 3,093 clients with training and capacity building services as of December 2006 ( male:395 and female:2,698)
- Providing more than 790 technical assistances to MFIs;
- Facilitating to provide more than 34,000 women with access to microfinance services
- Networking among 175 informal members
- Experience in leading more than 20 research projects
- Secretariat of UN Year of Microcredit 2005

**Part 3**  
**Strategies for Sustainable Access to  
Microfinance Services for the Poor**

### 3.1 Strategic Planning Framework



## **3.2 Strategic Areas of Initiatives**

Over the next three years, CMF aims at achieving a significant outcome in the following seven strategic areas.

### **3.2.1 Capacity Building and Training (CBaT)**

CMF's **CBaT** is designed to meet the training needs in the country and region by utilizing its qualified microfinance trainers, training materials and resources in their own business language. This service enables MFIs to improve the quality of their services and product design, management practices, financial performance, inclusion and governance, and outreach to poor clients, specifically women and excluded groups. CMF has been offering trainings and technical assistance since 1999. MF training programs are modified replications of the training program in Boulder, USA. CMF conducts four series of trainings on the "Principle and Management of MFIs", "Business Planning of MFIs", "Delinquency Management & Interest Rate Settings", and "Social Intermediation in MFIs" as well as trainings for specific projects. CMF has designed more than 21 training manuals related to capacity building of MFIs. With the financial support of Canadian Cooperative Association (CCA), it is currently implementing Mahila Jagaran Project to build capacity of 50 saving and credit cooperatives led by women. Similarly, with the support of Ford Foundation, it is working to build capacity of 30 MFIs through technical assistance, training and social intermediation. CMF also provides capacity building and training services to MFIs promoted by various development agencies. The position of MF sector has changed slightly from the past. An increasing number of development agencies are involved in microfinance. The number of legally established MFIs is also rising. A challenge facing the informal MF sector is to build capacity of the informal groups and consolidate them into formal institutions. CMF's rich experience in capacity building and training could be an instrumental in addressing this need of MFIs across the country.

Capacity building and training is the major strength of CMF that could be utilized to meet a high demand of various MFIs through improving CMF's existing capacity building and training system. More than 2,900 MFIs particularly 346 women led MFIs, and 17,457 MFI's work forces needs capacity building and training at different level and in different discipline. It is obvious that this strategy alone may not be able to fulfill above needs. Rather, it requires a holistic approaches and mainstreaming the microfinance services in the national development.

#### **3.2.1.1 Strategic Objectives**

The objectives of this strategy are to:

- build capacity of selected MFIs specially serving the poor women and excluded groups;
- promote training of trainers (TOT) courses to MF trainers and TA providers;
- conduct intensive training at South Asian levels for MFS players; and
- Encourage peer learning through exposure and retreats.

#### **3.2.1.2 Strategic Approaches**

- Assess institutional capacity and needs of women led and targeted MFIs ;

- Collaborate with supporting partners such as CCA, CECI, Ford Foundation, World Education, USAID, Save the Children US, ADRA, UNIFEM, UNDP and other potential development partners to strengthen and promote the selected MFIs;
- Provide technical assistance, institutional focused training, and innovation and knowledge resources to the assessed and needy MFIs in cooperation with partners;
- Assess training needs focusing the women led SCCs, FINGOs, Grameen Banks, other larger SCCs to provide effective training to the clients;
- Review and update training materials/manuals so that the clients could understand the issues and contents;
- Provide leadership training and TOT to young MF Training facilitators;
- Conduct regular and tailored courses by establishing Micro Finance Training Institute (MFTI) at CMF premises;
- Design courses for various levels and all models of MF, such as field staff level, higher level and TOT for Development Banks, FINGOs, Cooperatives & CBOs etc;
- Develop linkage and coordinate skill training for the members of SCCs with BDSSM strategy, enterprise training providers, new farming technique providers;
- Develop new training products in the areas of micro insurance, remittances, strategic planning, proposal writing, MIS, and electronic accounting, and decision-making techniques;
- Prepare and distribute documentation of trainings, TAs and backstopping supports;
- Create a roster of resource persons so that training institute can utilize competitive expertise as and when required;
- Dedicate permanent training professionals for MFTI;
- Market training products through clients, email, media and institutional contacts;
- Collaborate with development agencies for training infrastructure development and sponsor trainees from excluded group and women led institutions;
- Initiate and develop a permanent building for MFTI with the help of development agencies and central bank.

