

BNK 218: Micro Finance and Rural Banking

(focus area V)

Credits: 3

Lecture Hours: 48

Course Objectives:

Familiarize with the basic concept of microfinance, historical background, products designing, operational procedures, infrastructure development for micro finance, legal framework and prudential regulation with specific reference to the Nepalese context; Provide knowledge of micro finance practices in Nepal along with global development in microfinance sector, To make able to understand the role of rural microfinance in poverty reduction and give practical knowledge on microfinance practices.

Course Description

This course contains Introduction to Micro Finance, Approaches to Micro-finance, Micro Finance Institutions, Product of Micro Finance, Directed or Deprived Sector lending, Measuring the Performance of MFIs, Matter of MFIs.

Course Details

Unit 1: Introduction to Micro Finance

LH 5

Concept, Definition and principles of microfinance, Characteristics and importance of Microfinance, Historical Background, Role of microfinance for elevation of poverty, Linkages between main stream financial services & micro-finance

Unit 2: Approaches to Micro-finance

LH 6

Saving led and credit led, Practices and different models (Special reference to Nepal) Grameen replication, Co-operative, FINGO and Self Help Groups (SHG), Strengths and weaknesses of the various approaches, Social Banking VS Commercial Banking, Financial access Vs Financial inclusion.

Unit 3: Micro Finance Institutions

LH 5

Ownership and Legal Form of MFIs, Objectives of MFIs, The importance of institutions, Organizational structure, Governance, Types of financial institutions, Offering microfinance services, Capital structure Management structure, growth and transformation.

Unit 4: Product of Micro Finance

LH 8

Saving product- Concept of saving, saving mobilization, Types of saving, compulsory saving, voluntary saving, Non-financial services, Micro insurance, Pricing of saving product. Credit product: micro credit, individual credit, Character and cash-flow based lending, Micro enterprises loan, Working capital loan, agricultural loan, Loan against group guarantee, interest rate and services charges on micro credit,

Unit 5: Directed or Deprived Sector lending

LH 6

Meaning and concept, Directed lending- importance, Pros and cons views, Priority sector lending vs. deprived sector lending, NRB policies for DSL, Penalty in case of default in DSL, Direct lending Vs Indirect lending. Roles of DSL for increasing productivity.

Unit 6: Measuring the Performance of MFIs

LH 8

Analyzing financial statements, Financial performance ratios, efficiency and productivity; liquidity and capital adequacy; asset and liability management, Loan loss and provisioning, Benchmarking, Rating MFIs, Social Performance Measurement and Impact performance evaluation of microfinance institutions in the framework of WOCCU model, CGAP model, and SEEP model

Unit 7: Matter of MFIs

LH 10

Viability, Efficiency, Sustainability, Self-reliance, Outreach Cooperation, coordination and co-financing with various donors agencies. The role of governments in microfinance; national microfinance policies, Subsidizing, The Role of Subsidies and Donors, Measuring subsidy dependence, Traditional microfinance donors and instruments, socially responsible investors Vs commercial investors: Equity vs. debt financing options, Microfinance investment funds vs Microfinance investment vehicles, Culture of labor division, Opportunities and challenges of MFIs in Nepal.

Reference

Christen R.P (2007). *Banking Services for the Poor: Managing for Financial Success*, Accion International, Washington DC

Joanna Ledgerwood. 2001. Microfinance Handbook: *An Institutional and Financial Perspective: Sustainable Banking with Poor*. Washington D.C: The World Bank.

Rama Bashyal. MICRO FINANCE. **Access to Finance for Nepal's Rural Poor**. Institute for Integrated Development Studies, IIDS. 2008.

SBP Micro- Finance Handbook. The World Bank 1997

Simkhada NR, Sharma N, Upreti T (2002) *Review for Micro-finance Services in the hills of Nepal*. Centre for Micro-Finance(CMF), Kathmandu, Nepal

Upreti, T.P. (2005), *Micro-finance in Nepal*, Impact, Opportunities and Challenges, Seminar Paper, Kathmandu, Nepal.

Suggested Reading

Various publication and article published from Nepal Rastra Bank.