### **3.2.1.3 Expected outcome**

- Built capacity of selected 160 MFIs specially serving the poor women and excluded groups;
- Promoted 12 training of trainers (TOT) courses to MF trainers and TA providers at South Asia level;
- Developed 360 Trainer for MFS players; and
- Trained 800 MF practitioners and professionals are providing effective services
- Encouraged peer learning

### **3.2.2 Knowledge Management for Microfinance Services (KMMS)**

A high turnover of microfinance professionals in different development organizations results in a loss of institutional memory. For effective microfinance services, it is crucial for the concerned individuals to have the knowledge of key principles. Realizing this need, CMF took the initiative to create a resource center in 1998. Institutional memory loss can be partially prevented by retaining experienced professionals by offering them sufficient remuneration. From an organizational point of view, knowledge management cannot be divorced from human resource management. It has more to do with human relationships and the interchange between experienced and junior learners than with the

effectiveness of any particular knowledge management. If "knowledge" is defined not just as facts but as experience, expertise and skill needed to make good use of facts, the loss of experienced microfinance professionals cannot be made up just by developing better information systems or by hiring new staff. Unfortunately, most stakeholders do not seriously evaluate the impact of these changes on their own effectiveness; and at some point, the system degrades to a degree where the organization does not know what it does not know. What we may view as a problem or weakness from the outside is no longer visible to those remaining inside the organization.

Since many MF projects are scattered across the country, one is likely to miss some significant lessons learned by these projects. Harvesting knowledge from the field must be systematic. That is possible through standardized monitoring, evaluation and documentation. A policy that calls for review of past learning and application of relevant inputs in new projects would make knowledge management more meaningful. The pressure would be to organize information collected from the field, internalize it, organize it in a retrievable form, and invest in institutional memory building system. With this in view, CMF is developing appropriate mechanisms for knowledge sharing to help all MF learners, practitioners, replicators, policy makers, developers and promoters. CMF facilitates documentation of researches, communication and information dissemination on MF issues, promotion of best practices and other MF related studies, updating and mapping of MFIs, mapping of knowledge, maintenance of rosters, documentation of case studies, tacit knowledge recording and management of MIS knowledge and resource center.

Currently it has 1500 research reports and books related to microfinance, MF Directory (Nepal), CDs, audio visual materials, training manuals, case studies, wall posters, and occasional papers. It also offers internship to new learners in the microfinance sector and develops human resources with reward and recognition.

### **3.2.2.1 Strategic Objectives**

The specific objectives of this component are to:

- bank updated knowledge data of microfinance sector;
- provide knowledge access to MFIs, learners and practitioners;
- establish a sustainable Microfinance Resource Center (MRC);
- Promote best practices, practitioners and professionals.

### **3.2.2.2 Strategic Approaches**

- Obtain support from National and International development partners and MFIs in getting MF related publications on regular basis.
- Develop financial data collection mechanism from SCCs, MFDBs and FINGOs
- Expand Resource Center Membership: both individual and institutional.
- Upgrade Resource Center Infrastructure linking with MFTI.
- Develop electronic knowledge data banking targeting national and international readers.
- Organize MF dialogue.
- Update CMF website with dynamic contents

- Organize knowledge and experience sharing workshop with the help of cooperating partners
- Promote MFIs in developing satellite resource center among existing CMF partners
- Provide internship facility and organize / participate professional conferences
- Update MFI Directory with the support of stakeholders
- Publish news letter
- Publish Research Journal obtaining support from development partners
- Obtaining sponsored Links with international MF Resource Centers and library
- Promote dialogue among list-serve members
- Restructure existing Resource Center Management
- Map existing MF resources in Nepal with the help of development partners
- Develop roster of Microfinance Experts and Professionals

### **3.2.2.3 Expected outcome**

- Updated knowledge data of microfinance sector is readily available
- MF learners and practitioners will have a permanent access to knowledge resources
- Best practices would be applied all over the country
- Developed academic human resources in microfinance

### **3.2.3 Research and Studies (RaS)**

Since microfinance is a young sector, CMF helps to conduct research and studies in this area. It is crucial that we understand which designs and products work and which do not. Many regard microfinance as an important tool for poverty alleviation. Increased funding for microfinance led to its rapid expansion in the 1990s; this is mainly due to its potential for reaching and assisting low-income households to meet their basic financial needs and for empowering communities socially and economically. Most institutions providing financial services to the poor operate with a corporate mission that includes poverty reduction, and donors have allocated increasing amounts of funds to microfinance on this basis. In the last five years, the number of poor clients served by microfinance institutions has been growing at the rate of 25 to 30 percent annually. However, the effectiveness of microfinance in realizing its potential has constantly been questioned. Due to the lack of reliable data on the impact of direct access to financial services on income, expenditure or wealth of poor households, it is difficult to reach definite conclusions. In addition, because of the varying institutional arrangements of the more than 2,900 MFIs in the country, it is hard to obtain reliable for data comparative analysis. Evaluation of anti-poverty effect of microfinance remains a challenge; and this in turn hinders cross-regional impact studies on microfinance.

To determine whether microfinance programs/ MFIs have achieved their desired results, it is crucial to assess the social and economic impact of microfinance. Therefore, impact assessment, research and study have become a necessity for microfinance stakeholders. Development partners want to ensure that their resources are used to meet their objectives and emphasize the need for impact assessment. Therefore, CMF's initiatives for research and studies are aimed at understanding the impact of microfinance products and services. CMF provides a wide range of expertise services in developing hill models, comparative study of best practices, analysis of cost effectiveness of microfinance programs, ~~identifying training needs of MFIs, developing appropriate microfinance model for CMF~~

excluded groups, study on women's empowerment achieved through microfinance, MF related policies and their critical review.

CMF undertakes research projects that analyze microfinance issues such as impact assessment on access to financial services; contract and product designs; constraints to household productivity; combination of micro finance and other development interventions; evidence of credit constraints; cost and profitability of micro finance institutions (MFIs); impact of MFI policies and strategy; client behavior and psychology with respect to financial services; economics of micro-enterprises; and effect of regulations. CMF focuses on developing a cross-thematic action research and studies on specific issues of MFIs. These are followed by consultations with stakeholders and CMF partners. Research topics may change according to the needs of the market, partners and stakeholders.

CMF has completed more than twenty research projects with the support of WIDTECH, USAID, UNDP, ILO, CGAP, SNV, PACT, GTZ, CCO, IMPACT, SDC, IDS, MEDEP, ADRA, CECI, UNIFEM, Save the Children US, CCA, and WE. This experience will be valuable for our clients. These experiences will be utilized to accomplish this strategy.

### **3.2.3.1 Strategic Objectives**

The specific objectives of this strategic area are to:

- provide solutions to key issues of microfinance sector;
- evaluate the impact of microfinance services delivered by MFIs;
- undertake action research in developing innovative models;
- Link indigenous MF knowledge to innovations.

### **3.2.3.2 Strategic Approaches**

- Building and warehousing of relevant databases in cooperation with knowledge management services;
- Identify key research and study areas and issues of microfinance sector
- Market research products of CMF to MFIs, development partners, government agencies and international organization;
- Build roster of consultants and researchers in getting services as when required;
- Develop concept papers and proposals on the issues and problems that requires specific solutions;
- Develop collaboration and partnership with funding organizations;
- Organize meetings and workshop to justify the needs of the issues based research;
- Design project for action research and obtain support from funding agency for its implementation and testing;
- Disseminate research findings to wider stakeholders for its implementation and adaptation;
- Create research consortium consisting interested partner organizations.
- Review existing service and expertise delivery system of CMF in assuring the quality services to the clients.

- Participate in the bidding proposals and explore for unsolicited proposals in association with CCA, World Education Australia and other prospective partners.

### **3.2.3.3 Expected outcome**

- Provided solutions to key issues of microfinance sector;
- Recommendation made by 6 impact evaluations adopted by the policy makers and practitioners;
- An action research recommended an innovative model; and
- Linked indigenous MF knowledge to innovations

### **3.2.4 Policy Advocacy on Microfinance Sector (PAMS)**

The policies and regulations of microfinance incorporate a number of elements. These include government policies, donor agency policies, the regulatory environment that applies to MFIs, and the legal provisions for microfinance activities. So far, these key issues have hardly been studied. This strategic area of service considers the policy and regulatory environment for a broad rural financial perspective with a focus on microfinance. Microfinance covers a wide range of financial services for the poor and acts as a powerful tool for alleviating poverty. However, unlike medium and large-scale finance, microfinance has not received its due place in national development policy framework. This is due partly to people's pessimisms regarding its capacity for outreach and partly to the lack of bargaining power of its clientele, i.e. the poor, as against that of the middle class. The pessimists focus narrowly on micro credit rather than considering the wider scope of microfinance, credit, deposit, money transfer, insurance, market information and network services. An effective social mobilization and empowerment program prior to credit delivery would enable even the poorest to benefit from microfinance. To ensure stability, solvency and viability of MFIs, it is necessary promote their self-regulation in line with market discipline. Government regulation on MFIs should only complement their self-regulation. Self-regulation is considered ever more important for spontaneous development of MFIs along healthy lines. Therefore, CMF plans to lead policy advocacy to inform, shape and sustain MF response by reviewing MF sector policy, enabling self-regulation framework for MFIs, holding consultations with stakeholders, disseminating best practices to influence policy, and mobilizing press and media on policy barriers to MF sector.

#### **3.2.4.1 Strategic Objectives**

The specific objectives of this strategic component are to:

- create MFIs mission friendly policy environment;
- promote self-regulation practices among policy makers and MFIs
- lobby for standard accounting, auditing, and reporting system;
- create enabling environment for market discipline;

### **3.2.4.2 Strategic Approaches**

- Review the existing policy and legal framework in identifying legal bottleneck of MFIs;
- Provide policy orientation to MF policy makers on international practices of self-regulation;
- Organize national and international MF policy dialogue in up scaling the MF and downscaling the bank services to increase investment multiplier and value added to GDP;
- Introduction of a separate accounting and auditing standards system for MFIs so that it would establish a uniform accounting system which is less stringent than the systems applicable to ordinary business firms;
- Promote management by professionals to enable MFIs to maintain a high degree of professionalism in their operations;
- Enable MFIs to make a clearly specified policy statement that includes periodical voluntary disclosure of operations, activities, financial position for the benefit of the public;
- Make aware the MFIs to provide consent, on their own, to having a rating for their business activities, so that the members of the public would have required confidence in them;
- Enable MFIs in making every effort to build internal reserves out of operational surpluses to enable them to absorb loan losses, withstand adverse shocks and go through difficult periods;
- Organize stakeholder consultation workshop, disseminate the best practices that influences policy, and mobilize press and media to expose the policy barriers of MF sector;
- Mobilize support from MFIs, donor community and well-wisher in the endeavor.

### **3.2.4.3 Expected outcome**

- MFIs mission friendly policy environment is in place
- Increased Self-regulation practices among policy makers and MFIs
- Built consensus for standard accounting, auditing, and reporting system
- Created enabling environment for market discipline

### **3.2.5 Business Development Services for Sustainable Microfinance (BDSSM)**

Business development services refer to the purely technical services for the entrepreneurs. Technical services are provided from the start (production) to market phase. BDSSM includes business development services to micro entrepreneurs through MFIs to ensure that the return on micro investment made by the clients is profitable. The higher the return on investment, the higher will be the loan repayment rate; and this increases the sustainability of microfinance services. Some MFIs ignore this credit plus approach but CMF encourages all MFIs to provide both financial services and business development services to their clients to increase their productivity and enable them to utilize financial services repeatedly. BDSSM develops micro-entrepreneur by giving technical input and linking them with concerned stakeholders. The micro-entrepreneur is the person who runs or owns the micro-enterprise. The operator is normally required to

handle marketing, production, and financial management. BDSSM develops technical human resource for proper use of loan and for operating small-scale business. Micro-finance service alone is not enough to establish micro-enterprises for the MFIs clients; they also need other services such as market access, input supply, technology and product development, training and technical assistance, infrastructure, policy/advocacy and linkages with market channels. In this context, microfinance service providers need to be integrated with business development services for sustainable economic development of the clients. This strategy links a wide range of business development services to MFIs and MF organizations through technical assistance, market research, and enterprise development for sustainable microfinance. CMF has been providing business development planning services to more than 80 MFIs across the country.

### **3.2.5.1 Strategic Objectives**

The specific objectives of this strategic component are to:

- provide systematic guidelines for entrepreneurs' business promotion;
- develop adaptive business model for MFI clients;
- support in enhancing product quality and competitive pricing
- Help to analyze local market.

### **3.2.5.2 Strategic Approaches**

- Identify the institutional needs for BDSSM with support of partner cooperatives, FINGOs, MFDB, and microfinance promoting agencies;
- Design BDSSM products for institutions;
- Identify the entrepreneur needs for BDSSM with support of their respective institutions;
- Design BDSSM products for entrepreneurs;
- Provide need-based services to institutions and entrepreneurs linking the program with strategies 3.1.1, 3.1.3, and 3.1.6;
- Organize BDSSM thematic seminar for the promotion of credit plus BDSSM approaches;
- Obtain support from donor agencies to promote **BDSSM** approach targeting needy clients;

### **3.2.5.3 Expected outcome**

- A systematic guidelines for entrepreneurs' business promotion is in place
- Developed adaptive business model for MFI clients
- Enhanced product quality and competitive pricing
- Increased practices of analyzing local market

### **3.2.6 Catalyst and Consultancy Services (CCS)**

CMF provides catalyst services to MFIs to promote the core strategic areas of CMF -- micro insurance, remittance access, rating services and other new products. It offers specialized consulting services to the government, non-government, and international organizations in these areas. It strives to provide the clients with insights that can guide practical product and service innovations. Its full-time professional staff and short-term CMF

consultants manage consulting services. CMF has an extensive international network of selected associate consultants in and out of the country i.e. WEAL and CCA. These associate consultants are developed and supported through a comprehensive mentoring scheme that involves formal training, pre-assignment briefing and planning support, on-the-job coaching, debriefing, and participatory performance evaluation.

### **3.2.6.1 Strategic Objectives**

The specific objectives of this strategic component are to:

- assist MFIs, I/NGOs, GOs, and their partners as per their demands;
- improve access of poorest of the poor households to financial services;
- build MFIs financially and institutionally sustainable;
- Increase financial resources of CMF.

### **3.2.6.2 Strategic Approaches**

- Identify the demand and supply gaps for catalyst and consulting services in the field of micro insurance, micro tourism, remittances, and access to migrants' savings and alternative investments (MSAI), and ratings;
- Identify institutional needs for the services;
- Design catalyst and consulting products and market them among potential institutions;
- Prepare competitive bidding proposals in a consortium and partnership approaches with local and international organization;
- Deliver and manage the contractual Projects mobilizing permanent professionals and consultants as per universally accepted quality and standard.

### **3.2.6.3 Expected outcome**

- CMF's consultancy service recipient at least 9 MFIs, I/NGOs, GOs, and their partners are providing effective and efficient microfinance services
- Improved access of poorest of the poor households to financial services;
- Built MFIs financially and operationally sustainable;
- Increased demand for rating services
- Increased migrant's saving and alternative investment (MSAI)
- Increased financial resources of CMF

### **3.2.7 Network for MFIs (NMFIs)**

The number and outreach of MFIs have rapidly expanded over the last decade. Microfinance Development Banks (MFDBs) have formed their network. Nepal Federation of Savings and Credit Union (NEFSCUN) serves as the network of credit cooperatives, but are confined to over 400 cooperatives. FINGOs do not have their own network yet. ~~There is no communication between these limited networks. There is limited~~

data available on all these MFIs. Information on outreach, portfolio quality, productivity and efficiency of these MFIs is not available in published form. There is a lack of a professional network that includes not only financial service providers but also policy makers, professionals and interested donors, capable of linking with national and international institutions as well as providing capacity building and other technical assistance. CMF has been playing a minor role in informal network by sharing data and providing technical assistance services. Nevertheless, there is a demand for a comprehensive networking of all microfinance actors in Nepal.

In 2003 and 2007, CMF published a directory of MFIs, which contains data of 1,848 MFIs and 2,900 respectively including MFDBs, FINGOs and a number of cooperatives. So far, this is the only comprehensive data on MFIs available in Nepal. Nevertheless, due to challenges in collecting data from NGOs and cooperatives, the directory has not been sufficiently updated and does not include information on portfolio quality, productivity and efficiency.

Since 2005, CMF has worked with MIX to report on leading institutions within that set according to international standards and bring details of their performance to the global stage. Cooperation between the two organizations has already contributed to broadening of up-to-date MIX Market coverage to 16 Nepali MFIs; and benchmarking of five Nepali institutions in MIX's global benchmarking exercise. During the data collection, most MFIs were willing to be transparent and share their data nationally and internationally. However, they need technical assistance and networking to fit their data to industry norm. Available audit reports did not report quality of the portfolio and other industry indicators; this shows that auditors are not familiar with CGAP guidelines on auditing MFIs.

In this context, CMF is interested to serve as an informal network and forum for all MFIs, donors and policy makers. The network will help MFIs to prepare data according to industry norms, update the directory and share their learning with all stakeholders. As an informal network administrator, CMF also provides technical assistance to network members not only for preparing data according to industry norms, but also for improving MFIs' performance in areas that are found weak. CMF creates a forum where practitioners and promoters can have regular meetings and develop industry norms for Nepal (please refer strategy 31.1, 3.1.2). During this process CMF will not only create a demand for training and technical assistance of the sector but also update the information on the supply side i.e., update the information on the available institutions/persons providing such services.

This will help for a policy advocacy in a systematic and effective way so that the industry adhere the universally accepted best practices adapted to the Nepali standard. This strategy of working as informal Network for MFIs (NMFIs) will help develop expertise and create demand for other strategic components 3.1.1-3.1.6.

### **3.2.7.1 Strategic Objectives**

The specific objectives of this strategic component are to:

- develop forum for Practitioners and Professionals;
- increase transparency among MFIs;

- enhance MF market know-how and knowledge;
- Promote access to quality financial services for the MFIs clients.

### **3.2.8 Strategic Approaches**

- Design comprehensive informal network system and take support form development partners, stakeholders and government authorities for its implementation.
- create access to updated MFI profile data and networking services;
- make available credible data of microfinance;
- share MFI data with MIX and/or other appropriate international institutions/forums;
- Organize regular meetings/forums for all stakeholders
- Help develop MF Industry norm for Nepal
- Standardize industry reporting norms
- Promote CGAP principles and auditing guidelines
- Collect financial and non-financial data from all MFIs
- Update Network Member's Directory with data fulfilling industry requirement
- Update shared data of leading MFIs with MIX
- Analyze Industry needs, demand for and supply of services;
- Provide comprehensive network services charging appropriate fees
- Help conduct public advocacy works in favor of implementing best practices
- Restructure existing communication system of CMF
- Provide TA to MFIs for reporting and record keeping as per the MIX standards.
- Offer special discount on the other services provided by CMF to the network members

#### **3.2.8.1 Expected outcome**

- Developed permanent forum for Practitioners and Professionals
- Increased transparency among 80 MFIs and reported to MIX Market;
- Enhanced MF market know-how and knowledge
- Promoted access to quality financial services for the MFIs clients

# Part 4

## Organizational Management Strategy

### 4.1 Organizational Management

In order to carry out the above Programmatic Approaches, key Organizational Management Strategies are formulated. They are policy management, administrative and human resource management, financial management, and program management.

#### 4.1.1 Policy Management

Policy Management plays a central role in all organisations. Without the commitment of policy management, the strategy can never be achieved. The fundamental concepts for policy management for quality microfinance promoting services are applicable to all the MFIs regardless of their functional areas, size or capacity. The Policy and strategy are expressed in a way that everyone working for CMF and promoting MF can understand them and can see the relevance for her/his work. The policy management strategy is a top down approach complemented by bottom up elements. The proposed strategies are translated in concrete goals. The policy will be managed by the Board of Directors as per the guidelines given by the general assembly of CMF and the feedback received from the internal and external clients of CMF. The policy management strategy is based on the present and future needs and expectations of stakeholders and clients. The policy of CMF is managed with flexible, gender sensitive and humanitarian approaches based on information from performance measurement, research, learning and external related activities. The changed CMF policies and strategies will be communicated and deployed through a framework of key processes to all the stakeholders and clients.

##### 4.1.1.1 Strategic Objectives

The specific objectives of the Policy management strategy are to:

- provide clear direction for the CMF;
- translate vision, mission, and values into actions;
- play role models adhering to a culture of quality;
- Achieve sustainable success of the microfinance sector as a whole.

##### 4.1.1.2 Strategic Approaches

- A credible communication at all levels will be maintained through meetings, workshops, and sharing.
- Manage policy and strategy continual adoption to a changing reality and focusing clients;
- Develop people with their involvement through continuous learning, innovation and improvement;
- Focus on partnership development, result orientation, and cooperation at all levels
- Management by processes, fact data and quality.
- Define critical success factors, the key processes behind them and how these processes are run.
- Guarantee availability of resources to reach the objectives of the CMF.
- Reach agreement and consensus of stakeholders and give employees best possible competence.

- Increase institutional members and convert CMF into not-for-profit organization under section 19, article 166 of Company Act 2006 to empower wider participation of donor agencies in the CMF strategies.

#### **4.1.2 Administrative and Human Resource Management**

CMF's administrative and human resource management strategy is guided by the philosophy of skill development and motivation as the major instrument for enhancing productivity. It has set its objective to enhance the CMF's service productivity and efficiency through proper development and effective utilization of human resource.

##### **4.1.2.1 Strategic Objectives**

The major objectives of the strategy are to:

- develop and manage human resource for attaining the objectives of the CMF;
- Deliver effective and efficient services to CMF clients and partners.

##### **4.1.2.2 Strategic Approaches**

Major strategies in human resource and administrative management are to internalize international human resource practices, formulate effective personnel policy, introduce appropriate changes in employee jobs and responsibilities, develop human resource as per the core strategic areas of focus, and strengthen human resource development with effectiveness, gender sensitiveness, and establish efficient and prompt communication and information systems.

#### **4.1.3 Financial Management**

Financial management includes financial operations like budgeting, investing, accounting and auditing. There is a need to develop a credible financial management system that complies with the international standards. There should be an efficient portfolio investment of financial resources, and proper keeping of books of accounts and auditing of financial records. CMF has initiated the concept of regular and program budgeting. It needs to further strengthen its budgetary system and develop automated and integrated accounting system. The internal audit system has to be made autonomous. It needs improvement in the disclosure, accountability and transparency in its financial statements. Internal audit system should ensure financial and managerial discipline and accountability through effective internal control mechanism. To mitigate the risk involved, it is necessary to follow risk and performance-based auditing compatible to international norms and practices. The financial management strategy has been developed to address these issues.

##### **4.1.3.1 Strategic Objectives**

The major objectives of the strategy are to:

- ensure efficient, transparent, accountable and modern financial management system;
- Enhance financial discipline and add value to the CMF's operations.

##### **4.1.3.2 Strategic Approaches**

Major strategies under financial management include financial policy formulation, strengthening program performance budgeting system, adopting integrated financial management or accounting system, making financial reporting system to comply with International Financial Reporting Standards (IFRS), strengthening organizational

portfolio management, ensuring autonomy and effectiveness of internal and external audit system, and enhancing transparency and accountability for the credibility of the CMF.

## **4.2 Program Management**

Program management includes project implementation, project cycle management, program formulation based on the strategies, monitoring and evaluation, performance management, tracking result and identifying needs, project personnel policy formulation, fund rising, resource allocation, proposal writing and proposed idea selling, project marketing, communication and coordination with development partners, and reporting to funding agency. There is a need to develop a project management team that delivers the services at par of the international standards. There should be an efficient project management in line with achieving goal related impact, objective related outcome, and activities related output, learning, cooperation and process. CMF has initiated the concept of annual program formulation integrating all the projects. It needs to further strengthen its program implementing system and develop automated and integrated program information system. The self-evaluation system has to be made autonomous and participatory. It needs improvement in program formulating and screening process in line with the inclusive development approaches. The program management strategy has been developed to increase program effectiveness and efficiency.

### **4.2.1.1 Strategic Objectives**

The specific objectives of this strategy are to:

- enhance capacity of the management team in identifying real issues in the microfinance sector development;
- ensure effective program formulation and implementation to address the issues;
- Ensure client delighting.

### **4.2.1.2 Strategic Approaches**

Major strategies under program management include program revision and strategy formulation, need based proposal development in line with formulated strategies, program manuals development, training manuals, product design, marketing, strengthening program performance congruency with budget line.

The programs undertaken from funding agencies and partners will be managed within the proposed framework of time, human resources and budget with high degree of efficiency and productivity.

The existing team of program professional will be given an opportunity to enhance their project management and technical capacity. Competitive professionals will be recruited in line with the expertise of each strategy such as Capacity Building Officer, Training Officer, Knowledge Management Officer, Networking Officer, Business development Officer, Research Officer. Foreign volunteers will also be mobilized to upgrade the reporting, project designing, training delivery, training manual development, curriculum development and research capacity of the existing program officers.